Northern Ireland

Universal Credit Information Booklet

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Revisions

This document was first published in February 2013. As more information and analysis became available revisions have been made to the document.

The last Universal Credit Information Booklet was released in November 2014. Since then there have been several key policy changes which were announced during the Summer Budget 2015 and Autumn Statement 2015. The main changes that have impacted upon the figures include:

- A reduction in the Universal Credit Work Allowances;
- The removal of the family element in Universal Credit for new claims;
- Limiting of the Per Child Element of Universal Credit to two children for new claims after April 2017 and births after April 2017 for existing claims;
- An end to automatic entitlement to Universal Credit housing support for out-of-work 18-21 year-olds;
- Universal Credit parent conditionality from when the youngest child turns three (previously it applied from when the youngest child turned five);
- Changing Support for Mortgage Interest into a loan;
- A new National Living Wage for workers aged 25 and above, which will reach 60% of median earnings by 2020;
- The Minimum Income Floor will be based on the National Living Wage for Self Employed Claimants effective in Great Britain from April 2016;
- Income Tax Personal Allowance increased to £11,500 in 2017-18;

Further detail on the impact of these reforms can be found at the below link:

https://www.communities-ni.gov.uk/publications/impact-summer-budget-2015

Introduction

1. Universal Credit has not yet launched in Northern Ireland.

2. The Fresh Start Agreement[1] set out that Welfare Reform legislation in Northern Ireland would be progressed through the Westminster Government. Following this legislative passage the introduction of Universal Credit will be dependent on the delivery of a robust computer system to administer the benefit.

3. The migration of cases to Universal Credit will not happen overnight. Indeed there will be a transition period that will last a number of years during which claims will still exist on the Legacy Benefits that Universal Credit will eventually replace while Universal Credit is rolled out.

4. This booklet provides an update on the latest anticipated impacts of Universal Credit in Northern Ireland. A glossary of key terms can be found at the back of the booklet.

5. It should be noted that the impacts detailed in this booklet reflect the latest position following on from the 2016 Budget Statement.

6. **At Autumn Statement 2015 the abandonment of some Tax Credit measures announced in Summer Budget 2015 was confirmed. Plans to increase the Tax Credit taper rate and reduce the income threshold in Tax Credits have been reversed while the reduction in Work Allowances under Universal Credit has remained in place. The net effect is that Universal Credit becomes less generous than the current system of Tax Credits for many cases. This should be kept in mind when considering the analysis.**

[1] The Fresh Start Agreement was released on 17th November 2015 and was the end result of a ten week period of intensive cross party talks. The Fresh Start Agreement provides the political agreement by which the Welfare Reform Measures originally outlined in the Northern Ireland Welfare Reform Bill 2012, including Universal Credit will be implemented.

Executive Summary

- Universal Credit will provide a new single system of means-tested support for working age people who are in or out of work. Support for housing costs, children and childcare costs will be integrated into the new benefit. It will also provide additions for disabled people and carers.

- Currently, claims to out of work benefits and Tax Credits are made at an individual level; conversely Universal Credit will be paid at a household level. There will be approximately 312,000 households in the benefit pool under Universal Credit.

- The Policy Simulation Model (PSM) was developed by the Department for Work and Pensions to model the impact of Universal Credit and a bespoke version of the model for Northern Ireland has been used for the analysis in this booklet. It draws on data from the 2013/14 Family Resources Survey with economic and policy assumptions consistent with Budget 2016. The modelling of Universal Credit assumes improved take-up due to the claim process being simplified, and claimants automatically receiving all benefits they are entitled to.

- In Northern Ireland it is estimated that there will be: **114,000 households entitled to an average of £26 more per week; 126,000 households entitled to an average of £39 less per week; and 72,000 households with no change to their entitlement**. This equates to an overall decrease in entitlements of approximately £105,000,000 per annum (2018/19 prices). This does not take into account the cost of Transitional Protection or potential savings due to reductions in Fraud and Error.

- A number of factors help drive the gain in benefit income of the 114,000 households identified. The take up of benefits is expected to be improved under Universal Credit when compared to the current system of benefits, due to Universal Credit being a simpler, integrated benefit. Additional childcare support and rule changes such as allowing in work under 25's to claim can result in new or increased entitlements. The restructuring of disability support under Universal Credit can also lead to increases in entitlement.

- Under Universal Credit, it is estimated that **20,000 households will have a new or increased level of benefit uptake**. Primarily this is due to changes in entitlement, increases in take-up, and the integrated nature of the Universal Credit system. Currently under 25's who are in work are not able to claim Working Tax Credit. However these cases will be able to claim Universal Credit. Also some households do not claim their full range of entitlement to benefits (for example they may fail to claim Housing Benefit or Child Tax Credit to which they are entitled). Under the integrated Universal Credit system, households will be assessed for all the elements as part of one payment, and therefore receive the full support they are entitled to.

- **More governmental support for childcare shall be provided under Universal Credit.** Current Tax Credit rules state that help with childcare costs is only available to parents who work more than 16 hours per week. Universal Credit will remove this requirement and provide support to parents regardless of how many hours they work. It was announced at Budget 2014 that the level of childcare support under Universal Credit would be increased from 70% to 85%. This change is reflected in this booklet and affects 20,000 households increasing the incremental cost of Universal Credit by £13m.

- Similarly, a number of factors help drive the estimated reduction in entitlement of the 126,000 households identified. Restructuring of disability support under Universal Credit leads to both increases and decreases in entitlement as the level of support paid through Universal Credit does not always match the support paid through income related Disability Premiums in the current system. Additionally, lone parents aged less than 25 years old see a change in Standard

Allowance under Universal Credit. They will no longer be entitled to the over 25 benefit rate as in the current system; instead they shall receive the same rate as a person under 25 without any children. This results in an approximate £15 loss for affected households per week. Prior to Summer Budget 2015 the Universal Credit Work Allowances were tailored depending on the family type of the household. The allowances are now being simplified and made less generous. When comparing the changes in Work Allowances announced at Summer Budget 2015 to the previous Universal Credit Work Allowances, **an estimated 105,000 households will see a reduction in entitlement.** The changes in Work Allowances are estimated to reduce the cost of Universal Credit by £98m.

- Universal Credit does not extend as far up the income distribution as Tax Credits. In addition to this a capital rule will also be implemented within Universal Credit which does not apply to Tax Credit cases currently. Every additional £250 of capital between £6,000 and £16,000 will lead to a reduction of £1 in the Universal Credit award, and cases with capital greater than £16,000 will not be entitled to Universal Credit. As a result, claimants on Tax Credits, in particular cases on the high end of the Tax Credit taper system and cases with capital can see a reduction in entitlement under Universal Credit.

- Improving incentives to work is a primary driver of Universal Credit. Under the current system, Marginal Deduction Rates can vary considerably and can be as high as 100% for people moving into work and then vary considerably depending on the combination of benefits claimed. A Marginal Deduction rate of 100% means the claimant loses £1.00 of benefit for every additional £1.00 that they earn. Work incentives under Universal Credit are different. There is a consistent withdrawal rate of 65% guaranteeing that income will increase for every additional £1 earned. This makes it easier to calculate if a household will be better off in work than on out of work support. It is estimated that 68,000 cases see a 10% median increase in Marginal Deduction Rate under Universal Credit which is a slight decrease in the incentive to increase hours worked when compared to the current system of benefits. However it is estimated that some 49,000 individuals will see a median reduction of 36% in Marginal Deduction Rate - this reflects the virtual elimination of the highest Marginal Deduction Rates as a result of the introduction of Universal Credit.

- There is a commitment to ensure that **no one will experience a reduction in the benefit** they are receiving **as a result of a direct (managed) move to Universal Credit**, where circumstances remain the same, **as these cases will be eligible for Transitional Protection**. Should a claimant have a change of circumstances that leads to their Universal Credit being re-assessed, they can lose their Transitional Protection.

- The majority of those who will be financially impacted by Welfare Reform in Northern Ireland will receive a time-limited mitigation payment to help them adjust to a reduced entitlement. The report produced by the working group chaired by Professor Eileen Evason detailing the mitigation schemes is available via the following link:

  https://www.ofmdfmni.gov.uk/sites/default/files/publications/ofmdfm/welfare-reform-mitigations-working-group-report.pdf

Section 1 - What is Universal Credit?

7. Universal Credit is a radical new approach to welfare:

- It will bring together different forms of income-related support and provide a simple, integrated benefit for people in or out of work.

- It will consist of a basic personal amount (similar to the current Jobseeker's Allowance) with additional amounts for disability, caring responsibilities, housing costs and children.

- As earnings rise, Universal Credit will be withdrawn at a constant rate of 65 pence for each pound of net earnings. Higher earnings disregards will reinforce work incentives for selected groups.

- Universal Credit will attempt to provide a financial incentive backed up by a strong system of conditionality, with unemployed people who can work being required to take all reasonable steps to find and move into employment.

- Strengthened conditionality will in turn be supported by a new system of financial sanctions. The new sanctions will provide greater incentives for people to meet their responsibilities.

8. The existing benefits Universal Credit will replace are:

- Income Support (IS)
- Income Based Jobseeker's Allowance (JSA)
- Income-Related Employment and Support Allowance (ESA)
- Housing Benefit (HB)
- Working Tax Credit (WTC)
- Child Tax Credit (CTC).

Housing Benefit for Rates and Support for Rate Relief will remain outside the scope of Universal Credit. Contributory benefits such as Contributory Jobseeker's Allowance and Contributory Employment and Support Allowance will also remain outside of Universal Credit.

9. The policy rationale is to remove the financial and administrative barriers to work inherent in the current welfare system. The goal of the reform is to ensure that work always pays and to encourage more people to see work as the best route out of poverty.

10. Northern Ireland has secured changes to the way Universal Credit can be paid to protect the most vulnerable in our society and reflect its unique circumstances. The differences between implementation of Universal Credit in Northern Ireland and Great Britain are:

- Housing cost element of Universal Credit paid direct to landlords rather than the claimant;
- Payment of Universal Credit may be split between two parties in the household; and
- Payment of Universal Credit may be payable twice each month

How much is Universal Credit worth to households?

11. The amount of Universal Credit awarded will depend on the income and circumstances of all the household members. The following steps show how the Universal Credit award is calculated, using illustrative 2018/19 rates.

Step 1 – Calculate Maximum Universal Credit Award

Firstly the household's Maximum Universal Credit award is calculated. This is made up of a basic allowance and any additional elements that apply.

Standard Allowance

The standard allowance is paid for each adult member of the Benefit Unit. The level this standard allowance is set at is equivalent to the rates payable through out-of-work benefits that Universal Credit will replace, such as Jobseeker's Allowance.

The rates of the standard allowance are:

- Single claimant aged under 25: £250.90 per month / £57.90 per week;
- Single claimant aged 25 or over: £316.77 per month / £73.10 per week;
- Joint claimants both aged under 25: £394.12 per month / £90.95 per week;
- Joint claimants where one or both partners are 25 or over: £497.68 per month / £114.85 per week.

Additional Elements

Extra amounts are then added to the standard allowance if the household qualifies for any of the following elements:

- Child Element – Payable to cover costs of having children
  First Child: £276.03 per month / £63.70 per week
  Second/Subsequent children: £230.53 per month / £53.20 per week

  It should be noted from April 2017 in Great Britain, new claims to Universal Credit will have the Child Element limited to two children and the first child will be paid at the same rate as the second child.

- Childcare Element – Payable to assist with additional costs of childcare as parents move in to work
  In Great Britain from April 2016 the childcare element increased from 70% to 85% of the costs of childcare. The maximum amounts also increased to £646.35 per month / £149.16 per week for one child and £1,108.04 per month / £255.70 per week for two or more children.

- Disability Elements – There are two disability elements which are dependent on the outcome of a Work Capability Assessment. The Limited Capability for Work addition is equivalent to the Employment and Support Allowance Work Related Activity Component while the Limited Capability for Work and Work Related Activity addition is equivalent to the Employment and Support Allowance Support Component, although it is paid at a higher rate.

  Limited Capability for Work (LCW): £125.88 per month / £29.05 per week.
  Limited Capability for Work and Work Related Activity: £323.61 per month / £74.68 per week.

  It should be noted that under current plans from April 2017, new claims to Universal Credit will not receive any additional money in the form of a Limited Capability for Work addition. These cases will be paid the same monetary rate as unemployed cases but as they are in the Limited Capability for Work group they will have different conditionality requirements under Universal Credit.

- Carer Element – Payable to carers that meet certain qualifying conditions.

  Carer Element: £154.27 per month / £35.60 per week.

