



# The impact of in-work benefit restrictions on EU migrants to the UK

European Union: MW 375



## Summary

1. Following the conclusion of renegotiation talks on February 19<sup>th</sup>, the Prime Minister announced proposals for an 'emergency brake' to limit full access to in-work benefits by newly arrived EU workers for up to four years. Should it be enacted, this 'brake' would be in force for seven years. It is put forward as a key component of proposed reforms that are intended to 'tackle the abuse of free movement and reduce the unnatural draw of our benefits system, to meet our aim of reducing immigration, by creating fairer rules, while protecting our open economy'.

2. Recent research by Migration Watch UK has shown that an 'emergency brake' on in-work benefits might not in fact have any significant impact on levels of EU migration.<sup>1</sup> Half of new arrivals from the EU are single and a further quarter are couples without children. Neither of these categories are currently entitled to any significant benefits. The primary draw for potential migrants is likely to be the availability of employment and much higher wages in the UK rather than the attraction of the benefits regime.

3. Building on that research, this paper finds that the introduction of the National Living Wage, and subsequent increases in its level, will increase the UK's attractiveness still further for potential migrants. This will help to counteract any deterrent effect that the changes in the benefits regime affecting EU migrants might have. This applies particularly to single persons and to couples without children. For couples with children the net effect depends on their earning power. Some will be entirely unaffected, but even those whose income will be reduced might still be attracted by the availability of employment in the UK. Conclusions are at paragraph 12.

## Introduction

4. The introduction of the National Living Wage (NLW) will raise earnings of EU workers in low paid employment as they will for the rest of the population. However, the introduction of Universal Credit (UC) to replace Tax Credits and other in-work benefits will for many claimants provide less in benefits following the Budget 2015 changes to taper rates and work allowance in Universal Credit. Thus in-work benefits will for many be very much a diminishing proportion of income, and the impact of any

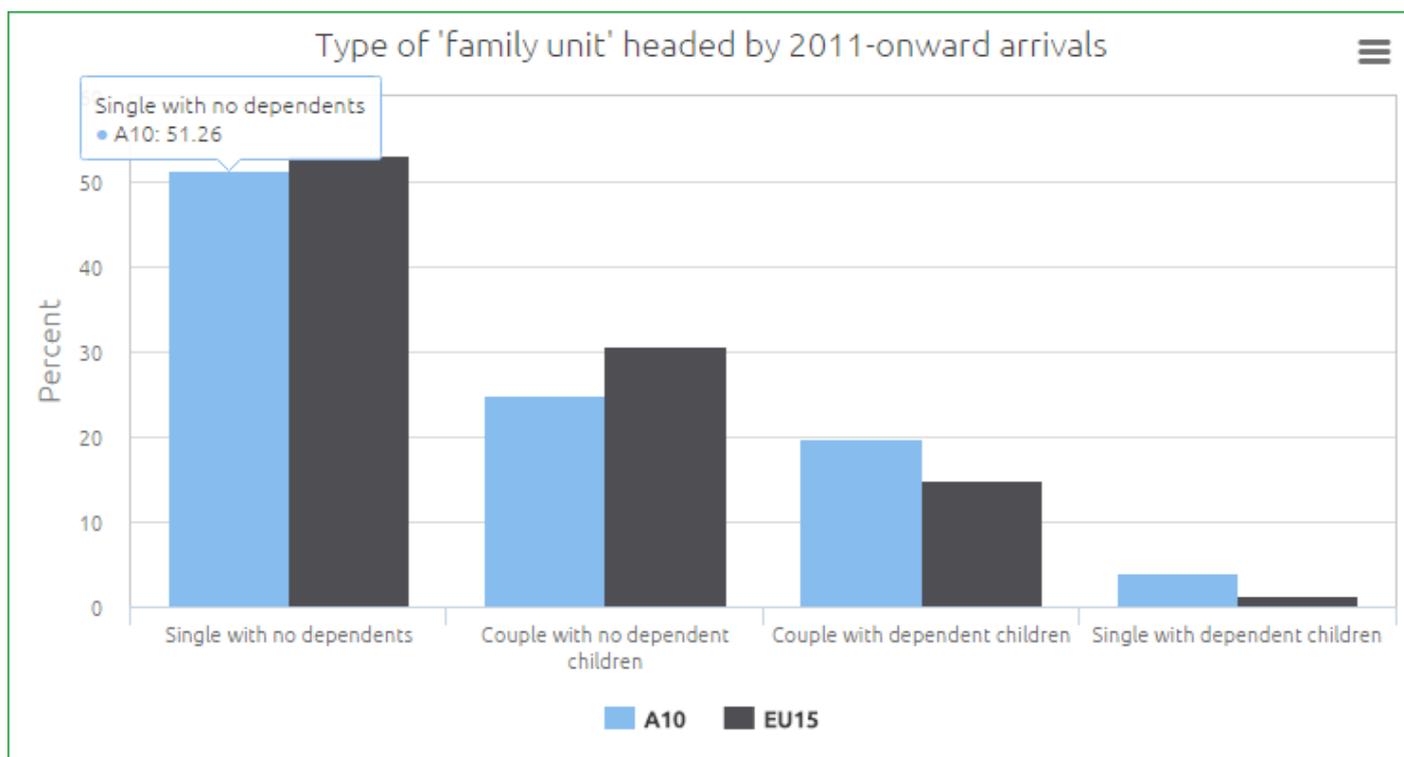
1 Migration Watch UK Briefing Paper 373, 'In-work benefit restrictions and EU migrants to the UK', February 3<sup>rd</sup>, 2016. URL: <http://www.migrationwatchuk.org/briefing-paper/373>

