

# Tackling child poverty when parents cannot work

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**An overview and analysis of current policy approaches that support incomes of parents who are unable to work; focusing on maternity, short-term sickness and unemployment and on issues surrounding disability and caring.**

The report describes the current strengths and weaknesses in policy provision to combat child poverty when parental employment is constrained and is a timely analysis given the approaching 2010 deadline for halving child poverty from 1999 levels. The analysis uses original and unique tax-benefit modelling of current provision across a range of low-paid and out-of-work family profiles.

The main contents of the report are:

- An introductory overview of the policy trade-offs involved in determining ability and inability to work
- Analysis of current provisions for maternity and how far it protects families against child poverty
- Analysis of the current provisions for short-term sickness and periods 'between jobs' that are relevant to most low-paid parents, particularly those with constrained employment from ill health and or disability
- Analysis of current provisions for those parents with limitations of their capacity to work, on those with disabilities and parents who care for disabled partners or children

The report concludes with a series of policy recommendations and options.

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This report identifies a series of problems for policy-makers in measuring and responding to inability to work. These problems are seen as heightened for those who are low skilled where the trade-offs between work incentives and security of income are difficult to resolve. Three areas are identified where these problems and trade-offs may interact with child poverty. The first area is maternity, the second is in interruptions in low-paid work that are more likely to occur for low-paid workers with ill health and disability, and the third are the interwoven issues of disability, capacity to work and caring. The published evidence on incidence is assessed and then tax-benefit models are used to show how the current packages of benefits and tax credits relate to child poverty. This approach means that the report is primarily illustrative in approach and it makes no attempt to properly quantify remedial policy responses.

## Key findings

- At birth child poverty is most successfully avoided in families where the mother receives Statutory Maternity Pay or Maternity Allowance. However, coverage by these benefits is not universal and the risk of child poverty for families with low or no pay that fall outside Statutory Maternity Pay and Maternity Allowance provision is high.
  - There is a structural underlying risk of increased unemployment with low pay that disproportionately affects those low paid with ill health. The low levels of out-of-work benefits mean that child poverty is assured for low-paid families who have periods between jobs.
  - Statutory Sick Pay for low-paid working parents is not at a level that prevents child poverty when sickness occurs in work. The means-tested system of tax credits and Housing and Council
- Tax Benefits are not set up to respond quickly or adequately enough to prevent child poverty.
- The new Employment Support Allowance appears to enable families to avoid child poverty when it is paid with the highest support component. However, the effects of the implementation of Employment Support Allowance, in particular in regard to lone parents with older children who will lose entitlement to Income Support in 2008, are unknown and potentially important for child poverty.
  - The presence of self-reported disability is linked to one-third of all child poverty. However, coverage by disability benefits for this group of poor families is low. Disability Living Allowance when paid at middle and higher rates provides an illusion of poverty reduction because its generosity is not discounted to take into account the extra costs of disability when measuring poverty.
  - Benefits for full-time carers are too low to prevent child poverty.

The report provides a widely drawn and insightful analysis that addresses core issues in the inherent difficulty in operationalising policy based on a distinction between ‘work for those that can and security for those that cannot’. It highlights empirical problems in measuring coverage of some benefits, particularly those that are operated by employers, and problems in the underlying measurement of disability and poverty. The authors make clear that their analysis of the performance of the current system of benefits and tax credits in poverty prevention is based on illustrative tax-benefit models and recommendations are made for further and better analysis using survey data.

## Ways forward

- Consideration of extended coverage for maternity benefits for the first 12 months to all births and its costs and benefits.
- Consideration of better income smoothing provisions for short-term unemployment and modelling of such provision and its costs and benefits.
- Consideration of raising Statutory Sick Pay levels and modelling of such provision and its costs and benefits.
- Full estimation of the impact of Employment Support Allowance on child poverty.
- Re-estimation of current child poverty profiles to take into account the costs of disability in equivalisation. Modelling current take-up and options for improved coverage of disability provision for low-level disability.
- Consideration of improved rates for Carer's Allowance and its costs and benefits.

The implications of rethinking the relationship between employment, the ability to work and child poverty are considerable and involve difficult trade-offs for policy-makers. There are underlying structural problems in the overall benefit structure and complexity that are beyond this report but that particularly affect those with ill health and disabilities and reconciling employment. The suggestions put forward allow an incremental approach that can build to a more comprehensive reconciliation of some of the dilemmas in a way that allows cross-party consensus on the issues of full-time caring for the youngest children and for those with severe disabilities. Trade-offs based on the margins of employment for those with low skills and problems of ill health and or disability are more problematic and may require tough decisions and a relaxation of some of the rhetorical distinction between work and non-work.

The phrase ‘inability to work’ is in many ways problematic. Its main strength lies in the fact that it directly addresses the fundamental division of approach in current welfare reform, ‘work for those that can, security for those that cannot’ (DSS, 1998). However, there is a danger that the underlying complexity of the trade-offs that face both policy-makers and parents who are on the margins of employability is not best illuminated by a simplistic division of ‘able’ or ‘unable’.

## Defining and distinguishing ability and inability

In many ways the phrase ‘unable to work’ has become unduly loaded and problematic in current policy thinking.

First, ‘ability or inability to work’ is not solely based on the characteristics of individuals themselves. The emphasis on supply-side incentives and behavioural problems tends to downplay inherent problems in employment demand. The labour market is not a neutral homogeneous institution but selects people and is additionally subject to cyclical fluctuation, as we are experiencing in 2008. This means:

- that overall labour market conditions are important (a tight labour market will be less selective but not unselective and a weak labour market can be more selective); and
- that some *jobs* have characteristics that affect labour market participation. Higher probabilities of leaving work exist in part-time low paid jobs for lone parents (Evans, *et al.*, 2004; Yeo, 2007) and there are a range of jobs that are clearly associated with poor conditions and the ‘low-pay, no-pay’ phenomenon (Stewart, 1999).

When we turn to look at the characteristics of individuals, ability and inability to work are not distinct states in a simple dichotomy. Conditions that give rise to ability or inability to work are often

not stable states, ‘over a seven year period, as many as one in four experience some limitation, of whom only ten per cent are disabled throughout’ and on those with mental ill health ‘just one in ten who begin a spell are still ill after six years, thought many more have repeat spells. Intermittent disability of this kind is very common – nearly one-third of the sample experienced more than one spell of mental ill health...’ (Burchardt, 2000, pp. 24–5).

Third, characteristics that relate to ‘inability to work’ should not be taken in isolation as the employability of any individual depends in part on their underlying skills and qualifications and the value of the work they can perform. Two well-known individuals illustrate these rather well: Professor Stephen Hawkin has a progressive illness with severe debilitating effects and continues employment as a world leading physicist; Nicola Horlick juggled a successful career in the upper echelons of merchant banking in the City of London at the same time as having several young children. Both have characteristics that would be associated with being ‘unable to work’ but the same characteristics for two low-paid and low-skilled doppelgangers would lead to an extremely low probability of employment.

The underlying selection effects that surround disability and employment should also be taken into account when considering the impact and incidence of disability and its relationship to employment. In the words of McKay and Atkinson, ‘People from poorer backgrounds, having achieved fewer qualifications, are more likely than others (better-qualified, less poor family backgrounds) to become disabled. This means there is a danger of attributing to “disability” results that are more the result of these prior, pre-existing factors’ (2007, p. 32).

Fourth, programme design and implementation produce constraints. Finn, *et al.* (2008) detail problems and transaction costs in their recent report. Complexity and high transaction costs characterise the mix of programmes that face low-paid parents and employment. These influence

up-take of both employment and of in-work benefits and tax credits, all of which are crucial to successfully combating child poverty. However, it is important to stress that the impact of such costs is greater because they increase the perception of risk for a group who are already more risk-averse than the general population who have more resources to smooth risk events.

Fifth, the family and household circumstances of those with health and disability constraints are crucial. Where one parent in a couple faces severe constraints on employment it can affect the employment of the other partner and vice versa. The evidence on the effect of high effective marginal tax rates on second earner job participation is now well established and the link between small marginal monetary gains from employment alongside other constraints on work can combine to make 'inability' a question that includes incentives. However, this area means that there is a real potential overlap with the consideration of 'child poverty in work' by Peter Kenway (2008) of the New Policy Institute, another of the Joseph Rowntree Foundation's reports for 'Eradicating child poverty: the role of key policy areas'.

Finally, policy-makers rely on the combination of a growing economy and programme implementation to roll out over time and cascade down through the workless population, gradually drawing in more and more people who are less employable. The potential aggregate effect of this approach of waiting for the tide to lift all boats is considerable in terms of child poverty. Those furthest from the labour market and with greatest constraints will be the last group to gain. Time out of the labour market is a factor in and of itself that erodes employability but is additionally associated with worsening health and thus the link between ill health and non-employment overlaps in a dynamic and potentially deteriorating way. If one thinks of employment as a probability then this worsens over time for a group that started out with pretty poor chances. *Waiting for them to be caught up by the tide of rising overall employment rates may not be an appropriate underpinning assumption for reducing child poverty if the poverty target is a short to medium-term one and across cyclical economic changes.*

## Employment policy and ability to work

This approach connects to other fundamental assumptions of employment policy. A 'low probability of employment' is not recognised by policy-makers as a relevant criterion for determining 'inability to work'. A supply-side approach based on individual behaviour and incentives separates the assumptions of capacity to do and ability to find a job. This approach is common across all unemployment and incapacity systems internationally but other systems differ in (a) the relaxation of this assumption to deal with cyclical factors and particular cohorts; and (b) provisions that accompany the supply-side services of job-search and job readiness, especially in the provision of occupational rehabilitation services and public employment. These are issues that are discussed in more detail by Simmonds and Bivand in their accompanying report for the Joseph Rowntree Foundation on employment, but what is clear is that if we want to match Scandinavian levels of child poverty as the best performing peer countries for child poverty, then we may have to provide both more and better quality of employment services and pay greater attention to demand factors for parents with reduced ability to work.

There is a huge and difficult set of trade-offs for policy-makers to get right. Being out of the labour market reduces the probability of employment to zero and thus it is legitimate *up to a point* to demand job-search because a probability of zero is worse than 'near zero' for those at the margins of employability through ill health, poor skills and long-term inactivity. It is also crucial to have good job-entry incentives and to improve those at the margins in order to encourage people to look for and enter work. However, setting up benefit definitions that distinguish being 'unable and able' to work in a static way and providing different benefits also leads to incentives that relate to maintaining benefit status and income level. It is hugely difficult to get the trade-off right between higher benefit levels out of work to reflect inability to work and sufficiently low benefit rates out of work to ensure work pays. At the moment this trade-off is perhaps too based on the combination of in-work financial rewards from tax credits and



the push of job-search and benefit conditionality when out of work. These may be necessary but not sufficient elements of policy in themselves if secure opportunities for betterment do not outweigh the risks of changing status and behaviour. Any behavioural effects that follow from 'rewards' for being labelled unable to work need to be seen in a wider set of constraints that arise from a poor set of opportunity choices, low probability of work and the huge hassle of changing status in an over-bureaucratized system. Such behavioural effects probably explain little *on their own* for many at the margins of ability to work.

The introduction of Employment Support Allowance in October 2008 will replace Incapacity Benefit and its means-tested equivalents and will be a fundamental change in treatment of 'ability to work' and is crucial for consideration. Employment Support Allowance will be for adults. It is too early to think about changing practice before the strengths and weaknesses of this new system are apparent. Employment Support Allowance is for 'working-age' people. The crucial question for child poverty is thus how will it affect parents and thus children and child poverty? Part of the answer lies in the restructured levels of support from Employment Support Allowance for parents. Out-of-work adults have fared poorly since 1997 because transfers for *children* have been the sole focus of increased generosity and these have pivoted on the in-work/out-of-work distinction. In general the more generous rates for children benefits for those who are not in work are confounded by the relative decline of parents' benefits in combating relative poverty for those that not working. Employment Support Allowance will have to perform on the two big trade-offs – of providing incentives to work for those 'that can' and providing 'security' for those that cannot. 'Security' for families with children we presume means the absence of child poverty if joined-up policy making has any meaning whatsoever.

Current policy is framed so that there are basically only two ways for incomes for families with children to cross the poverty line: one is for parents to have earnings, although this is a necessary but not sufficient condition; and the second is for the family to have disabled members who receive 'generous' extra-cost benefits such as Disability

Living Allowance. The inadequacies and limitations of these two methods form core themes of the remainder of this report.

## The report

Our approach is mostly a quantitative one to examine three areas of definitions of 'inability' to work that are based on the set of constraints we have already discussed. These form the main themes of this report and are: maternity and early infancy; interruptions in employment for sickness and short-term frictional unemployment,<sup>1</sup> and incapacity for work disability and caring. Our quantitative analysis is limited to analysis of published material and the use of tax-benefit model calculations. We do not undertake new secondary micro-analysis of surveys nor employ any micro-simulation to estimate costs and revenue implications. However, we do make recommendations for such work. Additionally, we write for a policy-literate audience and do not outline details of entitlement to or calculation of benefits, taxes and tax credits. Such details can be obtained from the websites of the government departments and from the excellent *Welfare Benefits and Tax Credits Handbook* published by Child Poverty Action Group (CPAG).



# 1 Pregnancy, maternity and early infancy

Late pregnancy and the first 12 months of infancy are periods when mothers are most unable to work. There are three main policy reasons for intervention during maternity and early infancy. First, *promoting child development*, discussed fully by Waldfogel (2006). Second, the income shock of pregnancy and birth requires *income smoothing and ensuring continuity of maternal employment*. Maternity has existed as a 'risk' for social insurance since 1909 but the current pattern of maternity provision has evolved as a *combination of income-maintenance programmes and employment rights* and is backed up with safety-net social assistance. This means that current provisions are dominated by *occupational welfare* delivered by employers alongside different state-regulated minima in and out of work. Third, the arrival of children poses a *lifetime poverty risk*, both to increase needs (an extra mouth to feed and many more new specific expenses) and to decrease family earnings as mothers have to take time away from work. Policy responses are based on (a) direct costs of children and (b) their indirect or opportunity costs, highest during their early years when parental (usually maternal) earnings are lowered by the time needed to provide essential physical and emotional care. We leave discussions of older infants and the issue of childcare to Waldfogel and Garnham (2008), another report in Joseph Rowntree Foundation's series 'Eradicating child poverty: the role of key policy areas'.

## Evidence of child poverty related to maternity and early infancy

This section reviews published data sources and the most relevant and recent analytical literature.

