

WORKING FAMILIES RECEIVING BENEFITS

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1. Summary	2
What is this report about?	2
‘Working families’	2
Which benefits have been included?	2
Key finding	2
Supporting findings	2
How do working families getting benefits compare with those who don’t?	3
About this report	3
2. Introduction	4
Data sources	4
Defining ‘working’ and ‘families’	4
3. Total Recipients of HB, CTB and Tax Credits, Over Time	6
Housing benefit	6
Council tax benefit	6
Tax credits	7
4. Overlaps in receipt of HB, CTB and tax credits	9
Total number of recipients, of one, any two and all three benefits: 2009 and 2010	9
Estimating the overlap for 2012	10
Other benefits: JSA, IS, IB/ESA and DLA	12
Characteristics of working families receiving benefits	13

1. SUMMARY

What is this report about?

Deafened by the interminable call for reforms to 'make work pay', it is easy to forget that plenty of families receiving state benefits of various kinds are *already* working. The purpose of this report is to resist this forgetfulness by providing an estimate of the total number of working families who get such benefits. The complication (which is why a report is needed and why its results are only estimates) is that simply adding up government statistics on the numbers receiving each benefit in isolation won't do because that would double count all those who receive more than one.

'Working families'

Although the definition of 'working' varies a bit between the different data sources used for the report, the common sense idea – that at least one of the adults in the family is doing paid work – is a good enough approximation. The term 'family' includes single adults and couples as well as parents with children. But a child who has left school, even if they are still living at home, doesn't count as part of the parental family but is, instead, another 'family' in their own right.

Which benefits have been included?

The main focus is on three benefits: housing benefit (HB), council tax benefit (CTB) and working and child tax credits (WTC and CTC). Supporting estimates are also provided for several others, namely disability living allowance (DLA), income support (IS), jobseeker's allowance (JSA) and employment and support allowance (ESA) along with its predecessor, incapacity benefit (IB).

Although it is true that JSA and ESA are benefits for people who are not working, the *contributory* versions can be claimed by members of working families because the earnings of the still working partner have no impact on the amount of benefit. Even the *means-tested* versions – and IS – can be claimed by families where total family earnings remain below a certain threshold.

This list does not include all the benefits that working families can receive. Two that are not included are carer's allowance and statutory maternity pay. Child benefit, which until this year went to all families with dependent children, is also not included.

Key finding

In 2012, it is estimated that a total of some 4,300,000 working families were receiving one or more of these benefits. Figure 1 presents a breakdown of this total in a way that reflects how this overall estimate has been reached.

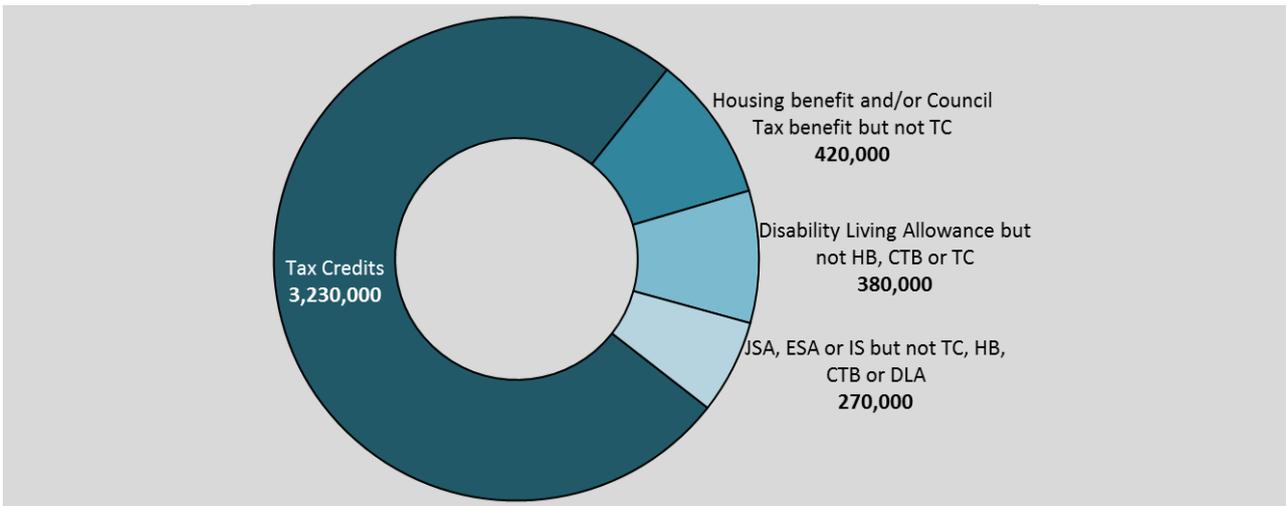
Supporting findings

In 2012, an average of:

