

Breaking Out: progressing out of low pay in the UK labour market

Peer Review on “In-work progression – approaches and challenges”

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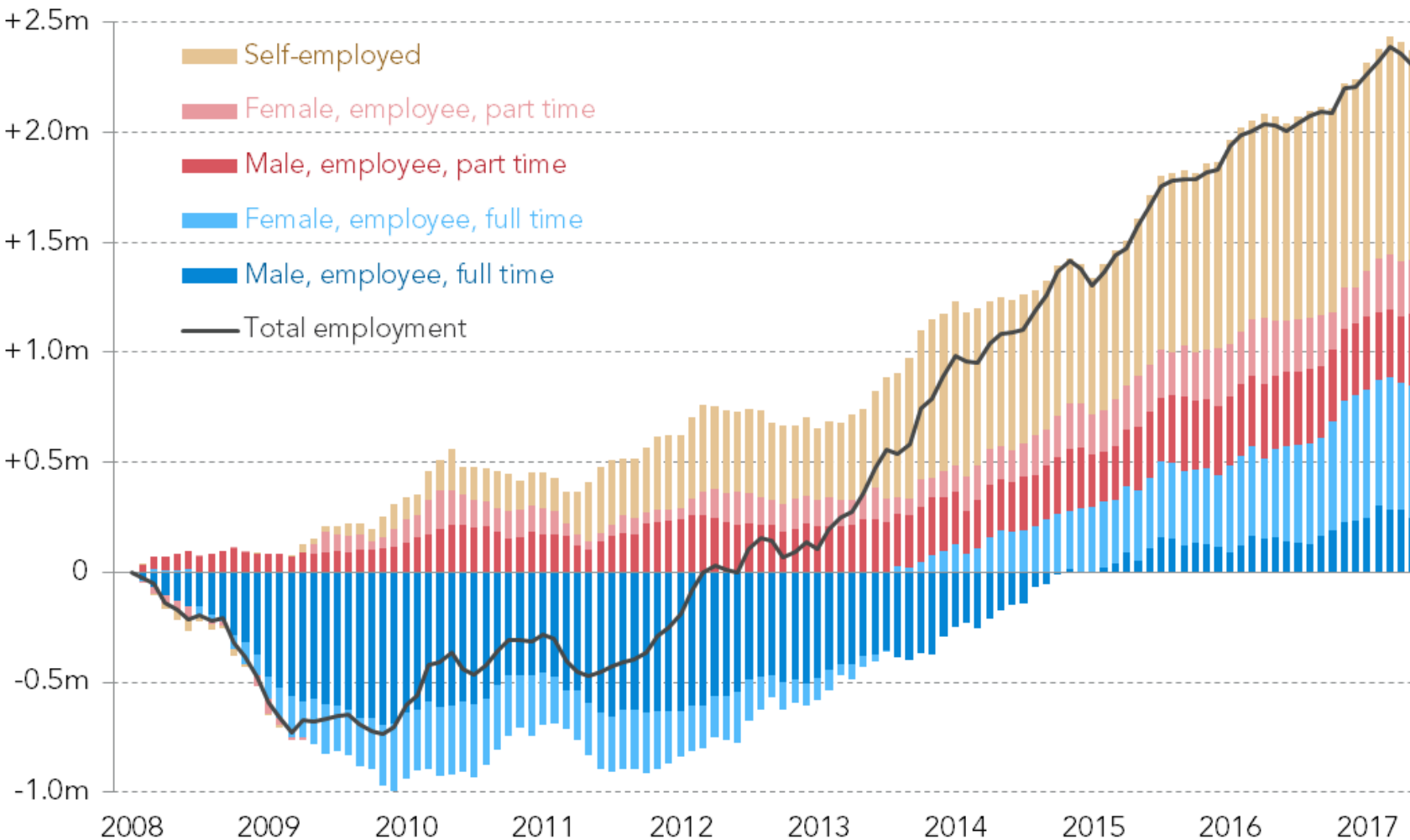


- Labour market developments
 - Strong employment growth
 - Weak pay growth
- Policy developments
 - National Living Wage
 - Universal Credit: Incentives and conditions
- Lessons from the past
 - Case study: Employment Retention Advance

LABOUR MARKET DEVELOPMENTS

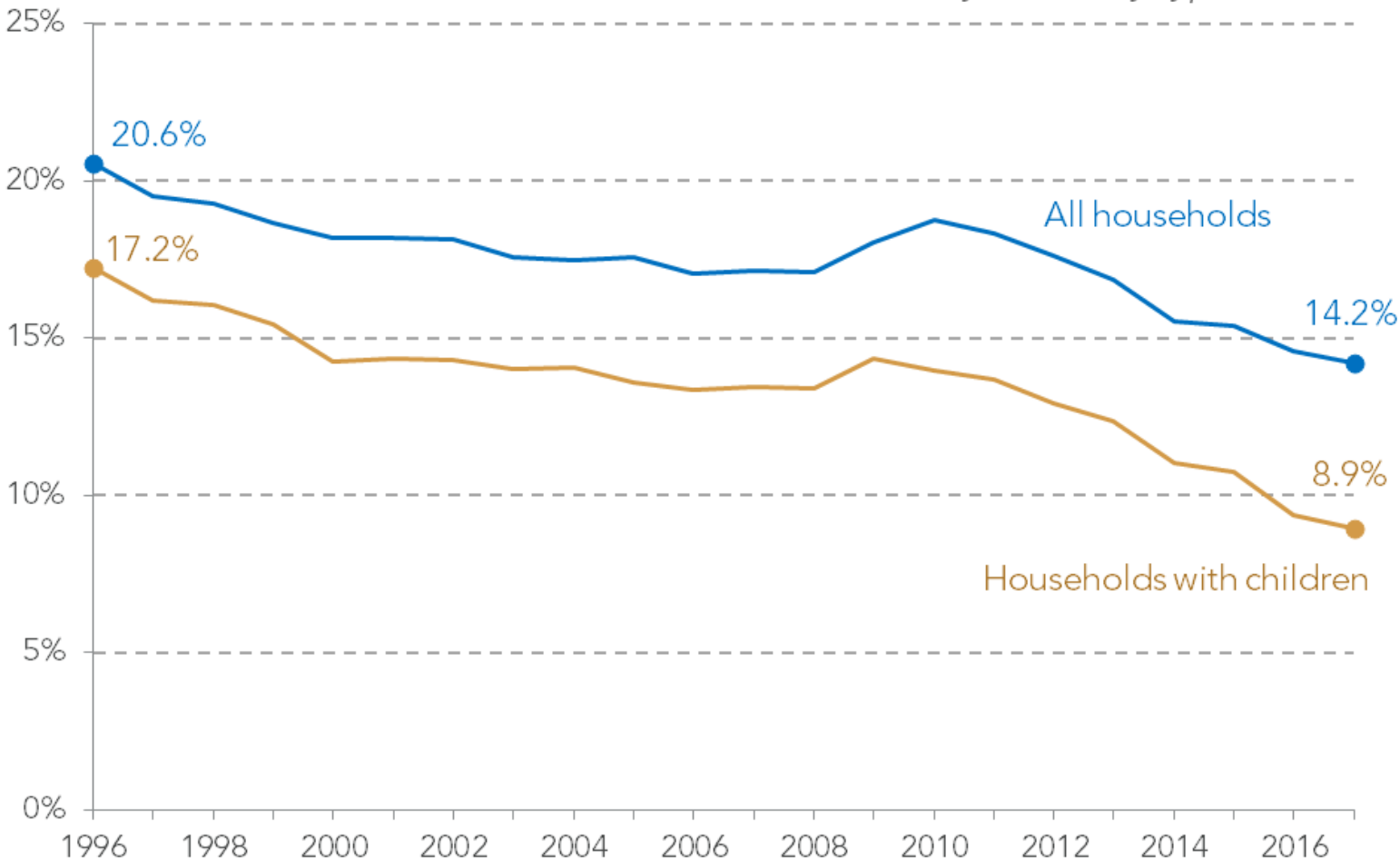
Employment growth initially driven by part-time & self-employment more recently by full-time jobs