Households Below Average Income (HBAI) series provide published tables that show shares and rates of poverty by age of youngest child (in Tables 4.4 and 4.6, DWP, 2008b), and this evidence is consistently available over recent years. However,

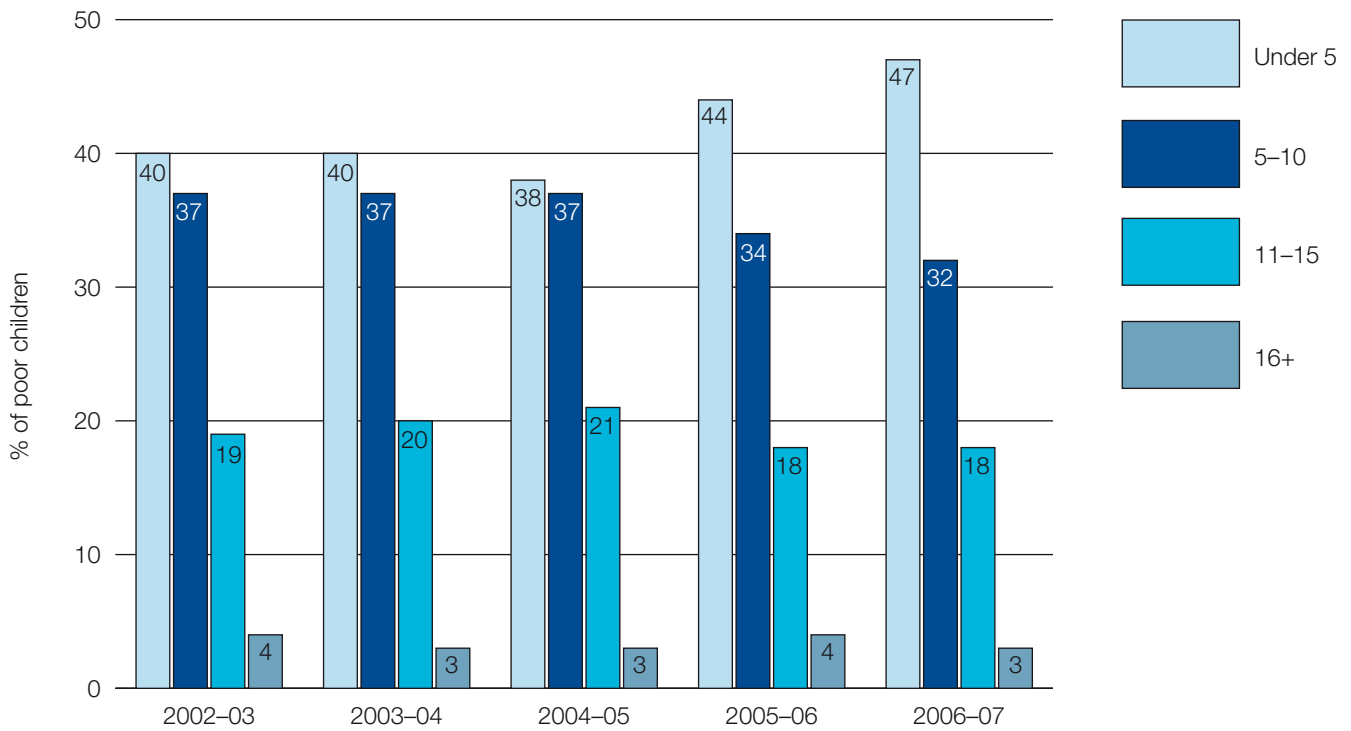
published tables band the age of youngest child so that the years of 0–5 appear as a single statistic. Unpublished data from the Department for Work and Pensions (DWP), however, enables us to more clearly show the shares and risk of child poverty within the 0–5 age group.

Figure 1 shows a time series of the shares of child poverty by age of youngest child from 2002–03 using published tables. The percentage of poverty attributable to the youngest age group (0–5 inclusive) has risen from 40% to 47% while the shares for all older age groups of children have declined. Figure 2 shows the single year shares of child poverty for 2005–06 for the 0–5 group and for the remainder. Twelve per cent of child poverty (after housing costs, or AHC) occurs in households with children in their first year of life, 11% for those with children aged one.

Figure 3 shows the *risks* of child poverty, the percentage of groups who are in poverty, by age of youngest child from 2002–03. Risks of child poverty have obviously grown overall over the period. However, Figure 3 also suggests that the relative risk of poverty for those households with younger children has grown over time. In the latter years the ranking of risk by age of child has become clearer. This means that the overall risk of child poverty has grown from 21% to 36% for households with children aged under five and that these households now have clearer higher risk than households with older children.

Figure 4 shows the disaggregated risk profile for households with children aged 0–5 for 2005/06. The position on risk of poverty for households with children aged 0–5 is not clearly linear with age. There is apparent higher risk for very young children but the highest risk is for families with five-year-olds. This may reflect the relative effects of both birth and schooling on maternal employment as outlined by Brewer and Paull (2006), but also probably reflects a range of constraints on employment beyond simple age of youngest child and may reflect family

Figure 1: Shares of child poverty by age of youngest child in family



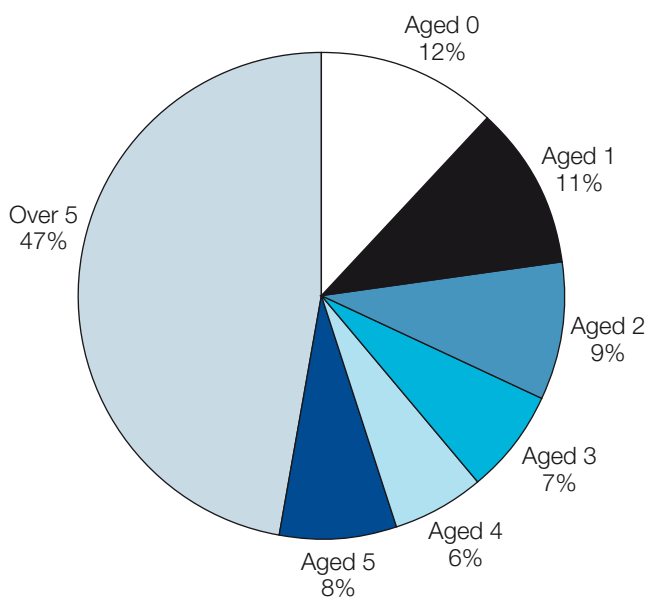
Note: Sixty per cent of median equivalised income AHC.  
Source: DWP (2008b, Table 4.4 and previous versions)

size, for instance, or other multiplying effects of disadvantage (Berthoud, 2003).

Such aggregate evidence from HBAI on risk and shares of child poverty for the youngest children

is not really sufficient to draw firm conclusions about causes of poverty for those households with youngest children. More analysis is needed of the composition of those households with babies and infants to establish what other characteristics they have and their income and employment profiles.

Figure 2: Shares of child poverty for households with youngest child aged 0-5 (2005-06)

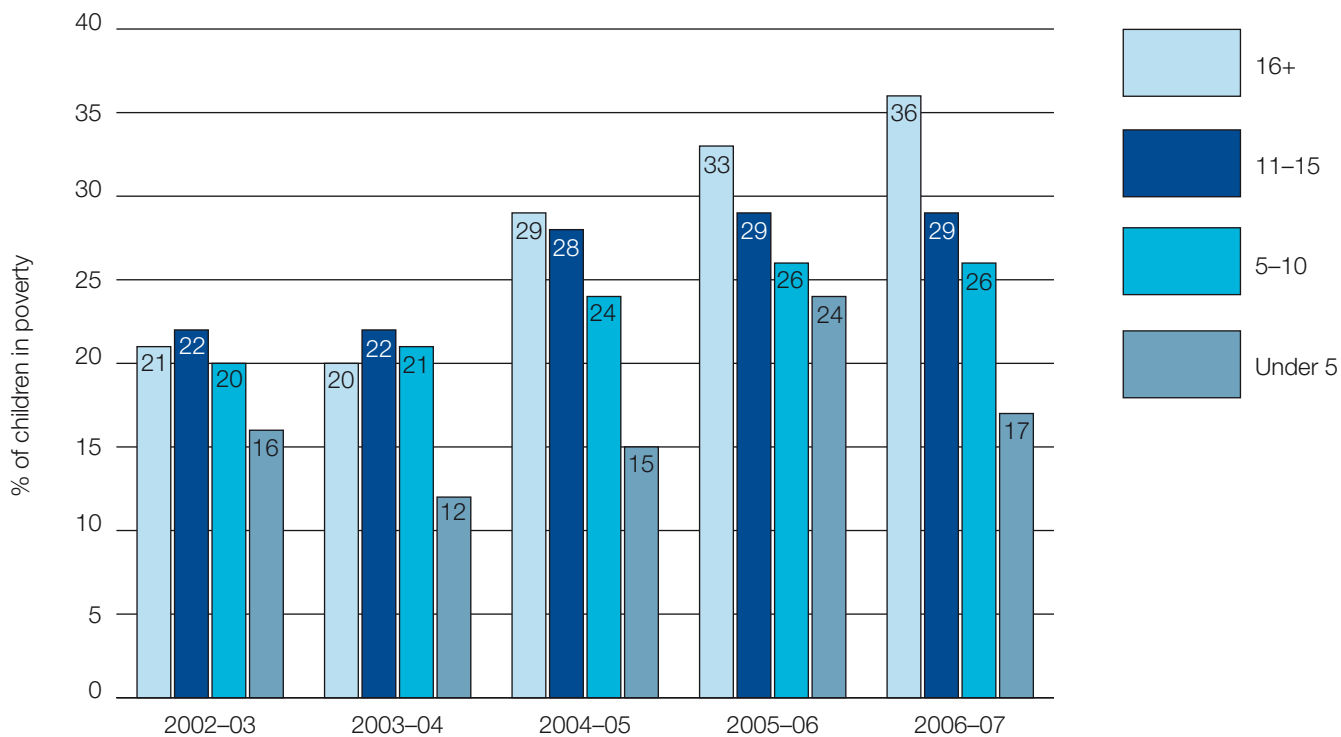


Note: Sixty per cent of median equivalised income AHC.  
Source: DWP unpublished HBAI data released to authors

### Longitudinal data

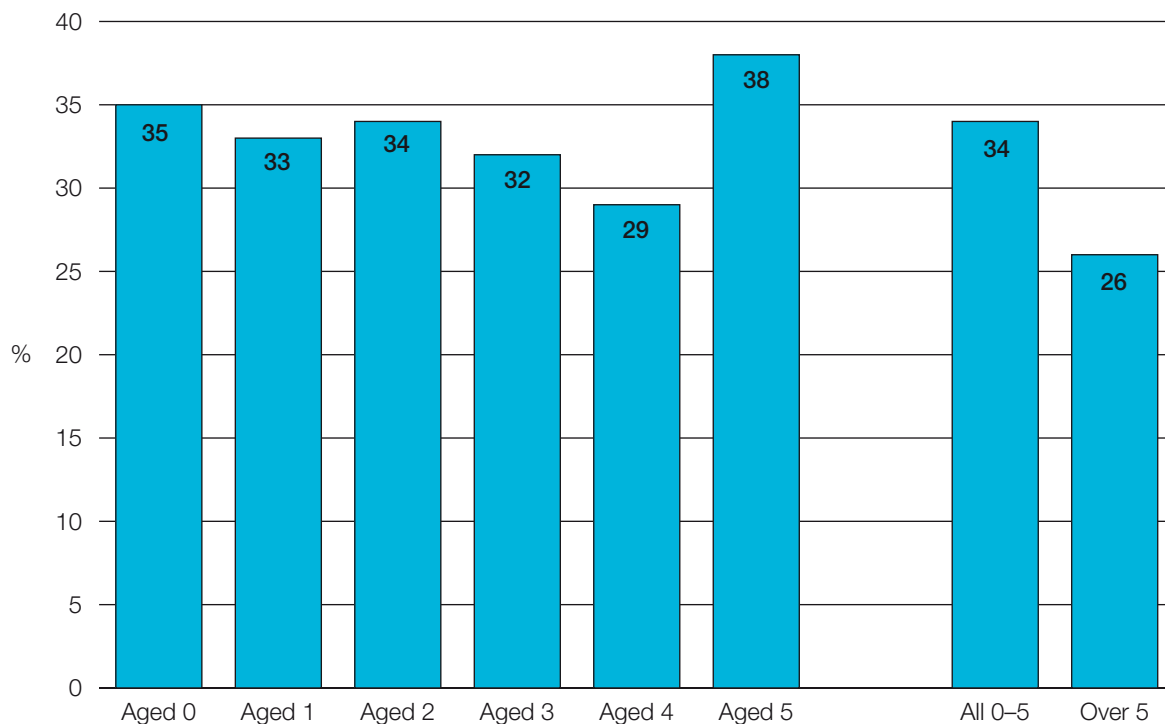
Published tables from the Family and Children Survey do not disaggregate families with children below those with youngest child aged 0-4 (Hoxhallari, et al., 2007, Tables 2.1-2.6 and 5.1-5.6). The British Household Panel Survey has been used to study female and maternal employment following birth and the impact on birth on risk of poverty. However, these studies are now superseded by recent research using both British Household Panel Survey and Family and Children Survey by Brewer and Paull (2006), who considered maternal employment around both birth and primary school entry periods and placed their research in the existing literature on post-birth maternal employment. Their research focused on employment characteristics – hours and wages primarily – and on the longer-term impacts of

Figure 3: Risk of child poverty by age of youngest child in family



Note: Sixty per cent of median equivalised income AHC.  
 Source: DWP (2008b, Table 4.4 and previous versions)

Figure 4: Risk of child poverty for households with youngest child aged 0-5 (2005-06)



Note: Sixty per cent of median equivalised income AHC.  
 Source: Unpublished data released to authors by DWP

children on women's earnings profiles over the lifetime. However, given that maternal employment is a crucial factor in reducing child poverty, their results are clearly important in several ways.

First, they clearly show the difference between first births and subsequent births in understanding maternal employment. As the majority of women are employed before their first birth, one of the crucial determining factors on subsequent employment is whether they return to employment between subsequent births. This is clearly relevant to the design of maternity benefits that are linked to employment status immediately prior to birth. Women who do not return to work between their first and subsequent births will therefore receive no maternity entitlement for later births and thus their risk of poverty will be higher as they will be in single-earner low-paid couples or be non-earning lone parents.

Second, Brewer and Paull find a range of characteristics on returning to work after birth that are directly relevant to risk of poverty. Return to work is less and slower for lone parents, for those with non-working partners, for low-qualified and low-paid, and for multiple births and subsequent births. However, there are also factors that extend time out of work that are linked to job characteristics and occupational benefits – with those with longer tenure, and higher wages – and with partners with higher earnings all being able to extend periods from work after birth. These findings confirm those discussed in the specific maternity studies discussed below.

Third, Brewer and Paull found evidence that maternity pay and maternity leave assisted in labour market attachment and that evidence of a wage penalty following absence from work after birth was less than suggested in previous research. Several concerns about changes in employment post birth were identified – the increased likelihood of subsequent spells out of work and changes in level of employment.

Other sources of longitudinal data on births include the Millennium Birth Cohort and studies using these data look at births in 2000. We do not cite these studies as the evidence is now dated.

## Maternity surveys

The evidence on incomes and circumstances around the period of maternity is dominated by specific maternity surveys whose main aim is to assess the effectiveness of in-work maternity provision. There have been three specific surveys of maternity in the past 10 years in 2002, 2005 and 2007 (Hudson, *et al.*, 2004; Smeaton and Marsh, 2006; La Valle, *et al.*, 2008: forthcoming). These surveys have sampled mothers who gave birth in the previous 12–18 months. The three surveys are not directly comparable because of sampling differences; however, across the surveys there is consistent evidence about differences between low and high-paid women in maternity benefits and leave. The Hudson, *et al.* survey was part of the literature considered by Brewer and Paull, but the 2005 and 2007 surveys provide new insights into the subsequent extension of maternity (and paternity) rights.

The 2005 survey showed that *56% of the lowest paid mothers received no Statutory Maternity Pay/Maternity Allowance or employer's maternity provision* but that *all* mothers in the highest paid jobs received benefits, and that the highest paid received both employers' occupational maternity pay alongside Statutory Maternity Pay (Smeaton and Marsh, 2006, Table 3.2a). Maternity leave taken also differed according to pay level, with 80% of the lowest paid taking maternity leave at or less than six months (the legal minimum) and under 10% taking over one year compared to 50% and 21% respectively for the highest paid (Smeaton and Marsh, 2006, Table 3.1a). Higher entitlement to annual leave and an increased ability to accumulate paid leave in addition to maternity leave also benefited those in higher-paid occupations. The lower paid were also less likely to return to work, only 61% did so compared with 87% of the highest paid group. Some of this difference is accounted for by longer pre-birth job tenure. However, lower rates of return to work for lower-paid occupations is a long-term phenomenon and Hudson, *et al.* found similarities in differential low-paid returns when comparing 2002 results to the earlier 1996 survey (Hudson, *et al.*, 2004).

The most recent maternity survey covers the last improvements in maternity provisions but has

been delayed in publication and is not available for review (La Valle, *et al.*, 2008: forthcoming).

