Impact Analysis of Welfare Changes

A second report for PCS and Unison

New Policy Institute

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INTRODUCTION AND SUMMARY

INTRODUCTION

This report has been prepared as part of the Income Data Service/New Policy Institute project for PCS and Unison on the effects of the pay freeze and welfare reforms on the trades unions' members. The first report provided an overview summary of the welfare changes.

This second report sets out the impact of a range of changes to pay, taxes and benefits introduced by the government on the families of employees with low and middle earnings. Throughout, precise figures for 'low' and 'middle' earnings have been chosen to reflect the earnings of members of PCS and Unison, based on the membership survey undertaken at the start of 2011.

The changes examined fall into broadly two groups. The first group (scenarios 1 and 2) reflect the effect of changes to pay, tax and national insurance, and the level of benefits and tax credits that take effect at the start of the new financial year in April 2011. In these 'static' cases, the circumstances of an employee and his/her family don't change; it is just pay, tax and benefits that change.

By contrast, the second group (scenarios 3 to 7) are triggered by a change of circumstance. These 'dynamic' changes include the birth of a child, unemployment, a cut in hours worked and the onset of long term sickness or disability. Here what is being captured are the effects of a changes to the rules that govern tax credits and benefits.

As a group, these changes convey an important point: so long as you stay healthy, keep your job, do not suffer a cut in hours or do not have another child if you are on a low income, then these welfare reforms have little *direct* impact. But since almost anyone in a job *could* find themselves in one of these situations, the reforms have an *indirect* impact on almost everyone.

Putting this another way, the defining characteristic of these reforms is that they increase the risks that working people face. 'Risk' is a burden and a cost in its own right, even if whatever it is that someone is at risk of does not actually come to pass.

STATIC SCENARIOS

1A–1D: Pay, tax and benefit changes for members on average earnings

Changes announced in the June 2010 Budget and the October 2010 Spending Review leave the families of those earning £25,000 a year on average £17 a week or £900 a year worse off.

Family circumstances make little difference because at this level of earnings, changes to tax credits (which lead to different outcomes) do not apply.

2A-2B: Pay, tax and benefit changes for members on below average earnings

Families on below average income and having childcare costs would be net losers due to the tax credit changes that come into effect in April 2011. Though such families gain from the above-indexation increase in the child element of child tax credit, it would not be enough to offset the losses due to changes to working tax credit. Losses are in the range of £1,250 a year for a lone parent to £1,500 a year for a couple-family with one child.

DYNAMIC SCENARIOS

3A: Birth of a second child to a low earning couple

The withdrawal of a range of benefits paid to mothers giving birth to their second (or subsequent) child costs low earning parents at least £1,000 in the year of the baby's birth. Although the example is constructed for a couple, a lone mother would experience the same financial loss.

A side effect of the example is to show how working tax credit can provide additional support to mothers on statutory maternity pay.

3B: Birth of a second child to a mid earning couple

The withdrawal of a range of benefits paid to mothers giving birth to their second (or subsequent) child costs mid earning parents at least £550 in the year of the baby's birth.

The welfare reforms considered here are the same as those in the previous example, the main difference between the two lying in the adults' rates of pay.

4: Small cut in full-time hours for a couple family

The introduction of an income 'disregard' into the tax credit means that a low earning family is no longer entitled to an immediate increase in support that would have helped offset the effect of a small cut in working hours. In this example, the family loses around £550 in the year in which the cut in hours took place.

5: Cut in hours (to below 24/wk) for a couple family

The requirement that a two parent family must work at least 24 hours per week (instead of 16 as now) means that when the full-time job of the one working family member is reduced to part-time, the family loses all entitlement to working tax credit. In this example, the family loses around £2,400 in the year in which the cut in hours took place and more than £3,000 over a full year.

A side effect of the example is to show how housing benefit acts as a general benefit, offering protection against adverse tax credit and benefit reforms – but only to those renting their homes.

6A: Onset of long-term incapacity to work in a couple family

The introduction of a one-year time limit on the receipt of contribution-based employment and support allowance for someone in the work-related group costs a two earner, middle earning family £5,000 a year.

