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Coping and hoping

Navigating the ups and downs of monthly assessment in universal credit

IPR Report

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Executive Summary

Knowing that the amounts you (and/or your partner) receive through earnings and/or benefits will cover your basic living expenses is one of the fundamental building blocks of income security and financial well-being.

For people in low-paid work and moving in and out of insecure forms of employment, earnings top-ups can be a lifeline, making the difference between having enough money to live on and having to borrow, between taking a job or remaining on benefits. Replacing six means-tested benefits and tax credits[1] with a single monthly household payment, Universal Credit (UC) is the UK's main, means-tested, working-age benefit for supplementing low household income for people both with and without earnings. It has been designed to respond swiftly to changes in income, earnings and circumstances, monthly, in real time, with the intention of helping claimants to budget, reducing errors and overpayments, and incentivising work and higher earnings.

As of December 2023, 6,352,771 people were claiming Universal Credit, approximately 39 per cent of whom were in paid work, or living with a partner who was working[2]. When the remaining three million or so claimants of legacy benefits and tax credits have all been moved onto UC, an estimated nine million adults, just under a quarter of the working-age population, will be claiming it, approaching half of whom are likely to be employed or self-employed.

To date, policy interest and research about Universal Credit has focussed on the impacts on and experiences of the poorest, mainly out-of-work, households. There has been much less focus on working households and no systematic research into how working claimants experience UC. In particular, little is known about how changes in monthly earnings affect the UC payment, how stable or volatile this makes household income, nor the effects on household budgeting. Based on the lived experience of 61 Universal Credit claimants in 42 households, this is what our research set out to discover. A particular focus was the monthly means test in which the benefit payment is automatically adjusted upwards or downwards based on a household's reported income and earnings in the previous month. We were also keen to explore whether and how the system of monthly assessment shapes work-related decisions.

1 Universal Credit is replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance (JSA) and income-related Employment and Support Allowance (ESA).

2 DWP Stat-Xplore data release January 2024.

What makes Universal Credit different?

As a dynamic benefit intentionally designed to fluctuate in response to monthly changes in income, earnings and household circumstances, Universal Credit is a radical departure from the benefits and tax credits it is replacing. Unlike the legacy system, UC is assessed and paid monthly in arrears[3]. Tax credits, in contrast, were assessed annually, based on a self-completed return using the previous year's household income. Nor are earnings averaged out over the year, as was the case with tax credits. Rather, the UC payment reflects earnings in each claimant's monthly assessment period – which starts on the day they make their claim. Any earnings or other income received in the previous month, together with any changes of circumstance, are taken into account when calculating the monthly amount claimants[4] are entitled to. All PAYE (Pay As You Earn) earnings reported by employers via the HMRC's RTI (Real Time Information) feed and captured within a claimant's monthly assessment period, including any bonuses, backdated pay or wage advances, are counted. Self-employed claimants and those with earnings under the PAYE threshold must self-report their earnings each month. A single taper (currently 55 per cent) reduces entitlement gradually as earnings rise. Some working claimants with dependent children or limited capacity for work may be eligible for a 'work allowance' – allowing them to earn up to a specified amount each month before the taper is applied[5]. If monthly income, earnings and household circumstances remain the same, then the UC payment should stay the same, but if they change, the payment is intentionally designed to rise or fall in response. Tax credits, in comparison, generally remained fixed for a year.

A single household award that is assessed and paid monthly in arrears fits into an overarching policy narrative of benefit simplification and improved work incentives. A monthly payment designed to fluctuate each month, as earnings rise or fall, is intended to smooth and stabilise household incomes and make the financial impact of working additional hours more visible and immediate, thereby motivating claimants to earn more. Monthly assessment is furthermore intended to reduce the likelihood of overpayments, fraud and error. Annual assessment under tax credits meant that changes in income and circumstances were not generally taken into account until the end-year reconciliation, potentially giving rise to both under- and overpayments. Monthly assessment also fits into Universal Credit's wider remit of ensuring claimants meet their financial obligations in a timely way. Deductions – to repay a wide range of debts, including benefit and tax credit overpayments, loans and arrears of rent, council tax and utility bills – are taken at source from the UC award before the monthly payment is made.

3 Under 'Scottish Choices' claimants in Scotland can request to have their UC paid twice monthly and in Northern Ireland UC is normally paid twice a month. In England, payment of UC more frequently than monthly can only be arranged under exceptional circumstances with decisions made on a case by case basis.

4 A 'claimant' or 'benefit unit' can be an individual, a lone parent, or a couple, with or without dependent children.

5 In 2022/23 if a claimant received the housing element of UC, a lower work allowance of £344 per month applied. If they did not receive the housing element of UC, a higher work allowance of £573 per month applied. The rates for 2023/24 increased to £379 and £631 respectively.

Alongside Universal Credit's monthly assessment, debt recovery and payment regime is a digital platform for claimants' ongoing self-management of their claim through the use of an online account and journal. The account contains copies of the UC monthly statement and is used to notify the DWP of changes of circumstance and to raise queries and challenge decisions. A complementary programme of employment support, delivered by work coaches based in Jobcentres, is designed to encourage people into paid work and help those in employment to increase their earnings. A strict set of work conditionality requirements, overseen by work coaches and reinforced by sanctions, underpins the monthly assessment and payment regime.

Research aims

The aim of the research was to explore how the system of monthly assessment in Universal Credit – used for assessing entitlement, recovering debts and calculating payment – is affecting income security and financial well-being in working households. The specific research questions the study sought to answer were:

- How stable or volatile are monthly household incomes and what are the key drivers?
- To what extent does Universal Credit dampen or accentuate income insecurity and help with household budgeting?
- Is the adjustment to the UC payment in response to changes in earnings timely and smooth?
- Is household income sufficient to generate a buffer and cover reductions in the UC payment when earnings rise?
- What budgeting strategies do participants use to manage fluctuating payments and variations in household income?
- To what extent does monthly assessment incentivise employment, longer working hours and higher earnings?
- What conclusions and policy implications can be drawn from the findings and what policy recommendations can be made?

Research methods

Collecting both qualitative and quantitative data derived from regular, mainly monthly, interviews with 42 participants, the research recorded household income and essential household expenditure, month-to-month, in real time, for 13 months, between February 2022 and March 2023. All 42 participants took part in qualitative interviews, while 37 provided sufficient quantitative data (nine plus months) to allow month to month tracking of their income and earnings over time.

The main source used for accessing income and earnings data was the monthly Universal Credit statement, sent by participants to researchers via email and text as PDF attachments and screenshots. Interviews, conducted by telephone and face to face, gathered information about other household income and essential expenditure, budgeting strategies and work. In total, 256 interviews were conducted (55 face to face and 201 by telephone) and 491 Universal Credit monthly statements were collected.

Individual monthly household income profiles were created in Excel for 37 of the 42 households using data extracted from participants' UC statements, together with supplementary information gathered during interviews. Quantitative analysis was conducted using Excel and SPSS. Qualitative analysis was conducted using MAXQDA, a Computer Assisted Qualitative Data Analysis (CAQDAS) software package. All 256 interviews were transcribed verbatim, coded and analysed thematically.

The sample

The 42 participants – 36 women and six men – were living in a broad cross section of households in England, Scotland and Wales with a Universal Credit claim of at least six months duration. The youngest participant was 21 and the oldest 58. Thirty-three participants were White British, five were White Other, two were Black, one was Asian, and one was mixed. All the couples were female/male. Nineteen participants were claiming UC as a couple, 17 as a lone parent and six were single claimants. Because 19 participants had a partner, there were 61 UC claimants in total in the sample.

There were 33 families with dependent children, 16 of whom had at least one pre-school aged child. Eleven families had one dependent child, 14 had two, seven had three and one had four dependent children. In six households, there was an adult child living at home. Twenty-five households had someone with a serious health condition or disability, including seven families with at least one child with a disability. Three households had more than one child with a disability. Eighteen participants were living in social rented housing, 18 in private rented accommodation and six had a mortgage.

When the research started in the spring of 2022, the 61 claimants were either in paid employment or self-employment themselves and/or had a partner who was working. Including partners, 50 people were working when the first interview was conducted, three of whom had two jobs. Forty-two were employees and ten were self-employed, including two who were both employed and self-employed. Hourly pay ranged from £9.50 to £27. Of the 42 participants who were employed, 32 said their job was permanent, five were on temporary or fixed term contracts and five were not sure. Of the 50 claimants working at the start of the research, 34 were in the same job at the end.

Among couple households, 11 had a single earner and eight had two earners. In eight of the single-earner couple households, the male partner was the earner and in three it was the female partner. Eight families used paid childcare at some point during the study timeframe.

Twenty people were working 30 hours or more per week (including seven working 40 or more hours), 11 were working 20-29 hours, 16 were working 1-19 hours and three were unsure. Half of those with earnings had variable work hours. Half of those with earnings were paid monthly. The other half were paid weekly (9), four-weekly (7) or, fortnightly (2), or at different frequencies due to being self-employed (6) or on flexible pay (1).

Seven households experienced one or more change in their personal circumstances over the study timeframe which impacted on the UC claim including separating from a partner, children moving in or out of the family home, moving house, a close family bereavement and serious health issues involving time in hospital.

For the sample as a whole, earnings made up just under half of household income (49 per cent) and Universal Credit made up just over a third (34 per cent). Other benefits made up 10 per cent of household income, and other income, such as child maintenance payments, made up 4 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 3 per cent.

This sample of working households provided us with a very detailed data-set, based on real-time and regular interviews and UC statements for a diversity of claimants, all with income from both earnings and UC, over a minimum period of nine months between February 2022 and March 2023.

Findings

How stable or volatile were monthly household incomes?

A large majority of households experienced significant monthly income variability during the course of the research. Nineteen households (51 per cent) had monthly incomes that were highly erratic or falling and a further seven households (19 per cent per cent) had incomes that were erratic. Only 11 households (30 per cent) had monthly incomes that were broadly stable or rising.

Variable earnings were the principal driver of changes in monthly income. These were surprisingly common and unexpectedly large:

- 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 over the data collection period.
- For 16 of 37 households, earnings varied by £1000 or more from one month to the next at least once over the data collection period.

Monthly changes in earnings, in turn, drove changes in the Universal Credit payment. Monthly fluctuations in the UC payment were both frequent and sometimes very large:

- For 23 of the 37 households, UC payments varied month to month by an average or £100 or more.
- For 8 of the 37 households, UC payments varied month to month by an average of £200 or more.

These averages also conceal some very large single month UC payment fluctuations.

- For 20 of the 37 households, UC payments varied by £400 or more from one month to the next at least once in the year.
- For 10 of the 37 households, UC payments varied by £600 or more from one month the next at least once in the year.

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 for households that received them.

What were the key drivers of income volatility?

Earnings made up the largest proportion of income for most households in this research for most of the time. As such, variable earnings were the principal driver of variability in monthly income. However, it was the interaction over time between changing earnings and the UC payment that lay at the core of the income volatility experienced by most participants. Changes of circumstance were another reason for variability in the UC payment which, in turn, affected levels of monthly household income.

It is important to distinguish between variability in *actual* earnings – reflecting actual changes in wages earned and paid – and variability in *reported* earnings – that is, variability due to the way in which earnings data submitted by employers is captured by HMRC's RTI system, in which underlying earnings remain unchanged. Variability in *actual* earnings was due to a combination of factors including changeable working hours and shift patterns and periods of unemployment between jobs. Unpaid sick leave could also result in lower monthly earnings. Variable earnings as a result of variable and intermittent hours worked more commonly affected participants in less secure forms of work, including temporary and agency jobs and those with zero-hour contracts.

More unexpected was the extent of earnings variability among those paid monthly and in more secure forms of employment. Here, it was mainly due to higher in-month earnings as a result of non-consolidated pay awards, performance bonuses and backdated pay increases. When added to regular monthly earnings, these lump-sum payments could elevate monthly pay by hundreds, sometimes thousands, of pounds, causing UC to plunge or fall to zero in the following month or months. As a result, these participants often received less UC than they would otherwise have been entitled to if the equivalent amount had been paid monthly or spread more evenly throughout the year. Those affected by large spikes in pay would generally have preferred to have had these amounts paid over a longer period, stabilising UC payments, helping to smooth peaks and troughs in household income and minimising reductions in benefit entitlement. However, 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.

As documented in other research, variability in *reported* earnings was generally due to pay frequency. Participants paid weekly, fortnightly or four-weekly could experience fluctuations in their UC payment for no reason other than that the date their earnings were reported as paid, and their UC assessment period – which had been arbitrarily assigned to them at the start of their claim – were poorly aligned. Had participants with weekly, fortnightly or four-weekly pay frequencies been paid the same earnings calendar monthly, they would not have been affected in these ways. Monthly-paid employees could be affected too if their regular pay date was close to the start or end of their monthly assessment period, or if they were paid early. Poor employer practices resulting in late and incorrect RTI earnings submissions, together with payroll and tax code errors, were another reason for variability in reported earnings. Under- or over-reporting of earnings meant an under- or overpayment of UC which would later need adjusting.

Alongside the budgeting difficulties that monthly income volatility could cause, a reduced UC payment could have serious knock-on effects in terms of the loss of entitlement for work allowances and other means-tested support these claimants might otherwise have been entitled to, including (but not limited to) help with council tax and prescription charges, potentially reducing household income by hundreds of pounds over the year. A nil UC award in the qualifying eligibility period for the Government's cost of living payments could also mean claimants losing out on this extra financial help.

People with fluctuating earnings (whether actual or reported) could find themselves eligible for help in one month but ineligible in the next, adding to income insecurity. A UC payment that frequently changed each month also made it hard to know whether the amount awarded was correct. Raising RTI disputes, correcting wage errors and challenging payment decisions was burdensome for working claimants. Financial losses caused by pay-related errors and benefit calculations they suspected were incorrect would often be absorbed through lack of time and attrition.

Was the adjustment to the UC payment in response to changes in earnings timely and smooth and did it help to dampen income fluctuations?

Intended to smooth and stabilise household income, UC is intentionally designed to adjust to monthly changes in income, earnings and circumstances. As earnings rise, the UC falls and when earnings fall, UC rises. The research found that while a higher UC payment in response to a fall in monthly earnings was a useful and timely income top-up, a reduction in the UC payment when earnings rose, was much less welcome. The reasons were not simply due to the loss of income, but that the amount of the reduction in UC was hard to predict and compensate for, particularly if it was large, which it frequently was. A significant reduction in or unexpected loss of UC was not easily absorbed by the lowest-earning participants who typically had no surplus income or savings to fall back on. Lump-sum bonuses and pay awards were often spent during or soon after the month of receipt, leaving little or nothing to set aside to cover the subsequent assessment period when the UC payment dropped or was nil.

Adjustment to the UC payment was also not necessarily as timely as the policy assumes. There could often be a time lag of two months between working more or fewer hours and receipt of a lower or higher UC award. This 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. People whose hours of work varied from month to month were obliged to continually juggle two sets of income uncertainty; earnings and the UC payment. For working parents required to pay childcare fees to pay in advance, but whose childcare costs were tapered with earnings and refunded in arrears, variability in the UC monthly payment sometimes became unmanageable. In these situations, contrary to the policy intent, the overall effect was to accentuate, rather than dampen, monthly income volatility.

Was household income sufficient to generate a buffer and cover reductions in the UC payment when earnings rose?

In and of itself, month to month variability in income is not necessarily problematic if overall household income is sufficient to enable people to manage monthly income dips. Indeed, the general expectation underlying the design of monthly assessment is that claimants should be able to both manage and absorb the financial highs and lows of variability in household income by careful planning and budgeting – saving and setting aside money in the months when earnings are higher and using any surplus to cover the periods when pay may fall or jobs end.

Few participants in this research were able to achieve this tricky balancing act, not because they lacked financial skills or because they were spendthrift, but because levels of earnings and benefit payments were simply too low to generate a surplus.

The Minimum Income Standard (MIS), developed by Loughborough University and used by the Joseph Rowntree Foundation and others, is the amount of money different types of households are considered to require to achieve a socially acceptable standard of living. Average monthly income after housing and childcare costs for the households in our sample was below the Minimum Income Standard (MIS) for all but five households.

Among the rest:

- 11 households had average monthly incomes that were 0-19 per cent below the MIS
- 16 households had average monthly incomes that were 20-39 per cent below the MIS
- 4 households had average monthly incomes that were 40-59 per cent below the MIS
- 1 household had average monthly income that was 60-79 per cent below the MIS

Overall, 32 of the 37 households had average incomes below the MIS despite 32 households having at least one earner throughout the study and 35 households having at least one earner for eight or more months of the study.

The five households with average monthly incomes above the MIS all contained at least one earner who was generally working full-time in a steady job, paid above the minimum wage, that they stayed in for the duration of the study. All five households were also in receipt of additional benefits due to one or more household members with a disability[6]. Though intended to cover the extra costs of disability, the additional income from benefits such as PIP, DLA and Carer's Allowance, allowed several of these households to get by, even to save. These families were also more likely to have the most stable incomes. Households with the lowest average monthly incomes, on the other hand, were more likely to have the most volatile incomes.

Some families also had access to additional income, or had more disposable income than their English counterparts, by virtue of living in the devolved nations. Claimants in Scotland and Wales do not pay prescription charges, nor do Scottish residents pay water rates. The Scottish Child Payment, a weekly means-tested benefit of £25 for each child aged 16 and under, also helped to top up the incomes of families with dependent children. Some participants living in Wales, who met the eligibility criteria, had also been able to access additional financial help including an unpaid carer's grant worth £500 and a winter fuel payment of £200.

The regular and sometimes large amounts taken from the UC award in deductions for loan repayments, benefit overpayments and third-party debts was an important reason why monthly disposable income was lower in many working households than it might otherwise have been. More than three-quarters of participants had deductions taken from the UC payment at some point during the timeframe of the research. For around a third, the deductions were continuous for the whole period of data collection.

The high rate of benefit withdrawal as earnings rose was another a significant factor in reducing monthly income in working households. Single claimants and second earners in two-earner couples with children (all of whom were women) who did not benefit from a work allowance, had their UC entitlement tapered from the first pound of earnings. Self-employed claimants who had been trading for more than 12 months, so subject to the minimum income floor (MIF)[7], were subject to further potential

6 It is important to note that the MIS does not include disability related costs. This means that monthly disposable income is over-estimated in these households because the costs of disability are not taken into account. If the extra costs of disability were included, it is likely that these households would fall below the MIS.

7 The MIF 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. If they earn less than the MIF, then the MIF is used in place of their earnings, meaning that the UC payment will be lower than it would have been if based on their actual income.

reductions. Deductions for notional profits they had not actually earned could significantly reduce UC entitlement, sometimes by hundreds of pounds each month.

Monthly income was also sometimes unduly low as a result of UC errors and underpayments. Several participants were missing UC elements they should have been entitled to or had had their UC award incorrectly reduced. Whereas deductions for UC overpayments are automated, refunding underpayments for missing elements of UC are not. The onus is rather placed on the claimant to identify errors and have them corrected. Five families also had their household income reduced due to the imposition of the two-child limit and four were subject to the benefit cap at least once during the research. Two families with children had their UC payment reduced due to being sanctioned; in one case, four times.

The combination of low pay and reduced entitlement to UC due to multiple deductions taken at source from the monthly payment for earnings, loan repayments, overpayments and third-party debts, meant that few households in this research had levels of disposable income that stayed high enough for long enough to allow them to save or set aside funds. Indeed, some were left with household income below the level needed to cover basic living expenses. Two-thirds of participants said that they ran out of money before the end of the month. This seriously compromised their ability to bridge monthly income gaps when the UC payment fell. Though a welcome boost to the incomes of cash-strapped households, the Government's cost of living payments made little overall difference to participants' ability to manage month to month. As with one-off employer bonuses and backdated pay awards, these lump-sum payments were typically spent on pressing household needs soon after receipt.

The monthly income claimants had at their disposal, moreover, had a great deal of heavy lifting to do to. Having to bridge the often sizeable gap between the housing contribution they received and their monthly rent and council tax was a major factor contributing to low disposable monthly income. Debt repayments outside of the UC payment – to repay student loans, council tax and utility arrears for example – could also squeeze monthly income. For parents using paid childcare, making up the difference between the financial contribution they received and their childcare fees also chipped away at household budgets. Months in which both earnings and the UC payment dropped could sometimes lead to a deficit between monthly household income and essential outgoings, generating arrears and debt and little scope for saving.

What budgeting strategies do participants use to manage fluctuating payments and variations in household income?

In the main, participants in this research were highly resourceful, prioritising the payment of rent and essential bills and minimising borrowing and debts as far as possible. However, only a little over a quarter of households had any savings they could draw on when monthly earnings dipped or to cover the cost of replacing white goods, for example, without having to use credit cards, overdrafts or other forms of borrowing. Not unexpectedly, those better able to save and set aside income had higher and more stable earnings from jobs paying above the minimum hourly rate.

Nine participants had opened a government 'Help to Save'[8] savings account, which they found to be a very useful and generous scheme for incentivising and rewarding saving. However, levels of awareness were generally low and eligibility criteria restrictive. Many were unable to benefit because their net monthly earnings were less than the £722.45 needed to open an account. Some of those with the lowest incomes had insufficient disposable household income to allow them to save.

Interest free and easy to access, Budgeting and Change of Circumstances Advances could be a lifeline for those able to access them. However, most working participants in this research were ineligible for this help. Only claimants who have earned less than £2,600 (£3,600 jointly for couples) in the past six months are eligible for Budgeting Advances and Change of Circumstances Advances are only available to claimants whose UC payment has increased as a result of the change. In the main, working claimants appeared largely to be ineligible for local authority-administered discretionary funding schemes such as the Household Support Fund and discretionary housing payments because levels of household income were considered too high.

The cumulative and combined effect of low disposable household income and monthly income volatility was to reduce the ability of many participants to save or set aside money during the months when they had earnings, or when earnings rose. Having no monthly surplus or savings on which to draw, in turn, obliged many to borrow. Borrowing from family or friends, if they were able to, was the most common and preferred method used by participants for plugging monthly income gaps. If large amounts were needed – to replace a washing machine or pay for a car repair, for example – bank overdrafts or credit cards, if they had them, were sometimes used. However, though providing a short-term solution, this form of borrowing could be costly to service.

Participants with low earnings and insufficient household income to cover their regular monthly living expenses found it hard to pay bills and clear debts. Around half of the households had serious arrears of rent, council tax and/or utility bills. Having to bridge the often sizeable gap between the contribution they received towards housing costs and the amount they were obliged to pay in rent or mortgage payments and council tax each month, was a major factor contributing to arrears and debt. Only 17 of 42 households had their full rent included in their UC housing element.

If disposable income was particularly low one month, council tax and utility bills would often remain unpaid until sufficient funds – from earnings, UC or further borrowings – were available again. Some participants had been able to reduce the cost of household bills by accessing the help on offer from utility companies. However, levels of awareness about social tariffs and other similar help was low and eligibility criteria restrictive, in most cases debarring all but the poorest and most vulnerable households. Households with regular monthly income deficits found themselves in a perpetual cycle of 'robbing Peter to pay Paul' from which many were unable to extricate themselves. Borrowing to cover essential living expenses could, in turn, lead to chronic indebtedness with fewer opportunities still to save.

8 Help to Save is a government-backed savings account for low-income people with net monthly earnings of at least £7.

Did monthly assessment incentivise employment, longer working hours and higher earnings?

The aim of adjusting UC payments monthly through a single taper is to make the gains from working and from increasing hours of work starker and clearer. The underlying policy rationale is that claimants are motivated to work and increase their earnings because they can actually see and benefit from an immediate financial reward. However, for many in our research, the high rate of benefit withdrawal and visible loss of UC entitlement as earnings increased served mainly to discourage, rather than to incentivise, longer hours and higher earnings. Even at relatively low levels of earnings, entitlement for other means-tested help could be reduced or lost. Loss of entitlement for council tax and other means-tested support after tax, NI and the taper had already reduced earnings meant that for some claimants, work did not pay. Small increases in earnings actually made some participants financially worse off. Subject to marginal effective tax rates (METR)[9] often in excess of 75 per cent, many felt the level of the taper was unreasonably high.

Once they had fully grasped how UC worked, participants with no or few work conditionality requirements sometimes adjusted hours of work downwards to remain under the earnings threshold, while others declined offers of overtime. Having only one work allowance per household discouraged some non-earning partners in couples from entering work. Uncertainty over how much of their childcare costs would be refunded also discouraged some parents from working longer hours. Lone parents and 'second earners' in couples with children sometimes reduced their hours to avoid the need for paid childcare. Some mothers in couples, whose partners were working full time, questioned whether it was worth them working at all until their youngest child was old enough to start school. In situations such as these, contrary to the policy intent, UC's greater responsiveness and high rate of withdrawal appeared to have weakened, rather than strengthened, work incentives.

Policy recommendations

Increase the level of UC allowances and elements

While the 6.7 per cent uprating of benefits from April 2024 and one-off increase in the local housing allowance announced in the Chancellor's 2023 Autumn Statement are welcome, findings here support calls from the Joseph Rowntree Foundation (JRF) and the Trussell Trust for an 'essentials guarantee, based on a significant increase in UC standard allowance rates'[10]. Others have called for both in an increase and indexing of UC standard allowances and elements to reinstate their real cash value. To address the long-term, systematic erosion of value, we would support the call from the Resolution Foundation and others for working-age benefits to be annually uprated in line with earnings[11]. Restoring benefits to previous historical levels would help claimants to save and set aside money, allowing them to better manage dips in monthly household income.

9 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.

10 https://www.jrf.org.uk/report/guarantee-our-essentials

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

Allow working claimants to keep more of their earnings

Alongside broader arguments in favour of increasing the adequacy and take up of benefits, a key priority arising from this research would be to ensure that claimants in paid work or self-employment are allowed to keep more of their earnings. The relative costs and benefits of reducing the taper rate, increasing the work allowance and extending it to single claimants and second earners in couples, including how far up the income distribution is it appropriate for UC eligibility to reach, should be assessed.

If the policy intent of UC to always make work pay is to be achieved, the potential loss of passported benefits and other means-tested help as earnings rise – including amongst other things, council tax support, free school meals and prescription charges – also needs reviewing. Cliff edges should be removed, earnings thresholds increased and greater standardisation introduced to reduce the inconsistency and unfairness that can arise from having a myriad of different, often discretionary, schemes operating at national and local levels. These issues are complex and further work is needed to explore them more fully. Such reforms would help both to increase incomes in working household and counter the disincentive effects of high marginal effective tax rates, while meeting one of the DWP's priority objectives set out in its 2023 strategic plan to 'maximise employment.'[12]

UC claimants with self-employed earnings raise a different but equally complex set of issues. Further research is needed into their experiences and the effects of current rules and regulations including the monthly calculation of profit and the minimum income floor (MIF).

Reform monthly assessment to increase income security for working claimants

Findings highlight the neglect of income security in the design of UC. Where claimants are usually paid on a monthly basis and receive more than one wage in the same assessment period, current regulations enable one of the wages to be treated as though paid in a different assessment period. The feasibility of extending the regulations to claimants paid weekly, fortnightly and four-weekly should be explored further. The case for adjusting monthly assessment to better accommodate claimants paid four-weekly is particularly strong.

Another possibility would be to provide claimants with longer-term fixed awards for three or even six months. This would provide greater predictability of income than the current system allows and could potentially encourage claimants to increase the number of hours worked as they would not face an immediate reduction in benefit.

Also in need of reform is the whole month approach to changes of circumstances. Changes in entitlement should take effect from the date of the change and awarded pro rata for the month, rather than assessed on the last day of a claimant's assessment period, as is the case currently.

12 https://committees.parliament.uk/publications/40123/documents/195656/default/

The rigidity of the monthly assessment period also needs challenging. More upfront information and advice should be communicated to UC applicants about the significance of the date a claim is made, giving them the option to defer the start date by a few days if their monthly assessment period does not align well with their pay dates. This is particularly important as the process of managed migration to move claimants of tax credits and legacy benefits across to UC begins to accelerate. Claimants already in work, or those who move to a job with a different pay frequency or pay date, should also be given the choice to change their assessment period.

Increase employer engagement

The research has shone a spotlight on the significance of employers to the financial well-being of working claimants. However, to date, their involvement in UC has been minimal. The DWP should make efforts to raise awareness among employers about the way in which pay systems, PAYE submissions and remuneration policies can affect benefit entitlement. At a more strategic level, their engagement should be sought as to the best way of mitigating the adverse financial effects and income uncertainty that can arise for employees who receive UC. Greater periods of notice for variations in hours and shifts and a reduction in the use of zero-hour contracts, should also be promoted.

Reform the childcare element of UC

To reduce the uncertainty and financial difficulties caused by upfront childcare payments and month to month variations in refunded fees, and to prevent the undermining of incentives to work or earn more (particularly among 'second earners' in couples), notwithstanding the changes to childcare policy announced by the Government in 2023, the treatment of childcare costs in UC also requires review. It would be simpler and more cost effective for working parents if childcare was funded directly, rather than through UC. Further work is needed to explore how to achieve this and other possible reforms.

Minimise deductions for debt and review other reductions in entitlement

The high level of deductions from many claimants' UC awards was a key reason why monthly incomes often failed to cover essential outgoings. Both minimum and maximum amounts should be further reduced and historical overpayments and social fund loan debts older than seven years should also be written off. Higher and variable rates of deductions for households with earnings should also end.

Charities and civil society organisations have long campaigned for the two-child limit, benefit cap and spare room subsidy to be abolished, calls we would also endorse. Findings also support a review of the non-dependent adult deduction and the lower UC standard allowance paid to the under 25s.

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

Eligibility criteria for budgeting loans 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 be reduced to allow lower-earning claimants to benefit.

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

Our research suggests that Universal Credit's potential as a digitalised benefit is not being exploited as well as it might for the benefit of claimants. 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; another DWP priority objective set out in their 2023 strategic plan.

Going forward

The next stage of work from this project will involve the production of a series of stand-alone policy briefs in 2024 to shine a more detailed light on three important policy areas that have emerged from this research as warranting further investigation: Universal Credit and childcare; Universal Credit and entitlement for other means-tested help; and Universal Credit and self-employed earnings. Further work which could usefully be undertaken include microsimulation analyses to explore the cost implications, differential impacts and distributional effects of the different policy recommendations (either singly or in combination) on working claimants in different sets of circumstances.

1

Introduction

Introduction

Universal Credit and monthly assessment

Knowing that the amounts you (and/or your partner) receive through earnings and/or benefits will cover your basic living expenses is one of the fundamental building blocks of income security and financial well-being.

For people in low-paid work and moving in and out of insecure forms of employment, earnings top-ups can be a lifeline, making the difference between having enough money to live on and having to borrow, between taking a job or remaining on benefits. Replacing six means-tested benefits and tax credits[13] with a single monthly household payment, Universal Credit (UC) is the UK's main, means-tested, working-age benefit for supporting and supplementing low household income among individuals and couples both with and without paid employment. As of December 2023, just over six million people in around five million households were claiming Universal Credit, 38 per cent of whom were in paid work, or living with a partner who was working[14]. When the remaining three million or so claimants of legacy benefits and tax credits have all been moved onto UC, an estimated nine million adults, just under a quarter of the working-age population, will be claiming it approaching half of whom are likely to be employed or self-employed.

Universal Credit is a radical departure from the benefits and tax credits it is replacing. Unlike the legacy system, it is *assessed and paid monthly in arrears* by default[15]. Any earnings or other income received in the previous month, together with any changes of circumstance, are taken into account when calculating the monthly amount claimants[16] are entitled to. If monthly income, earnings and household circumstances remain the same, then the UC payment should stay the same, but if they change, the payment is intentionally designed to rise or fall in response. Tax credits, in contrast, were assessed annually, based on a self-completed annual return using the previous year's household income (not unlike the system of self-assessment for income tax). The tax credit award – paid weekly or

13 Universal Credit is replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance (JSA) and income-related Employment and Support Allowance (ESA).

14 Data sourced from DWP Stat-Xplore data release January 2024 shows that in December 2023 there were 6,352,771 people claiming UC, of whom 2,403,821 were in employment or self-employment in November 2023.

15 Under 'Scottish Choices' claimants in Scotland can request to have their UC paid twice monthly and in Northern Ireland UC is normally paid twice a month. In England, payment of UC more frequently than monthly can only be arranged under exceptional circumstances as decided on a case by case basis.

16 A 'claimant' or 'benefit unit' can be an individual claiming singly, a lone parent, or a couple, with or without dependent children, claiming jointly.

four-weekly depending on the claimant's preference – generally remained fixed for a year. Within-year variation normally only arose if a significant change in earnings or circumstances occurred[17], and even then, only if the claimant notified HMRC of this.

As a dynamic benefit intentionally designed to rise or fall in response to monthly changes in income, earnings and household circumstances, Universal Credit thus operates very differently from the system it is replacing. However, to date, there has been no systematic research into how claimants experience payment fluctuations and little is known about how monthly assessment and means testing actually affects working households. Through tracking a sample of 61 Universal Credit claimants in 42 working household for a year, this is what our research set out to discover.

Research aims and objectives

The research aim was to explore how the system of monthly assessment in Universal Credit (UC) – used for assessing entitlement, recovering debts and calculating payment – is affecting income security and financial well-being in working households. A particular area of interest was the way in which changes in monthly earnings affect the UC payment, how volatile or stable this makes household income and the effects on household budgeting. We were also keen to explore whether and how the system of monthly assessment shapes the work-related decisions of UC claimants. As far as we know, this is the first time such a study has been undertaken.

The specific research questions the study sought to answer were:

- How stable or volatile are monthly household incomes and what are the key drivers?
- To what extent does Universal Credit dampen or accentuate income insecurity and help with household budgeting?
- Is the adjustment to the UC payment in response to changes in earnings timely and smooth?
- Is household income sufficient to generate a buffer and cover reductions in the UC payment when earnings rise?
- What budgeting strategies do participants use to manage fluctuating payments and variations in household income?
- To what extent does monthly assessment incentivise employment, longer working hours and higher earnings?
- What conclusions and policy implications can be drawn from the findings and what policy recommendations can be made?

17 The annual tax credits earnings disregard was originally £2,500. From April 2006, it increased to £25,000. In April 2011, it reduced to £10,000 and in April 2013, to £5,000. In April 2016, it reverted to £2,500.

A key aim throughout was to examine whether the assumptions underlying the policy intent and design of monthly assessment match the reality of claimants' circumstances and working lives.

Report structure

The report is structured in ten chapters. We start by exploring the main design features of Universal Credit and the policy intent. We then outline the methods we used, how the sample was recruited, the characteristics of the achieved sample and how we analysed the data. Chapters four to six examine the degree of month-to-month income variability participants experienced and how the amount of monthly household income compared with minimum income standards. In chapters seven to nine, we draw on the qualitative findings to explore participants' experiences of income volatility, the strategies they used to manage low and variable household income and the way in which monthly assessment in Universal Credit shaped budgeting and work-related decision making. The final chapter outlines our conclusions and makes recommendations for policy change and further research.

Annex 1 contains the individual household income profiles for each of our participant households showing the total amount of income received month to month. Annex 2 provides a more detailed account of our research sample.

2

Monthly assessment in theory and in practice

Monthly assessment in theory and in practice

The policy intent

At its most basic, monthly assessment is that part of the Universal Credit system which determines the amount of benefit that claimants are entitled to and paid each month. But its function is much more than administrative.

A single household award assessed and paid monthly in arrears fits into an overarching policy narrative of benefit simplification and improved work incentives, intended to encourage claimants to enter employment and *"take responsibility for their own financial affairs … managing their own budgets, making housing costs a priority … and [making] the same sorts of decisions as those in work"* [18]. A monthly payment designed to fluctuate each month, as earnings rise or fall, is also intended to smooth and stabilise household incomes and make the financial impact of working additional hours more visible and immediate, thereby motivating claimants to progress in work and earn more. Monthly assessment is furthermore intended to reduce the likelihood of overpayments, fraud and error. Annual assessment under tax credits meant that changes in income and circumstances were not generally identified or reported until the end-year reconciliation, potentially giving rise to both under- and overpayments.[19]

Incorporating an automated system for the recovery and repayment of benefit debts and loans, monthly assessment also forms part of UC's wider remit of ensuring claimants meet their financial obligations in a timely, manageable way. Deductions – to repay a wide range of debts, including benefit and tax credit overpayments, loans, arrears of rent, council tax and utility bills that claimants (including both partners in a couple) may owe to the government, local authorities, landlords and utility providers – are taken at source from the monthly UC award before payment is made.

18 Personal Budgeting Support and Alternative Payment Arrangements. Universal Credit Guidance p3. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/378300/personal-budgeting-support-guidance.pdf

19 The early design of tax credits used an estimate of annual earnings for the coming year as the basis on which the payment was calculated. By changing the method to retrospective assessment, based on the previous year's income, and introducing a generous earnings disregard, many of the problems were resolved. Over time, the disregard was gradually reduced and by 2016, under- and overpayments were back to the level that they had previously been. See Millar and Whiteford, 2019 https://bristoluniversitypressdigital.com/view/journals/jpsj/28/1/article-p3.xml

Deductions were also a feature of the legacy system of tax credits. However, Universal Credit's much stricter debt repayment policies, greater technical and data sharing capabilities with third parties, together with increased automation across its debt collection procedures, have significantly enlarged the scope for the identification and recovery of debts and overpayments. Claimants experiencing financial difficulty can request to defer debt repayments or temporarily reduce the amounts being taken, but these decisions are discretionary, made on a case-by-case basis and only approved in exceptional circumstances. Moreover, a reduction or deferral can generally only be granted for loan repayments and benefit or tax credit overpayments. In the main, deductions for third-party debts– for example council tax arrears – are fixed and cannot be reduced or deferred.

UC claimants struggling with payment in arrears can request an interest-free loan (known as an 'Advance') repayable over six, 12 or 24 months, which can be accessed to tide them over the minimum five weeks wait[20] at the start of the claim and to help with a change of circumstance[21], such as the birth of a child. Interest-free Budgeting Advances (sometimes called a budgeting loan) may also be available to eligible claimants[22] to help pay for large, one-off, household expenses such as replacing a washing machine. The Government's Help to Save scheme, designed to encourage those on low-incomes to save, is also available to eligible UC claimants[23]. Working parents are entitled to a financial contribution of up to 85 per cent[24] towards childcare costs paid to an Ofsted-registered childcare provider[25]. Those who are starting work or increasing their hours may additionally be eligible for a non-repayable grant from the 'Flexible Support Fund'[26] to help pay the upfront costs of childcare fees.

Claimants needing help with managing the single monthly payment can also request personal budgeting support or an Alternative Payment Arrangement (APA) including having the housing cost element of UC paid direct to the landlord, more frequent payments (typically, twice monthly) and split payment of an award between partners with a joint claim. In England and Wales APAs are discretionary while in Scotland and Northern Ireland UC claimants have the right to choose. Landlords can also apply to have the UC housing element paid direct to them if their tenant is in rent arrears.

Alongside Universal Credit's monthly assessment, debt recovery and payment regime is a digital platform for claimants' ongoing self-management of the claim through the use of an online account and journal. The account contains copies of the UC monthly statement and is used by claimants to notify the DWP

20 UC is assessed monthly in arrears and paid seven days later, giving rise to a five week wait for payment.

21 Only household changes which increase UC entitlement qualify for a 'change of circumstances' advance.

22 To get a Budgeting Advance, claimants must have been getting UC for six months or more, have earned less than £2,600 (£3,600 jointly for couples) in the past six months and paid off any previous Budgeting Advances.

23 Help to Save is a government savings scheme for low-income earners which offers a 50per cent bonus payment for savings of between £1 and £50 a month deposited over four years. UC claimants need (joint) take-home pay of £722.45 or more in the last monthly assessment period to be eligible. If payments are received as a couple, each partner can then apply for their own account.

24 Subject to a maximum monthly amount of £950.92 for one child and £1,630.15 for two or more children.

25 There is no minimum number of hours that must be worked to qualify for help with childcare costs, but in couples, both partners must be working.

26 The Flexible Support Fund (FSF) is a DWP locally-managed budget which allows Work Coaches to tailor employment support to the needs of claimants. FSF awards are discretionary and subject to eligibility.

of changes of circumstance and for uploading documentary evidence such as tenancy agreements and childcare invoices. The journal is an online messaging platform used for general communication, queries, and challenging decisions. A complementary programme of employment support, delivered by work coaches based in Jobcentres, is designed both to encourage people into employment and help those in paid work to increase their earnings by working more hours or finding better paid employment. A strict set of work conditionality requirements, overseen by work coaches and reinforced by sanctions, underpins the monthly assessment and payment regime.

How monthly assessment works in practice

One of the practical consequences of a payment intentionally designed to fluctuate in response to monthly changes in income and circumstances, is that it requires a high degree of automation to function. A number of practical consequences flow from this. Here we unpick how the system of monthly assessment actually works in practice including the circumstances – both intended and unintended – in which the UC payment can rise or fall. For illustration purposes, overleaf is an anonymised example of a monthly Universal Credit statement from one of our participants setting out how entitlement accrues and payment is calculated.

Calculation of entitlement – *"What you're entitled to"*

Each month, an individual or joint claimant's UC entitlement is calculated according to their household's needs, income and circumstances between the start and end dates of their monthly *assessment period*. The assessment period starts on the day the claim is made and ends one calendar month later and, under current policy, cannot be changed. Any changes of circumstance which occur during the month, such as starting or stopping work, moving house, or moving in with a partner, must be self-reported using the online account. The household's needs and circumstances on the last day of their assessment period are then used to calculate entitlement. Entitlement is based on a *'standard allowance'*[27] intended to cover a single person or couple's essential living expenses, with additional elements, where relevant, for housing costs, dependent children, long-term health conditions which limit work capability, and caring responsibilities for disabled adults or children. The *'housing element'* only contributes to rental costs and, for most private renters, there is a large gap between the housing element and the actual rent they pay.[28] Owner occupiers with mortgages may be able to apply for a loan as part of the Support for Mortgage Interest scheme (SMI)[29].

27 In 2023/24 the standard allowances for single people under 25 was £292.11; for single people 25 or over, it was £368.74. For couples both under 25, it was £458.51 and for couples 25 or over it was £578.83.

28 The Local Housing Allowance (LHA) determines the maximum housing support available for tenants in the private rented sector and varies depending on where people live. Areas with higher rent costs haven higher LHA rates. However, LHAs do not cover all rents in all areas. In 2023, the average gap between the LHA and a claimant's actual rent varies from £63 (Barrow in Furness) to £360 (City of London) per month (data obtained from 'Households in receipt of Universal Credit Housing Element in February 2023 by local authority'). In his Autumn Statement 2023, the chancellor re-pegged the LHA to the 30th percentile of local rents for 2024-25.

29 Support for Mortgage Interest (SMI) is an interest-charging loan to help pay the interest on up to £200,000 of a claimant's mortgage. The loan amount is repaid with interest (currently 3.28 per cent) when the claimant sells their home. Applicants must have been claiming UC for at least three months to be eligible.

Figure 1. Universal Credit Monthly Statement (anonymised example from research participant)

Your payment this month is £568

This will be paid by 8pm on 8 February 2023

What you're entitled to

Standard allowance You get a standard amount each month. You said you're in a couple	£525.72
Housing Need help understanding your housing? You said per month the total rent for your property is £600.00. You will have to pay your housing costs to your landlord.	£600.00
Children You get support for 2 of your 3 children	£534.58
Disabled children You said that you have 1 disabled child	£132.89
Children in childcare Need help understanding your childcare costs? You had 1 child in childcare this month We pay 85% of your costs each month, up to £646.35 for 1 child	£489.60
Carer You said that [Name of female partner] is caring for someone.	£168.81
Total entitlement before deductions	£2,451.60

What we take off (deductions)

Take-home pay - £1,751.43

Need help understanding take-home pay?

Take-home pay is what's left after tax, National Insurance and any pension contributions have been deducted.

[Name of male partner]
Earnings reported by your employer

£2,011.66
The amount we'll use to work out your Universal Credit is £2,011.66

[Name of female partner]
Earnings reported by your employer £1,516.75
The amount we'll use to work out your Universal Credit is £1,516.75

The total take-home pay for [COUPLES NAMES] in this period is £3,528.41

The first £344.00 of your take-home pay doesn't affect your Universal Credit monthly amount. Every £1.00 you earn in take-home pay over this amount reduces your Universal Credit by 55 pence.

Debts and loan repayments

Tax Credits recovery - £131.43

Read more information about Universal Credit payments, including who to contact on the GOV.UK website. Search for 'find out about money taken off your Universal Credit payments'.

Total deductions	- £1,882.86
Your total payment for this month is	£568.74

Eligible working parents entitled to help with childcare fees must upload evidence monthly to the UC account of the amount they have paid within their assessment period. Approved costs are reimbursed monthly in arrears. Since payments for *'childcare costs'* are incorporated within the single monthly payment, if monthly earnings (of one or both partners in a couple) increase, the UC payment will correspondingly reduce, including any amount awarded for childcare costs.

Reductions in entitlement due to the benefit cap, two-child limit, second bedroom subsidy, non-dependent adult deductions and sanctions and penalties

Before any deductions for earnings or debts are applied to the UC award, a variety of policies may reduce entitlement for households in particular circumstances. Introduced in 2015, **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. UC claimants with earnings are exempt from the benefit cap if their household has net earnings of £722 per month or above[30]. Households with three or more dependent children may also have reduced entitlement due to the **two-child limit** which limits the child element of Universal Credit to a maximum of two children for children born after 17th April 2017. Any children born on or after this date are no longer eligible for support unless special circumstances apply, such as a multiple birth[31].

Popularly known as 'the bedroom tax,' from April 2013, the **'second bedroom subsidy'** uses a formula for assessing entitlement to help with housing costs for working-age tenants renting from a local authority, housing association or registered social landlord, based on the number of people and the number of bedrooms in the property. Tenants with 'spare' rooms above their allowance have their UC housing element reduced. Those with one spare bedroom lose 14 per cent of their eligible housing costs and those with two or more spare bedrooms lose 25 per cent.

The **'non-dependent adult deduction'** can further reduce the UC housing element 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 or not they can or do)[32]. Affected households may also be subject to a corresponding reduction in council tax support[33].

30 A household no longer earning this amount continues to be to be exempt from the cap for a nine month 'grace period' but only if earnings were above the threshold in each of the preceding 12 months.

31 The two-child limit only applies to the UC child element and does not extend to help with childcare costs, free school meals, the UC disabled child element or Child Benefit. Households with three or more disabled children getting DLA, for example, would receive three UC disabled child elements (though only two child elements).

32 At the time of the research, in 2022/23, £77.87 was deducted from the monthly UC payment from for each non-dependent adult living in the household. This has since increased to £85.73.

33 The amount deducted from council tax support varies depending on the local authority.

A decrease in the amount of UC that is actually paid can also arise if a claimant's housing element is paid direct to their landlord. However, this is not a reduction in entitlement but rather a payment arrangement either chosen by the claimant or imposed by the landlord, in cases of rent arrears. Those who are entitled to the housing element of UC and face a rent shortfall or are struggling to pay housing costs may be able to apply for a Discretionary Housing Payment (DHP). Each local authority administers its own DHP scheme so eligibility criteria, application procedures and amounts awarded vary by location.

Sanctions and penalties can further reduce the monthly UC award. A sanction is a reduction in entitlement – which can be low, medium or high – when a claimant is deemed to have failed to do what they have agreed in their Claimant Commitment without good reason. The amounts and periods for which a sanction applies vary depending on a claimant's age, the sanction level, and the number of times the claimant has been sanctioned[34]. Financial penalties can also be applied for fraud or error as an alternative to prosecution where a benefit overpayment has occurred due to an act or omission by the claimant that are grounds for instituting legal proceedings.

Households affected by more than one of these policies may be subject to multiple reductions in entitlement. Entitlement less any reductions in the award gives the claimant's *'total entitlement before deductions'*, as set out in the claimant's UC statement under the heading *'What you're entitled to'*.

Deductions – *'What we take off'*

The next part of the statement falls under the heading *'what we take off'*. Here, a claimant's total entitlement is means-tested according to any income received (by both partners, if claiming as a couple) within their monthly assessment period. Income includes earnings from paid work and self-employment, some other social security benefits, together with any other earned and unearned income listed in the regulations as income[35]. Income from earnings leads to a tapered reduction in UC. Other income is either disregarded in full or UC is reduced pound for pound.

Take-home pay and income from other benefits

Net earnings (take-home pay after national insurance, income tax and pension payments) are 'tapered,' meaning a gradual reduction in entitlement as earned income rises. Entitlement is currently reduced by 55p[36] for each pound of net earnings. Some working claimants with dependent children or limited capacity for work may be eligible for an earnings disregard – known as a 'work allowance' – allowing them to earn up to a specified amount each month before the taper is applied[37].

34 For single claimants over 25, the sanction is £12.10 per day and for single claimants under 25, the sanction is £9.60 per day, for as long as the sanction lasts. For couples over 25, the sanction is £9.50 per day and for couples under 25, the sanction is £7.50 per day. The sanction should not normally be more than the standard allowance. Those entitled to additional elements for UC continue to receive them.

35 Examples include rental income and student loans. For further information see https://revenuebenefits.org.uk/universal-credit/guidance/entitlement-to-uc/what-is-income-for-uc/

36 Prior to December 2021, the taper rate was 63 per cent.

37 In 2022/23 if a claimant received the housing element of UC, a lower work allowance of £344 per month applied. If they did not receive the housing element of UC, a higher work allowance of £573 per month applied. The rates for 2023/24 increased to £379 and £631 respectively.

There is currently no work allowance for single claimants and in couples where both partners are in paid work, only one work allowance is payable (the same amount as lone parents get). Couples in which both partners have limited capability for work receive only one work allowance[38].

Income from some social security benefits reduces UC entitlement pound for pound while others are fully disregarded. Carer's Allowance and Maternity Allowance, for example, reduce UC entitlement pound for pound, while Personal Independent Payment, Disability Living Allowance and Child Benefit are disregarded. Child maintenance and Scottish social security payments, for example, the Scottish Child Payment,[39] are also disregarded, as are the Government's cost of living payments. This payment of £650 was paid in two lump sums of £326 and £324, in July 2022 and November 2022, to households in receipt of Universal Credit and other qualifying means-tested benefits. To be eligible, UC claimants must have been entitled to a payment of at least 1p during the qualifying periods. Some individuals claiming certain disability benefits were also entitled to a £150 disability cost of living payment. This, too, was disregarded.

Needs and income are assessed and calculated retrospectively, *in arrears*, once any earnings or other income in the preceding month have been captured by and uploaded to the UC system. For working claimants on PAYE (Pay as You Earn), earnings are automatically reported via monthly submissions made by employers to HMRC's Real Time Information System (RTI). This contrasts with legacy system which required claimants to self-report their earnings. People whose employer is not an RTI employer or have earnings below the national insurance threshold, or who are self-employed, are required to self-report their earnings to their online account each month.

Earnings are not averaged out over the year, as was the case with tax credits. Rather, the UC payment reflects earnings in each monthly assessment period. All earnings reported via the RTI feed and captured within a claimant's assessment period, including any bonuses, backdated pay, wage advances or expenses are counted.

Earnings are recorded as 'paid' on the date on which they are reported to HMRC by the employer regardless of the period to which they relate or when wages are actually paid. If no information is submitted to or received by HMRC in a claimant's assessment period, the amount of earnings is treated as nil even if the claimant has actually been paid.

In this way, the frequency of pay and online reporting of earnings can affect UC entitlement and payment. As the DWP online guidance explains[40], during the twelve-monthly assessment periods each year, people paid weekly will have eight periods in which they receive four pay packets, and four in which they receive five. Those paid fortnightly will have ten periods in which they receive two pay packets, and two in which they receive three. Those paid four-weekly will have eleven periods in which they receive one pay packet, and one in which they receive

38 Couples in which both partners are assessed as having limited capability for work and work-related activity (LCWRA) also only receive one payment.