- Housing Element – An appropriate amount will be added to the Universal Credit award to help with the cost of housing. This amount will be similar to the support currently provided through Housing Benefit.

Step 2 - Reductions for Income and Earnings

Work Allowances

Each household is assigned a Work Allowance. This is the amount of earnings the benefit unit can have before the Maximum Universal Credit award starts to be reduced. The Work Allowances are larger for cases that do not qualify for the Housing Element as Universal Credit would be less generous for these cases otherwise[2]. Table 1 shows the monthly Universal Credit Work Allowance amounts.

Table 1 Monthly Universal Credit Work Allowances (all illustrative 18/19 rates)

Family Type	With Housing Element	Without Housing Element
Single/Couple – No Children or Disabilities	£0	£0
Couple with Children	£195	£403
Lone Parent	£195	£403
Limited Capability for Work (applies to a single claimant or one/both of a couple)	£195	£403

Taper Rate

For each additional £1 earned above the Work Allowance, 65p is deducted from the Universal Credit award leaving the benefit unit with an additional 35p income.

Capital/Savings

Households with more than £16,000 in savings will not be entitled to Universal Credit. Any savings under £6,000 are ignored, and claimants with capital between £6,000 and £16,000 will have their Universal Credit reduced by £1 for every £250 of capital they have in excess of the £6,000 threshold.

Unearned Income

Any unearned income such as benefit income from overlapping contributory benefits will be reduced from the Universal Credit award £1 for £1.

Step 3 – Other Reductions in Universal Credit

Finally Universal Credit takes into account any special rules such as the Benefit Cap. Universal Credit may also be reduced to take account of deductions such as repayment of loans, benefit advances or sanctions associated with the claimant commitment.

[2] If two households had the same set of characteristics except one household had rent liability and qualified for the Housing Element and one household did not have the Housing Element then the household with the Housing Element would have a higher Maximum Universal Credit Award. This means that if both households had the same Work Allowances then the Universal Credit award would stretch higher up the earnings distribution **for the household with the Housing Element**. The household without the Housing Element is allowed to have a higher Work Allowance so that they can keep more of their Universal Credit award as their earnings increase.

Transitional Protection and Northern Ireland Specific Mitigations

12. There is a commitment to ensure that **no one will experience a reduction in the benefit** they are receiving as a result of the introduction of Universal Credit, **where circumstances remain the same**. A package of Transitional Protection was developed in order to ensure that no claimant becomes a cash loser as a direct result of the move to Universal Credit where circumstances remain the same.

13. If a claimant has a change of circumstances that leads to their current Legacy system benefits being re-assessed they will be moved to Universal Credit through a "Natural Migration". In this case the claimant **will not be entitled to Transitional Protection** if their Universal Credit entitlement is less than the current Legacy system entitlement after the change of circumstances.

14. Transitional Protection therefore only applies to cases that are moved to Universal Credit through a process of "Managed Migration".

15. If a household that receives Transitional Protection under Universal Credit then has a significant change in their circumstances then Transitional Protection will be lost. The following occurrences are defined as a significant change in circumstance:

    - a partner leaving/joining the household;
    - a sustained (3 month) earnings drop beneath the level of work that is expected of them according to their claimant commitment;
    - the Universal Credit award ending; and/or
    - one (or both) members of the household stopping work.

16. The value of this Transitional Protection will steadily decrease over time even when there is not a change of circumstances. This is because the Transitional Protection amount will not be uprated year on year.

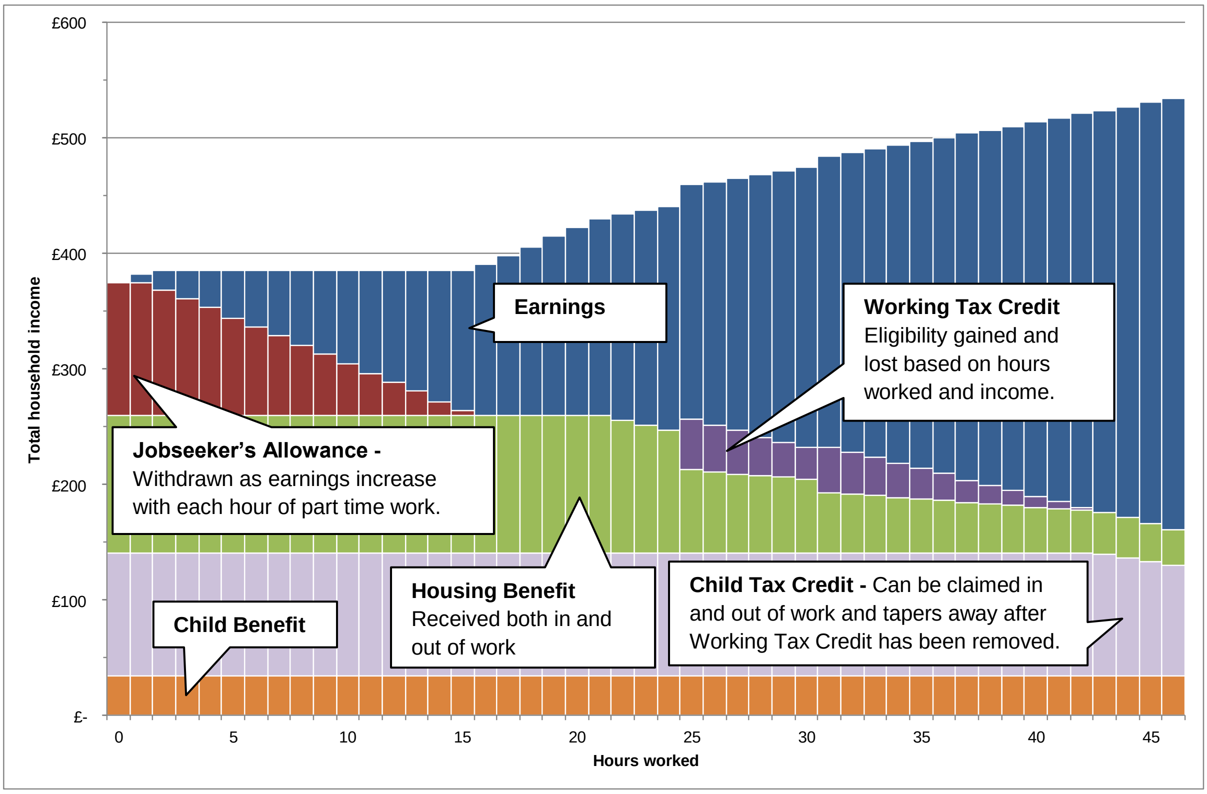
17. The majority of those who will be financially impacted by Welfare Reform will receive a time-limited mitigation payment to help them adjust to a reduced entitlement. The report produced by the working group chaired by Professor Eileen Evason detailing the mitigation schemes is available via the following link:

    https://www.ofmdfmni.gov.uk/sites/default/files/publications/ofmdfm/welfare-reform-mitigations-working-group-report.pdf

How Universal Credit will Simplify the Benefit System

18. Figure 1 shows the effect on the total income, at illustrative 2018/19 rates, of a two-adult, two-child household, with housing costs of £120 per week, when one adult begins working, increases their hours of work and is paid at the National Living Wage rate of £8.10 per hour. The household is initially entitled to support through income-based Jobseeker's Allowance, Housing Benefit, Child Tax Credit and Child Benefit.

Figure 1 Breakdown of Household Income under the Current Benefit System for a two adult, two child household with housing costs of £120 per week.



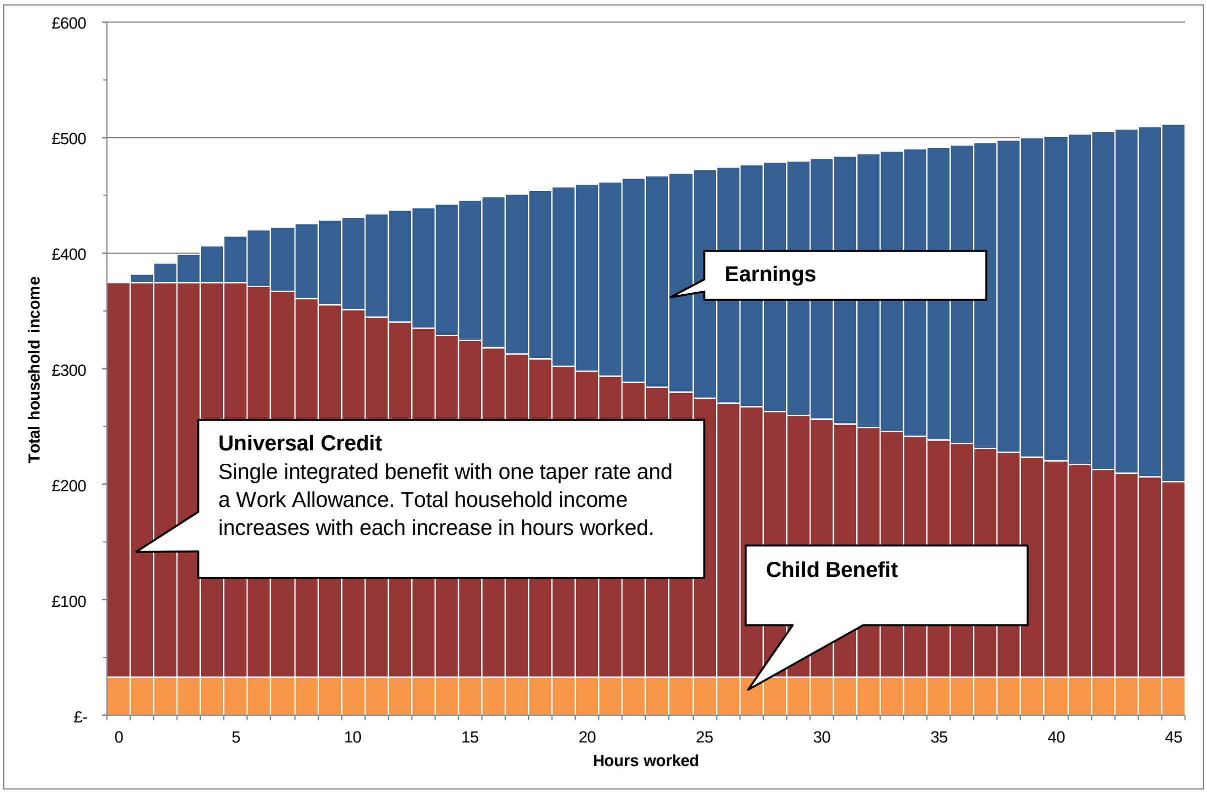
19. Figure 1 shows the complex interaction between earnings and support from benefits under the current system, illustrating the reduction in entitlement to some benefits and new entitlement to others as earnings change and the effect that these interactions have on total household income. The effect of working a small number of hours for no increase in total household income is illustrated by showing the withdrawal of Jobseeker's Allowance at the same rate as earnings increase. Total household income does not increase until the working partner works for longer than sixteen hours per week.

20. Due to the complex interactions between the different benefits, there are levels of work that may appeal to a household more than others because of the different effects on household income. This apparent incentive to work at some earnings levels but not at others is one of the major issues with the current system of benefits that Universal Credit will address.

21. The difference between the effects of increasing earnings on household income under the current system of benefits and under Universal Credit is visible when Figure 2 is compared with Figure 1.

22. Figure 2 shows the total household income under Universal Credit for the same two-adult, two-child household that has housing costs of £120 per week, when one of the partners increases their hours of work at the National Living Wage.

Figure 2 Breakdown of Household Income under Universal Credit for a two adult, two child household with Housing Costs of £120 per week.



23. **The interaction between total household income and earnings is much simpler under Universal Credit, as there is one taper rate, 65%,** that applies to the household's maximum amount of support once earnings increase past a threshold. The maximum amount of support and earnings threshold depends on an individual household's circumstances. Figure 2 shows that total household income increases at all levels of increased earnings, removing the appeal of only earning a certain amount to ensure that entitlement to benefit is not lost.

24. Universal Credit is intended to make the movement into work more attractive by **reducing the uncertainty people will experience around their return to work**. Under the current system, someone moving into work needs to have their benefits and Tax Credits reassessed. This creates considerable uncertainty around the value of their in-work support and about when they will start to receive it. The changes to the current system address this, for example, through having a 'run-on' period in Housing Benefit; however, these are only partial solutions.

25. **Universal Credit will remove the need to deal with multiple agencies**. Many of the changes in circumstances that affect benefit entitlements, such as changes in hours, will be handled automatically. The simpler system will make the financial implications of changes in circumstances much more transparent to claimants, who will also **be able to check on-line calculations to estimate the benefit of working at any number of hours**.