Change in the number of employees and self-employment since May 2008: UK, millions



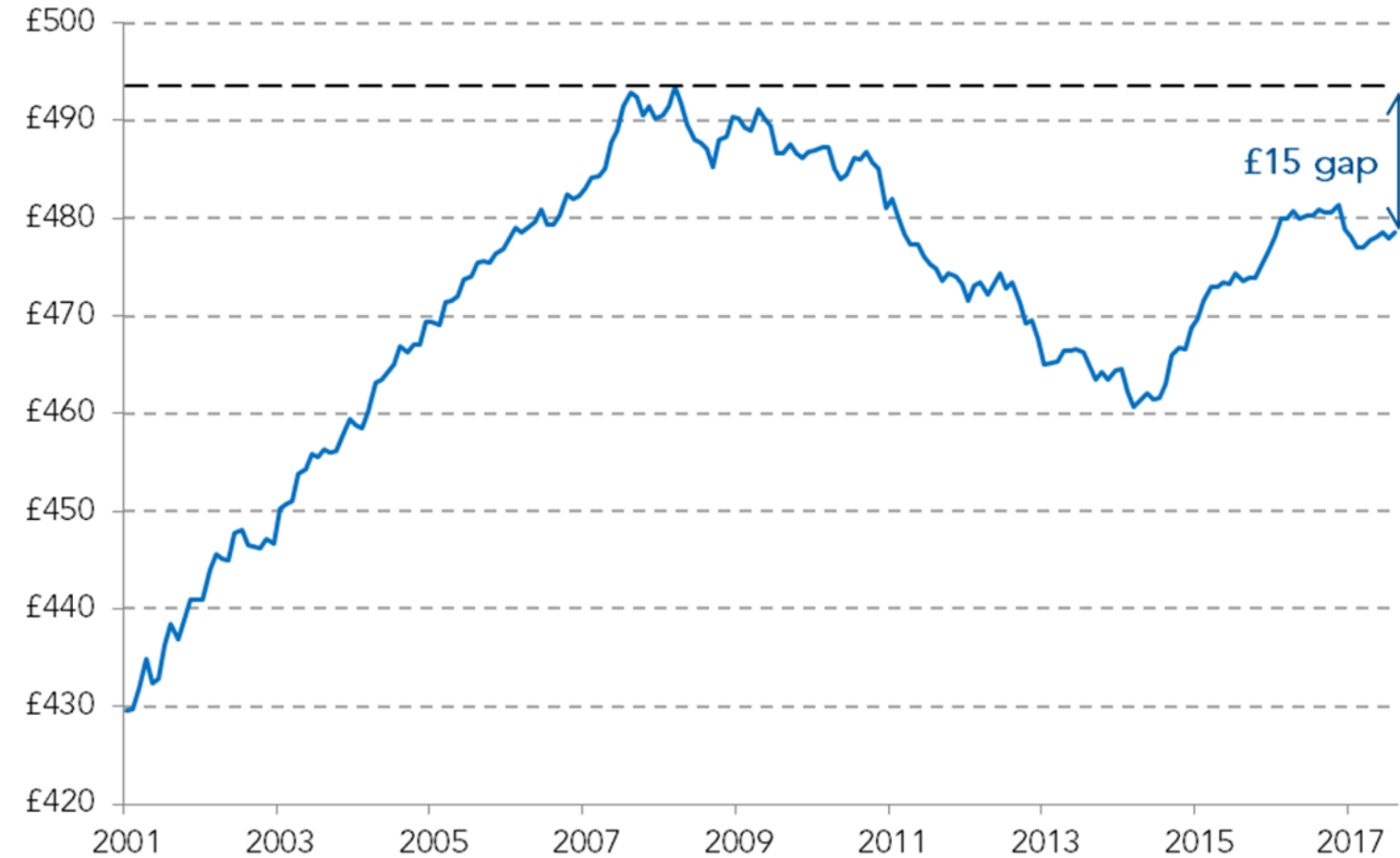
Higher employment has also been characterised by large reductions in worklessness

Workless households (share of households with 16 to 64 year old by type)



In contrast real term pay squeezed for 7 years, typical pay still £15 a week below pre-crisis peak

Real average weekly earnings (regular pay adjusted for CPIH inflation)





But financial crisis only partly to blame; poor pay progression also reflects longer term structural shifts

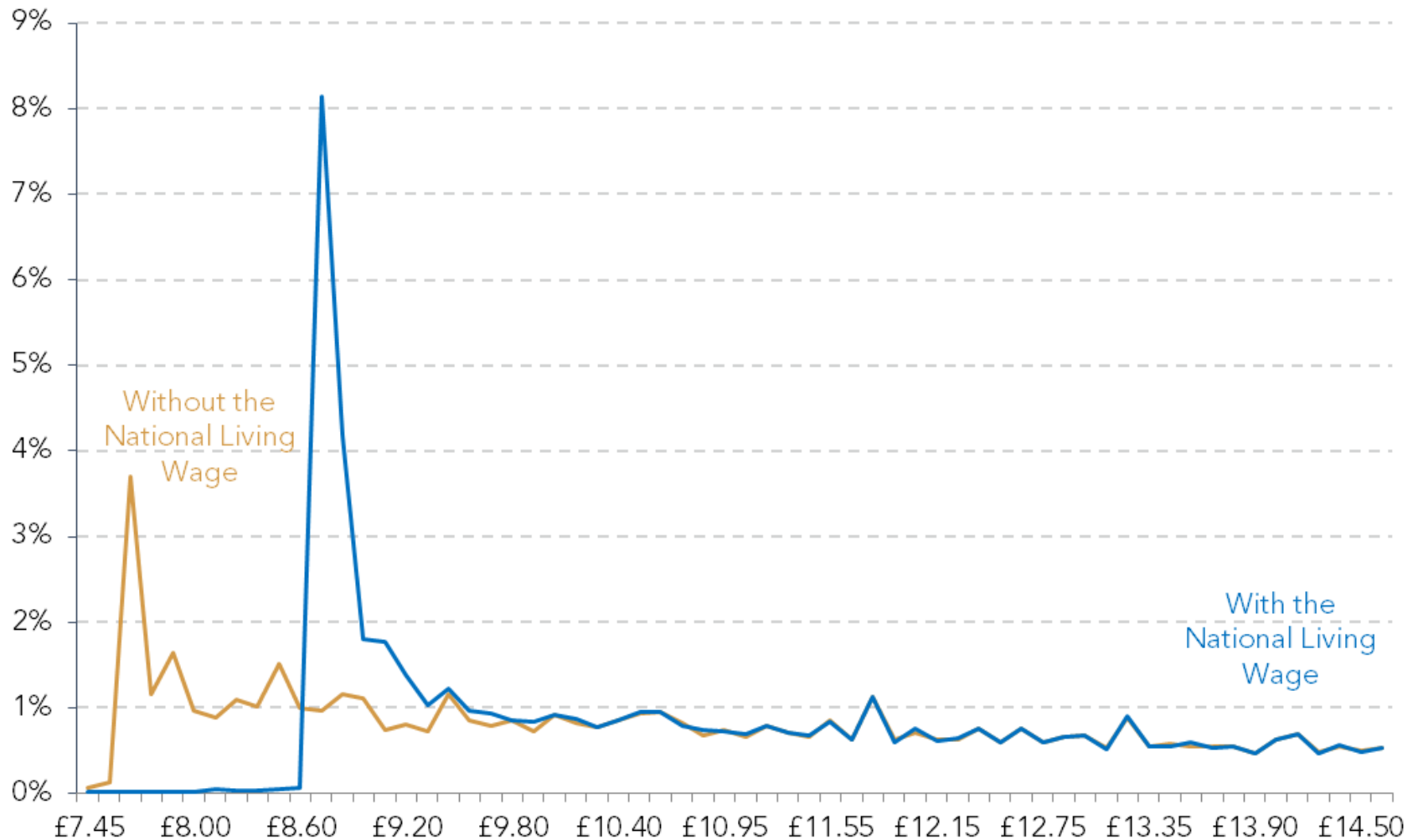
- Rate of job-to-job moves have been on a long term decline:
 - 1-in-25 of mid-1980s birth cohort moved jobs, half the rate of mid-1990s cohort
- Returns to remaining with the same employer for five years have been falling
 - Median pay rise at age 30 fallen from 4 per cent a decade ago to close to zero per cent today
- Historically around a fifth of UK employees in low pay