39 Scottish Child Payment is a means-tested, weekly payment of £25 paid every four weeks that some parents in Scotland may be eligible for each child they look after under the age of 16 years of age. It is one of a number of additional payments including Best Start Grants, Best Start Foods, Scottish Carer's Allowance Supplement, Adult Disability Payment and Child Disability Payment that some families may be able to get from Social Security Scotland.

40 https://www.gov.uk/government/publications/universal-credit-different-earning-patterns-and-your-payments/universal-credit-different-earning-patterns-and-your-payments-payment-cycles two[41]. In these instances, even though underlying earnings have not changed, the following month's UC payment will reduce, potentially to nil. This generally means that no pay is then taken into account the next assessment period, which would normally result in a higher UC award the following month. In two-earner couples, different pay frequencies may apply to each partner, further complicating the picture of how much income is earned and recorded in each monthly assessment period.

While the monthly paid generally get one payment of earnings within an assessment period, if wages are paid early, for example, due to a bank holiday or weekend, or a claimant's assessment period starts or ends close to their pay day, two sets of monthly pay can be captured in a claimant's assessment period. Lump-sum payments – for example a performance bonus, backdated pay award or holiday pay – can all have a similar effect. From November 2020, a change in the regulations following a legal challenge means that a double payment of monthly earnings can be allocated to two different assessment periods, rather than just one. However, the change only applies to those monthly paid, not those paid more frequently. In August 2021, a new process was introduced which should automatically identify and correct instances where two monthly pay packets are included in a single assessment period, avoiding the need for affected claimants to notify the DWP in advance.

Assessment periods which record multiple pay packets may take claimants above the threshold of entitlement, not only reducing the UC payment, but potentially closing their claim. Claims are normally automatically closed when a claimant's monthly income exceeds entitlement, obliging them to reapply the following month if they wish to continue receiving UC in future months. This would entail a further five week wait for payment. However, introduced in 2020 as a Covid-19 easement, claims are currently only closed after six consecutive months of nil awards. Claimants who (jointly) earn more than £2,500 over the amount they are allowed to earn before UC entitlement is lost, are deemed to have 'surplus earnings.' The rules are complex but any surplus earnings will reduce the amount of UC to nil for a period of up to six months, or until UC eligibility returns.

A reduction in or loss of UC entitlement due to higher (recorded) earnings can, in turn, reduce or remove entitlement for other means-tested and 'passported' forms of help such as council tax reduction schemes[42], discretionary housing payments and the Government's cost of living payments. A nil UC award also means that claimants with children or with disabilities who would normally be entitled to a work allowance only benefit from one month's disregarded earning rather than two – a potential monthly loss of £208 (55 per cent of the lower work allowance) or £347 (55 per cent of the higher work allowance) each time this happens. This is because only one work allowance is allowed in each assessment period.

41 https://www.gov.uk/guidance/universal-credit-and-earnings?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=2897047c-f295-4449-abfb-178107b50bbd&utm_content=daily#if-youre-paid-weekly-every-2-weeks-or-every-4-weeks

42 Each local authority is responsible for administering its own council tax reduction scheme based on different eligibility criteria, including the maximum household earnings allowed before entitlement is reduced or lost.

Self-employed claimants

Self-employed claimants are subject to a different set of rules and regulations. To be eligible for UC, claimants must first prove they are 'gainfully self-employed'[43]. If assessed as such, they are then required to self-report their income and expenditure to the online account within 14 days of the end of their assessment period. The way earned income is calculated for the purposes of UC is not the same as for income tax purposes, nor for tax credits, where claimants simply entered the same income figure on the annual tax credit form as on their tax return. Under UC, there is limited provision for averaging variable incomes and costs over the year or for carrying forward losses. Regardless of their actual income, a deemed amount – known as the minimum income floor (MIF)[44] – is also applied after a 12-month start-up period of 'test trading' has elapsed. If a claimant earns more than the MIF, then their UC entitlement is calculated using their actual income. If they earn less than the MIF, then the MIF is used in place of their earnings to calculate UC entitlement, even if actual earnings are in fact much lower. In the latter situation, the UC payment will be lower than it would have been if based on the claimant's actual income.

Deductions for debts, overpayments and loan repayments

Deductions for debts, benefit and tax credit overpayments and loan repayments (sometimes dating back decades) are a separate subtraction which can also reduce the monthly payment both for claimants in work and out of work. Deductions reduce the monthly award according to a fixed set of minimum and maximum percentages in strict order of priority until the debts (of both partners in a couple) have been recovered in full. Claimants with debts owing to more than one Government body or third party can be subject to multiple deductions. Up to three deductions can be taken at any one time by up a current maximum of 25 per cent of the standard allowance. However, last resort deductions for rent arrears and the ongoing costs of rent, water rates and fuel bills, allow the maximum percentage to be exceeded if there is deemed to be a risk of homelessness or disconnection. Current regulations allow deductions to reduce the UC payment to just 1p.

This complexity means it can be difficult for claimants to work out in advance how much will be deducted from their UC award each month. As DWP online guidance explains, it is not possible to say before the end of an assessment period how much will be deducted because of the way the award is calculated[45]. Because UC integrates elements for housing, children and childcare into a single monthly payment, a further differentiating feature of deductions in Universal Credit is that they apply to all elements of the payment, including amounts awarded for housing and children. Deductions are also higher, and can fluctuate, for households with earnings[46]. People in employment whose UC claim has ended can have deductions for debts taken directly from their wage packet in the form of a legally enforceable 'earnings attachment' applied by their employer.

43 'Gainfully self-employed' means carrying out a trade, profession or vocation that is not already classed as employed earnings that is a claimant's main job or main source of income and expected to make a profit.

44 The MIF is broadly equivalent to the national minimum wage for each hour the claimant is expected to work as set out in their claimant commitment.

45 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1158655/benefit-overpayment-recovery-staff-guide.pdf

46 For example, the maximum deduction rate for overpayments is normally 15 per cent of the claimant's UC Standard Allowance. In households with earnings, this can be increased to 25 per cent.

Payment

At the end of each monthly assessment period, claimants are paid the amount of Universal Credit that reflects their needs, income and circumstances as recorded by the UC system in the preceding month, less any reductions in entitlement or deductions for income, earnings, or debts. Payment is made directly into one nominated individual or joint bank or building society account per individual or joint claimant. The payment is made on the same date every month and does not change to take account of 31, 30, or 28-day months. If the payment date is on a bank holiday, Saturday or Sunday, the UC is paid on the last working day before the bank holiday or weekend. Because assessment is in arrears, the online statement showing the amount to be paid is only available to view around seven days after the end of the assessment period. If claimants identify an error or want to challenge a decision, the earliest it can be rectified, therefore, is the following month.

To manage any fluctuation in the UC payment, the DWP advises that claimants paid weekly, fortnightly or four-weekly, or who are subject to surplus earnings rules, or to the MIF, should *"prepare in advance … and budget for a potential change in the monthly UC payment"*[47], saving or setting aside money in the months when earnings rise and using this 'buffer' to compensate for the months when the UC payment reduces.

Universal Credit and entitlement to other means-tested support

Outside the Universal Credit system of monthly assessment, but affected by it, and also potentially impacting the overall level of monthly income a household may get, are numerous means-tested schemes and 'passported' forms of financial and in-kind support which UC claimants may or may not be able to access, depending on their circumstances and the level of recorded earnings in any assessment period. These include local authority-administered council tax reduction schemes[48], discretionary housing payments, free school meals[49], free childcare for two-year-olds[50], Healthy Start[51], help with the costs of prescriptions, dental treatment and glasses and the Government's cost of living payments. The local authority-delivered Household Support Fund provides further discretionary help for households in England suffering acute financial hardship. Similar schemes operate in Scotland and Wales.

Different schemes, amounts and earnings thresholds apply to different initiatives in

47 https://www.gov.uk/government/publications/universal-credit-different-earning-patterns-and-your-payments/universal-credit-different-earning-patterns-and-your-payments-payment-cycles

48 Local authorities are responsible for administering their own Council Tax Reduction Scheme based on different eligibility criteria, including the maximum net earnings before entitlement is reduced or lost.

49 If UC was claimed on or after 1 April 2018, annual net household earnings must be no more than £7,400 (as assessed by earnings from up to three of the most recent assessment periods) to qualify for free school meals. If the UC claim was made before this date, children continue to receive free school meals even if household earnings are above the threshold.

50 Parents claiming Universal Credit in England are entitled to free childcare for two-year-olds if their household income is £15,400 a year or less after tax (not including benefit payments). In Scotland, two-year-olds are entitled to 1,140 hours of free childcare if the net household earnings are £660 a month or less.

51 Healthy Start is a scheme for pregnant women and mothers who are either entitled to legacy benefits or UC and have a net earned income of £408 or less per assessment period.

England and the devolved administrations. UC claimants in Scotland, for example, are additionally entitled to the Scottish Child Payment, a weekly payment of £25 paid every four weeks to families for each dependent child under 16 years of age. Depending on the local authority in which they reside, some working claimants who would be entitled to help if their earnings were averaged over the year may find that, in some assessment periods they are eligible for help, while in others they are not.

UC was designed to be dynamic and highly responsive to changes in income and circumstances monthly 'in real time'. But monthly assessment and payment in arrears, necessary when the award is calculated over such a short period, inevitably involves trade-offs. UC claimants are only notified seven days before they receive a payment of the amount they will get. Deductions for debts and reductions in entitlement can reduce the payment to much less than people may have been expecting, or need, to cover their regular monthly living expenses. Navigating UC therefore presents claimants with many different challenges compared with the legacy system. How people manage and get by month to month under this is new set of conditions is what our research sought to uncover.

3

Methods and sample

Methods and sample

Methods

Collecting both qualitative and quantitative data derived from interviews and monthly UC statements, this research tracked household income and essential household expenditure, month-to-month, in real time, between February 2022 and March 2023 with a sample of 42 participants comprising 61 claimants in 42 households.

Thirty-seven households households provided sufficient quantitative data to enable detailed exploration of their income over the timeframe of the research. At the start of the study, all households had one or two earners in paid work or self-employment and all had a live Universal Credit claim of at least six months duration. All the data was anonymised through the use of unique identifier codes and aliases. Small details have also been changed to protect participants' identities. Ethical approval for the research was obtained from the University of Bath Research Ethics Committee.

The main source used for accessing income and earnings data were participants' monthly Universal Credit statements, together with wage slips in some cases. Earnings and income data were extracted from the UC statement, alongside information about any reductions and deductions in the payment, and information about housing and childcare costs. Monthly statements were sent by participants to researchers via email, as PDF attachments, or as screenshots, before monthly telephone interviews were conducted. Interviews were then used to confirm whether participants felt that the earnings and income data in the statement information to be correct.

This 'in the moment' method of data collection and verification, we believe, resulted in a much more comprehensive and rich data-set than we would otherwise have been able to capture using more conventional survey techniques or administrative data. Monthly data collection and interviews allowed us to collect data and explore participants' experiences with much more accuracy and immediacy than would have been possible from retrospective interviews where lapses in memory and the passage of time mean that detail can be lost and effects dissipated.

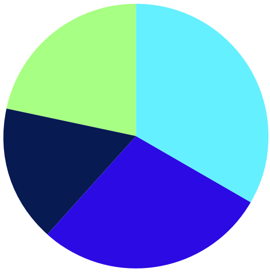
Sample recruitment

Thirty of the 42 households were newly recruited for this project and 12 had also taken part in our previous ESRC-funded study which explored the experiences of couples claiming Universal Credit[52]. From the new sample, 20 households were recruited using a recruitment agency, four were through personal contacts, three were through a civil society organisation, and three were through a housing association. We interviewed one partner in couple households (the same partner each time). While all 42 participants provided qualitative interview data (256 interviews in total)[53] (chapters seven to nine), 37 households provided sufficient quantitative data in the form of UC statements (nine plus months) to enable exploration of their income over time which is used for the quantitative analysis of household incomes (chapters four to six).

Sample characteristics

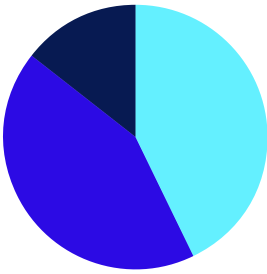
Our sample of 42 participants – 36 women and six men – included a broad cross section of claimants living in England, Scotland and Wales. Eight lived in Bath and the surrounding areas; six lived in Bristol and the South-West; six lived in Greater Merseyside; four lived in Cumbria; two lived in the North-East; nine lived in Wales; and seven lived in Scotland. Eighteen participants were living in social rented housing, 18 were in private rented accommodation and six had a mortgage.

Where participants lived



South West England	14
Northern England	12
Scotland	7
Wales	9

Housing tenure



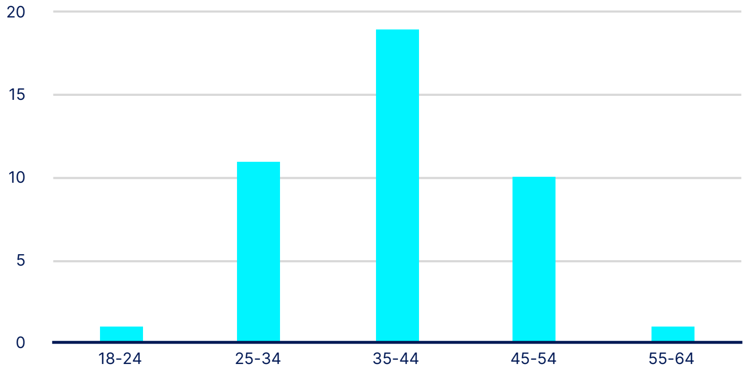
Social Housing	18
Private rental	18
Mortgage	6

52 This was a three-year, two-phase longitudinal, qualitative research study funded by the Economic and Social Research Council (ESRC) exploring the experiences of couples claiming Universal Credit, 2018 to 2021.
https://www.bath.ac.uk/publications/uncharted-territory-universal-credit-couples-and-money/attachments/Uncharted-Territory-Universal-Credit.pdf
https://www.bath.ac.uk/publications/couples-navigating-work-care-and-universal-credit/attachments/Couples_Navigating_Work_Care_and_Universal_Credit.pdf

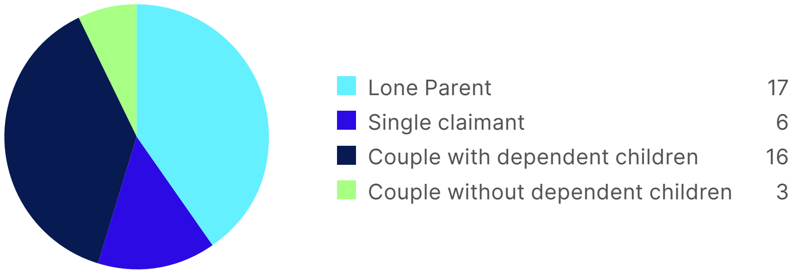
53 All 42 participants took part in at least one interview totalling 256 interviews (55 face to face and 201 over the telephone). Overall, most participants took part in between six and eight interviews (30). Nine took part inthree or four interviews and three took part in three or less interviews. One participant only took part in one interview for personal reasons and another participant only took part in two interviews after which we were unable to make any contact.

The youngest participant was 21 and the oldest 58 with most being aged between 25 and 44 (n=30). Thirty-three participants had dependent children, of whom sixteen had at least one pre-school age child. Eleven households had one dependent child, 14 had two, seven had three and one had four dependent children. Six households had a non-dependent adult child living at home. Nineteen participants were claiming Universal Credit as a couple (16 of whom had dependent children), 17 were claiming as a lone parent; and six were claiming as a single person. Thirty-three participants were White British, five were White Other, two were Black, one was Asian, and one was mixed. All the couples were female/male.

Age of participants



Household type



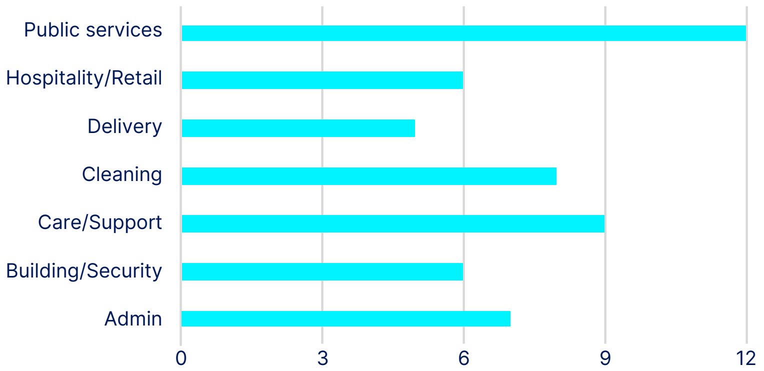
Over half of the 42 households (n=25) had someone with a serious health condition or disability, including seven households with at least one child with a disability. Three households had more than one child with a disability.

Seven households experienced one or more changes in their personal circumstances over the study timeframe which impacted on the Universal Credit claim including separating from their partner, children moving in or out of the family home, moving house, close family bereavement and serious health issues involving time in hospital.

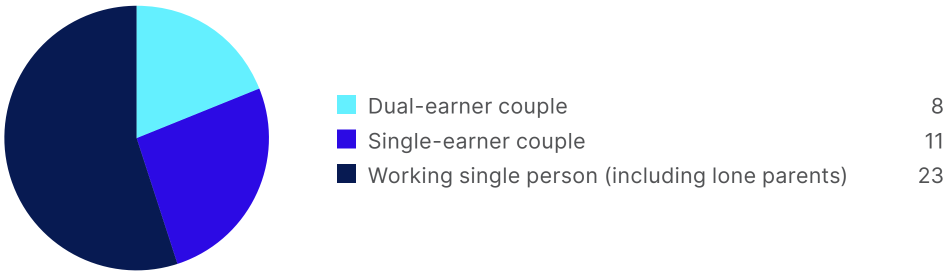
Employment characteristics of sample

When the first interviews were conducted in the spring/summer of 2022, all 42 participants were either in paid work themselves and/or had a partner who was working. Including partners, 50 people were employed or self-employed when we first interviewed them, three of whom had two jobs. Forty-two were employees and ten were self-employed (including two who were both employed and self-employed). Among couple households, 11 had a single earner[54] and eight had two earners. Self-employed work included running a shop, therapeutic work, specialist building work, animal care and being a delivery driver.

Job type



Household earner status

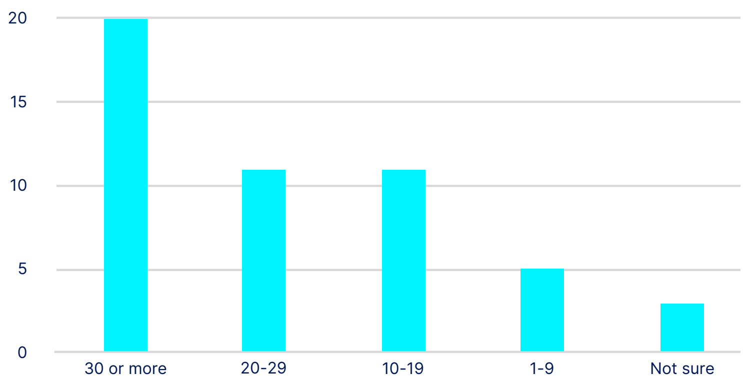


Thirty-seven of the 42 employed claimants (i.e. not including self-employed), said they had an employment contract, two did not and three were not sure. Thirty-two said their job was permanent, five were on temporary/fixed term contracts, some of whom were employed through agency, and five were not sure.

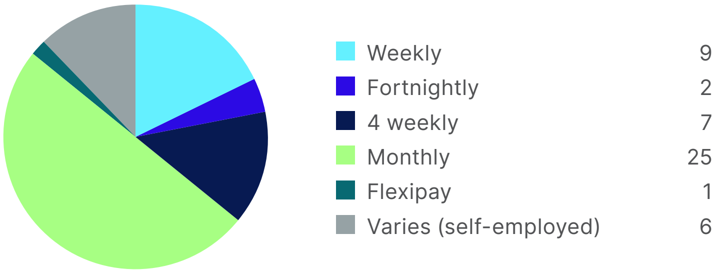
54 In eight of the 11 single-earner couple households the male partner was the earner and in three it was the female partner. Seven single-earner couple households included a disabled child or adult, three of the other four households included children aged two or under and in one the non-earner female partner was studying.

Twenty said they were working 30 hours or more per week (including seven working 40 or more hours), 11 were working 20-29 hours, 16 were working 1-19 hours, three were not sure. There may have been some shift between these groups as half (25/50) of claimants said their hours of work could vary. Half of participants with earnings were paid monthly (25), and the other half were paid weekly (9), four-weekly (7), fortnightly (2), at variable times due to the nature of their self-employed work (6) and one drew down their pay when it suited them through a system called flexipay.

Hours worked



Pay frequency



Thirteen people were paid between £9.50 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, three were paid over £16 an hour including one who was paid £27 an hour. Sixteen participants were not sure of their hourly rate.

Of the 50 claimants working at the start, 34 were in the same job at the end, nine were no longer working (including two who had changed jobs then stopped working), three had changed jobs and were still in work. Four were not engaged in the study long enough. For seven of the nine no longer working, health problems were part of the reason they stopped working but there were often other contributing factors such as moving home, working conditions and childcare costs. None received any redundancy pay.

In 22 of the 38 households engaged throughout the study, the overall number of hours worked in the household (by one or both partners) were similar at the start and end of the fieldwork period. Eight households were working fewer hours, including six households where no-one was working at all by the end. Eight households were working more hours, including three who subsequently came off Universal Credit. Two participants had been promoted.

Universal Credit and other benefit and income received by participants

Detailed information on the amount participants earned and the amount of Universal Credit and other forms of income received is presented in chapters four to six, and in the annexes. Here we summarise some of the features of participants' claims and other forms of income.

Universal Credit

Thirty-four households received the housing element of Universal Credit for all (17) or part (17)[55] of their rental costs. None of the six households with mortgages received the Support for Mortgage Interest loan (two of these households had no housing costs). Eight households received the carers element of UC, eight received the childcare element of UC, seven received the LCWRA element, and four households received the disabled child element at some point over the data collection time frame. Thirty-nine of the 42 households were entitled to a work allowance because they had children and/or were in receipt of the LCWRA element of UC.

Thirty-five of the 42 households had deductions from their Universal Credit entitlement for all or some of the study timeframe (see chapter 8 for more details). In five households the two-child limit was applied, and one received a lower standard allowance because they were under the age of 25.

Most had been claiming for under five years (30/42). Thirty-nine of the 42 households received their Universal Credit monthly, and three received it twice a month. Five households were no longer receiving Universal Credit by the end of the study because their household earnings were too high or because household circumstances had changed.

Other benefit income received by participants

Thirty-five households received income from other benefits for some or all of the study timeframe, including 14 who received two or more types of other benefit. Other benefits received were Child Benefit (33) PIP (9) DLA (3), and the Scottish Child Payment (3)[56]. Six received Carers Allowance which was then deducted from the Universal Credit payment. Overall, thirteen households received additional disability or carers benefits at some point over the study timeframe.

55 The housing element was reduced due to either the local housing allowance limits (9) the non-dependent adult deduction (4) or the second bedroom subsidy (bedroom tax) (4).

56 The Scottish Child Payment was £20 per month per child up until November 2022 when it increased to £25 per month. One household received this throughout, the other two started receiving it from December after the policy was extended to include all children up to the age of 16 (previously it had only applied to children up to the age of six). Two others were still waiting to receive the SCP after the policy change because there was a backlog of cases so they did not receive it during the study timeframe.

Other income

Nineteen households received some form of other income over the study timeframe including child maintenance (11) backdated benefit lump-sum payments (3), discretionary household payments (2) and 'Rent a Room Scheme' income (1). One received an educational grant and one received a Budgeting Advance both of which were deducted monthly from the Universal Credit payment.

Cost of living payments

One participant did not receive the first Cost of Living Payment of £326, in July 2022 and six did not receive the second one of £324 because they had a nil Universal Credit payment in the qualifying period when their household earnings were too high. Thirty-nine participants said that they had received the £150 Council Tax rebate in May 2022. Nine households received the disability-related Cost of Living Payment in September 2022.

Passported and additional benefits

At the first interview, 25 households said that they had a council tax reduction either for being a single person occupant (18), on account of low income (2) or both single occupancy and low income (2). Participants were not always sure if they received access to other passported benefits as their entitlement could change month to month depending on earnings, but 27 participants said they were entitled to free prescriptions, 16 said they were eligible for free dental treatment and 11 said they were eligible for free glasses.

Housing and childcare costs

Excluding the two participants without housing costs, the average rent or mortgage costs ranged from £80 – £1,103 and were on average £539 per month, with average monthly costs being highest for those privately renting (£612, ranging from £250 for a couple living in a shared house to £959 per month) followed by those with mortgages (average £568 and ranging from £80 to £1,103 per month) and lowest for those in social rented accommodation (average of £472, ranging from £325 to £718).

Average monthly council tax costs ranged from £0 (for a couple living in a shared house) to £180 per month. Across the sample as a whole, council tax payments were £102 on average per month and the median was £106.

Eight households used paid for childcare at some point over the study timeframe[57]. Average monthly childcare costs ranged from £7 to £466 (for the months in use). The average across all those using childcare was £240 per month and the median was £238. For the two households who used childcare for the full 12 months, their annual childcare costs were £5,005 and £5,589.

57 Three households used childcare for one or two months, three for six or seven months and two for the full year.

Analytical approach

Qualitative analysis was conducted using MAXQDA, a Computer Assisted Qualitative Data Analysis (CAQDAS) software package designed to help in the management, analysis and interpretation of large volumes of qualitative data. All 256 interview transcripts were coded and analysed using MAXQDA. The policy context of Universal Credit, including the particular design features of monthly assessment, together with participants experiences, provided the principal framework for analysis. Transcripts were coded thematically using this framework, with analytical outputs organised according to key areas of policy and claimant experience. Verbatim quotes taken from participant interviews are anonymised through the use of aliases. Minor details have also been changed to protect participants' identities.

Quantitative analysis was conducted using Excel and SPSS. Data from the 491 UC statements that participants provided was entered into an Excel spreadsheet where we used formulas to check for accuracy in the award calculation according to the information in the statements (we identified no errors). Individual income data profiles in Excel were then created for each participant using the data from the UC statements and information on other sources of income collected during the monthly interviews. Individual profiles were used to explore income fluctuations, volatility and adequacy over the data collection period, as presented in the following chapters and to construct the individual data profiles presented in Annex 1. Finally, we collated information on average incomes (overall and by different elements) for each household, alongside other aggregate data, such as average deduction amounts, to explore overall patterns across the sample as a whole.

This sample of working households provided us with a very detailed data-set, based on real-time and regular interviews and UC statements for a diversity of claimants, all with income from both earnings and UC, over a minimum period of nine months between February 2022 and March 2023. The next chapter provides an analysis of monthly income variability for this sample.

4

Variability of monthly household income

Variability of monthly household income

This chapter sets outs the monthly incomes of participant households before and after housing and childcare costs and explores the degree of month-to-month income variability experienced by participant households during the period of data collection.

Measuring household income

We measured household income by summing each component of income that participants reported they had received during their monthly interview. UC payment and earnings data was extracted from the UC statement. In cases where wages were paid but not recorded as paid by the HMRC RTI feed, we used the earnings data provided by participants during interviews[58].

Income sources for the sample as a whole included:

Earnings from employment: Where the MIF was applied, actual earnings are used rather than the MIF amount used for the UC calculation.

Other benefits: Child Benefit, DLA, PIP, Carers Allowance, Scottish Child Payment

Other income: Child maintenance, backdated lump-sum benefit payments, discretionary housing payments, 'Rent a Room' lodger income

Cost of Living payments (COL):

Council tax rebate	(£150 paid in May 2022)
1st COL payment	(£326 paid in July 2022)
2nd COL payment	(£324 paid in November 2022)
Disability COL payment	(£150 per entitled household member paid in September 2022)

Universal Credit (UC): actual payment after deductions for earnings and any debts including any amount paid direct to the landlord.

58 In two households, increased earnings meant they stopped receiving Universal Credit from June and after four months of nil Universal Credit payments their claims closed and they received no further statements. At this point (October) they also felt they would rather not continue with monthly interviews but as they informed us that they expected to receive similar monthly earnings going forward we were able to use the earnings data as recorded in their final Universal Credit statement as an estimation of earnings for the final five months so as not to underestimate average monthly earnings for those who came off Universal Credit. We did not include estimated earnings when grouping them according to the Hills et al (2006) volatility measure (see chapter 4) as using same earnings data for the last five months would give an inaccurate picture of income stability.

Total income before housing and childcare costs: All of above

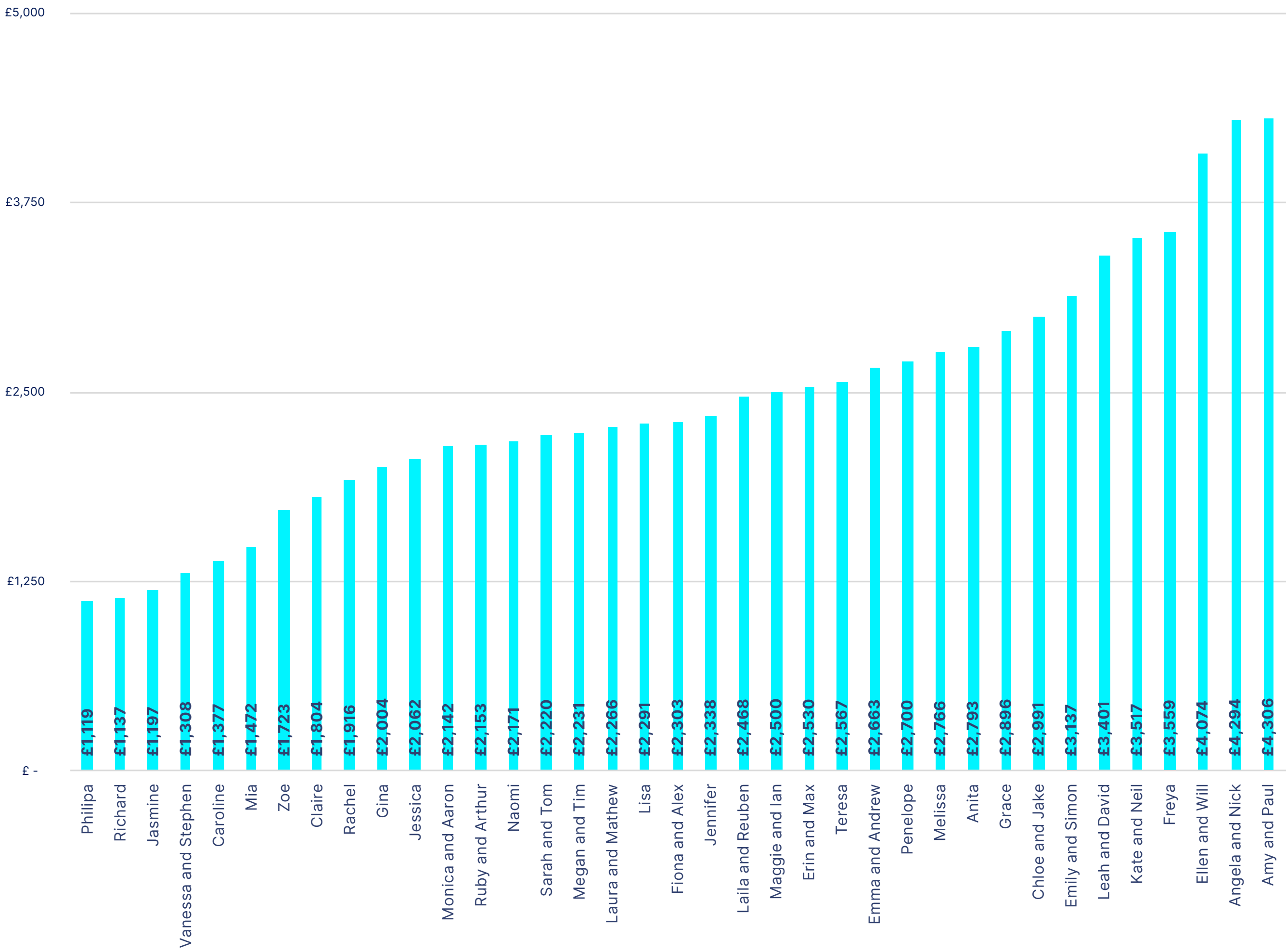
Total income after housing and childcare costs: All of above minus rent or mortgage, council tax and childcare costs, where applicable.

Annex 1 contains the individual household income profiles for each of the 37 participant households showing the total amount of income received month to month, broken down into its component parts.

Monthly household income before housing and childcare costs

Chart 1 below shows that average monthly household income *before* housing and childcare costs ranged from £1,119 to £4,306. Average monthly household income before housing costs for the sample as a whole was £2,443 and the median was £2,303. This compares with median monthly household income before housing costs for the UK of £2,692 in 2022[59].

Chart 1: Average monthly household income before housing and childcare costs



59 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2022

The relatively high level of average monthly income before housing and childcare costs reflects a number of contextual and sample-specific factors. Household income for most participant households was significantly boosted in 2022 by an average of around £800 of additional income during the period of the research as a result of the Government's cost of living payments[60]. After a decade of freezes and below inflation up ratings, there was also an annual increase in benefits in April 2022 of 3.1 per cent. Means-tested financial help with private sector rental costs – known as the local housing allowance (LHA)- had also increased, having been realigned with local rent levels in April 2020 after the link was broken in 2011 (though it was immediately refrozen). Our sample also included a large number of families with children and household members (including children) with disabilities.

Thirteen households in the sample were in receipt of disability and/or carer's benefits which increased monthly income, sometimes by significant amounts. In addition, two households received large, lump sum payments of back-dated Carer's Allowance during the course of research. One household received a very large, one-off Universal Credit payment to correct a significant underpayment of benefit. In another case, the participant rented out a spare room to a lodger, as part of HMRC's 'Rent a Room scheme'[61]. The income is both tax free and disregarded for the purposes of benefit entitlement. The relatively high average monthly income before housing costs for three households at the upper end of the distribution reflects the relatively high amount of UC housing element received due to their high rental costs. Receipt of the childcare element of UC also boosted average household incomes before housing and childcare costs for families using paid childcare.

Monthly household income after housing and childcare costs

We measured household income after housing and childcare costs by subtracting rental costs (taken from UC statements) or mortgage costs (taken from monthly interviews), council tax payments[62] and childcare costs[63] from each household's income before housing costs.

60 Comprising Cost of Living Payments of £326 in July and £324 in November 2022 and a £150 council tax payment in May/June 2022. A further £150 Disability Cost of Living Payment was paid to recipients of PIP and DLA (paid to the main carer in the case of children).

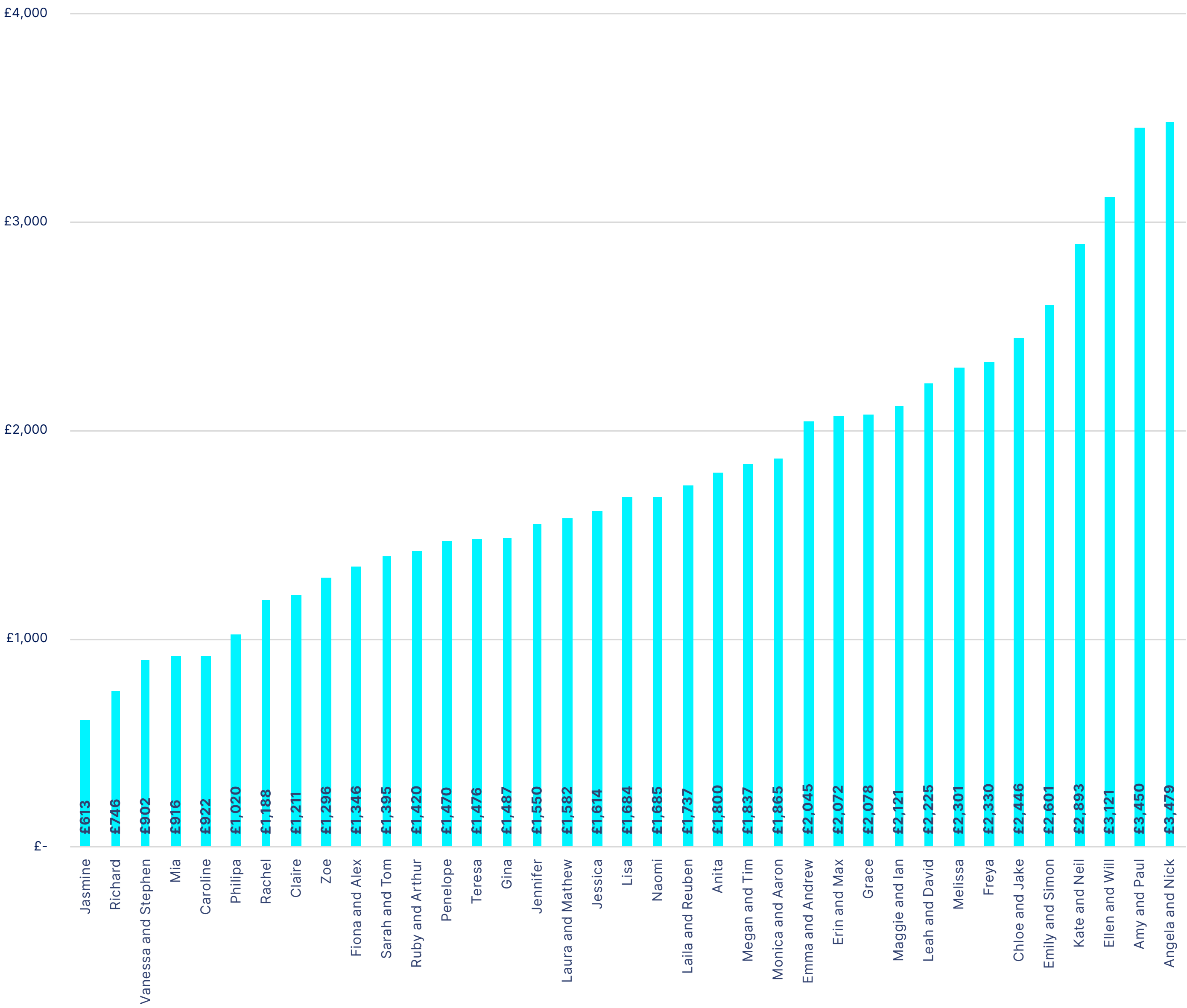
61 The Rent a Room Scheme currently allows householders to earn up to £7,500 per year tax-free from letting out furnished accommodation in their home. The income is disregarded for the purposes of income tax and UC assessment.

62 We collected data on council tax by asking participants about this in their monthly interviews. In most households, participants told us that they paid a regular monthly amount of council tax over 10 months of the year between April and January. A few told us that their council tax varied month to month according to how much they earned but they did not often know the exact amounts they were paying month to month so sometimes an estimated amount was given.

63 Eight households used paid for childcare at some point over the study timeframe. We were able to calculate how much they were paying for their childcare from the amount recorded on their UC statement in the entitlement section (85 per cent of childcare costs) and adding an additional 15 per cent on to this amount. This might not always give a full picture as we are aware that some did not always manage to submit their childcare cost details on time to Universal Credit and could not necessarily recall these payments in their interviews.

Chart 2 below shows that average monthly income after housing and childcare costs for participant households ranged from £613 to £3,479. Average monthly income after housing and childcare costs for the sample as a whole was £1,782 and the median was £1,684. This compares with median monthly household income after housing costs for UK families with children of £2,058[64].

Chart 2: Average monthly household income after housing and childcare costs



64 ONS, Household Income and Expenditure Analysis Branch, 2021.

Monthly income variability

Using participants' monthly income data, we then explored how net household incomes differed to their mean income over the year (or nine plus months where we did not have a full 12 months of data). The income variability categories we used were devised by John Hills and team in their 2006 HMRC study of tax credit claimants: *'Tracking Income: How working families incomes vary through the year'*[65]. The categories are:

- **Highly stable:** Income in all months within 10 per cent of mean income for the year
- **Stable:** Income in 11+ months within 15 per cent of mean, remaining months within 20 per cent
- **Broadly stable:** Income in 11+ months within 15 per cent of mean with remaining within 25 per cent
- **Stable with blips:** Income in 10+ months within 15 per cent of the mean, 3 months different
- **Rising:** Income in first half of year below mean and above in second half, 1 month different
- **Falling:** Income in first half of year above mean and below in second half, 1 month different
- **Erratic:** Remaining cases where income in 10+ months within 25 per cent either side of mean
- **Highly erratic:** All other cases

The John Hills study was based on 13 months of household income data, therefore we adapted the groups slightly, as shown below:[66]

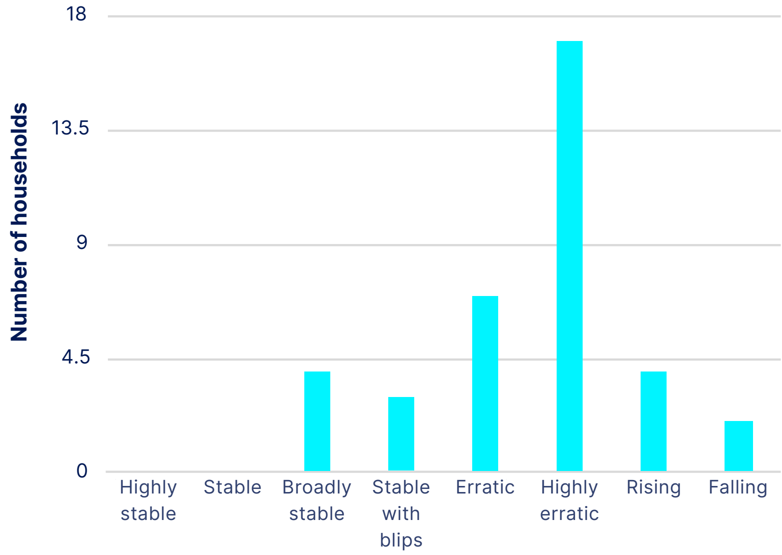
- **Highly stable:** Income in all months within 10 per cent of mean income for the year
- **Stable:** Income in 10+ months within 15 per cent of mean, remaining months within 20 per cent
- **Broadly stable:** Income in 10+ months within 15 per cent of mean with remaining within 25 per cent
- **Stable with blips:** Income in 9+ months within 15 per cent of the mean, 3 months different
- **Rising:** Income in first half of year below mean and above in second half, 1 month different
- **Falling:** Income in first half of year above mean and below in second half, 1 month different
- **Erratic:** Remaining cases where income in 9+ months within 25 per cent either side of mean
- **Highly erratic:** All other cases

65 http://eprints.lse.ac.uk/5569/1/Tracking_Income_How_working_families_incomes_vary_through_the_year.pdf

66 For those with between nine and 12 months of data we adapted the groups again on a case by case basis.

Chart 3 presents monthly household income variability after housing (and any childcare) costs for the sample as a whole[67]. Because they comprised an important element of household income for participants during the period of the research, we included the Government's cost of living payments.

Chart 3: Volatility groupings for monthly household income after housing and childcare costs



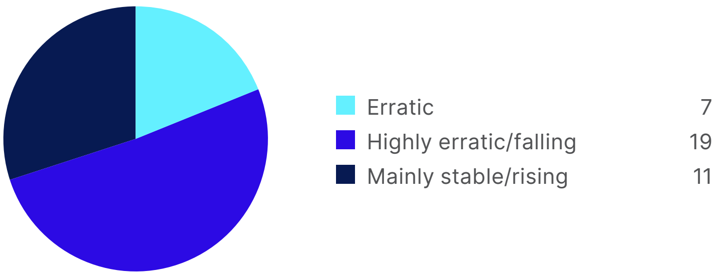
A large majority of households experienced significant monthly income variability during the course of the research. None of our households had monthly incomes that were consistently stable. Most had monthly incomes that were either highly erratic or erratic.

67 The analysis excluded five households because they were unable to provide at least nine consecutive months of income data (4) or one participant who, though technically self-employed at the start of the research, had no earnings from self-employment or employment recorded on any of the UC statements.

Chart 4 below shows the households grouped into three main categories of income variability: mainly stable or rising; erratic; and highly erratic or falling. This shows that:

- 19 households had monthly incomes that were highly erratic or falling (51 per cent)
- 11 households had monthly incomes that were mainly stable or rising (30 per cent)
- 7 households had monthly incomes that were erratic (19 per cent)

Chart 4: Volatility groups for monthly household income after housing and childcare costs – three groups



The research methods and sample sizes differed, but our study shows lower incomes and more monthly volatility than found by Hills et al. In our study, 51 per cent of households were in the highly erratic/falling group (12 per cent in Hills), 19 per cent were in the erratic group (also 19 per cent in Hills) and 30 per cent were in the mainly stable/rising group (69 per cent in Hills) .

5

What is driving monthly income variability?

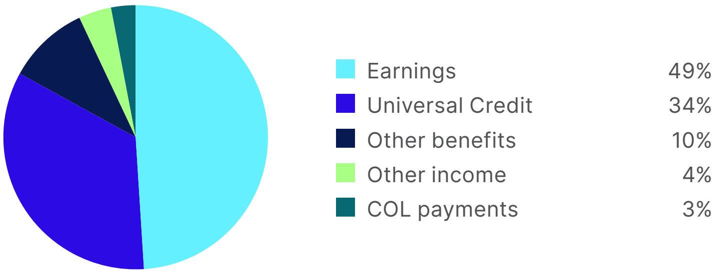
What is driving monthly income variability?

To understand better what is driving monthly income variability, we broke down household income into component parts to examine the degree of variability for each of component of income.

Composition of household income

Chart 5 below breaks down total household income into its component parts for the sample as a whole.

Chart 5: Average income composition for sample as a whole



The chart shows that, for the period of data collection, earnings made up just under half of household income and Universal Credit made up just over a third. Other benefits made up 10 per cent of household income, and other income, such as child maintenance payments, made up 4 per cent. The Government's cost of living payments made up the final 3 per cent.

To explore the extent to which the Government's cost of living payments may have had an effect on overall income variability, we re-ran the analysis to exclude these payments. Five households moved to a different variability group when the cost of living payments were excluded. For one household, income stability increased from being erratic to being broadly stable. In three cases, household income became slightly less stable. One moved from being stable with blips to being erratic and two moved from being broadly stable to stable with blips. One moved from being highly erratic to falling. So, while there was some movement between the eight income variability groups, when split into the three main groups (mainly stable/rising, erratic, highly erratic) as in chart four in chapter four, the numbers in each group remained the same.

Income variability by component

Below, in turn, we explore variability in earnings, variability in the UC payment, variability in other benefit income and variability in other income.

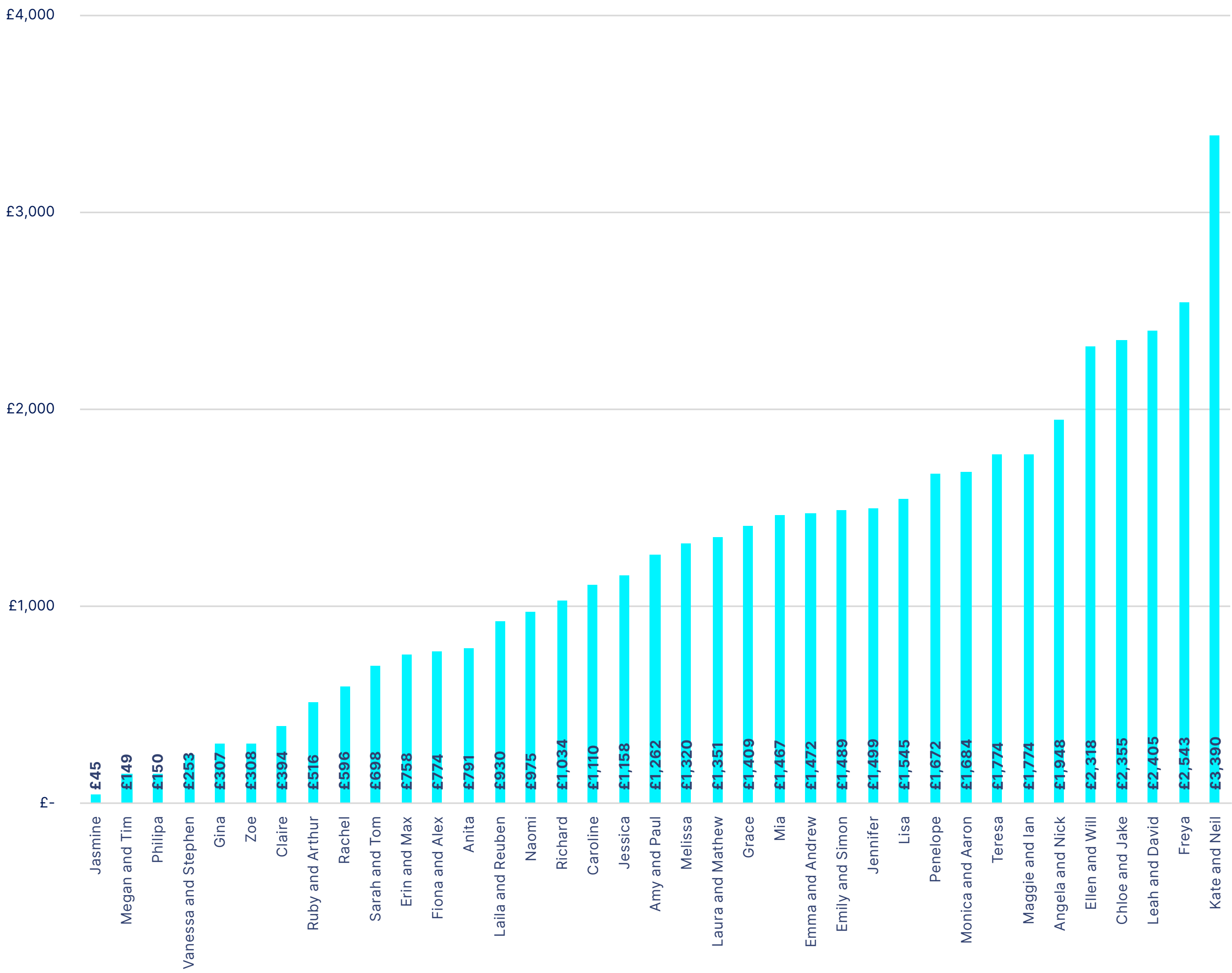
Variability in monthly household earnings

Net monthly earnings were collected for each participant household by extracting the earnings data for one or both claimants from the monthly UC statement, which participants were then asked to verify during interviews. In cases where earnings were not reported to HMRC's RTI system on time by employers, and therefore not included in the monthly assessment, we used the amount that participants had actually been paid, as reported during their monthly interviews, rather than the (erroneous) amount recorded on their UC statement. Where the MIF was applied, we took actual self-employment earnings recorded on the UC statement (lower than the MIF) rather than the MIF amount used for the purposes of calculating UC entitlement.

Net monthly earnings were collected for each participant household by extracting the earnings data for one or both claimants from the monthly UC statement, which participants were then asked to verify during interviews.

Chart 6 below shows average net monthly household earnings for each participant household. The amount ranged from £45 to £3,390. The median was £1,262 and the average was £1,233.