### Benefit and child credit statistics

No data is available on Statutory Maternity Pay benefit receipt. The availability of other DWP benefit statistics is limited at the time of writing as recent problems with data security mean there are considerable delays in the publication of latest statistical summaries. From a review of published tables, all in all, benefit and tax credit statistics provide very little ability to look specifically at maternity and infancy in any detail.

### Anti-poverty performance of maternity provision

Maternity benefits, Statutory Maternity Pay and Maternity Allowance, are linked to recent employment. This means that while the system accepts that women around the time of birth and early infancy are 'unable to work', it treats them as being employed by giving replacement benefits to make up for lost earnings. Statutory Maternity Leave is a minimum statutory right for those women who have been employed for six months and those receiving Statutory Maternity Pay and on maternity leave are still treated as being 'in-work'. Employers can provide more than the statutory minimum in terms of both maternity pay and maternity leave and this means that occupational welfare plays an important role in addition to Statutory Maternity Pay and Statutory Maternity Leave. However, the benefits of employment-based provision by their nature go to the employed and the benefits of occupational welfare disproportionately benefit those with high pay and those in the public sector.

With detailed published data unavailable and with insufficient time and resources to undertake original research using secondary analysis of micro-data, we turn to the methodology of 'model families'. This allows us to use *illustrative* examples of how programmes for maternity benefits fit into overall tax and benefit provision in 2008 for the lowest paid families and how their incomes relate to poverty. The assumptions used in all model family calculations are shown in Box 1.

Our first example explores the situation of a couple, both low paid and the arrival of their first

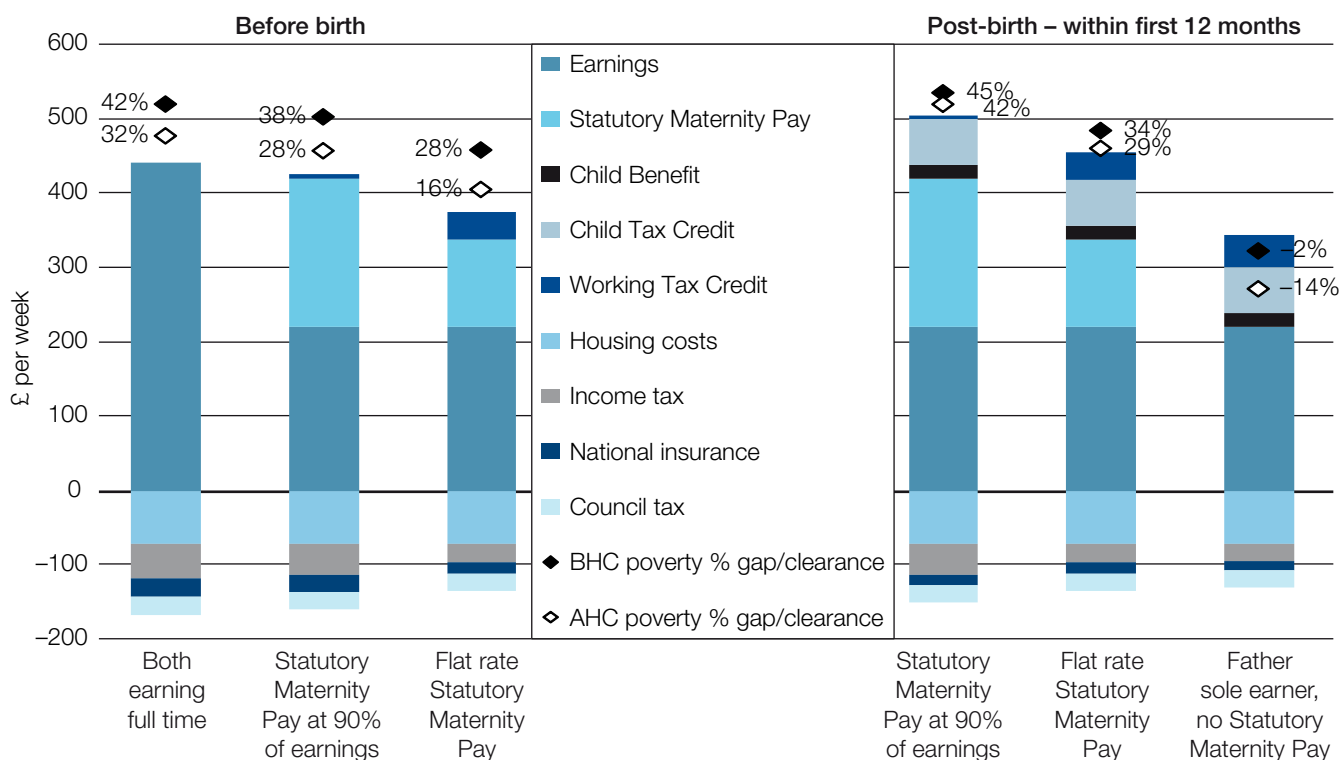
### Box 1: Model family assumptions

- Adults aged 25 or over
- National Minimum Wage: £5.52 per hour
- Housing costs: £69.86 per week – social rent and water charges
- Council Tax: £23.50 per week
- Income based on HBAI definitions using OECD equivalisation assumptions and AHC (after housing costs) income and BHC (before housing costs) income assumptions
- 2008/09 poverty line: extrapolated annual increase of 3.9% in median income since 05/06

child. Figure 5 shows the position of a couple both working 40 hours a week at the Minimum Wage up to the point where the woman starts her maternity leave. Figure 5 then shows the position before the birth of her child and after the birth of her child. Statutory Maternity Pay can begin payment for the period starting 11 weeks before the expected date of birth. However, the combination of time limits to maternity leave and the fact that the first six weeks of any Statutory Maternity Pay are paid at 90% of usual preceding earnings means that rational economic choice based on maximising income would thus be for the woman to work while pregnant until the last possible point. However, of course a woman with a difficult pregnancy or in employment that is less conducive to continuing when heavily pregnant will be likely to start maternity leave earlier. Figure 5 thus shows the position both prior to and post-birth with Statutory Maternity Pay at 90% of earnings and at the flat rate (currently £117.80 weekly).

Figure 5 shows that our model couple family are clear of poverty prior to the onset of maternity. Both working full time at the Minimum Wage gives them good poverty clearance rates of 42% BHC and

Figure 5: Couple on Minimum Wage: maternity income and poverty



Source: Authors' calculations from Lifetime Opportunities and Incentives Simulation (LOIS)

32% AHC. It follows that the first period of maternity pay – at 90% of earnings for the expectant mother – reduces their poverty clearance only slightly when prior to birth. Flat-rate Statutory Maternity Pay prior to birth reduces poverty clearance further to 28% BHC and 16% AHC. However, an important part of poverty protection in these instances comes from new entitlement to Working Tax Credit, which is notoriously under-claimed for those on low pay without children (most recent estimates suggest a take up rate of cases solely eligible for Working Tax Credit of between 21%–24%; HMRC, 2008, Table 10).

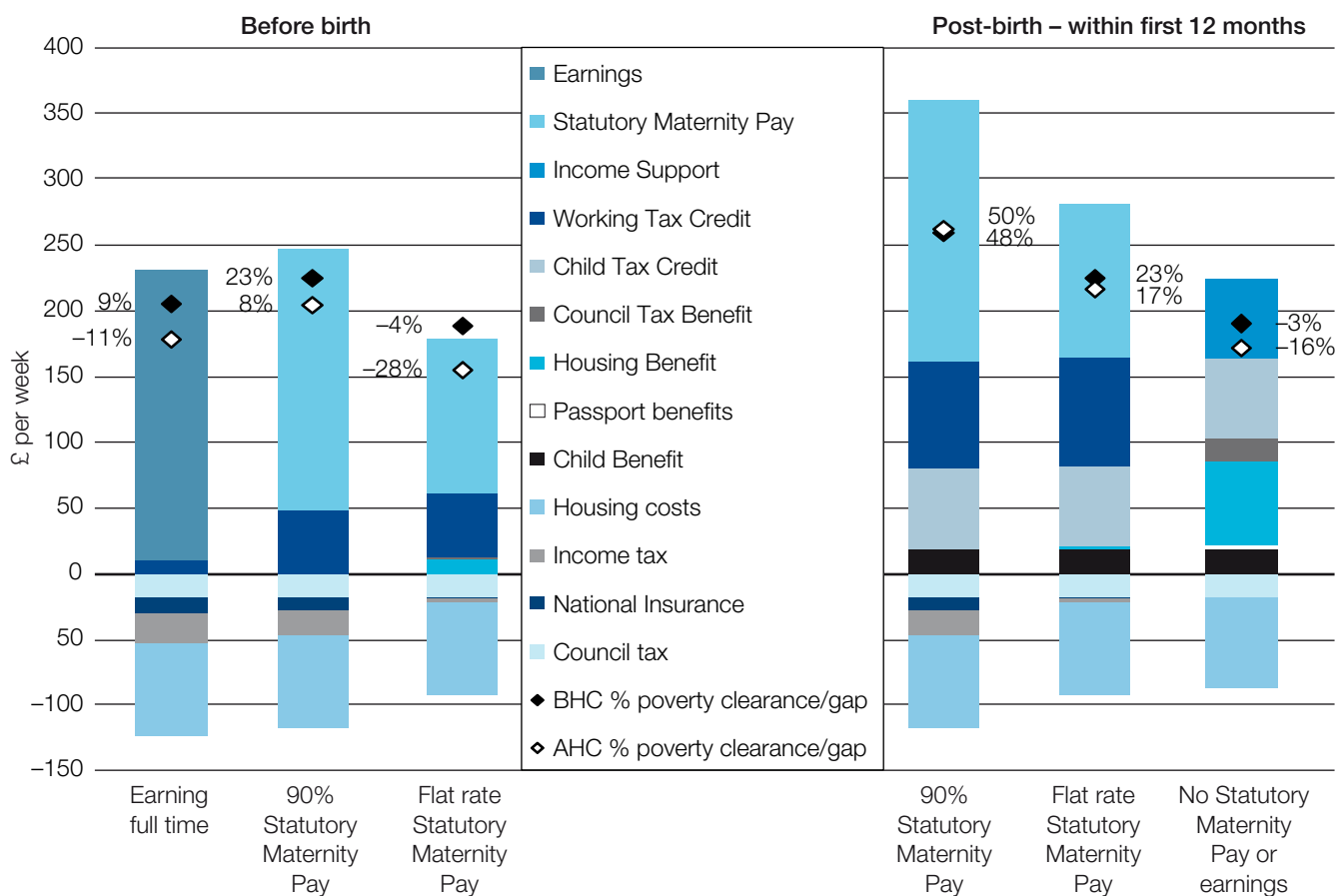
The arrival of the baby introduces new sources of income from Child Benefit and Child Tax Credit. The combination of these with Statutory Maternity Pay continues to ensure poverty clearance for the family. Indeed, when we compare pre-birth to post-birth periods, the combined effect of the arrival of the baby and revised entitlement to benefits leads to higher poverty clearance: if the mother receives 90% earnings from Statutory Maternity Pay the family have a clearance of 45% BHC and 42% AHC and clearance falls when flat-rate Statutory Maternity Pay is in payment to 34% BHC and 29% AHC. Again, this level of poverty clearance

depends on Working Tax Credit, but given that this is determined alongside Child Tax Credit and the arrival of the baby is almost certain to lead to a claim for Child Tax Credit then take-up is less of an issue. However, the family falls into poverty when flat-rate Statutory Maternity Pay ends if the mother does not return to work with poverty gaps of 2% BHC and 14% AHC. The good news is that the government are committed to extend Statutory Maternity Pay entitlement alongside Statutory Maternity Leave to 12 months in 2009. This means that, in theory, all low-paid parents in couples where the mother has a right to Statutory Maternity Pay (or Maternity Allowance paid at the same rate as flat-rate Statutory Maternity Pay) and where the father continued to work full time should not experience poverty on the birth of their first child for the first 12 months from 2009.

What is the position of a lone parent in exactly similar circumstances (save for the absence of a partner)? Figure 6 shows a similar set of model family calculations to those shown previously in Figure 5 but for a single person who becomes a lone parent for the first time after being in work. Prior to birth in late pregnancy the start of Statutory Maternity Pay at 90% of earnings will actually



Figure 6: Single person/lone parent on Minimum Wage: maternity income and poverty



Source: Authors' calculations from LOIS

increase the amount of Working Tax Credit payable which combined with decreased tax and National Insurance payments leads to increased net income and increased poverty clearance (due in part to disregards of the first £100 of Statutory Maternity Pay by tax credits). Before taking up Statutory Maternity Pay the single woman was at the margins of BHC poverty, a clearance of 9%, but AHC was in poverty with a gap of 11%. Statutory Maternity Pay at 90% of earnings leads to 23% and 8% poverty clearance for BHC and AHC poverty lines respectively. Statutory Maternity Pay at flat rate prior to birth, however, will put the pregnant woman back into poverty with gaps of 4% and 28% in BHC and AHC terms respectively. Once again, these figures are based on an assumption that Working Tax Credit is actually taken up and that it will adapt to short-term circumstances rather than carry forward the previous entitlement. It also assumes that claims for Housing Benefit and Council Tax Benefit are made as this pregnant single woman

needs to claim a complicated mix of means-tested transfers alongside her Statutory Maternity Pay to maximise her income and minimise her risk of poverty. Take-up is thus potentially a major issue for low-paid single pregnant women.

Following the birth of the child, the risk of poverty is far less. Statutory Maternity Pay at 90% of earnings and at flat rate both lift the lone parent family out of poverty. Poverty clearance is roughly 50% in both BHC and AHC terms with earnings-related Statutory Maternity Pay and is 23% BHC and 17% AHC with flat-rate Statutory Maternity Pay. Once Statutory Maternity Pay ends, then, without earnings the lone parent will fall into Income Support and will be poor once again – with gaps of 3% BHC and 16% AHC. Once again, the commitment to extend Statutory Maternity Pay to 12 months should prevent this type of family falling into poverty after 2009.