POLICY DEVELOPMENTS

Government mandated a higher wage floor for workers aged 25-plus - the 'National Living Wage'

Distribution of hourly wages before and after the introduction of the National Living Wage
Proportion of workers aged over-24 by pay band





Government mandated a higher wage floor for workers aged 25-plus

- Increasing bite to 60 per cent of median full-time pay for those aged 25+ by April 2020
- 1.5m workers paid within 1 per cent of wage floor in 2015 ; expected to reach 4.4m by 2020
- Three-quarters of low paid workers fail to progress to sustained higher rates of pay within a decade

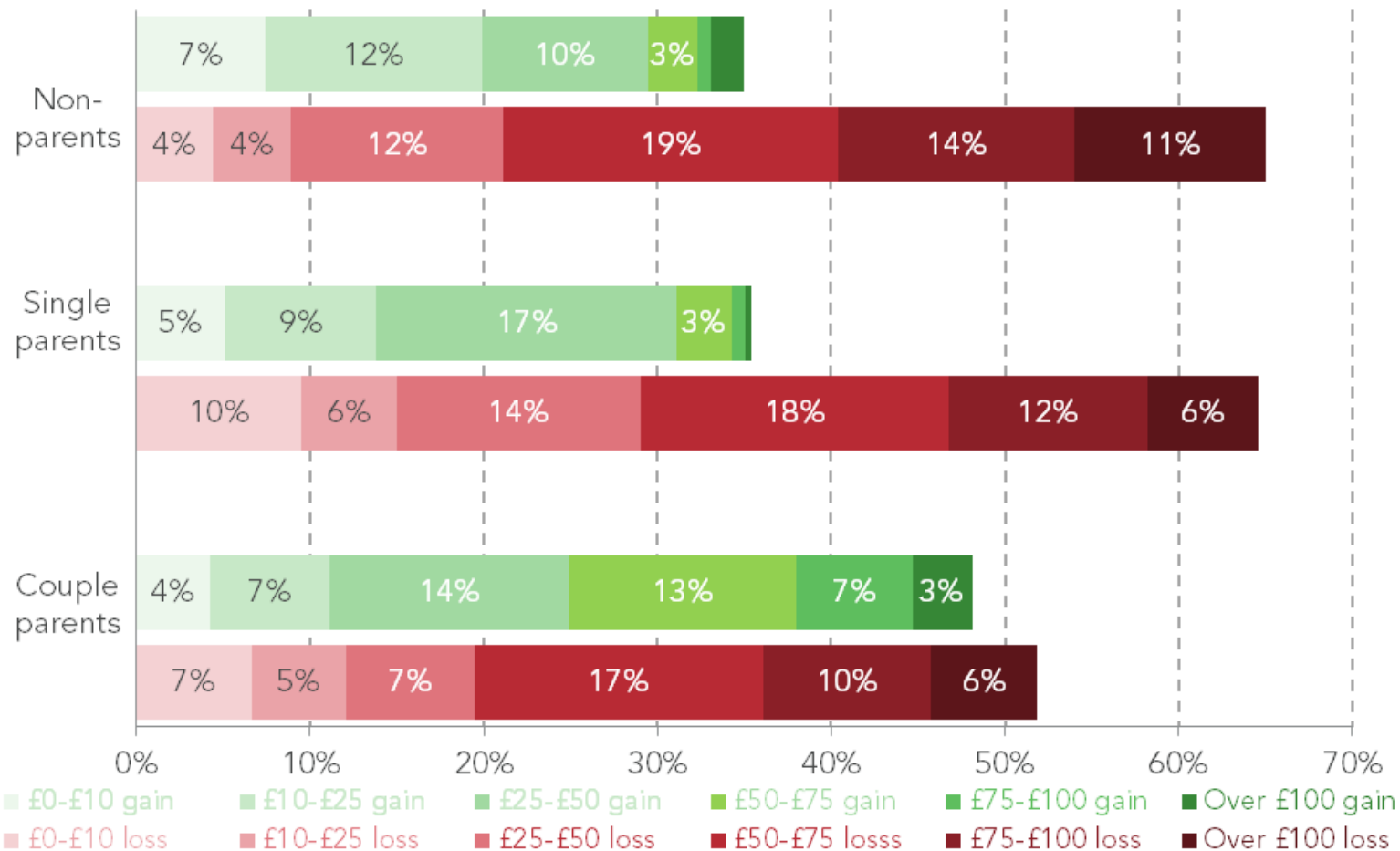


Universal Credit: comprehensive overhaul of working-age benefit system

- Simplify the system: combine six benefits into one
- Strengthen incentives to work and progress:
 - Greater financial return from entering and progressing in work
 - Removing fear of losing out on entitlement when entering work
 - More likely to receive entitlements
- Support living standards of low and middle income households

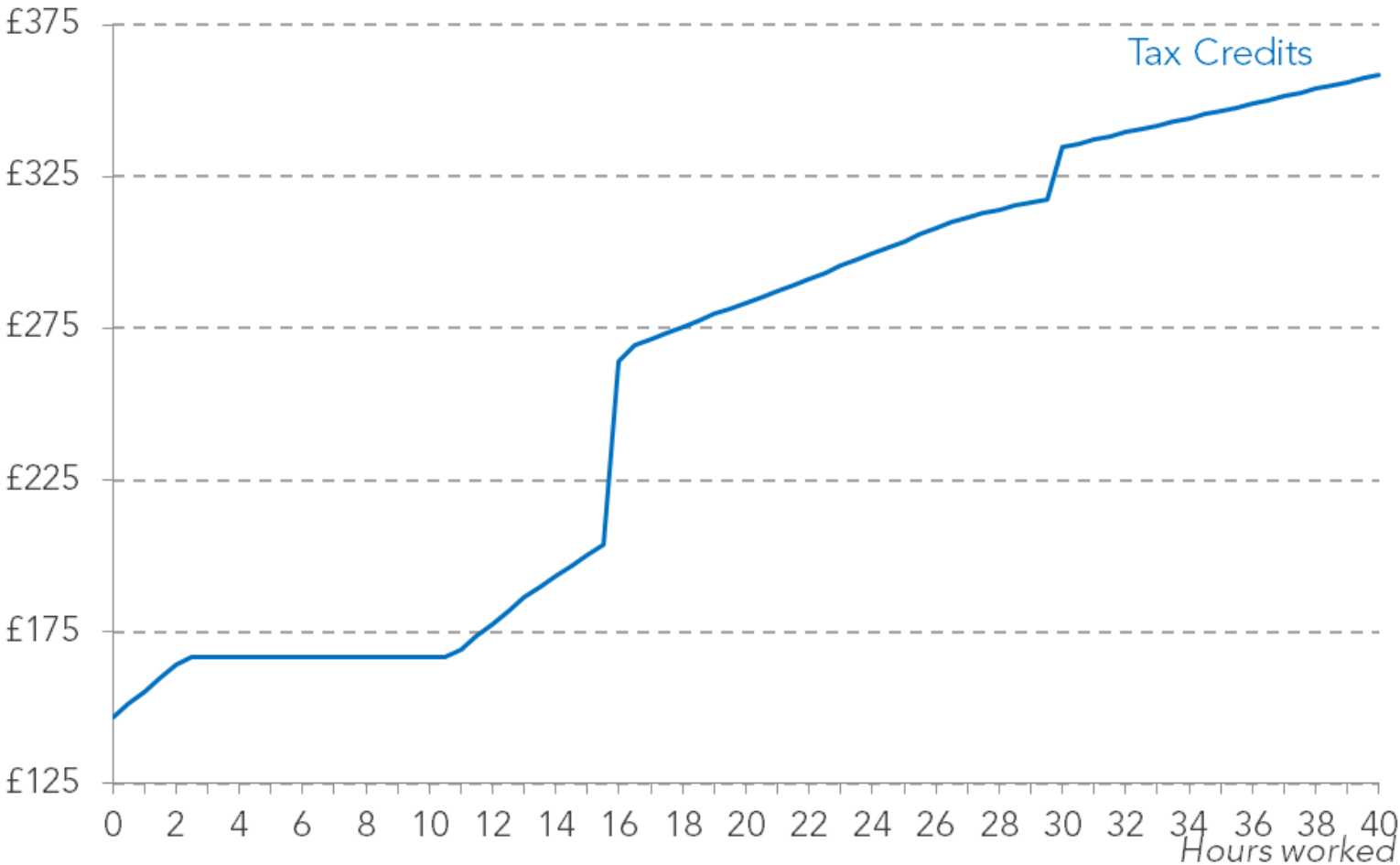
A change in generosity compared to pre-UC system: more working families lose than gain