6B: Onset of long-term incapacity to work in a single adult family

The introduction of a one-year time limit on the receipt of contribution-based employment and support allowance for someone in the work-related group costs a single earner with some savings around £5,000 a year.

7: Job loss for a couple family with a child on below average income

Due to the changes in the working tax credit qualifying condition in 2012, a couple-family on below average income and with one child is likely to lose £3,600 in working tax credit if the main earner loses his/her job in 2012 as compared to losing the job in 2011.

1A–1D: PAY, TAX AND BENEFIT CHANGES FOR MEMBERS ON AVERAGE EARNINGS

Summary	Changes announced in the June 2010 Budget and the October 2010 Spending Review leave the families of those earning £25,000 a year on average £17 a week or £900 a year worse off. Family circumstances make little difference because at this level of earnings, changes to tax credits (which lead to different outcomes) do not apply.
Family A	Single adult earning £25,000 a year.
Family B	Lone parent earning £25,000 a year with one child and no childcare costs.
Family C	Couple-family with no dependent children. Main earner gets £25,000 a year; second earner gets £6,600 a year (16 hours/week at £8/hour).
Family D	Couple family with one child. Main earner gets £25,000 a year; second earner gets £6,600 a year (16 hours/week at £8/hour), they have no childcare costs.
Housing	Owner occupier
Reforms and other changes	• Pay freeze (for main earner) • Increase in the income tax and national insurance personal allowances and national insurance rate • Above-indexation rise in child element of child tax credit • Freezing child benefit
Changes etc take effect	April 2011
Family A: net financial effect	• Gains 1% (of net, post tax income) due to the change in the income tax and national insurance. • Loses 5% due to inflation. Net loss in 2011-12 around 4% of net income. Would need £15 a week more than they actually have in order to have the same standard of living in April 2011 as in April 2010.
Family B: net financial effect	Net loss in 2011-12 of 4.1% (0.9% gain in income tax;; 5% loss due to inflation). No gain from the above indexation increase in the child element of

	child tax credit, as income is too high. Would need £16 a week more than they actually have in order to have the same standard of living in April 2011 as in April 2010.
Family C: net financial effect	Net loss in 2011-12 of 3.7% (1.3% gain in income tax; 5% loss due to inflation). Would need £18 a week more than they actually have in order to have the same standard of living in April 2011 as in April 2010.
Family D: net financial effect	Net loss in 2011-12 of 3.8% (1.2% gain in income tax;; 5% loss due to inflation). Would need £20 a week more than they actually have in order to have the same standard of living in April 2011 as in April 2010.
How many union members are affected?	The annual salary of £25,000 is the average for union members as per the membership survey.

2A-2B: PAY, TAX AND BENEFIT CHANGES FOR MEMBERS ON BELOW AVERAGE EARNINGS

Summary	Families on below average income and having childcare costs would be net losers due to the tax credit changes that come into effect in April 2011. Though such families gain from the above-indexation increase in the child element of child tax credit, it would not be enough to offset the losses due to changes to working tax credit. Losses are in the range of £1,250 a year for a lone parent to £1,500 a year for a couple-family with one child.
Family A: work, income and childcare costs	A lone parent, earning £18,500 a year with one child.
Family B: work, income and childcare costs	A couple, with the main earner getting £18,500 a year and the second earner getting £6,200 a year (16 hours/week at £7.50/hour).
Housing	Owner occupier
Childcare costs	Annual childcare costs of £4,700 (Daycare Trust's estimate of the all-England average for 25 hours/week).
Reforms and other changes	• Pay freeze (for main earner) • Increase in the income tax and national insurance personal allowances and national insurance rate • Above-indexation rise in child element of child tax credit • 10% reduction in percentage of childcare costs eligible to be paid • Increase in income 'taper' for tax credits • Freezing child benefit and certain element of Working tax credit
Reforms etc take effect	April 2011
Family A: net financial effect	• Gain £5 (1% of net, post-tax income) due to the change in the income tax and national insurance personal allowance thresholds • Lose about £8 (2%) due to changes in tax credit rules • Lose £21 (5%) due to freezing of pay and benefits Overall net loss in 2011-12 of about £24 a week (£1,250 a year or 6% of net income)
Family B: net financial effect	• Gain £6 (or 1%) in income tax and national insurance • Lose £10 per week (or 2%) due to tax credit changes and • Lose £25 (5%) per week loss due to inflation Overall net loss in 2011-12 of about £29 a week (£1,500 a year or 6% of net income).