These profiles of Statutory Maternity Pay and child poverty suggest that child poverty is



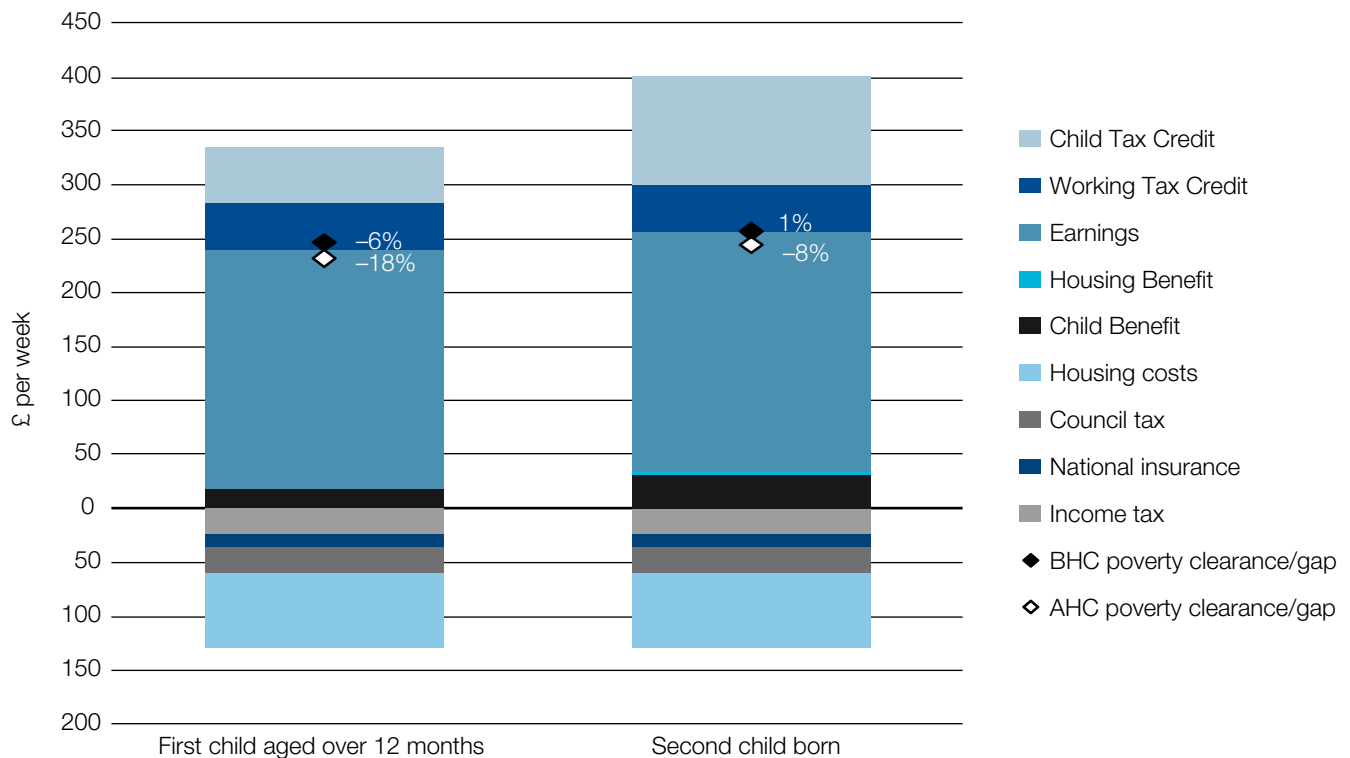
largely avoided where Statutory Maternity Pay (or Maternity Allowance) is claimed. However, much of this depends on the performance of tax credits and their ability to hit a moving target over time as income declines first to 90% of earnings and then to flat-rate benefits. It also depends on take-up – of tax credits and of Housing and Council Tax Benefits – especially for the early period of maternity prior to birth. Extending Statutory Maternity Pay and Maternity Allowance to 12 months should thus have a small but significant effect on reducing child poverty and raises an interesting empirical question: what will be the effect of the intended extension of Statutory Maternity Pay to 12 months on child poverty?

We now move to consider our second group of maternity cases – where they arise from second or subsequent births. Figure 7 shows the position of a couple with a single earner at the Minimum Wage with a child aged over 12 months followed by the position if a second child is born. Figure 5 previously showed that this couple were in poverty when their first child was under 12 months old and the mother’s Statutory Maternity Pay had run out. Their poverty increases after the child reaches 12 months of age as their Child Tax Credit

is reduced as they no longer qualify for the ‘baby element’. Their poverty gaps increase to 6% BHC and 18% AHC. A subsequent pregnancy and birth will not attract Statutory Maternity Pay or Maternity Allowance as the mother has not returned to work (although the first child can still be very young). At the arrival of the second child the family remain in poverty but their poverty gap declines once more as the new baby attracts increases Child Benefit and Child Tax Credit and once more provides a ‘baby element of tax credit. However, the family are still in or at the margins of poverty – their BHC poverty clearance is less than 1% and they have an AHC poverty gap. They will qualify for a small level of Housing Benefit that is likely not to be taken up.

This poverty profile starkly contrasts with the earlier one that received Statutory Maternity Pay or Maternity Allowance where significant poverty clearance was gained from the receipt of these benefits. Given that two young children are present and one is a baby, there is little underlying policy logic for the difference in poverty profile apart from the encouragement of work attachment. Turning to the lone parent, her position with a subsequent birth merely reinforces her position and both children will be in poverty if she has no earnings and

Figure 7: Second birth for couple with single earner at Minimum Wage



Source: Authors’ calculations from LOIS

no Statutory Maternity Pay/Maternity Allowance. Figure 6 clearly showed the position at 12 months for the first child, as in Figure 7 the situation will deteriorate as she loses the baby element for the first child and then her poverty gaps will slightly lessen with the arrival of the baby.

The final question is for those who have no recent work history when they have their first birth. Figure 6 showed the position of the lone parent without earnings who has a child after Statutory Maternity Pay has run out and this is the underlying position for those who have children when not in work. Adults' solely Income Support or Jobseeker's Allowance have a 40% poverty gap, and the income from Child Tax Credit and Child Benefit in the first year of childhood brings poverty gaps down to around 30%. Changing Income Support and Jobseeker's Allowance levels of income for Maternity Allowance would bring them close to or over the poverty line.

These model results suggest a range of further analysis and potential policy changes that are outlined in the concluding section below.

## 2 Interruptions in low-paid employment: unemployment and sickness

This section focuses on the times when even those able to work will have periods with interrupted earnings on the basis that such risks are higher for those with ill health or a disability. This section of the essay should be read alongside Peter Kenway's report for Joseph Rowntree Foundation on child poverty in employment and alongside the recent Trades Union Congress (TUC) report on vulnerable employment (TUC Commission on Vulnerable Employment, 2008).

Two fundamental risk factors come together to raise the risk of interruptions in employment for those with ill health and or disability, as mentioned in the Introduction. These are the individual characteristics (ill health, low skills, presence of young children) and job characteristics, where low-paid employment is highly associated with periods out of work per se and part-time low-paid employment more so. Much of the emphasis of ending child poverty by increasing maternal employment in part-time low-paid work (the 'one-and-a-half earner model' for couples and the part-time model for lone parents) is thus encouraging job entry into unstable job tenure. Programmes that seek to reduce child poverty by increasing parental employment must be able to adapt to jobs that have characteristics that give rise to a high likelihood of future unemployment and have poor occupational provision for those that fall sick while employed.

### Frictional/short-term unemployment

Figure 8 shows the clear occupational bias that puts low-paid people at higher risk of unemployment by showing such risk by underlying occupation (prior to unemployment) for men and women in 2007. Overall average rates were 5.7% for men and 5% for women. However, those in elementary trades, the lowest paid, had rates

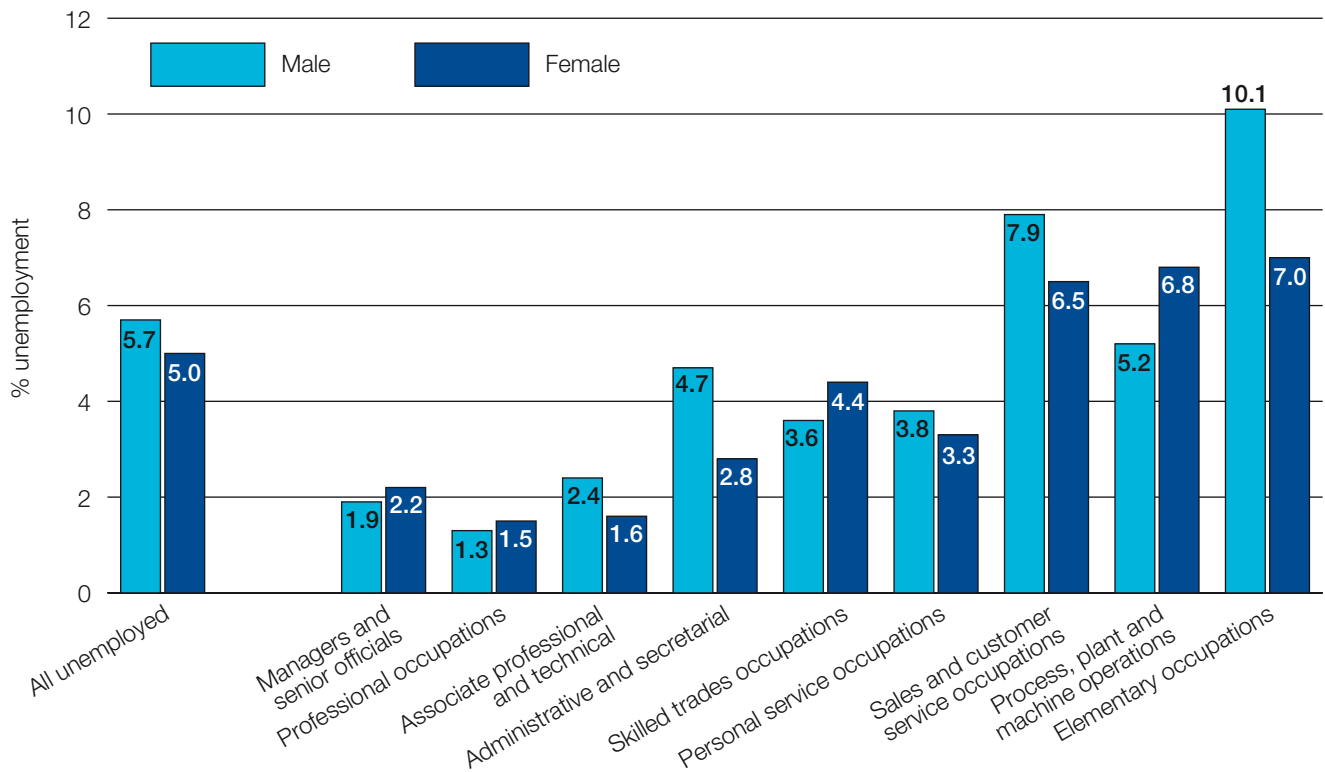
that were much higher than average, 10.1% for men and 7% for women. The differential risk of unemployment is five times higher for the low skilled compared to the lowest risk occupations.

Recent analysis of the risk of job exits for lone parents found that those who had recently entered work (a quarter of employed lone parents) and those in low-paid jobs with less than 30 hours a week (30% of employed lone parents) were significantly more likely to exit jobs (Evans, *et al.*, 2004, Table 3.7).

### Data on unemployment and child poverty

Published HBAI profiles provide evidence only of work status and do not identify non-workers by their status as either unemployed or economically inactive. There is no ability to distinguish those who have short spells of non-work from those who are long-term absent from work. Figure 9 shows the breakdown of incidence of child poverty by family and work status. The colours used in Figure 9 match to underlying assumptions about the number of parents working in the household. The blue shades show instances where all adults are working to some extent, so that 2% of poverty only is where a lone parent is working full time, a further 8% is from lone parents working part time; a further 2% is from couples where both are working full time and finally a further 5% from couples where one parent works full time and the other part time. Continuing clock-wise the grey shades represent poverty in couple-parent households where there is parental employment but the extent is uncertain, so that 12% of child poverty is associated with parental self-employment and a further 9% with one or more part-time workers. The hatched segment shows that 18% of child poverty is in couples where there is only one full-time earner. *A cumulative addition of these areas means that 52% of child poverty occurs in households where there is parental employment.* The white and black sectors show the remaining

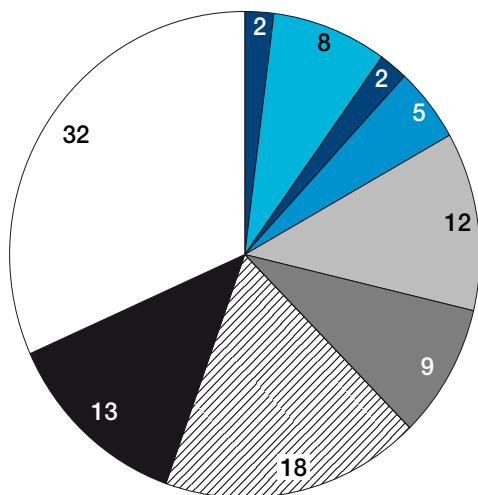
Figure 8: Unemployment rates by previous occupation



Source: ONS (2008, Table 6.1)

Figure 9: Percentage of all child poverty by family and work status

- Lone parents full-time work
- Lone parents part-time work
- Couples both full-time work
- Couples one full-time work, one part time
- Couples – self-employed
- Couples – one or more part-time work
- ▨ Couples – one full-time work
- Couples – workless
- Lone parents not working



Source: DWP (2008b, Table 4.3)

proportions of child poverty associated with workless families. There is no way to disaggregate these final figures for non-working parents between unemployed and inactive parents.

We cannot estimate the proportion of child poverty that results from short-term unemployment or other interruption from employment from these simple cross-tabulations. Other published data is similarly problematic. For instance, while Income Support data identifies claims of short duration for lone parents (in May 2007 5.5% have a claim for less than three months and a further 5.5% for 3–6 months from data from the DWP tabulation tool), there is no data on completed spells nor the ability to identify unemployment as an underlying characteristics of such a spell.

### Anti-poverty performance of short-term unemployment provision

Unemployment provision for lone parents is from contributory Jobseeker's Allowance if they have built up a contributory record or alternatively from means-tested Income Support. With the introduction of the change of entitlement conditions for lone parents and their requirement

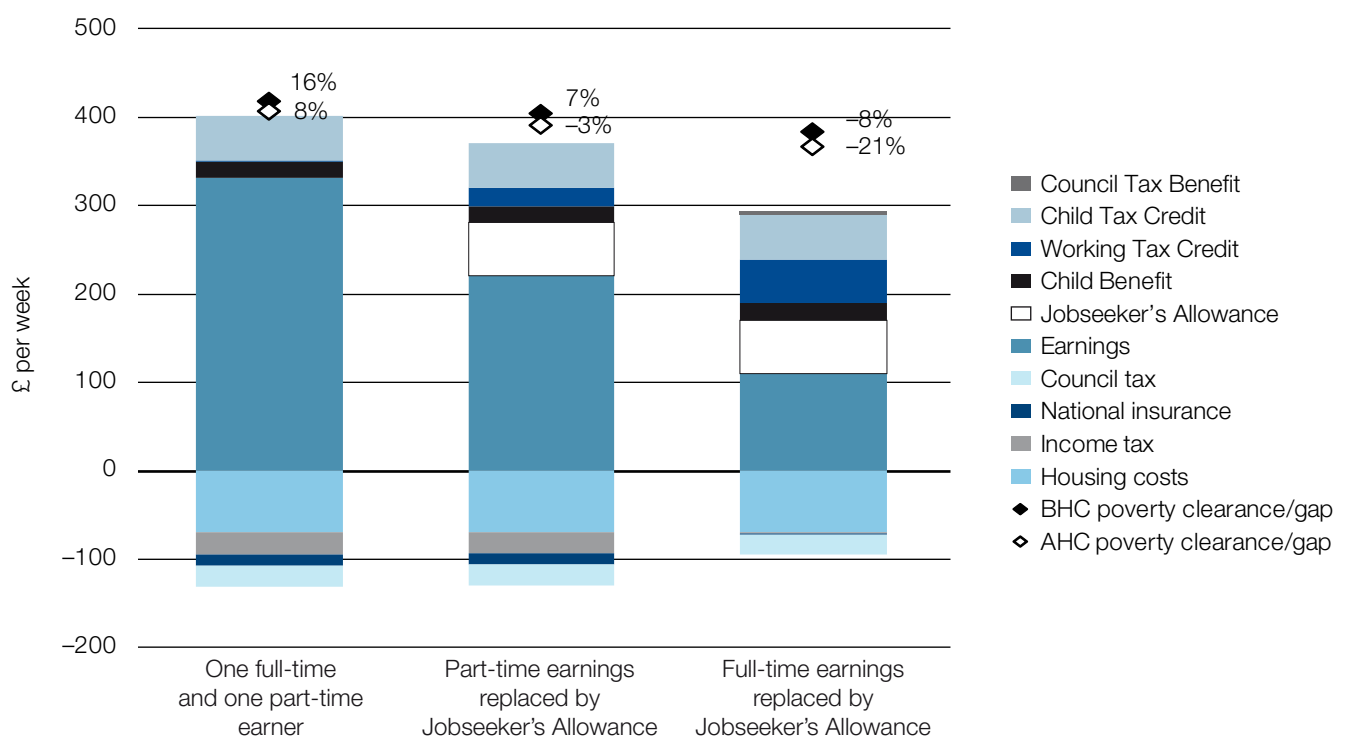
to be Jobseeker's Allowance claimants once their youngest child reaches the age of 11 from October 2008, the underlying entitlement for this group will be income-based Jobseeker's Allowance rather than Income Support.

