

## Universal credit: frequency of payment (to be debated under Clause 7)

### Information briefing for Committee stage, House of Lords

- Ministers have said that UC will normally be paid monthly - with some exceptions, and budgeting support and loans to help those finding this difficult. This briefing argues that UC payment should be more frequent, or at least more flexible, mirroring current payment frequencies for tax credits for those in work, as well as benefits for those out of work.
- The government is proposing monthly payment of UC in order to mimic wages. It says 3 in 4 employees are paid monthly - but acknowledges that this is true for only 1 in 2 of those on under £10,000/year. Monthly UC payment would not mimic or fit in with wages in many jobs that UC claimants are likely to have now, have had experience of in the past, or are likely to get in future; and the budgeting patterns of many UC claimants on low incomes would be disrupted on leaving or entering weekly paid work. Those on weekly earnings now will find it difficult to cope with monthly UC payment on its introduction.
- Leaving no leeway for more frequent payment (other than for exceptional cases) would therefore undermine a main goal of UC, of helping people on a journey into work.
- Monthly payment with only limited exceptions does not chime well with the government's promotion of choice and arguments against interfering in household money management.
- The move from weekly to fortnightly payment of many benefits from 2009 caused serious difficulties. To manage monthly payments, UC claimants may need to become increasingly dependent on financial products not developed with their needs in mind. And if they do eventually adapt, the legacy of getting into financial difficulties may be long term.
- This is not just a problem for a small minority who have difficulty budgeting; less frequent payment is bound to be problematic for people living on lower incomes. And women are likely to be hit harder by monthly payment, as in lower-income families they tend to make the more frequent purchases of essentials such as food that can be cut back on in quality/quantity - unlike fixed payments such as bills, especially if paid by direct debit.
- Providing special exceptions and budgeting support is likely to be labour-intensive and complex, and may not solve this problem, unless done on so large a scale as to be unmanageable. Either way, this could prejudice the successful and smooth introduction of UC.
- So if UC is not paid more frequently to everyone, this should be a choice made available to all who want it. If the government wishes to encourage monthly budgeting in households, it will do so more successfully by making monthly payments the default frequency with easy opt-out arrangements, rather than by imposing it on unwilling beneficiaries.

by Fran Bennett for Women's Budget Group, Sept 2011

## 1. Introduction

**1.1** The **Women's Budget Group** (WBG) is an independent voluntary organization of individuals from academia, NGOs etc. We have been scrutinizing the gender implications of Budgets and spending plans of UK governments from the early 1990s. We believe that knowing about gender implications of policy changes is important to reduce gender inequalities, and also to ensure policy changes meet their goals most effectively. We have already undertaken gender analysis of the Welfare Reform Bill (see documents available on our website: <http://www.wbg.org.uk>).<sup>1</sup>

**1.2** We are concerned in particular about **access to income – earnings and benefits – for individuals within couples**. This briefing focuses on payment of Universal Credit (UC). This is because decisions about how UC is administered can have profound gendered effects. However, the **impact of UC on incentives for many potential 'second earners'** in couples in particular is also of concern. This makes issues about payment of UC even more important; but it is also a key issue in its own right. We are also concerned about **proposals to limit access to non-means-tested benefits**, such as the time-limiting of contributory Employment and Support Allowance to one year for many claimants.

**1.3** **Universal credit does not constitute an independent income** in the same sense as earnings or non-means-tested benefits. This is because for couples UC claims will involve joint assessment of needs and resources, as well as joint claiming, joint ownership and joint liability. So an individual's income is affected by their partner's presence, actions and resources; and if one partner's income/assets are high enough for the couple to be ineligible, the other partner gets no UC, regardless of how they share their income/assets. It is therefore important to consider wider concerns about UC and the Welfare Reform Bill more generally, as the WBG has done elsewhere.