restriction will be correspondingly reduced. The overall outcome will depend on the family circumstances of claimants. This note considers the likely impact on typical family categories, and the extent to which recent EU migrants will fall into these categories.

## Family composition of recent arrivals to the UK

5. Looking at families headed by people first arriving from Europe in the past four years (2011 onwards), roughly 75% comprise singles and childless couples (Figure 1 below).<sup>2</sup> These migrants will - on arrival and for some time afterwards - not be calling to any great extent on welfare spending and would not, therefore, add to the case for an 'emergency brake' if it were to be based on pressure on the benefit system from new arrivals. Conversely, they are likely to benefit most from the move to NLW.

Figure 1: Families with EU head of family unit first arriving in UK 2011 onwards

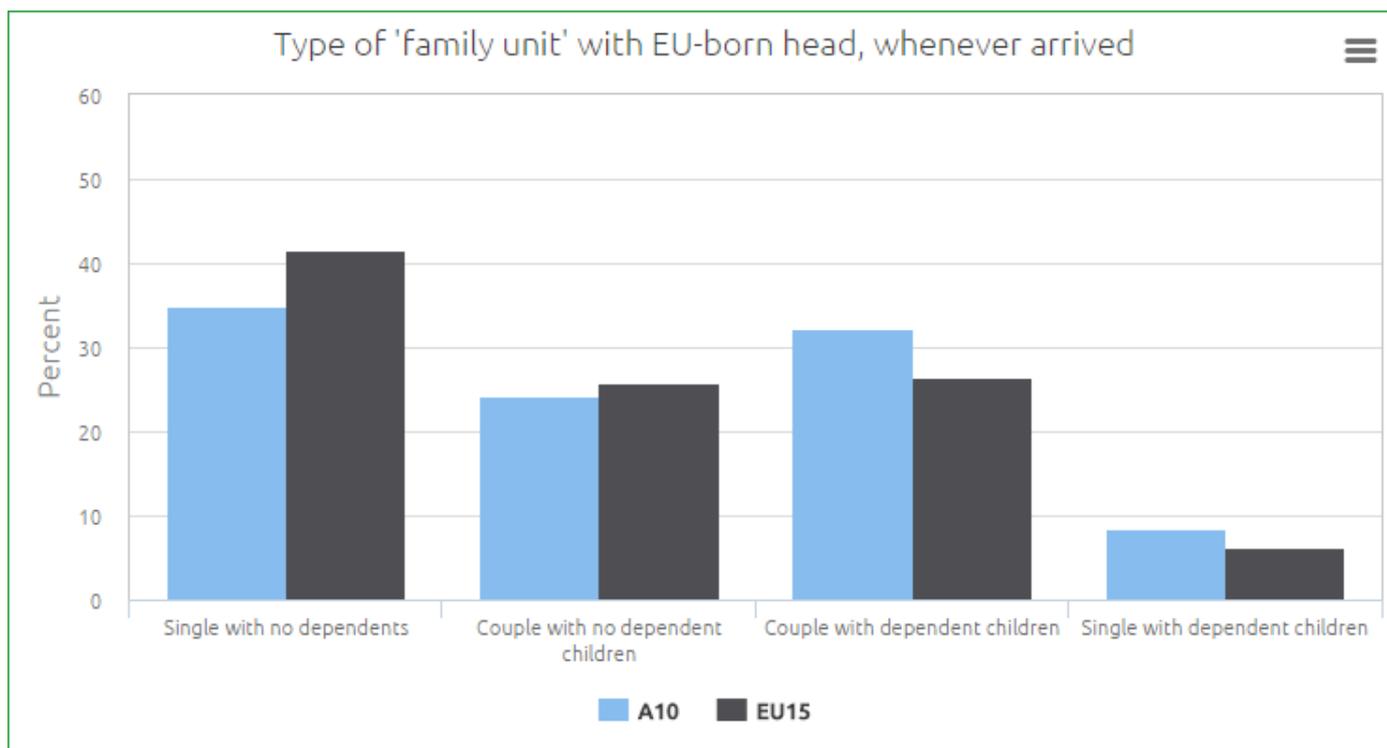


<sup>2</sup> On the face of it, this is hard to square with the DWP statistical analysis published after the Prime Minister's speech of 10 November 2015 at Chatham House. However, it is notable that the DWP analysis covered the four year period leading up to the first quarter of 2013 during which levels of immigration from the EU fell post-recession. More recent ONS data up to the third quarter of 2015 captures the result of increasing flows since immigration from the EU accelerated again, and shows the extent to which these flows comprise people without children.

## Family composition over time

6. Looking at all families headed by EU migrants including those who first arrived in the UK over four years ago (Figure 2) it is clear that the proportions in couples and with dependent children are considerably higher than for more recent arrivals. This is consistent with the available survey data that suggests that rates of benefit claim are low on arrival and for some time afterwards. It is also consistent with the information that most are single and/or childless on arrival, and that only over time do these people form couples and have children.