26. In addition to this, Universal Credit will ensure that, **if a person is eligible for benefits, they receive their full entitlement**. In effect, there will be ‘automatic passporting’ for people who currently claim some, but not all, of the benefits or Tax Credits to which they are entitled. Hence with this much simpler system, households will be more likely to claim their full entitlement.

27. The simpler system will also **reduce the scope for fraud, error and overpayments** thus ensuring that the right benefit is paid to the right people.

Section 2 - The Impact of Universal Credit on Caseloads and Entitlements in Northern Ireland

28. Universal Credit will impact on a large proportion of working age households in Northern Ireland. The integration of six major working age benefits into one Universal Credit payment will lead to changes in benefit entitlement for households, i.e. some households will be entitled to more benefits under Universal Credit than they would have received under the current system of benefits while some households will be entitled to less and some will see no change.

29. The analysis contained in the following sections of this booklet is intended to provide information on the overall impact of Universal Credit in Northern Ireland, once it has been fully rolled out i.e. no remaining claims exist on the benefits Universal Credit will replace which will be referred to as "Legacy Benefits" within this Booklet.

30. This document looks at the main drivers for change in entitlement for certain key client groups within the Universal Credit population.

31. The process for this involves using a computer model of the Tax and Benefit system called the Policy Simulation Model (PSM). This model is based on Family Resource Survey data and allows the impact of policy changes to be investigated by changing the rules of the Tax and Benefit system then looking at the impact these rule changes have on individual sample cases within the model.

32. To investigate the impact of Universal Credit in Northern Ireland the model is first run with the "Legacy Benefit" system rules where all households still claim the current system of benefits that Universal Credit will replace. This is then compared to a second version of the model where the "Legacy Benefit" system rules are replaced with the rules for Universal Credit.

33. This simulation is essentially like being able to flick a switch and turn the Universal Credit system on and off so that you can see the results of the introduction of the benefit for Northern Ireland on a case by case basis.

34. Universal Credit is administered on a "Benefit Unit" basis. A Benefit Unit can be made up of either a single adult or an adult plus their partner and any dependent children they are living with. Strictly speaking there can be multiple Benefit Units living within one Household – however the term household is often used interchangeably with Benefit Units. In the analysis section of this booklet any references to number of households seeing a change in entitlement are referring to Benefit Units.

35. The analysis produced using this model is "static" in that it cannot capture the experience of cases as they flow on to Universal Credit nor can it capture any behavioural effects that may occur as a result of the introduction of Universal Credit. The model looks at benefit entitlement under the Legacy System and compares this to Universal Credit entitlement while keeping all other variables in the household the same.

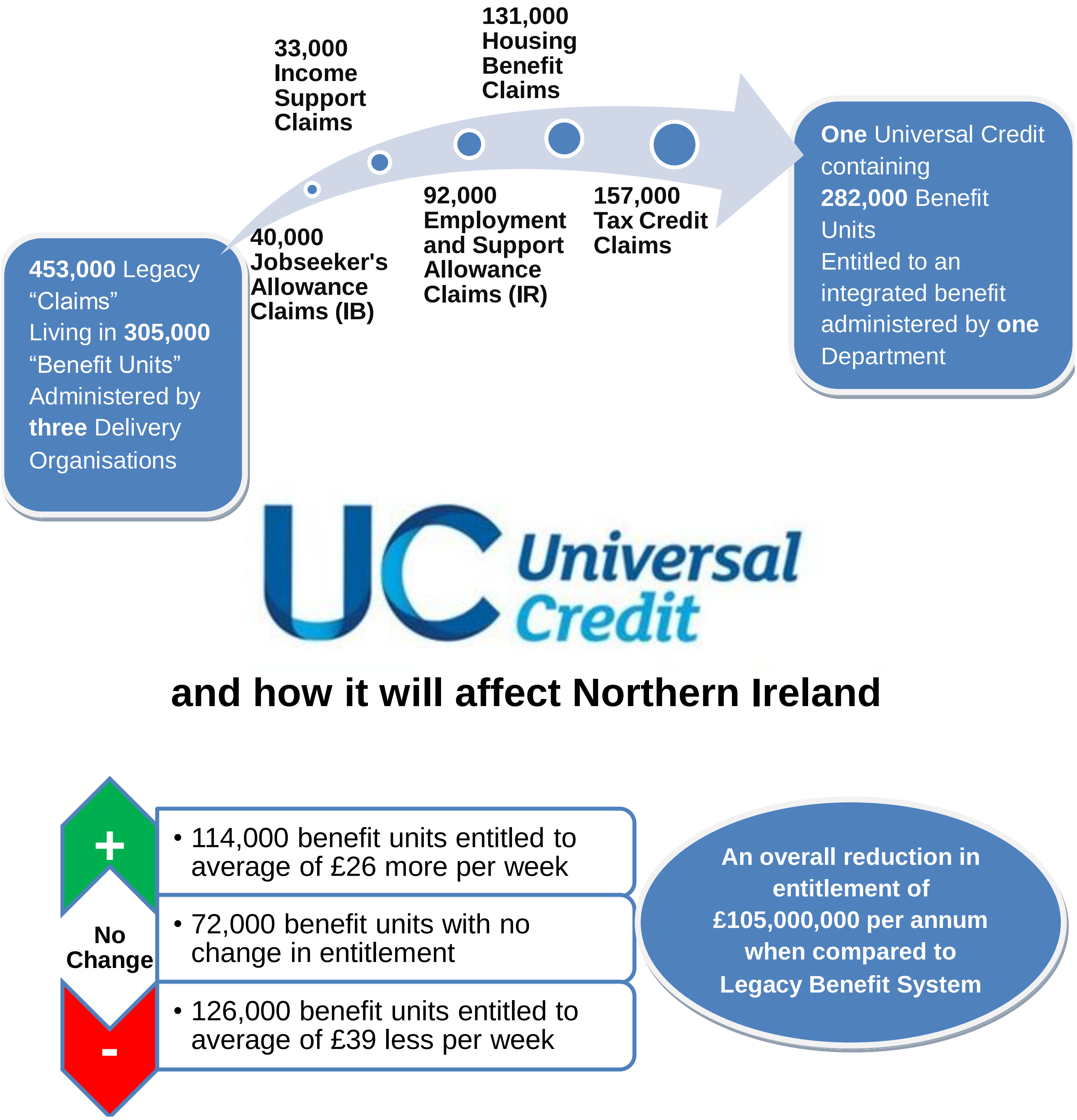
36. The year that is chosen for steady state in the model is subject to review and may change in future versions of the booklet. The policy and economic assumptions for the 2018/19 tax year have been used as the year of steady state analysis in the PSM. All impacts are provided in the steady state; that is once Universal Credit has been fully implemented and Transitional Protection has been fully exhausted. The entire caseload has been modelled as switched to Universal Credit in this year and policy changes with effects beyond 2018/19 have been simulated in order for the analysis to be reflective of steady state. It should be noted that 2018/19 has been used for modelling purposes only and all cases will not be migrated to Universal Credit until 2022.

37. As the analysis is based on sample data with a range of modelling assumptions applied, all figures provided are estimates that will be subject to a degree of sampling and modelling error.

38. Any estimates from the model that provide a population estimate of less than 10,000 have been suppressed. This is because estimates based on figures below this would be based on less than 30 sample cases which is a very small sample size – sampling error could lead to significant variation in the estimate at this level which is why the estimates are suppressed. This is indicated with a * in the tables in the booklet.

39. Figure 3 on the following page provides some of the key headline statistics for Universal Credit in Northern Ireland and a more detailed analysis can be found in the following sections of the booklet.

Figure 3 – Key figures on the impact of Universal Credit in Northern Ireland



*Legacy Benefit Caseloads provided above are an average estimated caseload for the 2018/19 year.

Section 2.1 - Universal Credit Caseload in Northern Ireland

40. The following section outlines the scale of the impact of Universal Credit in Northern Ireland, in terms of the numbers of individual benefit units that will eventually move to Universal Credit. The benefits that Universal Credit will replace are first discussed followed by a section explaining how cases will move to Universal Credit and what the estimated Universal Credit caseload will eventually be.

Legacy System Caseloads

41. In the current system of benefits or “Legacy Benefit” system, there are 6 different benefits that Universal Credit will replace and there is a potential for claimants to be in receipt of different combinations of these benefits depending on their circumstances.

42. For example, if a claimant becomes unemployed and is actively available to seek work they may make a claim to Jobseeker’s Allowance (This may be an Income Based claim or Contributory Based), on the other hand if they have a sickness or disability that means they are not capable of work they would make an application for Employment and Support Allowance (Income Related or Contributory Based). Claimants who have caring responsibilities or who are lone parents are likely to claim Income Support.

43. If the claimant requires support with the cost of their rent they may also make a claim to Housing Benefit and if they have children they may make a claim to Child Tax Credit. If the claimant moves back into work they may qualify for Working Tax Credit.

44. Jobseeker’s Allowance, Employment and Support Allowance and Income Support are administered by the Department for Communities, Housing Benefit is administered by the Northern Ireland Housing Executive and Tax Credits are administered by Her Majesty’s Revenue and Customs. Claimants may have to make applications to multiple agencies to receive all the benefits they are entitled to.

45. Claimants also have to keep the three organisations informed of any changes in their circumstances and there is the potential for delays in payments of benefit as claimants move between different benefits.

46. Using the Policy Simulation Model and forecasts of the Legacy Benefit caseloads it is estimated that there will be around 453,000 individual claims to the six working age benefits that Universal Credit will replace in the 2018/19 year.

47. It should be noted that this reflects the live caseload on the various benefits at a point in time – there will be a significant amount of churn in the caseload throughout any given year so the number of individual claims in a given year will be higher than this.

48. A Benefit Unit can make multiple claims to different Legacy Benefits for different purposes. For example they may claim Jobseeker’s Allowance, Housing Benefit and Child Tax Credit so one Benefit Unit would have three live claims. **It is estimated that the 453,000 Legacy Benefit claims come from around 305,000 Benefit Units**.

Universal Credit Caseload

49. There are three routes to making a claim to Universal Credit; two of the routes relate to claimants that have a pre-existing claim to a Legacy Benefit[3] before claiming Universal Credit whereas one is for new claimants moving into the benefit system.

50. The three routes are:

    i. Through a New Award - The term “New Award” is used to describe cases that have not been in receipt of any Legacy Benefits immediately prior to making a claim to Universal Credit. The household may be claiming benefits for the first time or may be returning to benefits after a spell where they have not been entitled to state support.

    ii. Through a Natural Migration - The term “Natural Migration” is used to describe cases that are in receipt of Legacy Benefits and then have a change of circumstance that would have led to one of the Legacy Benefits ceasing and a new one commencing (or just a new overlapping claim commencing in the instance of a first child entering the household).

    iii. Through a Managed Migration - The term “Managed Migration” is used to describe the process of moving claimants of Legacy Benefits on to Universal Credit. This will occur when there has been no change of circumstances that would naturally trigger a new claim to Universal Credit (referred to as Natural Migration) and the Department initiates the transfer of an entire household from existing benefits or Tax Credits to Universal Credit.

51. When Universal Credit is rolled out new claims to the Legacy Benefits will be switched off on a geographic basis and any new claimants will be redirected to Universal Credit. From this point onwards the legacy caseloads will begin to decline while the caseload on Universal Credit will begin to build.

52. It will take a number of years to reach “steady state” when all legacy claimants have been migrated to Universal Credit. **When this occurs it is estimated that 282,000 Benefit Units will be entitled to Universal Credit**. It should be noted that this is an estimate using the Policy Simulation Model and will be subject to error.

53. The reason for the difference in the number of Benefit Units entitled under the legacy system and under Universal Credit is due to differences in take-up and the differences in entitlement between the Tax Credit and Universal Credit system. Some Benefit Units are expected to be newly entitled to Universal Credit or choose to claim Universal Credit for the first time while some Benefit Units who were entitled to Legacy Benefits will not be entitled to Universal Credit. The “benefit pool” for Universal Credit including all households impacted by the change is estimated to be 312,000.

54. The overall impact is a net reduction in the number of Benefit Units entitled. This predominantly happens due to the large number of Tax Credit claimants who are not entitled to Universal Credit, as Universal Credit with the new system of Work Allowances does not stretch as far up the income distribution (approximately 29,000 households).

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[3] The legacy benefits are the income related benefits that Universal Credit will replace. They include: Income Based Jobseeker’s Allowance, Income Related Employment and Support Allowance, Income Support, Housing Benefit, Child Tax Credit and Working Tax Credit.