- 3,230,000 working families were receiving tax credits. This number was down by about 1,400,000 (almost a third) compared with 2008. Most of this fall occurred in 2011 and 2012, due mainly to the abolition of the family-only element of child tax credits.
- 930,000 working families were receiving housing benefit. Up 490,000 since 2008, the number of working families getting housing benefit more than doubled over four years.

- 790,000 working families were receiving council tax benefit, up 430,000 since 2008. Here too, the number of working families receiving this benefit more than doubled over this period.
- Taking account of the overlaps, it is estimated that in addition to the 3,230,000 receiving tax credits, a further 420,000 working families were receiving housing benefit and/or council tax benefit but *not* tax credits.
- On top of this, another 380,000 working families who got neither HB, CTB nor tax credits received DLA. A further 270,000 working families who got neither HB, CTB, tax credits nor DLA did receive either ESA (or IB), JSA or IS.

Figure 1: 4.3 million working families receiving welfare benefits in 2012



How do working families getting benefits compare with those who don't?

Drawing on the same source of information used to estimate the benefit overlaps, in comparison with working families who *do not* get these benefits, those working families who *do* are far more likely to have dependent children (73% compared with 25%), more likely to have a head of household in their 30s or 40s (62% compared with 46%) and – although still a slight majority – less likely to be home owners (53% compared with 75%).

What is crucial here is the extent of state benefits for families with children, provided at the moment by tax credits. This explains both the first and second of these contrasts. In fact 40% of all working families with children were receiving benefits in 2012. Alongside the extent of owner occupation, this shows quite how far the targets of 'welfare reform' actually differ from the hackneyed and often extreme stereotypes so beloved of at least some of our politicians.

About this report

This full report was commissioned by the Joseph Rowntree Foundation and written by Peter Kenway. The Foundation's financial support for this work is gratefully acknowledged. We would also like to thank Declan Gaffney for his detailed comments on an earlier draft of the report. All responsibility for errors, omissions and opinions rests with the author alone.

2. INTRODUCTION

This report presents a range of statistics which show the extent to which ‘working families’ receive social security benefits and/or tax credits. Its main focus is on housing benefit (HB), council tax benefit (CTB) and working and child tax credits (WTC and CTC). Supporting estimates are provided for disability living allowance (DLA), jobseeker’s allowance (JSA), employment and support allowances (ESA) and its predecessor incapacity benefit (IB) and income support (IS).¹ Except for CTB (which does not apply in Northern Ireland), the figures are for the UK.

Data sources

This information is drawn from two sources:

- Administrative statistics on the total numbers receiving each of the benefits in isolation.
- Survey data from the *Family Resources Survey and Households Below Average Income* (FRS/HBAI) which allows estimates to be made of the numbers receiving more than one of these (and indeed other) benefits along with an examination of the other characteristics (e.g. age, sex, disability, number of children etc.).

Inevitably, the survey data does not fully match the totals for the number of recipients of each individual benefit in isolation. Neither is the survey data up-to-date, pre-dating all the main welfare reforms that have been introduced since 2011. As a result of all this, the estimates presented in this paper involve an element of judgement. Later parts of this paper will explain these judgements at some length, allowing them to be subject to scrutiny.

HB and CTB data for those in work goes back no further than the end of 2008 and only goes up to summer 2012. We have therefore constructed five annual observations out of this set. The comparable tax credit data goes back to 2003.

The latest available FRS is for 2010/11. In order to work with a bigger sample, we have combined this and the previous year, which in terms of the administrative data corresponds most closely to the years 2009 and 2010.

Defining ‘working’ and ‘families’

In this note, the term ‘families’ is used to refer to what the official statistics call ‘benefit units’, i.e. single adults, couples and any dependent children that they have living with them. Most households (in the normal sense of the word) contain only one benefit unit. But a son or daughter aged 19 or above who continues to live in the family home counts as a separate benefit unit.