Distribution of gains and losses for working families as a share of family type



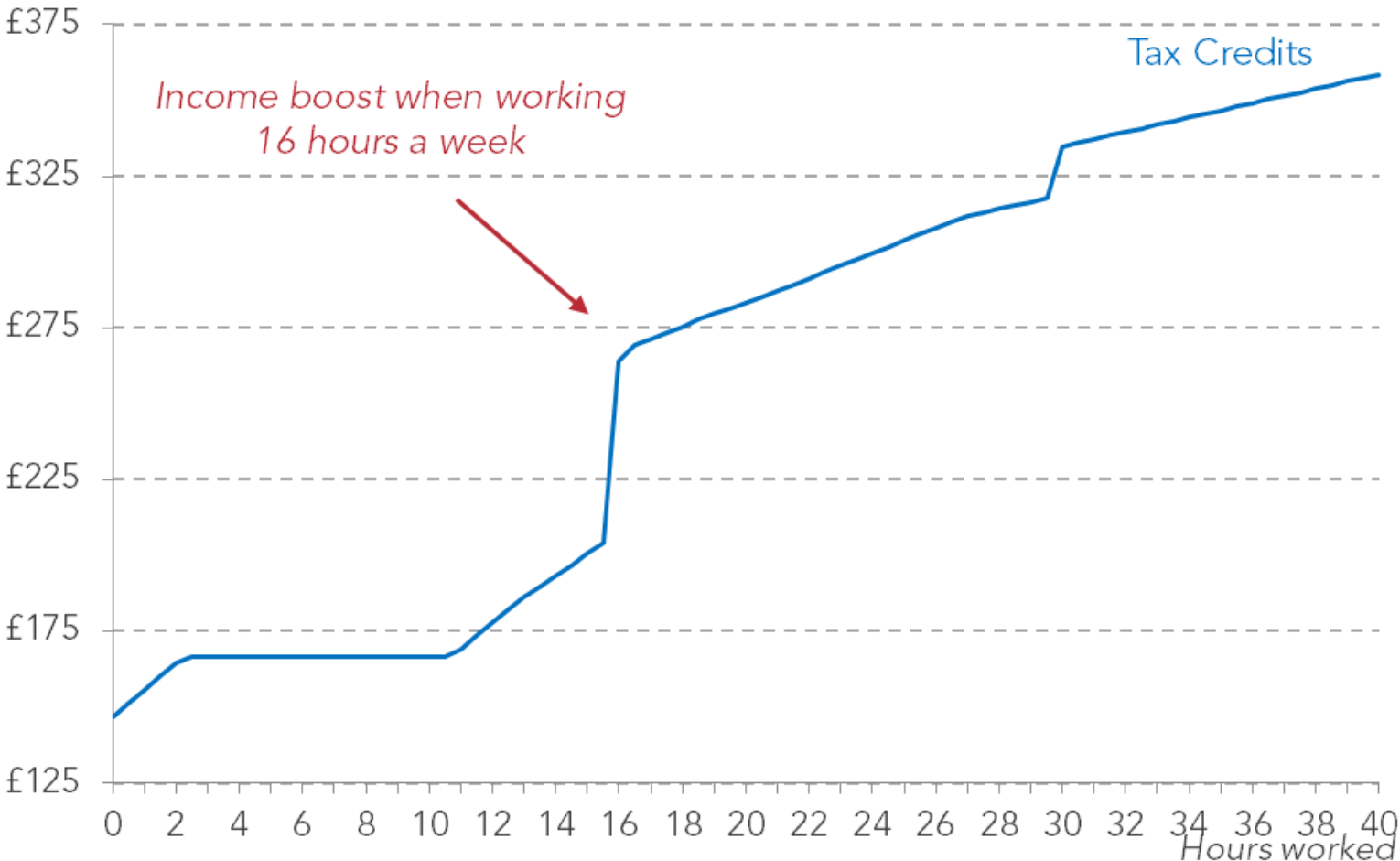
But, importantly for progression, UC has impact on shape of financial incentives to work

Net income by hours of work: Single parent, homeowner, one child (£ per week)