Figure 2: All families with EU head of family unit (16-64)



Note: Data for Figures 1 and 2 from UK Labour Force Survey July-September 2015

## People with no dependants - restriction unlikely to have any impact

7. A typical single person working thirty five hours on the National Minimum Wage (NMW) is currently entitled to about £2,000 a year in tax credits and housing benefit. However, in 2020/21 when Universal Credit will have fully replaced these benefits, the same person - by then working for the National Living Wage (NLW) - will receive nothing. However, he or she will still be better off in cash terms than currently as the boost to earnings given by the National Living Wage will be greater than the loss of in-work benefits. Half of the family units headed by Eastern Europeans who first arrived in the UK 2011 onwards fall into this category.

8. It follows that a single person, for example from Eastern Europe, would not be affected by any proposals to restrict benefits even for a four year period, once Universal Credit and the National Living Wage are introduced as planned. In practice, it is very likely that the availability of work in the UK is the main draw at present and that this incentive may be considerably increased by the higher wage differential between the UK and some other Member States likely to result from the National Living Wage. The higher income available in the UK also becomes that much more visible as people thinking of moving will no longer be subject to uncertainty about the contribution made by in-work benefits.

9. Couples with both partners working full-time on NMW already have no entitlement to in-work tax credits in ordinary circumstances. Around a quarter of the family units headed by Eastern Europeans who first arrived in the UK 2011 onwards fall into this category.