The term ‘working’ reflects the definitions used to construct the various official statistics. These definitions, which vary, are as follows:

- In the administrative data for HB and CTB, the category ‘working’ applies to a family that is *both* not receiving any of the four means-tested benefits (that is, IS, income-based JSA or ESA, or Pension Credit) *and* has some earned income, however small the amount.

¹ This list does not include all the benefits that working families can receive. Two that are not included are carer’s allowance and statutory maternity pay. Child benefit, which until this year went to all families with dependent children, is also not included.

- In the administrative data for tax credits, a family counts as 'working' if at least one adult works at least 16 hours a week and if a couple between them works at least 24 hours a week.
- In the survey data, work status is self-defined; that is, someone is in full- or part-time work (and employed or self-employed) if they define themselves to be.

The survey data shows an average of 18.3 million working families in 2009 and 2010. This represented some 77% of all non-pensioner families. Within that 18.3 million, 11.7 million were 'full-working' (that is either all adults worked with at least one of them working full-time).

3. TOTAL RECIPIENTS OF HB, CTB AND TAX CREDITS, OVER TIME

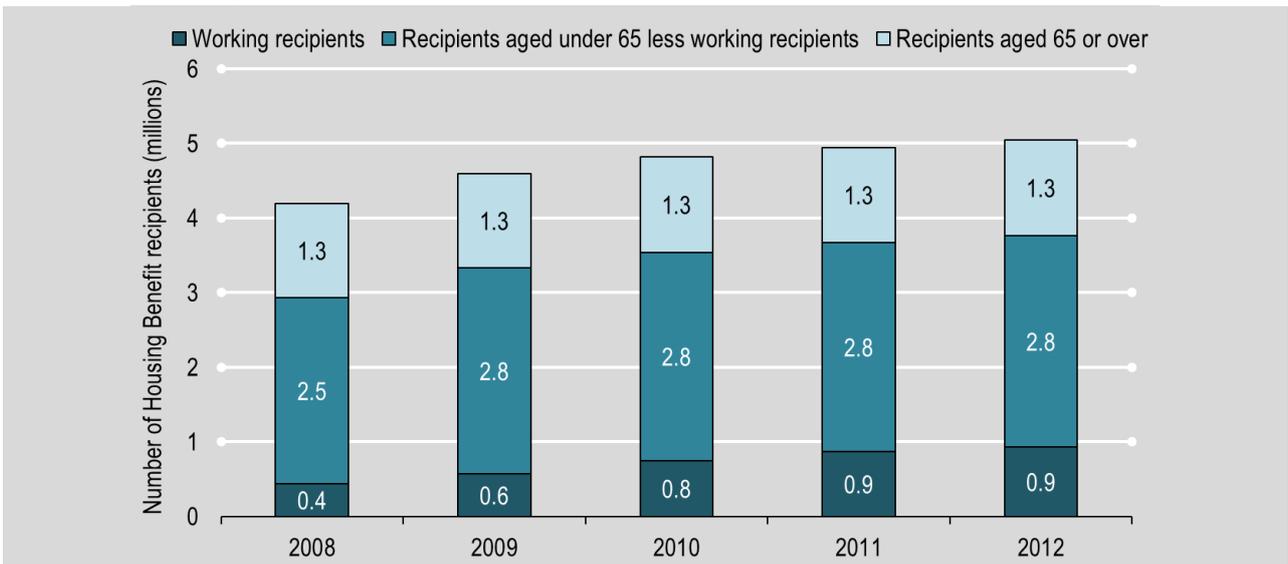
In this chapter, we use administrative data that shows the total number of working families in receipt of each of the three benefits (housing benefit, council tax benefit and tax credits) *taken on their own*. Data is reported for each of the years 2008 to 2012.

Housing benefit

Figure 1 shows the statistics for HB. The key points are:

- In 2012, 930,000 working families were receiving HB. This represented 18% of the total number of HB recipients (5.05 million) and 25% of HB recipients under the age of 65.
- Between 2008 and 2012, the number of working families receiving HB rose by 490,000 (an increase of 111% on 2008's 440,000).
- Over the same period, the total number of HB recipients rose 850,000. In work recipients accounted for more than half of this growth; almost all the rest was among those not working and aged under 65.