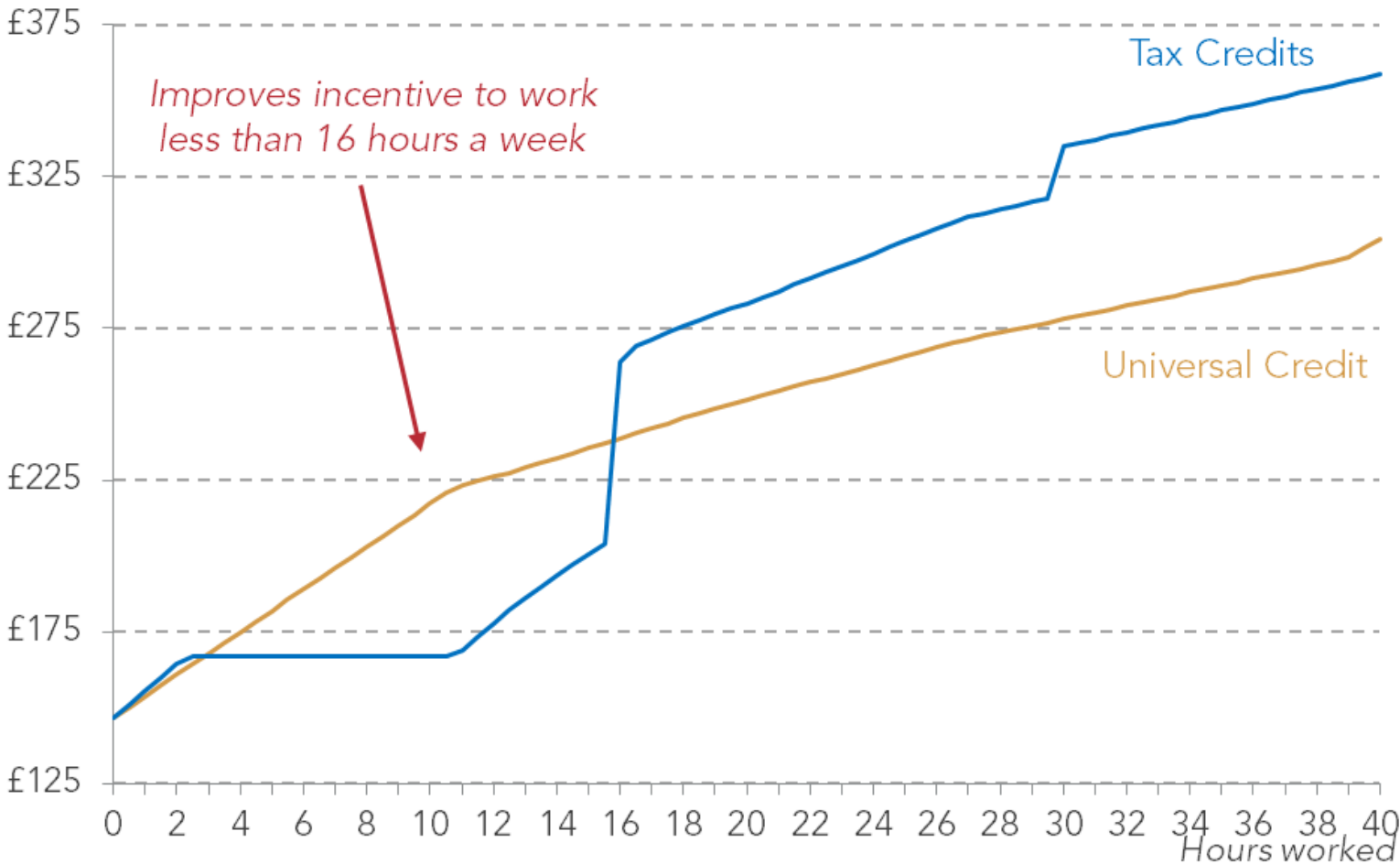
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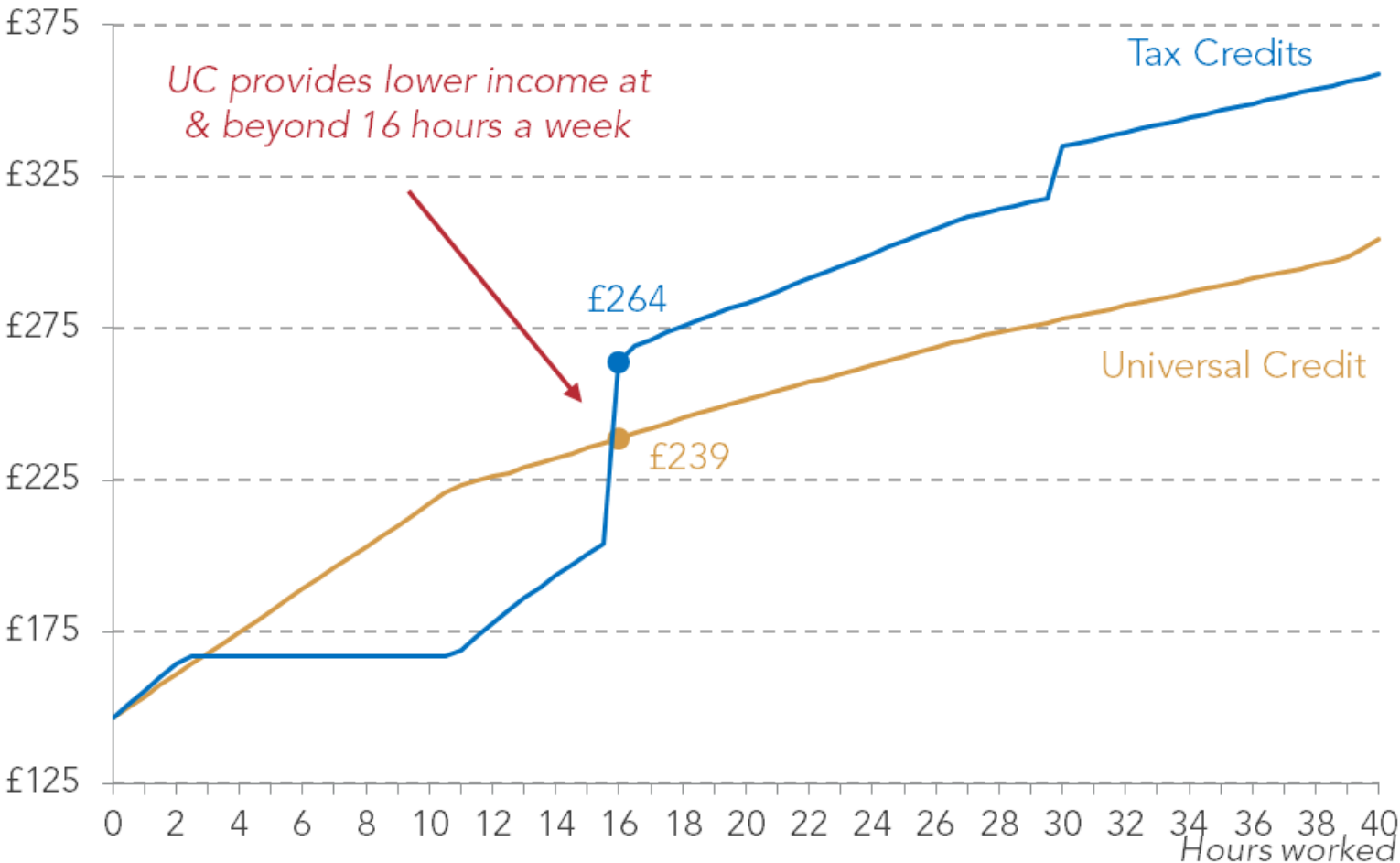
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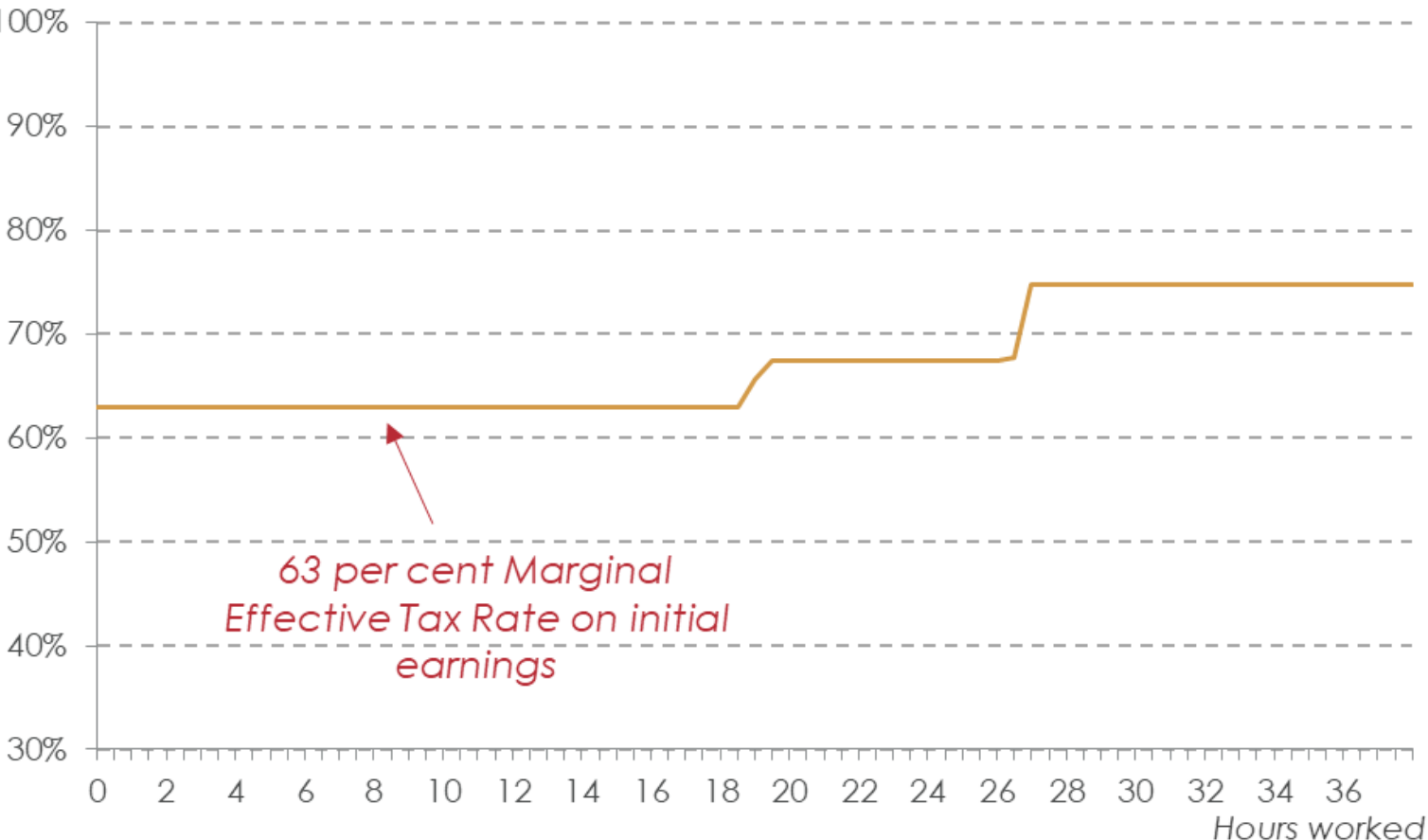
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Very highest marginal effective tax rates have been removed

