

# FAMILIES NEED FATHERS – WRITTEN EVIDENCE (EUC0080)

## The economics of Universal Credit

### 1. Families Need Fathers - *because both parents matter* (FNF)

FNF is a registered UK charity providing information and support on shared parenting issues arising from family breakdown, and support to divorced and separated parents, irrespective of gender or marital status. FNF is NOT a fathers' rights group - we support the best interests of children - namely mature and collaborative parenting by both parents - an objective that is inadequately promoted in the family court system and associated services.

FNF receive approximately 30,000 calls a year to our Helpline, thousands more rely on our local branch network, support via online Forums and through our website which has over six hundred thousand page views per year.

Our primary concern is the maintenance of the child's meaningful relationship with both parents. Founded in 1974, FNF helps thousands of parents every year.

### 2. Reason for FNF responding to this call for evidence

Almost half of divorces involve children under sixteen<sup>1</sup>. We do not believe that children whose parents were not married are any more likely to be living together. Our focus is on whether Universal Credit (UC) meets its objectives for separated parents and this submission seeks to address the questions from this Committee that are most relevant to this group of parents and their children.

### 3. How well has Universal Credit met its original objectives?

3.1. The original objectives were to simplify the benefits system to encourage people to work<sup>2</sup>. It was to ensure that work would always pay, whilst providing a safety net to protect people from experiencing unacceptable poverty. The intention is, to quote the GOV.UK website, that '*Universal Credit payments will reduce gradually as you earn more – for every £1 you earn your payment reduces by 63p*<sup>3</sup>. The website also offers links to online benefits calculators that, for separated paying parents, do not reflect their realities.

As Child Maintenance (CM) is a statutory requirement and UC does not factor it in, it badly fails to meet the original objectives for low-income separated parents and their children.

3.2. Families Need Fathers have raised concerns about affordability of Child Maintenance assessments under UC with the DWP and Government many times in recent years. In January 2018 DWP<sup>4</sup> accepted that the figures upon which we base our views are correct, and that there is a significant issue that needs to be investigated, particularly in the interaction of Child Maintenance with Universal Credit (UC), as this is being rolled-out. Child Maintenance payments (and receipts) are not included in UC and this has resulted in many paying parents experiencing excessive marginal tax rates of 80%-100% or even more. For these parents, not only does work not pay, but they are also placed in untenable financial positions. The same applies to those who are not yet on UC

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<sup>1</sup> ONS, England and Wales 2012

<sup>2</sup> DWP Policy Paper 2010-2015 government policy: welfare reform

<https://www.gov.uk/government/publications/2010-to-2015-government-policy-welfare-reform/2010-to-2015-government-policy-welfare-reform#appendix-1-government-policy-on-universal-credit-an-introduction>

<sup>3</sup> GOV.UK (currently) <https://www.gov.uk/universal-credit/how-your-earnings-affect-your-payments>

<sup>4</sup> Meeting between FNF and DWP 24<sup>th</sup> January 2018.

and this explains much of the historic arrears, however, legacy benefits were not designed to promote work.

3.3. CM requires payment of £7 per week to the 'main carer' once a parent earns more than £7 per week and then increases to a percentage of total gross income once earnings reach £100 a week with a higher percentage once it exceeds £200 per week.

3.4. Taking into account CM requirements means that paying parents experience effective marginal tax rates of between 87% and 108%, depending on the number of children they are expected and required to support financially.

3.4.1. The Centre for Social Justice (CSJ)<sup>5</sup> estimated, in March 2019, that this anomaly could affect over 600,000 parents.

The Executive Summary of the CSJ report states:

*'The scale of this problem should not be underestimated. The income distribution of the 1,128,400 paying parents indicates that around 57 per cent have a net income of under £9,500 - an income level at which they may still be receiving UC. Therefore, once UC is fully rolled out, 638,900 paying parents could be caught up in this interaction.'*

3.4.2. Given that CSJ's Chairman, Rt Hon Sir Iain Duncan-Smith is widely credited with developing the UC concept, we think this Committee should take particular note of this report, published after the launch of UC, so as to rectify an identified anomaly.