Figure 1: HB recipients 2008 to 2012



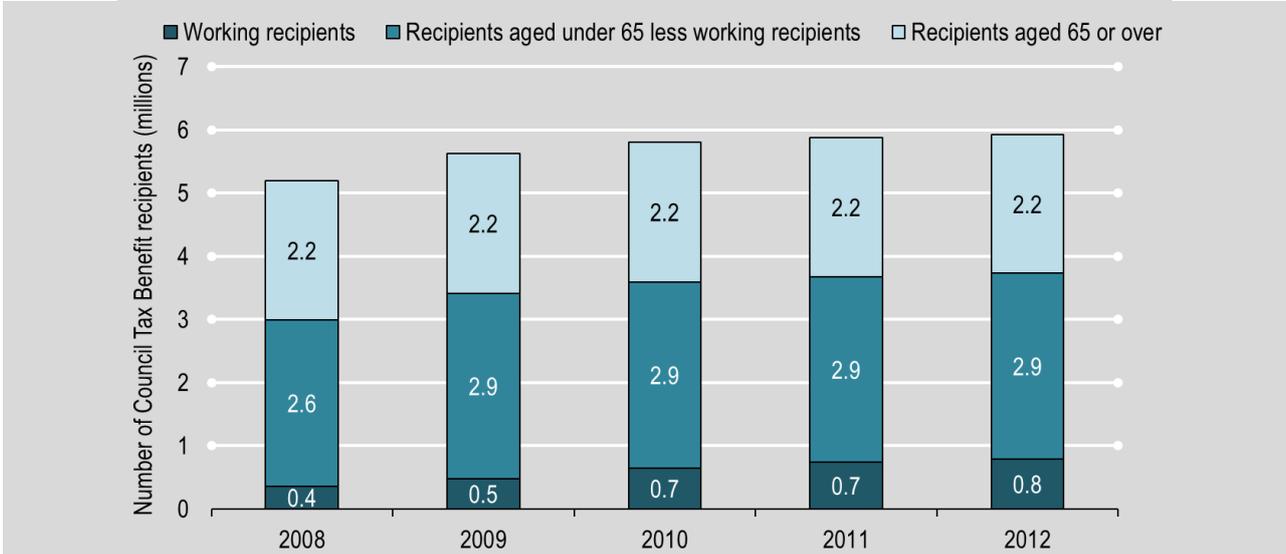
Council tax benefit

Figure 2 shows the statistics for CTB. The key points are:

- In 2012, 790,000 working families were receiving CTB. This represented 13% of the total number of CTB recipients (5.9 million families) and 21% of CTB recipients under the age of 65.
- Between 2008 and 2012, the number of working families receiving CTB rose by 430,000 (an increase of about 120% on 2008's 360,000).

- Over the same period, the total number of CTB recipients rose 730,000. In work recipients accounted for nearly 60% of this growth; all the rest was among those not working and aged under 65.