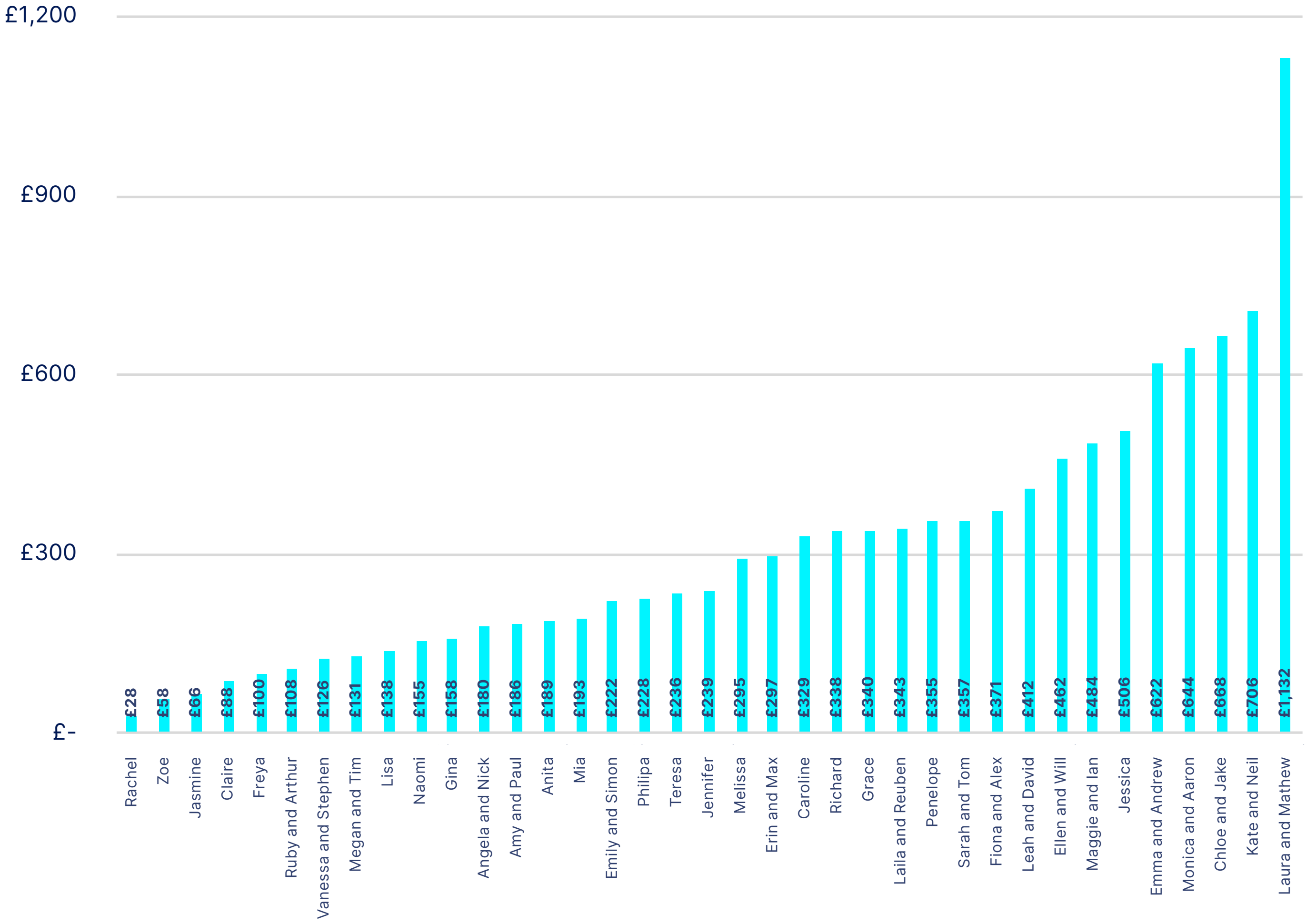
Chart 6: Average monthly household earnings



Average fluctuation in monthly earnings

To calculate the level of earnings variation, we looked at the difference between earnings from one month to the next for the 37 households we had nine or more months of data for. We then examined the average and maximum amounts by which earnings varied from month to month.

Chart 7: Average monthly earnings fluctuation

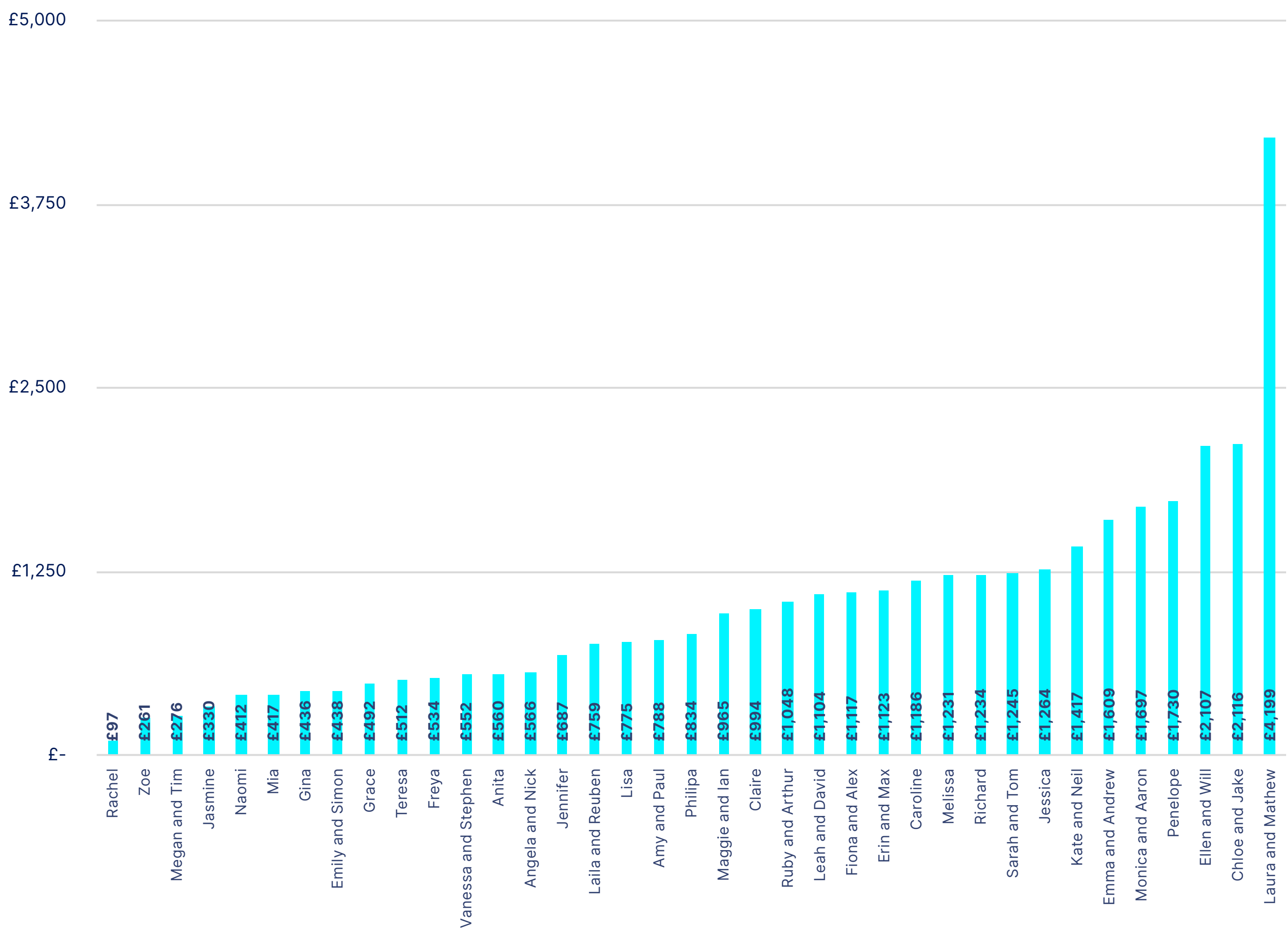


Variations in monthly earnings were surprisingly common and unexpectedly large:

- 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 over the data collection period.
- For 16 of 37 households, earnings varied by £1,000 or more from one month to the next at least once over the data collection period.

Chart 8 below shows the maximum amount by which monthly household earnings varied for each participant household. The maximum amount ranged from £97 to £4,199.

Chart 8: Maximum monthly earnings fluctuation



Variability in the Universal Credit payment

Universal Credit is intentionally designed to change in response to a rise or fall in earnings. When earnings fall, the UC payment rises, and when earnings rise, the UC payment falls. Given the extent to which monthly earnings fluctuated for participant households, we would expect to see correspondingly high fluctuations in the UC payment, following those earnings changes.

Chart 9 below shows average monthly Universal Credit payment for each participant household. The amount ranged from £7 to £1,679 and the median was £648.

Chart 9: Average household monthly Universal Credit amount

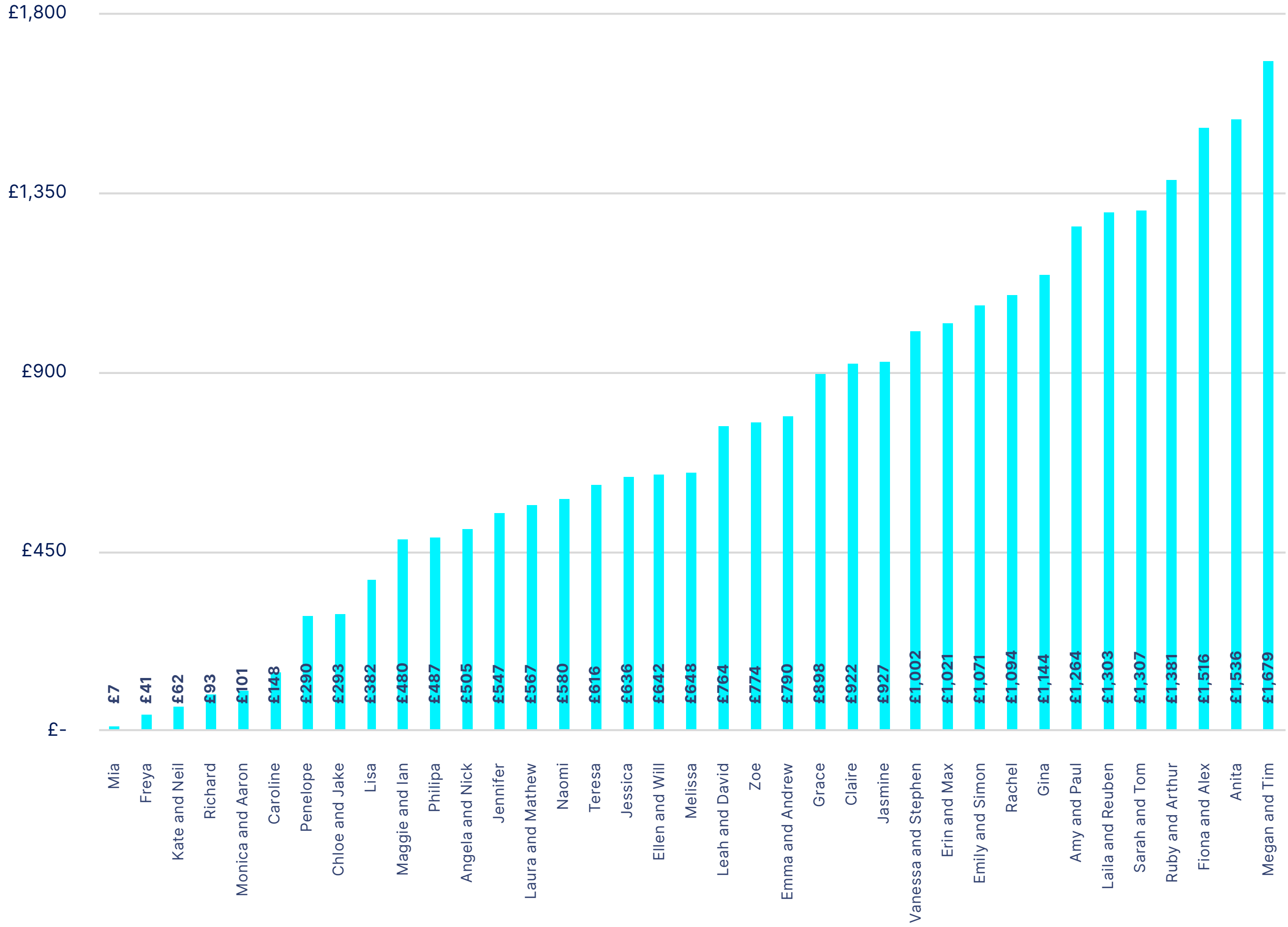
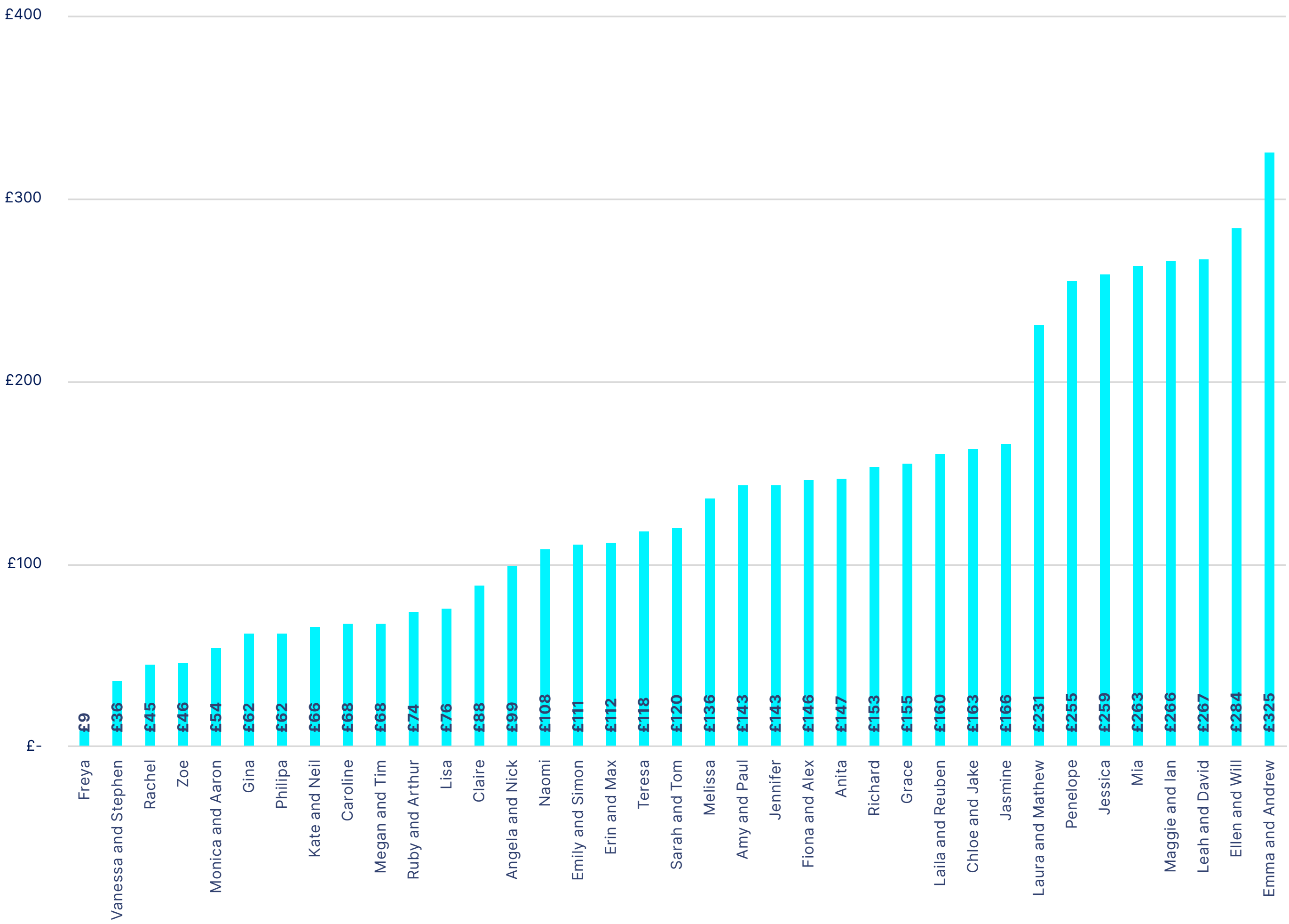


Chart 10 below, shows the average amount by which Universal Credit fluctuated month to month for each household. The average amount by which UC fluctuated ranged from £9 to £325 and the median was £120.

Chart 10: Average monthly UC fluctuation amount

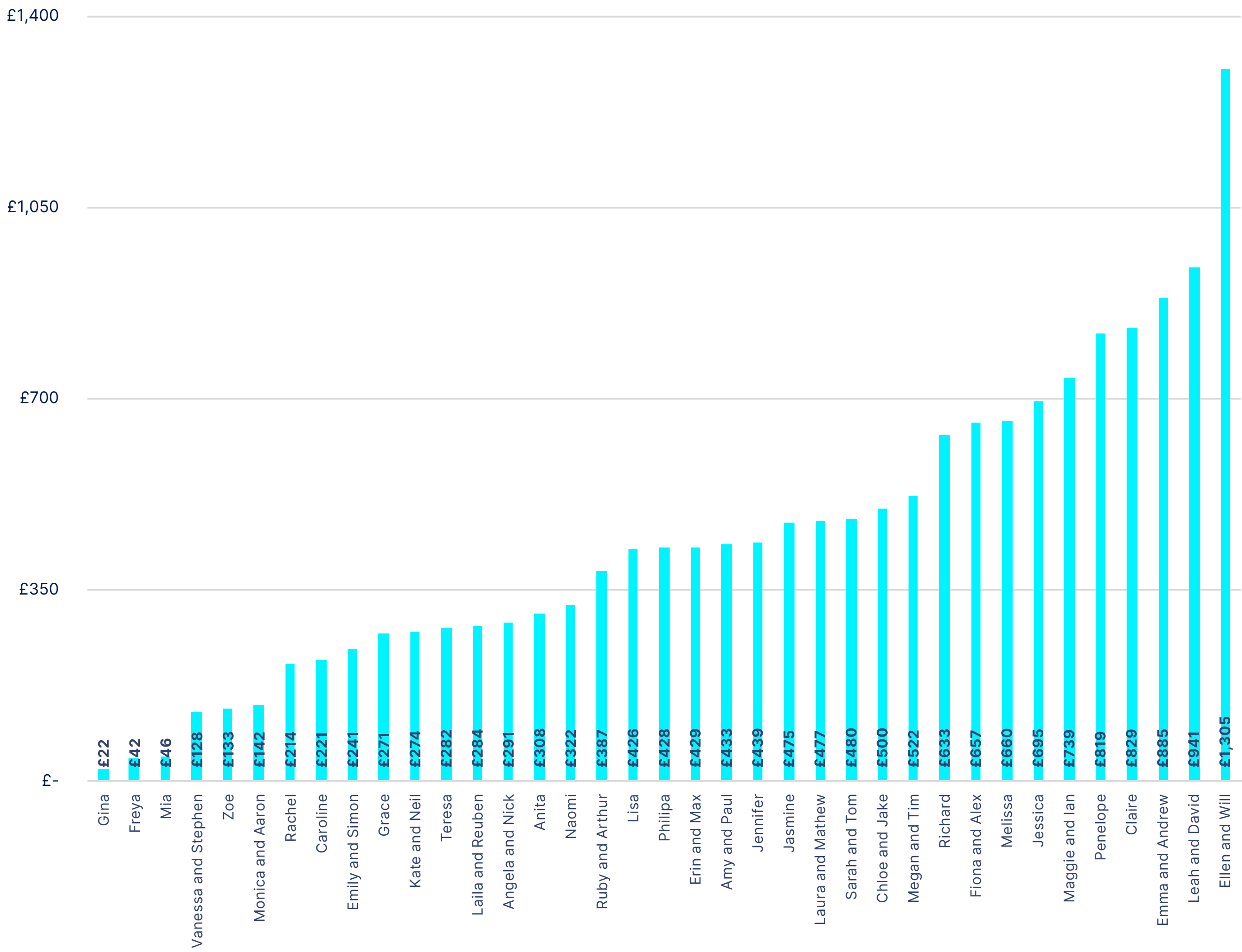


As expected, fluctuations in the monthly UC payment were frequent and sometimes very large:

- For 23 of the 37 households, UC payments varied month to month by an average or £100 or more.
- For 8 of the 37 households, UC payments varied month to month by an average of £200 or more.

The averages also conceal some very large single month payment fluctuations. Chart 11 below shows the maximum amount by which the Universal Credit monthly payment fluctuated for each household. The maximum amount of fluctuation ranged from £22 to £1,305 and the median was £428.

Chart 11: Maximum monthly UC fluctuation amount

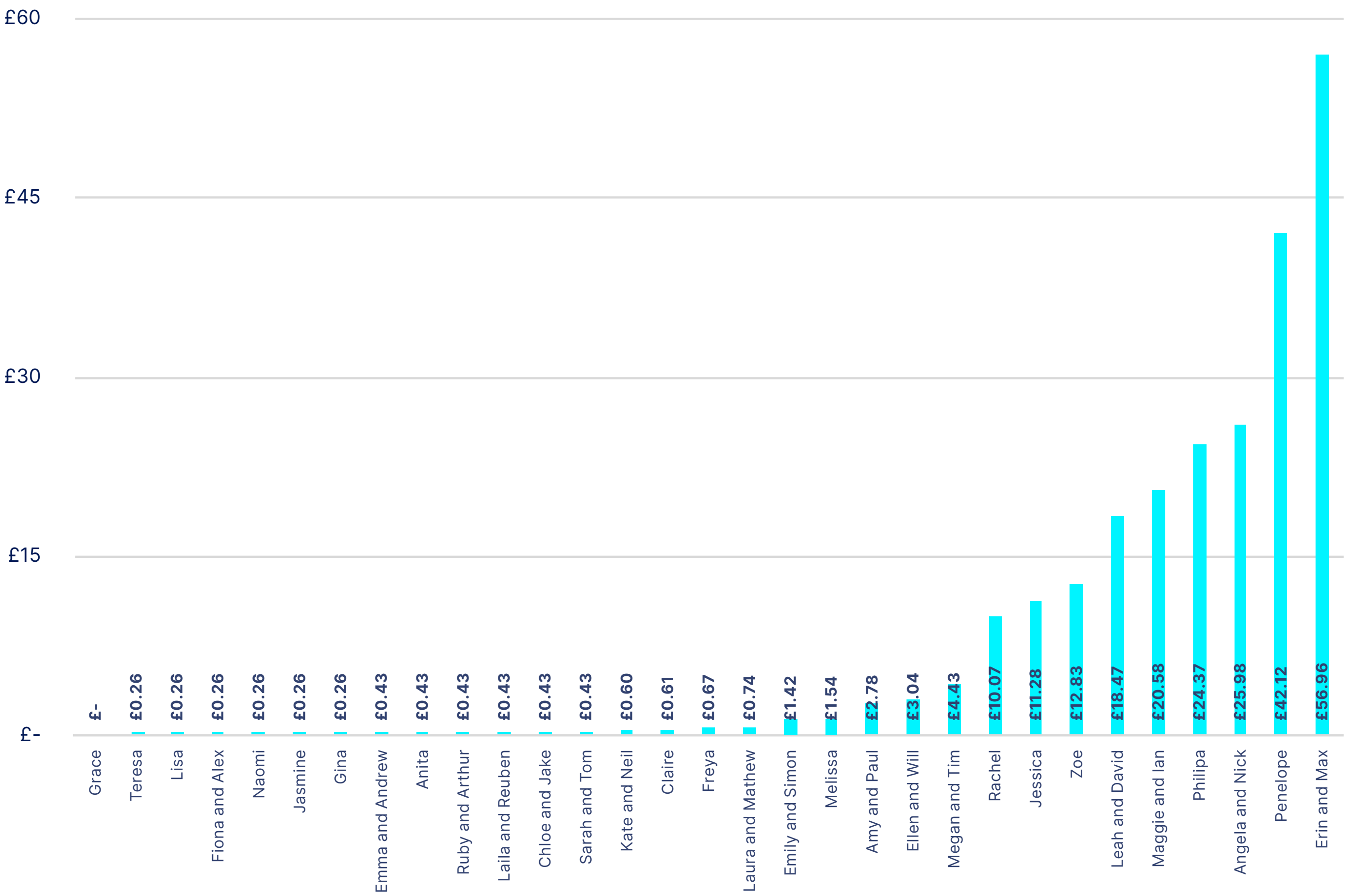


- For 20 of the 37 households, UC payments varied by £400 or more from one month to the next at least once in the year.
- For 10 of the 37 households, UC payments varied by £600 or more from one month the next at least once in the year.

Variability in other benefits

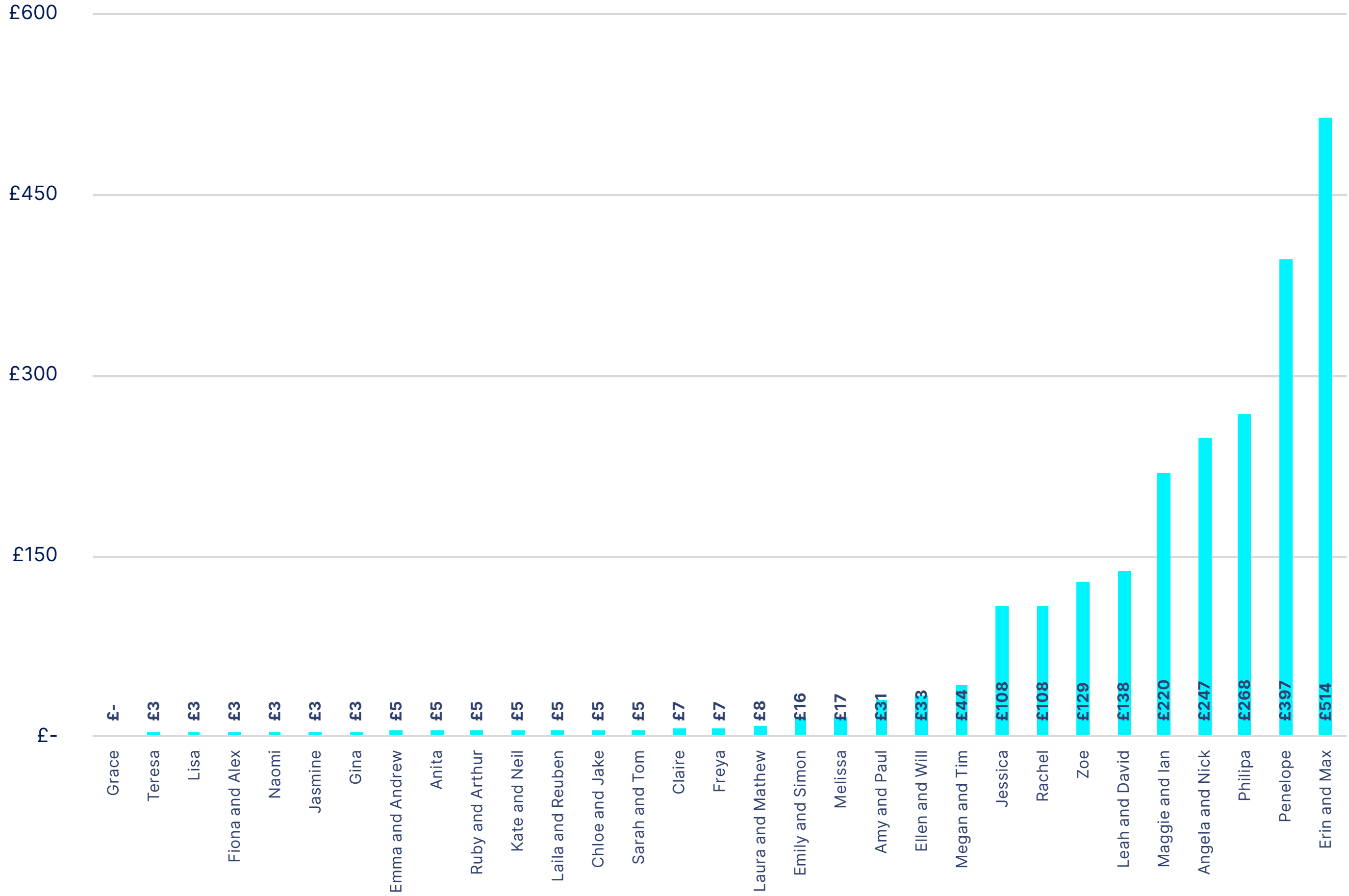
Chart 12 below shows the average month fluctuation in other benefits (Child Benefit, Scottish Child Payment, DLA, PIP and Carer's Allowance) for the 31 participants that received them[68]. The average monthly fluctuation in other benefits for households (n=31) ranged from £0.26 to £56.09 and the median was £0.67. In comparison to earnings and Universal Credit, monthly income received from other benefits was much steadier. The similar amounts observed were mainly a reflection of the annual uprating of benefits in April 2022.

Chart 12: Average monthly fluctuation in other benefits



68 One other participant received a discretionary housing payment but is excluded from the quantitative analysis due to having no earnings during the period of data collection.

Chart 13: Maximum monthly fluctuations in other benefits

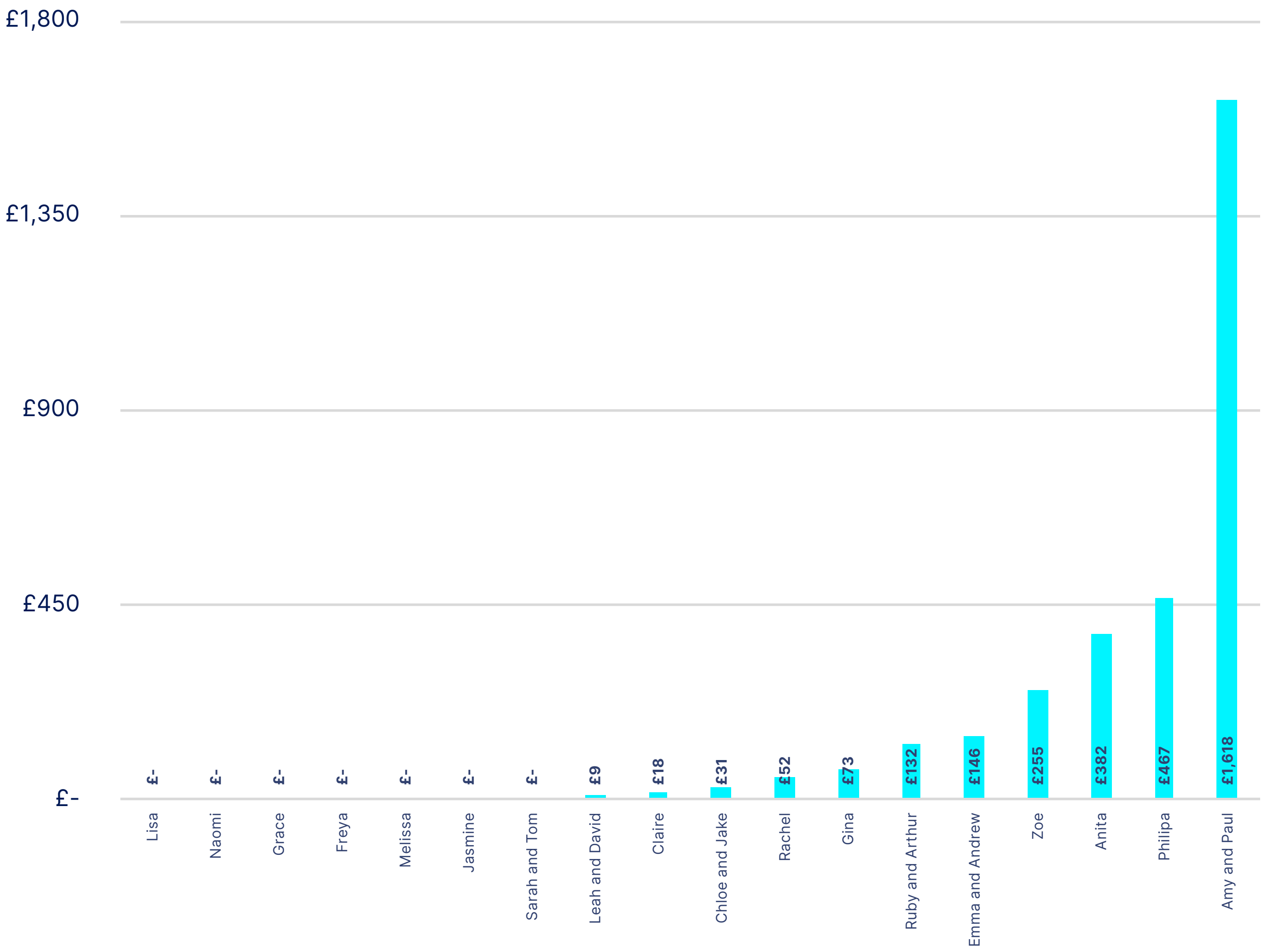


– Median of the maximum monthly fluctuation in other benefits is £7.

Variability in other income

Chart 14 below shows the average monthly fluctuation in other income (child maintenance, lodger income, back-dated benefit payments) for the 18 participants that received them. The average monthly fluctuation in other income ranged from £0 to £1,618 and the median was £25.

Chart 14: Average monthly fluctuations in other income (n=18 receiving other income)



- Other income includes child maintenance (11), backdated benefits (3), discretionary housing payments (1)[69], educational grant (1) budgeting loan (1), 'rent a room' income (1).
- All seven of those with no fluctuation in other income were receiving child maintenance.
- The largest fluctuations in other income were caused by backdated benefit payments.

69 One other participant received a discretionary housing payment but is excluded from the quantitative analysis due to having no earnings during the period of data collection.

What are the key drivers of monthly income variability?

Comparing the variability of the different components of household income, the data shows that variability in recorded net monthly earnings, which then triggers a fluctuation in the UC payment, is driving the overall volatility of household income. Other benefit income, including Child Benefit, PIP and DLA, by contrast, remained fairly constant throughout (unless household circumstances changed) and had a small stabilising effect on the incomes of household that received them. Variability in other income, in particular, child maintenance, could increase income volatility for a small number of affected households.

Fluctuations in the monthly payment in response to changes in income and earnings is hardwired into Universal Credit's design. An important outstanding issue, therefore, is the extent to which UC dampened or accentuated the variability of earnings. Our sample size was too small to address this question quantitatively, so this issue is addressed qualitatively, in chapters seven, eight and nine, based on participants' interviews.

6

Monthly disposable household income in relation to the Minimum Income Standard (MIS)

Monthly disposable household income in relation to the Minimum Income Standard (MIS)

This chapter examines how much average monthly household income varied in relation to the Minimum Income Standard (MIS)[70]; the amount of money different types of households are considered to require to achieve a socially acceptable standard of living.

We use disposable household income after taxes, housing costs (including rent or mortgage and council tax) and any childcare costs, as this is the amount of money available to households for spending and saving. Having surplus income to save or set aside money is particularly important for working Universal Credit claimants whose monthly entitlement reduces when household earnings increase.

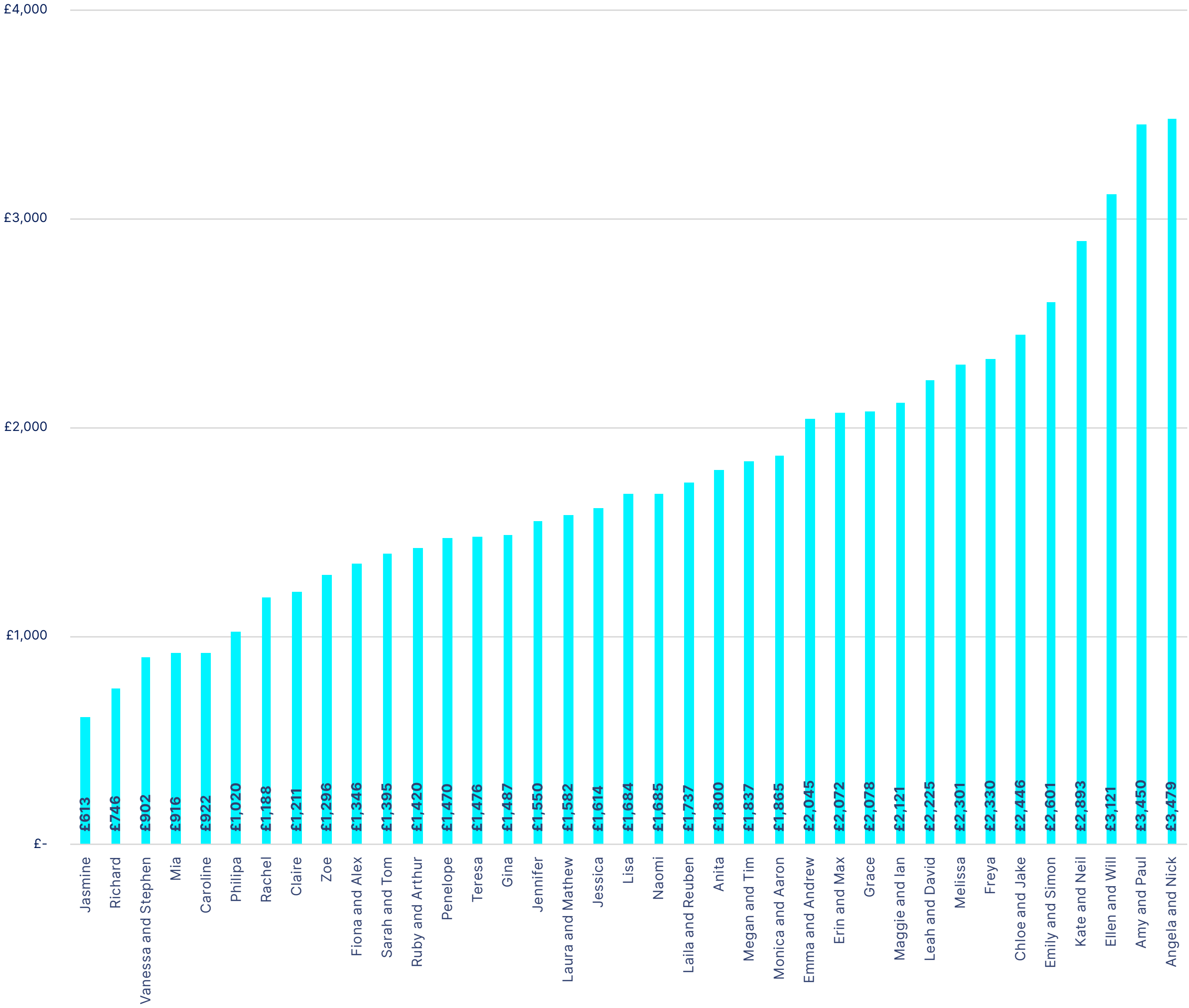
Average monthly household income after housing and childcare costs

Chart 15 below (and also shown in chapter four – chart 2) shows the average amount of monthly disposable income (after housing and any childcare costs but including disability benefits), for each of the 37 households[71].

70 Developed by Loughborough University and used by the Joseph Rowntree Foundation and others, the Minimum Income Standard (MIS) identifies the amount of money different types of households require to achieve a socially acceptable standard of living and is regularly updated to reflect rising living costs. A single person would need to earn £25,500 gross a year to reach the MIS in 2022. A couple with two children would need to earn £43,400 gross between them. The 2022 earnings figure includes a large increase due to the rapid rise in the cost of living which has substantially increased what is required to reach the MIS.

71 As noted before, the analysis excluded five households because they were unable to provide at least nine consecutive months of income data (4). One of these participants, though technically self-employed at the start of the research, had no earnings from self-employment or employment recorded on any UC statement.

Chart 15: Average monthly income after housing and childcare costs

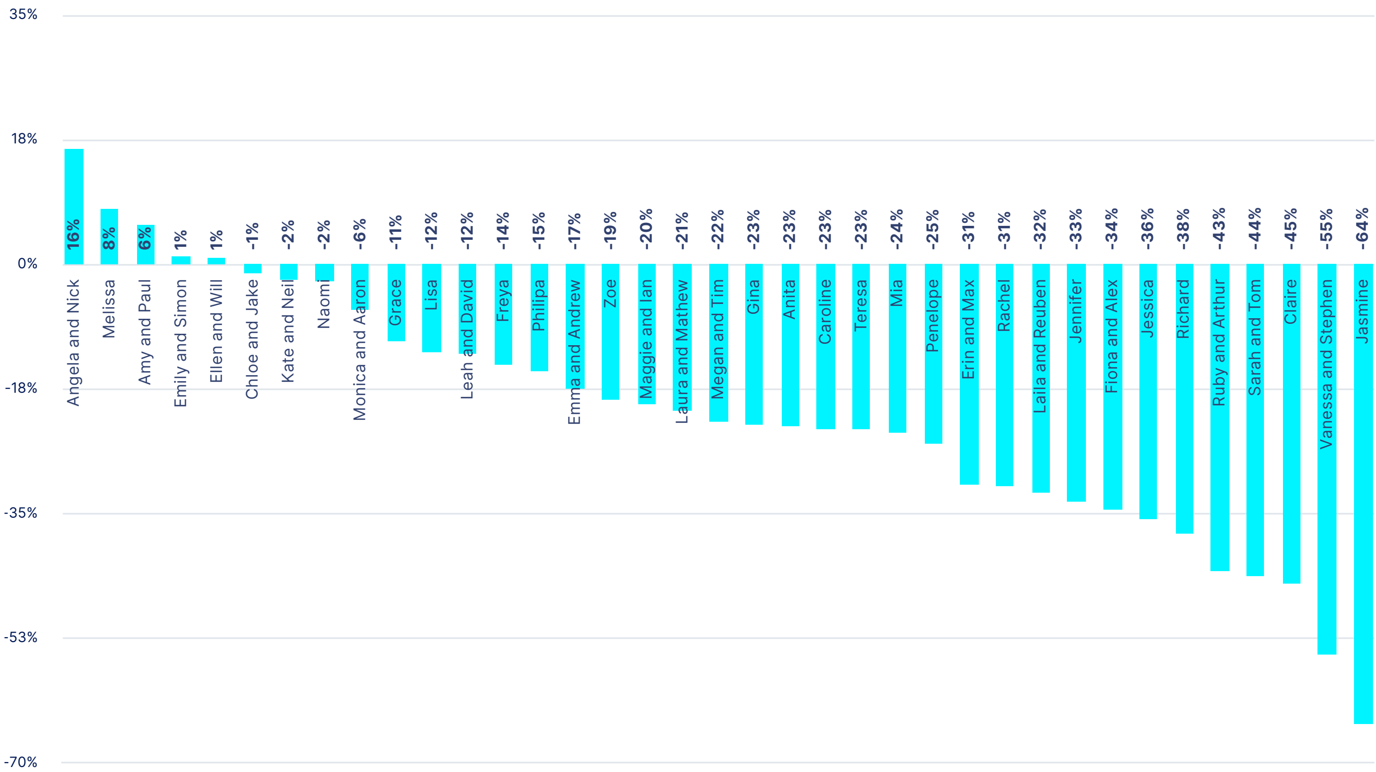


The lowest average monthly disposable household income after housing and any childcare costs was £613 while the highest was £3,479. Median monthly disposable household income was £1,684.

Average monthly household income after housing and childcare costs as a percentage distance from the MIS

Chart 16 below shows the average monthly household income of participant households in terms of the percentage distance above and below the MIS. It is important to note that the MIS does not include disability-related costs so this means we over-estimate monthly disposable income in households receiving disability benefits because our calculations do include disability benefit income received by participants.[72]

Chart 16: Average monthly household income after housing and childcare costs as a percentage from the MIS



Charts 17 and 18 below shows the households grouped according to average household income after housing and any childcare costs in relation to their distance from the MIS.

72 We excluded disability-related payments from the analysis of household income to be consistent with the way that it is reported elsewhere (before and after housing and childcare costs). Furthermore, data was not readily available from participants in respect of their disability-related costs as it was for housing and childcare costs.

Chart 17: Average monthly household income after housing and childcare costs as a percentage from the MIS – nine groups

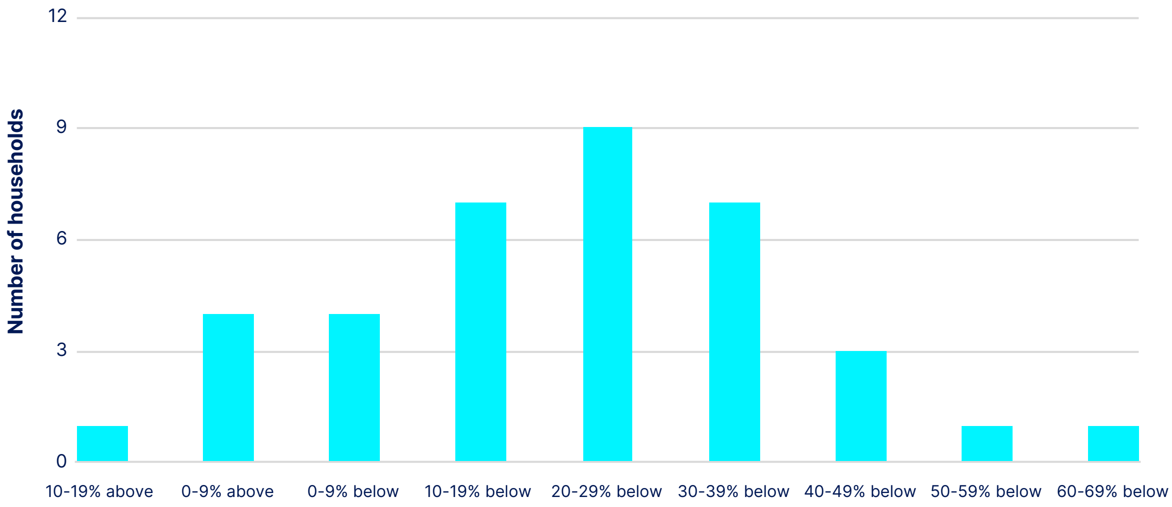
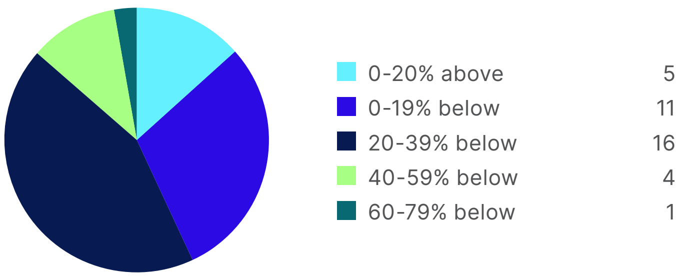


Chart 18 below shows the same analyses presented numerically.

Chart 18: Average monthly household income after housing and childcare costs as a percentage from the MIS – five groups



Average monthly household income after housing and childcare costs was below the MIS for all but five households in the sample.

- 5 households had average monthly incomes that were 0-20 per cent above the MIS
- 11 households had average monthly incomes that were 0-19 per cent below the MIS
- 16 households had average monthly incomes that were 20-39 per cent below the MIS
- 4 households had average monthly incomes that were 40-59 per cent below the MIS
- 1 household had average monthly income that was 60-79 per cent below the MIS

Overall, 32 of the 37 households had average incomes below the MIS despite 32 of the 37 households having at least one earner throughout the study and 35 households having at least one earner for eight or more months of the study.

Next we explore each of the above groups in more detail.

Average income 0-20 per cent above the MIS (n=5)

The five households with average monthly incomes above the MIS (three single-earner couples, one dual-earner couple and one working lone parent) all had steady jobs with mostly stable earnings that they stayed in throughout the research. These earner/s were nearly all working full-time (60 hours per week for one claimant) and paid above the minimum wage (between £10.40 and £16 per hour). All households were receiving either PIP or DLA and Carers Allowance. One household also received a very large benefit underpayment of £8,900 which boosted their average income. One participant received £200 child maintenance each month. Two had mortgages and three were in social housing. Three households were in the mainly stable group, one had rising income, and one (with a very large back payment and also some variability in working hours) was in the highly erratic group.

As also mentioned earlier, it is important to note that the MIS does not include any disability-related costs whereas our calculations do include payments that are specifically intended to reflect the additional costs of disability. If the extra costs of disability were included in the MIS, it is likely that these households would fall below the MIS.

Average Income 0-19 per cent below the MIS (n=11)

The 11 households with average monthly incomes up to 19 per cent below the MIS were in a range of different situations. Two single-earner households had higher full-time wages than most in our sample which meant they received very little Universal Credit (one of these participants also received child maintenance of £677 per month). In another two dual-earner couple households without children, their combined full-time earnings took them over the threshold for receiving any UC payment from June 2022 onwards. Three were lone parents with above minimum wage jobs working near to full-time and receiving regular child maintenance. One lone parent and one single claimant had low part-time earnings but received benefit back payments in the year which took them closer to the MIS than they otherwise would have been. Only one in this group received other benefit income (other than Child Benefit). One single-earner couple were only just in this group rather than the one below – the male partner was working full-time throughout just above the minimum wage. All of this group stayed in the same jobs throughout. Half said they had some variability in working hours.

Six in this group had highly erratic incomes, three had erratic incomes and two had mainly stable incomes. There were multiple and a wide range of reasons for their erratic incomes including employer bonuses, variable employed working hours, variable self-employed earnings, receiving benefit back payments, changes of circumstances and being paid weekly. The two with more stable incomes had steadier earnings and stable child maintenance payments.

Average income 20-39 per cent below the MIS (n=16)

The 16 households with incomes 20-39 per cent below the MIS mostly had earner/s in lower paid, part-time jobs in cleaning, caring and security. Most had variable hours of work or highly variable self-employed earnings. Many (10) in this group also experienced a change in personal or employment circumstances either starting work (3)[73]; changing jobs (4); ending work (1); moving in with an earning partner and claim ending (1); and partner and children moving out of the household and claim ending (1). These latter two households did then meet the MIS as a result of their changed circumstances.

Seven in this group had highly erratic incomes, four were erratic, two were stable and three were rising. The main reasons for the highly/erratic incomes were again multiple and overlapping. They were mainly due to changes in personal circumstances, varied working hours, being paid four-weekly, loss of employment, erratic self-employed incomes, UC errors and sporadic child maintenance. The two with more stable incomes were working lone parents with steady hours of work but who received no child maintenance, which explains their lower incomes. For those with rising incomes, one started receiving rent a room income of £600 per month, one started receiving disability benefits for the children, and one had reduced her high private rental costs after moving in with a friend. Despite their rising incomes, these three households still remained, and looked set to stay below the MIS.

Average income 40-59 per cent below the MIS (n=4)

For the four households with average incomes that were 40-59 per cent below the MIS, all but one who was earning only a very small self-employed income, had stopped working by the end of the research. Three were private renters with deductions from the housing element and one had a mortgage. None were receiving any other benefit income (other than Child Benefit). One was subject to the benefit cap. One was receiving child maintenance, but just £29 per month. Two had highly erratic and two had falling income.

Average income 60-79 per cent below the MIS

The participant with an average income that was 60-79 per cent below the MIS was a lone parent who was renting privately and made redundant a month after the start of the research. She was also sanctioned four times during the study. Her income was both very low and highly erratic.