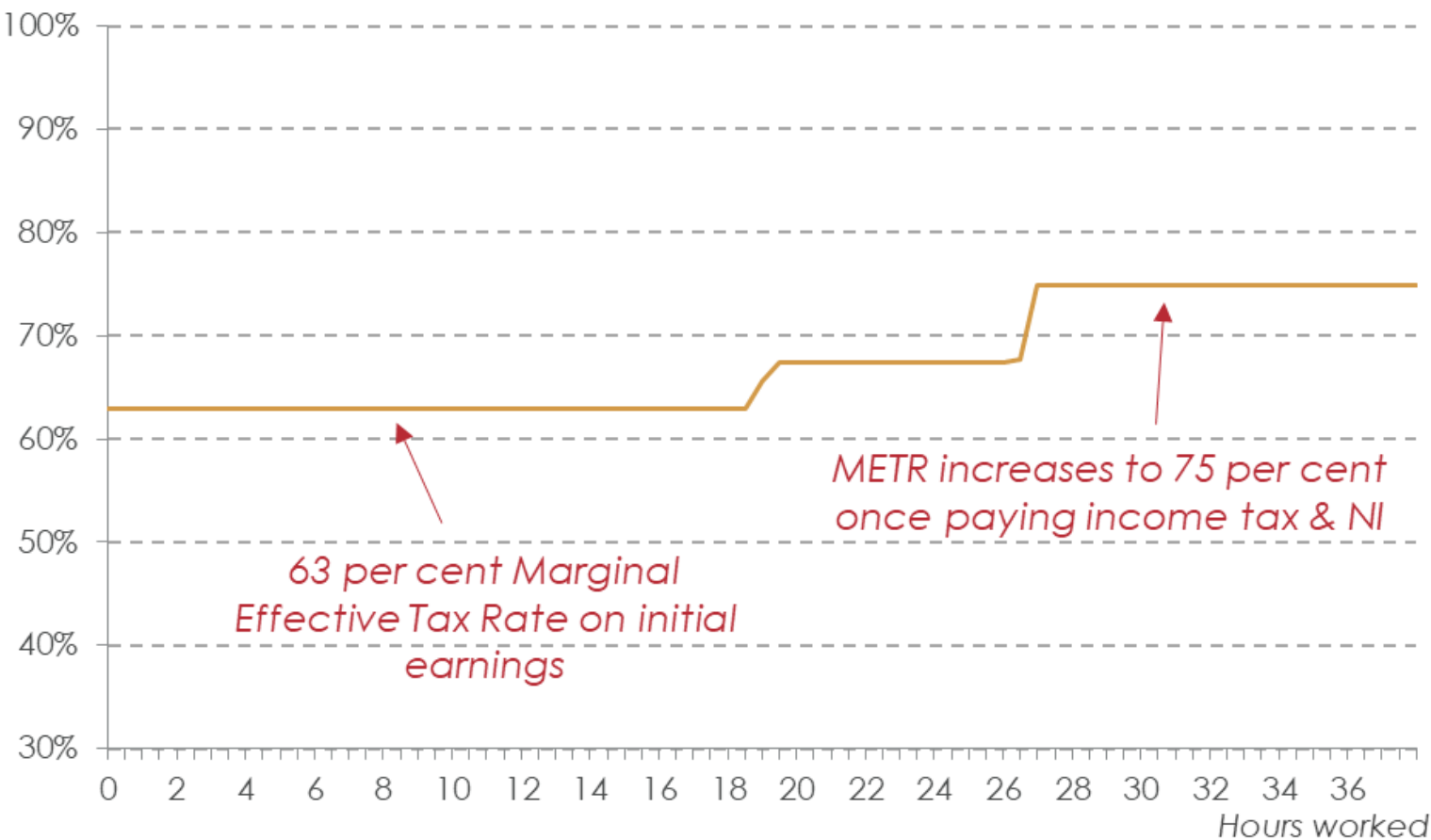
Marginal effective tax rate: Second earner, in couple where partner works full-time, renting and with two children aged 1 and 4



Source: RF analysis using RF microsimulation model

But remain relatively high for taxpayers

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Perhaps most radical element is introduction of *in-work conditionality*