## Couples with children

10. Couples with dependent children comprise only around a fifth of family units headed by Eastern Europeans who first arrived in the UK 2011 onwards. This means that small sample sizes for earnings information in the Labour Force Survey make it difficult to estimate income distributions among this smaller group. For illustrative purposes, three different couple with dependent children family types have been modelled:

### (a) Mid-earning - restriction unlikely to have any impact

The first is a family unit of one person earning an average salary and a partner currently working part-time for sixteen hours a week on the National Minimum Wage, looking after two children. Such a couple typically receives no in-work benefits at present and would receive none under Universal Credit. However, they would be also be better off by 2020/21 in terms of their overall income after the second earner's wage is boosted by implementation of NLW. So overall the UK is likely to become a more attractive destination. This is couple #1 in Figure 3.

### (b) Lower earning couple - possible small behavioural impact.

Two earners each working 35 hours a week on the National Minimum Wage while looking after two children and moving to the National Living Wage would have a much lower entitlement to Universal Credit than they have now to tax credits and housing benefit. However, even if as a migrant family they lost all their in-work benefit entitlement under Universal Credit, they would still have a higher family income in 2020/21 than they do now. However, at the point of decision as to whether to come to the UK, it is possible that removal of the welfare 'safety net' might tip the balance for some, as the social costs of moving with children (in terms of parental responsibility, disruption to education and so on) are that much greater a weight in the balance than for singles and childless couples. This is couple #2 in Figure 3.

### (c) Lowest earning couple - significant impact on earnings but uncertain effect on migration.

A couple with two dependent children but only a single earner at National Minimum Wage would have a significantly lower income in 2020/21 than they do now. However, while a high level of benefits is presently available and would otherwise continue under Universal Credit, denial to recent EU migrants would be a deterrent only to those where the second partner is unable or unwilling to work. It is by no means certain that the result of benefit restrictions would be to deter migrants rather than encourage non-working partners into work. Employment rates of A10 migrants suggest that these couples in any

case do not form significant numbers of recent arrivals. This is couple #3 in Figure 3.