3.4.3. Similar findings were made in an October 2019 report by the [Social Security Advisory Committee](#) (SSAC).<sup>6</sup>

3.4.4. In a survey of over 800 FNF service users in 2016, 17% of respondents said they opted out of work as they could not afford to live whilst paying CM. Most of these will not have been on UC and the sample is not representative of UC recipients, but it highlights a problem that UC was meant to resolve, but has not done so.

*"Total mental breakdown. I will never work again"*

*"I left mainstream employment to take back control!"*

*"I feel so bullied by it I want to go abroad"*

*"[they] took more than I could afford to pay and forced me to stop working" (several)*

*"my new husband is paying so much money out to an ex for one child that we can't afford to live anymore and he is having to pack his job in"*

3.5. Not surprisingly, such parents find it harder than those who do not pay CM to meet their own living costs and are more vulnerable to debt.

<sup>5</sup> The Hidden Parent Poverty Trap: Child Maintenance and Universal Credit – March 2019

<https://www.centreforsocialjustice.org.uk/library/the-hidden-parent-poverty-trap-child-maintenance-and-universal-credit>

<sup>6</sup> SSAC Occasional Paper 22: Separated parents and the social security system – 22 October 2019

<https://www.gov.uk/government/publications/ssac-occasional-paper-22-separated-parents-and-the-social-security-system>

### Example

A paying parent with income of £12,500 per annum, or £240 a week; £224 after deductions<sup>7</sup> who has two children would need to pay £38.40 a week<sup>8</sup> Child Maintenance. If they rent a single room it would cost them, on average, £138 a week<sup>9</sup>, with commuting costs of £34<sup>10</sup> a week, leaving £48 a week or £6.80 a day to live on, buy food, clothes, phone costs, pay for visits to children, etc.

- 3.6. When parents fail to pay CM on-time and in-full, the Child Maintenance Service (CMS) (often after very poor or outdated assessment procedures) put them in their 'collect' scheme i.e. taking the CM directly out of their pay or benefits. This incurs a surcharge of 20% of the value of their CM assessment, thus putting this vulnerable group into deeper debt and further reducing their incentive to earn more as the proportion of retained income drops when their marginal 'tax' rate effectively goes up.
- 3.7. Furthermore, many of this group of UC claimants have accumulated CM arrears either recently or historically, the repayment of these arrears further reduces their incentives to grow their incomes.
- 3.8. DWP have carried out work to evaluate the proportion of UC claimants who pay CM through the collect scheme and who have arrears, however, this data has not been shared publicly and we were not permitted to retain it. We suggest that this Committee considers asking for this as a contribution to this call for evidence.
- 3.9. Low-income separated parents often experience particular hardship, as their incomes must support two homes, often whilst experiencing severe emotional hardship. DWP classifies separated parents as 'single parents' or 'single adults'. As a result UC is calculated to support the 'single parent' or 'Parent With Care' (PWC), but not the 'single adult' who may well be providing overnight care to their children for between 52 and 182 nights a year. A parent whose children spend over 50% of nights with them is defined as a PWC. A parent whose children spend 49% of their time with that parent must still, contribute 3/7ths of the assessed contribution to the other parent (or 'PWC'). This is nothing short of absurd as elementary arithmetic shows. The CMS calculations need to be reviewed along with UC to support shared parenting arrangements.

## 4. Were the original objectives and assumptions the right ones?

- 4.1. We support the principle of ensuring that work should always pay.
- 4.2. The assumption appears to have been that UC applies in a similar way to parents regardless of whether they live together or not – that assumption/omission was wrong (differently for each parent).
- 4.3. The assumption that parents fall neatly into a 'carer' and 'provider' or 'single parent' and 'single adult' model is also wrong<sup>11</sup>. Care is usually shared – and will be increasingly.

<sup>7</sup> Calculated using <https://www.moneysavingexpert.com/tax-calculator/>

<sup>8</sup> Government Child Maintenance Calculator <https://www.gov.uk/calculate-your-child-maintenance>

<sup>9</sup> <https://www.walesonline.co.uk/news/uk-news/average-cost-rent-room-increased-16562407>

<sup>10</sup> Total Jobs: <https://www.totaljobs.com/insidejob/uk-commuters-will-spend-over-135000-by-the-time-they-retire/>

<sup>11</sup> Where's the Daddy – Fatherhood Institute – February 2018

<http://www.fatherhoodinstitute.org/wp-content/uploads/2017/12/Wheres-the-daddy-Full-Report.pdf>

- 4.4. We are particularly concerned that UC has not ensured this for parents paying CM. Secondly, we believe such a principle should be applied to both parents and hence take into account CM payments and receipts so as to equally promote both economic activity and childcare responsibilities by both parents whether together or apart.
- 4.5. We also consider that, in addressing the point above, UC could have a role in diminishing the gender pay-gap if it is associated with policies to promote joint care of children.
- 4.6. Many single parents and their children are classed as below the poverty line because, just as with UC, receipt of what can often be considerable child/spousal maintenance is ignored when calculating their income.