In-work provision through tax credits will have boosted income above poverty levels for the majority of lone parents who work. However, out-of-work benefits provide a stark contrast and any break in employment risks being on levels of income from Jobseeker's Allowance/Income Support/or income-related Jobseeker's Allowance that are all at identical levels and ensure child poverty (see Figure 6). While job-entry incentives dominate, setting of low benefit levels out of these same principles make the return to Income Support for even a short time a stark certainty of child poverty. Of course, work-focused interventions at the start of any new and repeated claim will be in a position to assist a swift return to work and to assist in smoothing over any income shock. But even so losing around one-third of income (the proportion that specifically lifts the family out of poverty), and the inherent transactions costs and hassle of changing benefit status (including the potential loss of childcare arrangements) all suggest that risk

and income smoothing is far removed from either practice or design of the current benefit package.

The situation is different couples. Unemployment of a sole earner leads to worklessness and certain child poverty; unemployment of one of two earners move the family up the risk profile for poverty identified in Figure 9. Figure 10 shows the position of our low-paid model family with one full-time and one part-time worker and their position when either worker becomes unemployed and receives contributory Jobseeker's Allowance. Starting from a position where both are working and the combination 60 hours provides poverty clearance of 16% BHC and 8% AHC, then unemployment of the part-time earner leaves the family on the borders of poverty – a clearance of 7% BHC but poor in AHC terms with a gap of 3%. Unemployment of the main earner and reliance on Jobseeker's Allowance together with part-time earnings puts the family firmly in poverty – 8% gap in BHC terms and a 21% gap in AHC terms. The family in this instance would not only require a quick re-calculation of tax credits to make up for lost earnings but also qualify for a small amount of Council Tax Benefit with a high likelihood of non-take up. Overall, with little financial reward for the

Figure 10: Unemployed partner in low-waged couple with children



Source: Authors' calculations from LOIS

part-time earner to remain in employment and the likelihood of delayed re-calculation of means-tested benefits, the loss of a full-time earner has a high risk of both poverty and a return to out-of-work benefits.

We make some recommendations for further analysis and for policy in the final section below.

## Sickness at work

The Black Report on the health of the working-age population (Black, 2008) suggests that around 3% of the workforce are off work sick at any point of time. Many of these will be parents and those that are low skilled with a lower commitment to occupational welfare will thus rely solely on Statutory Sick Pay. Causes of sickness can include work itself and Black reports that the Health and Safety Executive estimate that around a quarter of days lost through absence may be due to work-related ill health. More crucially there is an income gradient to ill health that clearly has poorer people, defined as those in the lowest-level occupations, far more likely to suffer from ill health. Unskilled men are three times more likely to suffer from ill health than professional men (6% and 18% respectively) and the same differential for women is 7% and 16% respectively.

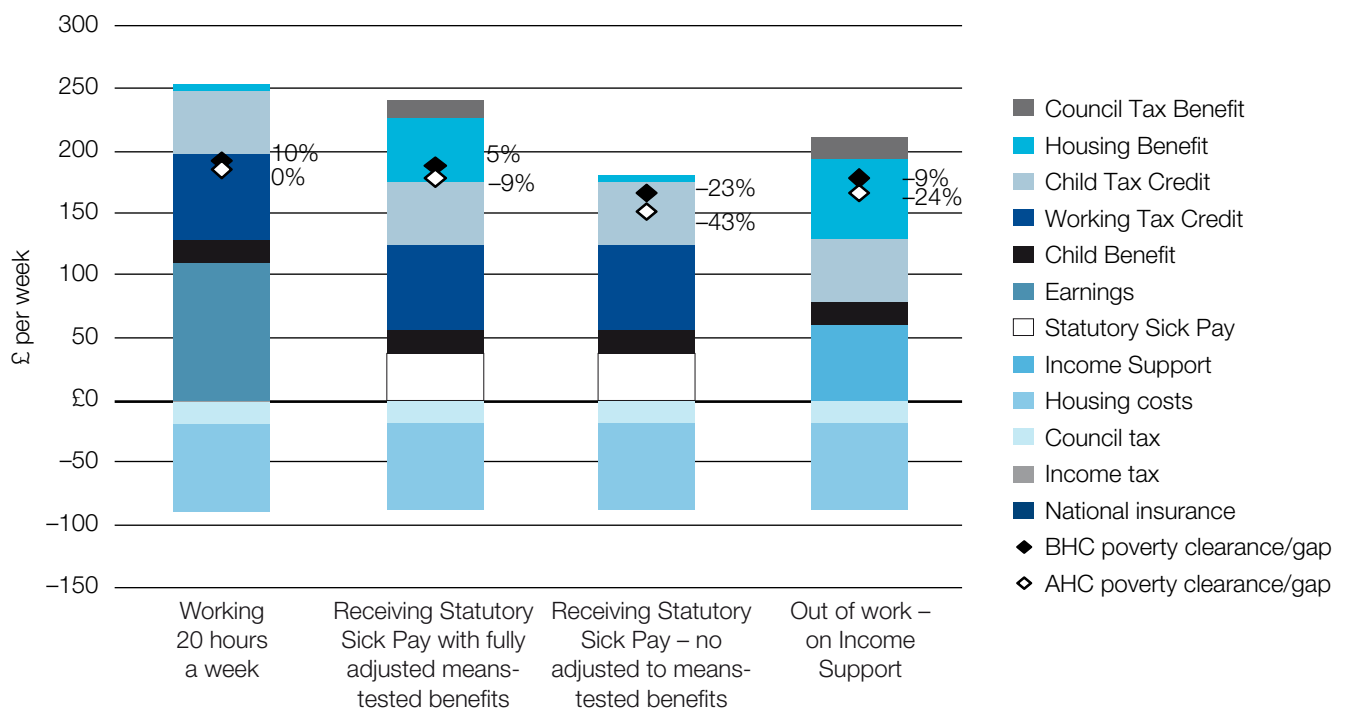
Poorer people are more likely to have poor health and ill people are more likely to be poor (and thus in less skilled occupations) and these make clear causal links between poverty and ill health a problem. However, the combination of parenting, low pay and often part-time work is likely to disproportionately affect those with higher risk of child poverty. A large proportion of poor out-of-work parents, particularly lone parents, are known to have underlying health problems with a high incidence of mental ill health such as anxiety and depression. These populations are at the centre of welfare-to-work initiatives and thus they are likely to have higher than average incidence of ill health in work when they enter work but also to have employers who are less likely to provide occupational sick pay above the statutory minimum. Current evidence on Pathways to Work, according to Black, 'had limited effect for those whose main health condition is a mental illness' (2008, p 13).

## Performance of Statutory Sick Pay and child poverty

A lone parent working part time at the Minimum Wage will receive Statutory Sick Pay calculated on a pro-rata day basis depending on the days worked in a normal working week. Figure 11 shows how this income package compares to previous earnings from part-time earnings (20 hours a week) and to the parent's entitlement to Income Support if not in work. Working and 'well', the lone parent would be 10% above BHC poverty but would have a poverty gap of around 3% AHC. This level of income depends on her making a claim for Housing Benefit of a small amount in addition to her tax credits. Small entitlements such as this are likely not to be claimed. However, the problem of take-up becomes worse when she is ill and receiving Statutory Sick Pay. Her income in work from Statutory Sick Pay (she is still at work and receiving 'earnings' but this is Statutory Sick Pay as she is unable to work) is less than half of her earnings and this means that she would continue to receive maximum tax credits but would require revised higher Housing Benefits and would additionally be entitled to Council Tax Benefit. Given that Statutory Sick Pay is a short-term fluctuation and given that claims for Housing Benefit and Council Tax Benefit may take some time to process, take-up and the administrative performance of a revised income package are real issues in delivering an effective anti-poverty response in these circumstances.

Figure 11 shows two versions of the lone parent's income package and child poverty outcomes when she received Statutory Sick Pay. The first assumes that the system responds and can deliver the changes to her Housing Benefit and Council Tax Benefit; the second assumes that it does not or does so late. In the first instance, the sick lone parent is on the margins of poverty in BHC terms – around 5% over and 9% below the AHC poverty line. In the second instance, the more probable for the first weeks of sickness, then the sick lone parent is not only very poor – with a BHC poverty gap of 23% and an AHC gap of 43% – but *also far worse off than if she was claiming Income Support*. While these calculations are illustrative, they demonstrate some of the important factors that were outlined in the Introduction – getting the incentives right to make people better off in work

Figure 11: Lone parent working 20 hours a week at Minimum Wage: short-term sickness



Source: Authors' calculations using LOIS

is linked to their perception of risk as well as their calculations of being 'better off' alone. An out-of-work lone parent with a high likelihood of ill health would be correct to be worried about what will happen in low-paid work when she falls ill. A better form of income smoothing for short-term illness would thus help job-entry incentives as well as protect against child poverty.

Turning to our model low-paid couple, Figure 12 shows the effect of replacement of a full-time and replacement of a part-time wage by Statutory Sick Pay. Prior to falling ill, the couple with a combined 60 hours at the Minimum Wage are 16% above poverty in BHC terms and 8% in AHC terms. However, this income relies on a small entitlement to Working Tax Credit alongside Child Tax Credit. If the part-time worker becomes ill and earnings fall, then Working Tax Credit can increase to reflect reduced earnings but only if the tax credit system is able to respond to short-term changes in earnings. It is crucial that Working Tax Credit increases as the family are on the borders of child poverty with such full entitlement – a poverty clearance of just 2% in BHC terms and below the AHC poverty line by 9%. If the full-time worker falls sick and the family rely on part-time earnings and Statutory Sick Pay then Working Tax Credit increases again, but even so

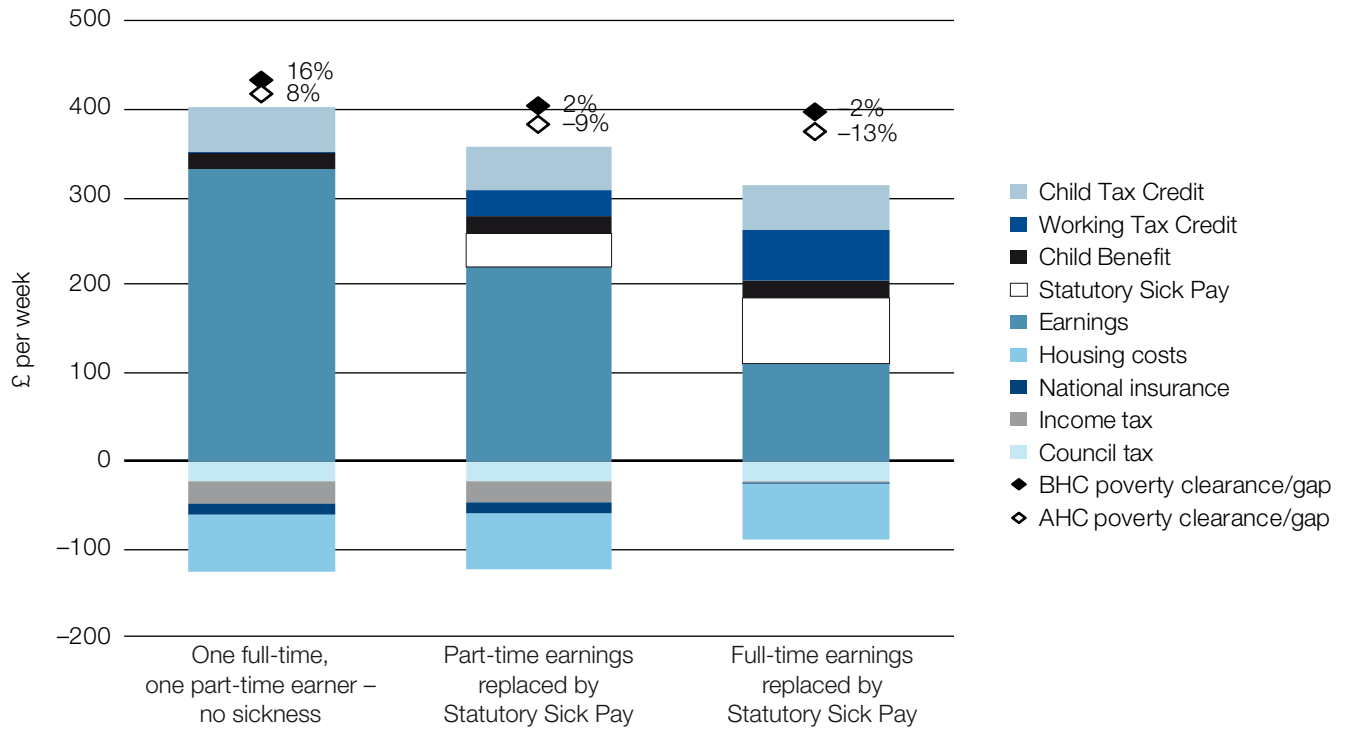
the family fall into poverty by 2% BHC and by 13% AHC.

The different reaction to the income shock of short-term sickness between the lone parent and the couple stems from different elements of means-tested assistance – the lone parent already on maximum tax credits will need more Housing and Council Tax Benefits while the couple will require adjustment of their Working Tax Credit. The underlying problem, however, appears to be the same – Statutory Sick Pay gives too low a level of earnings replacement to avoid child poverty.

We make some recommendations for further analysis and for policy in the next section.



Figure 12: Couple with one full-time and one part-time earner at Minimum Wage: short-term sickness



Note: See Box 1 for assumptions.

Source: Authors' calculations from LOIS

# 3 Incapacity, disability and caring

This section turns to considering a range of circumstances that are associated with inability to work from questions of physical, mental and cognitive capabilities and their relation to work – both paid employment and unpaid informal caring. While there is a large overlap there are actually three separate issues:

- *Capability in employment.* The reduced employability of a person with temporary or permanent limitations in the tasks that they can perform means that they are less likely to be employed in the first instance, to be more dependent on their skills and experience compared to others without such limitations and once employed are more likely to leave employment.

Since 1971 there has been a long-term benefit for working-age people who have been deemed as ‘incapable of work’. This was Invalidity Benefit up to 1995 and subsequently Incapacity Benefit. The level of these benefits will be directly linked to the question of monetary child poverty when they are given to parents. From October 2008 the new Employment Support Allowance comes into force and our discussion in this section is limited to the new definitions of ‘limited capability for work’ and ‘limited capability for work-related activity’. Those with greatest limitations will be given a rate of benefit that is attached to being in a support group rather than in job-search or applied job readiness activity. This highest rate of Employment Support Allowance will be the closest that Employment Support Allowance comes to a definition of ‘unable to work’.

- *Disability.* Every individual has a set of physical, mental, sensory and cognitive capabilities but some of us have characteristics that mean that we are excluded from or less able to participate in normal economic and social activity.

Commonly labelled as ‘disabled’ because of their individual characteristics, it is clearly the case that *disability* is the result of a relationship between individual characteristics and socially determined opportunities and exclusions.

The recognition of disability by social policy gives rise to a range of *services* to assist individuals and their families obtain assistance in kind, to access necessary technology and a range of *income transfers* that follow from needs to (a) provide *income replacement* where economic opportunity is constrained and (b) to meet *additional costs* associated with individual disability. Additionally, there is *anti-discriminatory legislation* in place to ensure equality of access and of treatment in employment and a range of social activity.

However, disability is not necessarily about capacity to work and the employment rate for disabled people has gradually increased since 1998 from 38% to 48%, alongside a small increase in the percentage of working-age people who report having a disability (Black, 2008). However, the presence of a person with a disability is common to families in child poverty – both because of parents who have disability having greater constraints on employment and because parents need to be carers – for partners and for disabled children.

- *Caring for people with disability.* Informal caring by family or others is the primary form of assistance given to people with disabilities who live in private households. Often such caring occurs alongside formal service provision of health and social care services that can be either state (local authority) run or private. The balance of caring for people with disabilities thus in most cases hinges on what can be done informally prior to the explicit costs of state or market services. However, informal caring is not costless – the opportunity costs to the carer

and lost economic opportunities from reduced levels of employment by the carer are large.

