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Financial Fairness Trust

THE UK'S INADEQUATE AND UNFAIR SAFETY NET

Briefing paper by Professor Donald Hirsch

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OVERVIEW:

The UK has, in theory, an income safety net to ensure that nobody has too little income to subsist.

Universal Credit (UC) is supposed to provides a minimum monthly income for all working age adults and their children, provided that those able to work take steps to find employment.

Pension Credit provides a minimum income guarantee for those above state pension age.

The purpose of these benefits is to ensure that nobody has to be left without financial means; on this basis, some people are excluded because they have savings that they could draw on.

But for this to be called a safety net, it needs to be set at a level sufficient to meet people's basic needs. No government has ever tested benefit levels against this criterion. For many years, rates that had originated in historic expenditure levels were assumed to represent a subsistence level, and uprated each year at least in line with inflation. Over the past decade, they have fallen in real terms, so even if in the past they just about met the most basic needs, this is no longer the case.

Today, we do not have a safety net worth its name. Four main characteristics of means-tested benefits for working-age adults contradict the idea that they provide the "safety" of a guaranteed income to avoid destitution.

(i) Declining value. Working age benefits have fallen relative to both prices and earnings, from levels already assumed to be no better than subsistence.

(ii) Shortfalls in meeting basic human needs. These cuts leave people having to forego some of the key essentials of life, with some groups not even having enough benefits in total just to cover food and home energy equirements.

(iii) Inconsistency across groups. There are wide variations in the extent to which different groups' needs are met. Families with three or more children on minimum benefits are only half as well off as pensioners, and working age adults without children only a third as well off.

(iv) Holes in the net. The final, particularly damning characteristic is that the majority of people who need these benefits to survive have even less to live on than standard benefit rates imply. This can be, for example, because they are paying back loans taken out while waiting for their first payment, because they have their benefits capped or subjected to the two-child limit, or because their rent is not fully covered by the housing component, so they need to top this up by drawing on the daily living component.

This preliminary paper summarises the above aspects of the "safety net" in the UK. It argues that the current system is not only inadequate but also unfair. A forthcoming, paper will consider the issue in greater detail and suggest principles that a future government should adopt to start to create a fairer system.

1. Declining value: the level of means-tested benefits has gone from low to lower

The British social security system has never been generous to people who lose their jobs. Unlike in a number of European systems where insurance benefits have in the first instance paid a percentage of previous earnings, UK benefits after the Second World War have largely been flat-rate, and originated with a calculation based on working-class expenditures in the 1930s. The minimum guaranteed by National Assistance and subsequently by Supplementary Benefit and Income Support was assumed to represent subsistence, and sometimes presented as the poverty line. Up until 2013 the level was uprated at least by inflation, with some selective real-terms increases (for example in Child Tax Credit in the 2000s), but the general level continued to be regarded as just enough to live on. However, from 2013 to 2015, upratings were cut to a flat-rate 1% and from 2016 to 2019 frozen, creating a real-terms deterioration over that period, before an inflation link was restored in 2020.

Figure 1 shows how the working-age safety-net has declined in recent years. For people without children, benefits had largely been uprated in only in line with inflation for several decades, before their value started falling, to historically low levels, in the 2010s: they are now 13% below their peak in 2009. For families with children, the 2000s had seen some real-terms increases, but these were reversed by the cutting of the prices link, so that by 2023 the safety net had fallen back to its level when the current structure was introduced in 2003. (Although tax credits have since been replaced by UC, the main elements of benefits for people with no other income remain the same.) A further cut, not shown here, is built into the system, as the "family" element of tax credits/UC is phased out for families whose children were all born after April 2017.

Figure 1: Working-age safety-net benefits, weekly, in real terms and relative to incomes, 2003-2023

Notes: Adult rates of IS/JSA plus Child Tax Credit and equivalent UC elements, plus Child Benefit. Family element of £10.45 a week is included here for couple with two children, but is no longer available to families where all children born after 1 April 2017. Weekly earnings refer to average individual earnings for full-time workers.