How many union members are affected?	£18,500 is the lower quartile pay value for PCS as per the membership survey
Family A: variants	If the lone parent has two children (both aged over one) with childcare costs of £180 a week will lose £12 a week in tax credit changes and £28 due to inflation and freezes but gain £5 in income tax and nation insurance, totalling to a loss of £35 a week.
Family B: variants	A couple-family with two children with similar income and child care costs would lose almost £40 a week

3A: BIRTH OF A SECOND CHILD TO A LOW EARNING COUPLE

Summary	The withdrawal of a range of benefits paid to mothers giving birth to their second (or subsequent) child costs low earning parents at least £1,000 in the year of the baby's birth. Although the example is constructed for a couple, a lone mother would experience the same financial loss. A side effect of the example is to show how working tax credit can provide additional support to mothers on statutory maternity pay.
The family	Mr and Mrs Smith, with one child aged 5.
Work and income	Mr. Smith works 30 hours a week at an hourly rate of pay of £8. Mrs Smith works 16 hours a week at an hourly rate of pay of £7. In addition to their combined net weekly pay of £315, the Smiths receive £75 in child tax credit and child benefit.
Housing	If the Smiths were renting a two bedroom flat for say £150 a week, they would also be entitled to about £30 housing benefit a week.
What happens?	Mrs Smith becomes pregnant with her second child and gives birth after April 2011.
Welfare reforms	• Abolition of baby element of child tax credit (Apr 2011). Worth £545 a year, the baby element is paid to any family with a child under the age of one and receiving child tax credit. • Withdrawal of health in pregnancy grant (Jan 2011). Worth £190, this is given to all mothers-to-be to help with wider costs in the run up to baby's birth. • Restriction of sure start maternity grant to first child (Apr 2011). A one-off payment of £500 per child, paid to mothers on low income getting certain means tested benefits or tax credits above the flat-rate family element.
Reforms implemented by	April 2011
Impact of the reforms	As the baby is born after April 2011, Mrs Smith is entitled to none of the above benefits. If the baby had been born before January 2011, Mrs Smith would have been able to claim all three of them worth a total of £1,235.
Other relevant reforms	Increase in child element of child tax credit of £180 per year above indexation in 2011-12 and of £110 in 2012-13.

Net financial effect	Depending on when in the year the baby is born, the family is between £1,055 and £1,235 worse off in 2011-12. In 2012-13, it is £110 better off than it would have been in 2012-13 if child tax credit had simply been indexed.
Limits of the example	The withdrawal of the health in pregnancy grant affects all mothers irrespective of income and including those giving birth for the first time. The withdrawal of the baby element affects more than 9 in every 10 of mothers of newborn babies (including first babies). This example that would apply equally well to a lone mother giving birth to their second child.
How many union members are affected?	A pregnant woman with gross annual family earnings of less than about £25000 would be eligible to receive all three benefits. According to the survey, about 20% of women in the PCS membership are aged between 16 to 34, and about 50% of them, i.e. 10% of the total women respondents have an annual gross income (or earnings) of less than 25k. For Unison, 20% of women are aged between 16 and 34 and about 40%, i.e. 8% of the total women respondents have annual gross earnings of less than 25k. It is also reasonable to assume that younger male union members, especially those living with partners, would also be potentially affected.
Other financial effects not directly due to the reforms	Obviously it is likely that Mrs. Smith will take maternity leave. Assuming she is entitled to it, her statutory maternity pay would be around £10 a week less than her current net earnings. But the family would receive about £40 a week more in working tax credit which in turn would trigger a loss of £20 a week of housing benefit. Alternatively, if she were not entitled to statutory maternity pay, the loss of earnings of more than £100 a week would be largely offset by an extra £45 a week in working tax credit and an extra £45 a week in housing benefit.