**1.4** The government is proposing **monthly assessment**, as well as monthly payment, of UC. It is not clear how monthly assessment will fit with conditionality for UC, which will be more frequent. The National Audit Office has also suggested that the government should learn from previous experiences of means testing in the introduction of UC.<sup>2</sup> The experience of tax credits suggests that introducing a periodicity for income assessment (annual in that case) that does not fit with low income families' lives can create real problems. This briefing, however, focuses on frequency of payment of UC rather than assessment.

## 2. Frequency of payment of UC: government arguments

**2.1** There is no right of appeal about the way benefits/tax credits are paid; so it is important that the government gets it right. This is also crucial for the successful and smooth introduction of a new benefit such as UC. The government has now decided<sup>3</sup> to **pay UC monthly, in arrears; this means 12 times per year**, not 4-weekly (13 times). It has not yet decided how to allocate payment dates in the

---

<sup>1</sup> A detailed analysis of the gender impact of Universal Credit can be found in written evidence to the Work and Pensions Select Committee Inquiry from Fran Bennett and Ruth Lister (WBG members) and Susan Himmelweit (for the WBG): <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmworpen/743/743we01.htm> and in WBG (2011) *Welfare Reform Bill: Women's Budget Group Evidence to Public Bill Committee*: [http://www.wbg.org.uk/RRB\\_Reports\\_6\\_3769269156.pdf](http://www.wbg.org.uk/RRB_Reports_6_3769269156.pdf). The WBG has also published a short research brief on Universal Credit (UC): [http://www.wbg.org.uk/RRB\\_Reports\\_13\\_4155103794.pdf](http://www.wbg.org.uk/RRB_Reports_13_4155103794.pdf).

<sup>2</sup> National Audit Office (2011), *Means Testing*, HC 1464, Session 2010-2012, London: The Stationery Office.

<sup>3</sup> Department for Work and Pensions press release, 13 September 2011.

month (suggesting that some people may have to wait some time before receiving a payment, or have to rely on loans/payments on account, thereby setting up immediate debt).

**2.2** The government argues that **monthly payment is the modern way, and how most wages/salaries are paid**. It says that the change from more frequent benefit payments to monthly wages can cause anxiety and dissuade people on benefits from entering work:

*'Ministers believe it is sensible that benefits are paid [monthly], helping claimants to get used to managing their money and bills over a four week basis, to smooth the transition into work.'* (DWP press release, 13.9.11)

This, rather than administrative/technical issues or cost, appears to be the main reason behind the government's choice of monthly payment.

**2.3** The government has also said that it wants to **place responsibility for household budgeting with the household**; it argues that making decisions over household finances and budgeting in the most appropriate way to meet family needs is best done by the family itself.

**2.4** Ministers are said to believe the **move from weekly to fortnightly payment of many working age benefits in 2009 did not cause serious problems** (with not many claimants taking up the adjusting payments on offer). This suggests they believe this augurs well for a shift to monthly payment.

**2.5** We examine each of these arguments in turn below, before considering other relevant issues.

### **3. Mimicking wages?**

**3.1** Many benefits/tax credits are currently paid weekly/fortnightly, or claimants can choose this option. (See **Appendix** for details of current arrangements.) Many UC claimants will be out of work, and some (such as some severely ill/disabled people) are likely to stay in this situation; whether their benefit mimics wages does not seem the most relevant issue, compared with other priorities or their preferences. Moreover, some 1 in 5 employees in the UK are still paid their wages weekly or fortnightly.<sup>4</sup> Indeed, the government's own figures suggest that only 3 in 4 employees are paid monthly, and that this falls to **51% of employees earning under £10,000/year**.<sup>5</sup>

**3.2** No evidence is cited for ministers' beliefs about more frequent benefit payments deterring people from taking work. The transition between benefits and tax credits is clearly problematic; but UC is meant to be dealing with this. Not being paid for a month in a new job could also create anxiety; but this may be more about the wait. In any case, it seems odd to propose to introduce monthly payments for those out of work too – likely to have lower incomes than those in work, if the government's goal of making all work pay is realised. Moreover, **claimants can currently choose to receive tax credits on a weekly basis**, giving more frequent payments alongside a monthly wage.