Leaving Universal Credit

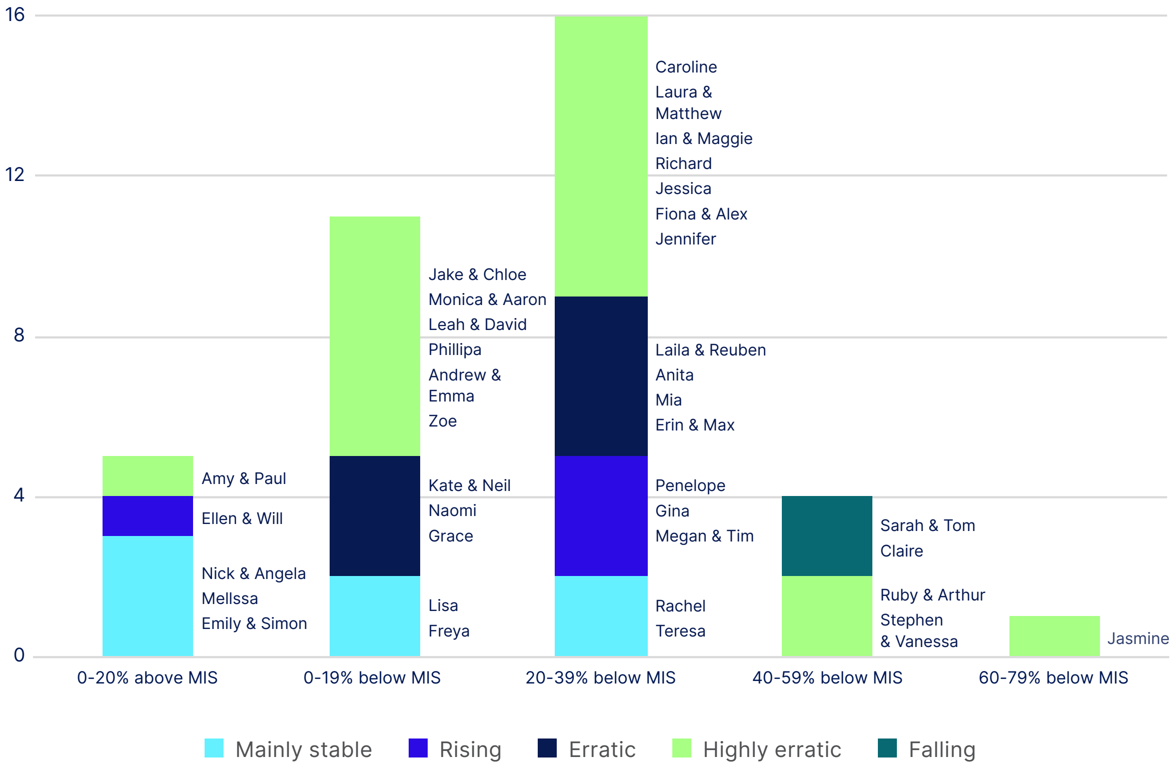
Four of the five participant who no longer had a live claim for Universal Credit (due to their earnings exceeding the threshold of entitlement) had just reached the MIS from this point onwards. For two, this was due to a change of circumstances (one moved in with a partner with higher earnings and her teenage child also moved out at this point, and the other separated from his wife who moved out with the children and he was no longer eligible for UC as a single full-time earner). One single working claimant remained considerably below the MIS after leaving UC.

73 These were participants who were not working for the first few months before their first interview.

Income variability by distance from the minimum income standard

Chart 19 below presents the income variability groupings by their distance from the MIS showing the relationship between household income and income variability for those in our sample.

Chart 19: Income in relation to MIS including Hills et al volatility groupings



The chart shows that households with the highest average monthly incomes were more likely to have the most stable incomes, while households with the lowest average monthly income were more likely to have the most volatile incomes.

The household incomes were thus usually below the MIS, sometimes substantially below. The households above, or closer to, the MIS often had other sources of income. This included disability benefits, which are mostly intended to help meet the extra costs of disability. Households with the most volatile incomes also generally have the lowest levels of disposable income. This matters because low overall household income can reduce people's capacity to save or set aside money. We address this issue further in chapter eight.

7

Drivers and experiences of earnings and income variability

Drivers and experiences of earnings and income variability

As the data in the preceding chapters show, virtually all the participants in this research experienced significant variability in their monthly household income.

Drawing on the qualitative interviews, in this chapter, we delve deeper into the experiences and drivers of income variability. We investigate whether the monthly adjustment to the UC payment in response to changes in earnings and household circumstance was timely and smooth, if participants were able to predict and manage payment fluctuations, and the extent to which Universal Credit dampened or accentuated monthly changes in income.

Drivers of earnings variability

Earnings made up the largest proportion of monthly income for most participants in this research for most of the time. As such, variable earnings were the main driver of income variability. The UC policy guidance states that claimants whose earnings fluctuate should prepare in advance for the months when the UC payment drops by setting aside money in the months when earnings 'rise'. The assumption is that fluctuations in earnings, which then trigger a change in the UC payment, are both predictable and relatively uncommon, mainly affecting the 'minority' of people paid weekly, fornightly or four-weekly once or twice a year. In fact, we found that fluctuations in earnings were commonly and frequently experienced by all types of employee regardless of how frequently they were paid. There were multiple reasons for this, but it is important to distinguish between variability in *actual* earnings – reflecting actual changes in wages earned and paid – and variability in *reported* earnings – that is, variability due to the way in which earnings data is submitted to, or captured by, the HMRC RTI system, in which underlying earnings remain unchanged. We explore both below.

Variable hours and shift patterns

Variability in *actual* earnings was due to a combination of factors including variable working hours and shift patterns and zero-hour contracts. Variable earnings as a result of variable hours worked more commonly affected people in less secure, forms of employment, including temporary and agency jobs. Emily's partner worked as a postal worker. On a zero-hour contract, his hours varied significantly from one week to the next:

> "He can work anywhere between ... twenty and forty hours a week. That's why there's such a variant [in the UC]."
> **Emily, couple with two children**

Sick leave and other absences from work – to attend hospital appointments, care for sick children or attend funerals, for example – which, for this group was generally unpaid, could also result in lower monthly earnings:

> "It varies every month ... Like last week I wasn't feeling very well, so I won't get as much because it's a day's pay [deducted] ... We only get paid for what we've worked."
> **Heather, single claimant with no children**

These participants were also more likely to experience earnings variability due to having periods of unemployment between jobs during the period of data collection. Self-employed participants also frequently experienced significant variability in their earnings, something they found hard to reconcile with the assumption underlying the minimum income floor:

> "Last week he was in all week, this week, he hasn't been in today ... Roofing ... it's quite weather dependent ... And there's been a few times he left early and the skip hasn't arrived ... [he] can't strip a roof without a skip, so he's had to come home ... It's quite tricky to get that sort of steady income ... presumed he's going to have."
> **Sarah, couple with two children**

One-off bonuses and lump-sum pay increases

Variability in actual earnings also affected those paid monthly and in more secure forms of employment. Here, it was mainly due to higher in-month earnings as a result of non-consolidated pay awards, employer bonuses, annual performance bonuses and lump-sum, backdated pay increases. When added to monthly earnings, such lump-sums could significantly increase the amount of earnings captured within a participant's assessment period. Once the 55 per cent taper had been applied to net earnings, little remained of such awards:

> "So the work that you do throughout the year, you get a bonus, and then basically it's just swiped with your UC ...I don't think that's very fair because .. so £1,000 bonus actually works out to be £300 ... Those are the sacrifices you make if you're on UC ... You work hard all year for it and you receive a bonus because you're working brilliantly ... whereas the colleague next to you is not on UC and they receive their £1,000."
> **Lisa, lone parent with one child**

The high level of deductions felt to some like they were being penalised rather than rewarded for working:

> "If you give me a bonus, they take money off me, so it's in one hand, out the other. Technically I suppose ... you are still better off. I'm sure the government would argue you're 45 pence better off ... but when you see it going in one hand and then out of the other, you don't see that immediate 'oh yeah it is 45 pence on the pound'.... You can convince yourself but it doesn't feel like a bonus, it feels a bit more like a punishment almost."
> **Jake, couple with two children**

Pay increases awarded as lump sums in lieu of an annual pay rise seemed, to those affected, to be particularly unjust:

> "Our employer announced they will give us about £350 bonus this year because they decided not to give us a pay rise… That is not going to be a bonus for me obviously because … My next UC shortly before Christmas … they'll cut off 80 or 90 per cent of the bonus … It will be a huge chunk of money."
> **Naomi, lone parent with one child**

Such lump-sum payments meant that claimants often received less UC than they would otherwise have been entitled to if the equivalent amount had been paid monthly, throughout the year:

> "You're not getting your bonus that you're entitled to … … I'd rather have the bonus in our annual salary."
> **Lisa, lone parent with one child**

Bonuses and lump-sum pay awards, moreover, were often spent in the month of receipt leaving little or nothing to set aside to cover the subsequent period when the UC payment dropped or was nil:

> "The council have been underpaying people … and they gave it them in a lump sum just before Christmas. So that was a pleasant surprise. However [my partner] did say, is that going to affect our UC next month? … I'll have to wait till the 16th to find out … We've spent all that money … as you can imagine, when you've got kids … it just goes so quickly, the money over Christmas … So all that money's long gone … It's really nice at the time but now that this next payment's approaching, I'm just thinking, oh my God, if they don't pay us any money, then how are we going to pay the gas and electric and the Council Tax?"
> **Emma, couple with two children**

As it soon transpired, the lump sum this couple was paid in December meant they lost their entire UC payment in January, leaving a large hole in their monthly household budget:

> "It's been a nightmare … basically we owe the housing nearly £450. … because [my partner] got a big wage … It basically wiped out [the] UC for this month."
> **Emma, couple with two children**

In couples, furthermore, it was often the non-earning or lower-earning partner who was typically the UC payee and whose income therefore dropped after a rise in their partner's earnings:

> "It wasn't just my pay rise that month, but it was also back dated. So I got loads of money that month and it screwed [my partner] over."
> **Ian, couple with three children**
> **(becomes single person after they separate)**

Leah was concerned that a large bonus from her employer would not only generate a nil award but could also entail loss of entitlement for the Government's cost of living payment. Eligibility for this depended on having a UC payment of at least 1p during a specified qualifying period – which, for her, risked coinciding with the month in which the employer bonus was due to be paid:

> "We got a bonus in work ... It was £650 and rather than getting it all in one chunk, I didn't want to risk taking it in one go and missing out on the cost of living payment, because I didn't know what assessment period they were going to do that [in] ...If you get a zero assessment period when they do the cost of living payment, you don't get it."
> **Leah, couple with one (then later three) children**

To minimise adverse financial impacts for those in receipt of UC, her employer offered to pay the bonus in three monthly instalments. However, few participants had employers as benevolent or flexible:

> "They've split it over three payments ... I told my boss 'it's great but you're going to wipe out my UC,' and he was like 'I'm not having that' so he spoke to finance, and finance then offered it to the whole company and said,' we're aware that people are on UC and this may affect you, so if you want to have it in one go, you can, if you want to have it in three instalments, let us know' ... It works about an extra 150 quid a month for three months ... that was nice of them!"
> **Leah, couple with one (then later three) children**

Pay frequency and the multiple counting of wages

Variability in reported earnings was mainly due to pay frequency. Participants paid weekly, fornightly or four-weekly commonly experienced fluctuations in reported earnings due to the multiple counting of pay packets in a single assessment period. As Lisa perceptively observed:

> "If you're going to claim UC, you'd be better off on monthly paid."
> **Lisa, lone parent with one child**

However, those with regular monthly pay could be affected too, seemingly contrary to the new policy which is meant to automatically correct the double counting of monthly pay packets:

> "I'm getting paid monthly ... on the 24th but they actually calculate UC on the 20th every month ... they're very close together ... It's not really predictable ... I actually called into the UC as to why my payment was at the time zero and it turned out [to be] two pay slips were included in the period they calculated the UC ... If I look at my history of UC ... I see three of these occasions happening ... since January 2021."
> **Aaron, couple without children**

Those paid weekly, fornightly, or four-weekly were also more likely to work variable hours, a combination that made it especially hard to predict the amount of UC that would be paid:

> "He's not on a fixed wage and because he's paid weekly. If it falls on a four-week month, then it looks like he's earnt less and if it falls on a five week month, it looks like he's earnt more, so they pay us less for the five week months ... even though technically we haven't earnt any less ... It's the not knowing what's coming back, not having a set amount ... is really frustrating. I really wish that he was just ... paid once a month, it would make life a lot easier ... because obviously bills are monthly and ... because it's not a set amount each week, trying to work out how much of it we need to put aside for the bills and how much we can actually use for essentials can be quite hard sometimes."
> **Leah, couple with one (then later three) children**

Having learned how pay dates and changes in earnings can interact with UC entitlement, some participants, who were able to, adapted their working patterns, sometimes reducing working hours or changing shifts to reduce earnings and minimise the reduction in UC entitlement:

> "In total I lost several hundred pounds ... because it looked like I'd been paid more. So I had to work a way around that ... The date that I'm last paid has to ... be before the assessment period comes in if that makes sense ... So let's say for example I pick up a shift, that shift will then go into payroll the week later, then I'll be paid the week after that ... My own system is to ensure that ... it doesn't look like I'm paid twice in one month."
> **Gina, lone parent with one child**

Zoe took unpaid leave to avoid losing her UC:

> "[I'm paid] four-weekly ... the horrible one on UC. The first year it massively screwed me over because I was on ... a sixteen hour contract then and I'd done overtime as well, so it wiped out my [UC] ... Last year I actually took a week unpaid ... because ... they would have taken over half my wages off my UC, so ... I worked it out with my manager ... and I could have unpaid leave ... because I'm in a workplace that is desperate for people to take unpaid leave in January ... so it benefited both of us."
> **Zoe, lone parent with one child**

However, while some were able to adapt working hours to avoid the loss of UC, others could not. As Jake observed, employers' payroll systems were generally fixed in the same way as the UC assessment period was. He was paid monthly, but each Christmas his wages were paid early and two month's pay was included in their assessment period, meaning they lost a month's UC entitlement. He felt aggrieved that the significance of the date on which they claimed UC, and which determined their fixed assessment period, had not been communicated to them at the time:

> "I applied [for UC] on this arbitrary date when I thought I have some time and I'll apply for it now, but actually that date, super important it is, immovable … which in itself is a problem … We get an e-mail every Christmas, like 'we're sorry, you're about to lose your UC … if they assess you for two payments' … [it's an email] from work. They're aware because … obviously people complain about it."
> **Jake, couple with two children**

Participants who received a nil UC payment as a result of the double counting of their wages were grateful for the small concession whereby the claim is no longer automatically closed. Previously, when earnings were recorded as exceeding entitlement, it would have been, obliging claimants to formally reapply for UC from scratch:

> "In the early days, when UC had not long started… they cancelled our claim … it was when he got a double payment in that month … So we had to do it all again and … I was on the phone for about an hour … she says, we're going to have to do a new claim because they've closed it … Luckily they don't do that now … I think they've changed the policy… but I make sure I get in touch with them if I know it's going to be a double month, and I'll say, this is a double month, [my partner] gets paid four-weekly … please don't cancel our claim."
> **Angela, couple with three children**

As Melissa pointed out, people whose claim was closed in this way would wait two months before the UC payment was reinstated. In her case, this sudden loss of income obliged her to take out a new advance loan as she had done when claiming UC for the first time:

> "They just cancelled, they closed it … I'd earned over like the threshold, so instead of just giving me like a zero balance for that month, they closed my claim … I logged in one day and it was closed. So I had to like reclaim again from the beginning and they offered me an advance payment, so I just took it."
> **Melissa, lone parent with two children**

In 2021, an automatic flag was introduced to alert the UC payment system when two monthly pay awards are made in the same assessment period, avoiding the need for claimants to notify the DWP in advance. However, only the monthly paid are included in this revised policy, a distinction that participants paid four-weekly, in particular, found arbitrary and unfair.

Late RTI submissions, employer and payroll errors

Poor employer practices resulting in late and incorrect RTI earnings submissions, together with payroll and tax code errors, were another reason for variability in reported earnings:

> "He was paid weekly … and that was a nightmare because … his employer then was quite bad at putting it in. So one week we'd have like two weeks in it and we'd get loads of money, and the next week they'd put six or seven weeks in because they'd missed the date … We'd be expecting money and we'd have none"
> **Ellen, couple with three children**

Staff absences and labour shortages, particularly in small and micro-businesses, meant that late submissions and payroll errors could take weeks, even months to correct:

> "They've made an error this month …the woman that does our finance, she is [off sick] at the moment … She normally comes in once a month … I don't really want to chase her and say, 'you've made an error'. She's quite unwell."
> **Anita, lone parent with two children**

Even larger businesses with specialist HR functions and dedicated payroll staff could make mistakes. Leah's partner worked for a multinational company yet his pay was frequently incorrect:

> "There's always errors! Not necessarily … on UC's part, on [my partner's] employer's part. They'll forget to pay holidays or … they'll forget to pay sick pay … and then they might give him a BACS payment, so it looks like he's getting paid twice, or they'll like, right well we'll put it on next month's wages, so it makes him look like he's got paid loads that month … So yeah, we have had issues with [partner's] wage."
> **Angela, couple with three children**

For Naomi, an increase in the number of hours she worked triggered a complex series of pay errors that, several months later, had still not been resolved:

> "From April … I started doing twenty-four hours more a month but … my salary … is incorrect … due to someone not reporting my hours correct … I got paid the same amount as I was being paid the month before when I was on seventeen hours.. Then … in May I was put on a different hourly pay by mistake … I was trying to communicate with payroll and HR … but [my] employer couldn't put my salary right for three months … Hence my UC, it's so different every month … I literally didn't know each month how much my UC is going to be, even though my salary was quite stable."
> **Naomi, lone parent with one child**

Even though the earnings data submitted by her employer was incorrect, once captured by HMRC RTI system and fed through to UC, errors were difficult to challenge and overturn:

> "I'm happy to send my payslip and … bank statement [via the journal] … It is very frustrating … you can't really talk to a person about it. There was never like an immediate response … [if] somebody could call me and … try to give me options …You feel like … you're completing all the proofs … but you're just not really … listened [to] … It was an utterly anxious situation."
> **Naomi, lone parent with one child**

Moving to a new job gave rise to an HMRC tax code error that disrupted Teresa's previously steady UC payment:

> "When I was in the previous employment, it was nice, it was steady, I knew where I was ... what I was getting every month and then ... it went a bit Pete Tong ... Six months I've been at the new job and it's only just the past two months ... that it started to [be right]... They got my tax code wrong ... It wasn't the company, it was the actual tax, you know people in the [HM] revenue."
> **Teresa, lone parent with one child**

Until pay-related errors were corrected, affected participants could experience a serious shortfall in household income. Under- or over-reporting of earnings, moreover, meant an under- or overpayment of UC which would later need adjusting. Naomi was obliged to arrange an overdraft to cover the deficit in her outgoings caused when her employer failed to pay her earnings correctly:

> "One third of what I should be earning is missing .... I am going to get it in one lump sum ... It's going to be over £1,000 and ... the ripple effect of what my employer did ... it might be devastating because I might end up with not having any UC this month ... I'm going to be left with nothing to live off because I also have to cover the overdraft I'm taking ... The only reason why I've managed is because ... I was awarded those food vouchers."
> **Naomi, lone parent with one child**

When her employer submitted several months-worth of pay in a single HMRC RTI submission, not only did Melissa find she had a large UC overpayment to repay, but she became subject to the 'surplus earnings' rule[74] and lost all entitlement to UC for three months. As a result, she fell into serious arrears with rent and council tax:

> "I was getting paid monthly ... but I didn't realise that I'd been getting too much UC ... till my employer submitted I think it was four or five months' wages under one month, and they hadn't been taking any deduction off for my wage ... So UC then realised what had happened and deducted the payments ... I wasn't entitled to any payments for three months ... so that was a struggle ... A lot of things went unpaid ... [I got into] arrears with like rent, council tax."
> **Melissa, lone parent with two children**

Late and incorrect submissions to HMRC by employers, which appeared to show a large drop in earnings or that a job had ended, could also trigger a face-to-face meeting with a work coach, particularly galling and inconvenient for those who were, in fact, working – in some cases, full time. Caring responsibilities also made it difficult for some working parents to attend in person:

74 See *Take-home pay and income from other benefits* (p11) for a brief explanation of the surplus earnings rule.

"The guy at the Jobcentre … he said 'your employer reported your earnings after your statement was due' … They just said, 'look if this happens again, if your employer for whatever reason doesn't report your earnings, then I just have to write that on my journal'… … but [I had to go] into the Jobcentre … That was a bit annoying because …. I had to find childcare and …. It turned out that he said … 'we don't really need to see you, it just looks like you haven't earnt anything or you weren't working'."
Anita, lone parent with two children

Variability in the Universal Credit payment

Whether actual or recorded, monthly changes in earnings, in turn, triggered changes in the UC payment. That the UC payment intentionally rose and fell in response to changes in earnings was something participants fully understood and, in principle, generally accepted:

"At the end of the day, UC is a top-up isn't it really … So if I'm earning more, then … I don't need as much because that's just the way it is really."
Teresa, lone parent with one child

Some actually preferred a payment that fluctuated because it reduced the likelihood of overpayments which some had experienced with tax credits.

"I think it's a bit easier actually. I did always find problems with Tax Credits that I would get overpaid. I'd tell them about a change and they wouldn't register that change until a few months later and then ask for the money back. But I've never had that with UC."
Anita, lone parent with two children

A payment adjustment that was automated, based on real time earnings data automatically reported by HMRC, was similarly widely appreciated:

"Know[ing] that you're not going to be owing them money, that works for me. And it worked for me in terms of when I was dropping my hours, that I wasn't having to go and have readjustments or anything, it was done automatically, it's nice to know that that figure is the figure that they believe is accurate and that you know is accurate, rather than having to report things … separate."
Zoe, lone parent with one child

However, fluctuations in UC were experienced, and could impact, very differently depending on whether the monthly payment increased or decreased. An increase in UC when earnings dropped was highly welcomed, particularly among those whose earnings or working hours were not guaranteed, or who frequently moved in and out of insecure work:

"If I don't do as many hours or like jobs gets cancelled … where before I would have worried if I wasn't on [UC], how I was going to pay the rent? I don't worry about it because I get a bit of help."
Caroline, single claimant with no children

Participants in less secure forms of employment were also less likely to qualify for employer sick pay when ill. Even if sick pay was due, the first three days of absence were generally unpaid. Other participants lost pay due to strike action. In such instances, though not replacing lost earnings in their entirety, UC nevertheless helped to top up their income and was very welcome for that:

> "[He had] a couple of sick days here and there and … he had to take a day off work for childcare because I had to take one of them to hospital … so the UC has kind of topped it up a little bit … Not getting paid three days, that's a lot to lose, isn't it? … One good thing about UC, it does compensate for that, not in its entirety obviously. It doesn't replace all of the earnings that are lost."
> **Angela, couple with three children**

A reduction in UC when earnings increased, or were recorded as increasing, was, however, generally much less welcome. Some participants accepted that a fluctuating UC award that was paid in arrears 'went with the territory' and simply meant 'juggling' and careful budgeting:

> "You have to juggle things, don't you? Pay things later … you might be able to miss one month and then try and pay back … a bit more the other month. Just juggle things … … and it's not all down to UC, but I would just say the way UC … pay a month in arrears … that's what impacts you … if your wages are different."
> **Teresa, lone parent with one child**

For others, variability in the UC payment, particularly when there had been no change in underlying earnings, could be hard to manage. The reasons were not simply due to the loss of income, but that the amount of the reduction was hard to predict and compensate for, particularly if it was large, which as the data from this research shows, it frequently was:

> "You don't know what you're going to get and it's horrible not knowing, especially if you get less than you're expecting or hoping for, like if you've … worked out you're going to get a certain amount, but then it's £200 or £300 less, then it's like 'what am I going to do?' It's just panic,"
> **Melissa, lone parent with two children**

Not knowing how much UC they would get until the statement arrived compounded the uncertainty:

> "Month to month I never know until they put the statement out whether they're going to give us money. I never think, oh we're going to get some this month, we're not going to next month… I always think I don't know, it's always a mystery, it's … I never quite know where I am with UC."
> **Emma, couple with two children**

The inability to plan ahead and budget effectively could generate anxiety and affected well-being:

> "It creates the anxiety around middle of the month ... when I don't know how to budget for the rest of the month because I'm not sure what how much my UC ... is going to [be] ... you depend so much on a system that is not necessarily working well for you."
> **Naomi, lone parent with one child**

Large monthly swings in the UC payment were especially hard for families with dependent children to budget:

> "You don't know whether you're coming or going, you can't budget ... [The UC payment] can reduce by hundreds, and when you've got children and if you can't take care of them ... you're in a lot of trouble."
> **Gina, lone parent with one child**

Parents with childcare costs included in their UC award sometimes found the variability in the monthly payment unmanageable. Naomi, who received a regular monthly salary, experienced significant volatility in the UC payment due to the proximity of her pay date with the end of her UC assessment period and the frequent double counting of wages:

> "I have lots of struggles and chasing and disappointment throughout the entire year because ... I literally didn't know each month how much my UC is going to be, even though my salary was quite stable ... plus the childcare support each month looked different or there was none at all. So ... it was frustrating."
> **Naomi, lone parent with one child**

People whose hours of work varied from month to month were particularly badly affected – obliged to juggle two sets of income uncertainty; earnings and the UC payment. In dual-earner couples with different pay frequencies, or in which both partners worked variable hours, the effects could be multiplied. The interaction of two sets of variable earnings within a single assessment period made the task of predicting by how much the UC payment would rise or fall particularly difficult. The aggregation of both partners' wages against which entitlement is then tapered made it harder still to tell if the UC payment was correct.

Though household income was lower, some participants felt it was easier to budget when they had been unemployed because the amount they received in benefits could at least be relied upon to stay the same:

> "You won't know until the middle month [what] you're getting in UC ... You're just waiting to see what you're going to get ... in case I need to put extra money to the rent, in case I don't get paid enough UC ... It's a lot easier when you're on benefits ... you're going to get that amount every month ... it's the same ... You don't have to work out what you need to keep."
> **Erin, couple with three children**

Budgeting was also easier and less anxiety-inducing for the minority whose earnings were stable and whose UC payment, therefore, could generally be relied upon:

> "I know how much UC is going to pay me each month, and I know what my wage is going to be, and I've got that financial security of knowing pretty much within about £50 or so how much I'm going to have each month, which helps. It does help to budget."
> **Zoe, lone parent with one child**

Time lags

Another drawback with monthly assessment was that the way in which the UC payment rose and fell did not necessarily reflect changes in earnings in a timely way that helped smooth peaks and troughs in household income.

> "[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, lone parent with one child**

The arrears payment of both wages and Universal Credit meant that participants sometimes received higher pay in the same month as their UC payment increased, while in months with low or no earnings, the UC payment would reduce or be zero:

> "It's hard because it's in arrears. So at times it's helped us more than we've needed and then at other times we haven't had enough money… It's in arrears, so it helps you after you need it really."
> **Ellen, couple with three children**

After a large increase in reported earnings, there was often a time lag of two months before the next UC payment was made; particularly hard to manage when underlying pay had remained unchanged:

> "I didn't have a payment from them for two months because of the way it works and the way it's calculated on the month before, because of the assessment period … I didn't have any wages that month and … [UC] works a month in arrears … so that caused a big issue."
> **Richard, single claimant with no children**

Higher earnings were also typically spent in the months that wages were paid, reducing the ability to save and generate a buffer. 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 extra hours with the specific purpose of buying uniforms for their two children. When their earnings dipped back the following month, they received no UC payment due to their higher earnings the previous month. However, their additional earnings had already been spent on the children's uniforms, leaving them unable to pay their rent. It began a cycle of rent and council tax arrears which, two years later – because they were now both able to work full time – 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 and it's just by these stupid assessment periods ... so 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 earnt more. You could be going two months with no money."
> **Kate, couple with two children**

Changes of circumstance

Changes of circumstance were another reason for variability in the UC payment which, in turn, affected levels of monthly household income. In most cases, the UC system responded to changes of circumstances in a timely way. Participants who notified a change using the online system found the process of reporting to be simple and generally straightforward, with an increase or decrease to the UC payment mainly taking effect the following month. However, changes of circumstance were not necessarily one-off events. Participants who experienced more than one change of circumstance in the same month, or had changes of circumstance in successive months, sometimes experienced payment errors or delays.

Leah and her partner David went through multiple changes of circumstance during the course of the research. When the couple separated in the same month as Leah changed her childcare provider, although they later reconciled, the temporary move from a joint to a single claim triggered a lower than anticipated childcare contribution:

> "They ... cocked up my childcare last month ... because ... when we changed from a joint to a single claim, it gets reassessed completely and they short-changed me that month ... I've moved him to a different nursery ... but there was no reason why it wouldn't have been covered [the fees] ... It makes no sense that they short-changed me."
> **Leah, couple with one (then later three) children**

Challenging the shortfall was further complicated by the overwriting of Leah and David's UC statements. Rather than having both original and amended statements available for comparison, her new UC statement as a lone parent replaced the previous ones. With the earlier statements overwritten, it was hard for her to work out how the new UC award had been calculated and therefore how the underpayment had arisen:

> "I can't check my old statements now … I can't see my history now anymore … because it [was] a joint claim … now [it's] solely my claim, so I don't have access to that information on-line, which is just a pain … When they updated my childcare, they didn't give me a new statement, they updated my existing statement."
> **Leah, couple with one (then later three) children**

Changes which required claimants to attend the Jobcentre in person – for example to present documentation such as a birth certificate or tenancy agreements – could also mean a delay before the UC award was adjusted, sometimes resulting in an under- or over-payment. When Leah's son moved back home, the time taken to have this change of circumstance evidenced and approved resulted in a UC underpayment. Juggling work, childcare and UC appointments meant it took several months before the error was corrected:

> "[My son] moved back in, in July. I had to take his birth certificate down to the Jobcentre, but the appointment they gave me … nobody responded to my request to change it, because I don't have a work coach … and it doesn't flag up anywhere … So the woman there, she's like next time … ring up. And I said, I did. … Another thing I said … look I'm very fortunate that I have a very flexible job where I can just drop things … Then when I got my statement …[my son] wasn't on it."
> **Leah, couple with one (then later three) children**

The 'whole month' approach to assessment – whereby a household's circumstances on the last day of their assessment period determines eligibility for the preceding month – also impacted on household income. Depending on when the change occurred, some participants found they received more or less UC than they needed or were expecting. Leah, whose teenage daughter moved back in right at the end of her monthly assessment period, received more UC than she was expecting because the disabled child element she was entitled to was backdated for the full month.

On the other hand, Rachel, who moved in with a friend to save on rental costs just before the end of her assessment period, found herself significantly out of pocket – liable to pay the rent on the property she had moved out of, but no longer entitled to receive the housing element of UC. Had she realised the significance of the date she was intending to leave her flat, she would have delayed moving until after her assessment period had ended, thereby ensuring she remained entitled to receive housing costs. In the event, she was obliged to meet the full cost of the final month's rent from her own resources.

As these findings show, whether in relation to fluctuations in earnings or in the UC payment, the general expectation underlying policy is that claimants should be able to both manage and absorb the financial highs and lows of variability in household income, saving and setting aside money in the months when earnings are higher and using the surplus to cover the periods when income dips. In the next chapters we examine the extent to which participants' lived experience supports this underlying policy assumption.

8

Drivers and experiences of income adequacy and inadequacy

Drivers and experiences of income adequacy and inadequacy

In this chapter we explore the reasons why monthly disposable income was frequently low for many participants, whether overall household income was high enough to compensate for the months when the UC payment reduced, and the extent to which participants were able to manage the income variability that many experienced.

Low monthly household earnings

Few participants in this research had savings or were able to generate surpluses sufficient to cover regular deficits in monthly income. Low, and sometimes no monthly earnings were a key reason why. Mainly this was due to the low number of hours they worked in jobs which paid the minimum hourly rate or just above. Of the 50 participants in paid work or self-employment at the time of the first interview, only 18 were working full time; 29 were working part-time; and for three, it varied between full and part-time. Twenty-three of the 50 working participants were also paid under £11 per hour and 13 were paid less than £10 per hour. Median monthly household earnings were £1,262, but many households regularly had earnings of less than £1,000.

For several participants, low monthly earnings were due to employment conditions, such as part-time or zero-hour contracts, which limited working hours or failed to guarantee a minimum number of hours worked each week or month. Half of working participants (25/50) also worked variable hours and some had periods of unemployment between jobs.

Some left jobs which had offered more hours than they had actually been given after starting work:

> "There weren't hours for him.... just not enough hours ... When he went ... for the interview, twenty-one hours he was offered ... He went and was only offered seven hours."
> **Erin, couple with three children**

When Max left, he was sanctioned for giving up his job but the hours he was given were sporadic and the wages he was paid unreliable:

> “He rang up the Jobcentre to say that he was no longer working ... and then he rang who he worked for ...they said, ‘oh no you’re still on the books.’ They wanted him to stay and do a ‘bank’ ... So you could work one day in a week and then they maybe not need you for another three, four weeks. ... and the [Jobcentre] said, ‘well you went on your own accord.’ He said, ‘no I didn’t. I [left] because there was no hours.’”
> **Erin, couple with three children**

Several participants wanted to work longer hours and were looking for jobs offering better conditions and higher earnings:

> “I’d like more hours because I’d like more money so I can keep my head above water, because at the moment I’m kind of really close to drowning.”
> **Mia, single claimant with no children**

However, most of those with low hours and earnings had constraints, such as health conditions or caring responsibilities, which limited the amount of work they could do. Some became ill during the period of data collection. One participant was hospitalised for three months after a serious accident. Another was off sick from work for six months while waiting for an operation, before his employer made him redundant.

Six participants had caring responsibilities for a disabled child, children, or partner in receipt of DLA or PIP, which entitled them to Carer’s Allowance (CA). Apart from requiring recipients to be caring for a minimum of 35 hour per week, net earnings are limited to a maximum of £139 per week. The carer’s element of UC has no earnings limit, but only three participants in this research were in receipt of this without also being in receipt of Carer’s Allowance. Even though Carer’s Allowance reduces the UC payment pound for pound, most chose to claim this in preference to the UC carer’s element alone because it entitles recipients to class 1 national insurance credits which count towards a state retirement pension. Erin, whose three children had been awarded DLA, also liked the fact that Carer’s Allowance was a separate benefit paid at a different time from UC, which helped with monthly budgeting:

> “[The Carer’s Allowance] does come in handy ... The UC comes like the 18th and I think one DLA comes in like the first week and then the other one comes in the second week ... Then [my partner] gets paid at the end of month ... because I am short, it does come in handy.”
> **Erin, couple with three children**

Shortfall in help with housing costs

All the participants in this research prioritised paying their rent or mortgage above all else. Having to bridge the often sizeable gap between the contribution they received towards housing costs and the amount they were obliged to pay in rent or mortgages payments and council tax each month, was therefore a major contributory factor in reducing monthly disposable income. Only 17 of 42 households had their full rent included in their UC housing element. Twelve were social housing tenants and four were private rental tenants. Of the remaining 25, six had mortgages and two had no housing costs, for the rest the average monthly shortfall between the UC housing element and their actual rent was £106. Including those with mortgages, the average monthly shortfall was £233. While lone parents and single claimants benefitted from the single person's discount, only participants with no or very low earnings, were entitled to a reduction in council tax on the grounds of low income. Many working participants were therefore obliged to meet the full cost of council tax.

Participants who rented privately struggled the most. Ten of the 15 participants living in private rented accommodation had a monthly rent shortfall which ranged between £75 and £345. For seven this was because the LHA was lower than their rent, while for the other three it was because of the non-dependent adult deduction which reduced their UC housing element. Stephen's adult son, who lived with him and his wife, had been laid off from work, but because the job was due to re-start, had not claimed UC. Although the son had no income, the couple were assessed as though he was contributing financially to the household, and the UC entitlement was reduced by £78 per month.

> "My son's laid off for the time being, he's due to start back maybe next week or the week after ... It's quite seasonal ... He's not got like guaranteed hours ... his hours really vary ... He didn't even apply [for UC] because he will work in about four weeks."
> **Stephen, couple with no children**

Social tenants subject to the non-dependent adult deduction or second bedroom subsidy could be affected too. Five had a monthly rent shortfall of between £60 and £78.

Adult children living in the household could also remove a claimant's entitlement to a reduction in council tax. The policy assumes that non-dependent adults share responsibility for contributing to the rent and council tax, but few did, either because they were unemployed and claiming UC themselves (though not entitled to a housing element when living with parents) – or because they had very low or intermittent earnings[75]. Teresa lost both her 25 per cent single person's discount and entitlement to council tax support when her unemployed son moved back in with her, significantly reducing her monthly income:

75 Research by Loughborough University explored the challenges facing low to middle income families where young adults live with their parents https://www.financialfairness.org.uk/docs?documentId=GB-151221-162871-1

> "If you've got a non-dependent in the household that's not working, you should still be getting a discount. If you're on UC ... your wages are sort of deemed to be low-ish ... [but you're] having to pay 100 per cent Council Tax on your own ... He's not my partner, he's not working, therefore not contributing to the household ... Having to pay the extra 25 per cent, plus being deducted as a non-dependent, plus not getting ... Child Benefit ... it all accumulated."
> **Teresa, lone parent with one child**

Of the six participants with mortgages, most were also struggling to keep on top of the monthly payments. Those with dependent children, who got a higher work allowance, were grateful for the extra help. However, none of the participants in this research had taken up the Support for Mortgage Interest scheme mainly because it was a loan that had to be repaid with interest.

Claimants in receipt of the UC housing element who are struggling to meet their housing costs – because the LHA does not meet the full cost of the rent, for example – may be entitled to local authority-administered discretionary housing payments (DHPs). In this research, only two participants received an award. The help was discretionary, often difficult to access, and the eligibility criteria varied from one local authority area to the next. Jack, who faced a large rent shortfall, was obliged to reapply every few months and the amounts he got fluctuated each time:

> "Occasionally I get a discretionary housing payment ... You have to keep reapplying for it all the time and then you've got to go through all your incomes and ...the questions again and again ... I had to do it on-line ... It takes quite a few hours to actually do it ... Some months they might turn round and say, 'well it's a limited amount of money, we're not going to give you it this month but we're going to give you half the amount.'"
> **Jack, single claimant with no children**

Deductions for earnings

The amount deducted from UC each month due to earnings was another important factor which not only reduced household income but could also disincentivise work or longer hours. Working parents entitled to the work allowance felt that the amount they were allowed to earn before the taper was applied was too low:

> "It wasn't very fair, the work allowance ... It was too low, for the fact that it was a working family household ... It was like them taking money off us, even though we're working."
> **Fiona, couple with one child**

That two-parent families, and couples in which both partners had limited capacity for work, were only entitled to one work allowance discouraged some non-earning partners from entering work:

> "You only get one sort of work allowance ... don't you? ... So if there's two of you then ... that can get eaten up by the first earner and then ... for you ... [it] feels like everything's getting deducted. So it isn't much of an incentive."
> **Sarah, couple with two children**

Subject to marginal effective tax rates often in excess of 75 per cent, many felt the level of the taper, too, was unreasonably high. As Zoe's earnings rose and the taper was applied, so the inclination to increase her hours reduced:

> "I do think the taper's a bit high ... 55 pence in every pound ... is an awful lot because ... when they're taking so much off your wages, you end up worse off ... I was certainly worse off working sixteen hours a week, compared to how I am now, working eight hours a week."
> **Zoe, lone parent with one child**

An increase in the work allowance had encouraged her to think about increasing her hours:

> "Now that they've increased the work allowance to £379, I'll be more open to working like another ten hours ... because the taper wouldn't be so dramatic."
> **Zoe, lone parent with one child**

Naomi reluctantly turned down the offer of extra hours due to the amount that would be deducted from her earnings:

> "Doing overtime ... or any extra hours... did not work for me because obviously there was 55 pence taken from each pound, so I would end up working for ... about £4.70 an hour ... it's just not worth it because I really, really don't want to work for less than £5 an hour ... But it makes you feel ... that you're penalised for working extra hours to support your budget, that it makes you ... refuse to work more even if you would like to because it's just not worth it."
> **Naomi, lone parent with one child**

Some adjusted their working hours down to ensure they remained under the threshold. Gina who both was employed as a paid carer and received Carer's Allowance for looking after her disabled daughter, juggled variably paid shifts to ensure she earned no more than the work allowance:

> "The work allowance is £334 I believe, so I always try to stay within that range ... I'll literally do like two or three shifts a month and ... that brings me in the work allowance... I've got like an app... a bit [like] Uber .. I'll have a look, see what's there and pick up a shift and work it around... Because of my caring responsibility ... working within the work allowance allows me to do that. So any figure above, then I know that it comes into that taper rate of 55 pence, and they'll take that from the pound and I'll think, do I need to be going to work for £30? ... I go slightly over the work allowance but where it's not impacting significantly."
> **Gina, lone parent with one child**

For claimants normally entitled to the work allowance, more earnings counted in an assessment period than they had actually earned could mean a monthly loss of income of £208 (55 per cent of the lower work allowance) or £347 (55 per cent of the higher work allowance) each time this happened. For participants affected several times during the research, these income losses mounted up.

Self-employed claimants who had been trading for more than twelve months, so subject to the minimum income floor (MIF), were subject to further potential reductions. Deductions for notional profits they had not actually earned could significantly reduce UC entitlement, sometimes by hundreds of pounds each month:

> "My partner's been self-employed for over a year ... with UC they put on an income floor.... that's just what's recently happened. So I think once we've paid rent, we have like £300 left for the whole month ... UC don't support people that are self-employed."
> **Sarah, couple with two children**

Most self-employed participants in this research had not yet fully experienced the impact of the MIF, but several were considering whether remaining self-employed would be a sustainable option for them once their test trading period had expired.

Second earners in couples with children- all of whom were women – whose take-home pay was tapered from the first pound of earnings, were often reluctant to work extra hours. Even with the help they received towards childcare costs, many felt it was not worth them working full time:

> "There's no incentive to work full-time, because I think I worked out ... I would have been £100 better off to work two and a half days more because of the extra costs of childcare, and there's just no point in that. So they're not really encouraging people to work."
> **Ellen, couple with three children**

Some mothers with pre-school children had given up work altogether or were thinking of doing so. Leah, who had three children and worked full time in a rewarding but poorly remunerated job, was considering giving up work until her youngest started school:

> "With what I'm earning now, and what we bring in with UC, come April, with the increase in UC and the increase in [my partner's] wages, if I was to leave work entirely and take the baby out of nursery, we'd only be £40 a month worse off than I am right now. So ... that's part of the calculation ... As much as I love my job ... it's becoming a detriment to family life ... It shouldn't be about the money, but ... why should I ... not be compensated?"
> **Leah, couple with one (then later three) children**

Some fathers, too, had reduced their hours of work to allow for a better work/family balance. Erin's partner used to work 12-hour days and night shifts but switched to a nine to five job to help her care for their three children, two of whom had learning disabilities. Though working fewer hours, with less money deducted from his earnings, she said the family were financially no worse off:

> "He used to work from ... half six in the morning till like half seven at night ... He used to work at nights and everything ... but they [took] loads more money and we couldn't even afford to pay rent because they took that much money off us."
> **Erin, couple with three children**

On the other hand, participants with full work conditionality – including those with older children and single claimants – had little scope to reduce their working hours unless they could increase their rate of pay. Melissa – who had moved from being a full-time carer with variable hours on minimum hourly pay, to a part-time administrative role with a fixed monthly salary – was one of the few who had been able to achieve this:

> "If my wages weren't stable, UC wouldn't be stable, so then everything would be unstable! But because my wages are stable, UC is more stable because they go sort of hand in hand ... My new job helps because it's higher paid and less hours, so I get more time with the kids, which is good and I'm not as stressed because I'm not seeing the kids and I'm working too much ... I have a nice work/life balance and my wage is pretty stable and my UC's stable, so I can budget a lot easier around that, especially in advance because ... I can expect around the same amount every month."
> **Melissa, lone parent with two children**

Her well paid, part-time work topped up by UC, allowed her quality time to spend with her children:

> "Because I'm on my own ... it doesn't pay to work more because ... the amount of time that I work now with the wages I get, I still get UC, which frees up two days a week ... and I'm there for [my children]... If I was to work more, I would lose that time ... and so I'd be working more, I wouldn't get UC but I would still get the same amount overall each month, even though I was working more, so ... there's no benefit of me working full-time ... I worked it out, I would get about the same amount every month, if not slightly less working full-time than I would if I ... stayed working part-time and claimed UC. So that's what I'm doing for now, just to give me that time with [my children]."
> **Melissa, lone parent with two children**

Bridging the gap in childcare costs

For the ten parents who had accessed the childcare element of UC at some point, having to bridge the gap between the financial contribution they received and the actual cost of childcare, also chipped away at disposable income. Prior to claiming UC, most had assumed they would be entitled to receive 85 per cent towards their childcare costs. Many were disappointed to find that earnings could reduce the amount of contribution they received to much less than this. Financial help that fluctuated with earnings and was reimbursed in arrears also made it hard to know whether the amount they were refunded was correct:

> "I was working 17 hours a week and now I work 24 hours a week ... and that was very frustrating .... I never really had a clear information what's going on ... that was very stressful. The fact that I picked up more hours affected the [childcare] element of the UC I receive monthly, so it's dropped significantly, I think [by] about £200 a month ... In January they underpaid me for the childcare ... If I wouldn't have chased, they would probably ... [not] let me know that there was underpayment ... I do always complete my childcare payments on time ... but from their point ... it's quite unsure... and I need to pay for her [out of school] clubs two months in advance."
> **Naomi, lone parent with one child**

Leah was grateful that both her monthly pay cycle and the billing date for paying her childcare fees roughly corresponded to her UC assessment period. Unusually, she also paid her childcare fees in arrears, all of which helped to reduce her monthly outlay and the management of household cash flow:

> "I'm quite fortunate my assessment period is the start to the end of the month ... That works for us because it means that ... when you put your childcare receipts in, you have to have not only paid for but used the childcare ... I don't pay in advance for my childcare, I pay at the end of the month ... whereas a lot of places you've got to pay upfront. So ... when I put my receipts in, because my assessment period starts on the 1st of the next month, I get paid all of my childcare."
> **Leah, couple with one (then later three) children**

However, other were not so fortunate. Naomi was obliged to pay her childcare fees upfront a school term at a time. Reclaiming her outlay monthly in arrears, she was reimbursed "in chunks" over a succession of assessment periods:

> "When she was in pre-school, I was paying for an entire month and it was a very, very simple process to be able to prove I paid for what period of time and how much, whilst now when she's at school, the school term, it's six or seven weeks and ... it doesn't start from the 1st of each month ... Because it falls over more than one month ... they sort of like do it in chunks ... it's very confusing ... plus it would be given to me after she received that care ... I'm just kind of sick of it... it's different every month."
> **Naomi, lone parent with one child**

Knowing that the help she would get towards her childcare costs would reduce with higher earnings had discouraged her from working full time:

> "If I was going to go back to full-time ... it would not really work for me because the amount of money I'll have to pay for my daughter's childcare ... UC would drop dramatically down ... It wouldn't work at all for me ... Sometimes it feels like, why do I even do those hours?"
> **Naomi, lone parent with one child**

Sarah's experiences had put her off using paid childcare altogether. She was not alone. Melissa had given up on paid childcare too. Along with several other mothers, they felt that financial help with childcare costs should be ring-fenced or paid separately from UC:

> "They pay 85 per cent of your childcare but by the time they take into account of your wage and my partner's wage, we have about … £700 odd more taken off us a month. So where they're giving us say £300 childcare, they're taking £700 off us … If they did like a separate payment, I think it would be better … So I've just decided now … I'm going to wait until my little one's in full-time [school], so we don't have to rely on childcare."
> **Sarah, couple with two children**

Deductions for debts and benefit overpayments

Variable amounts taken in deductions for loan repayments, benefit overpayments and third-party debts were another important reason why monthly disposable income was frequently low. Thirty-five of the 42 households had deductions taken from the UC claim at some point during the timeframe of the research. For around a third (15) of households, the deductions had been continuous for the whole period of data collection (13 months in most instances). Half of the households had more than one type of deduction in at least one of the months they provided statements for. As one benefit overpayment, debt or loan was repaid, another took its place. The most common type of deduction was for the repayment of an advance loan or Budgeting Advance (20), followed by 'other DWP benefit recovery' (typically UC overpayments: 19), tax credit recovery (14) and 'other money owed' (typically rent, council tax or utility bill arrears: 5).

The average monthly amount deducted from the 35 participants was £57. Of the 26 participants who provided at least 12 months' worth of UC statements, the average amount deducted in total over the whole year was £711. Four of the 26 households who provided at least 12 months of UC data had annual deductions totalling over £1,500 and seven had annual deductions over £1,000. The highest annual amount deducted was £1,785.

Having a sizeable amount regularly deducted from the monthly UC payment made the task of managing a tight household budget tighter still:

> "That deduction … it kind of messes up your whole budget. I mean you're on a really tight budget, losing [that] amount is a bit of a nightmare."
> **Rachel, lone parent with one child**

Working claimants are also subject to different rules in respect of the maximum monthly amount that can be deducted. Variations in earnings can, moreover, generate variable deductions. When Leah's partner had his wages double counted in one assessment period, their tax credit overpayment deduction that month increased from £5 to £131:

> "[My] overpayment of Tax Credits from 2011 … I've been paying it off like £5 a month for the last God knows how long … and they chose this month to take £131 out of my UC! My wages have been the same …but they've counted eight weeks' worth of [partner's wages] … I did put a note on [to say] …'this month … you've done two lots of wages, and you've also taken another £130 quid off me for a debt which is only £150, like why have you taken so much?'"
> **Leah, couple with one (then later three) children**

When Stephen received a lump sum of holiday pay in his wage packet, he too found that the monthly amount taken in UC deductions rose:

> "In October … they took into account the £551.89 … holiday pay … the Tax Credits [repayment] went up to £92.76 … so they've took more money off me again, off my wages … I got penalised again!"
> **Stephen, couple with no children**

Some participants had deductions for debts that dated back decades and about which they had little or no information. Deductions for historical benefit debts inherited from a partner were particularly hard for affected participants to accept:

> "There's … a budget crisis payment I think, that's coming off … That really gets my goat that one, because those were historical debts that [my partner] owed. Some of them pre-date before we even got together … I'm responsible for his debts from years ago!"
> **Emma, couple with two children**

Struggling to pay her bills, and with school uniforms to buy, Jennifer requested to defer her tax credit debt repayments to allow her the breathing space to catch up with the arrears.

> "This month I've had to purchase school uniform for two kids, so I did actually contact them … the on-line chat, and asked in my journal if I could take a break of paying them the next few months."
> **Jennifer, lone parent with two children**

She came to regret the decision. When the repayments resumed three months later, the amounts taken in deductions had more than doubled:

> "The Tax Credit recovery has almost … doubled … I actually asked could I take a break in paying them back, which they allowed me to take a three-month break. But it's not really worked in my favour because I took a three-month break from them and … they've just upped the amount they've taken"
> **Jennifer, lone parent with two children**

Others found that, because they had earnings, their requests to reduce or defer deductions were refused:

> "I've asked them to try and maybe reduce my payments off my advance because I'm struggling because one month my washing machine had broken down, so I had to replace my washing machine and basically they said because I'm working, they can't reduce it."
> **Mia, single claimant with no children**

The refusal on the grounds of working was particularly galling for Mia; her earnings were above the threshold of entitlement for an interest-free budgeting loan which could otherwise have helped to spread the cost of replacing her washing machine.

UC errors and underpayments

Monthly income was sometimes unduly low as a result of UC errors and underpayments. Several participants were missing UC elements they should have been entitled to, or had had their UC award incorrectly reduced. With Carer's Allowance treated as unearned income, claims which generated backdated lump-sum payments often resulted in a large UC overpayment. When this happened, a monthly amount would be deducted from the UC award until the overpayment was repaid:

> "When [my mum] was granted PIP, I then applied for Carers Allowance, and the Carers Allowance was backdated since the date that she applied for PIP, so it created a benefits overpayment ... When we stop paying this advance now next month, they will deduct the money for that overpayment, I think it could be up to 25 per cent of the standard allowance."
> **Zoe, lone parent with one child**

However, whereas deductions for UC overpayments are automated, refunding underpayments for missing elements of UC are not. Moreover, the onus is placed on the claimant to identify errors and have them corrected. Claimants in receipt of Carer's Allowance, for example, are entitled to the carer's element of UC. However, the UC system does not automatically recognise when claimants become carers. Claimants themselves must identify the date from which the missing benefit or element applies and claim any underpayment they believe they are entitled to. Several participants who were repaying a large UC overpayment due to receiving a lump-sum payment of Carer's Allowance, unknowingly missed out on the backdated carer's element – which would have effectively cancelled the loss- because they were unaware they had been underpaid and needed to challenge the decision. As highlighted in our previous research[76], some claimants who were unaware of their entitlement to Child Benefit missed out this payment because there is no automatic verification of entitlement for families in receipt of the UC child element.

