Factsheet 12: Universal Credit

What is Universal Credit?

Universal Credit will bring together a wide range of working-age benefits into a single payment, paid into their bank account in the same way as a monthly salary, for individuals who are looking for work or on a low income. Universal credit with replace the following benefits:

- Housing benefit
- Income-based Jobseekers Allowance (JSA)
- Income-related Employment and Support Allowance (ESA)
- Income Support (IS)
- Child Tax Credit
- Working Tax Credit

What will be happening to other benefits?

Disability Living Allowance (DLA)
Personal Independence Payment (PIP) will replace DLA for eligible working age individuals between the age of 16 and 64.
There are no current plans to replace DLA for those under the age of 16 or those over 65 who are already in receipt of DLA.
PIP is based on an assessment of an individuals need. The new assessment will focus on an individual's ability to carry out key activities essential for everyday life. Information will be requested from the individual as well as healthcare and other professionals. Most individuals will also be expected to attend a face to face consultation with a trained independent assessor.
There is no automatic transfer from DLA to PIP. Between October 2013 and March 2016 the Department for Work and Pensions (DWP) will be writing to claimants receiving DLA, inviting them to make a claim for PIP. Existing claimants will be assessed against the new entitlement criteria.

Council Tax benefit
Will be abolished in April 2013 and replaced by a system of localised support

Pension Credit
Will be amended from October 2014 to assist with eligible rent and dependent children

Social Fund reform
Community Care Grants and Crisis Loans (including rent in advance) – these will be abolished in April 2013 and replaced by a new local provision administered by local authorities.
Crisis Loan Alignment Payments – from April 2013 Crisis Loan alignment payments and other Crisis Loans paid due to issues with benefit will be replaced by a new national scheme of Short Term Advances. This will be administered by the Department for Work and Pensions.
Budgeting Loans – these will continue to be available until Universal Credit is fully rolled out. As people migrate across to Universal Credit they will have access to a new system of Budgeting Advances that will replace Budgeting Loans for Universal Credit recipients.

Why is Universal Credit being introduced?

The new Universal Credit system aims to:

- improve work incentives
- smooth the transitions into and out of work, supporting a dynamic labour market
- simplify the system, making it easier for people to understand, and easier and cheaper for staff to administer
- reduce in-work poverty
- cut back on fraud and error

The amount of Universal Credit will depend on the level of income and other family circumstances. It will be payable in and out of work so the complex guidelines that currently apply when individuals start and leave a job as well as increase or decrease their working hours will be abolished, improving the incentive to work.

Within Universal Credit, the key mechanism for making people work will be a single taper to withdraw support as earnings rise and a new approach to earnings disregards.
The taper is the rate at which benefit is reduced to take account of earnings. At present, Housing Benefit has a 65 % taper on net income and Council Tax Benefit has a 20% taper. The Tax Credits taper of 41% (as of April 2011) on gross income is equivalent to a net income taper of around 60%. The interaction of all these tapers can lead to Marginal Deduction Rates of almost 100%.
There will be an introduction of a withdrawal rate of approximately 65%. This taper would apply to earnings net to tax and National Insurance, meaning that the highest Marginal Deduction Rate for low earning workers would be reduced from around 96% to 65% for those earning below the personal tax threshold and around 76% for basic rate tax payers.

Individuals will also be encouraged to take jobs for only a few hours a week if this is all that is possible for them in the short term by disregarding this income. This will allow some groups to earn significantly more before their benefits start to be withdrawn. The level of these earnings disregards will reflect the needs of different families to ensure that work pays. For instance, a couple with children will get a higher disregard than a couple without children. There will also be a higher disregard for disabled people. These disregards will be reduced to reflect the amount of support being provided for rent or mortgage interest support.

The Government is committed to ensure that no one loses as a direct result of these reforms. If the amount of Universal Credit a person is entitled to is less than the amount there were getting under the old system, an additional amount will be paid to ensure that they will not be worse off in cash terms.

The Universal Credit should also improve take-up: a powerful tool in tackling poverty as Universal Credit will be much simpler than the current array of different benefits so it should be easier to people to understand what they are entitled to and secondly, as it is an integrated payment, there will no longer be any need to claim separately for different benefits.

When will Universal Credit come into effect?

Universal Credit will be launched in April 2013, initially in Greater Manchester and Chester region and will go live across the nation in October 2013.
New claims made after October 2013 will automatically make a claim for Universal Credit. Existing claimants will move onto Universal Credit in line with a phased out approach that will be expected to have been completed by the end of 2017 or when they report any change of circumstance or income.