## Capability of employment

Six per cent of all child poverty (both BHC and AHC) is attributable to households where Incapacity Benefit is in payment in 2005/06 (DWP, 2008b, Table 4.4). However, this is a considerably undercount. In 2004 data on children in families receiving benefits due to ‘sickness and incapacity’ total almost one million (970,000), which would be around 28% of children in AHC poverty for that year (DWP, 2004, Table 4). This figure is closer to the levels of child poverty associated with reported disability discussed below.

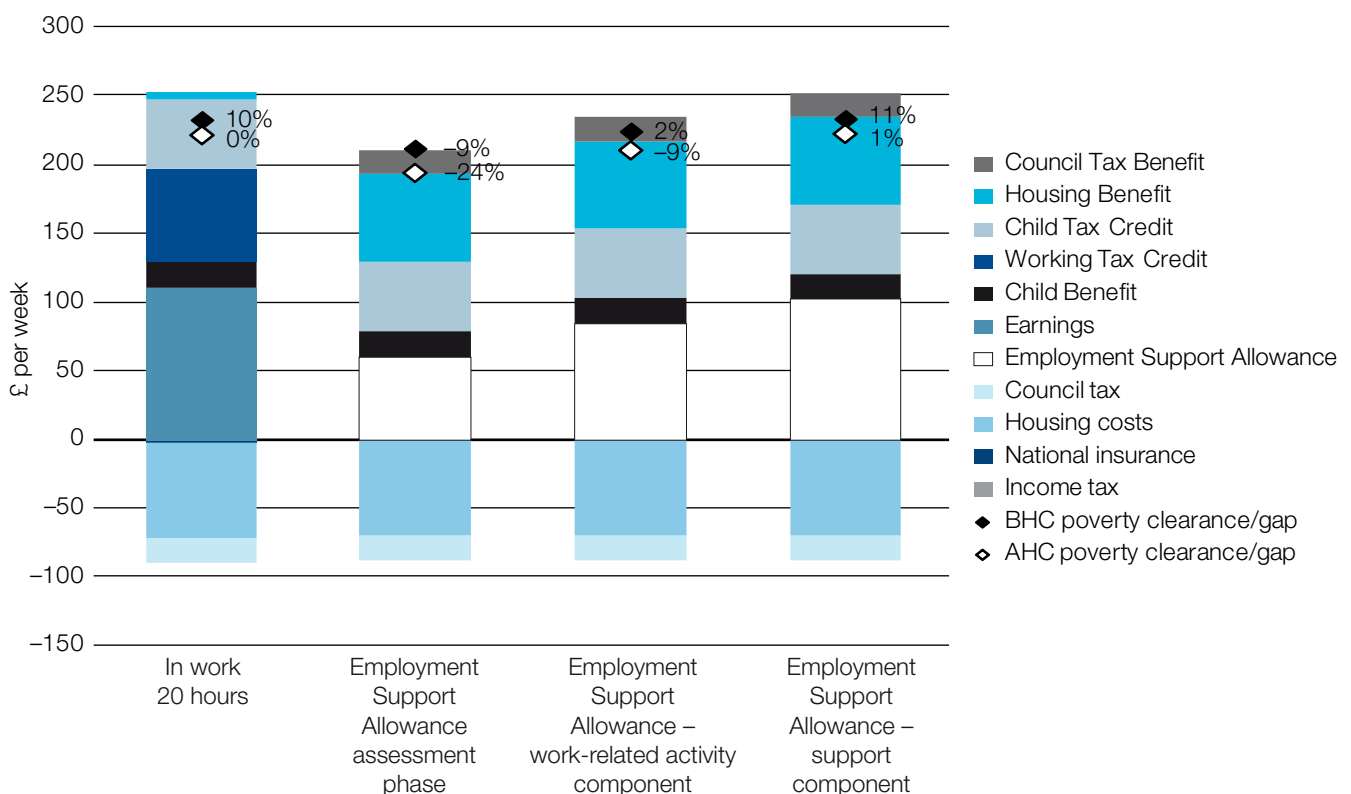
The effect of long-term limiting illness has been demonstrated to lower the likelihood of employment holding other factors constant. McKay and Atkinson (2007) show that the overall low odds of ill men working are not different from ill fathers but that ill mothers are slightly more likely to work than ill women in general. However, the direction of causation between work and ill health has to be

carefully judged as around 55% of those coming on to Incapacity Benefits came either from work or a period of sickness absence from work (Black, 2008) and new Incapacity Benefit claimants are disproportionately represented by older men and lone parents and by the low paid (Kemp and Davidson, 2007). The inflow rates on to Incapacity Benefit have fallen in recent years but outflow rates have continued to be low. One part of the overall problem of incapacity is the growing prevalence of mental health problems. Black reports that over 200,000 people with mental health conditions flow on to Incapacity Benefits each year, and this figure has not changed over the last decade (Black, 2008, p 43), and such claimants have worse outcomes from Pathways to Work initiatives overall.

How will the new Employment Support Allowance treat parents, and will it provide an income that prevents child poverty?

Figure 13 shows the position of a single parent with a single child working 20 hours a week at Minimum Wage compared to her position claiming Employment Support Allowance. It is shown in its three different levels: for the ‘assessment phase’,

Figure 13: Lone parent in work and claiming Employment Support Allowance



Note: Minimum Wage not set to October 2008 rates; unknown as yet. See Box 1 for assumptions.

Source: Authors' calculations using LOIS

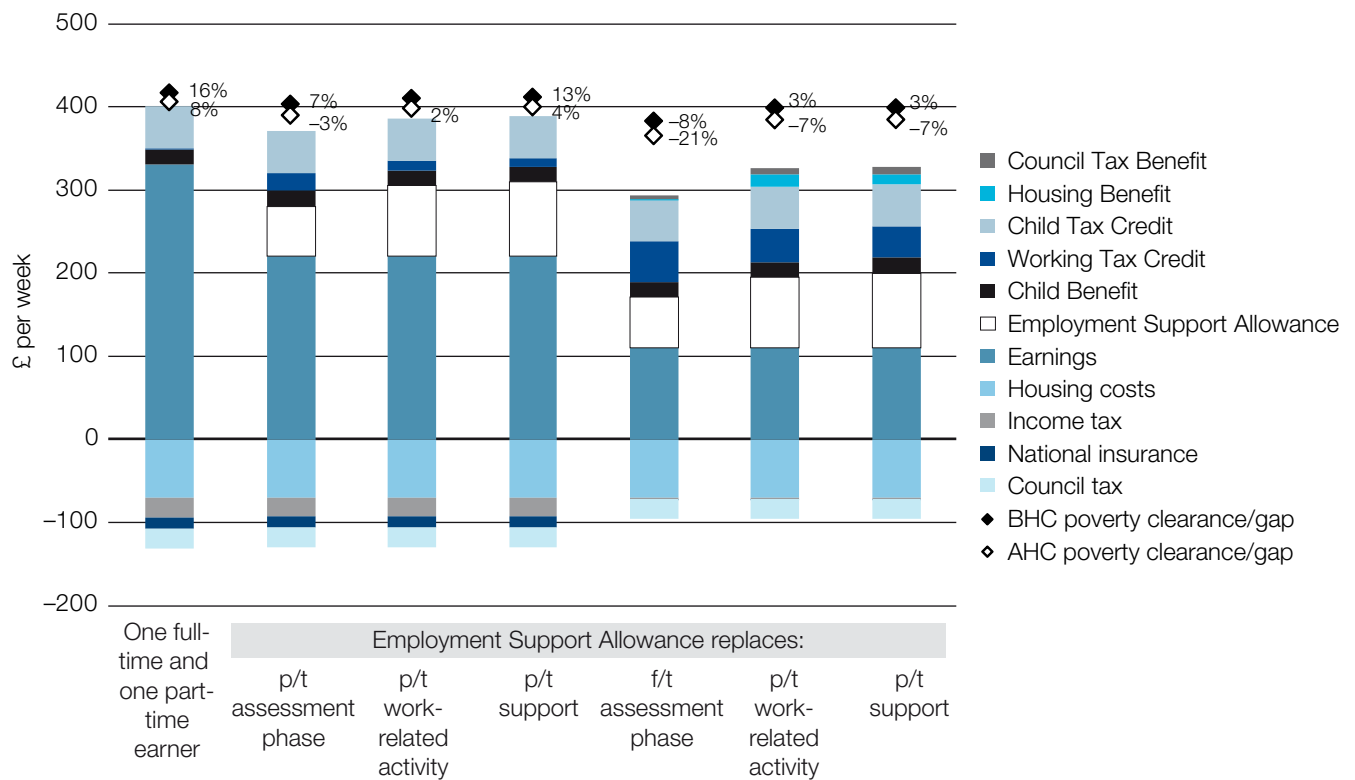
for the position if Employment Support Allowance is awarded with a 'work-related activity' (WRA) component, which means that work is possible with limitations and for the 'support component' for those, envisaged as a minority, that are unable to work. It is clear that the 'assessment phase' of Employment Support Allowance will be at rates that do not clear child poverty levels for lone parents. However, a considerable proportion of new claimants for Employment Support Allowance will previously been receiving Statutory Sick Pay and Section 1 of this report has already demonstrated the high risks of poverty associated with that. If the lone parent qualifies for the additional components then Employment Support Allowance will bring lone parents up to or over the poverty line. Employment Support Allowance with the WRA component will leave AHC poverty but will bring the lone parent up to the BHC poverty line. If this lone parent was unable to work and received the support component, then income levels would roughly match those when working 20 hours a week – around 11% above BHC poverty and at the margins of AHC poverty.

Figure 14 shows the position for a couple of one full-time and one part-time earner (60 hours in total), where Employment Support Allowance replaces either full time (ft) or part-time (pt) earner's wages.

Figure 14 shows that when Employment Support Allowance replaces part-time earnings and the family can still rely on a full-time earner, then it is only during the assessment phase that the risk of child poverty is apparent. However, if the full-time earner ceases work and the family rely on part-time earnings and Employment Support Allowance then child poverty is consistently the outcome in this example. The deepest child poverty occurs during the assessment phase but the higher levels of Employment Support Allowance in either WRA or support levels do not lift the family across the poverty line. Indeed, the additional income in the support allowance is reduced to virtually nothing due to the tapers on other means-tested benefits.

In the short term, Employment Support Allowance will affect only new cases of limited capacity for work and the existing cohort of Incapacity Benefit and Income Support cases will dominate. However, one part of this cohort of existing claimants is the group of lone parents

Figure 14: Couple in work with one child and claiming Employment Support Allowance



Note: Minimum Wage not set to October 2008 rates; unknown as yet. See Box 1 for assumptions.  
Source: Authors' calculations using LOIS

who have limited capacity to work and who have children aged 11 and over. In October these lone parents will be unable to continue to claim Income Support and will have to claim support allowance or Employment Support Allowance. The potential impact of this step-change on incidence of child poverty is a matter for clarification.

## Disability

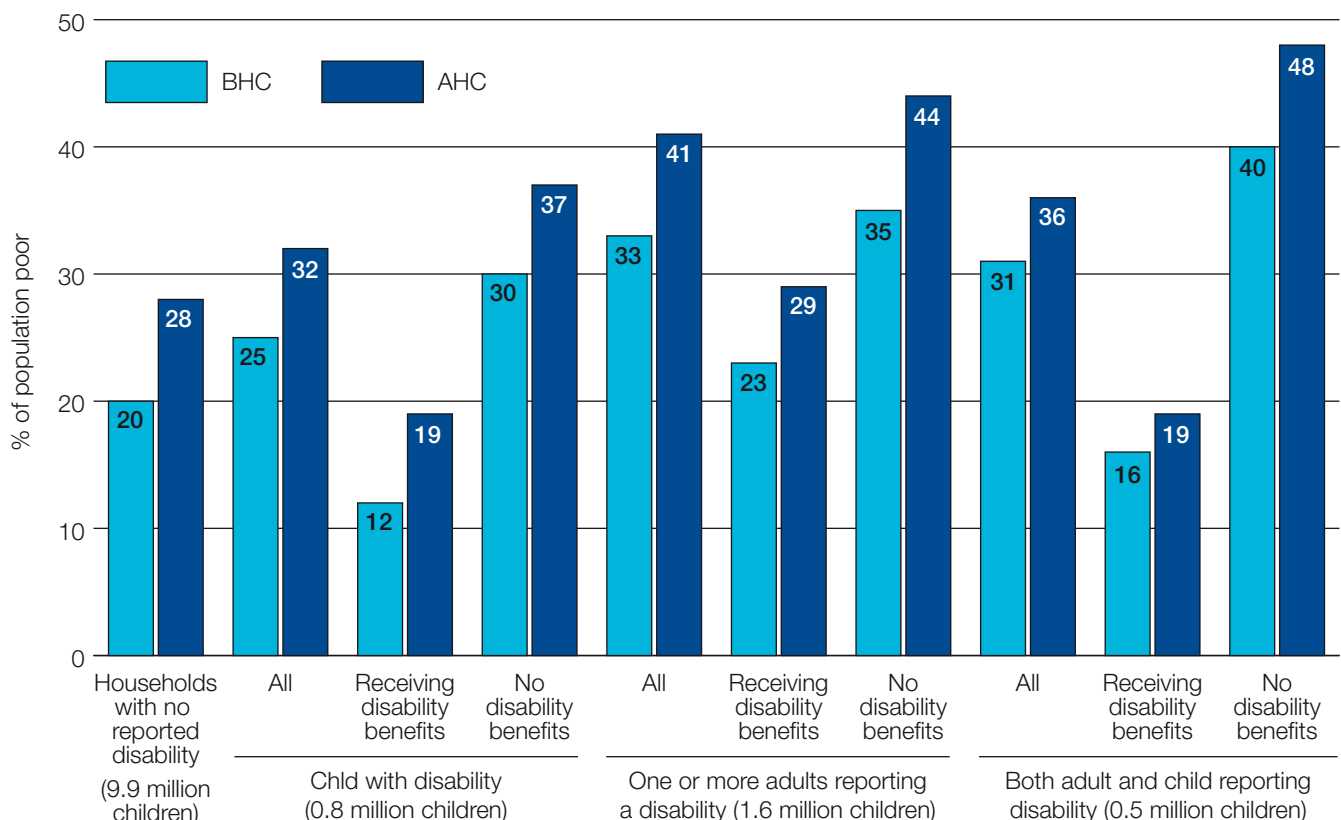
Households where members identify themselves as having a disability represent consistent higher risk child poverty (Burchardt, 2006). The most recent HBAI data shows the risk of poverty from disability to be highly linked to whom the household member is that reports disability and to the response by disability benefits. Figure 15 shows the risk of poverty as the percentage of children in poverty for a range of disability-related circumstances in 2006/07.

Figure 15 shows that the poverty risk for children in households with no reported disability is 20% BHC and 28% AHC. For children living in households where disability is reported solely, rates

are higher, 25% and 32% respectively. However, the impact on child poverty of receiving disability benefits is very significant – lowering the risk to 12% and 19% in BHC and AHC terms respectively. The other one-half of these disabled children who do not receive such benefits have a far higher risk of poverty, 30% and 37% respectively. This significant impact of the receipt of disability benefits is also found in the other groups of children living in households that report disability. In households where only (one or more) adults report disability, the overall risk of poverty is 33% BHC and 41% AHC but if no disability benefits are received, 35% and 44% respectively. In households where both children and one or more adults report disability, the overall risk is 31% and 36% but rises to 40% and 48% where not disability benefits are present for BHC and AHC poverty measures respectively.