In another instance, the unexpected arrival of twins after Amy and Paul had already had two children meant they qualified for an exemption to the two-child limit under the 'special circumstances' exception[77]. The error having been identified by a researcher working on this study, the couple claimed the underpaid child element and were refunded a backdated payment of £8,900. Though delighted with the outcome,

76 See https://www.bath.ac.uk/publications/uncharted-territory-universal-credit-couples-and-money/attachments/Uncharted-Territory-Universal-Credit.pdf

77 Once of several exceptions to the two-child limit, an additional child element is payable for a third child born as part of a multiple birth.

had they not been involved in the research, the underpayment may not have been identified. Even then, it took several attempts for the mistake to be rectified:

> "They sent us a … link in the journal and then we couldn't get on to it, so we had to ring up UC and then they said, 'oh congratulations … you're owed three grand' … The next day we rang the bank and it was like eight grand! So I think they got it wrong again."
> **Amy, couple with four children**

Researchers also identified that Stephen and Vanessa's non-dependent adult deduction had been wrongly applied. This was because the amount of housing allowance they had been awarded had already been reduced to take account of the fact that their adult son was on the tenancy agreement and contributed to a paying third of the rent. When made aware of the error, even though the underpayment amounted to several hundred pounds and was ongoing, they were reluctant to challenge the decision in case it "rocked the boat" and stopped the UC payment they were currently getting.

The two-child limit, benefit cap, sanctions and closed claims

Five families had reduced household income due to the imposition of the two-child limit. Angela and Nick had three children with disabilities, all of whom had been awarded DLA. While the couple received the disabled child element for all three children, the UC child element had only been awarded for two, the logic of which they struggled to understand:

> "The child element, yeah, we only get two out of the three but we get three out of three for the disability element … I thought if you got the disabled element you got the standard children's element but … I don't know how UC works to be honest, it's so …confusing."
> **Angela, couple with three children**

Four households were also subject to the benefit cap at least once during the research. Sarah and Tom, whose variable household earnings were very low and dipped below the threshold several times during the period of data collection, lost a total of £475 in UC entitlement. Not only did they experience a loss of income, but the timing and amount of reduction was hard to predict and manage. They found the rules governing the benefit cap for those with low and fluctuating earnings particularly hard to understand:

> "The benefit cap's applied and sometimes it's not … It's when he's earnt a certain amount in a certain period of time, isn't it, and then they put the cap on … which I don't understand because if you're entitled to that, you're entitled to it. I don't get how all of a sudden they're like, no we've paid you too much now, so we're going to take this off."
> **Sarah, couple with two children**

Two families with children were also sanctioned during the course of the research. Jasmine, a lone parent with an eight-year-old child, was sanctioned four times for varying amounts: £223, £335, £44 and £308. Her poor level of English meant that she struggled to understand the work-related requirements she was obliged to meet. Three sanctions were due to arriving late for meetings with her work coach, another for failing to attend an appointment:

> "My son [was] sick … and I'm calling, I say, OK, I'm not coming today because my son is sick. They say, yes, OK, don't worry, everything it's fine. And after, I [was] looking [at] my payment … I'm calling and explain the situation and she says it doesn't matter. …And [they] charge me, it's £330."
> **Jasmine, lone parent with one child**

Ruby and Arthur, a couple with two children, were also sanctioned when Arthur failed to attend an appointment. They had tried unsuccessfully to register Arthur's new mobile number using the online system and a text with a date and time to attend a meeting with his work coach was sent to his old number. Even though it was a joint claim, Ruby received no notification either. The hardship payment of £60 they were awarded, and which had to be repaid, provided little compensation:

> "My partner had problems logging on to his journal, UC wouldn't change the number over the phone… and they were supposed to let me know on my journal about appointments and I didn't receive a notification … That's why we received a sanction … We just had to get by … [We got a hardship payment] … but that was only £60."
> **Ruby, couple with two children**

Heather's UC payment stopped suddenly when she failed to attend an interview, but she was seriously ill in hospital at the time; something she says the DWP were aware of:

> "They knew I was in hospital, but they stopped it. So I had to make a new claim and I had no money, so I had to take an advance for food … Because I didn't attend an interview."
> **Heather, single claimant with no children**

Loss of entitlement to council tax support

For many participants, monthly disposable income was lower than it might have due to the eligibility criteria for council tax support for working households[78]. Though their low earnings entitled them to UC, few participants were entitled to help with council tax on the grounds of low income:

> "The stinger really is council tax isn't it? Because obviously … yes I work and yes I'm entitled to UC but I still pay my council tax [in full] … It's still a lot of money."
> **Lisa, lone parent with one child**

78 Local authorities are responsible for administering their own Council Tax Reduction Scheme based on different eligibility criteria, including the maximum net earnings before entitlement is reduced or lost.

Those required to pay full council tax from net earnings reduced by the UC taper felt they were little better off in work:

> "It's not like he's earning a fortune. Once you take off council tax and that, you're not actually any better off and.. then you lose certain entitlements to other things .... I think that's wrong. Anyone under a certain threshold should still get those."
> **Emma, couple with two children**

People with fluctuating earnings could find themselves eligible for a reduction in some months but not in others, generating monthly council tax statements, variable direct debits and continuously adjusted payment demands. A small increase in earnings of just a few pounds could mean the entire loss of entitlement:

> "If I didn't work at all, I would have full council tax benefit, but because I work, even just those few hours, it changes each month ... Even if my wages change by £10, that little amount, I will still have a new award through the door each month ... it's really, really confusing and ...really difficult to budget ... It literally fluctuates every single month ... My wages are pretty steady ... but it only takes for sometimes an hour or two's overtime for me to lose it and they have to readjust."
> **Zoe, lone parent with one child**

Gina found herself in court for council tax arrears after losing her entitlement to support as a result of receiving two pay packets within one assessment period:

> "At Christmas ... in my assessment period ... it looked like I had ... two wages in January. Subsequently that impacted my council tax support, so whereas council tax bill would usually be £258, it's now £1,200 because it looks like I earned more, and that's simply because of the assessment period."
> **Gina, lone parent with one child**

Loss of entitlement for council tax support after tax, NI and the taper had already been reduced her earnings, left Phillipa questioning whether it was worth her working at all:

> "They take off 55p every pound [of earnings] but then on top of that ... I start to have to pay council tax as well. It's not full, but it's graduated, but I don't understand ... how they work that out, but I honestly wonder if it's worth me working at all by the time I factor in the council tax ... Before Christmas I did a couple of bits of training which all got paid at once ... and then they charged me £191 in Council Tax that month ... That's more than I was paying before I was on UC!"
> **Phillipa, single claimant with no children**

Sarah and Tom lost their reduction in council tax because, as self-employed claimants, the use of UC's minimum income floor (MIF) significantly over-estimated their earnings:

"I'm trying to look for a part-time evening job at the minute because my partner's been self-employed for over a year. Once that year ended, with UC they put an income floor, that's just what's recently happened ... So I think once we've paid rent, we have like £300 left for the whole month and because they're saying we've earnt this much now, we've lost the council tax reduction, so it's full whack."
Sarah, couple with two children

Nor had working participants generally been able to access discretionary help from the Household Support Fund (HSF)[79]. Emma and Andrew were moving house and struggling to pay their relocation costs. Having approached their local council for help, they were turned down because Andrew was working:

"They always say ... go to your local council if you're short, but they won't help you, no ... When I moved here, they wanted nearly £500 off me upfront, even though I was going from one [social landlord property] to another ... My brother lent it to us."
Emma, couple with two children

It was not just the claimants' earnings, moreover, that could reduce entitlement to council tax support. Stephen and Vanessa shared a flat with their adult son. When Stephen was obliged to give up his job due to ill-health, the couple were awarded full council tax support. Several months later, they received a letter informing them that they had serious arrears. The non-dependent deduction had not only reduced the housing element of their UC payment, but because their son was working, they had lost their council tax reduction as well:

"The biggest shock we've had ... last month was we've got to pay £80 a month council tax ... [neither me nor my wife are working at the moment] ... but my son is, so they've taken it into consideration."
Stephen, couple with no children

Loss of entitlement for free school meals and uniform grants

Working parents with school-aged children could also lose entitlement to free school meals and school uniform grants. In the past, Jennifer had been eligible for a school uniform grant on the grounds of low income. Now working, she was no longer entitled to the help due even though her earnings were low:

"I did actually phone the council ... I said you know I've got a six year old and a sixteen year old, they both require full school uniform, but they just said there's nothing they can do ... it's means-tested."
Jennifer, lone parent with two children

79 For further details about the HSF, see our Policy Brief exploring participants' experiences of government cost of living help. https://www.bath.ac.uk/publications/universal-credit-working-claimants-and-the-governments-cost-of-living-support/attachments/Universal_Credit__Working_Claimants_and_the_Govt_s_Cost_of_Living_Support.pdf

A change in monthly earnings, moreover, could trigger a reduction in entitlement across several different schemes. When Sarah's earnings increased one month, she simultaneously lost entitlement to free school meals, council tax support, a school uniform grant and Healthy Start vouchers:

> "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 earnt 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."
> **Sarah, couple with two children**

With the cost of childcare added into the calculation, the loss of entitlement to this help meant that the family was actually worse off when Sarah was working than when she was not. She subsequently made the decision to give up her job until her youngest child started school:

> "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, couple with two children**

Loss of entitlement to help with health-related costs

People living in Scotland and Wales do not pay for prescriptions, irrespective of their income. In England, the help is means-tested and only certain categories of benefit claimant are entitled. Participants here felt that information about who was entitled to help with NHS-related charges, and the different earnings thresholds, were not clearly communicated:

> "You're allowed to earn up to about £350 [per month] ... after that you've got to pay for your prescriptions ... but nobody can tell me what the threshold is for dentist. Not even the dentist can tell me!"
> **Emily, couple with two children**

Those with variable earnings could find themselves eligible for help in some months but not others. Melissa had wrongly been fined for claiming free prescription charges when she was, in fact, eligible. Although the mistake was later corrected, she had the inconvenience of having to prove her entitlement:

> "There was one time I got a fine for claiming a free prescription when I wasn't entitled, which wasn't true. I had to ... send them my UC letter to show that for that period I actually was entitled ... I queried it and ... they said send your UC statement and I did, and they said that it was a mistake... I think [the fine] was £50."
> **Melissa, lone parent with two children**

Unable to afford the cost of prescriptions, some participants were obliged to wait until their earnings dipped before ordering medications they had been prescribed. Others had delayed replacing glasses for similar reasons:

> "I had like two months when my pay was low and I got myself a pair of glasses because my earnings were under the threshold ... You've got to be savvy and switched on... Because I hadn't done many hours in work ... I was like, 'oh my pay's been quite low recently, lovely, OK, I can get myself some glasses!'"
> **Lydia, lone parent with three children**

Ruby lost her entitlement to Healthy Start vouchers when her partner started working but was hopeful of having them reinstated after he was made redundant and in between jobs:

> "'Healthy Start' in the NHS ... it's £4.50 per week and you get vouchers towards milk, fruit and vegetables, but you have to be on some type of benefit and your partner or you can't earn more than £400, and because he was working, I wasn't eligible anymore ... Maybe [I'll] get them for the next couple of month or two until he's back at work"
> **Ruby, couple with two children**

No or unreliable child maintenance

Child maintenance from a former partner, received by 11 participants in this research (nine of whom were lone parents and two who had re-partnered), was crucial to the ability of these parents to get by. However, not all of those entitled to child maintenance received it. Only nine of the 17 lone parents in this study received child maintenance. Among those that did, payments were often irregular or low. Claire was not alone in thinking that her payments were much lower than they should have been, given her former partner's earnings:

> "I don't know how much money he's earning, I've got a feeling it's over 50 grand ... And then ... if I think about how much he paid me in child maintenance, it was literally £200 a month ... it's really nothing. ... When we first like separated ... it was like £300 or £350 a month ... and it went down."
> **Claire, lone parent with three children,**
> **then later single claimant with no children**

If their own earnings increased, the amount of child maintenance received could reduce. Freya was expecting a large drop in her child maintenance payment due to a salary increase after being promoted:

> "Child maintenance ... at the moment he pays £676.77 ... it's actually incorrect ... [it's] based on your last P60 and I told them I earn 41[K] but my last P60 said 31 [K] because it didn't [include] my promotion ... so that's going to change because it should be £334."
> **Freya, lone parent with three children**

Though recipients were grateful for the additional income, it was not uncommon for child maintenance payments to be late:

> "Child maintenance … that's two months late … I'm chasing that … My children's dad, he feels it's better to do it in a lump sum, so he'll sort of give me the monthly amount over three months and he rounds it up to like £1,000 … for both children, which I personally don't think is enough … but that was due in June and we are now halfway through August!"
> **Anita, lone parent with two children**

This volatility and uncertainty meant that some parents had a lot less child maintenance in some months than in others, resulting in serious gaps in monthly disposable income.

Debt repayments outside of UC

Legally enforceable debt repayments not deducted directly from the UC payment – including council tax arrears, IVAs (individual voluntary arrangements), attachments of earnings orders and student loan repayments – could also reduce disposable household income. Teresa, a lone parent with significant debt, paid £100 per month for an IVA she set up online. Bankruptcy, a route that some indebted participants had opted for, was also not without its own costs that had to be funded out of disposable income.

Several participants had their wages unexpectedly reduced due to an 'attachment of earnings' deduction, Leah's employer was contacted by UC debt management to set up an attachment of earnings to repay a modest tax credit overpayment. Had they informed her about the debt, she would happily have agreed a payment plan. The approach to her employer, without her knowledge or consent, was not only embarrassing, but she was perfectly willing for the amount owed to be deducted from her UC payment:

> "I've got this debt from Tax Credits from twelve years ago, which drives me mad that they're still able to chase that … they didn't even tell me about until last year …I pay tax every month, you know what I mean -the government's got my details! It was embarrassing more than anything …I rang work and … I was like do not do anything with it …let me sort it … they've made a mistake … It was about 200 quid, it wasn't a massive amount, only a small overpayment."
> **Leah, couple with one (then later three) children**

Contacting employers 'behind the backs' of claimants was particularly irksome for those, like Kate and Neil, who were negotiating repayment plans with their creditors:

> "The council tax arrears all come out of attachment of earnings off [my partner's] wages … it was quite a lot … One week … he earnt £900 because he did overtime … and I think they took about nearly £300 off him … We were just in the process with CAB to set up a payment plan with them for the arrears … and then two days later we got a letter off the council saying they'd started attachment of earnings and by law the employer had to do it."
> **Kate, couple with two children**

The amount by which wages were reduced, moreover, was added back into net earnings for the purposes of calculating UC entitlement, as though the attachment had not in fact been made:

> "The attachment of earnings that were coming off wages were not took into account by UC. I checked it … they don't account for attachment of earnings."
> **Kate, couple with two children**

Repayment of student loans, which also reduced net pay, was similarly added back into participant's earnings for the purposes of calculating UC entitlement:

> "So UC … they say what your employers have paid you, don't they, every month? So like last month they said my employer's paid me £865 … What they're doing is adding on my student loan … so actually I didn't get paid that, I actually got paid £42 less …every month I get paid £42 less than what UC state that I get paid and that's basically because of my student loan."
> **Teresa, lone parent with one child**

Repaying council tax arrears and student loans from earnings left these participants with much less money to live on than might appear when looking only at their net pay and UC entitlement:

> "[UC] were … saying we'd had that money when we hadn't, because it had gone on a debt. So it's like we truly didn't have to live on what people were saying we did have to live on."
> **Kate, couple with two children**

Reductions by stealth

Although the amounts were not large, receipt of an increase in UC as part of the annual process of benefit uprating was delayed for some claimants by the interaction between their monthly assessment period and the date of the rise. The annual benefit uprating for Universal Credit, which in 2022 dated from 9th April, meant that claimants whose monthly assessment period started before 9th of the month could wait until June before the rise took effect:

> "Even though it's supposed to have gone up a bit … from the last Budget, I still haven't had a raise in my payments yet, because of the way they've calculated it … depending on the day of the month that they pay it. Although the uplift in it was supposed to start from April, somehow they've managed to not pay it for most people for a couple of months … I'm still waiting and I won't get the full uplift till this next payment [in June]… It is a bit of a con."
> **Phillipa, single claimant with no children**

The experience and frustrations of managing income that often fluctuated in unpredictable ways was very apparent in these accounts. Some people did seem to learn how to get to grips with the system over time. but this could take several months, even longer, as they experienced how UC interacted not just with earnings but with other benefits and changing circumstances. And people could not foresee in advance the importance of the day in the month that they started their claim.

On average, for the sample as a whole, the monthly loss of household income arising from the difference between UC entitlement and the UC payment as a result of deductions for earnings, benefit and tax credit overpayments, arrears and debts, loan repayments and other reductions, was £562. This, in combination with low hourly pay and earnings, high housing and childcare costs and loss of entitlement to council tax support, meant that few households in this research had levels of disposable income that stayed high enough for long enough to allow them to save or set aside funds. This caused not only budgeting difficulties but could impact on employment decisions. It is to these issues that we now turn our attention.

9

Responding to low and variable household income

Responding to low and variable household income

This chapter explores how participants responded to low and variable monthly household income, whether they were able to save and set aside money to generate a buffer or financial safety net, and the budgeting strategies used to manage fluctuating payments, plug gaps in income and get by.

Ability to save and set aside income

In the main, participants in this research were highly resourceful, using all the tools available to them to ensure rent and essential bills were paid and that borrowing and debts were minimised. However, some managed better than others and only 11 of the 42 households had any savings. Not unexpectedly, those better able to save and set aside income had higher and more stable earnings from jobs paying above the minimum hourly rate. Some were also getting a higher benefit payment on Universal Credit than when they had been claiming tax credits:

> "Previous to UC I was on Tax Credits, so I was on a lot lower, so going over to UC, it is an added bonus for me, it's an extra ...£200 and something a month ... that is how ... the gas and electric are covered because I've got an extra income by just changing to UC."
> **Lisa, lone parent with one child**

Nine of these participants had opened a government-sponsored 'Help to Save'[80] savings account which was said to be a very useful and generous scheme for incentivising and rewarding saving:

> "I'm on a Help to Save ... and I'm due to some bonus ... I set up a direct debit for £25, because that was the maximum I could save. ... in July after two years of saving ... I'm going to have £600 savings and [a bonus of £300], so that will be nice ... I'm just going to use it for paying for the school holidays."
> **Naomi, lone parent with one child**

80 Help to Save is a government-backed savings account that allows certain low-income people entitled to Working Tax Credit or Universal Credit to receive a bonus of 50p for every £1 they save over four years. Account holders can pay in from £1 up to £50 per month and bonuses are paid in the second and fourth years.

Though the amounts saved were typically modest, the money allowed people to pay for repairs or to replace white goods, for example, without having to use credit cards, overdrafts or other forms of borrowing:

> "I'm using the government Help to Save scheme, and I think I've saved £400 or £450 in that … So I have got a little bit of savings. I know it's not a lot, but it would buy me a new washing machine if I needed it."
> **Grace, lone parent with two children**

However, levels of awareness about Help to Save were low and the earnings rules restrictive. Most participants who had an account had found out about the scheme informally, via social media:

> "Someone mentioned it on Facebook … I've never had a call or any e-mail [about it]"
> **Naomi, lone parent with one child**

Some of those who knew about it were unable to benefit because they earned less than the monthly threshold of £722.45[81] needed to open an account. Others were unsure if they met the eligibility criteria:

> "I've heard of it, I don't think I earn enough … you have to earn £600 … Because I'm self-employed, I don't really know for sure whether that's just income or whether that's profit."
> **Phillipa, single claimant with no children**

Erin and Max were unaware of Help to Save. Instead, the Child Benefit they received for their three children was paid directly to their local Credit Union. The money repaid a rolling annual loan used for the purchase of Christmas and birthday presents each year that they would not otherwise be able to afford. However, the loss of this income from the family budget meant that, although Max worked full time, the family was barely able to cover the essentials. Like many other working families, only by living frugally did they manage to get by:

> "I can wear holes in my shoes, as long as they're respectable … some people go out, we don't even go out … as a treat for the kids, [we] have a takeaway if we've got the money … We don't smoke … we don't go out, we don't do nothing."
> **Erin, couple with three children**

Others used disability benefits to pay for expenditure they would otherwise have struggled to meet without having to borrow:

> "I've just had to fork out 200 quid for new tyres … I've got to do the MOT … the beginning of December, which I'll have to use my PIP money for."
> **Emily, couple with two children**

81 UC claimants need to have had take-home pay of £722.45 or more (with a partner if it's a joint claim) in the previous monthly assessment period to be eligible.

Reliance on income from other benefits

Though intended to cover the extra costs of disability, the additional income from non-means-tested benefits such as PIP and DLA, together with benefits such as Carer's Allowance, allowed several households to get by and even to save:

> "We're not using the PIP for maybe what we should be using it for but it's helping us survive ... Because of the PIP, usually we've got a little bit left over we can save. But if we didn't have disabilities, we'd be screwed, which is really sad."
> **Ellen, couple with three children**

Angela's partner worked 60 hours per week and received PIP due to his epilepsy. Their three children had learning disabilities for which the family received DLA and Carer's Allowance. The family's disability-related benefits, she said, were crucial to their ability to manage and get by:

> "We couldn't survive on just [my partner's] wage and UC. If we weren't getting DLA and Carers and that, we would not be able to survive."
> **Angela, couple with three children**

Not only did these benefits provide much-needed additional income, but unlike Universal Credit, they could be relied upon:

> "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 is, and what my Child Benefit is. They're exact every month ... I don't know what UC we're getting from month to month."
> **Angela, couple with three children**

With savings they had set aside, they were able to pay for a roof repair without having to borrow the money:

> "I manage to save each month, so we have a pot for [unexpected costs] ... We save £100 a month ... so if something major happens I've got money there ... That £750 in that account is my safety net, if anything goes wrong ... that's what it will come out of ... We've got two leaks in the extension roof that needs fixing, so that's costing us £650 for that."
> **Angela, couple with three children**

Also key to keeping their heads above water was having a modest and fixed rate mortgage, together with fixed tariffs on their utility bills, both of which had several years to run:

> "I don't know what I'd do if my gas and electric or my mortgage wasn't fixed. We probably wouldn't be able to live. I don't know how people do it."
> **Angela, couple with three children**

In spite of this, the family still regularly dipped into their overdraft facility at the end of the month:

> "We're normally always in the overdraft, apart from when we get … DLA or Child Benefit… there's a two week period where we get all our benefits [including UC] and then there's two week where we get just Carers [Allowance]."
> **Angela, couple with three children**

Living in the devolved nations

Some families had access to additional income, or had more disposable income than their English counterparts, by virtue of living in the devolved nations. Claimants in Scotland and Wales do not pay prescription charges, nor do Scottish residents pay water rates. Best Start grants, payable for new babies born in Scotland and when children reach the age of two and five, and the Scottish Child Payment, a means-tested benefit introduced in 2021, also helped to supplement the incomes of families with dependent children. Originally set at a rate of £10 per week per child aged five and under, in 2022 the Scottish Child Payment was extended under all children aged 16 and under, and the payment was increased to £25 per week. With no limit on the number of eligible children, it provided a sizeable boost to family budgets:

> "We've got something called the Scottish Child Payment … It's for children under five, but … from October … it's going to be rolled out to every child under sixteen in Scotland … up to £25 a week … so it does make a big difference … it gets paid every fourth Monday and … it will cover stuff that you otherwise wouldn't be able to afford."
> **Megan, couple with two children**

Some participants in Wales had also been able to access additional financial help including an unpaid carer's grant worth £500, a winter fuel payment of £200 and a learning grant. The schemes were means-tested, so only available to those with no or very low earnings, but the amounts awarded were disregarded for the purposes of UC assessment. Lydia, a lone parent with three children, who was studying while working part-time, had been awarded a grant worth £3,000 per annum payable for the duration of her six-year course. With no spare income available to save, it meant she was able to get by without sliding into debt:

> "If I hadn't had my student grant … it would just have to have gone on a credit card … because … there's no room to save in the pot … especially when it's three children … it's £3,000 a year … It's a Welsh thing, yeah, English students don't get it, it's brilliant. It depends on my household income, so when I was with my husband I wouldn't have been able to get it."
> **Lydia, lone parent with three children**

Borrowing from family and friends

Easily arranged and interest free, borrowing from family and friends was commonly used to help plug monthly income gaps:

> "If we're really stuck … [if we] take the car for a service or whatever and it's more expensive than we anticipated, I can usually get some help from mum and dad, so we're quite lucky in that sense that we don't have to get a credit card."
> **Ian, couple with three children, then single with no children after they separate**

Informal borrowing was often the only option open to people who had no access to credit or who would struggle to afford loan repayments:

> "I don't have any credit cards, don't have an overdraft … If I need anything, I might just borrow … off family or friends."
> **Caroline, single claimant with no children**

However, not everyone was able, or willing to access loans from family or friends. Some only felt comfortable borrowing small amounts that could be quickly repaid:

> "My mum offered to lend me some money for my new glasses … and I've had to turn it down because I don't know … if I'll be able to ever pay her back. And I don't want that over my head."
> **Emily, couple with two children**

Claire, a lone parent, whose UC payment dipped after Christmas due to being paid early in December, felt bad about asking her father for help, but said she had no choice:

> "He knows exactly what situation I am in and … how unfair that is … I asked [my dad] this time because it was a very difficult time to have to experience that very low UC in … January … financially speaking."
> **Naomi, lone parent with one child**

If large amounts were needed – to replace a car or washing machine, for example – bank overdrafts or credit cards might be used, if participants had them. However, though providing a short-term solution, in the longer run, this form of borrowing could be costly to service. Zara's overdraft repayment swallowed up the couple's entire UC payment each month:

> "[The overdraft] it's £600 … so when the UC comes in … that clears it completely."
> **Zara, lone parent with one child**

And while borrowing money and using overdrafts or credit cards helped people address an immediate financial need, loans still had to be repaid. Leah needed a car for work and when it needed replacing, borrowed the money from her father. Once her rent, essential bills, childcare costs and car loan had been paid, she had virtually nothing left from her full-time earnings:

> "I'm not going to have a surplus by the end of today and today is payday! ... I pay my dad £200 a month ... He bought us a car."
> **Leah, couple with one (then later three) children**

In the months when monthly outgoings exceeded income, Emma, like several others, was forced to borrow money for essential household expenditure:

> "I'm not borrowing money to go out partying ... or get my hair done, I'm borrowing money for essentials, like gas and electric. I'm not feckless with money... it's just that I just don't have enough money to get by."
> **Emma, couple with two children**

But it was a slippery slope. Participants with low earnings and insufficient household income to cover their regular monthly living expenses found it hard to clear debts, trapping them in a perpetual cycle of 'robbing Peter to pay Paul':

> "My partner's dad gets paid two weeks' time ... if we can get till then, we can just borrow a little bit of money off him to get our food shopping ... but you're always robbing Peter to pay Paul ... And borrowing means that we're down for next month when we pay that off ... so we kind of chase our tail ... We've borrowed this month so when UC payment comes in ... we've got to pay [that] back, and then we're likely to borrow again till the end of the month to get to my payday."
> **Jake, couple with two children**

Increasing indebtedness

Borrowing to cover essential living expenses could, in turn, lead to chronic indebtedness. Around half the participants said they had serious debts or arrears they were struggling to repay. Inability to make up the shortfall between the UC housing element they were entitled to and the rent and council tax they had to pay, was a common reason for why debt accrued:

> "I borrowed [money] from everybody. I was like just basically not spending any money on anything and just putting all the money that I was getting towards rent. And I borrowed from like his parents, my mum ... my sister ... so I managed to get that paid so we didn't get thrown out the house ... but I just didn't have the disposable income."
> **Rachel, lone parent with two children**

If disposable income was particularly low one month, council tax and water bills would often remain unpaid until sufficient funds – from earnings, UC or further borrowings – were available again. Naomi, in common with several others, had received no annual pay rise from her employer. She used her overdraft to help manage the monthly deficit between her income and outgoings:

> "I'm pretty much always in some sort of overdraft. This month, I've actually increased it from £200 to £300 because of the … cost of living going up, and then … being informed by my employer that there is … not going to be any pay rise … The minimum wage now, it's risen up to £10.42 and I earn £10.92 … it's 50p difference but it's just really, really depressing."
> **Naomi, lone parent with one child**

If income did not subsequently rise, or rose by a smaller amount than anticipated, or if monthly outgoings increased by more than was budgeted, debts could grow:

> "[I] just go in more debt basically … Not pay electric for one month or something or not pay water … You're sort of behind then, aren't you? … It is accumulating and it always has been … All the prices … it's escalating for everybody, isn't it? But yeah, I'm not able to catch up, I'm not in the position … to catch up at this time."
> **Teresa, lone parent with one child**

Some participants had pre-payment meters which could be topped up when funds allowed. Others cancelled direct debts which had become unaffordable, paying what they could "as and when." Failed direct debit payments due to insufficient funds could incur costly bank charges. Leaving certain bills unpaid, on the other hand, allowed for flexibility. However, arrears could quickly accrue:

> "I've stopped the direct debit and just pay what I can as and when … [I'm in arrears] probably about £3,000 now .. [I'm going to] see if there's any charities out there … to help … I'm going to have to see if I can work out a plan with the utilities."
> **Teresa, lone parent with one child**

Among the large number of working participants obliged to pay full council tax, several struggled to meet the monthly payments on time. Some who had previously paid by direct debit now paid as and when they could afford to:

> "My main worry is I never manage to pay Council Tax on time, because 157 quid is quite a lot of money to have in your bank. It always falls on the 15th … and it's always a day when I don't have it. So what happens is then they send a letter and then you have to go and pay it manually, or I can pay it on-line. But I never got any extra money anywhere … [When my partner] wasn't working it was 43 quid a month but 157 quid a month's … different."
> **Emma, couple with two children**

Several participants with large debts they could no longer service had taken out IVAs (individual voluntary arrangements), but the repayments could be costly, further reducing monthly disposable income. Though the amounts participants were required to repay were generally less, debt relief orders (DROs) which some had set up with the help of a debt relief charity, also needed servicing from monthly disposable income.

Budgeting loans and changes of circumstances advances

UC claimants with no savings who need to pay for large or expensive household items may be entitled to a Budgeting Advance (also called a budgeting loan) or Change of Circumstances Advance[82]. The 13 participants who had taken out a Budgeting Advance (for all but one, this was prior to the research) found them easy to arrange and very useful, especially when compared with costly, interest-bearing alternatives (assuming they could get them, which most could not). However, most working participants in this research were ineligible for a Budgeting Advance due to having earned more than £2,600 (£3,600 jointly for couples) in the past six months.

As well as being interest free, those who had received a Budgeting Advance liked that fact that the loan repayments were deducted directly from the UC award, rather than payable from disposable income:

> "There's no interest on it, and it's paid to you in cash, I think it's a lot easier than trying to get a loan from the bank … or even just going for interest free credit with the retailer …It's taken straight out of your UC, it's not another bill, if that makes sense? … You can budget your money that you get each month as opposed to seeing the money and then taking [the repayments] out of it."
> **Zoe, lone parent with one child**

Others, worried that, even with no interest to pay, they might struggle to manage on a lower monthly UC payment:

> "We would have probably just ended up struggling to pay it back or struggling with money for a few months."
> **Ellen, couple with three children**

Budgeting Advances were used mainly as intended – to fund the replacement of white goods, pay for car repairs and cover household emergencies. However, in some cases, the loans were being used to plug gaps in essential monthly living expenses:

> "We pay £37 a month for a budgeting loan, which we've got our final payment next week and … We could … ask for another one to bridge the gap for the cost of living … With the food prices going up, the electric prices and stuff like that … it's either that or borrowing off my son."
> **Stephen, couple with no children**

One household had a rolling budgeting loan that they renewed each year, applying for a new one as soon as they had paid off the previous debt:

> "Every May we get a loan off them, well we have done for the last few years, and then we pay it back over the year … so it's an ongoing thing."
> **Emma, couple with two children**

82 See *The policy intent* (p6) for eligibility criteria.

Compared with Budgeting Advances, Change of Circumstances Advances were not widely known about or publicised:

> "You're telling me information that I haven't known about, change of circumstance, I didn't know anything like that… I didn't know this change of circumstance, no, I wasn't told anything like that … it's not like I got a letter."
> **Ruby, couple with two children**

When she investigated further, Ruby was perplexed as to why a Change of Circumstances loan was only open to claimants whose UC payment was increasing:

> "Now why is it you only can get that … when your money goes up, not down … that's when you get [it] … the opposite of what should happen … Is that strange? It's been actually on Facebook … That's not fair because … the business [my partner] was working for … it's closing down …He's not entitled to anything … You'd think they'd give everyone the opportunity, whatever decrease, increase there is."
> **Ruby, couple with two children**

Some also queried the contrary logic of the eligibility criteria for budgeting loans which debarred all but those with no or very low earnings from accessing them. Claimants with the lowest incomes – who might struggle to afford the monthly repayments – were eligible, while those whose earnings were low enough to claim UC but above the (low) threshold of entitlement for a Budgeting Advance, were not:

> "If I didn't work, I would still be entitled to it, but I don't think I'd have £68 spare to pay them back …whereas … it's not open to people who earn … roughly £420 a month … If you earn more than that, you're not then eligible for it. Which is ironic really because they're the people who would be able to afford it, but obviously need the help because they're claiming UC anyway … That's a bit of a flaw in the system – that you've got to be on really little money or no money in order to get it."
> **Zoe, lone parent with one child**

Sarah, who had recently left her job, was unable to access a Budgeting Advance because the earnings threshold was retrospectively applied to the previous six-month period when she had been working:

> "They say we've earnt too much, yet … we've never actually been able to come off UC …. So that just doesn't make any sense to me … Even though at this moment in time I haven't got a job … they base it on the last six months. And I've worked out, I won't be able to claim for it till at least, gosh, about March or April."
> **Sarah, couple with two children**

Overall, participants felt that the earnings threshold for Budgeting Advances was too low and the eligibility criteria unnecessarily restrictive:

> "I don't qualify to get a [budgeting loan] … It would have been really useful … because it's interest free … I'm not on a high income, and I literally I think miss the threshold by something like £20 … In a situation like this for moving [house], it would be ideal … But unless you're working … like ten hours a week, you're never going to be able to qualify for them [when] … They're there for people who don't work."
> **Rachel, lone parent with two children**

Social tariffs and other forms of financial and in-kind help

Some participants had been able to reduce the cost of household bills by accessing the help on offer from utility companies and local councils. However, levels of awareness about social tariffs and other similar help was low and eligibility criteria restrictive, in some cases debarring all but the poorest and most vulnerable households. With the exception of the Warm Home Discount scheme[83], few participants had been successful in applying for grants, reductions and discounts on their utility bills. While many participants had received the Warm Home Discount in the past, few had been able to access the scheme of late due to an apparent change in eligibility criteria and application processes:

> "I phoned up British Gas and asked them they said, we're not dealing with it this year … they said it's DWP dealing with it this year. So I went and googled it … and it said, don't bother contacting us about warm home discount, we'll send you a letter to let you know if you're eligible or not … hopefully I'll get a letter soon."
> **Emma, couple with two children**

Several families had had their water rates capped due to having three or more children in the household. Other participants classed as 'vulnerable' or with serious arrears had set up payment plans with water utility companies through 'Water Sure' or similar initiatives targeted on people in financial difficulty. However, the scheme required claimants to have had the support of a debt advice agency like Citizen's Advice, which was hard to come by and needed time and persistence to access:

> "[My] water bill, I only pay £1 a month because I'm on a real cheap tariff … Anyone that's struggling financially get them .. [I got] on the phone to CAB and harangued them until they help you out. … Sometimes it's quite a slow process, so you have to bear with them."
> **Emma, couple with two children**

83 The Warm Home Discount scheme provides assistance with energy costs to low income and vulnerable households in Great Britain.

Some participants with utility arrears had been issued with energy vouchers via their local council, most likely using funding from the Household Support Fund. However, only participants who were unemployed at the time appeared to be eligible; most working claimants who had applied had been turned away:

> "I got £250 off the council the other day on a bank card which poor people … like me are entitled to because we're on UC and [my partner] weren't working at the time. It was just in time … [My partner] hadn't started working when I applied, but if I applied two weeks later, I wouldn't have got it. So I was lucky that someone told me up at the shop."
> **Emma, couple with two children**

For those in employment, finding the time to chase down help from agencies like Citizens Advice was a hurdle that many struggled to overcome:

> "You can get support … but you need an agency to support you to do that, like CAB. Trying to get through to CAB … you're not getting through to them these days … I tried to do the water scheme … but they want to see that a debt the agency has supported you through this to sign it off before they even let you go on their plans… and you can't get through to them and also … I'm working."
> **Teresa, lone parent with one child**

Government cost of living help

For virtually all the households in this research, the ability to get by was boosted by a series of government-funded cost of living payments which provided most households with £800 of additional income during the period of the research[84]. With entitlement automatically assessed and paid on the basis of benefit receipt, all but one participant received the first Cost of Living Payment of £326, in July 2022. This person had unknowingly worked longer hours in the previous month, resulting in a nil UC award during the qualifying period. The extra amount he earned was considerably less than the £326 he would otherwise have received; something he was justifiably displeased about. Had he known that working longer hours would disqualify him for this additional money, he would have turned down the offer of overtime.

All but two households received the £150 Council Tax rebate in May 2022. Nine households received an additional disability-related Cost of Living Payment in September 2022. For most this was a single payment of £150, but for one family with four disabled household members receiving PIP or DLA, the total award amounted to £600. All but six participants received the second Cost of Living Payment of £324 in November 2022. The six had all exceeded the earnings threshold of UC and received a nil payment during the qualifying period, making them ineligible. All subsequently left UC for full time work.

84 Our separate policy brief sets out our detailed findings in relation to participants' experiences of the Government's cost of living payments.

While participants were grateful for the extra income, few were able to save or set aside the money. Rather, the payments were mainly used to help mitigate the unprecedented increase in gas and electricity prices and to cover the rising cost of food. Without these payments, and the extra Government help with energy bills that all households with an electricity supply received, more participants would have fallen into arrears. However, with inflation at a 40-year high, these additional payments made little difference to participants' ongoing ability to manage month to month.

Budgeting, moreover, was often difficult and stressful. For those with insufficient income to cover essential living expenses there was little room to save. And just as monthly income fluctuated, so too did living costs, with 'lumpy' expenses during the year (variable bills, unexpected repairs and white goods replacements, Christmas and children's birthdays) that are not always predictable. Additional income from national (for example cost of living payments) and local government (usually means-tested) was welcomed but discretionary help was often difficult for working claimants to access and did not alleviate the ongoing income shortfalls. Most budgeted carefully but, for many, debts inevitably mounted up. Few were able to meet the policy demands of predicting and managing changes in income and expenditure, and saving to cover variability, month to month.

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Conclusions, policy implications and recommendations

Conclusions, policy implications and recommendations

Universal Credit is a dynamic benefit for people with and without earnings that has been designed to respond swiftly to changes in income, earnings and circumstances, monthly, in real time, helping claimants to budget, reducing errors and overpayments, and incentivising work and higher earnings. However, little is known about the experiences of working claimants or how changes in monthly earnings affect the UC payment, nor the impact on household budgeting and work-related decision making.

Based on the lived experience of 61 Universal Credit claimants in 42 households, this is what our research set out to discover. A particular focus was the monthly means test in which the benefit payment is automatically adjusted upwards or downwards based on a household's reported income and earnings in the previous month. We were also keen to explore whether the assumptions underlying the policy intent and design of monthly assessment match the reality of claimants' circumstances and working lives.

Main findings

Findings show that monthly assessment has made Universal Credit 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 the small number of participants whose earnings and household circumstances changed little during the period of the study, and whose monthly assessment period aligned well with their pay date, Universal Credit functioned well, as intended. However, for many others, fluctuations in UC 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 levels of income mattered a great deal. This was because low levels of household income reduced people's capacity to save or set aside money, undermining their ability to manage month to month payment fluctuations in UC. Low earnings and low levels of benefit payment, reduced by deductions and other policies which cut entitlement, lay at the heart of the financial difficulties which many participants faced. The high rate of benefit withdrawal as earnings rose was also a significant factor in reducing monthly income in working households.

Variability, drivers and effects of changes in monthly household income

The challenges experienced by UC claimants paid weekly, fortnightly or four-weekly have been well-documented. As far back as 2018, the Child Poverty Action Group (CPAG) highlighted the loss of income, budgeting difficulties, and 'rough justice' that some working claimants could experience due to the way in which multiple pay packets could be captured within a single assessment period[85]. Our own, earlier studies exploring the experiences of couples claiming UC, reported similar findings[86]. Evidence from this research reinforces these findings. Participants could experience large fluctuations in their UC payment for no other reason than that the date their earnings were reported as paid, and their monthly assessment period – which had been arbitrarily assigned to them at the start of their claim – were poorly aligned. Households with particularly low earnings, who would have been exempt from the benefit cap if their earnings had been paid monthly, could also lose UC entitlement if the wages counted within their monthly assessment period fell below the level needed to avoid the cap. Had these participants been paid the same earnings calendar monthly, they would not have been affected in this way. Late RTI earnings submissions by employers and payroll and tax code errors giving rise to erroneously high or low reported earnings, were also not uncommon.

Alongside budgeting difficulties, the resulting fluctuations in UC could have serious knock-on effects in terms of the loss of entitlement for work allowances and other means-tested support these claimants might otherwise have been entitled to, including (but not limited to) help with council tax and prescription charges. Participants with variable earnings could find themselves eligible for help in one month but ineligible in the next, adding to income insecurity.

CPAG's successful legal challenge in 2020 resulted in an amendment to the regulations to allow monthly pay to be allocated to the period to which it relates, but the ruling only applies to those normally paid monthly, not to other pay frequencies. We found little evidence that the automated correction that was introduced in August 2021, had filtered through, however. Some monthly-paid claimants in this research were still having to contact the DWP to challenge a lower than expected or nil UC payment following the inclusion of multiple pay packets in a single assessment period. Others, who were unaware of the easement, simply absorbed the loss. Having to absorb financial losses was, in fact, a common theme.

85 https://cpag.org.uk/sites/default/files/files/policypost/CPAG-2018-Rough-justice.pdf
86 https://www.bath.ac.uk/publications/uncharted-territory-universal-credit-couples-and-money/attachments/Uncharted-Territory-Universal-Credit.pdf
https://www.bath.ac.uk/publications/couples-navigating-work-care-and-universal-credit/attachments/Couples_Navigating_Work_Care_and_Universal_Credit.pdf

A payment that frequently changed each month made it hard to know whether the amount awarded was correct, but raising RTI disputes and challenging decisions was burdensome for working claimants. Those whose employer had submitted late or erroneous pay data to HMRC, or suspected their UC payment might be wrong, often acquiesced, personally absorbing any consequential loss that may have occurred through lack of time and attrition.

Actual (rather than simply reported) monthly changes in earnings was another important driver of income volatility; a not unexpected finding for low-paid people working in less secure forms of employment, where hours and shifts may change from one week to the next and people move in and out of irregular work. However, significant month to month earnings variability was found even among the two-thirds of our sample who were employed in relatively secure and steady work. Even those in full-time, monthly salaried jobs were affected. Here, pay spikes were often due to performance bonuses, backdated pay and one-off, unconsolidated pay awards, sometimes in lieu of an annual pay increase.

Our small sample size means that these findings are not generalisable. However, the increasing incidence of monthly pay volatility among the working population more generally is reflected in other research using a much larger and more representative sample. By accessing anonymised bank transaction data of take-home pay, a study by the Resolution Foundation found that pay fluctuations were the norm for the majority of employees, even those with a steady job[87]. As in this research, monthly volatility was highest for people with the lowest pay rates and earning the least. For those in receipt of UC, pay fluctuations were more frequent and volatile still.

Lump-sum payments of wages could elevate monthly earnings by hundreds, sometimes thousands, of pounds, causing UC to plunge or fall to zero in the following month or months. A nil award in the qualifying eligibility period for the Government's cost of living payments could also mean claimants losing out on this extra financial help. Those affected by large spikes in pay would generally have preferred to have had these amounts paid over a longer period, stabilising UC payments, helping to smooth peaks and troughs in household income and minimising reductions in benefit entitlement. However, with one or two exceptions, 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.

The timeliness and manageability of fluctuations in UC

With a self-correcting mechanism intended to smooth and stabilise household income, Universal Credit has been designed precisely to counter the effects of fluctuating earnings. As earnings rise, UC falls and when earnings fall, UC rises. A higher UC payment in response to a fall in monthly earnings was found to be a useful income top-up and effective safety net, cushioning the impact of a drop in pay. This was particularly helpful for those whose working hours could reduce at short notice, people not entitled to employer sick pay and women whose statutory maternity pay had run out. However, the downward adjustment of UC in response to higher earnings could create income uncertainty, budgeting difficulties, and in some cases, serious financial hardship. The reasons were not simply due to the

87 https://www.resolutionfoundation.org/app/uploads/2018/10/Irregular-payments-RF-REPORT.pdf

loss of UC, but that the amount by which UC reduced could be hard to predict and compensate for, particularly if it was large, which it frequently was. Loss of entitlement for UC, and potentially other means-tested benefits, were not easily absorbed by the lowest-earning participants and others who had no surplus or savings to fall back on. Bonuses and higher earnings from working extra hours were typically spent soon after receipt on immediate household needs, leaving affected claimants financially exposed in subsequent months.

Adjustment to the UC payment in response to a change in earnings was also not necessarily as timely as the policy assumes. With both wages and UC paid in arrears, there could often be a time lag of two months or more between working more or fewer hours and receipt of a lower or higher UC award. Higher earnings could therefore sometimes coincide with an increased UC payment, while lower pay could correspond with lower or even nil UC payment, amplifying the effects of pay changes. In such instances, the greater responsiveness of monthly assessment served to accentuate, rather than dampen, income volatility.

People with non-monthly pay whose hours of work varied week to week or month to month were particularly badly affected – obliged to juggle two sets of income uncertainty each month; earnings and the UC payment. In two-earner couples working variable hours and with different pay frequencies, the effects could be multiplied. A change of circumstance added to the mix could increase the uncertainty further. The 'whole month' approach to needs assessment meant some participants received more or less UC than they needed or were expecting to cover their monthly outgoings. For working parents required to pay childcare fees in advance, but whose childcare costs were refunded in arrears and tapered with earnings, variability in the UC monthly payment could become unmanageable. Compared with the reliability of the legacy system, a UC payment with such in-built proclivity to month change could create significant challenges to achieving a stable and reliable income.

Ability to save and set aside funds

In and of itself, month to month variability in income is not necessarily problematic if overall household income is sufficient to enable people to manage monthly income dips. Indeed, this assumption underpins the advice the DWP gives to claimants – that by planning ahead and careful budgeting, they should be able to both manage and absorb financial highs and lows, saving and setting aside money in the months when earnings increase and using the surplus to cover the periods when income may fall. Despite their best efforts, few participants in this research succeeded in achieving this balance, not because they lacked financial skills or were spendthrift. Rather, it was because levels of earnings and benefit payments were simply too low. Deductions from the UC payment to repay advance loans, benefit and tax credit overpayments and third-party debts, and as a result of other reductions in entitlement, experienced by around three-quarters of the sample, also served to reduce levels of monthly disposable income. Overall, 32 of the 37 households had average incomes below the Minimum Income Standard MIS despite 32 of the 37 households having at least one earner throughout the study.

Some households with higher earnings and/or additional income from disability and carer's benefits, and others entitled to Scottish or Welsh social security payments, had levels of household income high enough to generate savings. However, once the taper had been applied to net earnings, few working participants in this research had levels of income that stayed high enough for long enough to generate a buffer of sufficient magnitude to allow them to regularly save. The monthly income they had at their disposal, moreover, had a lot of heavy lifting to do. Bridging the often sizeable gap between their rent and council tax and the contribution they received towards housing costs, was a priority for all. For parents using paid childcare, making up the difference between the financial help they received and their childcare fees, also chipped away at the household budget. Debt repayments for council tax and utility arrears, together with the unprecedented rise in energy and food bills, also reduced the amount of disposable income which remained at the end of the month.

In this context, though a welcome boost to these cash-strapped households, the Government's cost of living payments made little overall difference to participants' ability to manage month to month. As with one-off employer bonuses and back-dated pay awards, lump-sum payments were typically spent on pressing household needs soon after receipt. Budgeting and Change of Circumstance Advances and other discretionary payments could be a lifeline in a domestic emergency, but few working claimants were eligible for, knew about, or were successful in applying for this help. Months in which both earnings and the UC payment reduced would often lead to a deficit between household income and essential outgoings, with fewer opportunities to save.

The cumulative effect of low disposable household income in the context of monthly income variability was to reduce the ability of many participants to save or set aside money during the months when they had earnings, or when earnings rose. Having no monthly surplus or savings on which to draw, in turn, obliged many to borrow, if they could, to fill the gap. Around half of the households had serious debt including arrears of rent, council tax and utility bills. Households with regular monthly income deficits found themselves increasingly indebted, in a perpetual cycle of 'robbing Peter to pay Paul' from which many were unable to extricate themselves.

Monthly assessment and work incentives

The aim of adjusting UC payments monthly through a single withdrawal rate is to make the gains from working and from increasing hours of work, clearer. The underlying policy rationale is that claimants are motivated to work and increase their earnings because they can see and benefit from an immediate financial reward. However, for many in our research, an instant fall in their UC after a boost in pay was seen as a further deduction from earnings – in effect, another form of tax. Subject to marginal effective tax rates[88] typically in excess of 75 per cent, the high rate of benefit withdrawal as earnings rose was demotivating and set UC claimants apart from their non-claiming colleagues. Even at relatively low levels of earnings, entitlement for other means-tested help could be reduced or lost. Small increases in earnings could make some participants financially worse off. The overall effect was to discourage, rather than incentivise, longer working hours.

Once they had fully grasped how UC worked, participants with no or low work conditionality requirements sometimes adjusted hours of work downwards, while others declined offers of overtime. Having only one work allowance discouraged

88 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.

some non-earning partners in couples from entering work. Uncertainty over how much of their childcare costs would be refunded also discouraged some parents from working longer hours. Lone parents and 'second earners' in couples with children sometimes reduced their hours to avoid the need for paid childcare. Some mothers in couples, whose overall household earnings were high enough, questioned whether it was worth them working at all until their youngest child was old enough to start school. In situations such as these, contrary to the policy intent, UC's greater responsiveness and high rate of withdrawal appears to have weakened, rather than strengthened, work incentives.

Policy recommendations

Increase the level of UC allowances and elements

To date, policy interest and research about Universal Credit has focussed on the single monthly household payment paid in arrears and the experiences of the poorest, mainly out-of-work, households. In recent times, government interventions to mitigate the effects of the cost of living crisis have been a key focus of policy debate and research. In this context, the adequacy of benefit rates has recently taken centre stage. While the 6.7 per cent uprating of benefits from April 2024 and one-off increase in the local housing allowance announced in the Chancellor's 2023 Autumn Statement, are welcome, findings here support calls from the Joseph Rowntree Foundation (JRF), the Trussell Trust and other for an 'essentials guarantee[89]', based on a significant increase in UC standard allowances. Others have called for both an increase and indexing of UC standard allowances and elements to levels that reinstate their real cash value.

One of the reasons why the earnings top-up provided by UC is so low is that working-age social security benefits have failed to keep pace with inflation for more than three decades. UC standard allowances for 2022/23 were based on the rates they were before the temporary £20 per week uplift in April 2020. UC standard allowances in 2022/23 were therefore lower than they were in 2020/21. Indeed, the withdrawal of the £20 uplift in 2021 returned benefit levels to their lowest real-term level for three decades[90]. Neither the 10.1 per cent benefit uprating in April 2023, nor the 6.7 per cent increase in 2024, fully address this historical drag. To address this long-term, systematic erosion of value, we would support the Resolution Foundation's call for working-age benefits to be annually uprated in line with earnings[91]. Restoring benefits to previous historical levels would help claimants to save and set aside money, allowing them to better manage dips in monthly household income.