Relative to earnings, the value of benefits for both families and singles are at historic lows. In the 2000s, an assault on relative poverty for children was backed by a system in which means-tested children's benefits rose at least in line with earnings. After not only this earnings link but also the prices link was cut, the level of protection against loss of earnings afforded by family benefits fell sharply. It is worth noting that this effect would have been even worse had earnings growth not been very modest over the past ten years. In our present system, no attempt is being made to enable the worst-off working age households to benefit from economic growth, however limited. This is in stark contrast to pensioner benefits and the National Living Wage, which rise with average earnings. In recent budgets, chancellors have made a virtue of applying inflation uprating to benefits (often amid prior rumours that it will again be suspended), even though this condemns benefit recipients to having zero improvement in their very low living standards.

2.Shortfalls: recent cuts leave working age households unable to afford the basics of life

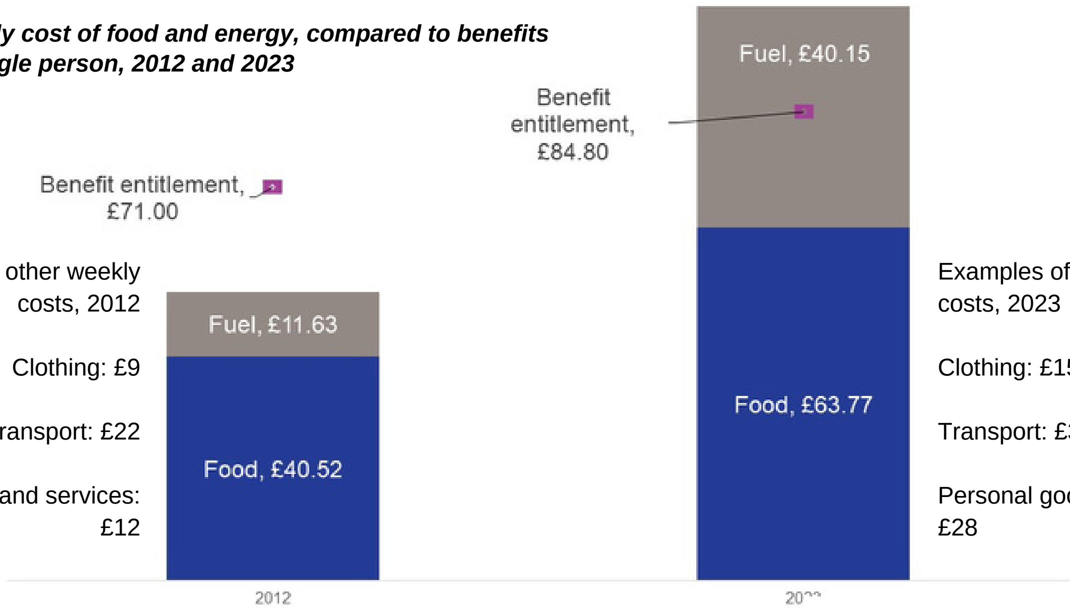
What level of income is needed for the bare essentials of life is not easy to measure. Very little is needed simply to keep people alive. However, it costs much more for people to maintain a socially acceptable living standard, not just meeting material essentials but having the choices and opportunities required to participate in society. The Minimum Income Standard is based on public consensus on what the latter would require. Working age benefits have never got close to meeting such a standard (see Section 4 below), and both budgetary constraints and arguments about work incentives prevent this from being a realistic objective.

Thus, current benefits are somewhere between what is needed for mere survival and what is required for a decent life. But how can we then interpret the significance of the recent decline in their value?
One way of looking at this is to consider what proportion of benefit incomes are needed to cover two fundamentals of life – food and home energy – and how this has changed since benefit upratings were first detached from prices. This comparison is set out in Figure 2.

The results are startling. Working age adults without children already needed to spend most of their income on these items in 2012 to meet minimum requirements. Today, meeting food and energy costs alone would require 22% more income than benefits provide.   For families with children, the proportion of income that needs to be spent on food and energy has risen from 46% to 63% of benefits – in contrast to the roughly 20% that the average family spends on these items.

Figure 2 – Safety net benefits relative to minimum food, energy and other needs, 2012 and 2023.

a) Weekly cost of food and energy, compared to benefits for a single person, 2012 and 2023



Examples of other weekly costs, 2012

Clothing: £9

Transport: £22

Personal goods and services: £12

Examples of other weekly costs, 2023

Clothing: £15

Transport: £35

Personal goods and services: £28

In 2012, a single adult needed to spend 73% of their weekly benefits to cover food and energy consumed in the home. If they did so, they had less than £19 remaining to cover essential items such as clothing, transport and personal goods and services.