Section 2.2 - Benefit Entitlement Impact of Universal Credit (Gainers/Losers)

55. Universal Credit will lead to changes in entitlement to benefits for many of the households that are impacted by the change. The rolling of six benefits into one and the restructuring of the Work Allowances under Universal Credit means that while some claimants may see reductions in benefit entitlement, others will experience an increase.

56. This section analyses the impact of Universal Credit on the distribution of benefit entitlements. As it is a steady-state analysis, it does not allow for Transitional Protection or Mitigation and will not be a full reflection of the impacts on existing claimants during the transition period. Cases that are actively transferred to Universal Credit will be entitled to Transitional Protection and will not see a reduction in their entitlement while their circumstances remain the same. Table 2 segments the change in entitlements by the position of the household in the income distribution.

57. The analysis is for the Universal Credit 'Benefit Pool', this is defined as all recipients of the 'Legacy Benefits' that Universal Credit will replace (Income Based Jobseeker's Allowance, Income-Related Employment and Support Allowance, Income Support, Housing Benefit, Working Tax Credit, Child Tax Credit) as well as newly entitled claimants. The analysis excludes pension age recipients of Pension Credit, unless they are a member of a couple where their partner is under State Pension Age. These cases will be expected to claim Universal Credit. Not every case entitled to a Legacy Benefit will be entitled to Universal Credit in steady state, e.g. cases with capital over £16,000 will not be entitled to Universal Credit. Additionally, cases may be affected by a higher taper rate under Universal Credit and therefore lose entitlement.

Table 2 Changes in benefit entitlement by equivalised income (households)

Income	Higher Entitlement	No Change	Lower Entitlement
Bottom Quintile	37,000	50,000	38,000
2nd Quintile	30,000	13,000	43,000
3rd Quintile	31,000	*	31,000
4th Quintile	16,000	*	13,000
5th Quintile	-	-	*
Total	**114,000**	**72,000**	**126,000**

Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19
***Less than 10,000 households**
- indicates there are no households in this grouping
All numbers rounded to the nearest 1,000

58. Most of the increase in entitlement goes to households in the lowest two quintiles of the income distribution.

59. Table 3 shows that just over half of households who have a change in entitlement will have an income change of less than £25 per week. However, the wide-ranging scope of the reform does mean that the range of potential changes in entitlement is large.

Table 3 Banded changes in entitlement (pounds per week and households)

Income Bandings	Higher Entitlement	Lower Entitlement
More than £75	*	14,000
£50 to £75	*	18,000
£25 to £50	17,000	43,000
£10 to £25	51,000	33,000
Up to £10	32,000	18,000
Total	**114,000**	**126,000**

Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19
***Less than 10,000 households**
All numbers rounded to the nearest 1,000

60. The analysis of the impact of Universal Credit in Northern Ireland indicates that at steady state there will be **114,000 households entitled to an average of £26 more per week**; **126,000 households entitled to an average of £39 less per week**; and 72,000 households with no change to their entitlement.

61. This equates to an overall **decrease in entitlements of approximately £105,000,000 per annum** (2018/19 prices). This does not take into account the cost of Transitional Protection or savings due to reductions in Fraud and Error.

62. This overall decrease in entitlements is due mainly to the fact that the Work Allowance reductions outlined at Summer Budget 2015 mean that Universal Credit is less generous than the current system of Tax Credits for many cases.

63. It was originally planned that cuts to Tax Credits of the same magnitude would be introduced from April 2016. This would have affected all existing and new Tax Credit claimants from this point onwards and would have meant that Universal Credit and Tax Credit entitlements would have been more comparable.

64. By cancelling the Tax Credit cuts at Autumn Statement 2015 and applying the reductions to the Universal Credit Work Allowances significant savings will still be achieved by the end of Parliament. However, the impact of the reductions on households has been delayed and will only come into place as the Universal Credit caseload increases.

Section 2.3 – Understanding Why Entitlements Change

65. The following sections outline why entitlements change under Universal Credit and provide analysis for certain key groups within the Universal Credit caseload.

66. The booklet provides statistics on entitlement change and reasons for the changes for several key breakdowns:

    - Changes in entitlement for In Work and Out of Work households
    - Changes in entitlement for cases receiving Disability Support
    - Changes in entitlement for cases With or Without children
    - Changes in entitlement by Tenancy Type.

Changes to Entitlement for In Work and Out of Work Households

67. The policy rationale of Universal Credit is to remove the financial and administrative barriers to work inherent in the current welfare system. One of the main goals is to encourage more people to see work as the best route out of poverty.

68. Table 4 compares the change in entitlements with the introduction of Universal Credit for In Work and Out of Work households. It shows that all In Work households will have a change in entitlement either higher or lower, but a significant number of households where no one works will experience no change in entitlement (72,000 households).

69. In Work households are more likely to experience a lower entitlement in general; this is predominantly due to the reductions in the Universal Credit Work Allowances. However, there are various other differences that can make the level of in work support less generous under Universal Credit than Tax Credits.

70. The Work Allowances under Universal Credit do allow claimants at lower levels of earnings or hours to keep more of their entitlement as they first move into work. The Single Taper rate of 65% means that every additional hour of work leads to an increase in income whereas in the current system benefits may be reduced at 100% as the claimant moves into work. This may lead to behavioural changes which cannot be captured in the static modelling here, cases may move from being workless to having some hours and be better off than they would have been under the current system of benefits.

71. The reason many Out of Work benefit units have no change in entitlement is that the Standard Allowance of Universal Credit is set at the same rates as the equivalent allowances under the Legacy Benefit system. Cases that see a change in entitlement may have various additional elements paid at different rates to the Legacy Benefit system, such as Disability Additions.

Table 4 Higher and lower entitlements by In Work and Out of Work households

Work Status	Total No. of households	Higher Entitlement		No Change	Lower Entitlement	
		No. of Households	Average Gains	No. of Households	No. of Households	Average Losses
In Work	133,000	48,000	£34	-	85,000	-£36
Out of Work	179,000	66,000	£20	72,000	41,000	-£47

Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19
- No households in Sample
All numbers are rounded to the nearest 1,000 and monetary values to nearest £1

72. Table 5 breaks the In Work and Out of Work households down further by household type and number of earners. The table illustrates that there is no straightforward mapping between current eligibility and changes in entitlement for particular household types.

Table 5 Higher and lower entitlements by Household Type and Number of Earners

Household Type and No. of Earners	Total No. of households	Higher Entitlement		No Change	Lower Entitlement	
		No. of households	Average Gains	No. of households	No. of households	Average Losses
Lone Parents						
LP, with Earnings	33,000	*	*	-	25,000	-£26
LP, no Earnings	42,000	*	*	19,000	15,000	-£32
LP Overall	**75,000**	**16,000**	**£31**	**19,000**	**40,000**	**-£28**
Single Adults						
Single, with Earnings	20,000	*	*	-	12,000	-£40
Single, no Earnings	106,000	45,000	£16	43,000	18,000	-£34
Single Overall	**126,000**	**53,000**	**£17**	**43,000**	**30,000**	**-£36**
Couples Overall						
Couples, two earners	23,000	*	*	-	18,000	-£51
Couples, one earner	56,000	26,000	£41	-	30,000	-£32
Couples, no earner	32,000	13,000	£23	10,000	*	*
Couples, overall	**111,000**	**45,000**	**£35**	**10,000**	**57,000**	**-£49**
Overall Gainers and Losers						
Total	**312,000**	**114,000**	**£26**	**72,000**	**126,000**	**-£39**

Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19
***Less than 10,000 households**
- No households in Sample
All numbers are rounded to the nearest 1,000 and monetary values to nearest £1

73. For both In Work and Out of Work households, there are a number of reasons why a change in entitlement is experienced:

- Change in Universal Credit Work Allowances;
- Introduction of a Minimum Income Floor;
- Introduction of a single withdrawal rate of 65%;
- A capital cut-off in Universal Credit set at £16,000;
- Under 16 hours of work cases not eligible for WTC but may be eligible for Universal Credit;
- A change in support level for unemployed under 25 years old Lone Parents;
- Newly entitled and increased take-up of Universal Credit;
- Mixed age couple rules in Universal Credit;
- Changes in disability support.

74. These cases can experience a change in entitlement for one of the reasons or a combination of reasons depending on the household circumstances. Some reasons will result in an increase in entitlement for one household, but a decrease for others; with most households experiencing the effect of the interaction of a number of changes on their entitlement.

75. Universal Credit has very simple rules for calculating entitlements, but the move away from the complexities of the current system means that some of the changes in entitlement will depend upon the complex interactions between the two systems. The following section describes some of the main drivers for changing entitlement.

Reason for Change - Universal Credit Work Allowances

76. The Work Allowances or earnings disregards are the amount of net earnings a household can have before their Universal Credit award begins to taper (i.e. reduce).

77. There are two sets of Work Allowances; one for those who do receive the Housing Element of Universal Credit and one for those who do not. A higher allowance is given to households who do not receive the Housing Element of Universal Credit, as Universal Credit would otherwise be less generous for these cases than for cases who do receive the Housing Element.

78. Prior to the Summer Budget 2015 announcement the Work Allowances were tailored depending on the family type of the household. The allowances are now being simplified and made less generous.

79. Households with no children or disabilities will now see their Universal Credit award immediately tapered by 65p for every £1 of earnings. All other households will have a set Work Allowance of either £195 per month or £403 per month (illustrative 2018/19 rates) depending on whether or not they receive the Housing Element of Universal Credit.

80. Households who are towards the **upper end of the income distribution may have a higher withdrawal rate applied to their earnings under Universal Credit compared with current rules (this would be the case if they were entitled to Tax Credits only in the current system).**

81. When comparing the changes in Work Allowances announced at Summer Budget 2015 to the previous Universal Credit Work Allowances, an estimated 105,000 households will see a change in entitlement. The changes in Work Allowances, are estimated to reduce the cost of Universal Credit by £98m not taking account of the cost of Transitional Protection or Fraud and Error savings.

Reason for Change - Minimum Income Floor

82. **Self-employed households may be affected by the Minimum Income Floor under Universal Credit.** Under the current system, self-employed cases are entitled to in-work support (as eligibility to Tax Credits is based on hours worked). However, under Universal Credit they will be subject to the Minimum Income Floor.

83. The Minimum Income Floor is set at 35 hours x National Minimum Wage for a single person or when one member in a couple is self employed (70 hours x National Minimum Wage when both members of a couple are self employed) to ensure that their self employment is 'gainful'.

84. Where the reported earnings for these cases are lower than the Minimum Income Floor, the expected earnings at the Minimum Income Floor are used in entitlement calculations rather than the household's reported earnings. This can result in households where one or more members are self-employed experiencing a reduction in entitlement under Universal Credit.

85. It was announced at Autumn Statement 2015 that the Minimum Income Floor will be based on the National Living Wage for Self Employed Claimants effective from September 2017.

86. Applying the Minimum Income Floor in isolation, it is estimated that 15,000 households will be affected by the introduction of the policy. This is estimated to reduce the cost of Universal Credit by £49M, not taking account of the cost of Transitional Protection or Fraud and Error savings.

Reason for Change - Introduction of a single withdrawal rate of 65%

87. **Universal Credit has a single withdrawal rate of 65%,** which can be higher or lower than the current withdrawal rate depending on the combination of benefits/Tax Credits received by the household, but which eradicates the very high withdrawal rates currently faced by many.

88. **Working households who currently only receive Tax Credits will have a higher withdrawal rate** under Universal Credit. These households currently face a 41% taper rate on gross income or a 73% Marginal Deduction Rate (MDR – please see later section on Work Incentives for more detail) after tax and National Insurance. However, under Universal Credit the taper rate will increase to 65% on net income or a 76% MDR after tax and NI. Therefore, these households are more likely to have a lower entitlement where the impact of this effect is greater than the impact of the higher Work Allowances under Universal Credit.

89. **Couples where both members of the household are earning** tend to see an increase in withdrawal rate under Universal Credit when compared to Tax Credits. Universal Credit for the second earner is withdrawn at a 65% taper rate whereas in the current system their Working Tax Credit would have been withdrawn at a 41% taper rate.

90. An estimated 77% (18,000 households) of all dual earner couples will see a reduction in entitlement under Universal Credit of approximately £51 per week.

Reason for Change - Capital Limit of £16,000 for Universal Credit

91. There is a capital limit in the current out of work benefits and Housing Benefit which is set at £16,000 but Tax Credits currently treat capital differently. Under Tax Credits there is no limit on eligibility as a result of capital but the investment income from capital is taken into account after a small annual disregard.

92. **The capital limit in Universal Credit is set at £16,000** (both for single claimants and couples making a joint claim). Cases with over £16,000 in capital will not be entitled to Universal Credit. There will be some cases currently claiming Tax Credits who will have a loss of entitlement to benefits as a result of the £16,000 capital limit.