## **5. How should they change?**

- 5.1. UC should be updated to include CM assessments as recommended by the SSAC and CSJ.
- 5.2. UC should also take into account the need for separated parents to both be able to house their children.

Recommendation 3(a) of the SSAC report states that

*'The housing element of Universal Credit should enable young parents, under 35 years, who are sharing care and paying child maintenance, to have their children to stay overnight'.*

The SSAC report identified that almost 40% had their children to stay regularly. We are certain that many more children would be enjoying and benefiting from shared care if their parents had support with their housing costs.

- 5.3. The transitional protection for Severe Disability Payments (SDP) should, for similar reasons, be extended to include both parents. Currently, if a couple claiming income related Employment Support Allowance and in receipt of the couple rate of SDP decide to separate, only the lead claimant in receipt of SDP will be eligible. It will be at a single rate and they will receive transitional protection when they eventually move onto UC. The other partner will automatically move onto Universal Credit and because they never claimed SDP, will not be able to claim the single person's rate of SDP or get transitional protection.

## **6. How has the world of work changed since the introduction of Universal Credit?**

- 6.1. We increasingly hear from service users who are self-employed on low-incomes and/or part of the so-called 'gig economy' without regular incomes. CMS assessments are based on historic pay (even two or more years in arrears when HMRC have outstanding matters to resolve with clients). These cannot be changed during the course of a year unless they vary by over 25%. Those who find themselves with reductions of income of less than 25% do not experience any reduction in their CM assessments or increase of UC.

## **7. Does Universal Credit's design adequately reflect the reality of low-paid work?**

UC does not reflect the reality of low-paid separated parents who pay or receive Child Maintenance. See comments above.

## **8. If Universal Credit does not adequately reflect the lived experiences of low paid workers, how should it be reformed?**

Universal Credit must be reformed to:

- 8.1. Take into account Child Maintenance payments and receipts to ensure work always pays.
- 8.2. Take into account housing costs for parents who share parental care after separation.
- 8.3. To take into account any disability allowances for both caring parents as well as for disabled children living in two homes.

## **9. General Observation**

- 9.1. In relation to points already raised, we draw this Committee's attention to the fact that receiving parents experience a measure of financial 'protection' in as far as they receive child related benefits, housing support, etc. These are reviewed regularly and their UC (and legacy benefits) are unaffected by received CM (or spousal maintenance - previously alimony) payments, regardless of whether these are £0 or £1,000 a week.
- 9.2. The public understandably sympathise with 'single parents'. But normally both parents are actually single parents who care – not just the so-called 'parent with care'.
- 9.3. When the state asks parents to make statutory payments of money that they simply do not have and cannot then pay it creates conflict with ex-partners. This often contributes to acrimony and the breakdown of shared parenting arrangements.
- 9.4. It also drives parents to despair. Tragically a number that we have been made aware of committed suicide or felt suicidal. Nobody should be asked to do something that is impossible for them. Parents must be able to support themselves if they are to support their children too.
- 9.5. Involved parents and children experience better mental health, sustain better jobs and result in more engaged contributors both financially and otherwise to their children.
- 9.6. Separated families, who cannot sustain shared parenting, increasingly appear to transmit similar behaviour patterns to the next generation. This is a retrograde step for society.

Notwithstanding that DWP have been looking into this problem for years, they appear to have adopted a position of seeking more evidence that thousands of parents are being asked to make unaffordable, impossible CM payments. We think it is time for DWP to demonstrate that they are affordable and take action to rectify the problem, before further harm is done as a result of continuing delays in addressing this.

9.7.Reform of UC, specifically to take into account the position of all separated parents, must be a part of civilised society.

*3 March 2020*