3B: BIRTH OF A SECOND CHILD TO A MID EARNING COUPLE

Summary	The withdrawal of a range of benefits paid to mothers giving birth to their second (or subsequent) child costs mid earning parents at least £550 in the year of the baby's birth. This welfare reforms considered here are the same as those in the previous example, the main difference between the two lying in the adults' rates of pay.
The family	Mr and Mrs Brown, with one child aged 5.
Work and income	Mr. Brown works 35 hours a week at an hourly rate of pay of £12. Mrs Brown works 16 hours a week at an hourly rate of pay of £7. In addition to their combined net weekly pay of £440, the Browns receive £30 in child benefit and the family element of child tax credit.
Housing	The Browns are owner occupiers, paying for their home with a mortgage.
What happens?	Mrs Brown becomes pregnant with her second child and gives birth after April 2011.
Welfare reforms	Abolition of baby element of child tax credit (Apr 2011). Worth £545 a year, the baby element is paid to any family with a child under the age of one and receiving child tax credit. Withdrawal of health in pregnancy grant (Jan 2011). Worth £190, this is given to all mothers-to-be to help with wider costs in the run up to baby's birth. Restriction of sure start maternity grant to first child (Apr 2011). A one-off payment of £500 per child, paid to mothers on low income getting certain means tested benefits or tax credits above the flat-rate family element.
Reforms implemented by	April 2011
Impact of the reforms	As the baby is born after April 2011, Mrs Brown is entitled to none of the above benefits. If the baby had been born before January 2011, Mrs Brown would have been able to claim the first two of them (but not the third because their income is too high), worth a total of £735.
Other relevant reforms	-

Net financial effect	The family is £735 worse off in 2011-12.
Limits of the example	The withdrawal of the health in pregnancy grant affects all mothers irrespective of income and including those giving birth for the first time. A family would need to earn about twice as much as the Browns before the health in pregnancy grant was the only thing they lost (that is, that their income was too high to qualify for the baby element of child tax credit).
How many union members are affected?	A pregnant woman with gross annual family earnings between £25,000 and £40000 would be eligible to receive the baby element of tax credit and the Health in Pregnancy grant but not the Sure Start grant. As mentioned earlier, according to the survey, about 20% of women in the PCS membership are aged between 16 and 34, and about half of them have an annual gross income of less than 25k. Another quarter have annual earnings between £25,000 and £40000. Similarly, a quarter of women aged 16-34 in UNISON membership have annual family earnings between £25000 and £40000. Again, some proportion of younger male union members would also be potentially affected.
Other financial effects not directly due to the reforms	Obviously it is likely that Mrs. Brown will take maternity leave. Assuming she is entitled to it, her statutory maternity pay would be around £10 a week less than her current net earnings. The family would gain £15 in child tax credit over and above the £10 it was previously getting.

4: SMALL CUT IN FULL-TIME HOURS FOR A COUPLE FAMILY

Summary	The introduction of an income 'disregard' into the tax credit means that a low earning family is no longer entitled to an immediate increase in support that would have helped offset the effect of a small cut in working hours. In this example, the family loses around £550 in the year in which the cut in hours took place.
The family	Mr and Mrs Evans, with one child aged 10
Work and income	Mr. Evans works 35 hours a week at an hourly rate of pay of £8. Mrs Evans does not have a paid job. In addition to their combined net weekly pay of £230, the Evans receive £100 in working tax credit, child tax credit and child benefit.
Housing	The Evans are owner occupiers, paying for their home with a mortgage.
What happens?	Mr Evans' working hours are cut from 35 to 30 hours a week in June 2012.
Welfare reforms	Introduction of an income 'disregard' for the in-year recalculation of tax credits following a fall in income. Tax credits awards are based initially on the income of the previous tax year. Under the present rules, if income falls below previous year's income, by however little, the claimant can immediately apply for a higher award. From April 2012, an income 'disregard' of £2,500 for falls in income will be introduced. This means that there will be no upward revision to the amount of tax credits paid as long as the fall in annual income is less than £2,500.
Reforms implemented by	April 2012
Impact of the reforms	Mr Evans' gross earnings fall by £40 a week. If that fall had happened before April 2012, the Evans would have been able to apply for an increase in their tax credit payments in 2011-12 which would have been worth about £16 a week. Since the annual fall in earnings is less than £2,500 and took place after April 2012, the Evans are no longer entitled to a higher award.
Net financial effect	Over nine months or so (to April 2013), the Evans are some £560 worse off. The later in the year the cut in hours occurs, the smaller is the loss (and vice-versa). At present, there is uncertainty about whether a small fall in income in the current year would be reflected in a higher amount of tax