93. Capital in excess of £6,000 will be treated as yielding an income (known as 'tariff income') of £1 per week for each complete £250 over this £6,000 floor. There will be some cases with over £6,000 but under £16,000 in capital that will experience a reduction in entitlement.

94. Capital under £6,000 will be disregarded.

95. There are fewer than 10,000 households with capital over £6,000 who are affected by the capital rules.

Reason for Change - Under 16 hours of Work Cases not Eligible for Working Tax Credit

96. Households where there is a person working for less than 16 hours per week are currently not entitled to any in-work support in the form of Working Tax Credit (WTC). In Universal Credit, this **minimum value will be removed and all in-work households will receive in-work financial support**.

Reason for Change - Change in Support Level for out of Work under 25 years old Lone Parents

97. Lone parents aged less than 25 years old see a change in Standard Allowance under Universal Credit. They will no longer be entitled to the over 25 benefit rate as in the current system; instead they will receive the same rate as a person under 25 without any children. This results in a loss of approximately £15 for affected households per week.

98. There are under 10,000 Lone Parent households aged less than 25 years old in Northern Ireland who could be impacted by this change in Standard Allowance.

Reason for Change - Newly Entitled and Increased Take-up to Universal Credit

99. For the projected additional uptake of benefits through Universal Credit, it is estimated that up to 20,000[4] households will have a new or increased Benefit Take-Up as a direct result of Universal Credit. This figure is made up of three main groups:

    - **Cases that were not entitled to current Legacy system benefits but are entitled to and take up Universal Credit.** For example in work claimants aged under 25 who are not currently eligible for WTC but will be eligible for Universal Credit.

    - **Cases who are entitled to current Legacy system benefits but do not take up any of their entitlement to these benefits in the current system**, but are expected to claim Universal Credit. This may be due to increases in entitlement or a simpler claim process.

    - **Cases who take up less than their full entitlement to current Legacy system benefits, but will receive the full amount of Universal Credit they are entitled to due to the integrated system.** For example, a claimant may be entitled to Income Support and Housing Benefit but only claim Income Support. Under Universal Credit, a claimant will be assessed for all the elements simultaneously and, in this case, will automatically receive the Housing Element if they are entitled to it.

100. Increased benefit uptake can lead to gainers when Universal Credit is compared to the current system. However households who are already claiming their full benefit entitlement may see a change in their level of support when Universal Credit is introduced due to different allowances, earnings disregards and tapers.

[4] Figures based on: DWP data for GB scaled for Northern Ireland; DWP Policy Simulation Model (based on FRS 2013/14), 2018/19.

Reason for Change - Mixed Age Couple Rules under Universal Credit

101. Mixed age couples are couples with one partner under and one partner over the qualifying age for Pension Credit. From a date to be decided, these cases will not have access to Pension Credit. They will instead have to claim Universal Credit which will be paid at a much lower rate.

102. Couples already in receipt of Pension Credit at the date the change is introduced will remain on it unless their circumstances change and they are no longer entitled for some other reason. An existing Pension Credit customer who forms a partnership with someone below the qualifying age after the change is introduced will no longer be entitled to Pension Credit – they will have to claim Universal Credit. It is estimated that there are less than 10,000 cases that will be affected by this policy in Northern Ireland.

Changes in Entitlement for Households with Disability Support

103. It is estimated that 114,000 households contain at least one individual (adult or child) currently receiving disability support. Table 6 shows the higher and lower entitlements for these households under Universal Credit, it should be noted that the higher or lower entitlement can be for a number of reasons, and not wholly due to a change in disability support.

Table 6 Higher and lower entitlements under Universal Credit for households containing at least one individual (adult or child) receiving disability support in the current benefit system.

Households containing at least one individual receiving disability support in the current benefit system	Higher Entitlement		No Change	Lower Entitlement	
	No. of Households	Average Gains	No. of Households	No. of Households	Average Losses
114,000	67,000	£21	11,000	35,000	£50

Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19
All numbers are rounded to the nearest 1,000 and monetary values to nearest £1

104. The current system has a range of allowances and premiums related to disability, which can be received in isolation or in combination forming a complex disability package which can be difficult to administer and understand. The new system should simplify payments for disability however the interaction between the Universal Credit system and the legacy system is complex and some of the changes in entitlement will depend upon the complex interactions between the two systems.

105. Currently under CTC there are two elements which give additional entitlement for each disabled child in a household, these will be replaced by two additions under Universal Credit. Table 7 compares the current system child disability support with that available under Universal Credit.

Table 7 Comparison of the disabled child entitlements under Child Tax Credit in the current system to the entitlements under Universal Credit (All illustrative 2018/19 rates)

Current System with Child Tax Credits	Universal Credit
Disabled Child Element – £267.24 per month / £61.67 per week – Paid in addition to the Child Element of CTC	**Disabled Child Addition** – £125.88 per month/ £29.05 per week – Equivalent to the Disabled Child Element of CTC, but worth significantly less – Aligned with the adult Universal Credit rate
Severely Disabled Child Element – £108.90 per month / £25.13 per week – Paid in addition to the Child Element and Disabled Child Element of CTC	**Severely Disabled Child Addition** – £376.13 per month/ £86.80 per week – Equal to the current rate of support with entitlement to the Disabled Child Element and the Severely Disabled Child Element

106. The Government will also extend eligibility under Universal Credit for the Severely Disabled Child Addition to children who are severely visually impaired who currently only qualify for the Disabled Child Element of CTC (those registered or certified as blind).

107. Under Universal Credit there will be just two rates of payment for households with disabled adults rather than varying rates depending on the combination of premiums that a claimant qualifies for in the current system.

108. Disability Premiums are paid in the current system of income related benefits if a claimant meets a specific set of conditions – the premiums are additional payments and are often based on checking for receipt of a qualifying benefit such as the care component of Disability Living Allowance/PIP.

109. The adult disability support available in the current system is compared to that available under Universal Credit in Table 8. In the current system the ESA Support Component and Work Related Activity Component can be paid in conjunction with Disability Premiums so claimants may have different combinations of payments from the table below depending on their individual circumstances. **There will be no additional Disability Premiums under Universal Credit**.

Table 8 Comparison of the adult disability support in the current system to the adult disability support under Universal Credit (All illustrative 2018/19 rates)

Current System	Universal Credit
ESA Work Related Activity Component (WRAC) – £125.88 per month / £29.05 per week – Current plans are that this rate will not be paid for new claims from April 2017	**Limited Capability for Work (LCW)** – £125.88 per month / £29.05 per week – Equivalent to the ESA WRAC and paid at the same rate – Current plans are that this rate will not be paid for new claims from April 2017
ESA Support Component – £160.33 per month / £37.00 per week	**Limited Capability for Work and Work Related Activity Group (LCWRA)** – £321.71 per month / £74.24 per week. – Equivalent to the ESA Support Group, but worth more
Severe Disability Premium – £273.87 per month / £63.20 per week for singles or couples if only one member of the couple qualify. – £547.73 per month / £126.40 per week if both members in a couple qualify	Under Universal Credit there are no additional disability premiums
Disability Premium – £142.78 per month / £32.95 per week for singles or couples if only one member of the couple qualify. – £203.67 per month / £47.00 per week if both members in a couple qualify	
Enhanced disability premium – £69.77 per month / £16.10 per week for singles or couples if only one member of the couple qualify. – £100.10 per month / £23.10 per week if both members in a couple qualify	

110. Generally if a claimant qualified for Disability Premiums in the current system of benefits but either receives only the Limited Capability for Work addition of Universal Credit or no disability addition under Universal Credit then they will lose the value of the premiums that they received in the current system.

111. If the claimant qualifies for the Limited Capability for Work and Work Related Activity addition then their support under the Universal Credit system may be worth more than the combination of

premiums they would have received under the current system of benefits. So many cases in this group which is equivalent to the Support Group under ESA will be entitled to more disability support under Universal Credit than under the current system. However if the claimant qualified for the Severe Disability Premium then they will always be worse off.

112. The majority of cases that currently receive Disability Premiums are out of work and so do not benefit from improved Work Allowances and tapers under Universal Credit. Claimants with Disability Premiums may also be impacted by the introduction of Personal Independence Payment before any move to Universal Credit. They may experience changes in award level as a result of reassessment, as Disability Living Allowance and Personal Independence Payment are qualifying elements for disability premiums in the Legacy Benefit system.

113. A Work Capability Assessment (WCA) will determine whether a claimant is eligible for adult disability support under Universal Credit.

114. Changes in disability support under Universal Credit align with the policy intent to simplify the benefit system. At an individual level some cases will see a reduction in entitlement while others will experience an increase.

Changes in Entitlement for Households With and Without Children

115. Table 9 compares the change in entitlements with the introduction of Universal Credit for households with and without children. It shows that households with children are more likely to be negatively affected by the reform than those without children.

Table 9 Higher and lower entitlements for households with and without children.

With or Without Children	Total No. of Households	Higher Entitlement		No Change	Lower Entitlement	
		No. of Households	Average Gains	No. of Households	No. of Households	Average Loss
With Children	152,000	46,000	£36	26,000	81,000	£35
Without Children	160,000	68,000	£19	46,000	46,000	£47

Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19
All numbers are rounded to the nearest 1,000 and monetary values to nearest £1

116. Table 10 compares the change in entitlements with the introduction of Universal Credit for households by Family Type. There is significant variation within each group as each Family Type will contain a mixture of cases having different impacts on entitlements.

Table 10 Higher and lower entitlements by Family Type

Household Type	Total No. of households	Higher Entitlement		No Change	Lower Entitlement	
		No. of Households	Average Gains	No. of Households	No. of Households	Average Losses
Couple No Children	34,000	14,000	£28	*	16,000	-£67
Couple with Children	77,000	30,000	£38	*	41,000	-£41
Lone Parent	75,000	16,000	£31	19,000	40,000	-£28
Single No Children	126,000	53,000	£17	43,000	30,000	-£36

Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19
***Less than 10,000 households**
All numbers are rounded to the nearest 1,000 and monetary values to nearest £1

117. Of the households with children just under a third of all households have higher entitlements and over half have lower entitlements, whereas over two fifths of households without children have higher entitlements and under a third have lower entitlements. This is largely because households with children are more likely to be in work and claiming Tax Credits, and are therefore more likely to be affected by the changes in Work Allowances and Taper rates.

118. Households with children will be positively affected by the reforms to childcare support that are incorporated into these estimates. Support for childcare will be extended to below 16 hours of work and the level of childcare support under Universal Credit will increase from 70% to 85%. Examining the increase in the level of childcare support in isolation, it is estimated that 20,000 households will be affected. This is estimated to increase the cost of Universal Credit by £13m, not taking account of the cost of Transitional Protection or Fraud and Error savings.

119. Lone parents are more likely to see a reduction in entitlement. If they are out of work they may be affected by the change to the Standard Allowance for out of work under 25 years old Lone Parents. If they are in work they may be claiming Tax Credits and be affected by changes to Work Allowances and taper rates.

120. It should be noted that at Summer Budget 2015 it was announced that the Per Child Element of Universal Credit would be limited to two children for new claims after April 2017 and new births after April 2017 for existing claims[5]. ASU conducted analysis on limiting the Per Child Element of Universal Credit to two children for new claims after April 2017 and new births after April 2017 for existing claims as part of Summer Budget 2015 analysis.

[5]. https://www.communities-ni.gov.uk/sites/default/files/publications/dsd/nisra-summer-budget-2015.pdf

Changes in Entitlement by Tenancy Type (Households)

121. A complex range of interactions drive whether a household sees an increase or reduction in entitlement under Universal Credit. Consequently, there is significant variation amongst groups in the distribution of entitlement changes by tenancy type, as highlighted in Table 11.

Table 11 – Higher and lower entitlements by Tenancy Type (households)

Tenancy Type	Entitlement Change			Total
	Higher Entitlement	No Change	Lower Entitlement	
Housing Association	*	*	*	23,000
NI Housing Executive	32,000	25,000	24,000	82,000
Other Rented Unfurnished	*	*	*	*
Other Private Rented Furnished	34,000	20,000	26,000	81,000
Owned with a Mortgage (includes part rent / part own)	13,000	*	22,000	45,000
Owned Outright	21,000	*	43,000	70,000
Rent-free	*	-	*	*
Total	**114,000**	**72,000**	**126,000**	**312,000**

Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19
***Less than 10,000 households**
All numbers are rounded to the nearest 1,000

122. The Owned with a Mortgage group are more likely to see a decrease in entitlement under Universal Credit. Many of these cases will have earnings and will be affected by the changes to the Work Allowances, taper rates and capital rules. Changes to Support for Mortgage Interest (SMI) may also be a cause for some of the lower entitlement cases in this group. It was announced in Summer Budget 2015 that SMI will be changing from a benefit to an interest-bearing loan, secured against the mortgaged property, from April 2018.