The Government's cost of living payments are also due to end in the spring of 2024. For working claimants, these lump-sum payments were disregarded for the purposes of UC assessment, while the temporary £20 weekly uplift to the standard allowance was tapered away with earnings. Should temporary benefit boosts continue beyond the current administration, the differential effects on claimants with and without earnings, together with a review of eligibility criteria, need to

89 https://www.jrf.org.uk/report/guarantee-our-essentials
90 https://www.resolutionfoundation.org/app/uploads/2021/02/Half-measures.pdf
91 https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/07/Sharing-the-benefits.pdf

be included as part of any impact assessment. A fairer method of determining eligibility for any lump-sum payments would be for qualifying periods to span longer time frames, enabling working claimants with a one-off or unexpected increase in monthly earnings to nevertheless remain entitled.

Allow working claimants to keep more of their earnings

Alongside broader arguments in favour of increasing the adequacy and take up of benefits, a key priority arising from the evidence here would be to ensure that claimants in paid work or self-employment are allowed to keep more of their earnings. Findings provide a strong case for a further reduction in the taper rate, increasing the amount that can be earned before the taper is applied and extending the work allowance to a wider group of claimants. Before April 2016, every UC claimant was entitled to a work allowance. Since then, only those assessed as having limited capability for work or with responsibility for a child under the age of 16, are entitled to one and, in eligible couples, only one work allowance is payable. The costs and benefits of reducing the taper rate, increasing the work allowance and extending it to second earners in couples and single claimants, including how far up the income distribution is it appropriate for UC eligibility to reach, should therefore be assessed.

UC claimants with self-employed earnings raise a different set of issues. Further research is needed into their experiences and the effects of current rules and regulations, including the monthly reporting and calculation of profit and the minimum income floor (MIF), on household incomes and financial well-being.

The treatment of Maternity Allowance and contributions-based JSA and ESA should also be reviewed. These benefits were disregarded for the purposes of tax credit entitlement but under UC, their receipt reduces entitlement pound for pound. As earnings replacement benefits whose entitlement is based on National Insurance contributions, there is a strong argument for disregarding them in UC.

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 (another of the DWP's strategic priorities), the potential loss of passported benefits and other means-tested help as earnings rise – including amongst other things, council tax support, free school meals and prescription charges – also needs to be factored into 'better-off' calculations and future impact assessments. Cliff edges should be removed, earnings thresholds increased and greater standardisation introduced to reduce the inconsistency and unfairness that can arise from having a myriad of different, often discretionary, schemes operating at national and local levels. These issues are complex and further work is needed to explore them more fully.

Though costly to the public purse, such reforms would help both to increase household incomes and counter the disincentive effects of high marginal effective tax rates, while meeting one of the DWP's priority objectives set out in its 2023 strategic plan to 'maximise employment.'[92]

92 https://committees.parliament.uk/publications/40123/documents/195656/default/

Reform monthly assessment to increase income security for working claimants

Findings highlight the neglect of income security in the design of UC. Claimants should be able to predict their household income and make decisions about work and working hours with greater confidence about the financial impacts than the system of monthly assessment currently allows. Where claimants are usually paid on a monthly basis and receive more than one wage in the same assessment period, current regulations enable one of the wages to be treated as though paid in a different assessment period. The feasibility of extending the regulations to claimants paid weekly, fortnightly and four-weekly should be explored further. The case for adjusting monthly assessment to better accommodate claimants paid four-weekly is particularly strong.

We would endorse proposals by CPAG for creating parity between claimants with different pay frequencies by converting the earnings of claimants paid non-monthly into a monthly equivalent before calculating the award[93]. This is currently done for Carer's Allowance and Maternity Allowance, which are paid every two or four weeks but converted into a monthly equivalent for the purposes of UC assessment. A similar approach could be adopted in respect of claimants with fluctuating earnings. One option would be to average earnings over a three, or even, six-month period.

A study by Citizen's Advice similarly suggested that self-employed claimants should be allowed to average their earnings over a longer period than a month[94]. Another possibility, as suggested by the House of Lords Economic Affairs Committee[95], for which a precedent exists (Family Credit), would be to provide claimants with longer-term fixed awards. Fixing awards for three or six months would provide greater predictability of income than the current system allows and could potentially encourage claimants to increase the number of hours worked as they would not face an immediate fall in benefit. Such reforms would present policymakers with a series of technical challenges, but this is no harder a task than individual claimants with fluctuating earnings are expected to grapple with under the current system.

Also in need of reform is the whole month approach to changes of circumstances, to ensure UC is more responsive to a householder's actual monthly needs. Changes in entitlement should take effect from the date of the change and awarded pro rata for the month, rather than assessed on the last day of a claimant's assessment period, as is the case currently. A pro rata award reflects the way in which childcare costs are currently reclaimed and refunded.

The rigidity of the monthly assessment period also needs challenging. The DWP has always maintained that a claimant's monthly assessment period is fixed and cannot be changed. At a minimum, therefore, more upfront information and advice should be communicated to UC applicants about the significance of the date a claim is made, giving them the option to defer the start date by a few days if their monthly assessment period does not align well with their pay dates. This is particularly important as the process of managed migration to move claimants of tax credits and legacy benefits across to Universal Credits, begins to accelerate. Claimants

93 https://cpag.org.uk/sites/default/files/files/policypost/CPAG-2018-Rough-justice.pdf
94 https://www.citizensadvice.org.uk/about-us/our-work/policy/policy-research-topics/welfare-policy-research-surveys-and-consultation-responses/welfare-policy-research/universal-credit-and-modern-employment/
95 https://committees.parliament.uk/publications/2224/documents/20325/default/

already in work, or who move to a job with a different pay frequency or pay date, should also be given the choice to change their assessment period.

Increase employers engagement

The research has shone a spotlight on the significance of employers to the financial well-being of working claimants. This indicates they should be more actively engaged by the DWP; to date, their role has been neglected and their involvement in UC minimal, a finding highlighted in Katy Jones's research[96]. Expecting individual claimants to lobby their employer to bring about changes in payroll systems and remuneration policies is both unrealistic and unreasonable. The DWP should make efforts to raise awareness among employers about the way in which pay systems, PAYE submissions and remuneration policies can affect benefit entitlement. At a more strategic level, their engagement should be sought as to the best way of mitigating the adverse financial effects and income uncertainty that can arise for employees who receive UC. Greater periods of notice for variations in hours and shifts and a reduction in the use of zero-hour contracts, should also be promoted.

Reform the childcare element of UC

To reduce the uncertainty and financial difficulties caused by upfront childcare payments and month to month variations in refunded fees, and to prevent the undermining of incentives to work or earn more (particularly among 'second earners' in couples), notwithstanding the changes to childcare policy announced by the Government in 2023, the treatment of childcare costs in UC also requires review. Increasing the amount of free provision for working parents to 30 hours and extending it to children from the age of nine months would certainly help claimants avoid many of the pitfalls our participants experienced. However, it remains to be seen how quickly and effectively these reforms will be implemented, particularly given the likelihood of a general election in 2024. Given also that the free provision will only apply for 38 weeks of the year, for the foreseeable future, the need for paid childcare will remain.

The Flexible Support Fund can now be used to pay for upfront childcare costs in the form of a non-repayable grant, but only those moving into work or increasing their hours are eligible. Having to reclaim childcare costs each month is also administratively burdensome, particularly for women who generally take responsibility for arranging childcare. Further reforms to the childcare element of UC are therefore needed to ensure that parents who are already in paid work receive adequate financial support and know in advance, and with certainty, how much help towards childcare costs they will receive. This is particularly important in the context of the increased conditionality, affecting large numbers of lead carers[97], which has been introduced ahead of the main childcare reforms. Indeed, the research raises the question as to whether financial help with childcare costs for low-income parents could more effectively be provided outside of the system of means-tested benefits. It would be simpler and more cost effective for working parents if childcare was funded directly, rather than through UC. Further work is needed to explore how to achieve this and other possible reforms.

96 https://www.mmu.ac.uk/sites/default/files/2023-01/UniversalCreditandEmployersFinalReport Jan2023.pdf

97 In January 2023, the Administrative Earnings Threshold (AET) was increased to £617 for single claimants and to £988 for couples. The couple's AET, where a second adult was formerly not be required to look for work if their partner was working above the level of the AET, was also removed.

Minimise deductions for debt and review other reductions in entitlement

The high and sometimes continuous amount of money deducted from many claimants' UC awards as a result of reductions in entitlement and to repay debts and overpayments, was a key reason why monthly incomes often failed to cover their essential outgoings. The standard allowance is the minimum amount of money considered to be needed by an individual or couple to cover their basic living costs (excluding housing costs). Reducing it by any amount therefore has the potential to cause financial hardship. Our evidence suggests that both minimum and maximum amounts taken in deductions should be further reduced. Historical tax credit overpayments and social fund loan debts older than seven years should also be written off, reflecting common practice in personal banking and consumer credit sectors. To give working claimants greater certainty about the monthly amount of UC that will paid, higher and fluctuating rates of deductions for households with variable earnings should also end.

Charities, civil society organisations and social commentators have long campaigned for the two-child limit, benefit cap and spare room subsidy to be abolished; calls we would also endorse. With high rents making independent living for young people increasingly difficult, and multi-generational households ever more common, findings also support a review of the non-dependent adult deduction. Research by Loughborough University has suggested reducing to zero the non-dependent adult deduction in cases where the non-dependent has no earned income[98]. The lower standard allowance paid to the under 25s should also be reviewed.

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

Eligibility criteria for budgeting loans 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. The six-month retrospective window over which earnings are counted should also be reduced or removed, enabling people who have recently left work through ill-health or redundancy, to apply for this help. Eligibility criteria for change of circumstances advances should also be reviewed.

The Government's 'Help to Save' savings account is a generous scheme for incentivising and rewarding saving, but the current eligibility criteria require minimum net monthly earnings of £722.45 or more in the previous monthly assessment period. This minimum should be reduced to allow lower-earning claimants to open an account.

98 https://www.financialfairness.org.uk/docs?editionId=5bf461dc-0a77-4508-9033-cac871a45f7d

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

Our research suggests that Universal Credit's potential as a digitalised benefit which seamlessly links to other parts of the tax and benefit system is not being exploited as well as it might for the benefit of claimants. The research uncovered examples of systematic underpayment of UC elements and failure to identify policy exceptions to reductions in entitlement which the automated system could and should have detected but did not[99]. 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; another DWP priority objective set out in their 2023 strategic plan.

The way in which DWP publishes official statistics for UC under- and overpayments would also benefit from greater clarity and transparency. Official error is defined as 'processing errors or delays by DWP, a local authority, or His Majesty's Revenue and Customs (HMRC)'[100]. It is unclear whether this would include the kind of underpayment and errors uncovered during the course of this research.

Going forward

The next stage of work from this project will involve the production of a series of stand-alone policy briefs in 2024 to shine a more detailed light on three important policy areas that have emerged from this research as warranting further investigation: Universal Credit and entitlement for other means-tested help; Universal Credit and childcare; and Universal Credit and self-employment. Further work which could usefully be undertaken based on the findings here might also include microsimulation analyses to explore the cost implications, differential impacts and distributional effects of different policy recommendations (either singly or in combination) on working claimants in different sets of circumstances.

99 Underpayments and errors included non-payment of the UC disabled child element when a parent was in receipt of disability living allowance, non-payment of the carer's element when a claimant was in receipt of Carer's Allowance, non-payment of the child element for a third child born as a result of a multiple birth and the erroneous application of the non-dependent adult deduction from the housing element.

100 https://www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2022-to-2023-estimates/fraud-and-error-in-the-benefit-system-financial-year-ending-fye-2023#introduction

Annex 1: Participant income profiles for the 37 participants who provided nine or more months of income data

Amy and Paul – Couple with dependent children

Amy and Paul are a single-earner couple with four children of pre-school or primary age. One child is disabled. Paul works in hospitality, usually 30 hours a week and is paid monthly (hourly pay rate not known).

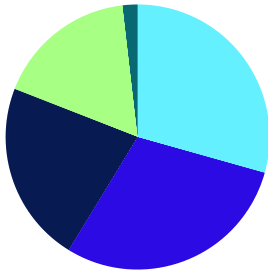
They live in the south of England in socially rented accommodation paying on average £718 per month and their council tax is £180.

Paul's average monthly earnings are £1,262 ranging from £786 to £1,888.

They receive both cost of living payments, the council tax rebate and disability payment. They also receive Child Benefit for four children, Carers Allowance, and DLA.

Their average monthly UC is £1,264, ranging from £865 to £1,524. Their UC is made up of the couple standard allowance, the child element for two children, then from December for three children after the researchers alerted them to the fact that they should be entitled to a child element for one of their twins (after informing the DWP, they receive a back payment of £8,900), the disabled child element for one child, the carers element, and the housing element for their full rent. They have average monthly deductions from their UC of £55 for an 'other DWP benefit recovery'.

Average monthly household income composition (before housing costs)

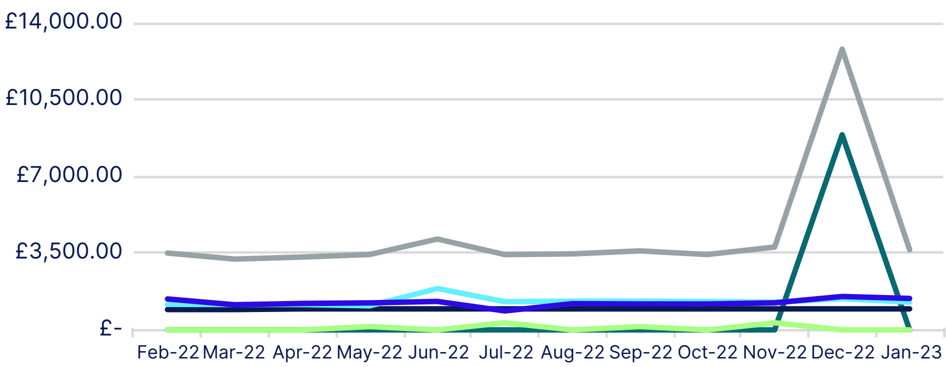


Earnings	£1,262
Universal Credit	£1,264
Child Benefit, DLA, Carers	£953
Backdated benefit payment	£742
Cost of living payments	£79

Their average monthly income after housing is £3,450 ranging from £2,442 to £11,901.

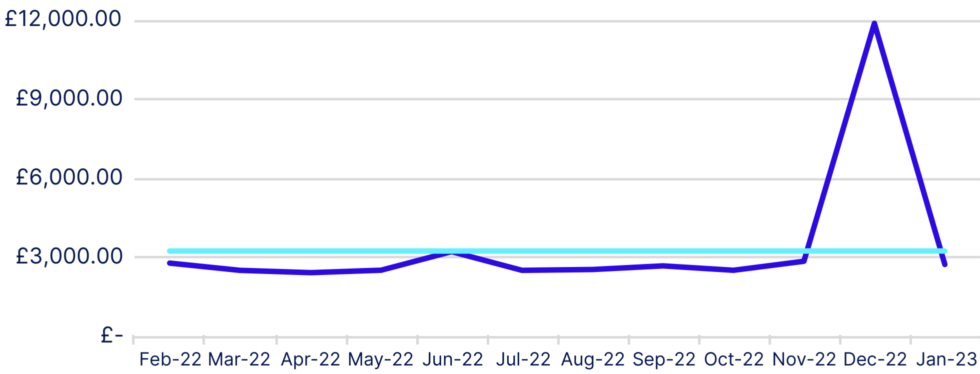
Their income is highly erratic (Hills et al, 2006 grouping) and 6 per cent above the MIS (although MIS does not include disability costs).

They manage much better financially after receiving the UC underpayment.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit, DLA, Carers
- Cost of living payments
- Backdated benefit payment
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Angela and Nick – Couple with dependent children

Angela and Nick are a single-earner couple with three children of primary and secondary school age. Nick has a health condition and their three children all have learning disabilities. Nick typically works 60 hours as a security guard and is paid four-weekly, but then later monthly, earning £10.40 per hour.

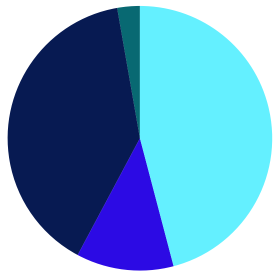
They live in northern England. They have a mortgage and pay £699 on average per month and their council tax is £140.

Nick's average monthly earnings are £1,948 ranging from £1,440 to £2,259.

They receive both cost of living payments and the disability payment for the four disabled household members (£600) and the council tax rebate. They receive Child Benefit, DLA for two then later three children and PIP and Carers Allowance.

Their UC is £505 on average per month ranging from £379 to £712. They receive the couple standard allowance, the child element for two of their children, the disabled child element for two children and for three from August. They have no deductions.

Average monthly household income composition (before housing costs)

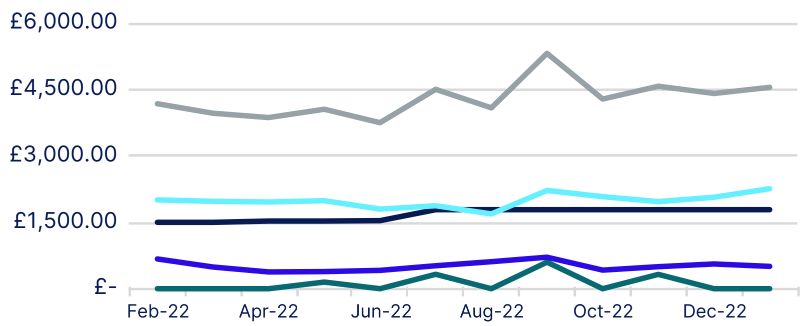


Earnings	£1,948
Universal Credit	£505
CB, DLA, PIP, Carers	£1,674
Cost of living payments	£117

Their average monthly income after housing is £3,479 ranging from £2,912 to £4,477.

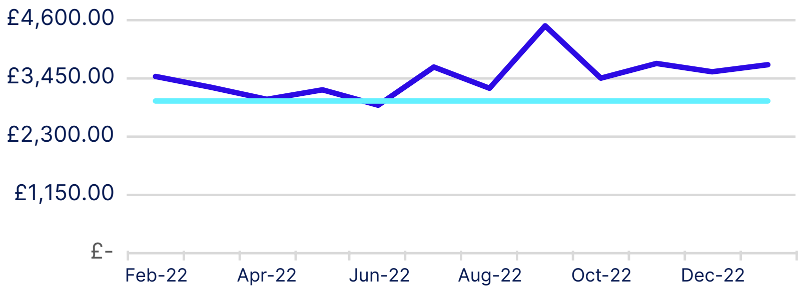
Their income is mainly stable (Hills et al, 2006 grouping) and they are 16 per cent above the MIS (note that the MIS does not include disability costs).

They have the highest monthly income in relation to the MIS in the sample but it should be noted that a large part of their income is due to disability-related benefits and disability costs are not included in the MIS. Being paid monthly rather than four-weekly improves their income stability.



Income elements received over the year

- Earnings in month UC paid
- UC received
- CB, DLA, PIP, Carers
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Anita – Lone parent

Anita is a working lone parent with two primary school aged children. She works in an admin role for 17 hours per week and also occasionally does some self-employed work in a caring role. She is paid monthly £10.80 per hour in her main job.

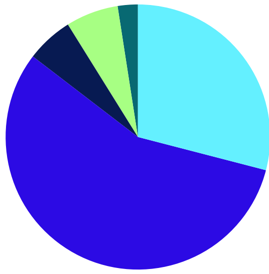
She lives in private rented accommodation in the south of England paying £900 on average per month and her council tax is £112.

Her earnings are £791 on average per month ranging from £709 to £1,322.

She receives both cost of living payments and council tax rebate, Child Benefit for two children and child maintenance sporadically.

Her UC is £1,536 on average ranging from £1,231 to £1,769. Her UC is made up of the single persons allowance, the child element for two children and the housing element for her full rent. She does not have any deductions.

Average monthly household income composition (before housing costs)

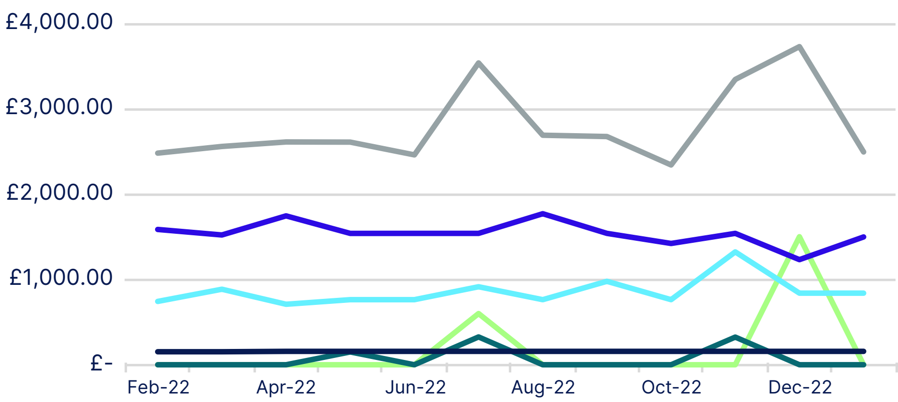


Earnings	£791
Universal Credit	£1,536
Child Benefit	£156
Child maintenance	£175
Cost of living payments	£67

Her average monthly income after housing costs is £1,800 ranging from £1,329 to £2,715.

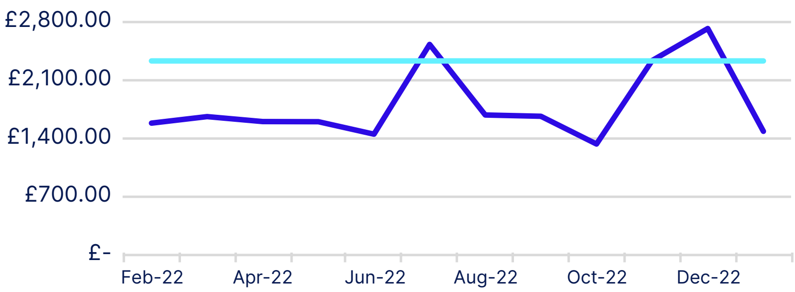
Her income is erratic (Hills et al, 2006 grouping) and 23 per cent below the MIS.

The main reasons for her erratic income are because she receives a backdated pay rise and her child maintenance payments are very sporadic.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Child maintenance
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Caroline – Single claimant with no dependent children

Caroline is a working single claimant with no dependent children. She works as a cleaner for 20-30 hours a week which increases to 30 plus hours. She earns £10.20 per hour and is paid four-weekly.

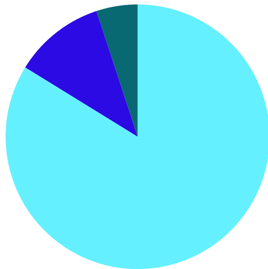
She lives in the south of England in social housing paying an average of £439 per month and her council tax is £20.

She receives both cost of living payments and the council tax rebate.

Her average monthly earnings are £1110 ranging from £409 to £2,385. In one month two sets of wages are included in her UC assessment period because she is paid four-weekly reducing her UC to £0 the following month.

Her UC is £148 per month on average ranging from £0 to £445 (she is not entitled to a work allowance). She receives the single persons' standard allowance and the housing element which is £61 on average lower than her rent because of the spare bedroom deduction since her adult child moved out. She has non-earnings deductions for £21 in Feb and March 2022 for an advance payment but no others after this point. Her rent is paid direct to the landlord, although there is often not enough UC to cover this so she makes up the difference.

Average monthly household income composition (before housing costs)

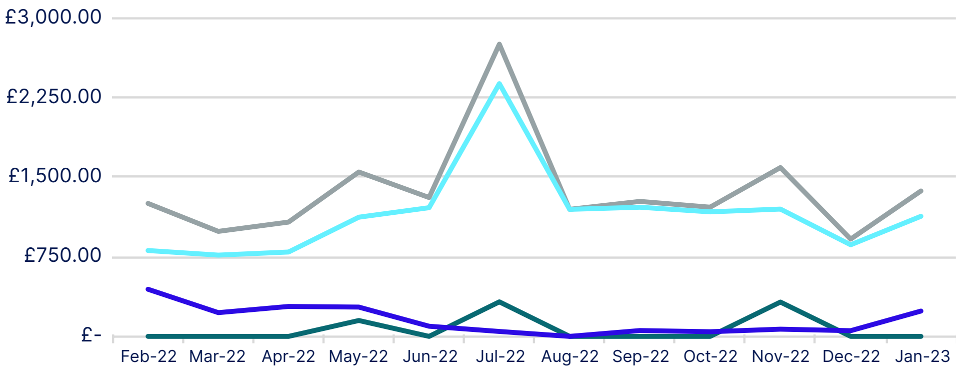


Earnings	£1,110
Universal Credit	£148
Cost of living payments	£67

Her average income after housing is £922 per month ranging from £457 to £2,297.

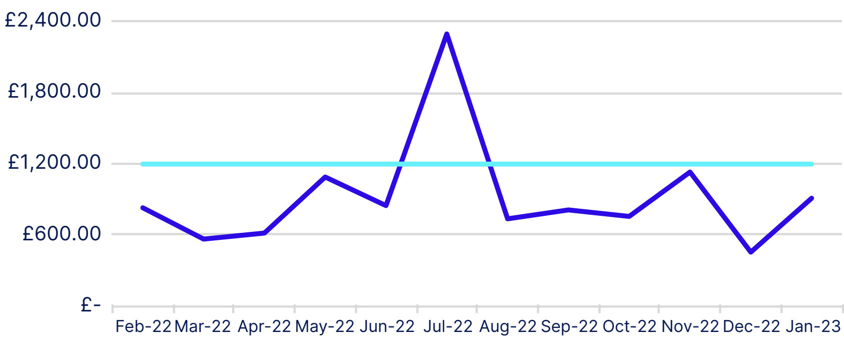
Her income is highly erratic (Hills et al, 2006 grouping) and 23 per cent below the MIS.

Reasons contributing to her erratic income are her fluctuating earnings and being paid four-weekly. She struggles to get by and frequently borrows from family and uses food banks. She is also trying to get on top of various debts.



Income elements received over the year

- Earnings in month UC paid
- UC received (including amount paid direct to landlord)
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Chloe and Jake – Couple with dependent children

Chloe and Jake are a single-earner couple with one pre-school and one primary school aged child. Jake earns £14 per hour working 37 hours per week in IT and he also receives bonuses some months. Chloe is studying and has an educational grant.

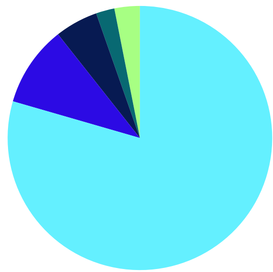
They live in Wales in private rented accommodation, paying £450 per month and their council tax is £114.

Jake earns £2,355 per month on average over the year ranging from £1,888 to £4,255.

They receive both cost of living payments and the council tax rebate, and Child Benefit for the two children.

Their UC is £293 per month on average ranging from £0 (in the months Jake has bonuses) and £527. Their UC is made up of the couple's standard allowance and the housing element which is £75 short of their rent due to the LHA. £39 on average per month is deducted from their UC for an advance and tax credit recovery. Chloe's educational grant is also deducted from the UC in the months she receives it.

Average monthly household income composition (before housing costs)

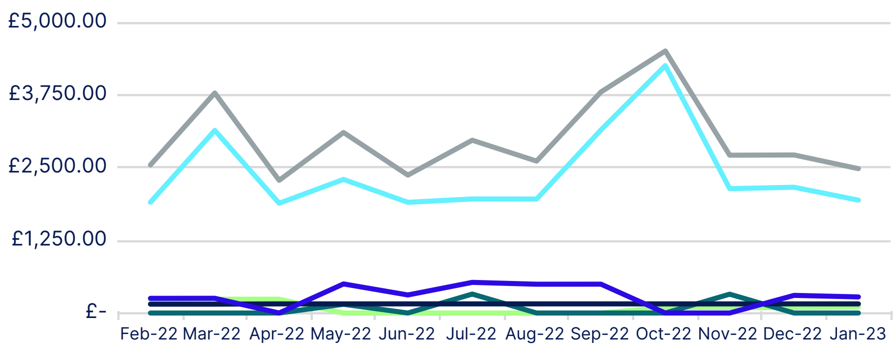


Earnings	£2,355
Universal Credit	£293
Child Benefit	£156
Cost of living payments	£67
Educational grant	£92

Their average monthly earnings are £2,446 ranging from £1,718 to £3,942.

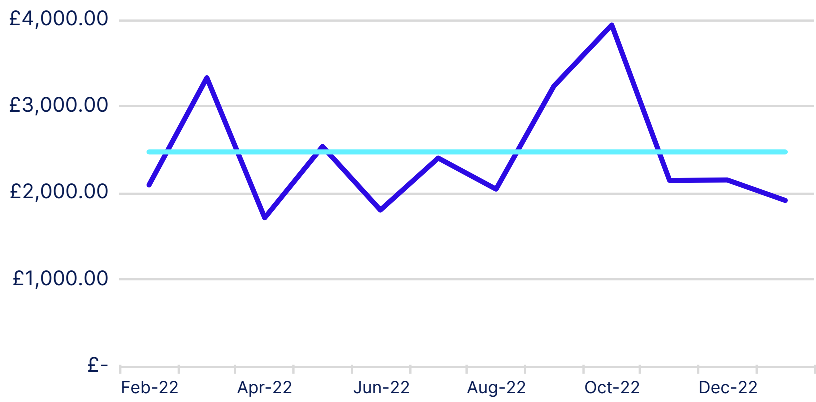
Their income is highly erratic (Hills et al, 2006 grouping) and 1 per cent below the MIS.

Jake receives several bonus payments throughout the year which reduce the UC in the following months. Chloe only receives the educational grant in certain months of the year. However, Jake's earnings are higher than most in our sample which mean this couple are nearer the MIS, but managing the monthly income fluctuations is an ongoing challenge.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Cost of living payments
- Eductional grant
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Claire – Self-employed lone parent with dependent children then later single claimant with no dependent children

Claire is a self-employed lone parent with three teenage dependent children working in a caring role when we first interview her. From August she becomes a non-working single claimant after moving area and due to serious health complications which mean the children are obliged to move in with their father.

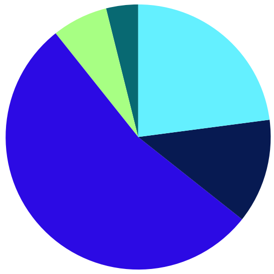
She initially lives in the south of England before moving north. She has a mortgage paying on average £506 per month, and her council tax is on average £40 per month.

Her average earnings over the year are £394 per month ranging from £0 to £926. She is subject to the MIF when self-employed but her earnings never reach this amount.

She receives both cost of living payments and the council tax rebate, Child Benefit throughout and £200 child maintenance per month until her children move out.

Her average UC amount is £923, ranging from £873 to £1,114. She receives the standard single person's allowance and child element until February 2023 for all three children, but going forward she has to start paying back the child element as a deduction from her UC from the point her children moved out. Her UC was about to dip right down to £285 from Feb 2023 (not included in graph) due to this. She is waiting to see if she will be entitled to the LCWRA element and PIP.

Average monthly household income composition (before housing costs)

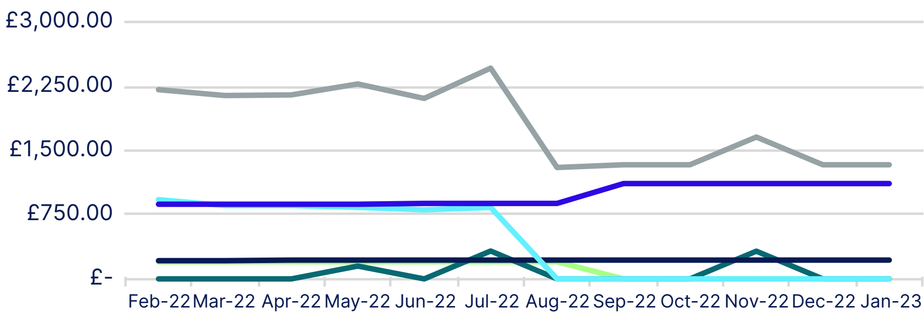


Earnings	£394
Child Benefit	£219
Universal Credit	£922
Child maintenance	£117
Cost of living payments	£67

Her total average income after housing is £1,211 ranging from £562 to £1,723.

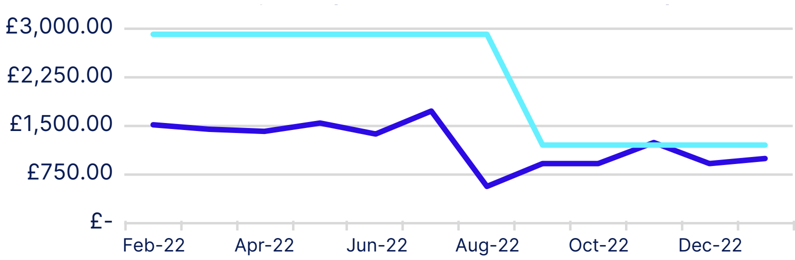
Her income is highly erratic (Hills et al, 2006 grouping) and is 45 per cent below the MIS.

Claire struggles to get by. Some of the reasons are because she receives no support for housing costs, was subjected to the MIF when working, becomes unable to work due to serious health issues and she has not yet received any LCWRA or PIP.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Child maintenance
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Ellen and Will – Couple with dependent children

Ellen and Will are a dual-earner couple with three dependent children – a teenager, a pre-school aged child and a baby. Ellen is on maternity leave from her admin job when we first interview her and then returns to work part-time in September paid monthly, £16.50 per hour. Will is working in an admin role at the first interview but changes jobs twice into other admin roles but is in work throughout, paid monthly (hourly rate not known). Both adults have health conditions.

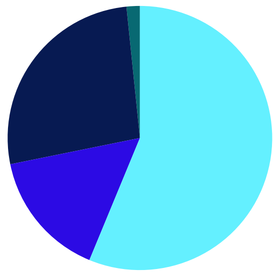
They live in Wales and have a mortgage paying £402 per month and their council tax is £176. Their childcare costs range from £164 to £694 per month but are £400 per month on average, although this may not represent all her childcare costs as she does not always manage to report them to UC.

Their earnings are £2,318 per month on average ranging from £1,158 to £3,265.

They receive both cost of living payments, the council tax rebate and the disability payment. They also receive Child Benefit for three children and both adults receive PIP.

Their UC is £642 on average per month, ranging from £140 to £1,511. Their UC is made up of the standard allowance for a couple, the child element for two of their three children, one carers element to start and then later two carers elements because when she develops a health condition they are caring for each other, and the childcare element. They have no deductions.

Average monthly household income composition (before housing costs)

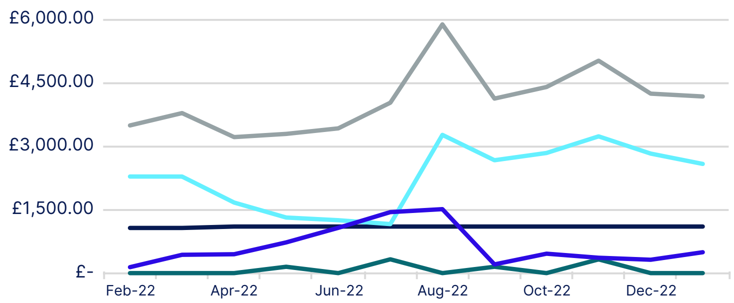


Earnings	£2,318
Universal Credit	£642
Child Benefit and PIP	£1,095
Cost of living payments	£67

Their average monthly income after housing and childcare is £3,121 ranging from £2,169 to £4,772.

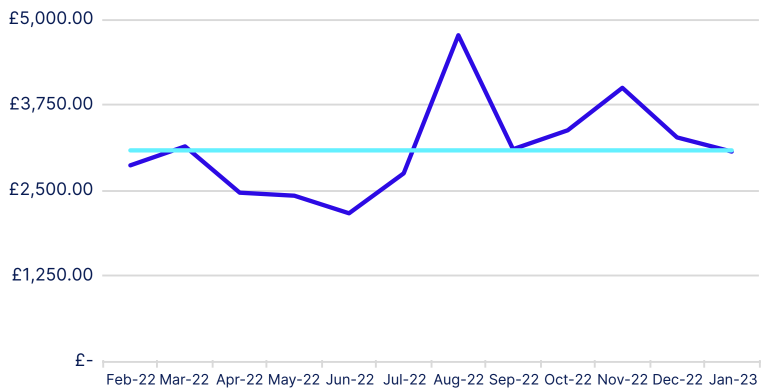
Their income is rising (Hills et al, 2006 grouping) and 1 per cent above the MIS (although MIS does not include disability costs.

They are just about managing financially. They both earn above the minimum wage and their earnings increase after Ellen returns to work, and the PIP helps. However, they still find things hard financially due to childcare costs, getting no support for the mortgage costs and the increased cost of living and they are subject to the two-child limit.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit and PIP
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Emily and Simon – Couple with dependent children

Emily and Simon are a single-earner couple with two primary school-aged children. The children have some complex needs and one has recently had a learning disability diagnosis. Emily also has physical and mental health disabilities. Simon works in a public service role (hourly rate unknown) and is paid weekly.

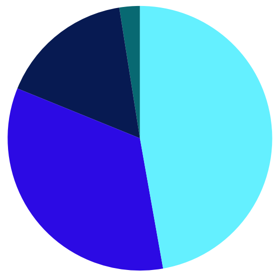
They live in the south of England in socially rented accommodation paying £431 on average per month and £127 council tax.

Simon's earnings are £1,489 per month on average ranging from £1,251 to £1,719. As he is paid weekly, sometimes five weeks wages are included in their UC monthly assessment period.

They received both cost of living payments, the council tax rebate and the disability payment. Emily receives PIP and they receive Child Benefit for two children.

Their UC is on average £1,071 per month ranging from £939 to £1,219. They receive the couple's standard allowance, the child element for two children, the LCWRA element and the housing element for their full rent. They have £130 on average deducted each month from their UC for an 'other DWP benefit recovery'.

Average monthly household income composition (before housing costs)

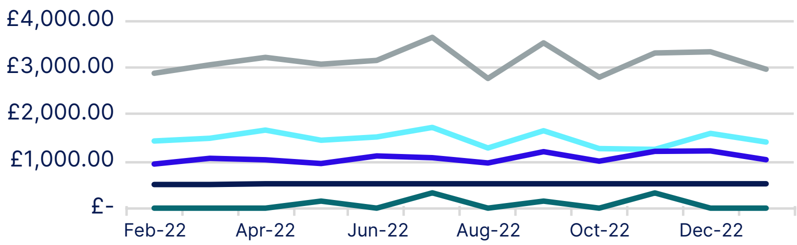


Earnings	£1,489
Universal Credit	£1,071
Child Benefit and PIP	£516
Cost of living payments	£79

Their average monthly income after housing is £2,601 ranging from £2,200 to £3,076.

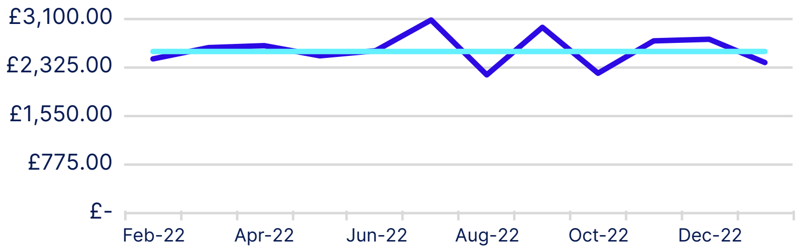
Their income is broadly stable (Hills et al, 2006 grouping) and is 1 per cent above the MIS.

They are just about managing to get by but find the fluctuations in the UC caused by Simon's weekly pay challenging. The PIP and LCWRA elements boost their income to near the MIS but the MIS does not include disability costs so is not necessary a true reflection of their actual living costs. Their children do not yet receive any disability-related benefits.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit and PIP
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Emma and Andrew – Couple with dependent children

Emma and Andrew are a single-earner couple with two children under five. Andrew works in a public services role, 40-50 hours a week (hourly rate of pay not known) and is paid weekly.

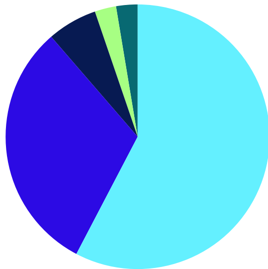
They live in socially rented accommodation in the south of England paying £506 on average per month and £135 council tax.

Andrew earns £1,472 on average per month ranging from £1,245 to £2,857 when he receives backdated pay he is owed.

They receive both cost of living payments and the council tax rebate and they receive Child Benefit for two children. They also take out a budgeting loan/advance.

Their UC is on average £790 per month ranging from £42 to £1,447. Their UC is made up of the couple standard allowance, the child element for two children and the housing element for their full rent. They have deductions from the UC for £87 per month on average for an advance and 'other DWP benefit recovery'. Their housing is usually paid directly to the landlord when the UC is high enough to cover this, or they must make up the difference.

Average monthly household income composition (before housing costs)

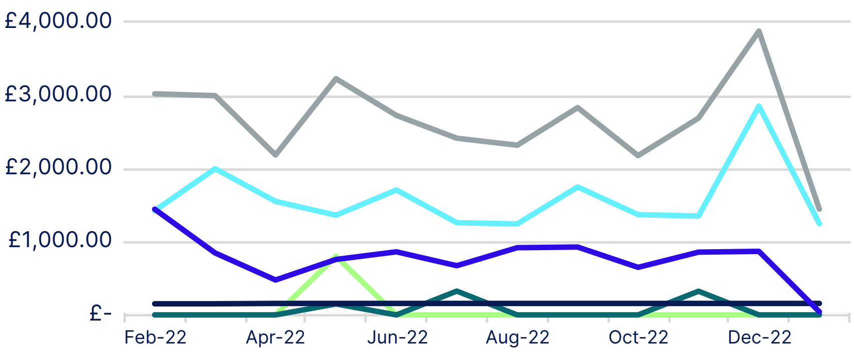


Earnings	£1,472
Universal Credit	£790
Child Benefit	£156
Budgeting advance	£67
Cost of living payments	£67

Their average monthly income after housing is £2,045 ranging from £816 to £3,253.

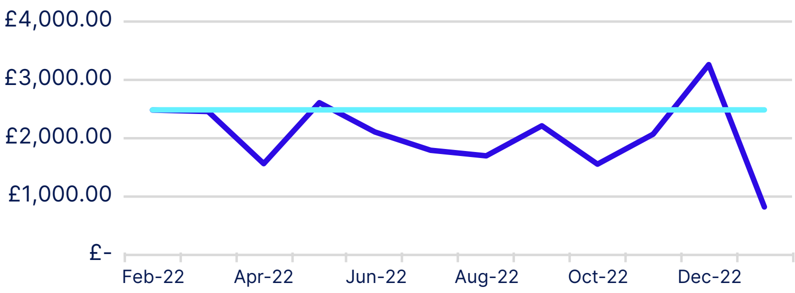
Their income is highly erratic (Hills et al, 2006 grouping) and 17 per cent below the MIS.

They struggle to get by and frequently borrow from family. Various factors contribute to their income variability, including Andrew starting work, being paid weekly and receiving backdated pay he is owed.



Income elements received over the year

- Earnings in month UC paid
- UC including amount paid direct to landlord
- Child Benefit
- Budgeting advance
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Erin and Max – Couple with dependent children

Erin and Max are a single-earner couple with three dependent children of pre-school and primary age. Two of the children have learning disabilities. Max is working in security from April for 32 hours per week and is paid monthly.

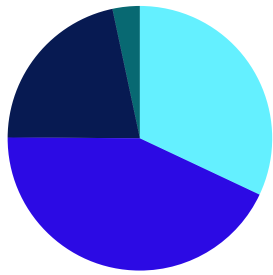
They live in social housing in northern England paying £414 per month and their council tax is £67.

Max's average monthly earnings are £758 ranging from £0 in the months before Max starts work and £1,353.

They receive both cost of living payments, the disability payment for one child and the council tax rebate. They receive Child Benefit, DLA for one child from August and the other from October and Carers Allowance from August.

Their UC is £1,021 on average ranging from £695 to £1,379. Their UC is made up of the standard allowance for a couple, the child element for two children, and the housing element for the full rent, and the carers element from July onwards. They have deductions for £99 per month on average for an advance, 'other DWP benefit recovery' and the benefit cap and 'other money you owe'.

Average monthly household income composition (before housing costs)

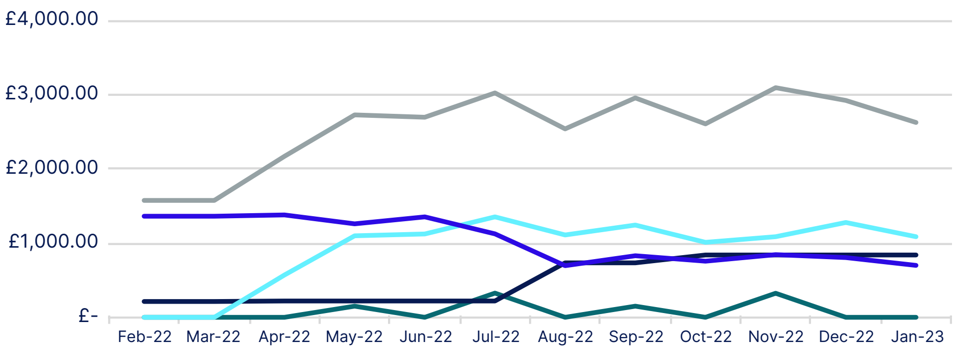


Earnings	£758
Universal Credit	£1,021
CB, DLA, Carers	£511
Cost of living payments	£79

Their average monthly income after housing costs is £2,072, ranging from £1,175 to £2,609.

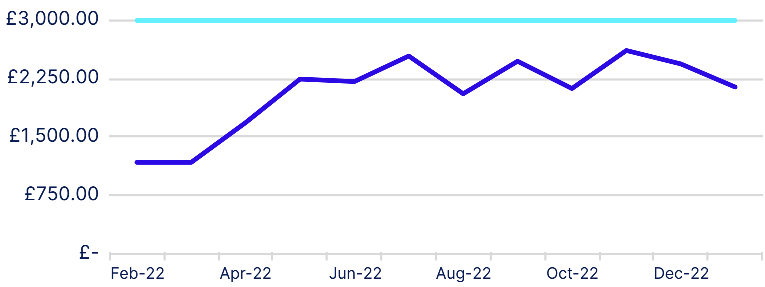
Their income is erratic (Hills et al, 2006 grouping) and 31 per cent below the MIS.

Things improve after Max starts working, but they are not receiving the disabled element for their children and are subject to the two-child limit so their income stays under the MIS. They are looking into why they have not yet received the disabled child element of UC.



Income elements received over the year

- Earnings in month UC paid
- UC received
- CB, DLA, Carers
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Fiona and Alex – Couple with dependent child

Fiona and Alex are a dual-earner couple with one primary age child when first interviewed but are a no-earner couple by the end. Fiona has ongoing mental health conditions and Alex has physical and mental health conditions.

Fiona is self-employed on commission but does not manage to earn so stops. Alex is working in security but stops in August after his employers reduce his contracted hours and he also has developed some health conditions possibly linked to stress. Fiona works part-time in hospitality in August and September but then stops when a new manager starts who is not empathetic towards Fiona's mental health needs. They are paid four-weekly when working. Both are paid around £10.50 an hour when working.

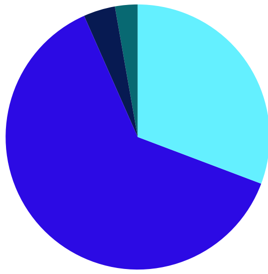
They live in the south of England in socially rented accommodation paying £716 on average a month and £151 council tax.

Their average earnings are £744 ranging from £0 to £2,568.

They receive both of the Government's cost of living payments and the council tax rebate. They receive Child Benefit for one child.

Their average UC is £1,516 ranging from £735 to £1,855. UC entitlement is made up of the couple standard allowance, the child element for one child, the housing element for their full social housing rent, the LCWRA element of UC and the childcare element (Feb-July 2022). £131 on average is deducted each month for 'other DWP benefit recovery'.

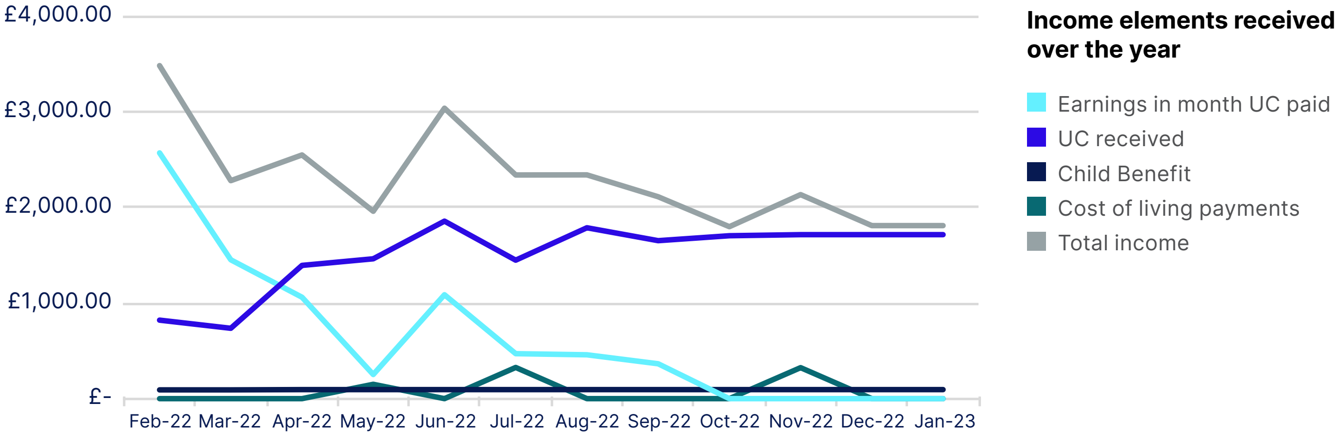
Average monthly household income composition (before housing costs)

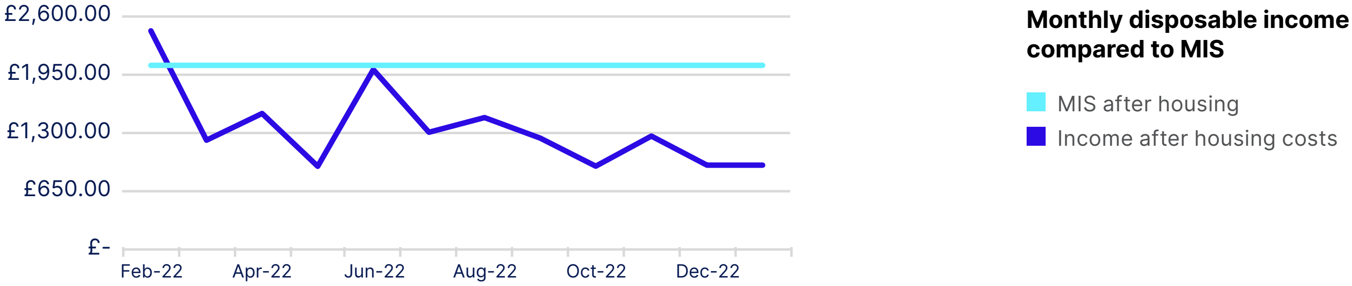


Their average monthly income after housing and childcare is £1,346 ranging from £924 to £2,434.

Their income is highly erratic (Hills et al, 2006 grouping) and 34 per cent below the MIS.

Their changing earnings and employment and four-weekly pay contribute to their highly erratic income. Fiona is not eligible for PIP and they do not receive any carers payments which may contribute to their low income.