	credit in the following year. Our view is that it would be, in which case the loss to the Evans from this reform would be restricted to 2012-13 only.
Limits of the example	To be entitled to working tax credit at all, Mr and Mrs Evans must have at least 24 hours of paid work per week between them, with one of them having at least 16 hours.
How many union members are affected?	This change could potentially affect any family claiming tax credits. This is because tax credits will not adjusted in that year for a fall in income of less than £2500 irrespective of family type or other such factors. About 20% of all respondents from both the unions received tax credits or have a partner who received tax credits.

5: CUT IN HOURS (TO BELOW 24/WK) FOR A COUPLE FAMILY

Summary	The requirement that a two parent family must work at least 24 hours per week (instead of 16 as now) means that when the full-time job of the one working family member is reduced to part-time, the family loses all entitlement to working tax credit. In this example, the family loses around £2,400 in the year in which the cut in hours took place and more than £3,000 over a full year. A side effect of the example is to show how housing benefit acts as a general benefit, offering protection against adverse tax credit and benefit reforms – but only to those renting their homes.
The family	Mr and Mrs Patel, with one child aged 10
Work and income	Mr. Patel works 30 hours a week at an hourly rate of pay of £8. Mrs Patel does not have a paid job. In addition to their combined net weekly pay of £210, the Patels receive £125 in working tax credit, child tax credit and child benefit.
Housing	The Patels are owner occupiers, paying for their home with a mortgage.
What happens?	Mr. Patel's working hours are cut from 30 to 20 hours a week in June 2012.
Welfare reforms	Introduction of the condition that a couple must do at least 24 hours of paid work between them a week to qualify for working tax credit. At present, couples with children are entitled to working tax credit provided one partner works at least 16 hours a week.
Reforms implemented by	April 2012
Impact of the reforms	Mr Patel's gross earnings fall by £80 a week. If that fall had happened before April 2012, the Patels would have been able to apply for an increase in their tax credit payments in 2011-12 (worth about £18 a week), taking their total payment to around £60 a week. This increased level of payment would have continued in 2012-13. After April 2012, a couple whose combined paid weekly hours are less than 24 is not entitled to working tax credit. The fall in gross earnings is therefore accompanied by the removal of working tax credit worth £60 per week.
Net financial effect	Post 2012, the Patels would be worse off by £80 per week (or £3000 up to April 2013), compared to £30 before 2012 (£1200 up to April

	2013.
How many union members are affected?	The survey did not differentiate between working tax credit and child tax credit and so estimating the extent to which members would be potentially difficult.
Other financial effects not directly due to the reforms	If instead of being owner occupiers, the Patels were renting a one flat for say £100 a week, they would likely have been entitled to some housing benefit when Mr Patel worked 30 hours. When Mr. Patel's earnings fall after April 2012, the loss of earnings and the loss of working tax credit leads to an increase in housing benefit of about £40 that offsets some but not all of the £60 tax credit loss. Besides showing role of housing benefit as a general 'shock absorber' even of cuts elsewhere in the system, this example also shows cuts in tax credit tend to have a bigger impact on low income owner occupiers.