By 2023, the cost of food and energy consumed in the home was £19 (22%) more than a single person's benefit income. Spending any money on other essentials like clothes, transport and toiletries required foregoing even more of their food and energy needs

Figure 2 – Safety net benefits relative to minimum food, energy and other needs, 2012 and 2023.

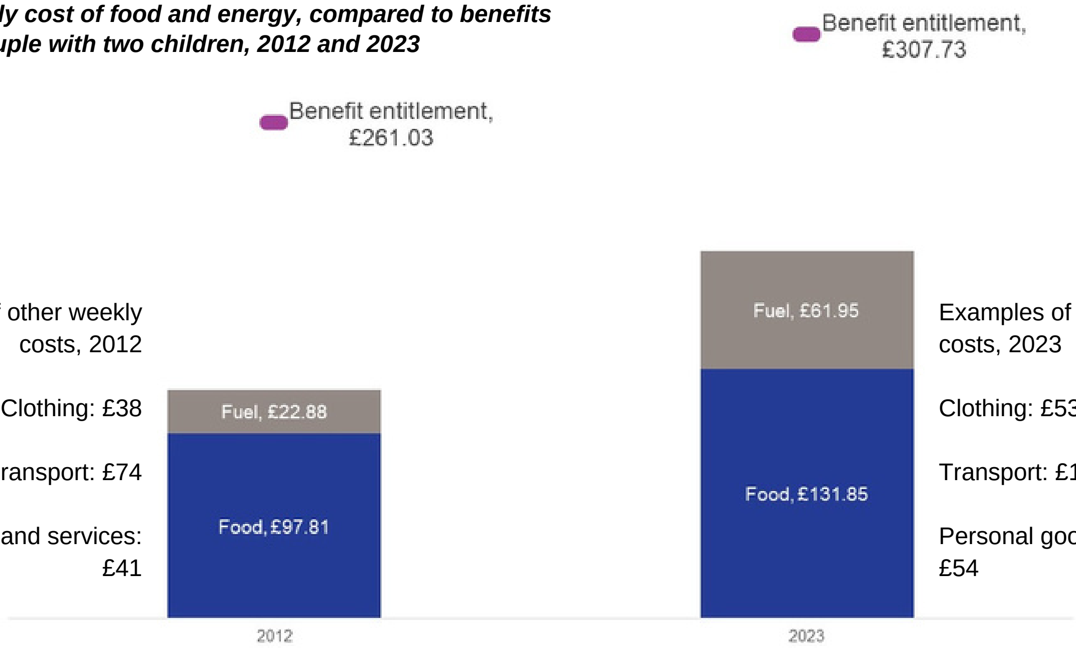
b) Weekly cost of food and energy, compared to benefits for a couple with two children, 2012 and 2023

Examples of other weekly costs, 2012

Clothing: £38

Transport: £74

Personal goods and services: £41



Examples of other weekly costs, 2023

Clothing: £53

Transport: £126

Personal goods and services: £54

In 2012, a couple with two children needed to spend 46% of their weekly benefits to cover food and energy consumed in the home. If they did so, they had £140 left, nearly enough to cover essential items such as clothing, transport and personal goods and services, but only by foregoing some other items including leisure activities.

By 2023, the cost of food and energy consumed in the home had risen to 63% of the family's benefit income, leaving less, £114, to spend on other items whose prices had risen. Travel alone now cost more than this.

Context:
·On average, UK households spend around a fifth of their disposable income (not including rent) on food and home energy
·On safety-net benefits, much higher proportions need to be allocated to cover these costs.
·These charts chow the extent to which this proportion has continued to grow since benefits stopped being uprated by inflation after 2012.
·A selection of other essential costs that are being squeezed are listed in the notes.
·Spending requirements are defined by the Minimum Income Standard, but in the case of food, the cost of eating out or buying takeaways is excluded here.

In practice, these results mean both that spending on food and energy is likely to be inadequate – with serious health consequences for many families – and that even insufficient spending on these items will squeeze out spending on other essentials. While most parents prioritise "putting food on the table" for their children, some other areas of expenditure are unavoidable, including for example transport needed to get to the shops to buy that food. Thus, figure 2 is not implying that food and fuel needs will be met in full before spending money on anything else, or that certain items are more "essential" than others. Rather it illustrates the startlingly fast decline in the extent to which benefits are meeting basic needs.