Freya – Lone parent

Freya is a working lone parent with three dependent children of secondary and primary school age. She works 27 hours a week in a senior professional role earning £27 an hour. She is paid monthly.

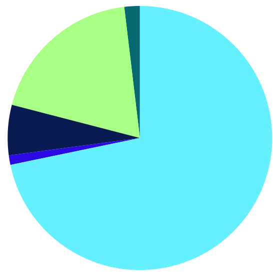
She lives in the south of England and has a mortgage. Her average mortgage payments are £1,103 per month and her council tax is £139.

Her average monthly earnings are £2,543 ranging from £2,462 to £3,056.

She received both cost of living payments and the council tax rebate. She also receives Child Benefit for three children and regular child maintenance.

Her UC is £41 per month on average and ranges between £0 and £75. She receives the single person's standard allowance and the child element for three children. She has no deductions from her UC.

Average monthly household income composition (before housing costs)

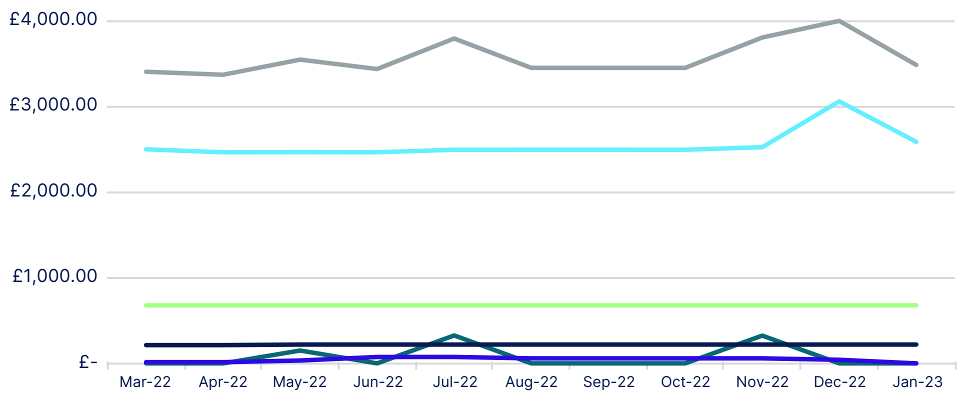


Earnings	£2,543
Universal Credit	£41
Child Benefit	£218
Child maintenance	£676
Cost of living payments	£67

Her average monthly income after housing costs is £2,330 ranging from £2,049 to £2,956.

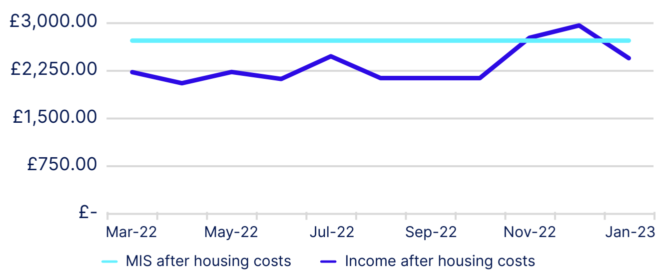
Her income is broadly stable (Hills et al, 2006 grouping) and 14 per cent below the MIS.

Freya has some fluctuation in earnings due to a backdated pay rise but her earnings are mostly stable. She receives no support through UC for her housing costs which is likely to contribute to income being below the MIS despite her earnings being the highest in the sample and receiving regular child maintenance payments.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Child maintenance
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Grace – Lone parent with dependent children

Grace is a working lone parent with two teenage dependent children. She works in a public services role for around 30 hours per week and is paid weekly £11.20 per hour.

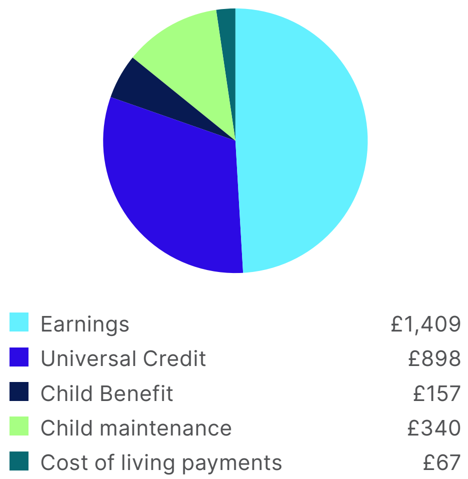
She lives in privately rented accommodation in the south of England paying £698 per year and £120 council tax.

She earns £1,409 on average per month ranging from £1,150 to £1,659.

She receives both cost of living payments and the council tax rebate, Child Benefit and regular child maintenance.

Her UC is £898 on average per month ranging from £761 to £1,041. She receives the single persons standard allowance, the child element for two children and the housing element for her full rent. £84 per month is deducted for a tax credit overpayment.

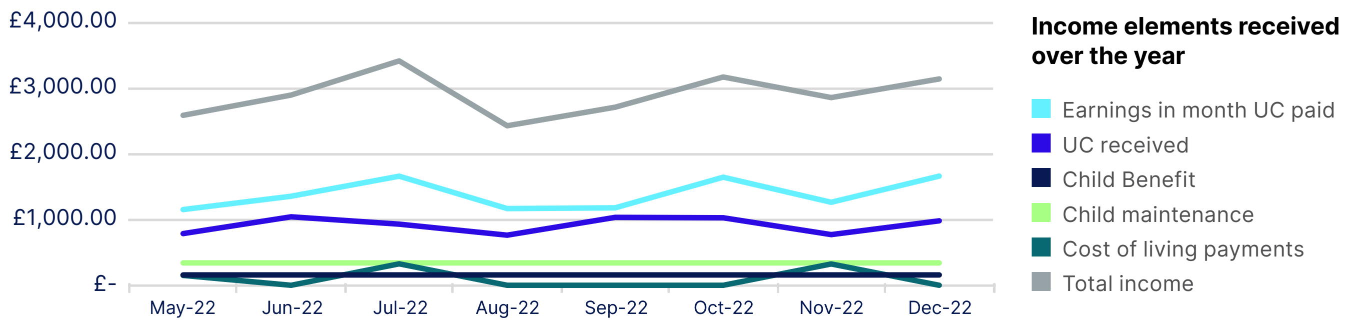
Average monthly household income composition (before housing costs)

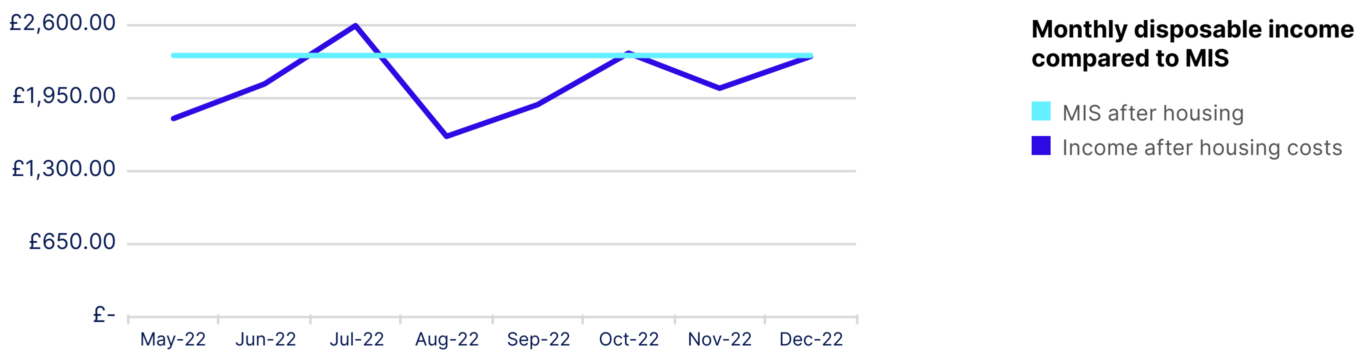


Grace's average monthly income after housing costs is £2,078 ranging from £1,160 to £2,592.

Her income is erratic (Hills et al, 2006 grouping) and 11 per cent below the MIS.

Being paid weekly means that her earnings and therefore UC are erratic, but the child maintenance payments she receives mean she can just about get by.





Gina – Lone parent

Gina is a working lone parent with one teenage dependent child and one disabled non-dependent child living away from home. She is working in a caring role approximately 15 hours per week with a variable rate of pay. She draws down her earnings as and when through a system called flexipay.

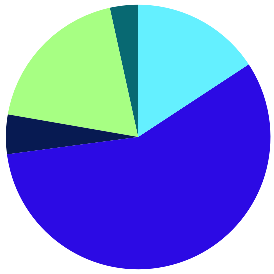
Gina is living in northern England in social housing paying £483 on average per month and her council tax is £40.

Her average monthly earnings are £307 ranging from £0 to £457.

She received both cost of living payments and the council tax rebate, Child Benefit for one child and from July she rents out a room in her house and receives £600 rental income (which does not count as income for the UC calculation). She also received a housing support fund payment of £200 in Jan 2023.

Her UC is £1,144 on average per month ranging from £1,054 to £1,216. Her UC is made up of the single person's standard allowance, the child element for one child and the housing element minus the spare bedroom deduction (£68). She has monthly average deductions from her UC or £43 per month for an advance payment and council tax arrears.

Average monthly household income composition (before housing costs)

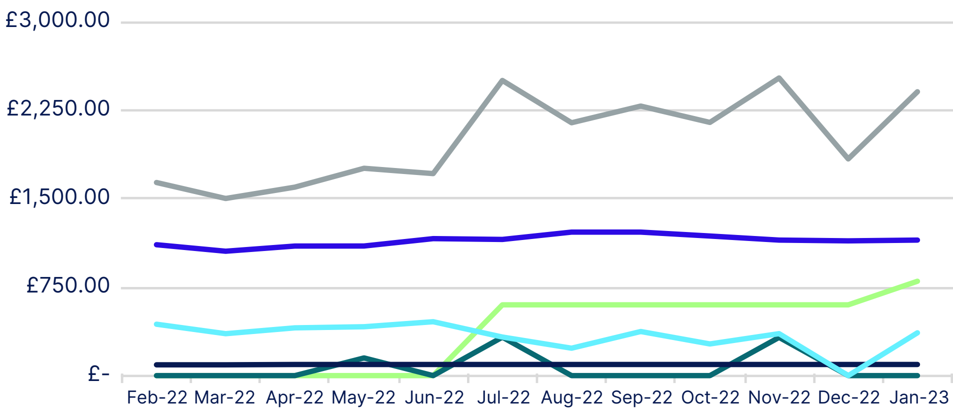


Earnings	£307
Universal Credit	£1,114
Child Benefit	£94
Rent a room income and HSF	£367
Cost of living payments	£67

Her average monthly income after housing is £1,487 ranging from £1,029 to £1,991.

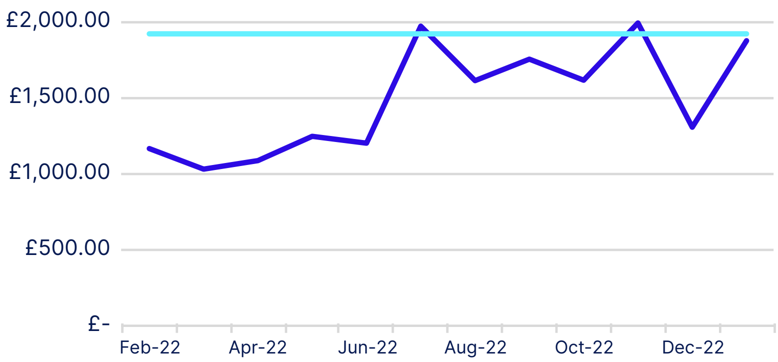
Her income is rising (Hills et al, 2006 grouping) and is 23 per cent below the MIS.

The Rent a Room income has significantly improved her income; before this it was extremely low, especially as she receives no child maintenance and is subject to the spare bedroom deduction.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Rent a room income plus £200 HSF in Jan 2023
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Jasmine – Lone parent

Jasmine is a lone parent with a primary school-aged dependent child. She works 16-25 hours a week earning £12 per hour and is paid four-weekly. She only works in May and June but then stops after she is made redundant.

She is renting privately in northern England paying £478 per month and her council tax is £126. She pays a small amount for childcare – just £7 for the months of April and May.

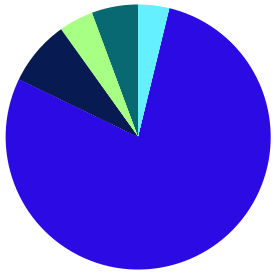
Her average monthly earnings over the year are £45 ranging from £0 to £330.

She receives both cost of living payments and the council tax rebate, Child Benefit and child maintenance of £50 per month.

She is sanctioned four times during the study, £223, £335, £44 and £308.

Her average monthly UC is £927 ranging from £541 to £1,017. Her UC is made up of the single person's standard allowance, the child element for one child and the housing element (less £46 for the LHA deduction) and the childcare element. She has £131 on average deducted per month for an advance and 'other DWP benefit recovery' and sanctions.

Average monthly household income composition (before housing costs)

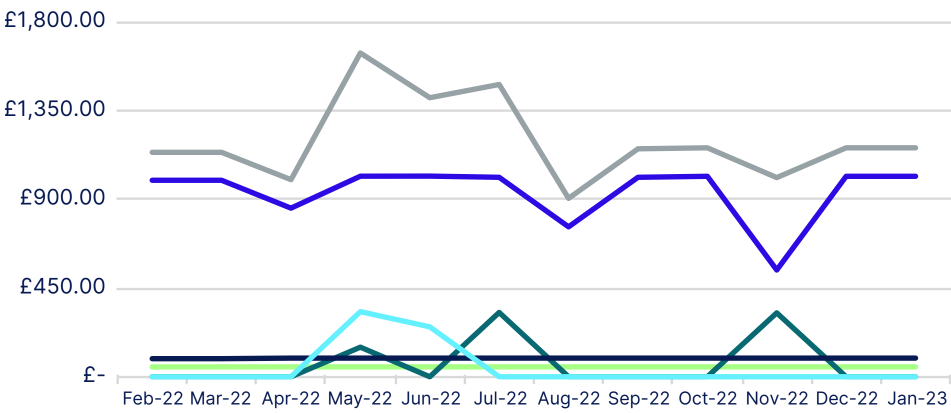


Earnings	£45
Universal Credit	£927
Child Benefit	£94
Child maintenance	£50
Cost of living payments	£67

Her monthly average income after housing and childcare is £613 ranging from £258 to £988.

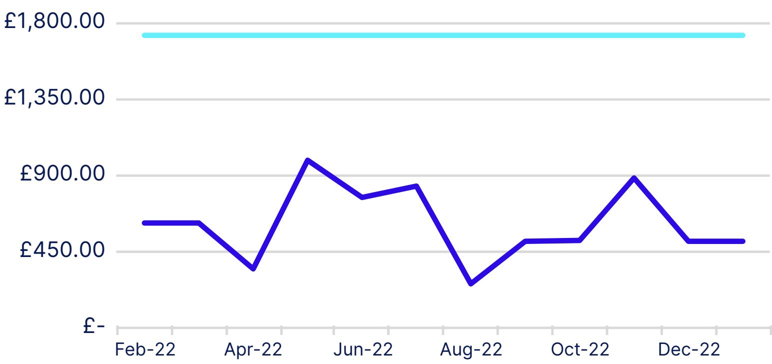
Her income is highly erratic (Hills et al, 2006 grouping) and 64 per cent below the MIS.

Jasmine has the lowest income in the sample. Having no earnings for most of the year, receiving very low child maintenance and being heavily sanctioned contribute to her erratic and extremely low income.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Child maintenance
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Jennifer – Lone parent

Jennifer is a working lone parent with two dependent children, one primary and one secondary school age. She works around 20 hours plus overtime in a caring role. She is paid £16.70 per hour and is paid monthly.

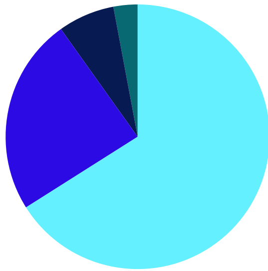
She is renting privately in Scotland paying £657 on average per month and her council tax is £136.

Her earnings are £1,499 on average ranging from £1,141 to £2,285.

She receives both cost of living payments and the council tax rebate and Child Benefit. She has applied for but not yet received the Scottish Child Payment.

Her UC is £547 per month on average ranging from £0 to £912. Her UC is made up of the single person's standard allowance, the child element for two children and the housing element until October, which is £345 short of her private rent because of the LHA. In October she moves to a friend's house where she pays a lower rent, although she is unable to claim the housing element for this amount because her friend is not a registered landlord. However, she still feels better off in this situation. She has £55 on average deducted per month from her UC for an advance.

Average monthly household income composition (before housing costs)

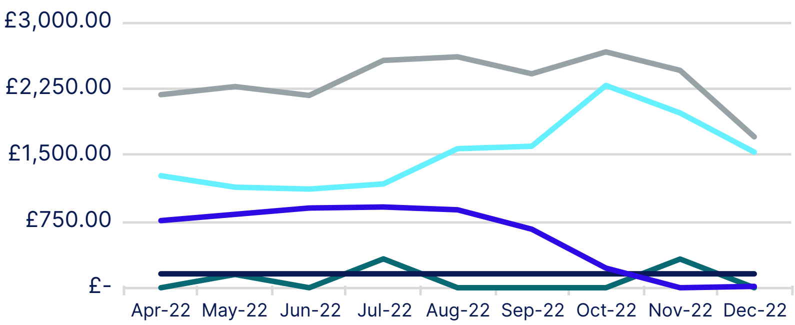


Earnings	£1,499
Universal Credit	£547
Child Benefit	£157
Cost of living payments	£67

Her average monthly disposable income is £1,550 per month ranging from £1,141 to £2,264.

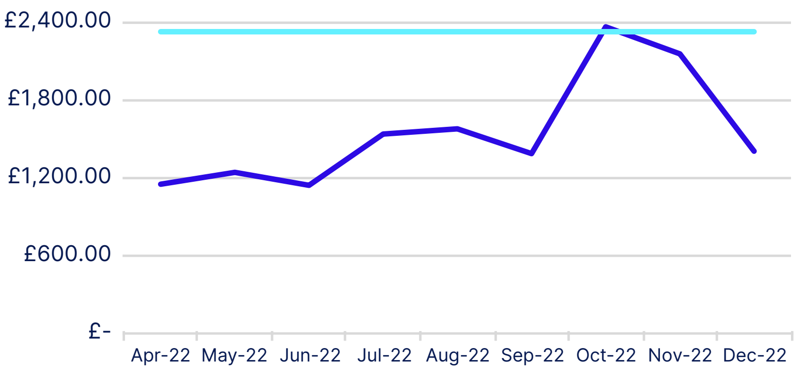
Her income is highly erratic (Hills et al, 2006 grouping) and 33 per cent below the MIS.

Her earnings are much higher in October because she works extra shifts which means her UC in November is £0. Issues with covering housing costs are a challenge throughout. She does not receive any child maintenance.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Jessica – Lone parent

Jessica is a working lone parent with two teenage dependent children. She is working in a caring role for around 20 hours per week paid £12.60 per hour and she is paid four-weekly.

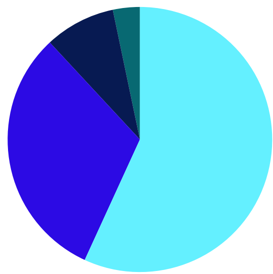
She lives in social housing in Scotland paying £357 per month on average and her council tax is £100.

Her average monthly earnings are £1,158 ranging from £0 to £2,397 when two wage packets are included in her monthly assessment period.

She receives both cost of living payments and the council tax rebate and Child Benefit and the Scottish Child Payment for one child from December as her older teen was older than 16.

Her average monthly UC was £636 ranging from £15 to £1,177. Her UC was made up of the single person's standard allowance, the child element for two and then later one child after the older child moves out and the housing element for her full rent amount. She had deductions from her UC for an advance payment and 'other DWP benefit recovery' for £78 on average per month.

Average monthly household income composition (before housing costs)

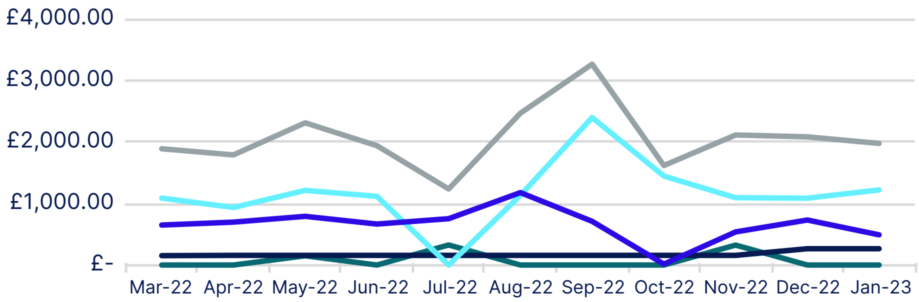


- Earnings £1,158
- Universal Credit £636
- Child Benefit and Scottish Child Payment £176
- Cost of living payments £67

Her average monthly income after housing was £1,614 ranging from £778 to £2,806.

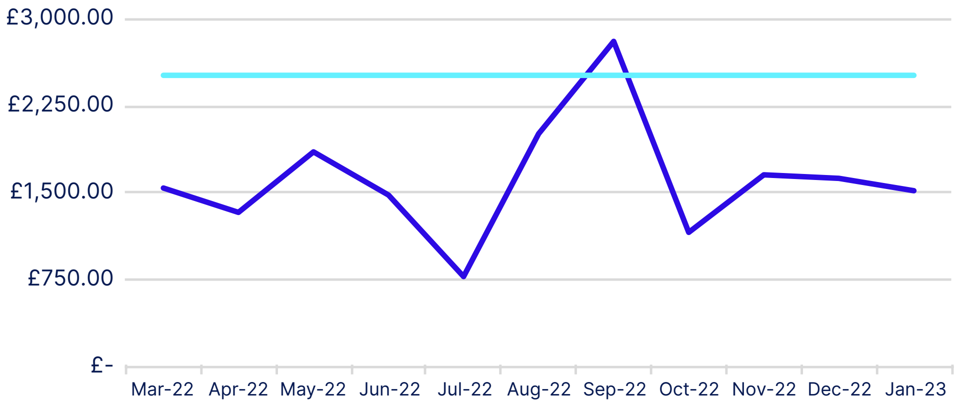
Her income was highly erratic (Hills et al, 2006 grouping) and 36 per cent below the MIS.

Being paid four-weekly contributes to her highly erratic income. She does not receive any child maintenance which is part of the reasons her income is so low.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit and Scottish Child Payment
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Kate and Neil – Couple with dependent children

Kate and Neil are a dual-earner couple with two teenage dependent children and one non-dependent adult living at home. Kate works in a caring role between 32-56 hours per week and Neil is a driver for 37 hours a week. Kate is paid monthly and Neil is paid weekly.

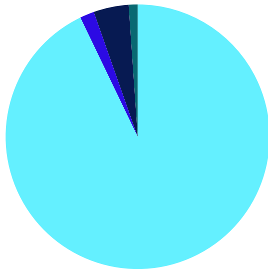
They live in socially rented accommodation in northern England paying £469 per month and their council tax is £126.

Their average monthly earnings are £3,390 ranging from £2,126 to £4,215.

They receive the council tax rebate and the first cost of living payment only, and not the second as they receive no UC in the qualifying period. They receive Child Benefit.

Their average monthly UC over the year is £62 per month ranging from £0 to £311. They are not entitled to UC payments from June onwards and their claim closes in October (they are no longer interviewed after this point but confirm they are in a steady state so we use estimated earnings based on their last UC statement). When their claim is open they are entitled to the couple standard allowance, the child element for two children and the housing element (minus the non-dependent adult deduction).

Average monthly household income composition (before housing costs)

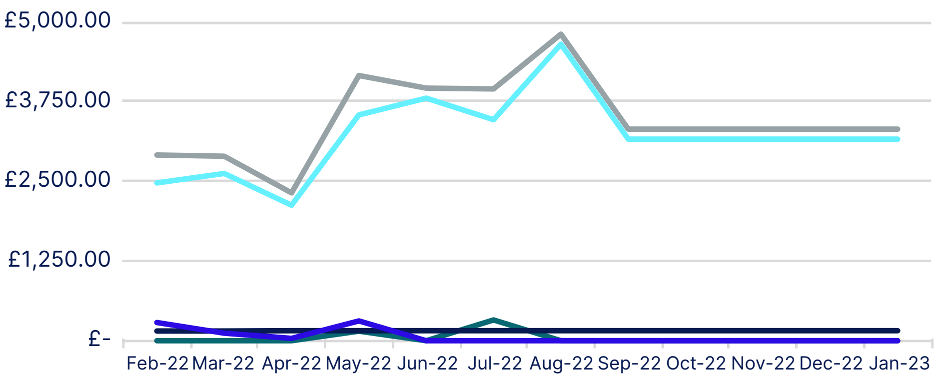


Earnings	£3,390
Universal Credit	£64
Child Benefit	£157
Cost of living payments	£40

Their average monthly income after housing is £2,893 ranging from £1,725 to £4,215.

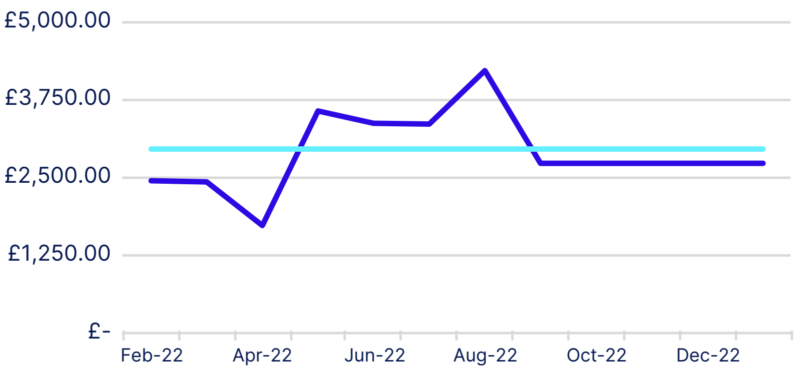
Their income is erratic (Hills et al, 2006 grouping), and not including months with estimated earnings) and 2 per cent below the MIS.

When claiming UC and working variable, part-time hours, the couple got into serious rent and council tax arrears. Since working full time and leaving UC, they are in a much better financial situation.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Laila and Reuben – Couple with dependent children

Laila and Reuben are a dual-earner couple with two dependent primary school-aged children. They are both self-employed delivery drivers working between 10 and 25 hours a week and later Laila also takes on additional employed work in a public services role for 10 hours a week.

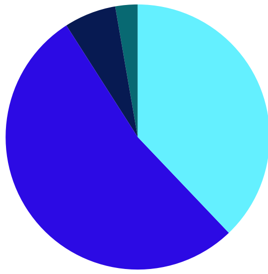
They live in social housing in Scotland paying £489 on average per month and their council tax is £140. They receive the childcare element of Universal Credit from July onwards. Their childcare costs were an average of £215 per month over the 7 months.

Their average monthly earnings are £930 ranging from £374 to £1,355.

They receive both cost of living payments and the council tax rebate, and Child Benefit for two children. They applied for the Scottish Child Payment when the age was extended to also include 6–16-year-olds but there was a delay due to the volume of claims the Scottish government had received.

Their UC is £1,303 per month on average ranging from £1,053 to £1,524. Their Universal Credit is made up of the couple standard allowance, the housing element for their full rent, the child element for two children and the childcare element. £27 is deducted one month for an 'other DWP benefit recovery'.

Average monthly household income composition (before housing costs)

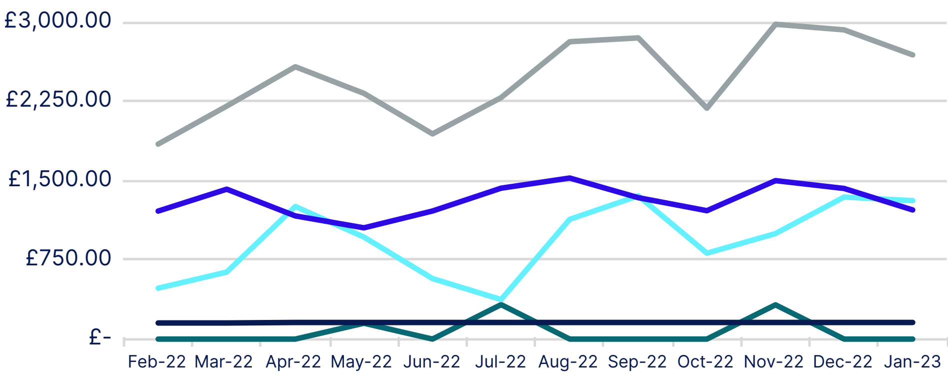


Earnings	£930
Universal Credit	£1,303
Child Benefit	£156
Cost of living payments	£67

Their average monthly income after housing is £1,737 ranging from £1,308 to £2,079.

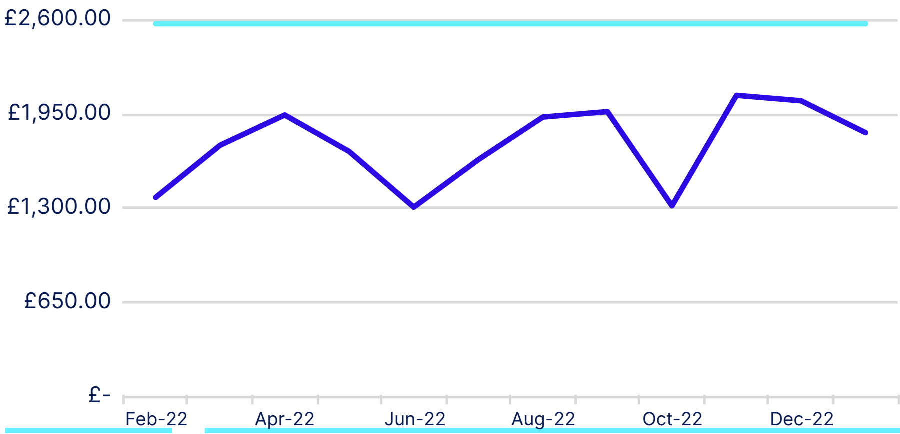
Their income is erratic (Hills et al, 2006 grouping) and 32 per cent below the MIS.

Delays in receiving the Scottish Child Payment, low-paid, erratic work and working less over the summer to care for the children all contribute to their income being below the MIS. Things improve slightly after Laila takes on a second job with steadier hours.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Laura and Mathew – Couple without dependent children

Laura and Mathew are a single-earner couple without children. Laura is self-employed running her own shop and Mathew has a mental health condition and is not working.

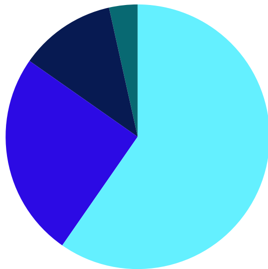
Laura's average monthly earnings are £1,351 ranging from £167 to £5,504.

They live in northern England and have a mortgage paying £564 on average per month and their council tax is £144.

They receive both cost of living payments, the council tax rebate and the disability payment and Mathew is receiving PIP.

Their UC is £567 per month on average ranging from £0 to £880. Their UC is made up of the couple's standard allowance and the LCWRA element.

Average monthly household income composition (before housing costs)

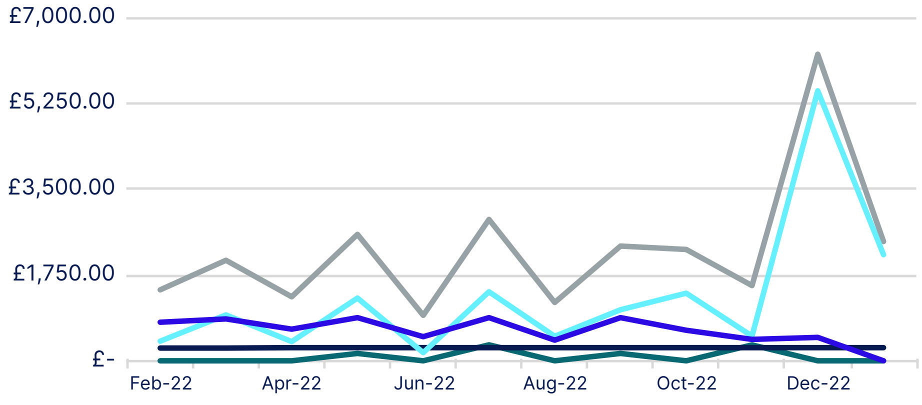


Earnings	£1,351
Universal Credit	£567
PIP	£267
Cost of living payments	£79

Their average monthly income after housing is £1,582 ranging from £244 to £5,492.

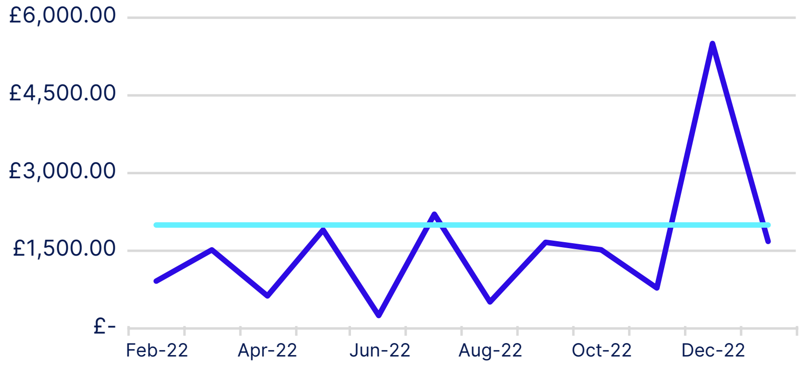
Their income is highly erratic (Hills et al, 2006 grouping) and 21 per cent below the MIS (note this MIS does not include disability costs).

Laura's self-employed earnings vary depending on the seasons which can make it hard to juggle finances. The MIF is applied at the end of the study which may impact them further going forward.



Income elements received over the year

- Earnings in month UC paid
- UC received
- PIP
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Leah and David – Couple with dependent children

Leah and David are a dual-earner couple with a baby when first interviewed, but then later Leah's two teenage children move back home after living temporarily with their father, one in August and one in January. One of the teenage children is severely disabled.

Leah works full time in admin and David works between 20-32 hours in hospitality. Leah is paid monthly and David is paid weekly.

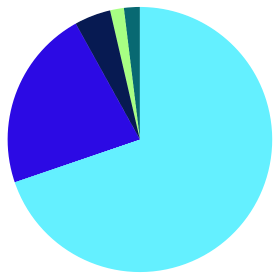
They are renting privately in northern England paying £600 per month and their council tax is £133. Their childcare costs are £461 per month on average.

Their earnings are £2,405 per month on average ranging from £1,651 to £3,528.

They receive both cost of living payments and the council tax rebate. They receive Child Benefit and £92 PIP for the oldest child from January 2023. They receive child maintenance of £100 per month from August 2022.

Their UC is £764 on average per month ranging from £386 to £1,510. Their Universal Credit is made up of the standard allowance for a couple, the housing element (this is initially £150 lower than their rent because of the LHA – but as their children move back in this reduces to a £50 reduction and to £0 from January when both the older children have moved back home). The child element for one then two children, the childcare element, the disabled child element from January and the carers element from Feb.

Average monthly household income composition (before housing costs)



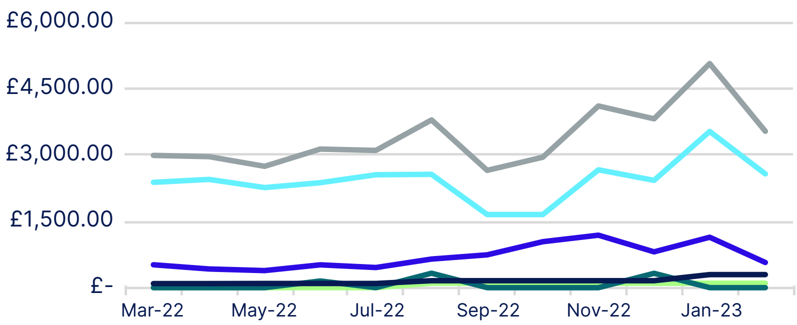
Earnings	£2,405
Universal Credit	£764
Child benefit and PIP	£153
Child maintenance	£58
Cost of living payments	£67

Their average monthly income after housing and childcare is £2,225 ranging from £1,528 to £3,765.

Their income is highly erratic (Hills et al, 2006 grouping) and 12 per cent below the MIS.

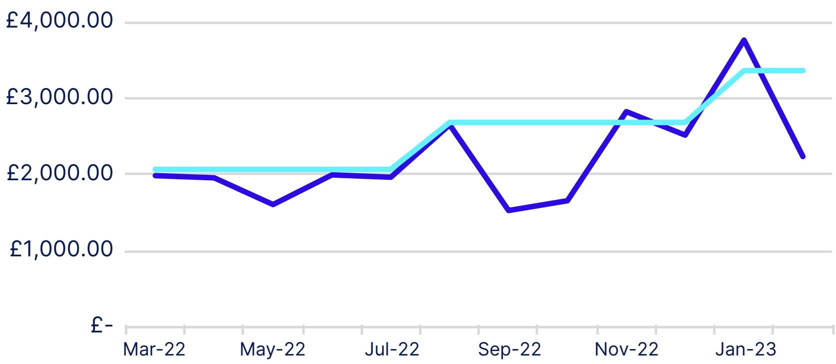
Changes in circumstances and David's erratic earnings from changing hours and weekly pay contribute to their income instability.

Income elements received over the year



- Earnings in month UC paid
- UC received
- Child benefit and PIP
- Child maintenance
- Cost of living payments
- Total income

Monthly disposable income compared to MIS



- MIS after housing
- Income after housing costs

Lisa – Lone parent

Lisa is a working lone parent with a dependent teenage child. She works in the same job throughout in an admin/public service type role for 30 hours a week paid £14.70 per hour. She is paid monthly.

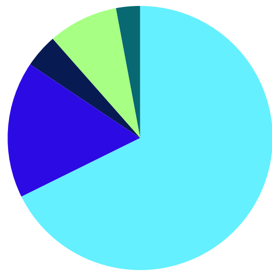
She lives in the south of England and rents from a social landlord paying £515 on average per month and £111 council tax.

She earns on average £1,545 per month ranging from £1,403 to £2,265 in the month she receives a bonus.

She receives both cost of living payments and the council tax rebate. She receives regular child maintenance and Child Benefit for one child.

Her average UC is £382 ranging from £16 to £442 per month. Her UC includes the standard single person's allowance, the child element for one child and the housing element which is £72 on average lower than her rent because of the spare bedroom deduction since her adult child moved out. She has monthly deductions from her UC between Feb and May 2022 for an advance (£25) and tax credit recovery (£56).

Average monthly household income composition (before housing costs)

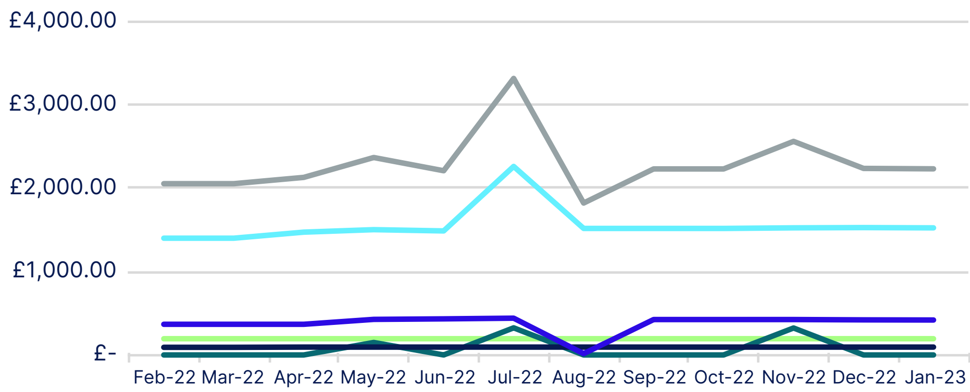


Earnings	£1,545
Universal Credit	£382
Child Benefit	£94
Child maintenance	£195
Cost of living payments	£67

Her average monthly income after housing is £1,684 ranging from £1,194 to £2,691.

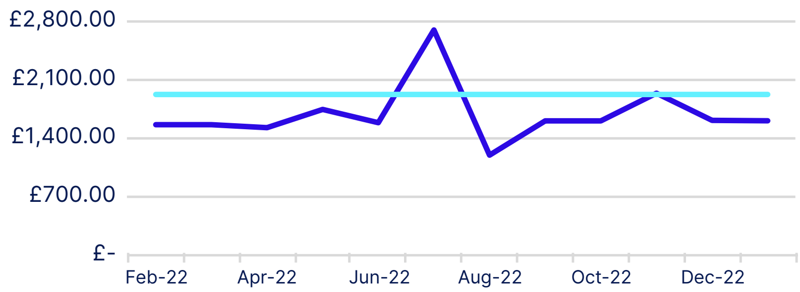
Her income is stable with blips (Hills et al, 2006 grouping) and 12 per cent below the MIS.

Lisa feels that she is just about managing financially. She does not like how her bonus ends up so much less than colleagues because her UC reduces so much, but said that the cost of living payment eased the impact this year. She uses credit cards to get by which she is trying to pay off, but finds it hard to find the money to do this.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Child maintenance
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Maggie and Ian – Couple with dependent children before they separate, then single claimant (Ian)

Maggie and Ian are a dual-earner couple with three children – a baby and one primary and one secondary school age when first interviewed, but they separate in the autumn and Ian (the interviewee) becomes a single claimant. One of the children is disabled.

Ian works for the council and also does some self-employed specialist building work, and Maggie is on maternity leave from her public services role.

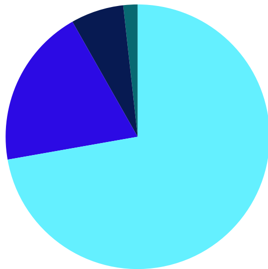
They live in the south of England, have no housing costs as they live in a house owned by family and do not pay rent. Their council tax is £129.

They receive the July cost of living payment and the council tax rebate, but Ian does not receive the November payment as his earnings are too high for him to receive any UC by this point.

Average monthly earnings over the year included in the joint then just Ian's UC statements are £1,774 ranging from £1,016 to £2,219.

The average monthly UC over the year is £480, ranging from £0 to £1,022. Their UC includes the couple standard allowance and the child element for two children, the disabled child element for one child and the carers element until October then after Ian receives the single person's standard allowance only (which is tapered away to £0 after his earnings are taken into account). They have a tax credit deduction of £24 per month.

Average monthly household income composition (before housing costs)

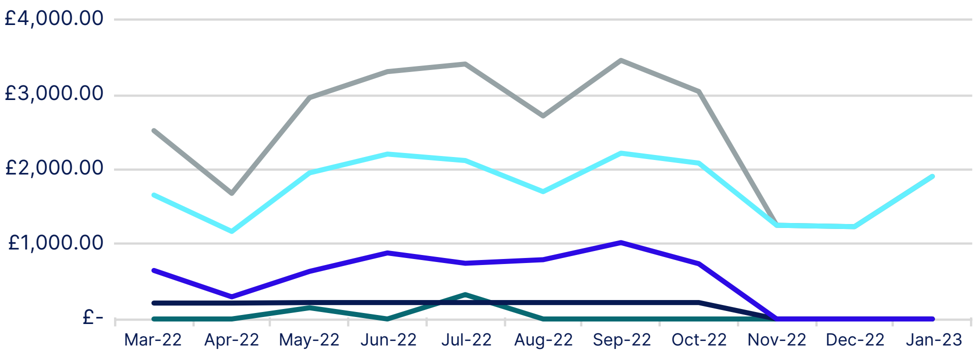


Earnings	£1,774
Universal Credit	£480
Child Benefit	£159
Cost of living payments	£43

The average monthly income after housing is £2,121 ranging from £1,106 to £3,332 (this includes both the couple claim and then Ian's single claim)

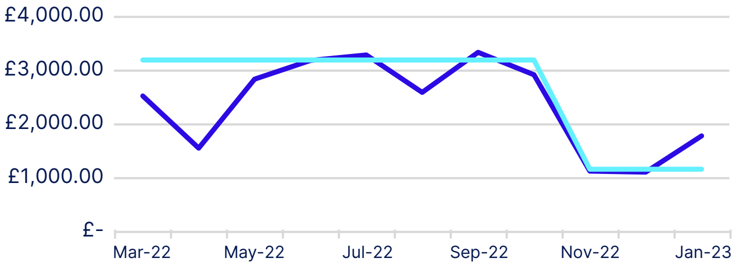
The income is highly erratic (Hills et al, 2006 grouping) and 20 per cent below the MIS.

Their change in circumstances and pay due to Maggie's maternity leave and Ian starting work (he is not working in the months prior to the first interview) cause the income changes over the year.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Megan and Tim – Couple with dependent children

Megan and Tim are a single-earner couple with two dependent children under the age of two. Megan has a disability and Tim is the lead carer for the children on the UC claim. Megan works as a cleaner initially for one hour per week which increases to eight hours. She is paid £9.90 per hour and is paid monthly.

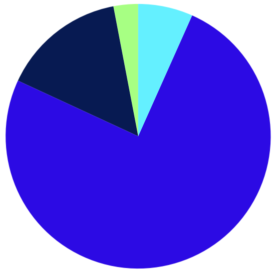
They live in Scotland in social housing paying £522 per month from May onwards. They were not receiving any housing element for the first three months (Feb-April) because they were living in temporary accommodation on a separate arrangement whereby rent was paid direct by the council to the landlord. Their council tax is £3 per month.

Megan earns £149 per month on average ranging between £0 and £565.

They receive both cost of living payments and the council tax rebate, Child Benefit and the Scottish Child Payment for both the children.

Their UC is £1,679 on average per month, ranging from £1,260 to £1,824. Their UC is made up of the couple's standard allowance the housing element from May which covers their full rent, the child element for two children and the LCWRA element. They have deductions for £70 per month on average for an advance and 'other DWP benefit recovery'.

Average monthly household income composition (before housing costs)

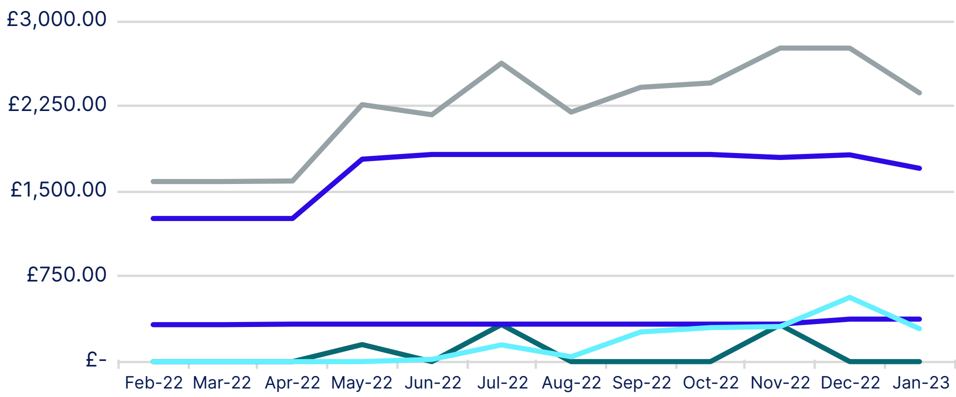


Earnings	£149
Universal Credit	£1,679
Child Benefit and Scottish Child Payment	£337
Cost of living payments	£67

Their average monthly income after housing is £1,837 ranging from £1,585 to £2,235.

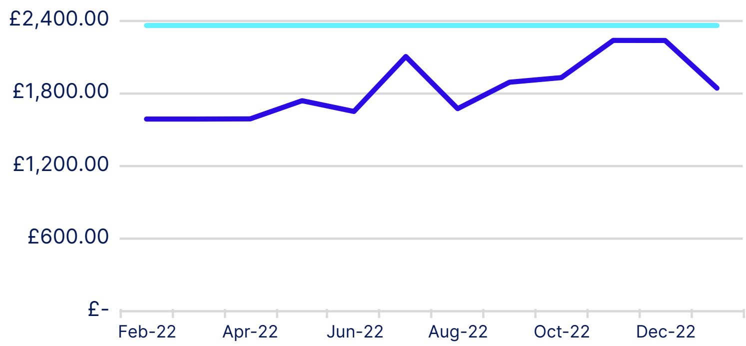
Their income is rising (Hills et al, 2006 grouping) and 22 per cent below the MIS.

Their income is rising because Megan starts earning a bit more and her earnings usually remain below the work allowance so the UC is not affected. They are still below the MIS however and her earnings are lower in December 2022 so their income in January 2023 drops again.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child benefit and Scottish Child Payment
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Melissa – Lone parent

Melissa is a working lone parent in an administrative role, with two primary school-aged children. She is paid monthly, works 21 hours a week and is paid £13.60 per hour. Melissa has a disability.

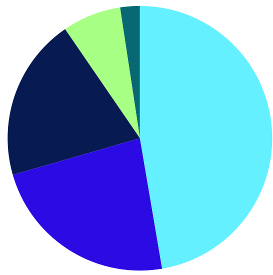
Her average monthly earnings are £1,320 ranging from £1,043 to £2,446 (because she was assessed for two months salary in February)

She lives in northern England in socially rented accommodation paying £380 per month and her council tax is £100.

She receives the cost of living payments, council tax rebate and disability payment. She receives Child Benefit and PIP and regular child maintenance.

Her average monthly UC is £648 ranging from £0 to £799. UC is made up of the standard allowance for a single person, the child element for two children and the housing element (full rent). £82 is deducted on average for an advance payment and 'other DWP benefit recovery'.

Average monthly household income composition (before housing costs)

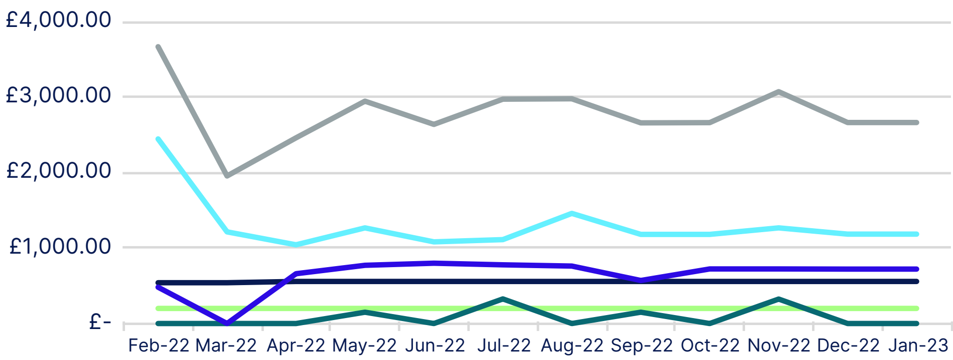


Earnings	£1,320
Universal Credit	£648
Child Benefit and PIP	£555
Child maintenance	£200
Cost of living payments	£67

Her average monthly income after housing is £2,301 ranging from £1,575 to £3,287.

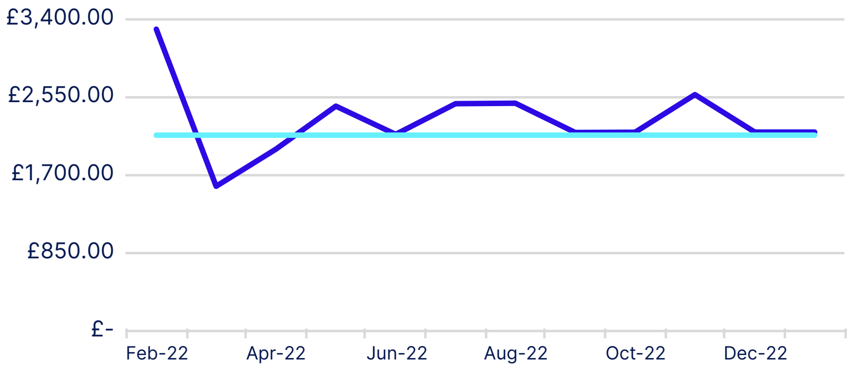
Her income is stable with blips (Hills et al, 2006 grouping) and 8 per cent above the MIS (although MIS does not take into account disability costs).