123. More than half of the overall households who have a lower entitlement under Universal Credit own their home, either with a mortgage or outright. Many of these cases would have been in receipt of Tax Credits previously.

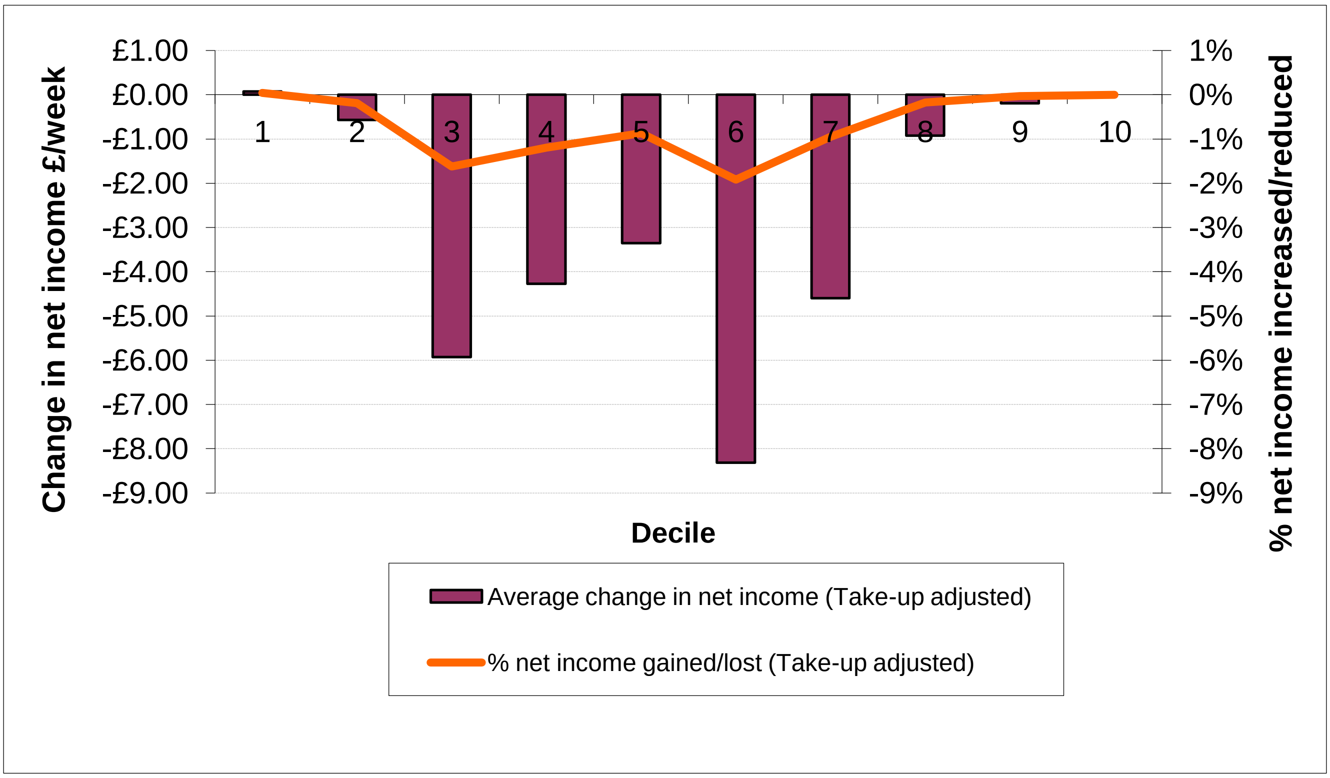
Section 2.4 - Impacts on Income Distribution

124.This section looks at the impact of Universal Credit across the Income Distribution for the **entire working age population**. This is different to analysis in previous sections in which the analysis was limited only to the Benefit Pool of Legacy Benefit claimants and Universal Credit claimants.

125.Re-structuring of benefit support for in work and out of work claimants leads to changes in entitlement. The following section provides analysis of the overall impact of Universal Credit in Northern Ireland across the distribution of income.

126.Figure 4 illustrates the long-term distributional impact (where Transitional Protection is reduced to Zero), showing the average change in income for the working age population (all households) in each 10% band (decile) of the equivalised income distribution, with the lowest income band being one and the highest ten.

Figure 4 Long Term Distributional Impact – Average entitlement changes by income decile (all households)



Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19

127.There are approximately 62,000 households within the benefit pool in decile one. Of these, 16,000 households see an increase in entitlement of approximately £35 per week with 13,000 households receiving a reduced entitlement of £45 per week under Universal Credit. Households in this decile are gaining due to several reasons including:

- Increased take-up of Housing Support (see paragraph 99);
- Increased take-up of Child Support and;
- An increase in disability support (see paragraph 103)

Those households that receive a reduction in entitlement are primarily affected by:

- The Minimum Income Floor (see paragraph 82) and;
- Changes in support for under 25 year old out of work lone parents (see paragraph 97).

128. There are approximately 49,000 households within the benefit pool in decile three. Of these, 17,000 households see an increase in entitlement of approximately £28 per week with 27,000 households receiving a reduced entitlement under Universal Credit of approximately £33 per week. Households in this decile are gaining due to several reasons including:

- An increase in disability support for certain cases in the Limited Capability for Work and Work Related Activity Group.
- Under 25 year old in work cases who are now able to claim Universal Credit (see paragraph 99).

Those households that receive a reduction in entitlement are primarily affected by:

- The Minimum Income Floor and;
- Changes in support for under 25 year old out of work lone parents (see paragraph 97).

129. Moving along the income distribution there are approximately 43,000 households within the benefit pool in decile five. Of these, 20,000 households see an increase in entitlement of approximately £20 per week with 17,000 households receiving a reduced entitlement under Universal Credit of approximately £38 per week. Households in this decile are gaining due to several reasons including:

- An increase in disability support for certain cases in the Limited Capability for Work and Work Related Activity Group.
- Lower Marginal Deduction Rate under Universal Credit (see paragraph 149);
- Increased take-up of Housing Support.

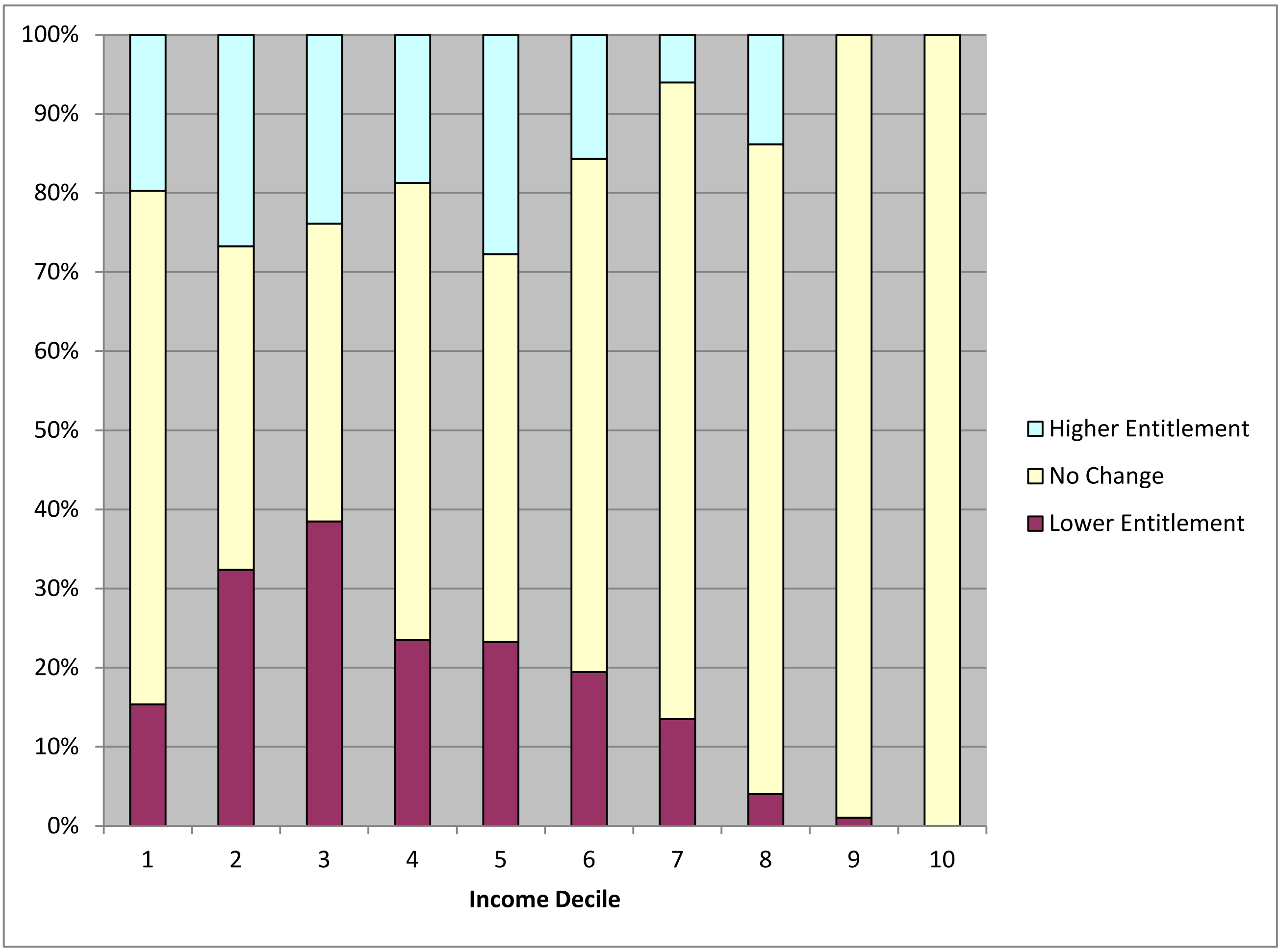
Those households that receive a reduction in entitlement are primarily affected due to:

- Increase in taper rate for Tax Credits only cases (see paragraph 88);
- Decrease in disability support. Certain claimants who would have received disability premiums under the current system of benefits will receive less money under the Universal Credit system.

130. Those in the upper end of the income distribution are most likely to be in receipt of WTC only; they will therefore tend to be negatively affected by changes in taper rates and capital rules, so have lower entitlements.

131. Figure 5 shows the distribution of changes in entitlement by income decile for all working age households. Households in the middle of the income distribution will be impacted by the removal of WTC and the announced changes to disability premiums, which is why a slightly higher proportion have reduced entitlements compared to increased entitlements. Households in the top half of the income distribution are less likely to be affected by the introduction of Universal Credit. This is because they are currently not entitled to means-tested benefits and the changes will not affect them to the same extent.

Figure 5 Long Term Distributional Impact – Average entitlement changes by income decile (all households)



Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19

Section 3 - Impact on Work Incentives

132. The objective of Universal Credit is to substantially improve incentives to work in four key ways:

- Increase the incentive to start work by **increasing the proportion of earnings that people keep when they move into work** – changes in the Participation Tax Rates (PTRs) measure this.
- Increase the incentive to increase hours of work and progress through the labour market by **reducing the proportion of any increase in earnings that is lost due to tax or reduced benefit payments** – the Marginal Deduction Rates (MDRs) measure this. This will be balanced against the incentive for some to move to lower hours, as there will no longer be 16/30 hour rules under Universal Credit.
- **Simplify the system** by removing some of the risks associated with moves into work and make much clearer the actual financial gain from working.
- **A 'claimant commitment' will be introduced to detail what is expected of each claimant.** Some individuals will have higher requirements placed on them and tougher sanctions will be used to ensure recipients meet their responsibilities. This approach will be taken for claimants under both existing benefits and Universal Credit.

Conditionality

133. **Individuals who are able to look for or prepare for work should be required to do so** as a condition of receiving benefit, and those who fail to meet their responsibilities should face a financial sanction; this is known as conditionality.

134. Under Universal Credit, **requirements will be set according to individual capability and circumstance.** There will be four broad conditionality groups:

- **No Work Related Requirements** - claimants who cannot reasonably be expected to work or prepare for work over a sustained period, or who are already earning all that could reasonably be expected above their conditionality threshold. For example, people with a disability or health condition which prevents them from working, carers, lone parents or lead carers with a child under the age of one.
- **Work Focussed Interviews Only** - claimants who are only expected to stay in touch with the labour market and begin thinking about a move into work, more work, or better paid work. For example, lone parents or a lead carer in a couple with a child over age one but below age three.
- **Work Preparation** - claimants expected to prepare for a move into work, more work or better paid work by, for example, participating in the Work Programme, but not expected to look for work yet. For example people with a disability or those with a health condition which means they have limited capability for work at the current time.
- **All Work Related Requirements** - claimants expected to move into work, more work or better paid work e.g. jobseekers.