6A: ONSET OF LONG-TERM INCAPACITY TO WORK IN A COUPLE FAMILY

Summary	The introduction of a one-year time limit on the receipt of contribution-based employment and support allowance for someone in the work-related group costs a two earner, middle earning family £5,000 a year.
The family	Mr and Mrs Clarke
Work and income	Mr. Clarke works 30 hours a week at an hourly rate of pay of £12. Mrs Clarke works 24 hours a week at an hourly rate of pay of £10. Their net weekly income is £500 and they receive no benefits. They have paid enough national insurance contributions.
Housing	The Clarkes are owner occupiers, paying for their home with a mortgage.
What happens?	Mr Clarke suffers an accidental fall at work in April 2011 sustaining very serious injuries. He gets Statutory Sick Pay of £80 per week for the first 7 months. He is unable to return to work even after 7 months and applies for contribution based employment and support allowance. Following the 13 week assessment period, he is accepted as meeting the necessary conditions to be placed in the work-related activity group. As of April 2012, he still has great difficulty walking, using crutches in the house and a wheelchair when outside.
Welfare reforms	Restriction of contribution-based employment and support allowance for those in the work-related activity group to one year. At present, this benefit is paid until State Pension age if claimants continue to have limited capability for work. From April 2012, a time limit of one year will be introduced for all those claimants placed in the work related activity group. For those who have been receiving the benefit for a year or more at that date, entitlement will cease immediately. This includes Mr Clarke.
Reforms implemented by	April 2012
Impact of the reforms	In 2011-12, when Mr. Clarke stops working and receives statutory sick pay, the family's net weekly income would be about £300. When sick pay ceases in about October 2011 Mr. Clarke would receive £67 per week benefit as he is on the assessment phase. His

	family net weekly income would now fall to £275. This would continue up until early January 2012, when the assessment phase would end. Mr. Clarke would receive about £95 per week when the main phase of ESA starts. The family net income would be £300 per week. Mr. Clarke's benefit payments would cease in October 2012, 12 months after first receiving them. At this point, the Clarke's net family income would fall to £200 per week. Up until this point Mrs Clarke's earnings had not affected this calculation. But having lost the contribution-based version of the benefit, Mrs Clarke's 24 hours a week of work disqualifies the Clarkes from the income-based version.
Net financial effect	As a result of the reform, the Clarkes lose about £2,000 over the remaining five months of 2012-13. In 2013-14 and beyond, they are £5,000 per year worse off.
How many union members are affected?	To be potentially affected by this change, a working couple family should have a partner who works for 24 or more hours per week, thus disqualifying the family from getting ESA (I) once ESA (C) has been withdrawn. According to the survey, about 40% of all respondents from both unions have a partner who works for 24 hours or more a week and could be potentially affected.
Other financial effects not directly due to the reforms	If eligible, Mr. Clarke could claim Disability Living Allowance and changes to employment and support allowance would not affect this.

6B: ONSET OF LONG-TERM INCAPACITY TO WORK IN A SINGLE ADULT FAMILY

Summary	The introduction of a one-year time limit on the receipt of contribution-based employment and support allowance for someone in the work-related group costs a single earner with some savings around £5,000 a year.
The family	Mr. Wilson
Work and income	Mr. Wilson is 55 years old and works 37.5 hours a week at an hourly rate of pay of £12.50. His net weekly income is £365 and he receives no benefits. He has paid enough national insurance contributions. He has savings worth £16,000
Housing	Mr. Wilson is an owner occupier.
What happens?	Mr Wilson suffers an accidental fall at work in April 2011 sustaining very serious injuries. He gets Statutory Sick Pay of £80 per week for the first 7 months. He is unable to return to work even after 7 months and applies for contribution based employment and support allowance. Following the 13 week assessment period, he is accepted as meeting the necessary conditions to be placed in the work-related activity group. As of April 2012, he still has great difficulty walking, using crutches in the house and a wheelchair when outside.
Welfare reforms	Restriction of contribution-based employment and support allowance for those in the work-related activity group to one year. At present, this benefit is paid until State Pension age if claimants continue to have limited capability for work. From April 2012, a time limit of one year will be introduced for all those claimants placed in the work related activity group. For those who have been receiving the benefit for a year or more at that date, entitlement will cease immediately. This includes Mr Wilson.
Reforms implemented by	April 2012
Impact of the reforms	Once Mr. Wilson's SSP ceases after 7 months in October 2011, he would be entitled to ESA (C) and receive £67 per week benefit as he would be on the assessment phase. This would continue up until early January 2012, when the