**3.3** So proposing to have no leeway for more frequent payment than monthly (other than in exceptional cases) seems to **undermine a main goal of UC, helping people on a journey into work**.

### **4. Household budgeting decisions best taken by the household itself?**

---

<sup>4</sup> Figures of 18.1% from Office for National Statistics (Table G89.1, *Annual Survey of Hours and Earnings* (2010), based on employee jobs in the UK for workers on adult rates whose pay was unaffected by absence), supported by figures of 1 in 5 from the *Labour Force Survey* for Oct-Dec 2010 and the *Family Resources Survey*.

<sup>5</sup> Department for Work and Pensions (2011), *Universal Credit Policy Briefing Note 2: The payment proposal*, London: DWP (revised 12.9.11).

**4.1** The government’s argument that making decisions over household finances and budgeting in the most appropriate way to meet family needs is best done by the family itself would suggest that **more flexible payment frequency for UC would fit in better with its own objectives and beliefs.**

**4.2** Payment at monthly intervals would not seem to fit well with many low-income families’ preferences or patterns of managing their money. A survey for the government of nearly 5000 benefit claimants paid by order-book/giro-cheque, published in 2001, showed that, whilst 98% of people paid benefit weekly were satisfied with the frequency of payment, only 7 in 10 of JSA claimants (paid fortnightly) were, with **the vast majority of those who wanted change preferring smaller, more frequent payments.** Most people collected their benefit as soon as it was due. Two-thirds budgeted on a daily/weekly basis, 1 in 10 operated a fortnightly budget and 1 in 6 budgeted 4-weekly or monthly; across all six benefits, **the most common budgeting period was weekly.**<sup>6</sup> People relying on benefit as their only source of income were much more likely to budget weekly; so if they had to adapt to a new payment period, they would have no other income to draw on. Few people had changed their budgeting period when they began to claim benefit, showing that people tend to choose to have their benefits paid by the method that fits most closely with their budgeting cycle.

**4.3** Two-thirds of these IS claimants and over half of the JSA claimants (then paid by order-book/giro-cheque) had no bank cards. Clearly, the study was carried out some time ago, and the government could argue that modernising such money management practices is one of its goals. But many of these practices were related to fear of losing control of the budget; these households were already trying to act in a responsible way in relation to the (inadequate) resources at their disposal. In more recent qualitative research amongst low/moderate-income couples, some were still using cash when they could and - often after previous bad experiences – more were resistant to using credit cards etc.<sup>7</sup> It is sometimes hard for those who do not have to live on such low income levels to imagine what it is like to do so. This should not lead to the adoption of policies that are inappropriate to the needs of those who do, or that threaten to render them **dependent on financial services and products that were developed with more affluent individuals in mind.**

**4.4** Moving to monthly payment could cause disruption to the budgeting patterns of the best money managers. And if they did eventually adapt, **the legacy of getting into financial difficulties can be long term** – once people get into debt, it can take them a long time to extricate themselves.<sup>8</sup>

## **5. Move from weekly to fortnightly payment caused no significant problems?**

**5.1** Ministers are said to believe that the **move from weekly to fortnightly benefit payment from 2009** did not cause significant problems, and that any issues in moving to monthly UC payment will only be transitional. The Social Security Advisory Committee expressed concerns in 2008 that persuaded the government to give higher ‘adjusting payments’.<sup>9</sup> Take-up of these was reportedly not very high. But this is not sufficient evidence to indicate a lack of problems. To the best of our knowledge there has been no study of the reasons for this, or of the impact of the change overall.

**5.2** In addition, many claimants were already getting JSA fortnightly.<sup>10</sup> The process was staged, from 2009 to 2011. Applications for crisis loans from the Social Fund increased from 1,964,700 in 2008-09

---

<sup>6</sup> Note that the survey was of benefit claimants not having payment by ACT into bank accounts. It also covered benefits such as retirement pension and child benefit as well as income support and jobseeker’s allowance etc.