On the face of it the receipt of disability benefits lowers poverty risk. But the true impact is more uncertain and estimating the difference that disability benefits make to poverty risk requires juggling three main factors. First, conditions that qualify for disability benefits are not wide enough to capture all disability that is self-reported in

Figure 15: Risk of child poverty by reported disability of household members



Source: DWP (2008b, Table 4.5)

HBAI. Second, even where the extent or nature of disability is sufficient to qualify for a disability benefit there is the problem of take-up. Many people are entitled to but do not claim disability benefits although capturing take-up rates and measures for such benefits based on measures of ability and functioning is problematic but feasible (Kasparova, *et al.*, 2007). Third, the effect of disability benefits on income and thus on poverty represents one part of a much larger measurement problem about how the additional costs of disability should be accounted for when comparing incomes. Disability leads to additional costs and hence two people with different levels of disability will not gain equal welfare if their incomes are equal. In the same way that equivalence scales take account of households of different size and of the different ages of co-resident people (children aged less than 14) to compare income consistently across households, so disability should also lead to an equivalisation of incomes. Without such equivalisation for disability the ranking of household income takes no account of different needs of people with disabilities and ranks a disabled and non-disabled person equally if they have equal income. Current HBAI methodology uses this approach and only equivalises for household size and composition.

The influence of these three factors on accurate capture and description of the relationship between child poverty and disability is considerable, especially if we also remember the dynamic and changing nature of many aspects of disability. An example illustrates the problems: think of a case where a child has a progressive debilitating illness. At the age when we first meet them, they will have additional costs but may not yet qualify for disability benefits. One year on the condition has further deteriorated and they would qualify for benefits if a claim was made. Finally, one year further on again they have made a claim for benefits and the condition has further deteriorated. If this family was observed in HBAI in each of these years there would be a constant assumption that the costs of disability did not matter. In both the first and second years they would be seen not to have disability benefits and their income would be recorded in exactly the same way. In the third and final year, their income would be recorded as much higher because they had claimed benefits and the

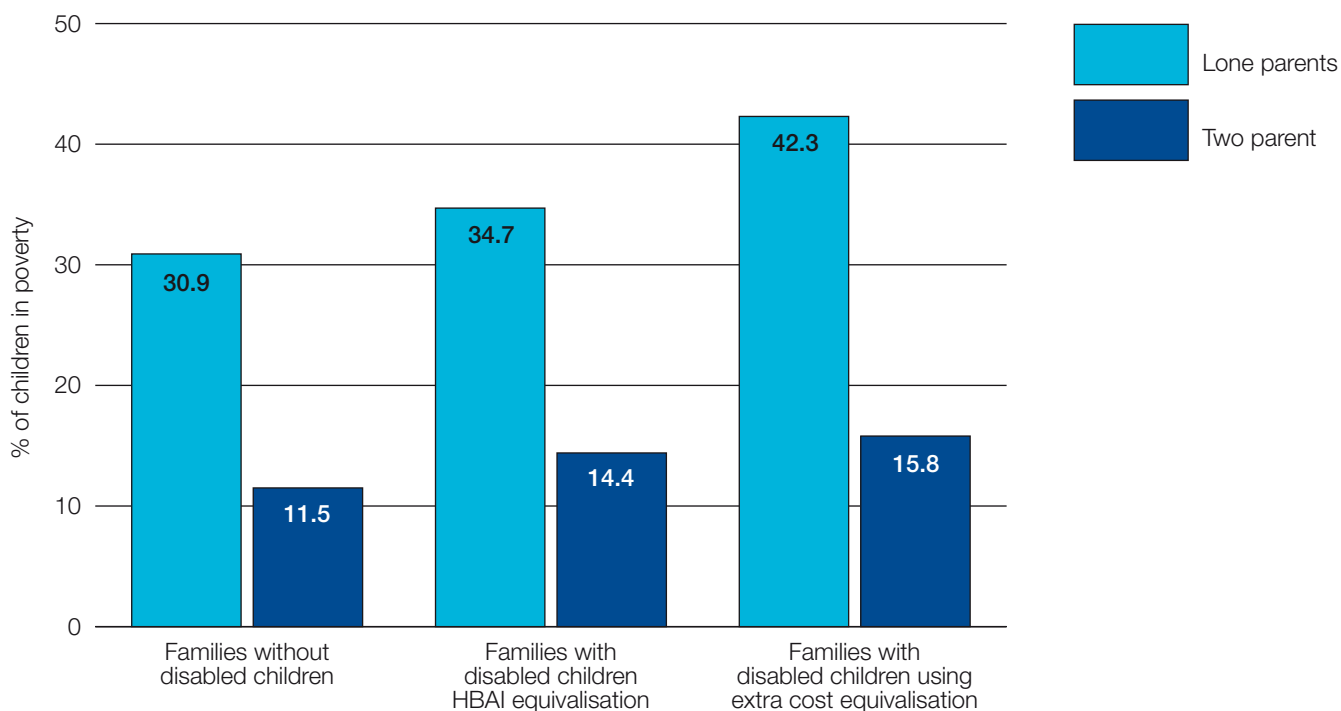
marginal effect of such benefits on their income would be to the 100% value of the benefit – even though it had been awarded to assist, in part or wholly, towards the additional costs of the disability.

Equivalisation of incomes to take account of disability has been the subject of increasing recent discussion and practice. HBAI produced an equivalisation for disability using a small adjusting factor based on observed consumption differences in 2002/03. However, expressed consumption levels are not equivalent to ‘needs’ for many reasons. Burchardt and Zaidi have put forward a more consistent and comprehensive approach both for all disability and for child disability (Zaidi and Burchardt, 2005; Burchardt and Zaidi, 2008, respectively). The use of equivalisation for disability usually raises poverty incidence by lowering incomes of households with disability who tend to be poorer. However, the crucial thing to remember in a relative poverty line is that such equivalisation will have an effect on the poverty line because it alters the income distribution and thus median income.

McKay and Stevenson report that ‘Detailed analysis within the DWP has found that the presence of a disabled child does not increase the risk of poverty but the presence of a disabled adult does’ (2007, p. 46) but then correctly comment that the question of counting extra-cost benefits in full as income and not equivalising for extra costs may explain such findings. We urge the DWP to provide access to such analysis in any review and analysis of child poverty and modelling that occurs subsequent to this report.

Figure 16 shows how under-reported poverty risk can be without taking into account extra costs of disability. The left-hand BHC poverty rates for families with no disabled children will not be affected by equivalisation for extra costs and show that lone parents have a 31% risk and couple families an 11% risk of poverty. The same family types with disabled children with no equivalence for extra costs show a high rate (as in Figure 15) show an increase in poverty risk of three to four percentage points. However, once extra costs of disability are used to equivalised income in the far right-hand figures, the additional risk compared to the family without children with disabilities is higher: 12 percentage points higher for a lone-parent family

Figure 16: Comparative BHC child poverty rates for families (2004/05) with and without disabled children and with and without equivalisation for extra costs



Source: Burchardt and Zaidi (2008, Table 3)

and over four percentage points higher for a two-parent family.

Figure 16 clearly illustrates the underlying need for, and potential gains from, more accurate estimation of the extra costs of disability. A simple form and one-dimensional equivalisation through discounting of all extra-cost disability transfers can be used in illustrative tax-benefit modelling (for instance, see Evans and Eyre, 2004) and we can use such an approach to give crude indications of the potential for problems and solutions to current transfer packages for families with children where disability occurs. We emphasise the caveats of doing so as the effects on the poverty line are unknown. Figure 17 illustrates the potential effect on poverty for child poverty if the extra-costs benefits for disability are removed from income. It shows the out-of-work income from Income Support for a workless family with no disability benefits. The family, with one child as previously, is poor with substantial poverty gaps. The addition of Disability Living Allowance at the middle rate for care for one of the parents raises incomes both from this additional benefit but also because Income Support is paid at a higher rate as entitlement to Disability Living Allowance at this level triggers

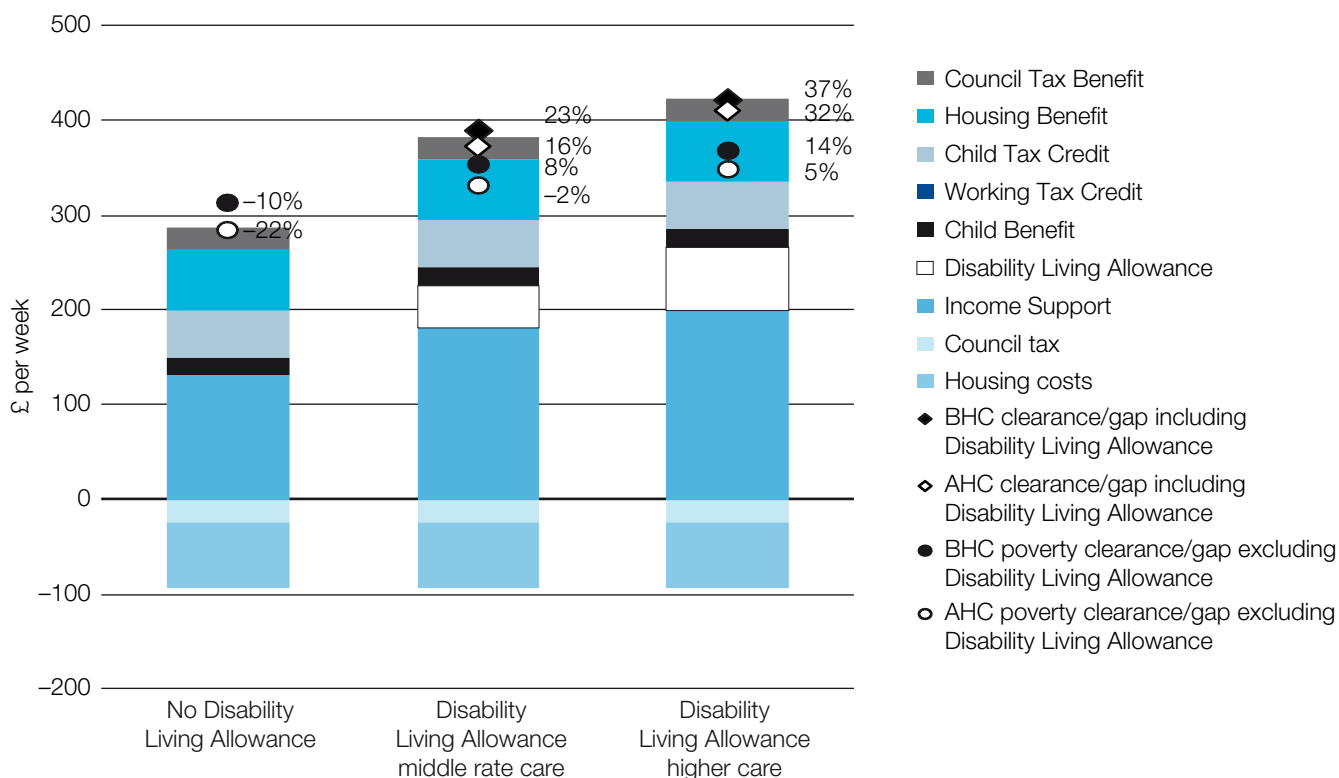
automatic additional premiums in Income Support (and in Housing and Council Tax Benefits). If we adjust income so that it merely subtracts Disability Living Allowance we see the effect of the increased Income Support separately from the Disability Living Allowance itself. If poverty is calculated using all income then the couple have substantial poverty clearance; if Disability Living Allowance only is subtracted to make a crude equivalence for the additional costs of disability, then the family are at the margins of poverty – in poverty in AHC terms but just above in BHC terms.

The third version of the couple shown in Figure 17 raises Disability Living Allowance to the highest level of care benefit. In this case, if this Disability Living Allowance income is included the family have poverty clearance levels of around a third of the poverty line. If it is excluded, increased Income Support again boosts income to above the poverty – within 8% to 15% clearance.

These calculations are purely illustrative. We have made no adjustment to the relative poverty line to reflect deduction of Disability Living Allowance and we have included no element of caring premiums or benefits for the other adult in the household. However, these calculations do



Figure 17: Non-working couple: incomes and poverty profiles with and without extra-cost disability benefits



Source: Authors' calculations using LOIS

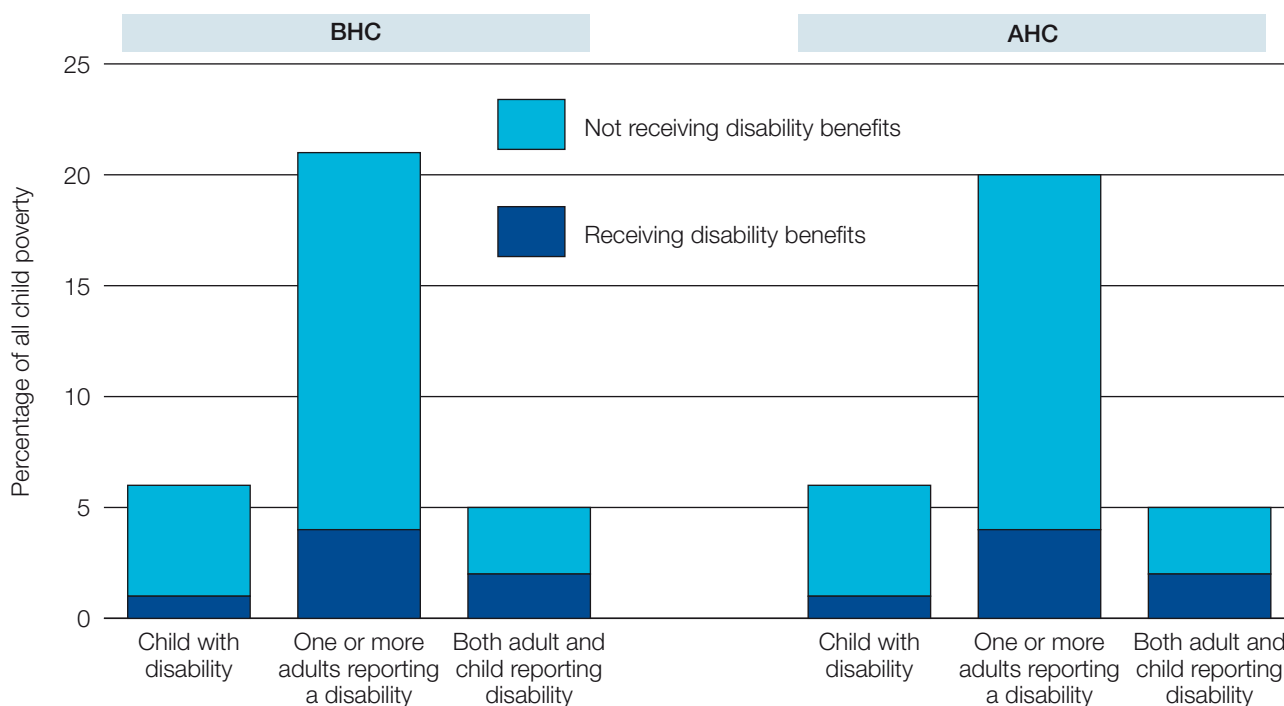
assist in showing the difficulty in underlying poverty measurement and the uncertainty on additional costs and their coverage by the benefits system. Disability Living Allowance itself is not calculated to cover any identifiable level of additional costs but is a general unspecific transfer towards extra costs in general.