	assessment phase would end. After that, Mr. Clarke would receive about £95 per week when the main phase of ESA starts. Mr. Wilson's ESA (C) payment would cease in October 2012, 12 months after first receiving it. Up until this point Mrs Wilson's saving had not affected this calculation. But having lost the contribution-based version of the benefit, his savings of £16,000 would disqualify him from receiving ESA (I).
Net financial effect	As a result of the reform, Mr. Wilson loses about £2,000 over the remaining five months of 2012-13. In 2013-14 and beyond, he is £5,000 per year worse off.
Limits of the example	If Mr Wilson had no savings or his savings were less than £16,000 he would be either entitled to the full amount of ESA (I) or somewhat reduced payment.
How many union members are affected?	Though the survey did not collect data on savings, DWP's analysis shows that about 1 million people on ESA (C) could be affected by this change by 2013-14.
Other financial effects not directly due to the reforms	If eligible, Mr. Wilson could claim Disability Living Allowance and changes to employment and support allowance would not affect this.

7: JOB LOSS FOR A COUPLE FAMILY WITH A CHILD ON BELOW AVERAGE INCOME

Summary	Due to the changes in the working tax credit qualifying condition in 2012, a couple-family on below average income and with one child is likely to lose £3,600 in working tax credit if the main earner loses his/her job in 2012 as compared to losing the job in 2011.
The family	Mr and Mrs Jones, with one child aged 5.
Work and income	Mr. Jones works 37.5 hours a week at an hourly rate of pay of £9.50. Mrs Jones works 16 hours a week at an hourly rate of pay of £8. Their net weekly income is £416 and they receive £31 in child benefit and child tax credit. They have paid enough national insurance contributions.
Housing	The Joneses are owner-occupiers
What happens?	Mr Jones losses his job in May 2012.
Welfare reforms	Introduction of the condition that a couple must do at least 24 hours of paid work between them a week to qualify for working tax credit. At present, couples with children are entitled to working tax credit provided one partner works at least 16 hours a week.
Reforms implemented by	April 2012
Impact of the reforms	If Mr. Jones had lost his job in 2011, the family would have received an extra £50 in child tax credit and £70 in working tax credit per week. However, when Mr. Jones loses his job in May 2012, the family will receive an extra £57 per week in child tax credit. It will not be entitled to working tax credit due to the changes in the qualifying conditions. The family will benefit from the above indexation rise in child element of child tax credit.
Other relevant reforms	Though not directly relevant here, the introduction of an overall household benefit cap for workless families from 2013 could hit large families with children where one partner loses his job and the other is not working, especially if they are renting their accommodation.
Net financial effect	As a result of the reform, the Joneses lose about £70 per week in

	working tax credit.
Limits of the example	The 24-hours-per-week rule does not apply to lone parents.
How many union members are affected?	With about 85% of survey respondents from both the unions saying that worries about job cuts and the threat of redundancy have increased, the possibility of losing a job is a very real threat and a major factor of insecurity amongst members.
Other financial effects not directly due to the reforms	Mr. Jones would be entitled to receive around £67.50 per week in JSA (C) for six months. If he fails to find a new job in six months time, he would be taken off JSA (C) but would not qualify for JSA (I) as Mrs. Jones is working for 16 hours. The family would also not be entitled to working tax credit.
Variants	Other owner-occupier family types (couple or single adult without children or lone parents) facing a job loss scenario would not be adversely impacted upon directly by the reforms themselves. However, the exceptions are those families that are renting their accommodation and are pushed into situation where no adult in the family is working. Such families will be subject to a benefits cap set at £500 a week for couple and lone parent households and at £350 a week for single adult households.