<sup>7</sup> Qualitative research by Fran Bennett and Sirin Sung for project 5 (Within Household Inequalities and Public Policy) of the Gender Equality Network funded by the Economic and Social Research Council [www.genet.ac.uk](http://www.genet.ac.uk).

<sup>8</sup> Berthoud, R. and Kempson, E. (1992), *Credit and Debt*, London: Policy Studies Institute.

<sup>9</sup> Social Security Advisory Committee (2009), *22<sup>nd</sup> Annual Report August 2008-July 2009*, London: DWP.

<sup>10</sup> Kempson, E. and Whyley, C. (2001), *Payment of Pensions and Benefits: A survey of social security recipients paid by order book or girocheque*, DWP Research Reprint 146, Leeds: Corporate Document Services.

to 2,696,800 in 2009-10, and remained roughly the same (2,657,100) in 2010-11.<sup>11</sup> Clearly there could be other reasons for this rise; but it does not appear to suggest a merely transitional problem.

**5.3** Moreover, recent findings from qualitative research with low-income families suggest the **move to fortnightly payment marked a step change in terms of reducing their ability to manage:**<sup>12</sup>

*'I think benefits should be paid weekly and not fortnightly ... I think it's just wrong to do it fortnightly because it is such a lengthy process ... fortnightly is a long time, two weeks is a long time. I am on income support and that used to be weekly and it was something to look forward to - but now they have put that fortnightly and all ... it's just wrong.'*

(Single woman, looking after 13 year old son and 9 month old grandchild)

*'... at the moment I feel like I'm choosing every week which bill to pay, so there will always be a bill that I'm not paying. I think that if it was every week the same amount of money, it would be easier.'*

(Single woman, looking after two children aged 4 and 2 years)

*'Before [the switch to fortnightly payments] I didn't have to struggle with anything ... with all these changes I'm just struggling ... before I never struggled ... like, never.'*

(Woman with partner and 4 children, aged between 3 and 13 years)

## **6. Budgeting monthly: not a minority problem**

**6.1** The National Audit Office (NAO) has noted that impact assessments of UC have not considered in any detail the **impact of UC on the burden on claimants.**<sup>13</sup> The NAO defined this as financial, time and psychological costs. In some ways, UC may impose less of a burden. But one kind of burden is how easy it is to manage one's money given the benefit structure, including payment frequency.

**6.2** Ministers do say that people having difficulty could be given (so far unspecified) help with budgeting. But the 2008 Families and Children Study (FACS)<sup>14</sup> shows that 1 in 4 of all families with children run out of money (always, most often or more often than not) before the end of the week/month, rising to 37% for the lowest income fifth.<sup>15</sup> If payment of UC is monthly, this number will undoubtedly rise. The government says a typical working age household (not just confined to those on low incomes) has only £300 in savings;<sup>16</sup> and the 2008 FACS showed that few families with children have any savings to fall back on. **This cannot therefore be dismissed as a problem for a small minority unable to budget properly.** For example, in one study, virtually everyone in the sample of low-income families with children was very concerned to use money wisely, and all put their children's needs before their own; in couples, the partner seen as the more careful money manager (usually the woman) was more likely to be managing the household finances.<sup>17</sup>

---

<sup>11</sup> House of Commons *Hansard*, Written Answers 6.9.11, col. 462W. Figures are for applications received and initial awards made. This is management information and does not (eg) include clerical applications.

<sup>12</sup> Findings emerged from qualitative interviews conducted in the UK as part of an international comparative study in seven countries: *Shame, social exclusion and the effectiveness of anti-poverty programmes*. The study is based at Oxford University within the Department of Social Policy and Intervention, and is funded by the Economic and Social Research Council and the Department of International Development.

<sup>13</sup> National Audit Office (2011), *Means Testing*, HC 1464, Session 2010-1012, London: TSO, Figure 10, p. 23.