135. **Conditionality under Universal Credit will apply up to a threshold.** Initially this threshold will be set at broadly the same point at which people lose entitlement to current out-of-work benefits. In the future, however, it will be possible to raise the threshold to apply conditionality to a greater number of recipients.

136. The current system mainly rewards those working 16 or 30 hours, although conditionality ends for most people when their earnings reach a certain level; this is equivalent to between 12 and 16 hours of work at National Minimum Wage for a claimant over 21. **Under Universal Credit, all hours of work will be profitable and conditionality will extend to encourage Universal Credit claimants working between 12 and 16 hours per week to work more and reduce their dependency on benefits.**

137. The lower taper rate means that **many households will be able to keep a higher proportion of their earnings**. In particular, Universal Credit provides strong incentives for workless households to take up mini-jobs[6]. Mini-jobs could be important in helping individuals who have spent long periods in unemployment take steps into the labour market, particularly those on Employment & Support Allowance (ESA) in the Work Related Activity Group and individuals on Income Support (IS).

138. The following analysis on work incentives has been modelled on full entitlement to benefits rather than take-up adjusted. This reflects the incentives put in place by the benefit system itself, rather than the response in terms of take-up. For the purpose of work incentives analysis, childcare support is excluded from the baseline and Universal Credit model.

[6] These have been defined as 'a job of less than 16 hours of work per week' (Griffiths, R, 2011, '*Helping more parents move into work: an evaluation of the extension of New Deal Plus for Lone Parents and In Work Credit: Final report*', DWP)

Impact on Employment Incentives - Participation Tax Rates

139. **The Participation Tax Rate (PTR) measures the incentive for someone to enter work**. At a given level of gross earnings, it tells you how much will be withdrawn in Income Tax, National Insurance contributions and reduced benefit payments. The lower the PTR faced by an individual at a particular level of earnings, the more incentive they have to move into work at those earnings.

140. A key aim of Universal Credit is to encourage people currently out of work to take their first steps into employment. Consequently, a key part of the design of earnings disregards and benefit tapers is aimed at improving the incentive to take up work of a few hours per week.

141. Table 12 illustrates the change in PTRs for first earners in workless households at a level of 10 hours per week. It is assumed that those entering work do so at the National Minimum Wage (NMW) of £7.35 in 18/19 per hour (PSM). **It shows that under Universal Credit there is a large reduction in the number of households facing PTRs of over 70%**; for example, for those who go into 10 hours of work, the number of households facing PTRs between 70% and 100% falls by approximately 120,000 under Universal Credit.

Table 12 Participation Tax Rates for first earners in a workless household at a level of 10 hours per week

	Current		**Universal Credit**	
PTR	**Total**	**%**	**Total**	**%**
Below 60%	32,000	18%	142,000	80%
60% to 70%	17,000	10%	27,000	15%
70% to 80%	87,000	49%	*	*
80% to 90%	*	*	-	-
0ver 90%	32,000	18%	*	*
Total	**178,000**	**100%**	**178,000**	**100%**

Source: DWP Policy Simulation Model (based on FRS 2013/14), 2018/19
Figures may not sum due to rounding
***Less than 10,000 households**
All numbers are rounded to the nearest 1,000

142. These reductions occur for two reasons:

- Universal Credit provides **higher Work Allowances** for more people than the current system does; and

- For those households earning above their Work Allowance, the **single taper rate is lower than the 100% taper which they face under current out of work benefits**, or the very high withdrawal rate created by the simultaneous tapers for Housing Benefit and Tax Credits.

143. As Universal Credit delivers a more progressive tax and benefit system, **couples where both partners are in work and at the higher end of the income distribution tend to lose slightly more in terms of state support**.

144. Although the number of workless households is likely to reduce, in some families, second earners may choose to reduce or rebalance their hours or leave work. In these cases, the improved ability of the main earner to support his or her family will increase the options available for families to achieve their preferred work/life balance. The **Universal Credit policy is gender neutral – where men and women have the same circumstances, they receive equal treatment under Universal Credit**.

Impact on Earnings Incentives – Marginal Deduction Rates

145. Marginal Deduction Rates (MDRs) measure the incentive for someone to increase their hours of work. As the earnings of a household increase, means tested benefits and Tax Credits start to be withdrawn. In addition, above a certain level of earnings, any increase in wages will be affected by a subsequent rise in Income Tax and National Insurance contributions. **The MDR is the proportion of a small increase in earnings that is lost in lower benefits/Tax Credits and/or higher Income Tax and National Insurance payments**.

146. Under the current system, many households have very high MDRs that substantially damage their incentive to increase their hours of work. There are two particularly notable circumstances in which very high MDRs occur:

- firstly, MDRs **are 100% for anyone working while in receipt of income-related benefits and whose earnings are above the disregard level**; and
- **people who have moved into work and therefore lost their entitlement to IS/ESA/JSA but are simultaneously in receipt of Housing Benefit and Tax Credits can have MDRs as high as 91%**.

147. Basic rate Income Tax and National Insurance together take £0.32 from each pound earned. Tax Credits then take an additional £0.41 from each pound earned. Therefore £0.73 is taken in total from each pound, leaving £0.27. Housing Benefit then tapers at 65% of income net of tax and Tax Credits – taking 65% of the remaining £0.27, around £0.18. Added together this is a reduction of £0.91 (£0.73 plus £0.18) for each pound earned while, at the same time, these benefits are being withdrawn.

148. There is a trade-off between increasing entitlements and reducing MDRs. It is possible to reduce MDRs by reducing entitlements. However, under Universal Credit 114,000 households will receive higher entitlements and some of these households will see their MDRs increase as a result. For example, some households become entitled to state support for the first time under Universal Credit; their Universal Credit taper will combine with Income Tax and National Insurance, increasing their MDR. Therefore, for these households, the increase in MDRs is associated with an increase in their income.

149. Universal Credit will reduce these MDRs to either 65% or 76.2% of each pound earned. As a claimant moves into work, they become eligible to have their Universal Credit award reduced, which initially occurs after a set number of hours, dependent on the composition of the benefit unit. When this taper begins to affect income, it does so at a constant rate of 65% of net earnings, rather than multiple tapers from several benefits.

150. The initial rate of 65% applies until the claimant passes their non-taxable earnings threshold, after which they are liable for Income Tax, at 20% of earnings, and National Insurance, at 12% of earnings. The 65% taper rate only applies to net earnings, which at this point are £0.68 (£1 - £0.20 - £0.12), resulting in an MDR of 76.2% (65% of £0.68 is £0.442, which when added to £0.20 and £0.12, results in £0.762 taken away from each pound of Universal Credit awarded when earning over the taxable earnings threshold).

Distribution of Changes in Marginal Deduction Rates

151. Table 13 summarises the impact of Universal Credit on the distribution of MDRs, and segments them into male and female earners in the household. **Some 68,000 individuals will have higher MDRs under Universal Credit but the median increase will be comparatively small, at approximately 10%**. Many of these cases will be households with above-average income for Universal Credit claimants.

Table 13 Changes in MDRs

Gender	MDR increases	MDR decreases	Mean increase	Mean decrease	Median increase	Median decrease
Male	30,000	17,000	28%	-28%	3%	-32%
Female	38,000	32,000	18%	-46%	16%	-38%
Total	**68,000**	**49,000**	**22%**	**-40%**	**10%**	**-36%**

Source: DWP Policy Simulation Model (Based on FRS 2013/14, 2018/19)
All percentages are rounded to the nearest whole % and numbers to the nearest 1,000
Table excludes self employed earners and cases that do not have a change in MDR between the current system and Universal Credit system (For example claimants in receipt of Housing Benefit by itself have an MDR of 65% which is the same as the MDR for Universal Credit when it is being withdrawn and the claimant is not paying tax or National Insurance).

152. **Around 49,000 individuals will have lower MDRs under Universal Credit with a median reduction of 36%; this reflects the virtual elimination of the highest MDRs under Universal Credit**.

153. In some cases, an increase in MDR would occur because the reduced taper of Universal Credit means that a household would still be in receipt of some of the benefit at a point where under the current system their benefits/Tax Credits would have tapered away completely. In this case, the increase in the MDR is associated with an increase in their net income. **Individuals facing an increase in MDR tend to be those who become newly entitled to state support for the first time under Universal Credit and households with higher incomes who would be in receipt of Tax Credits only in the current system.**

154. Table 14 shows the impact of Universal Credit on MDRs for people currently in work.

Table 14 Distribution of MDRs for In Work households in the population pool (working age only)

MDR Rate	Current		Universal Credit	
	Male	Female	Male	Female
Below 60%	*	42%	*	37%
60% to 70%	*		21%	40%
70% to 80%	56%	40%	57%	23%
80% to 90%	*	*	-	*
0ver 90%	*	*	*	-
Total (nearest thousand)	**49,000**	**74,000**	**49,000**	**74,000**

Source: DWP Policy Simulation Model (Based on FRS 2013/14, 2018/19)
Percentage figures have been rounded to the nearest whole %
This table also excludes self employed claimants however does include cases that have no change in MDR between the current system of benefit and the Universal Credit system.
- Indicates no sample cases
***Less than 10,000 households**

Glossary of terms

Award	The amount of benefit payable to someone who satisfies the conditions of entitlement to a benefit.
Benefit Cap	The Benefit Cap is a limit on the total amount of certain benefits you can get if you are working age. The Benefit Cap will only affect you if you are getting Housing Benefit or Universal Credit, and do not qualify for an exemption. If the cap affects you, your Housing Benefit or Universal Credit is reduced.
Benefit Pool	The Benefit Pool is defined as all recipients of the 'Legacy Benefits' that Universal Credit will replace (Income Based Jobseeker's Allowance, Income-Related Employment and Support Allowance, Income Support, Housing Benefit, Working Tax Credit, Child Tax Credit) as well as newly entitled claimants under Universal Credit.
Benefit Unit	A Benefit Unit is an adult plus their partner and any dependent children they are living with. There may be multiple Benefit Units living in one household.
Capital Rule	There is a capital limit in the current out of work benefits and Housing Benefit which is set at £16,000 but Tax Credits currently treat capital differently. Under Tax Credits there is no limit on eligibility as a result of capital but the investment income from capital is taken into account after a small annual disregard. The capital limit in Universal Credit is set at £16,000 (both for single claimants and couples making a joint claim). Households with more than £16,000 in savings will not be entitled to Universal Credit. Any savings under £6,000 are ignored, and claimants with capital between £6,000 and £16,000 will have their Universal Credit reduced by £1 for every £250 of capital they have in excess of the £6,000 threshold.
Caseload	The number of live cases for a particular benefit. For Legacy Benefits a case will represent an individual's claim whereas in Universal Credit a case will represent a claim for the household.

Carer Element	An amount payable under Universal Credit to carers that meet certain qualifying conditions.
Child Benefit	Money paid to parents or other people who are responsible for bringing up a child. A higher amount is paid for the eldest or only child and a lower amount for each additional child. You get Child Benefit if you are responsible for a child under 16 (or under 20 if they stay in approved education or training).
Childcare Element	An amount payable as part of the Universal Credit Award, to assist with additional costs of childcare as parents move in to work.
Child Addition	An amount payable for each child as part of the Universal Credit Award, to help cover the costs of having children. It should be noted from April 2017, new claims to Universal Credit will have the Child Element limited to two children and the first child will be paid at the same rate as the second child.
Child Tax Credit (CTC)	Child Tax Credit is a means tested benefit paid to help people with the costs of bringing up a child. Money is paid for each child that qualifies. How much Child Tax Credit a claimant receives depends on income and circumstances e.g. if the child is disabled.
Claimant Commitment	A ‘claimant commitment’ is a record of the responsibilities a claimant will have to accept in return for receiving Universal Credit, and the consequences of not meeting them. It is based on the claimant’s personal circumstances and reviewed and updated on an ongoing basis. If a couple are claiming Universal Credit, both partners will need to accept individual Claimant Commitments.