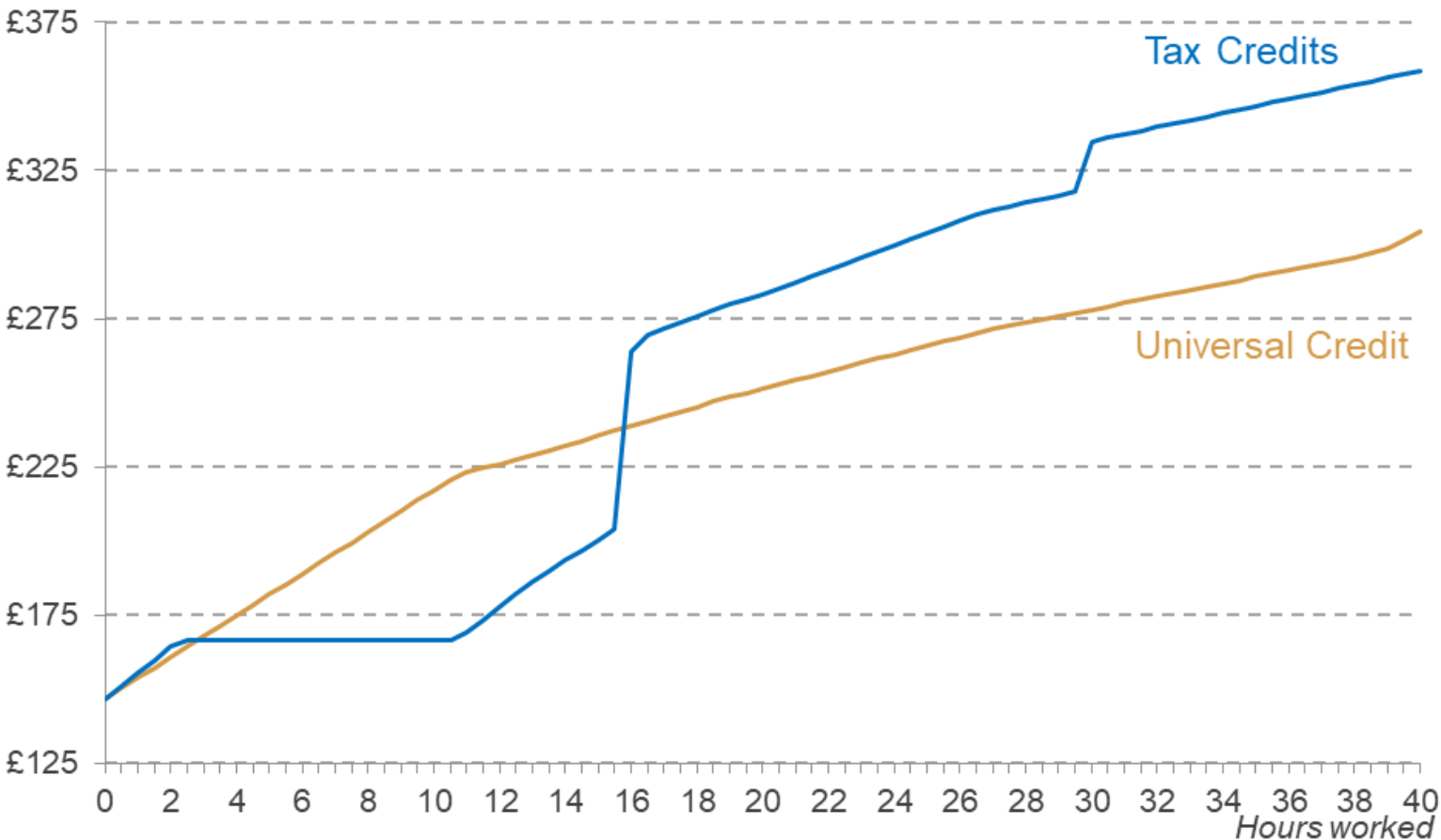


Perhaps most radical element is introduction of *in-work conditionality*, but so far scope is limited

- Earn equivalent of 35 hours a week at wage floor (now up to £252 a week)
- Reduced hours for main carer of child age 3 to 13 to fit with school/childcare hours
- No in-work requirements for:
 - Main carer with youngest child under 3 (but 16 hrs expected if in work)
 - Full-time carer of severely disabled person
 - People with work-related activity limiting illness/disability
- Couples share their combined earnings requirements

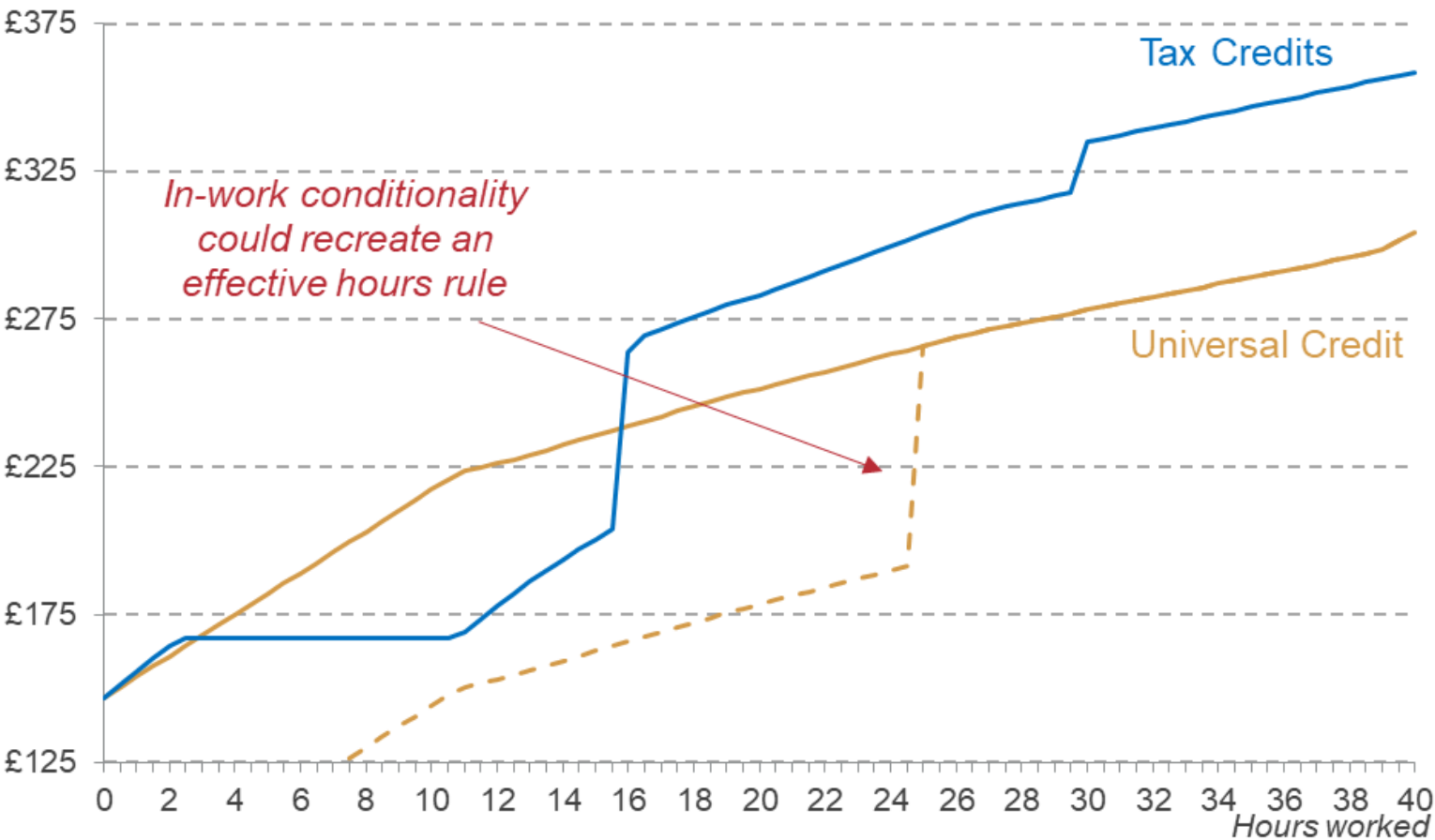
Interaction with financial incentives could re-introduce cliff-edges

Net income with increasing hours of work: Single parent, homeowner, one child
£ per week