Figure 2 also shows that the deprivation that people relying on benefits must endure today is not simply "relative deprivation", by which some people in affluent societies must accept more modest living standards than their neighbours. The level of working age benefits in the UK today is denying claimants access to the most fundamental material resources needed to function day to day and have healthy lives.

3. Inconsistency: benefits provide very different level of support for different groups, relative to their needs

A system of safety-net benefits based on an objective assessment of basic needs would guarantee roughly the same living standard for pensioners, working age adults and children. In the UK today, this is far from the case. To some extent this is the result of explicit policies prioritising particular groups – such as efforts in the 2000s to tackle child poverty and pensioner poverty. The desire to protect citizens against desititution is overlaid politically both by greater sympathy for members of the population not in a position to improve their own living standards and by the desire that those who are able to bring in their own income through work have strong incentives to do so. Nevertheless, research indicates the potential for building consensus among the public to support a more adequate level of benefits.

At present, there appears to be no stable policy based on what relative levels of support is considered fair for different groups. In practice these levels tend to have diverged, due to much more favourable uprating conditions for pensioners, as well as new conditions such as limiting means-tested family support to two children.

Figure 3 compares the extent to which minimum means-tested benefits meet different groups' needs, by comparing them with an objective measure of what these needs are for various household types. It shows that in 2023, most non-pensioners got under half of what they require for a decent life, with those without children getting barely a quarter. The adequacy of benefits in these terms has fallen for all groups over the past decade, but particularly for larger families, due to the two child limit. In 2013, most non-working families had around 60% of MIS, but this has fallen to around 40% in a decade. This is equivalent to the very low level of benefits that working age families without children had in 2013. Thus the harsh living standards that single unemployed people had to endure ten years ago are now being imposed on some families with children, who had previously been given greater protection.

Figure 3: Safety net benefits as % of Minimum Income Standard, 2013 and 2023

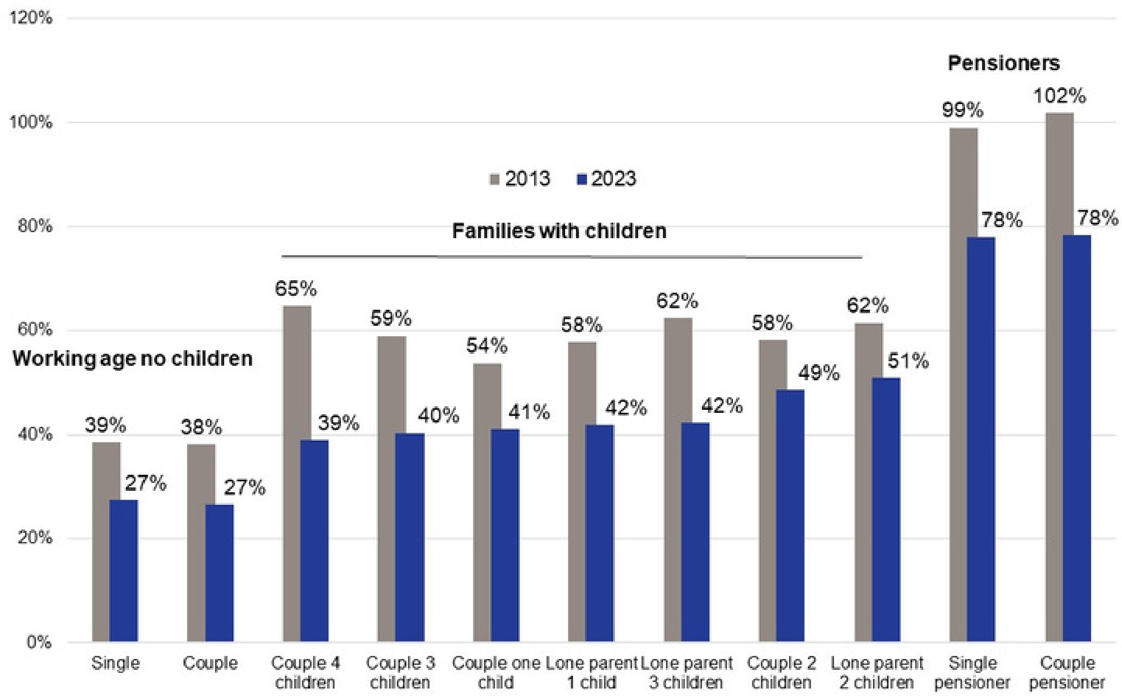


Figure 3 also shows, somewhat surprisingly in light of favourable uprating conditions for pensioners, that their means-tested benefits have fallen to significantly below the MIS level, which they previously met. This is due to certain costs for pensioners having risen faster than general inflation. However, this has not prevented the disparity between the living standards of pensioners and various working-age households from widening. They are now about three times as well off in these terms as a single person and twice as well off as a couple with four children. This compares to ratios of about 2.5 and 1.5 respectively in 2013.