<sup>14</sup> Maplethorpe, N., Chanfreau, J., Philo, D. and Tait, C. (2010), *Families with Children in Britain: Findings from the 2008 Families and Children Study (FACS)*, Department for Work and Pensions Research Report 656, Leeds: Corporate Document Services.

<sup>15</sup> This was even higher in (eg) a 1994 study by Kempson *et al.* (pp 118-9) of low-income families with children, in which only a minority said they never or rarely ran short. (See note below.) The authors say this had little to do with feckless spending or careless money management; even very careful managers ran out of money.

<sup>16</sup> DWP (2011), *Universal Credit Policy Briefing Note 3: Treatment of capital*, London: DWP, para 1b).

<sup>17</sup> Kempson, E., Bryson, A. and Rowlingson, K. (1994), *Hard Times? How poor families make ends meet*, London: Policy Studies Institute.

**6.3** In addition, a move to monthly payment is clearly of a different order from the change in 2009 onwards to fortnightly payment. Advisors on debt and welfare benefits in Oxfordshire recently collected responses from some clients who feared that they **would not manage, and would get into debt, if payment changed to monthly intervals:**

*'Very difficult to budget with 2-weekly payments. Impossible with monthly.'*  
(New claimant of employment and support allowance, living with partner, no children)

*'If I found it hard every 2 weeks, monthly would be harder to make it stretch and to pay the bills.'* (Unemployed woman in childless couple on income support)

**6.4** One client in Oxfordshire with mental health problems said he was not very good at managing money, or adapting to change; he had difficulty concentrating due to his medication, and still found it difficult adjusting to fortnightly payment. He might of course qualify for budgeting support; but this could mean him seeing himself as failing. In one study published in 1994, low-income families with children had on the whole **not even considered seeking advice about money management:**<sup>18</sup>

*'Some people felt that this would show they were not capable of coping on their own. They already felt stigmatised because of their dependence on state benefits and did not want to increase this through asking for more help. Others ... felt the root cause of their problems was inadequate income and any amount of advice would not be able to deal with this.'*

## **7. Less frequent payment of UC more likely to hit women**

**7.1** The 2008 FACS data shows that, amongst social housing tenants (likely to be on lower incomes), a higher proportion of couples say their money is managed by the woman. And recent research confirmed a pattern in low/moderate income families of women often doing day-to-day spending, with men paying the (usually monthly) bills, often by direct debit.<sup>19</sup> **So less frequent payment of UC would be more likely to hit women**, often responsible for the more frequent spending on essential items that can be cut back on, in quality and/or quantity, such as food. This cutting back is **more likely when bills are paid through direct debits or standing orders**. In such situations, mothers can often be the ones to go without.<sup>20</sup>

*'Women, in particular, would go without eating, or survive on a diet of bread, to be able to meet their other commitments.'*

**7.2** The simultaneous **replacement of various national statutory provisions with localised discretionary schemes** will also work against the goal of increasing certainty about income under UC, and be likely to make budgeting harder. **'Real time' adjustment of UC payments** on a monthly basis, with fluctuations in wages, could also exacerbate uncertainty about income. In such a situation more frequent payments may make the necessary modifications to plans easier, and would ameliorate the situation for those managing the day-to-day spending (more likely to be women).

## **8. Conclusions**

**8.1** This briefing has primarily focused on frequency of payment. But the government's plan to divide UC into 12 payments per year rather than pay it 4-weekly is also a **significant change** from the

---

<sup>18</sup> Kempson, E., Bryson, A. and Rowlingson, K. (1994), *Hard Times? How poor families make ends meet*, London: Policy Studies Institute, p. 104.

<sup>19</sup> From the Within Household Inequalities and Public Policy project, part of the ESRC-funded Gender Equality Network ([www.genet.ac.uk](http://www.genet.ac.uk) – project 5). This may differ in particular if the woman is paid monthly (e.g. in a white collar job), whilst the man is paid weekly (e.g. in a manual job) or is on benefit himself.