Conditionality	Welfare recipients are subject to various forms of conditions when accessing state support. A principle of conditionality holds that access to certain welfare benefits and services should be dependent on an individual first agreeing to meet particular obligations or patterns of behaviour (e.g. engage in a certain amount of job search activities). Depending on an individual's capability and circumstance these obligations may range from being required to actively seek full time work to attending job preparation courses to no conditionality at all.
Disability Additions	Under Universal Credit there are two disability additions which are payable dependent on the outcome of a Work Capability Assessment. The Limited Capability for Work addition is equivalent to the Employment and Support Allowance Work Related Activity Component while the Limited Capability for Work and Work Related Activity addition is equivalent to the Employment and Support Allowance Support Component, although it is paid at a higher rate.
Disability Living Allowance (DLA)	DLA is a benefit that helps with the extra costs you may face if you're disabled. DLA is being replaced by Personal Independence Payment.
Disability Premium	An extra amount paid with Income Support or income-based Jobseeker's Allowance (JSA) if the claimant is eligible, to help towards the cost of disability. A claimant qualifies for this premium if they are either registered blind or are in receipt of: o Disability Living Allowance (DLA) o Personal Independence Payment (PIP) o Armed Forces Independence Payment (AFIP) o Working Tax Credit with a disability element o Attendance Allowance o Constant Attendance Allowance o War Pensioners Mobility Supplement o Severe Disablement Allowance o Incapacity Benefit
Disabled Child Addition	Additional entitlement under Universal Credit for each eligible disabled child in a household.

Disabled Child Element	Additional entitlement under Child Tax Credits for each eligible disabled child in a household (paid in addition to the Child Element of CTC).
Employment and Support Allowance (ESA)	Employment and Support Allowance is a means tested or contributory benefit that provides financial help to people who are unable to work because of illness or disability. It can also provide personalised support to those who are able to work.
Enhanced Disability Premium	An extra amount paid with Income Related Employment and Support Allowance, Income Support or income-based Jobseeker's Allowance if the claimant is eligible, to help towards the cost of disability. A claimant qualifies for this premium if they are: o Paid Disability Living Allowance Highest rate Care Component or the Personal Independence Payment Enhanced Rate Daily Living Component o Paid armed forces independence payment o In the Employment and Support Allowance Support Group.
Entitlement	This means a claimant is entitled to the benefit claimed by satisfying the conditions of entitlement to that benefit. Restructuring benefit rules will lead to substantial changes in entitlement. Approximately three quarters of households on Universal Credit will experience different entitlements from what they would have had in Legacy Benefit system.
Fresh Start Agreement	The Fresh Start Agreement was released on 17th November 2015 and was the end result of a ten week period of intensive cross party talks. The Fresh Start Agreement provides the political agreement by which the Welfare Reform Measures originally outlined in the Northern Ireland Welfare Reform Bill 2012, including Universal Credit will be implemented.
Housing Benefit (HB)	A social security benefit paid by the NI Housing Executive. It helps people on low income pay their rent and rates.

Housing Element	An appropriate amount will be added to the Universal Credit award to help with the cost of housing. This amount will be similar to the support currently provided through Housing Benefit.
Income Support (IS)	A means tested benefit for people under Pension Credit age and living on a low income who do not get Jobseeker's Allowance or Employment and Support Allowance and are not in full time employment. To qualify for Income Support you must be all of the following: between 16 and Pension Credit qualifying age, pregnant, or a carer, or a lone parent with a child under 7 or, in some cases, unable to work because you are sick or disabled. The actual amount you get depends on your circumstances.
Jobseeker's Allowance (JSA)	A means tested or contributory benefit for people who are unemployed or on a low income, but capable of work. It is intended to cover living expenses while the claimant is looking for work.
Legacy Benefit	The Legacy Benefits are the income related benefits that Universal Credit will replace. They include: Income Based Jobseeker's Allowance, Income Related Employment and Support Allowance, Income Support, Housing Benefit, Child Tax Credit and Working Tax Credit.
Limited Capability for Work (LCW)	If the outcome of the Work Capability Assessment is that the person is able to do some work or is able to prepare for work then the household will qualify for the Limited Capability for Work (LCW) element of Universal Credit. This client group is equivalent to the Work Related Activity Group (WRAG) ESA. The element is set at the same value as the Work Related Activity component of Employment and Support Allowance

Limited Capability for Work and Work Related Activity Group (LCWRA)	If the outcome of the Work Capability Assessment is that the person has significant limits on the ability to prepare for work then the household will qualify for the Limited Capability for Work and Work Related Activity (LCWRA) element of Universal Credit. The client group that will qualify for this element would be equivalent to the Support Group in ESA however the level of support will be different under Universal Credit.
Managed Migration	The term "Managed Migration" is used to describe the process of moving claimants of existing benefits and Tax Credits on to Universal Credit. This will occur when there has been no change of circumstances that would naturally trigger a new claim to Universal Credit (referred to as Natural Migration) and DWP/DfC initiates the transfer of an entire household from existing benefits or Tax Credits to Universal Credit.
Marginal Deduction Rates (MDR)	Marginal Deduction Rates (MDRs) measure the incentive for someone to increase their hours of work. As the earnings of a household increase, means-tested benefits and Tax Credits start to be withdrawn. In addition, above a certain level of earnings, any increase in wages will be affected by a subsequent rise in Income Tax and National Insurance contributions. The MDR is the proportion of a small increase in earnings that is lost in lower benefits/Tax Credits and/or higher Income Tax and National Insurance payments.
Means Test	A means test is a way of checking whether a claimant has enough financial resources to support themselves and what amount of social security payment, if any, they may qualify for.

Minimum Income Floor (MIF)	Universal Credit includes a 'Minimum Income Floor' (MIF) for self-employed cases, with a business that has been running for more than 12 months. The MIF is an assumed level of earnings, based on what an employed person would expect to receive in similar circumstances. If the self-employed earnings are below the calculated MIF, the MIF is used to work out the Universal Credit award instead of actual earnings. The Minimum Income Floor will be set for each gainfully self-employed adult at the equivalent of National Minimum Wage (which includes the National Living Wage from April 2016) for the claimant's age group multiplied by the hours that the claimant could be expected to look for or be available for work in order to receive UC, net of the Income Tax and National Insurance contributions payable on actual earnings at that level.
Mitigation Payment	The majority of those who will be financially impacted by Welfare Reform will receive a time-limited mitigation payment to help them adjust to a reduced entitlement. The report produced by the working group chaired by Professor Eileen Evason detailing the mitigation schemes is available via the following link: https://www.ofmdfmni.gov.uk/sites/default/files/publications/ofmdfm/welfare-reform-mitigations-working-group-report.pdf
Mixed Age Couples	Mixed age couples are couples with one partner under and one partner over the qualifying age for Pension Credit.
National Living Wage	In July 2015 the Chancellor of the Exchequer announced that the UK Government will introduce a compulsory minimum wage premium for all staff over 25 years of age, and referred to it as the 'national living wage'. If you're working and aged 25 or over and not in the first year of an apprenticeship, you'll be legally entitled to at least £7.20 per hour. The government rate was introduced in April 2016, and should reach 60% of median earnings by 2020. This would mean a rise to around £9 per hour by 2020.

Natural Migration	The term “Natural Migration” is used to describe cases that are in receipt of Legacy Benefits and then have a change of circumstance that would have led to one of the Legacy Benefits ceasing and a new one commencing (or just a new overlapping claim commencing in the instance of a first child entering the household).
New Award	The term “New Award” is used to describe cases that have not been in receipt of any Legacy Benefits immediately prior to making a claim to Universal Credit. The household may be claiming benefits for the first time or may be returning to benefits after a spell where they have not been entitled to state support.
Participation Tax Rates (PTR)	The Participation Tax Rate (PTR) measures the incentive for someone to enter work. At a given level of gross earnings, it tells you how much will be withdrawn in Income Tax, National Insurance contributions and reduced benefit payments. The lower the PTR faced by an individual at a particular level of earnings, the more incentive they have to move into work at those earnings.
Pension Credit (PC)	Pension Credit is an income-related benefit made up of two parts - Guarantee Credit and Savings Credit. Guarantee Credit tops up your weekly income if it’s below a set level. Savings Credit is an extra payment for people who saved some money towards their retirement, e.g. a pension.
Personal Independence Payment (PIP)	PIP is a benefit for people aged between 16 and 64 who because of a long-term illness or disability may need help with daily activities or getting around. PIP is replacing Disability Living Allowance. PIP has two parts, a daily living component and a mobility component. They are paid at different rates depending on the level of difficulty you have performing particular activities, such as preparing food and drink, dressing and undressing or moving around.

Policy Simulation Model (PSM)	This model is based on Family Resource Survey data and allows the impact of policy changes to be investigated by changing the rules of the Tax and Benefit system then looking at the impact these rule changes have on individual sample cases within the model.
Severe Disability Premium	An extra amount paid with Income related Employment and Support Allowance, Income Support or income-based Jobseeker's Allowance if the claimant is eligible for help towards the cost of disability. The Severe Disability Premium can be paid on top of any Disability Premium, Enhanced Disability Premium or Pensioner Premium. To qualify: o You must receive a qualifying benefit including Attendance Allowance, Disability Living Allowance (Middle or High Rate Care), Personal Independence Payment Daily Living Component or Armed Forces Independence Payment o No one gets Carer's Allowance for looking after you o You technically count as living alone (With specific rules for the second member of the couple meeting specific conditions and non-dependent rules).
Severely Disabled Child Addition	Additional entitlement under Universal Credit for each eligible disabled child in a household.
Severely Disabled Child Element	Additional entitlement under Child Tax Credits for each eligible disabled child in a household (paid in addition to the Child Element and Disabled Child Element of CTC).
Standard Allowance	Under Universal Credit the Standard Allowance is paid for each adult member of the Benefit Unit. The level this Standard Allowance is set at is equivalent to the rates payable through out-of-work benefits that Universal Credit will replace, such as Jobseeker's Allowance.
Steady State	When the policy has been fully implemented, no further claimants have to transition to the new regime and Transitional Protection has been fully exhausted.

Support for Mortgage Interest (SMI)	If a claimant is on qualifying benefits they may be entitled to Support for Mortgage Interest (SMI). This is paid in addition to certain social security benefits and can help meet some or all of the interest payments on a mortgage. It was announced in Summer Budget 2015 that SMI will be changing from a benefit to an interest-bearing loan, secured against the mortgaged property, from April 2018.
Support Group	If the ESA Work Capability Assessment shows that your illness or disability limits your ability to work, an additional amount (called a component) is paid on top of the basic rate. If you are placed in the Support Group because your illness or disability has a severe effect on your ability to work, you will not be expected to take part in any work. You can do so on a voluntary basis if you want to. You will receive a support component in addition to your basic rate.
Take-up	Universal Credit is a simpler system and it is anticipated that it will lead to an increase in take-up of unclaimed benefits;
Taper Rate	Universal Credit has a single withdrawal rate of 65%, which can be higher or lower than the current withdrawal rate depending on the combination of benefits/Tax Credits received by the household. For each additional £1 earned above the Work Allowance, 65p is deducted from the Universal Credit award leaving the benefit unit with an additional 35p income.
Transitional Protection	There is a commitment to ensure that no one will experience a reduction in the benefit they are receiving as a result of the introduction of Universal Credit, where circumstances remain the same. Transitional Protection therefore only applies to cases that are moved to Universal Credit through a process of “Managed Migration”. The value of this Transitional Protection will steadily decrease over time even when there is not a change of circumstances. This is because the Transitional Protection amount will not be uprated year on year.

Unearned Income	Any unearned income such as benefit income from overlapping contributory benefits will be reduced from the Universal Credit award £1 for £1.
Universal Credit (UC)	Universal Credit is a single monthly payment for people in or out of work, which merges together some of the benefits and Tax Credits available in the current system. Universal Credit will replace: Income-based Jobseeker's Allowance (JSA), Income-related Employment and Support Allowance (ESA), Income Support (IS), Housing Benefit (HB), Child Tax Credit (CTC) and Working Tax Credit (WTC).
Work Allowances	Under Universal Credit each household is assigned a Work Allowance, this is the amount of earnings the benefit unit can have before the maximum Universal Credit award starts to be reduced. The Work Allowances are larger for cases that do not qualify for the Housing Element as Universal Credit would be less generous for these cases otherwise.
Work Capability Assessment (WCA)	A Work Capability Assessment (WCA) will determine whether a claimant is eligible for the adult disability elements of Universal Credit.
Working Tax Credit (WTC)	Working Tax Credit is a means tested benefit designed to top up the earnings of people who work and have a low income.
Work Related Activity Group (WRAG)	If the ESA Work Capability Assessment shows that your illness or disability limits your ability to work, an additional amount (called a component) is paid on top of the basic rate. If you are placed in the Work Related Activity Group, you will be expected to take part in Work-Focused Interviews with your Employment Service Adviser. You will get support to help you prepare for suitable work. In return, you will receive a work related activity component in addition to your basic rate.