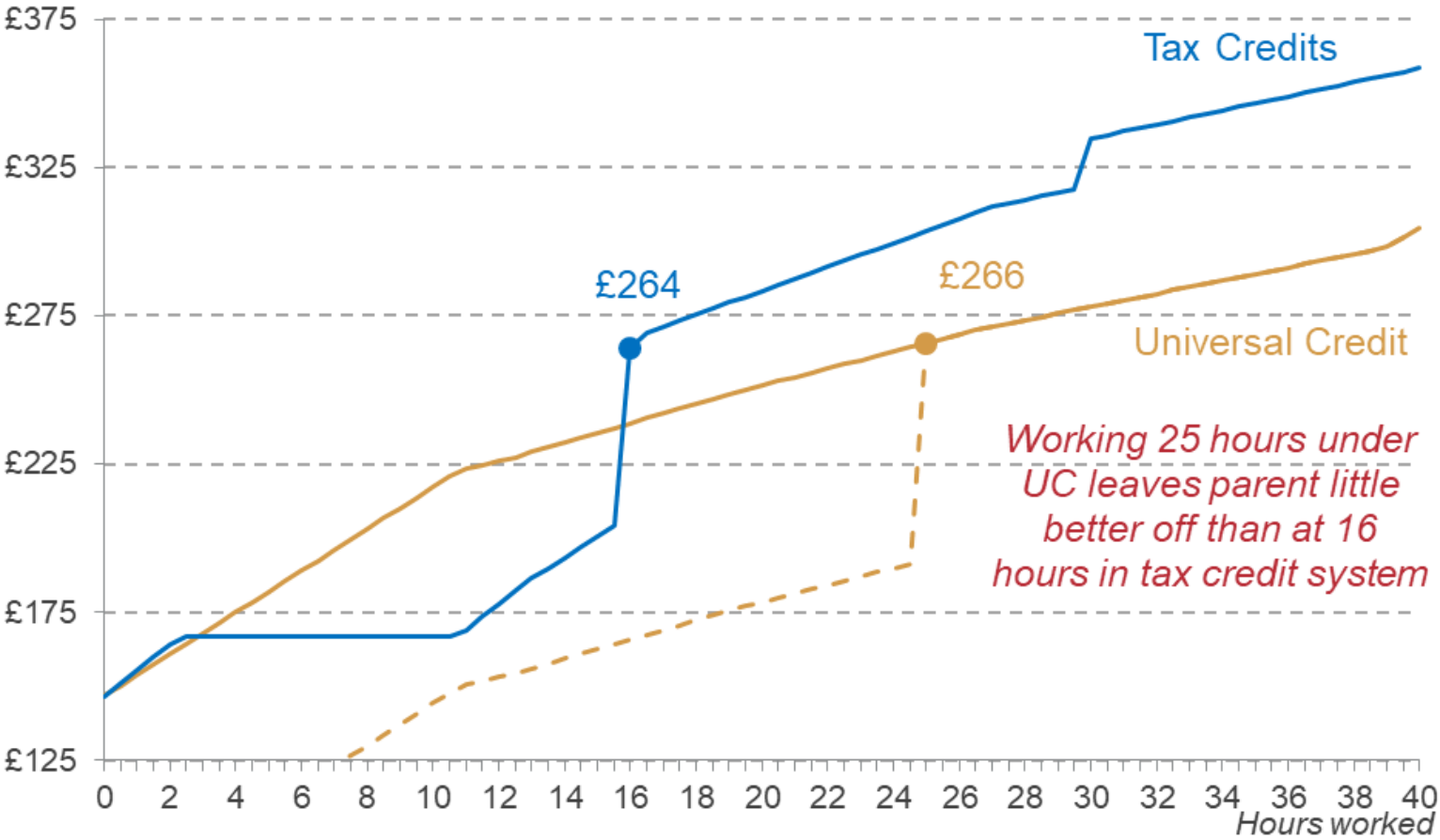
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Working 25 hours under UC leaves parent little better off than at 16 hours in tax credit system

Source: RF analysis using RF microsimulation model



DWP are engaging in limited In-Work Progression trials...

- Trial of 15,000 claimants lasting 12 months
- Three groups for trial:
 - meet with work coach every 8 weeks with mandatory work search reviews
 - meet with work coach every 2 weeks with mandatory work search reviews
 - ‘Light touch’: telephone conversation at start of claim and after 8 weeks with voluntary actions agreed



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- Additional funding for trials at end of decade



DWP are engaging in limited In-Work Progression trials...with plans to do more later in the decade...but could still do much more

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- Test lower taper rates for different groups
- Trial time-limited conditional progression payments

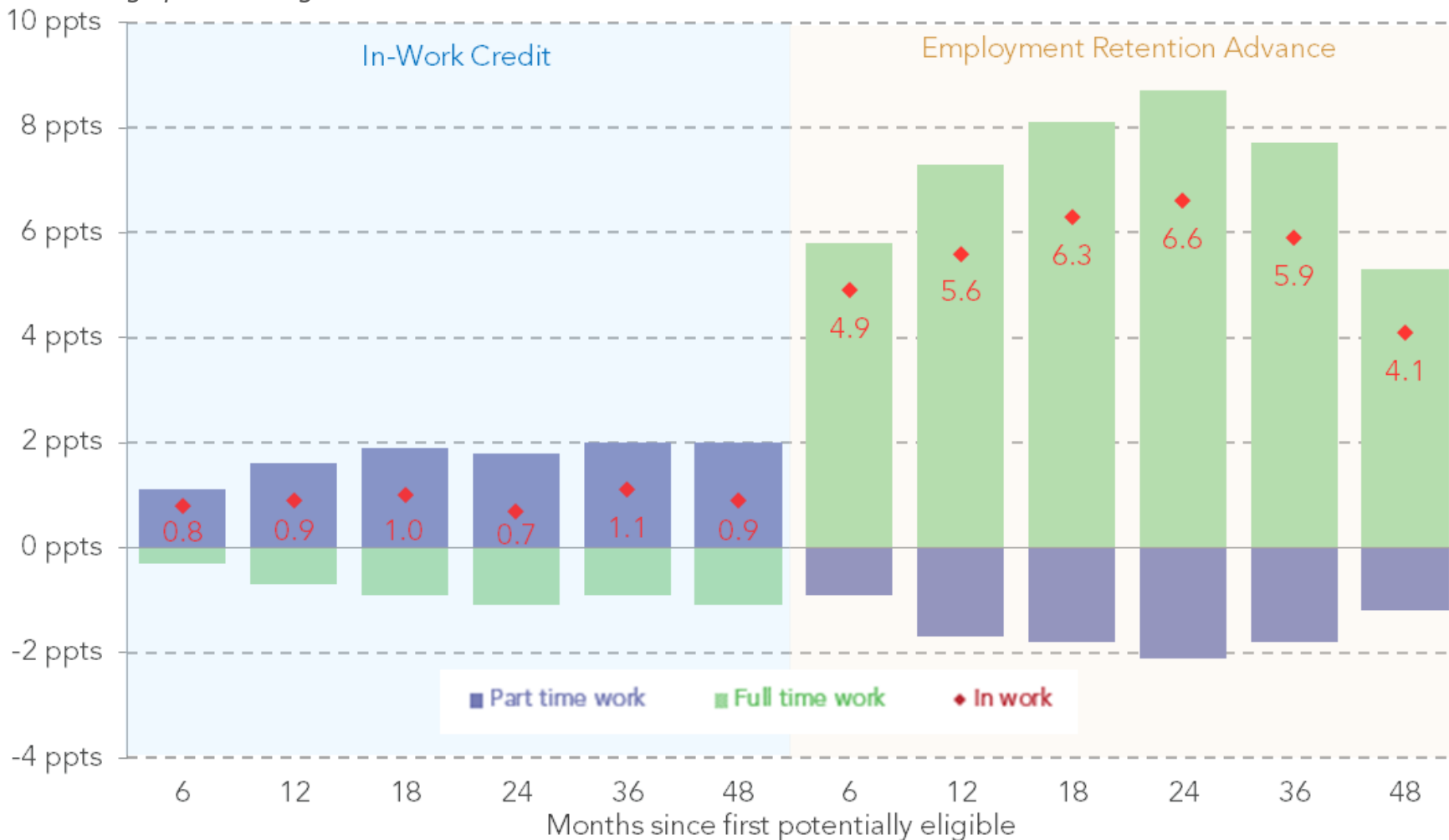
Experiments of the past offer important lessons for future design



Experiments of the past offer important lessons for future design

Effect of measure on probability of being in work, full-time or part-time, by months since first eligible

Percentage point change



@resfoundation

Why might ERA have had such an impact?

- Can this be explained?
 - Awareness of ERA higher?
 - ERA recipients had other support?
 - F/T work better than P/T for retention?
- Financial incentives may have role to play, but:
 - Expensive (although raise incomes)
 - ERA aimed at work-ready group on NDLP
 - IWC much less effective as retention tool
- What about further trial, taking best bits of ERA and applying to wider group?



Conclusion: Progression and low pay

- Apparent tightening of labour market may start to add upward pressure on pay
- But UK's entrenched low pay problem unlikely to just go away
- Scope for expansion in government activity
 - Higher minimum wage only helps lowest paid
 - Further improve financial incentives in UC
 - Scale up development of practical in-work support