Figure 2: CTB recipients 2008 to 2012

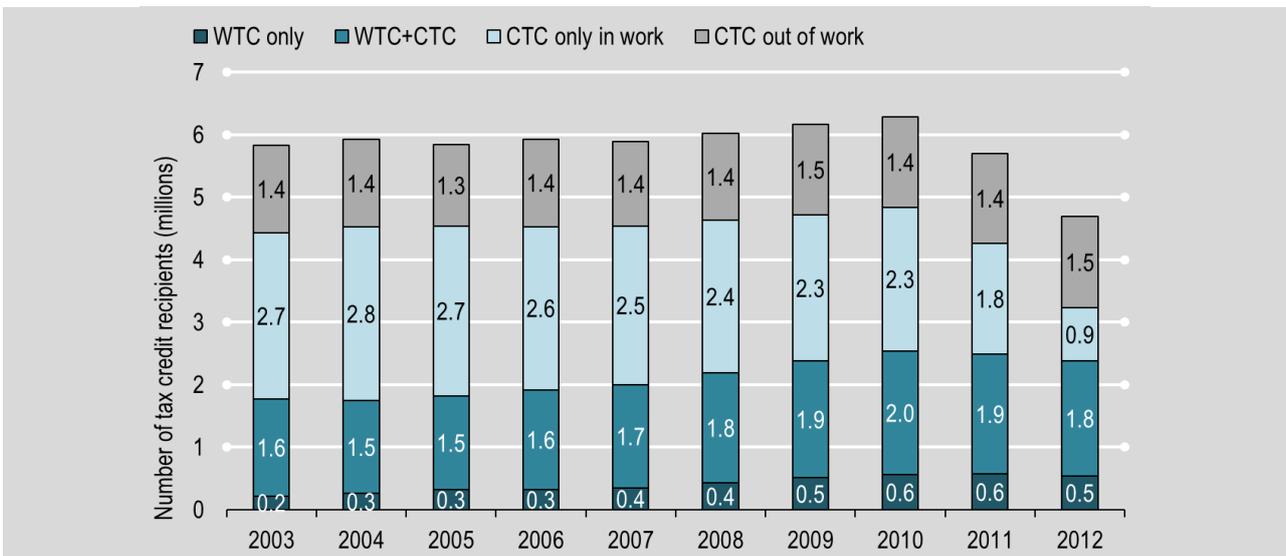


Tax credits

Figure 3 shows the statistics for tax credits since 2003. For several reasons this is a more complicated picture. The key points for 2012 are that:

- 3.2 million working families were receiving tax credits. This represented 69% of the total number of tax credit recipients (4.7 million).
- Of these, 540,000 (one in six) received WTC only (i.e. they have no dependent children) while 2.7 million received CTC with or without WTC. Just over 1.8 million of these received WTC and CTC – these are the poorest working families with children. 850,000 received CTC only.

Figure 3: tax credit recipients 2003 to 2012



The pattern over time shows a dramatic break either side of 2010:

- Between 2003 and 2010, the number of working recipients of tax credits rose gradually from 4.4 million to 4.8 million. Within that slowly growing total, there was a much sharper growth in the numbers receiving WTC, either alone or with CTC, from 1.8 million in 2003 to 2.6 million in 2010.
- Between 2010 and 2012, the total number of working recipients fell by a third from 4.8 million to 3.2 million. Almost all of that fall was among those receiving CTC only, itself down by almost two thirds from 2.3 million to 850,000. At its peak in 2004, this number stood at 2.8 million.

The huge fall in CTC-only recipients can be put down to coalition policy, specifically the 'second income threshold'. Up to 2010, the family element of CTC (worth £545 a year) was fully protected until income reached this threshold. In 2011, it was reduced from £50,000 to £40,000; in 2012, it was abolished altogether. Numbers receiving only the family element are no longer reported but they were in 2011 which show that fall in all CTC-only cases between 2010 and 2011 was indeed (more than) accounted for by the fall in the numbers receiving only this element of CTC.

The fall in WTC recipients may also reflect coalition policy, in this case the increased working hours conditions for couples with children. In addition (for both WTC and CTC) longer term trends are also visibly reflected in a slowly changing mix of tax credit recipients. Analysing these is more complicated since the two main policy changes – increased levels of the tax credits, and increased tapers – have opposite effects on the numbers entitled to receive them.

Two final observations are these. First, the impact of the abolition of the second income threshold (alongside the 2013 changes to child benefit entitlement) belong more easily in a 'squeezed middle' narrative than a poverty one. Second, we are still awaiting a set of poverty statistics that include the impact of the coalition changes to tax credits. If they really have impacted the statistical middle it is not impossible that their effects on poverty as measured may be positive rather than negative.

4. OVERLAPS IN RECEIPT OF HB, CTB AND TAX CREDITS

Total number of recipients, of one, any two and all three benefits: 2009 and 2010

Working families can in principle be receiving, one, two or even all three of housing benefit, council tax benefit and tax credits. The administrative data, being for each benefit on their own, do not show this overlap. In order to estimate it, a single data source showing all the benefits received by a family is needed. In principle, the FRS (Family Resources Survey) offers this possibility. In practice, though, there is a problem which is that the total numbers receiving each of the benefits according to the survey do not match the administrative figures. Figure 4 shows the extent of the discrepancy.

Figure 4: Administrative and survey data for in-work recipients compared

	Administrative: 2009 and 2010 (average)	FRS: 2009/10 and 2010/11 (average)	Difference (FRS minus administrative)	% difference
Tax credits	4.8 million	4.1 million	-680,000	-14%
Housing benefit	660,000	667,000	+7,000	+1%
Council tax benefit	565,000	713,000	+148,000	+26%

While the survey data for HB produces an accurate estimate, CTB is over-represented by 26% while tax credits are under-represented by 14%: respectively 148,000 over and 680,000 under. The fact of these discrepancies means that a choice must be made as to how to proceed in estimating the overlaps between different benefits. In broad terms, there are three choices.