<sup>20</sup> Kempson, E., Bryson, A. and Rowlingson, K. (1994), *Hard Times? How poor families make ends meet*, London: Policy Studies Institute, p. 106. (This was a study of 74 low-income families with children.)

way many benefits are currently calculated, ie on a weekly/daily basis. Depending on how they are organised, monthly (rather than 4-weekly) UC payment may fit in better with direct debits for those who have them, as these tend to come out of bank accounts on a certain date each month, rather than 4-weekly. But this depends on the degree of control over direct debit or UC payment dates.

**8.2** The government has recognised that a single monthly payment of UC would be a significant change for many people – hence its provision for exceptions and budgeting support. However, such arrangements are likely by their nature to be both labour-intensive and complex. And they could be more costly than allowing greater flexibility of payment frequency for all those who want or need it. (An article in the *Financial Times* (14.9.11) reported that the government had admitted it might need to find more money for interim loans, due to moving benefits from fortnightly to monthly payment.) We have suggested here that **monthly payment of UC will not meet the government's own overarching objectives in many cases, and that allowing more flexibility could do so much better.**

**8.3** The clear alternative options for frequency of payment of UC are to **pay it more frequently to everyone** (eg at most fortnightly or twice a month, as most working age income maintenance/replacement benefits are paid fortnightly at the moment), or to **allow for easy choice of more frequent payment** (as for tax credits, that can be paid weekly if requested). Currently, in-work families receiving child tax credit above the family element (i.e. on lower income levels) are much more likely to choose to receive it weekly (1,511,700) rather than 4-weekly (1,170,000).<sup>21</sup>

**8.4** **So if UC is not to be paid more frequently than monthly to everyone, this should be a choice made available to all who want it. If the government wishes to encourage monthly budgeting in households, it will do so more successfully by making monthly payments the default frequency, with easy opt-out arrangements, rather than by imposing it on unwilling beneficiaries.**

---

#### **Appendix : Payment of current benefits/tax credits: frequency of payments and recipient**

There is now 'direct payment' for most benefits/tax credits, which means they are paid into bank/building society/Post Office accounts for most people. From April 2011, benefit payments are usually made in arrears, most often **fortnightly** (since 2009),<sup>22</sup> and paid on the same day if someone is entitled to several. Child benefit is usually paid 4-weekly, but can be paid weekly in certain circumstances. Tax credits can usually be paid **weekly or 4-weekly** by choice.

**Housing benefit** to help with rent is usually paid at the same intervals as when rent is due. For private tenants, it is usually paid to the claimant as a rent allowance, though it can be paid to the landlord in certain circumstances (e.g. rent arrears). But housing benefit for local authority tenants and housing association tenants is often given in the form of a reduction in rent (a rent rebate). **Help with mortgage interest** for home-owners on means-tested benefits is usually paid direct to the lender, every 4 weeks in arrears.<sup>23</sup>

---

<sup>21</sup> HM Revenue and Customs (2011), *Child and Working Tax Credits Statistics, April 2011*, Table 7:1, London: HMRC. The frequency is not known for 57,200 families. (For in-work families getting at or below the family element of CTC only, 302,100 families received CTC weekly and 1,259,400 4-weekly (19,400 not known).)

<sup>22</sup> Means-tested earnings replacement benefits such as income support/jobseeker's allowance are usually paid fortnightly in arrears. Benefits for extra costs (such as disability living allowance) are often paid monthly. Tenants who get rent allowance can insist on fortnightly payment if it is more than £2/week. ('Monthly' here usually means every 4 weeks, rather than every calendar month, except in the case of payments for rent.)

<sup>23</sup> Under the Welfare Reform Bill, council tax benefit is being replaced by a scheme run by local authorities, which will include a cut of 10 per cent in expenditure. This is not considered here, as it will not be part of UC - though it is important to note that other benefit payments such as this for many on low incomes will exist.