## Single parents - significant financial impact but very little impact on migration

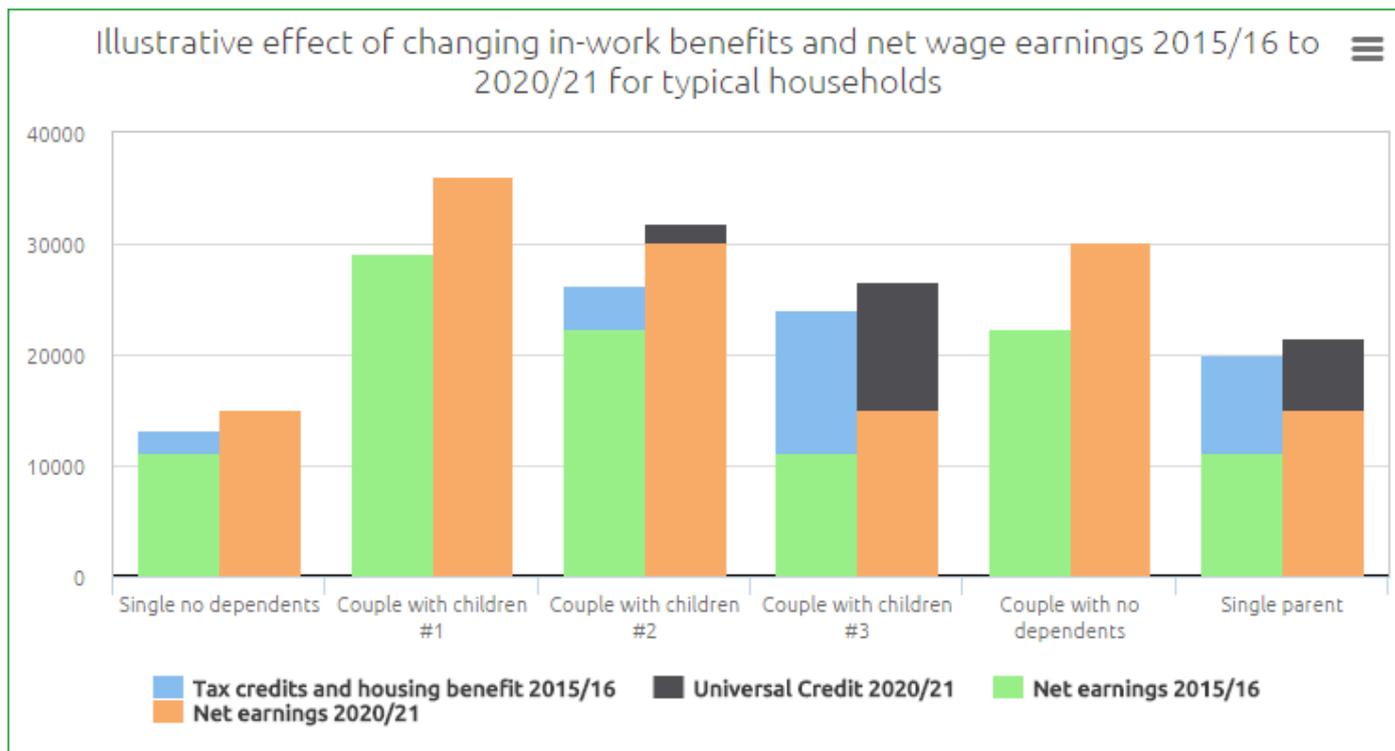
11. Single parents would see in-work benefits fall as a proportion of their total income, though overall their incomes would increase slightly in the absence of restrictions. Restricting in-work benefits paid to these families could make them considerably worse off than at present, and the UK would not be an attractive destination for such families. However, single parents comprise less than 1 in 20 of families from Eastern Europe who first arrived in 2011 and subsequently, and some of these will have arrived initially without their children. It seems likely that any benefit restriction would be more likely to discourage those who arrive as singles having children without a partner than have any material impact on migration.

## Conclusion

12. An 'emergency brake' to limit full access to in-work benefits by newly arrived EU workers would have a limited effect since most family units headed by recent EU migrants do not have any dependent children and are thus not entitled to significant payment of in-work benefits. While it has always appeared that the numbers affected by benefit restrictions would be small, low-paid workers in the UK will progressively have benefits replaced by pay as the National Living Wage is introduced. Furthermore, current in-work benefits will be further reduced by the Budget 2015 changes to Universal Credit taper and work allowance. This means that a number of those who are deciding whether to come to the UK to work would no longer have any entitlement to in-work benefits, and others would have a rather lower entitlement than at present. However, by 2020/2021 the higher wages stemming from the National Living Wage mean that the overall effect is actually an increase in household income for key family types, likely increasing the difference between the rewards to working in the UK and those available in the home country. Obviously, these people would not be materially affected by any restriction on the receipt of benefits, nor would they add to the strain on the benefit system. However, even those who might be affected by any restriction might not find that the attraction of work in the UK is diminished; the very high levels of employment across all family types suggests that it is the availability of employment in the UK that is currently the main pull factor for migrants from the EU.

23<sup>rd</sup> February 2016

# Figure 3



### Notes for Figure 3:

Assumptions: in-work benefits 2015/16 comprise tax credits and housing benefit (using LHA average) as per House of Commons Library calculations. OBR forecast of average earnings growth. Published rates of NMW/NLW

Typical households details

Single no dependents - 35hrs on NMW/NLW

Couple with children #1 - 1st earner earns median salary, 2nd earner 16hrs on NMW/NLW, 2 dependent children

Couple with children #2 - two earners each working 35hrs on NMW/NLW, 2 dependent children

Couple with children #3 - Single earner 35hrs on NMW/NLW, 2 dependent children

Couple no dependent - 2x35hrs NMW/NLW

Single with dependent children - 35hrs on NMW/NLW, 1 dependent child