Receiving PIP and regular child maintenance (although lower than it should be) contribute to her being above the MIS – although the MIS does not include disability costs.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit and PIP
- Child maintenance
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Mia – Single claimant

Mia is a working single claimant. She has no dependent children. She works in security and works variable hours between 30-42 a week. She is paid monthly £9.90 per hour. She has a disability.

She lives in social housing in Wales paying rent of £455 a month and £106 council tax.

She earns £1,467 on average per month ranging from £1,223 to £1,925.

She receives the council tax rebate but not the cost of living payments because her UC payments are £0 in the qualifying periods.

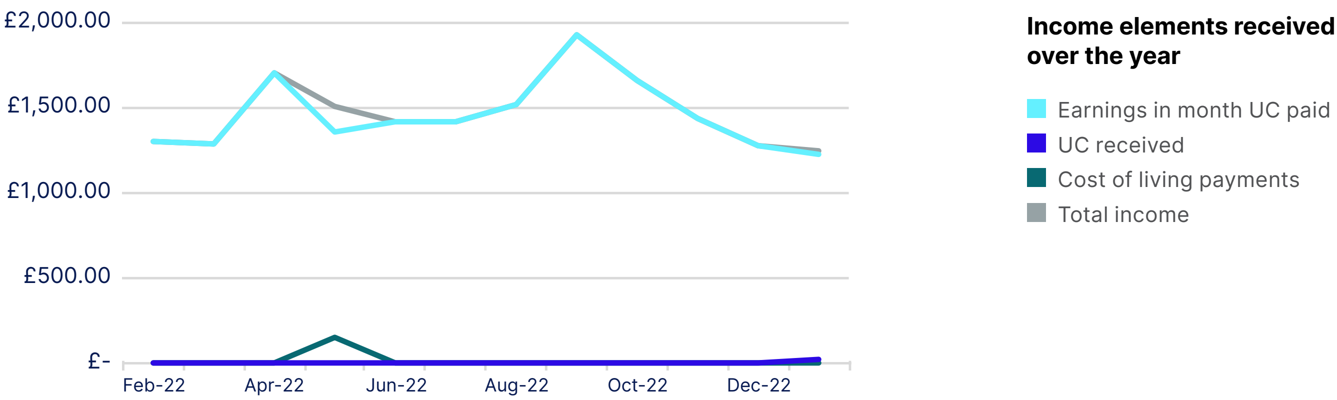
Her UC is £7 on average per month ranging from £0 to £67 (in Feb 2023 so not on the chart). She only receives a very small UC payment but her claim is open throughout. Her UC is made up of the single person's standard allowance and the housing element which does not include her full rent because the spare bedroom deduction is applied.

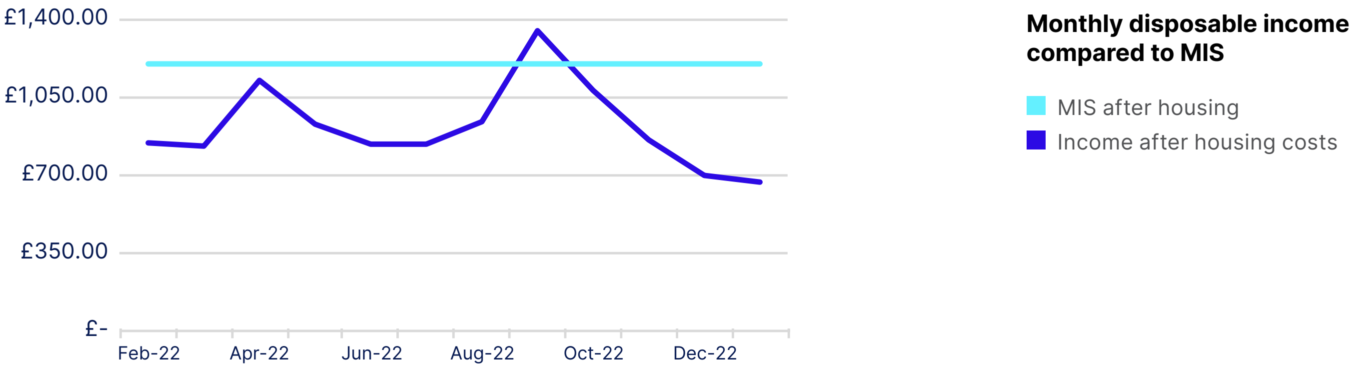
Average monthly household income composition (before housing costs)

Her monthly income after housing is £916 ranging from £668 to £1,348.

Her income is erratic (Hills et al, 2006 grouping) and 24 per cent below the MIS.

Her hours of work are variable which means her income is erratic. Being on the minimum wage means her income is low despite working 30–42 hours a week, but too high for her to be eligible for any UC.





Monica and Aaron – Couple without dependent children

Monica and Aaron are a dual-earner couple without dependent children. Monica works in hospitality initially for 12-25 hours and then later full time and Aaron has two jobs working around 42 hours per week as a cleaner and delivery driver. They are both earning the minimum wage.

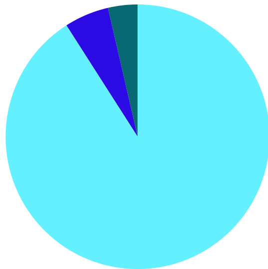
They live in Scotland in private rented accommodation in a house share paying £250 per month which includes their council tax contribution.

Their average monthly earnings are £1,684 ranging from £639 to £3,345.

They receive the first cost of living payment and the council tax rebate but not the second as they are no longer receiving any UC in the qualifying period.

Their average monthly UC over the year is £101 ranging from £0 to £408. Their UC is made up of the standard allowance for a couple and the housing element for their full rent. They no longer receive any UC from June because their earnings are too high and they no longer receive UC statements from October. At this point, they withdrew from the research. Estimated earnings based on their October UC are used for the final months so as not to underestimate their earnings over the year.

Average monthly household income composition (before housing costs)

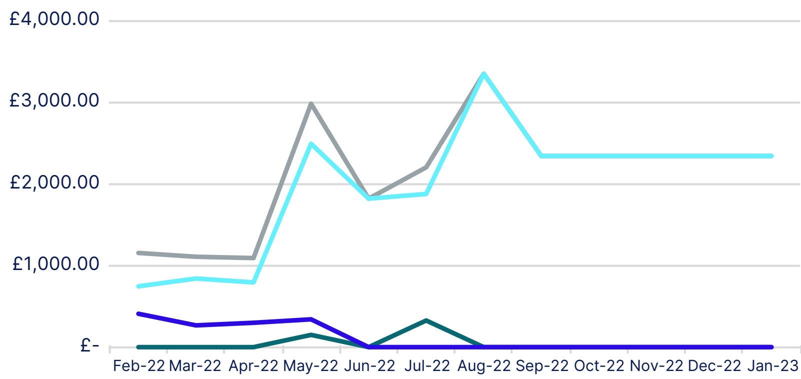


Earnings	£1,684
Universal Credit	£101
Cost of living payments	£67

Their average monthly income after housing is £1,865 ranging from £840 to £3,905.

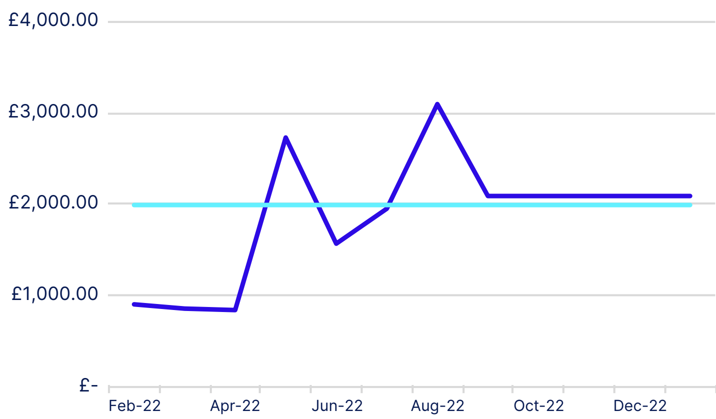
Their disposable income is rising (Hills et al, 2006 grouping – based on data before estimated earnings) and 6 per cent below the MIS (includes estimated earnings data).

When Monica starts working full time their income increases, and combined with their low housing costs they manage to reach the MIS despite no longer receiving any UC.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Naomi – Lone parent

Naomi is a working lone parent with one primary school-aged child. She is working in an admin role for 17 hours per week, which increases to 24 and she is paid monthly £10.25 per hour.

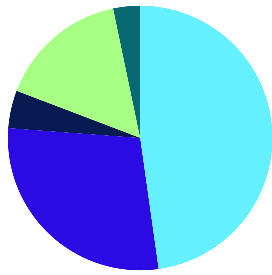
She lives in the south of England in socially rented accommodation paying on average £386 per month in rent and £93 council tax.

Her earnings are £975 per month on average ranging from £725 to £1,432.

She receives both cost of living payments and the council tax rebate, Child Benefit and regular child maintenance.

Her UC is £580 on average per month ranging from £415 to £846. She receives the single person's standard allowance, the child element for one child, the housing element for her full rent and the childcare element. She has no deductions for debt or loans.

Average monthly household income composition (before housing costs)

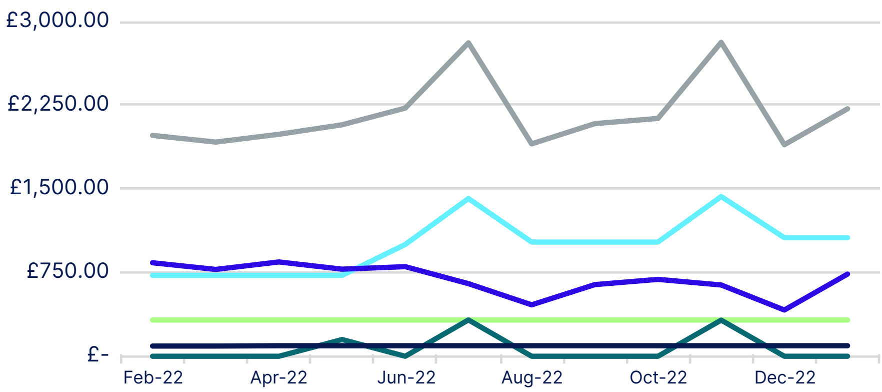


Earnings	£975
Universal Credit	£580
Child Benefit	£94
Child maintenance	£325
Cost of living payments	£67

Her average monthly income after housing and childcare is £1,685 ranging from £1,381 to £2,333.

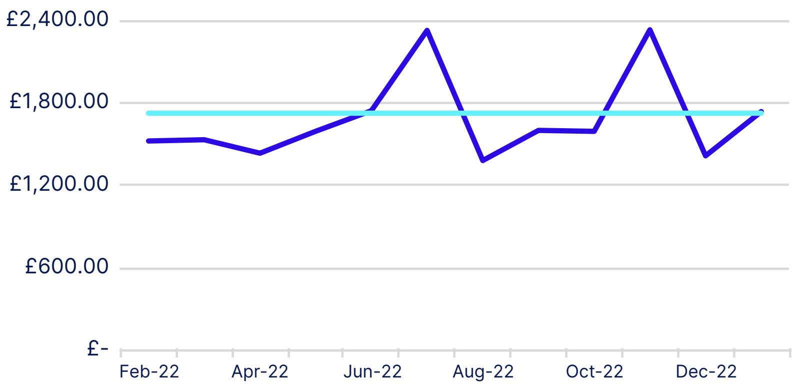
Her income is erratic (Hills et al, 2006 grouping) and 2 per cent below the MIS.

After her work hours increase, Naomi faces many challenges with her employer paying her incorrectly. It takes three months to resolve the issues when she then receives a back payment amount which impacts on her UC. She also receives a bonus later in the year which impacts on her UC payment the following month. These issues make it very hard to manage her finances. Receiving regular child maintenance payments mean that her overall income is nearer the MIS.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Child maintenance
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Penelope – Lone parent then couple without dependent children

Had to close a para break to make text fit.

Penelope is a working lone parent with one dependent teenage child at first, but in July she moves in with her partner into the house he is renting and her son moves in with friends so she is then a couple without dependent children. Her child has mental health condition and Penelope has both physical and mental health conditions.

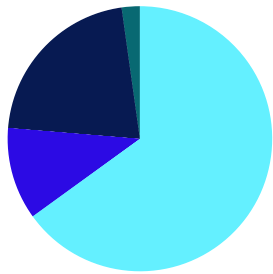
At first she is working as a cleaner, then she works in a specific craft related industry in the same place where her partner works, but then she stops working for health reasons. She lives in the south of England and is socially renting at first, then privately renting when she moves in with her partner. Her average monthly rent over the year is £959 and council tax is £100.

She receives the cost of living payment in July, but not November as she is no longer on UC after she moves). She receives the council tax rebate and the disability payment in September. She also receives Child Benefit and PIP and carers allowance until her child moves out in July.

Her average earnings over the year are £1,672, ranging from £0 (as she was not working in the months prior to the first interview) to £3,034 at the point both her and her partner are working.

Her average monthly Universal Credit over the year is £290 ranging from £0 to £1,003. Her UC includes the single person's standard allowance, the child element and the housing element for the full social rent. For the months she is claiming UC she has a deduction of £37 per month for tax credit and other DWP benefit recovery.

Average monthly household income composition (before housing costs)

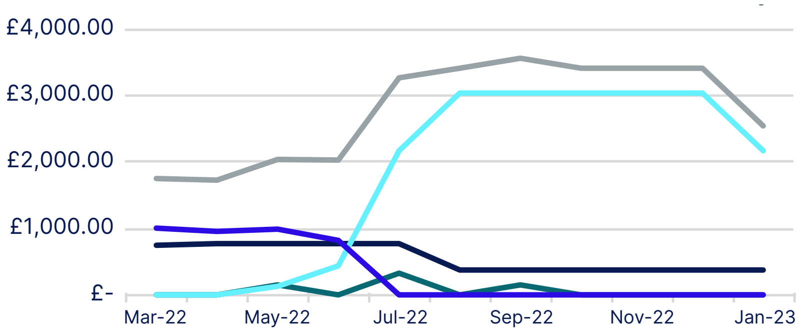


Earnings	£1,672
Universal Credit	£290
Other benefits	£552
Cost of living payments	£57

Her/their average monthly income after housing is £1,470, ranging from £561 to £2,208.

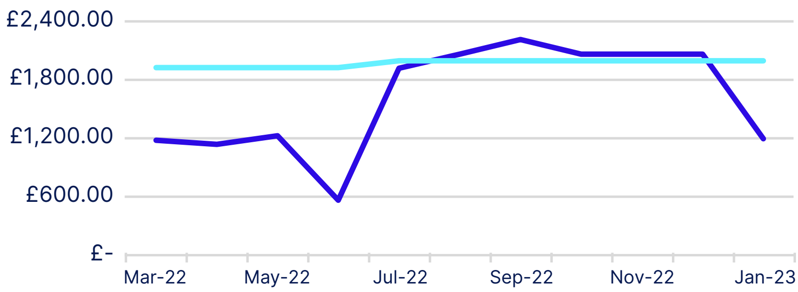
Her/their income is rising (Hills et al, 2006 grouping) and 25 per cent below the MIS.

Her income improves when she and her partner have combined earnings. However, when she stops work for health reasons, their income drops and in her final interview she said she had started the process to claim UC again.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Other benefits
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Phillipa – Single claimant without dependent children

Philippa is a single claimant with no dependent children. She has a long-term health condition. She is self-employed working in a caring role.

She lives in Wales and has a mortgage paying £80 on average per month and her council tax is £37.

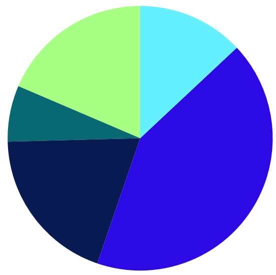
She earns £150 per month on average ranging from £0 to £834.

She receives both cost of living payments, the council tax rebate and the disability payment. She receives PIP.

Her UC is £487 on average per month ranging from £181 to £689. Her UC is made up of the single person's standard allowance and the LCWRA element from August.

She receives a benefit back payments of £1,970 for LCWRA element owed and in September after chasing up why she had not received the full amount owed to her she received a further £600.

Average monthly household income composition (before housing costs)

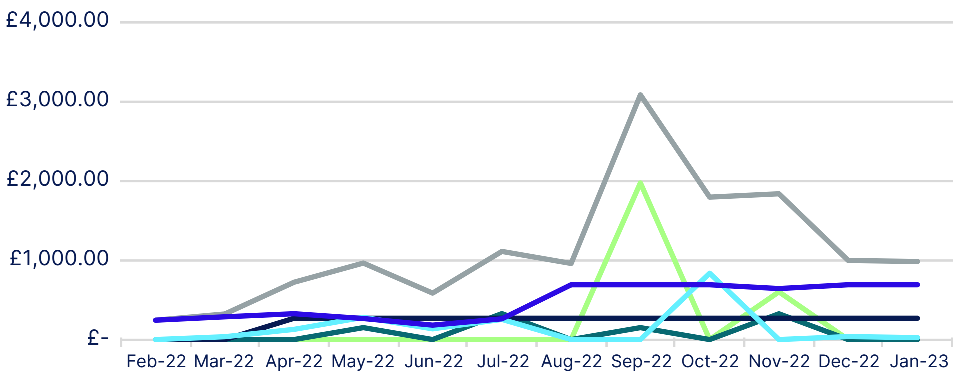


Her monthly average income after housing is £1,020 ranging from £164 to £2,977.

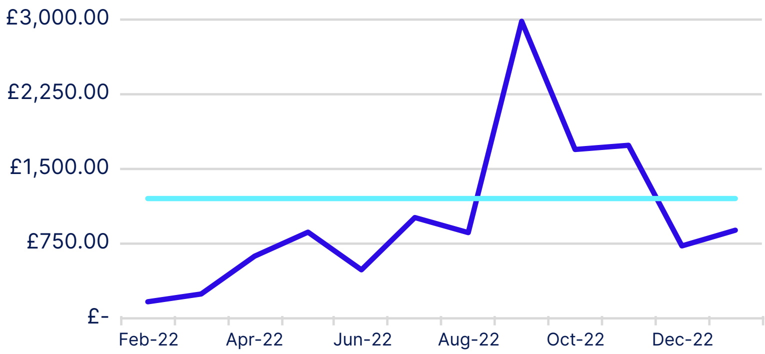
Her income is highly erratic (Hills et al, 2006 grouping) and 15 per cent below the MIS.

Her income is very volatile due to the benefit back payments and also her erratic self-employed earnings. She has ongoing financial struggles because after she first got ill (before the study) she stopped her previous self-employed consultancy work and fell behind on her mortgage payments. Near the end of the study, she reached an age where she could draw down part of her pension and paid off her mortgage. After receiving the LCWRA element and back payments, things began to stabilise financially and she started to notice her health improve.

Income elements received over the year



Monthly disposable income compared to MIS



Rachel – Lone parent

Rachel is a working lone parent with one primary school age dependent child and a 20-year-old non-dependent child living at home. She works 16 hours per week in a public services role earning £9.70 per hour. She is paid monthly.

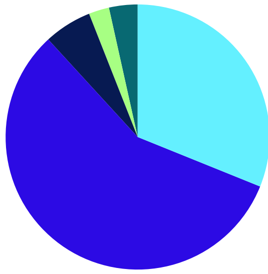
Rachel lives in Scotland in private rented accommodation paying £650 per month on average and her council tax is £69. Rachel has childcare costs in one month for £246.

Her average monthly earnings are £596 ranging from £519 to £673.

She receives both cost of living payments and the council tax rebate, Child Benefit and the Scottish Child Payment from December and in two months over the year she receives child maintenance (for £285 on each month).

Her UC is £1,094 on average per month ranging from £1,061 to £1,279. Her UC is made up of the single person's standard allowance, the child element for one child, the housing element although the non-dependent adult deduction of £78 per month is applied from August when Rachel's adult child turns 21.

Average monthly household income composition (before housing costs)

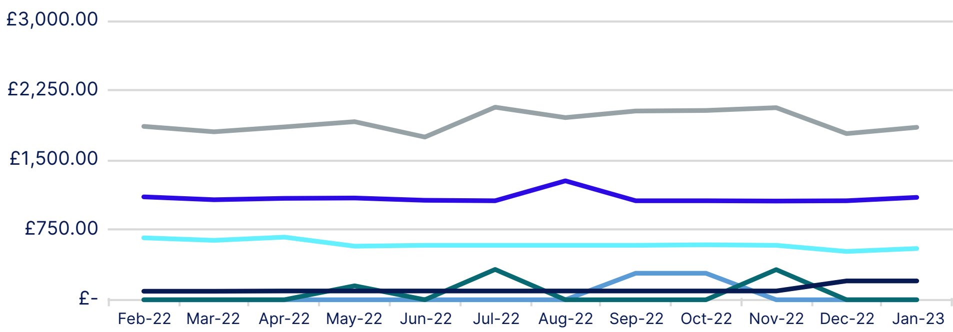


Earnings	£596
Universal Credit	£1,094
Child Benefit and Scottish Child Payment	£112
Child maintenance	£48
Cost of living payments	£67

Her average monthly income after housing is £1,188 ranging from £1,030 to £1,346.

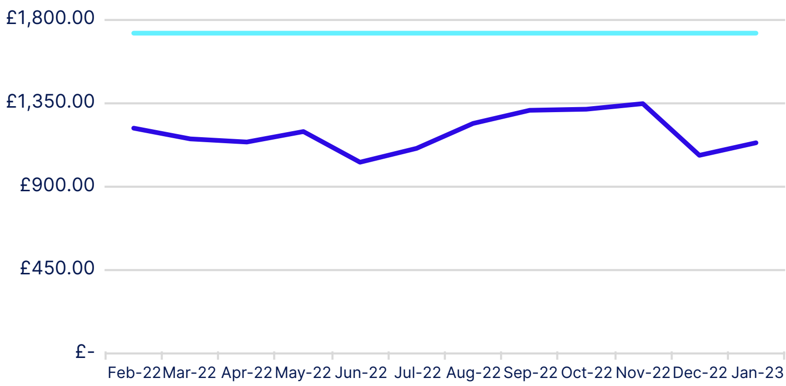
Her income is broadly stable (Hills et al, 2006 grouping) and 31 per cent below the MIS.

Her steady earnings means that her income is mainly stable, although she receives very low child maintenance and earns the minimum wage which contribute to her low income overall.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit and Scottish Child Payment
- Child maintenance
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Richard – Single claimant without dependent children

Richard is a single claimant without dependent children. He is working part-time in hospitality but loses his job in July and then starts working in a community role full time. He earns just above the minimum wage in both jobs and is paid monthly.

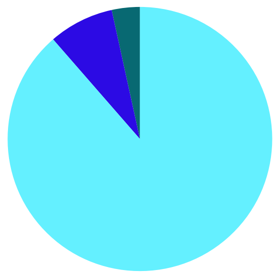
He lives in Scotland in social housing paying £327 on average and his council tax is £80.

His average monthly earnings are £1,034 ranging from £0 to £1,477.

He receives the first cost of living payment but not the second as he is no longer on UC at this point. He receives the council tax rebate.

His UC is £93 on average per month over the year ranging from £0 to £633. Richard's UC is made up of the single person's standard allowance and the housing element for his full rent, although he no longer receives any UC from November onwards because his earnings are too high.

Average monthly household income composition (before housing costs)

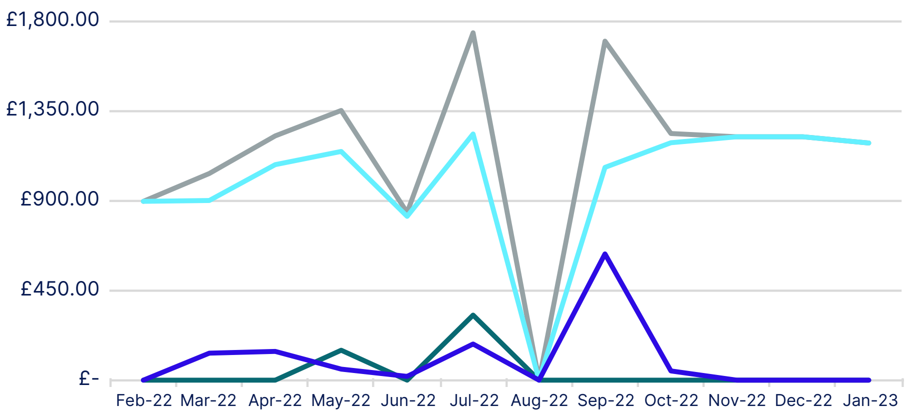


Earnings	£1,034
Universal Credit	£93
Cost of living payments	£40

Richard's average monthly income after housing is £746 ranging from £0 to £1,334.

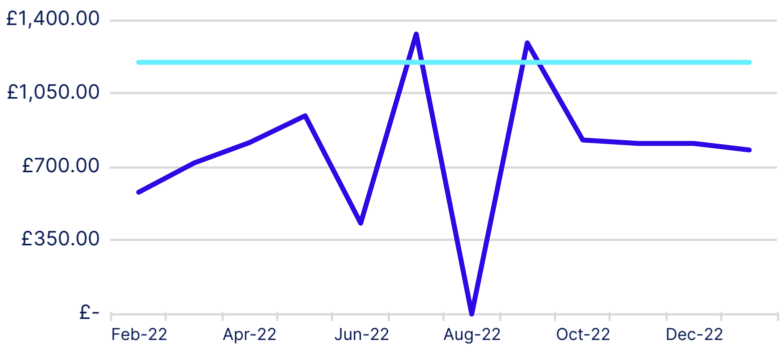
His income is highly erratic (Hills et al, 2006 grouping) and 38 per cent below the MIS.

Richard's income is very volatile mainly because when he loses his job, his final wage packet means that in August he has no UC in a month when he also has no earnings because he has not yet started his new job. He felt let down at a point when he needed help the most. His low hourly rate of pay means that his income overall stays below the MIS, but when working full-time he is no longer entitled to any UC.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Ruby and Arthur – Couple with dependent children

Ruby and Arthur are a single-earner couple with two dependent children – a baby and a primary school-aged child. Arthur is working 20 hours a week in hospitality, paid monthly £9.50 per hour, until he is made redundant in September (although he receives a small amount of holiday pay owed in November). Neither partner are in work after this point.

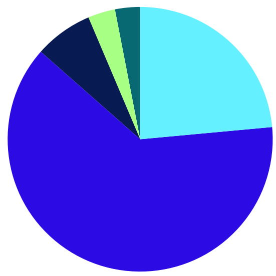
They are private renters living in northern England paying £650 per month and their council tax is £100.

Arthur's average monthly earnings over the year are £516 ranging from £0 in the months after his job ends and £1,048.

They receive the cost of living payments and council tax rebate, Child Benefit and they receive four discretionary housing payments over the year – £120 in June, £193 in July, £500 in November and £64 in January.

Their average monthly UC is £1,381 ranging from £1,198 to £1,585. Their UC is made up of the standard allowance for a couple, the child element for two children and the housing element which is £150 short of their full rental costs due to the LHA. They receive a sanction for £180 in December.

Average monthly household income composition (before housing costs)

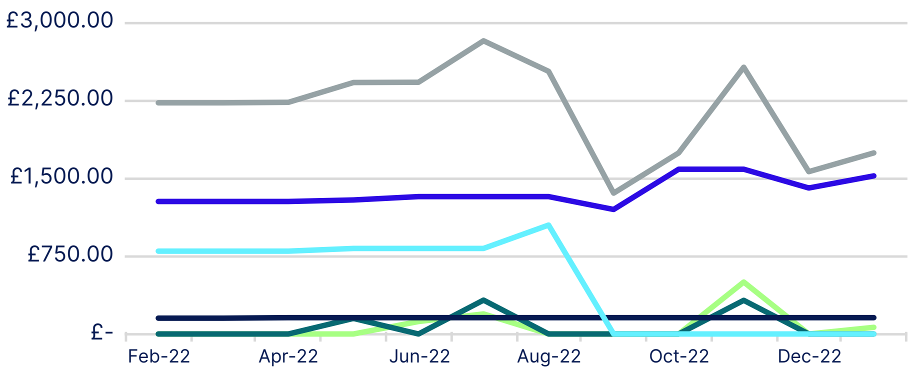


Earnings	£516
Universal Credit	£1,381
Child Benefit	£156
Discretionary housing payments	£73
Cost of living payments	£67

Their income after housing costs is £1,420 ranging from £605 to £2,071.

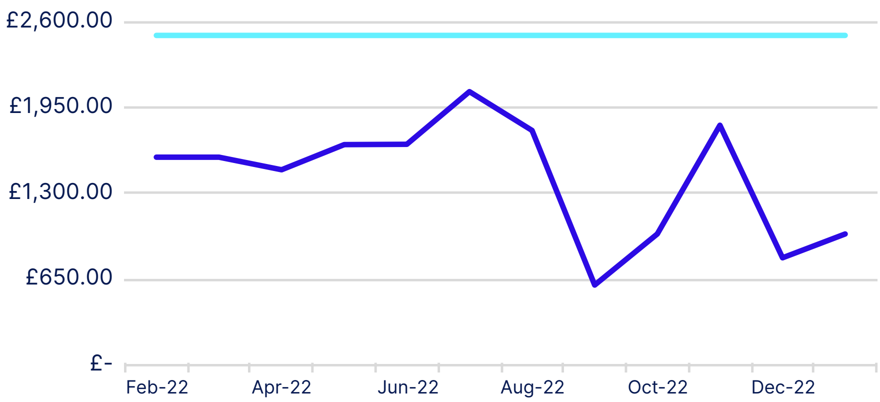
Their income is highly erratic (Hills et al, 2006 grouping) and 43 per cent below the MIS.

Ruby and Arthur have one of the lowest incomes compared to the MIS in our sample due to having low and then later no earnings. Their income is very low in September because Arthur loses his job. Because UC is calculated on the previous months earnings, in September they have both low UC and no earnings.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Discretionary housing payments
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Sarah and Tom – Couple with dependent children

Sarah and Tom are a dual-earner couple to start with two dependent children – one is pre-school age and one is primary school age. By the end they are a single-earner couple. Tom is self-employed in specialist building work and Sarah works in hospitality at the start but she stops after becoming ill with Covid and then is made redundant. She had found paying for childcare a struggle so she starts some craft related self-employed work in the autumn, but earnings are low so she stops this. Sarah is working 16 hours a week until she stops work and her self-employed work is variable. Tom's hours are variable throughout.

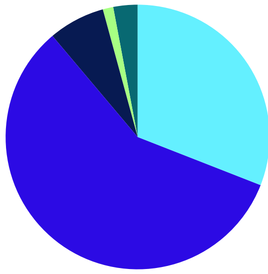
They rent privately in Wales paying £625 on average per month and their council tax is £94. They are paying between £215 and £354 per month for childcare between April and August when she is in work.

Their earnings are £698 on average ranging from £0 to £1,663.

They receive the cost of living payments and the council tax rebate and Child Benefit and £29 child maintenance per month.

Their UC is £1,307 on average per month ranging from £950 to £1,460. Their UC is made up of the couple's standard allowance, the child element for two children and the housing element which is £75 lower than their rent because of the LHA. £147 was deducted on average per month from their UC for an advance, 'other DWP benefit recovery' and the benefit cap (£475 was deducted over the year for the benefit cap).

Average monthly household income composition (before housing costs)

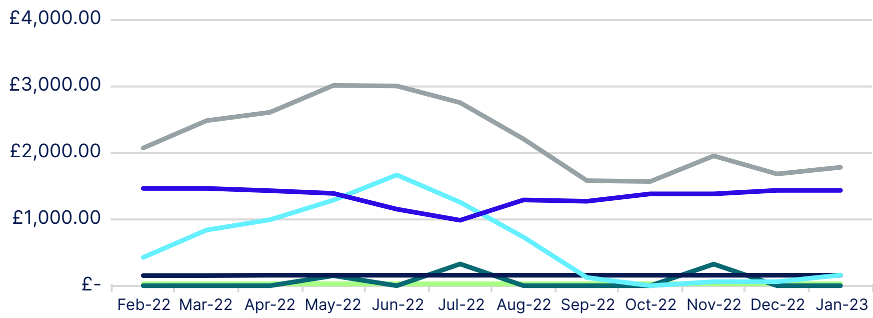


Earnings	£698
Universal Credit	£1,307
Child Benefit	£156
Child maintenance	£29
Cost of living payments	£67

Their average monthly income after housing is £1,395 ranging from £816 to £2,034.

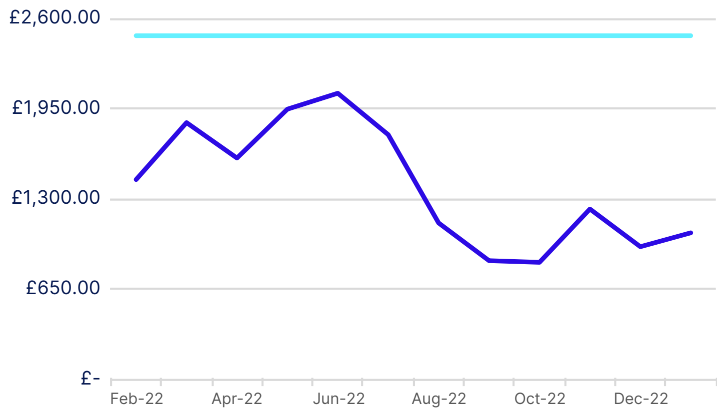
Their income is falling (Hills et al, 2006 grouping) and 45 per cent below the MIS.

They are struggling financially and frequently borrow from family to get by. Many factors contribute to their challenging situation. Tom's work often would be cancelled last minute and childcare costs made it difficult for Sarah to work. They had high deductions and reductions including the benefit cap and the LHA. The MIF was about to be applied which would create further challenges.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Child maintenance
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Teresa – Lone parent

Teresa is a full-time working lone parent initially in an admin and then later public services role after changing jobs. She has one dependent teenage child and one non-dependent adult living at home who is unemployed. She changes jobs part way through the study. She earns around £11-12 an hour and is paid monthly.

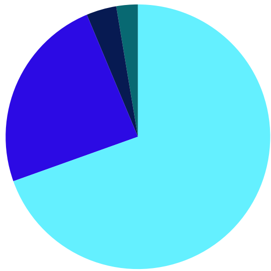
She lives in private rented accommodation in the south-west of England paying on average £942 per month and her council tax is £180.

She receives both cost of living payments and the council tax rebate and Child Benefit for one child.

Her average monthly earnings are £1,774 ranging from £1,469 to £2,179.

Her average UC is £616 ranging from £449 to £840. She receives the single person's standard allowance and the child element for one child and the housing element which is £79 below her rent due to the non-dependent adult deduction. £83 per month is deducted on average for an advance and tax credit recovery.

Average monthly household income composition (before housing costs)

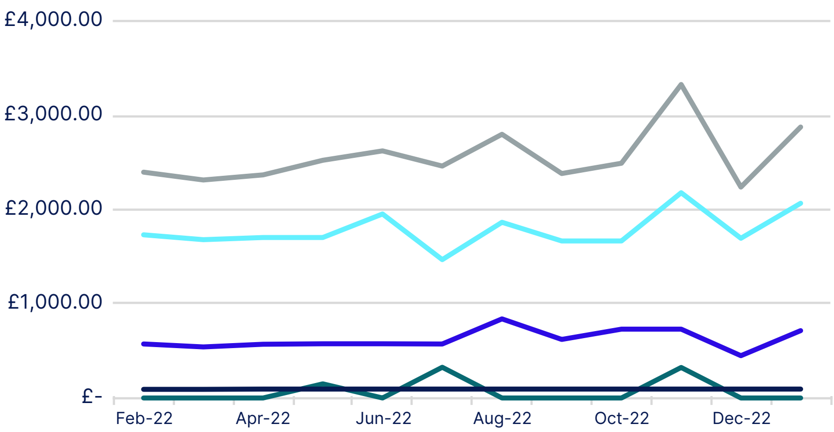


Earnings	£1,774
Universal Credit	£616
Child Benefit	£94
Cost of living payments	£67

Teresa's average income after housing costs is £1,476 ranging from £1,059 to £2,148.

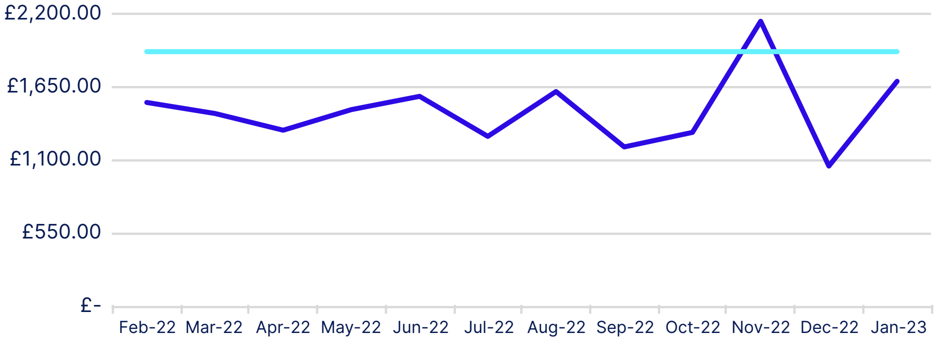
Her income is mainly stable with blips (Hills et al, 2006 grouping) and she is 23 per cent below the MIS.

The blips in her earnings are caused by lump sum backdated pay rises and tax code issues when she changes jobs. Despite working full-time, she struggles to get by due to high private rental costs, car costs (essential for her work), deductions and reductions to her UC payment, and her unpredictable income due to the issues with her pay.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Child Benefit
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Vanessa and Stephen – Couple without dependent children

Vanessa and Stephen are a single-earner couple without dependent children but have one non-dependent adult child living at home. Both Stephen and Vanessa have disabilities/health conditions. Stephen is employed as a cleaner to start but is on statutory sick pay and then made redundant in July.

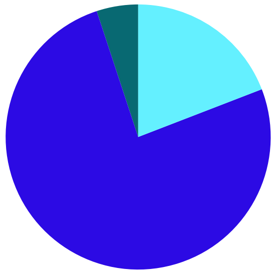
They live in private rented accommodation in northern England paying £347 on average per month and their council tax is £71.

Stephen's average monthly earnings are £253, ranging from £0 to £552.

They receive both cost of living payments and the council tax rebate. They do not receive any other benefits or income. They applied for PIP but have not yet received it.

Their average UC is £1,002 ranging from £903 to £1,096. Their UC is made up of the couple's standard allowance, the LCWRA element and the housing element for part of their rent. The non-dependent adult deduction of £71 per month is applied – but incorrectly because the tenancy has already been divided three ways between them and their son. Researchers alerted them to this but the issue was not resolved during study timeframe. They have a deduction of £121 per month for an advance and tax credit recovery.

Average monthly household income composition (before housing costs)

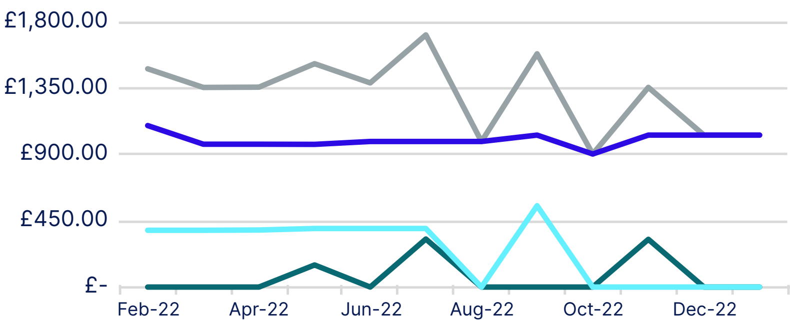


Earnings	£253
Universal Credit	£1,002
Cost of living payments	£67

Their average monthly income after housing is £902 ranging from £485 to £1,293.

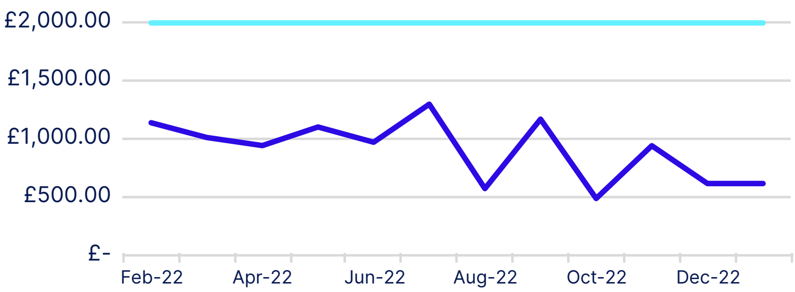
Their income is highly erratic (Hills et al, 2006 grouping) and 55 per cent below the MIS.

Reasons for their highly erratic and low income include their unemployment, that they are not yet receiving any PIP or carers elements, the UC error for the incorrect housing element, high deductions, and also the receipt of owed holiday pay after Stephen's SSP comes to an end.



Income elements received over the year

- Earnings in month UC paid
- UC received
- Cost of living payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Zoe – Lone parent

Zoe is a working lone parent with one dependent pre-school aged child working 7.5 hours a week in a shop paid £10 per hour and is paid four-weekly. She has a mental health condition.

She lives in social housing in Wales paying £392 on average per month and her council tax is £43.

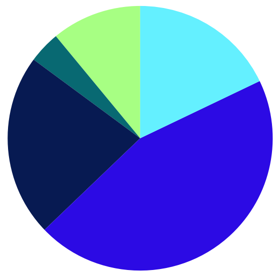
Her average monthly earnings are £308 ranging from £250 to £512.

Zoe receives both cost of living payments and the council tax rebate, Child Benefit and carers allowance because she cares for her mum.

Her UC is £774 on average per month, ranging from £664 to £905 and is made up of the single person's standard allowance, the child element for one child, the housing element for her full rent, and the carers element. She is classed as having limited capacity for work but does not receive the financial element. £74 on average per month is deducted for an advance and 'other DWP benefit recovery'.

Zoe receives a total of £2,268 over the year in benefit back payments (in two separate amounts) owed to her due to delays in receiving carers allowance and the carers element of UC.

Average monthly household income composition (before housing costs)

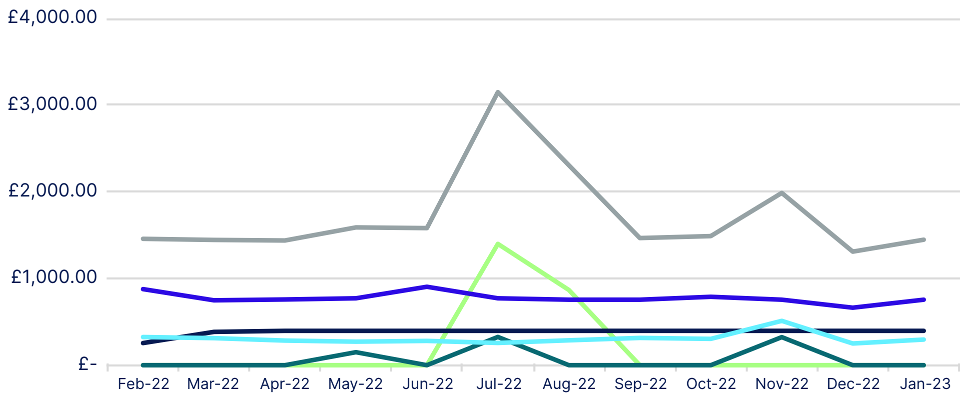


Earnings	£308
Universal Credit	£774
CB and Carers Allowance	£384
Cost of living payments	£67
Backdated benefit payments	£189

Zoe's average monthly income after housing is £1,296 ranging from £874 to £2,715.

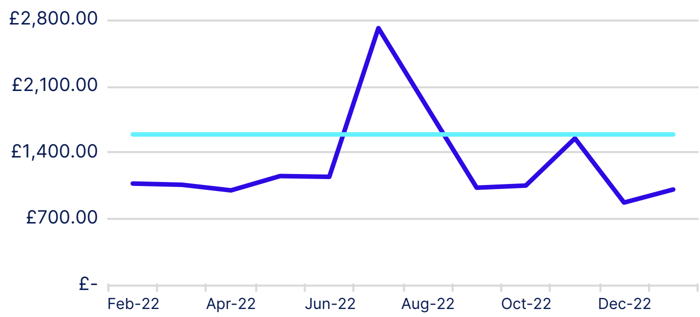
Zoe's income is highly erratic (Hills et al, 2006 grouping) and is 19 per cent below the MIS.

Zoe's income is erratic due to the benefit back payments and also being paid four-weekly which reduces her UC in one month in the year.



Income elements received over the year

- Earnings in month UC paid
- UC received
- CB and Carers Allowance
- Cost of living payments
- Backdated benefit payments
- Total income



Monthly disposable income compared to MIS

- MIS after housing
- Income after housing costs

Annex 2: Additional Information about the sample

Additional Information about the sample

More detailed information about the characteristics and circumstances of the sample which is not included in the main report is included here.

Participant employment conditions

Thirty-five of the 50 working claimants said they were guaranteed a minimum number of hours each week, nine said they were not and six were not sure. Seventeen said they received occupational sick pay, 11 said they received statutory sick pay, 14 said they received no sick pay and eight were not sure. Most were happy with the hours they were working (30), nine wanted to work more, and four wanted to work less, seven were not sure. Thirty said that their employer paid into a pension for them, 12 said they did not and eight were not sure. Thirty-eight said that they got paid for holidays, 11 did not and one was not sure. Thirteen had been in their current job for under six months, five for six to 12 months, 11 for one to two years, 15 for three to seven years and four for over eight years. Two were not sure.

Household earner status and change over the study timeframe

Of the 38 households engaged throughout the study, 29 had the same household earner status as they did at the start and nine had changed. Of the eight dual-earner couples, five were still dual-earner couples at the end, one was a single-earner couple, one was a non-earner couple and one was a working single claimant. Of the ten who were single-earner couples at the start, eight were still single-earner couples and two were non-earner couples at the end. Of the 15 working lone parents, 11 were still working lone parents at the end, two were non-working single claimants, one was a non-working lone parent and one was a single-earner couple. Overall, of the 38 households, six had no-one working in the household by the end of the study.

Earnings received in each monthly assessment period

Average monthly earnings are reported in chapter five and earnings over the year for each household can be seen in Annex 2. Here we report on any gaps in monthly earnings over the study timeframe and the reasons why.

Fourteen of the 38 participants for whom we collected nine plus months' worth of UC statements did not have earnings for the full data collection period. Six households had no earnings for three to six months of the income data collection period (nine to 13 months) either because they stopped working part way through the study and did not return to work (4) or because no-one was working in the household until May/June[101] (1) or because they were self-employed and had four months at various points over the year where they did not have any earnings (1).

In six households there were no earnings for one or two months over the period they provided UC statements. This was because they were not working for two of the months prior to the first interview (2); had one month with no earnings due to erratic self-employed income (1); lost their job with a one month gap before getting a new job (1); mistakenly received two sets of monthly wages in one (so were not pay the following month) (1); were mistakenly not paid one month so received two sets of wages the following month (1).

The final two households had no earnings for most or all of data collection period. One participant only had earnings for two months in May and June 2022, but then was made redundant. The other was self-employed to start but only made a loss, so had no actual earnings throughout (we have excluded this participant from the quantitative analysis presented in chapters four to six).

In two additional households no earnings were recorded on the UC statement in one monthly assessment period because their employer did not report their wages on time, but the participants did receive earnings in those months and we included this data in our income calculations).

Universal Credit additional information

Thirty-five of the 42 households said their Universal Credit claim had been continuous since they first started claiming, and for seven their claim had stopped and restarted. Thirty-two of the 42 households said they had claimed legacy benefits.

Twenty-five had started claiming UC after the Covid-19 pandemic started and 17 had started claiming Universal Credit before Covid. Of those claiming after the pandemic – four started claiming for reasons related to Covid. One was unwell with Covid and the other three lost jobs or experienced reduced hours of work because of the pandemic.

In 13 of the 16 couple households with dependent children, the lead carer on the UC claim was the female partner and on three households it was the male partner's. Of the 19 couples overall, 11 said that the UC was paid into the female partners bank account, six said it was paid into a joint account and two said it was paid into the male partner's' account.

For most households, their UC assessment period started between either the first and tenth of the month (19) or between the 11th and the 20th of the month (17). Six said that their UC assessment period started between the 21st and 31st of the month.

101 Not all of the households had someone in work for the full period of time for which we collected theUniversal Credit statements.

Thirty-nine out of 42 households were entitled to a work allowance because they had children and/or were in receipt of the LCWRA element of UC. Thirty-two were entitled to the lower rate work allowance (£335 rising to £344[102])and seven were entitled to the higher work allowance (£557 rising to £573) because they did not receive the housing element of UC due to having a mortgage (6) or because they did not have rental costs (1). In one further case the participant moved from the lower to higher work allowance part way through the study after she moved in with her friend and stopped receiving the housing element of Universal Credit.

Changes in Universal Credit over the study timeframe

All participants experienced changes in the amount of Universal Credit they received month to month which we explore in detail in the main report. Here we focus on the overall changes to the different elements that comprised the households' UC entitlement over the study timeframe.

Excluding changes due to claims ending and annual benefit increments, seven households experienced changes to their UC entitlement over the study timeframe because they had a change in their personal circumstances which impacted on the different elements of their entitlement. Four households experienced a change to the child element – in three households this was due to children moving in or out of the household and in one household they started receiving the child element for a third child which they had mistakenly not been receiving before[103]. Two of these households also started receiving the disabled child element and the carers element part way through the study. A further two households started receiving the carers element and another participant started receiving the LCWRA element part way through the study.

Most experienced some moderate increase to their housing entitlement of around £15-30 due to annual rent increases. Four however experienced larger changes to their housing entitlement because of higher rent increases or because of children moving into the home which increased their LHA limit, because the NDAD was applied part way through reducing their entitlement or because they moved home.

Months without any Universal Credit

Eleven households did not receive Universal Credit in every month of the data collection period. Five households were no longer receiving any Universal Credit by the end of the study because their earnings were too high. In two of these households this was driven by a change of circumstance – either moving in with a partner or due to family separation. For the other three, this was because their household earnings had increased because they were working more hours.

102 These were the rates during the time frame of the study.

103 Their third and fourth child were twins which counts as a special circumstance and claimants are still entitled to the child element for one of those twins. This exception to the two-child limit policy is not widely understood. This household were only made aware when the researcher informed them, leading them to follow up with DWP and receiving a reimbursement of £8,900.

Four households had one month over the data collection timeframe where they did not receive any UC. For one participant this was because they were paid four-weekly and once in the year this meant that two sets of wages were included in her monthly assessment period which reduced her payment to zero the following month, another participant had quite high earnings so only ever received a very small UC payment which reduced to zero one month. Two participants worked extra shifts which reduced their payment to zero the following months.

In one single-earner household, the earner received several bonuses which reduced the UC to zero in the months after receiving the bonus. This happened three times over the study timeframe.

Another claimant did not actually receive any UC for 10 of the 13 months because her earnings in most of the months were just high enough to reduce her payment to zero.

Participant experiences of debt and managing household finances

Half of the households had serious debt or arears (21/42), describing 32 different types (some had more than one type) including council tax (10), utility (8), housing benefit (3) (this was usually coming straight off their UC as a deduction), money to catalogues or shopping accounts (3), large credit card debt (3) and a large loan (1). Five said they had a DRO or IVA in place.

All of the participants said that they had online/mobile banking facilities and that they could set up standing orders and direct debts from their main account. Sixteen said they had an overdraft facility. Nine said they were signed up to the Government Help to Save scheme. Thirteen said they or their partner had a loan, and 19 said they or their partner used credit cards, with 13 of these saying they had some credit card debt. Twenty-six of the 39 participants who responded to this question said that they ran out of money before the end of the month. Twenty said that they had used a food bank.

For the 19 couple households, female partners were usually responsible for managing the household finances (12) compared to men (4) and in three cases couples said they split the household financial management between them.

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