4. Multiple holes in the "safety net" mean that most claimants now receive less even than the inadequate incomes that our benefits system implies.

A large proportion of benefit recipients are having to live on even less than the inadequate levels that standard benefit rates imply they require. Thus, it is not just that the safety net is too low; it also has multiple holes that people are falling through. This is even apart from the small minority sanctioned for not meeting work search conditions (6% of those with conditional benefits). In particular:

- Most people on UC with private-sector rents do not have their rent fully covered, because of Local Housing Allowance limits. They must dig into general benefits to pay rent, lowering their disposable income further. This is especially important because private renting has expanded greatly in recent years. One in three children (34%) whose parents claim UC now live in privately rented accommodation.

- Over 300,000 tenants in social housing must also find money from their general benefits to cover rent deducted from their Housing Benefit or UC entitlement through the "bedroom tax", because they are deemed to have more rooms than they need.

- The two-child limit, which means that only the first two children are taken into account in calculating UC, systematically underprovides for the four in ten children of claimants (39%) who have at least two siblings (apart from those where all children were born before 2017). The UC child rate of £270 per month acknowledges that an additional child costs money, but these larger families are being denied the means to cover the costs of a third or subsequent child.

- The Benefit Cap arbitrarily limits total benefits, regardless of need. It currently affects over 80,000 claimants.

A large proportion of UC claimants are having deductions taken from their benefits, to repay loans, many of which have been incurred in order to cover living costs while waiting for their first payment. Nearly half (45%) of UC claimants have some deductions being made, ranging from very small amounts to a maximum of 25% of an award. This can leave actual income far below the full level of entitlement.

These categories overlap, so it is hard to calculate exactly how many people are affected overall, but it is certain to be the majority of claimants. For example, a calculation using DWP online data shows that 56% of children of UC claimants now live in families who either do not have their rent fully covered or are affected by the two-child limit, or both, and so have their disposable income reduced, even before deductions to repay loans are taken into account.

In summary, these holes in the safety net are so gaping that receiving a full entitlement has become the exception rather than the rule. This is not a system that people feel that they can rely on to meet their needs, at even the most modest of levels, if they fall on hard times.

Conclusion

The UK benefits system has always had its shortcomings, with benefit rates that are not related to evidence of need, serious obstacles and delays in adminsitration and some people falling through the net of income protection that it seeks to provide. But today, all these features have become so pervasive that benefits are falling woefully and systematically short of protecting citizens against hard times.

To change this, an overhaul of the system is clearly needed, with a key imperative being the provision of a fair and reliable safety net. This does not need to mean repeating the huge overhaul involved in introducing Universal Credit, within whose structures many improvements are possible – including fairer benefit rates, more generous housing support and the abolition of restrictions such as the Benefit Cap and the two child limit.

In creating a fairer system, the single most important change should be for governments to be explicit about their approach to maintaining benefits at fair levels. As a minimum, this should start by creating stronger guarantees of a safety net that does not fall in real terms. Ideally, it should also involve a path to improving the current very low living standards of working age claimants without work. In 2005, the Turner Commission established the principle that pensions would rise at least in line with earnings, enabling pensioners to share the fruits of growth rather than being left behind. Since 2015, the government has had similar ambitions for the National Living Wage, relating its target level to average pay rates. It is time for comparable guarantees to be given to the worst-off households in the country: working-age households who are out of work.

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Note on Sources

The paper draws on and updates information from Hirsch (2020), 'After a decade of austerity, does the UK have an income safety net worth its name?' in Social Policy Review 32. It also draws on Institute of Fiscal Policy's Fiscal Facts resource, the Department for Work and Pensions' Stat-Xplore tool and on data from the Minimum Income Standard produced by Loughborough University.

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