- The simplest is to ignore these discrepancies and just rely on the FRS alone. But since the unadjusted FRS estimate of those receiving at least one of either tax credits, HB or CTB (4.4 million) is less than the administrative total for tax credits alone (4.8 million), this is not an option here.
- At the opposite end of the spectrum, it is possible to use a method that produces estimates for each of the possible combinations of the three benefits which sum to the individual benefit totals in the second column of figure 4. Besides producing a full set of estimates, this approach treats each of the three benefits symmetrically and is independent of the order in which the adjustments are made. But while this is mathematically satisfying, symmetry and independence are not necessarily virtues when, as in this case, one of the three (tax credits) is so much larger than each of the other two. Nor is a full set of estimates needed when our interest, as in this case, is the overall total. Last and by no means least, this mathematical ‘black box’ does not produce an answer which is easy to put into words.

- Our chosen approach starts by recognising that the required answer can be computed as the sum of: i) the known number getting tax credits; and ii) an estimate of those not getting tax credits but getting one or both of HB and CTB. The strengths of this approach are that it can be simply explained and needs few estimates. Its apparent weakness is that it treats the three benefits asymmetrically, that is, it treats tax credits as the most important. In this case, though, where the tax credits number is so much bigger than the others, treating them differently is reasonable. By contrast, we treat HB and CTB symmetrically when calculating (ii) as the sum (from among those not receiving tax credits) of: a) HB recipients not getting CTB; b) CTB recipients not getting HB; and c) the average of HB recipients getting CTB and CTB recipients getting HB. Figure 5 reports the frequencies, obtained from FRS, which we use to do this.

Figure 5: FRS proportion of working recipients receiving 1+ of the three ‘benefits’ and implied number using the admin benefit totals: 2010

	HB recipients	CTB recipients	Tax credit recipients
Receiving HB only	8% (50,000)		
Receiving CTB only		16% (93,000)	
Receiving tax credits only			86%
Receiving HB and CTB	25% (165,000)	23% (132,000)	
Receiving HB and tax credits	19%		3%
Receiving CTB and tax credits		15%	3%
Receiving HB, CTB and tax credits	49%	45%	8%
Total (Administrative totals)	100% (660,000)	100% (565,000)	100% (4.78 million)

On this approach, the total number receiving at least one of the three is 5.07 million made up of: 4.78 million receiving tax credits and 0.29 million receiving one or both of HB and CTB but not tax credits. Although it is true that other orderings (e.g. taking the number of HB recipients as element (i)) produces slightly lower answers, we continue to favour our approach. At its simplest, with 225,000 CTB recipients not getting tax credits and a further 50,000 HB recipients getting that benefit alone, adding a rounded 0.3 million to the 4.8 million getting tax credits is surely right.

Estimating the overlap for 2012

Unfortunately, this estimate is now out of date for two reasons. First, tax credit entitlement has changed leading to a fall of 1.5 million in the number of recipients. Second, the numbers in work receiving HB and CTB have both gone up by around 250,000.²

² A further factor is population change. We have not made any adjustments for this explicitly although its effects will have been captured in the administrative totals for the numbers now receiving these benefits.

In order to produce an updated estimate, we first adjust the FRS frequencies to reflect the fact that the proportions of HB and/or CTB recipients who do not also get tax credits will have gone up. To do this we:

- mimic the effect of the entitlement change by excluding those receiving CTC only at, or less than, the family element (taken here to be £11 p.w.); and
- reflect the overall scale of the reduction by restricting CTC entitlement to those in the bottom three (BHC) quintiles only.³

In principle, this readjustment introduces greater uncertainty into the 2012 estimates compared with those for 2010. In practice, it seems to make little difference since most of those no longer getting tax credits were not getting HB or CTB in 2010. Within figure 6, which shows the new estimates, the limited impact of this readjustment is reflected in the fact that of the four frequencies actually used in the calculation, none changes (compared with figure 5) by more than one percentage point.

Figure 6: FRS proportion of working recipients receiving 1+ of the three 'benefits' and implied number using the admin benefit totals: 2012

	HB recipients	CTB recipients	Tax credit recipients
Receiving HB only	8% (75,000)		
Receiving CTB only		17% (136,000)	
Receiving tax credits only			80%
Receiving HB and CTB	25% (237,000)	24% (188,000)	
Receiving HB and tax credits	18%		4%
Receiving CTB and tax credits		14%	4%
Receiving HB, CTB and tax credits	48%	45%	12%
Total (Administrative totals)	100% (930,000)	100% (790,000)	100% (3.23 million)

On this approach, the total number receiving at least one of the three is 3.65 million made up of: 3.23 million receiving tax credits and 0.42 million receiving one or both of HB and CTB but not tax credits.

³ Taken together, these changes reduce the number getting CTC alone with the FRS by 63%, close to the actual drop between 2009-2010 and 2012

Other benefits: JSA, IS, IB/ESA and DLA

Working families can also receive other benefits as well as HB, CTB and tax credits. FRS allows this to be investigated too and we do so here both for those who are receiving one of the three main benefits above and for those who are not. The benefits we look at are: JSA, IS, IB/ESA and DLA.⁴ Figure 7 reports the results. The percentages are taken directly from the adjusted FRS for 2012 and are expressed (for ease of comparison) as a proportion of those receiving at least one of HB, CTB and tax credits (i.e. the 3.7 million).⁵

Two things stand out here. First, some 500,000 of those receiving at least one of HB, CTB or tax credits also receive at least one of these benefits too while a further 650,000 working families who do not get either HB, CTB or tax credits do get one of these other benefits. Second, there is little overlap in reciprocity of the benefits shown here (i.e. families receiving more than one of the five benefits), the overlap such as there is being due almost entirely to do with DLA.

Figure 7: working families receiving JSA, IS, IB/ESA and/or DLA in 2012

	Those not receiving at least one of HB, CTB or tax credits		Those receiving any of HB, CTB or tax credits	
	FRS % of those getting at least one of HB, CTB, TC	Estimated number	FRS % of those getting at least one of HB, CTB, TC	Estimated number
IB/ESA	0.2%	8,000	2.0%	75,000
JSA	3.7%	135,000	3.8%	140,000
IS	6.3%	230,000	3.8%	140,000
DLA	10.2%	375,000	6.7%	245,000
At least one of the above	17.8%	650,000	13.8%	500,000

To sum up: putting all these elements together, we estimate that in 2012, some 4,300,000 working families were receiving one or more of these benefits. This total is broken down as follows:

- 3,230,000 receiving tax credits;
- 420,000 receiving one or both of HB and CTB but not tax credits;
- 380,000 receiving DLA but not tax credits, HB or CTB; and
- 270,000 receiving one of IB/ESA, JSA or IS but not DLA, tax credits, HB or CTB.

⁴ Although IB/ESA and JSA are usually described as out-of-work benefits, the *contributory* version can still be claimed by working families since the earnings of the working partner have no impact on the amount of benefit. The means-tested versions – and IS too – can also be claimed by families where the earnings remain below the applicable amount (plus any disregard). FRS does not provide information on which version of the benefit is being claimed but we assume that it is, for the most part, the contributory one. As a needs-based benefit, DLA is in completely unaffected by family (or individual) work status altogether.

⁵ It should be noted that the approach adopted here is closer to the first of the three possible approaches discussed above rather than the one (the third) that was actually used for tax credits, HB and CTB.

Characteristics of working families receiving benefits

Figure 8 summarises a range of characteristics of the 4.3 million households including tenure, sex, family type, and the age group of the family head. The key points that stand out on each of these are:

- By tenure, just over half are owner occupiers with most of them (42% out of 53%) owning their homes with a mortgage. LA tenants account for only 12% of the total.
- By family type, half are couples with children and almost a quarter are lone parent families.
- One quarter of the people in these families are men, almost one third are women and 44% are dependent children. Women outnumber men because of the weight of lone parent families in the group.
- 63% of household heads are in their 30s or 40s.

Figure 8 Characteristics of working families receiving benefits

Tenure		Men, women and children	
LA rented	12%	Men	25%
Housing Association	13%	Women	31%
Other private rented	22%	Children	44%
Owned with mortgage	42%	Age of head of household	
Owned outright	11%	Teens	1%
Family type		20s	19%
Couple with children	49%	30s	30%
Single with children	23%	40s	33%
Couple without children	14%	50s	16%
Singles	13%	60s	2%

To highlight some of the characteristics that distinguish this group, compared with working families who *do not* get these benefits, those working families who *do* are:

- far more likely to have dependent children (73% compared with 25%);
- more likely to have a head of household in their 30s or 40s (62% compared with 46%); and
- (though still a majority) less likely to be home owners (53% compared with 75%).