While Figure 17 shows the effect of Disability Living Allowance on income profiles and poverty, the problem additionally is the assumptions one has to make about which benefits to exclude as being for 'extra cost'. Entitlement to Disability Living Allowance at different levels led to automatic entitlement to additional Income Support – which is primarily an income replacement benefit. But even if the changes to Income Support are ignored and solely Disability Living Allowance is disregarded, the actual effect on needs and income equivalence continues to be uncertain because the 'extra costs' considered are purely the net costs associated with an individual level of disability and not with the services that are given in addition. *This is a crucial point because charging policies by local authorities for domiciliary care and other services are often linked to receipt of Disability Living Allowance*

*and indeed social services departments of local authorities encourage take-up of benefits to assist in their charging policies and Disability Living Allowance represents a significant funding strand for 'care in the community'.<sup>2</sup> But the relationship between extra costs and informal care is even less certain. Extra-cost benefits include undefined elements that can be used to purchase carer assistance, but if this is an informal carer living in the same family as a partner or parent and provides services without charge, Disability Living Allowance is also operating in part to pay an unspecified part of the actual and opportunity costs of informal care, a point that we pursue in the following section. These inconsistencies and uncertainties make clear policy reform difficult without a prior thorough analysis of costs, caring and equivalence.*

The scope of revising entitlements and take-up of disability provision on child poverty is considerable. A large proportion of child poverty is associated with reported disability. Figure 18 shows the shares of child poverty that are attributable to individuals in households reporting that they have a disability. Overall children living in households where members report disability account for 32%

Figure 18: Shares of child poverty and reported disability (2005/06)



Note: Standard HBAI assumptions and no equivalisation for extra costs.  
Source: DWP (2008b, Table 4.6)

of BHC and 30% of AHC child poverty. Of course, in common with earlier discussion of mono-variate cross-sectional profiles in Sections 1 and 2, we emphasise that we cannot solely attribute reported disability as causing child poverty in these instances as other factors such as age of child, sickness and non-employment among others may have additional explanatory power.

Figure 18 shows a clear majority of the incidence of child poverty related to disability stems from adult disability. Only small proportions of this adult disability appear to give rise to claims for disability benefits. There are two immediate but tentative findings: first, the effect of take-up on poverty rates with full entitlement, and second, questions of the design of benefits for disability and their coverage alongside the new Employment Support Allowance discussed above. It is probably that many of those self-reporting disability are claiming Income Support or Incapacity Benefit but have underlying limitations due to ill health and disability. Making clear recommendations for this group in terms of improved benefit design and coverage requires a fuller understanding of their current income package alongside their reported disability. Additionally, where adult disability leads to

caring by the partner in two-parent families there is the separate issue of coverage of such care needs, discussed below. A further 10% of child poverty is associated with children’s reported disability. There is thus a clearer potential agenda for policy reform for this group because it relates to both the cost of disability but also directly to the role of adult parent carers. We now turn to discuss these and other carers.

### Informal caring of people with disabilities

Unpaid caring by parents, partners and others is the major form of assistance given to people with a range of disabilities. In their recent overview of evidence, McKay and Stevenson summarised the evidence of the incidence of care alongside disability in families with children and also distinguished between care for disabled adults and children. Their analysis of the effect of the presence of disabled children showed that, ‘Overall, having disabled children tended to reduce the proportion of two-earner couples and increased the number of couples who were workless. Indeed, couples with a disabled child were much more likely to be

workless than those without and rather more likely to be single-earner couples. Similarly, the likelihood of work fell as caring responsibilities increased – but only for those caring for more than 20 hours a week. Caring responsibilities between 20 and 49 hours a week halved the odds of working in the labour market and caring for over 50 hours halved the odds yet again’ (McKay and Stevenson, 2007, p. 54). The hours of care required or performed should in many instances be linked to the level or type of disability and thus be linked additionally to the rate at which Disability Living Allowance is paid where it is paid for care needs.

Caring for adults in families with children either refers to within-family care by the partner of the disabled parent, or to the position where a parent (either a lone parent or one of a couple) acts as an informal carer to a person with disabilities who lives outside of the household. Caring of disabled partners within couples is not universally associated with being out of the labour market. There is a clear hours effect – as discussed above – but also, according to McKay and Stevenson, ‘... some evidence of an “added worker effect”, with the partners of disabled people more likely to work than would be expected on their basis of their educational and demographic. Among carers, working carers tended to live with the person being cared for, and to have higher qualifications (particularly those providing care for the longest hours)’ (McKay and Stevenson, 2007, p. 54).

The evidence of the incidence of caring and its associated risk of child poverty is weak in existing profiles. Published HBAI tables describe adult members as working or not working and no descriptive tables contain ‘carer’ or caring as an activity. This means, for instance, that an adult lone parent who is a full-time carer for a disabled person or child will be defined as ‘workless’, an inexcusably insensitive and inaccurate status that appears to require an immediate rethink.

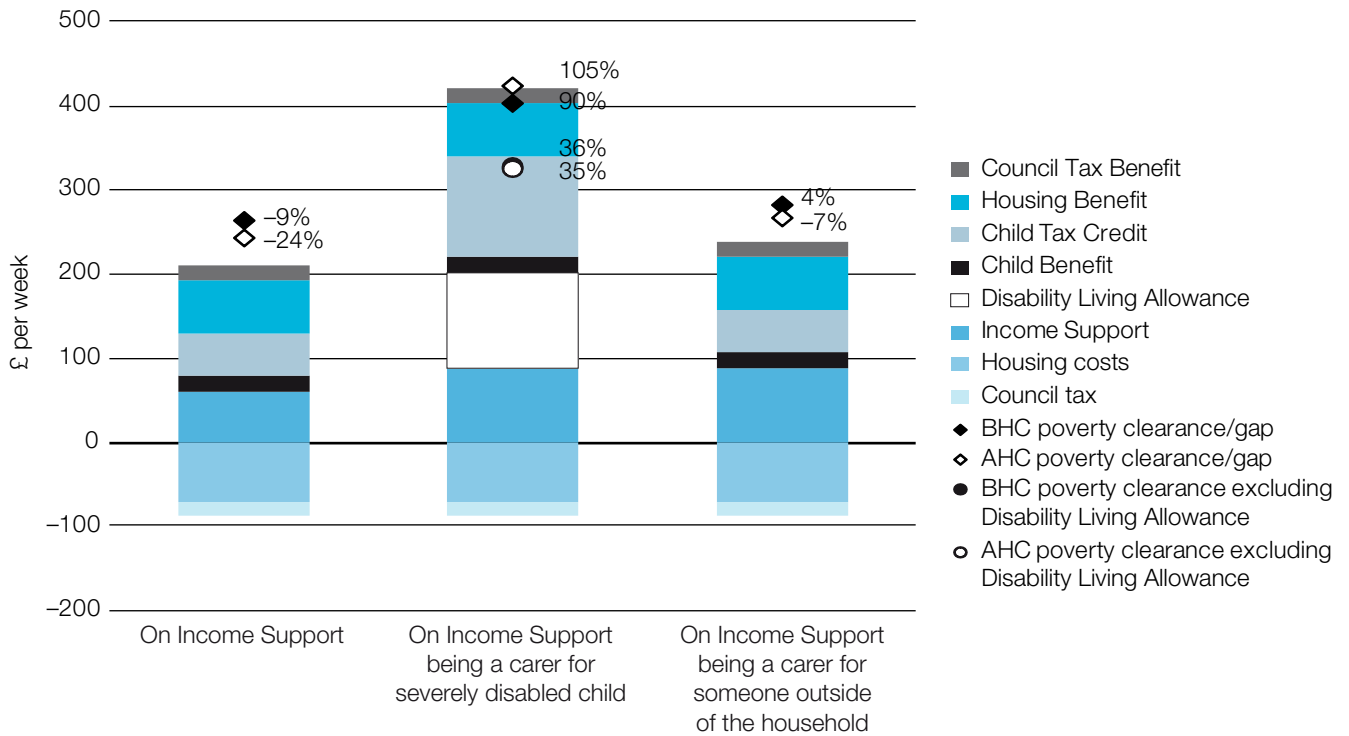
How does income from benefits for caring protect families with children against poverty? Figure 19 shows the position of a single-parent family with one child and their position on Income Support with no disability or caring versus the position where the mother is also a full-time carer of someone with a disability. The first comparison is where the child in the family is severely disabled and

receives a high rate Disability Living Allowance and the second comparison is where the mother is a carer for someone who lives outside the household (for instance a disabled parent). The family is unequivocally in poverty when it solely relies on Income Support and has no *recognised* disability. The presence of Disability Living Allowance and carer’s premiums in Income Support lift the lone parent out of poverty – by a large percentage of clearance if Disability Living Allowance is included in income and by around one-third of poverty level if not. However, if the lone parent is a carer to someone outside the household then the carer’s premium alone – irrespective of carers’ benefit which is set at rates lower than Income Support levels – will only take the family to the margins of child poverty – 4% over poverty in BHC terms and around 7% under the AHC poverty line.

Figure 20 shows the position of a couple family with one child and their position on Income Support if the partner is full-time carer for their disabled partner with middle-rate care Disability Living Allowance. In this situation the family has 16%–23% poverty clearance if Disability Living Allowance is included in income but this falls to the margins of poverty once it is excluded – less than 10% clearance in BHC terms and a less than 5% AHC poverty gap. If the disabled member is a high-rate Disability Living Allowance care case then poverty position ‘improves’, with around a 50% clearance if it is included in income and 1%–11% clearance level if it is excluded from income.

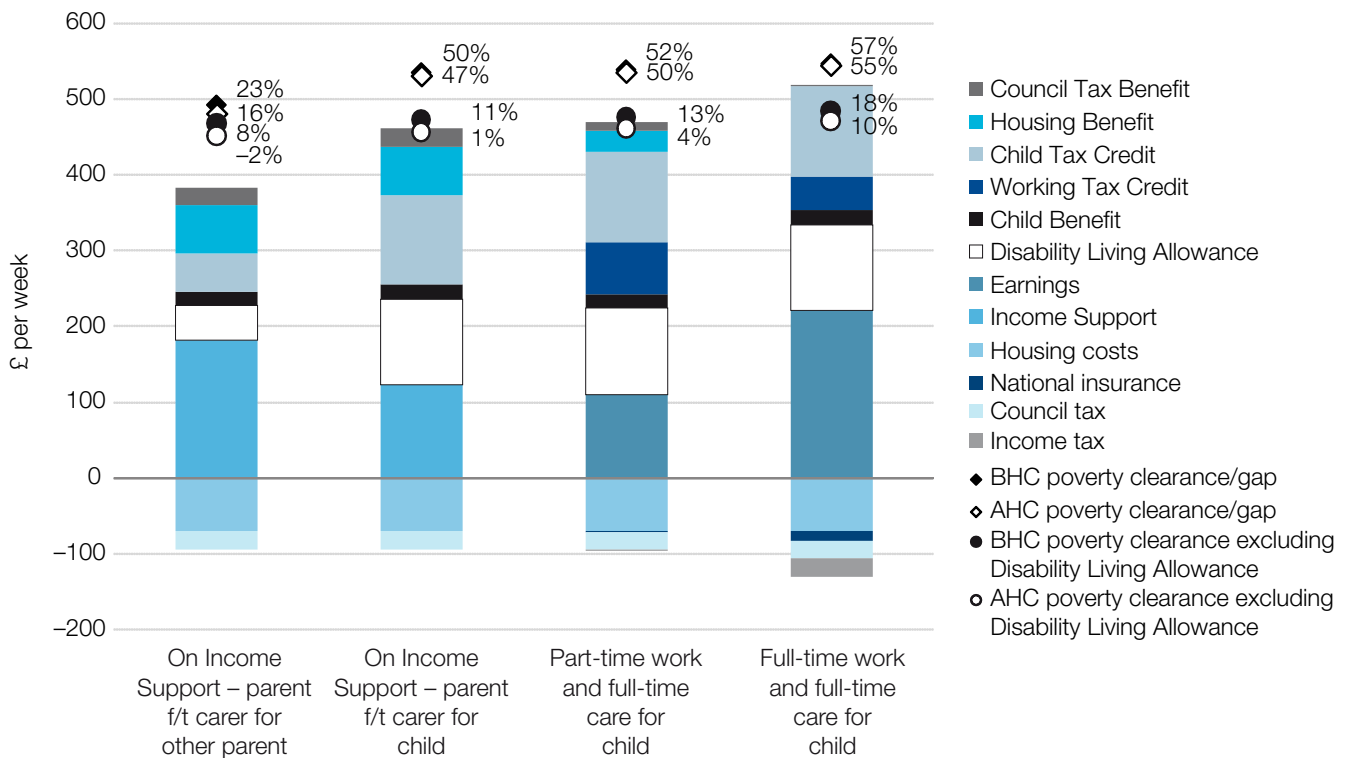
If the family mix employment and caring between the couple parents then Figure 20 shows that high level of Disability Living Allowance care (attributable to the child) and part-time earnings (20 hours at Minimum Wage) make little attributable difference to the poverty profile from where neither parent worked – 50% clearance if Disability Living Allowance is included in income and 4%–13% clearance if it is subtracted from income. The final version illustrates what happens if one parent works full time – again very small marginal differences in poverty as the family face very high marginal deduction/tax rates. Forty hours at the Minimum Wage lead to poverty clearance of between 55% and 57% if Disability Living Allowance is included in income and between 10% and 18% if it is excluded.

Figure 19: Single parent full-time carer



Source: Authors' calculations from LOIS

Figure 20: Couple with one parent full-time carer



Source: Authors' calculations from LOIS

# 4 Conclusions and recommendations for analysis

This report began by unpicking the concept of being ‘unable to work’ and suggesting that programmes designed to pivot around an assessment of ability versus inability to work were subject to clear problems of measurement and of context. With problems with defining ‘inability’ to work we have looked across a set of circumstances where parent(s) do not work and additionally where constraints are severe. Taking up the issue of low pay as an underlying constraint, we have assessed income packages available during maternity, short-term unemployment and sickness. Analysis of the issues surrounding inability to work has focused on people with reduced capacity to work and those with disabilities and their carers.

We are encouraged to make recommendations in this report – both for policy and for further analysis. However, the limits of both our analysis and of the evidence we have found, together with the need to bring other analysis from our sister reports into the frame, mean that we are very cautious about making strong recommendations for policy at this stage.

However, the underlying themes of our approach do seem to bring out some clear problems with current policy approaches.

First, that an over-emphasis on individual characteristics that determine ability to work is not optimal. Job characteristics matter and overall employment demand matters hugely. An over-emphasis on a supply side based on individual characteristics and incentives underpins many of the subsequent problems in policy performance that we found. We make no further recommendations concerning employment policy here but leave that to Simmonds and Bivand in their accompanying report.

Second, the issue of variability and change in conditions that relate to inability to work is clearly problematic. Maternity is an evolving and changing

condition but we found that benefits and tax credits are very poorly structured to ensure smoothed income protection for the low-paid. Reliance on take-up of ‘responsive’ Housing and Council Tax Benefits for short periods or relying on tax credits to respond to changes in income and circumstances *at all* is just poor ‘joined-up thinking’. The strengths of maternity provision were in the provision of Statutory Maternity Pay and Maternity Allowance for fixed periods; the weaknesses were on their population coverage and on the ability of means-tested systems to accompany these. This appears to be a problem of targeting. Maternity is as clear a categorical condition as one can find and the categorical benefits work reasonably well for those that qualify. The means-tested benefit package is just not designed or implemented to hit a moving target.

Inconstant health in work and short-term unemployment are also problematic. Now that the majority of child poverty is associated with employed parents, the assumptions about and prioritisation given to incentives for job-entry need to be accompanied by better provision for those in low-paid work. The differences between in-work and out-of-work support levels make poverty certain for parents with interruptions from sickness or short-term unemployment. Policy-makers tend to view low-paid employment too much as a one-way escalator and insufficiently appreciate both the roller coaster and the preponderance of short ride in low-paid jobs. A better design of in-work support for variable circumstances seems an essential next step.

Variability in disability, capability for work and caring and the ability of benefits and tax credits to cope is a clear theoretical problem, but evidence currently is poor. Underlying child poverty numbers show around a third of all child poverty associated with reported disability, mostly parental, but fairly

low coverage by disability benefits. This may indicate that conditions that people report as disabling may not qualify for and/or lead to take-up of disability benefits. Given that conditions that give rise to disability benefits tend to be tested as having some elements of permanence, this indicates that the system is not set up to reflect adequately non-severe and non-permanent or variable conditions. Employment Support Allowance may assist some in this regard, but its impact will take time to assess and only those who are seen as qualifying for the highest levels of out-of-work components seem to stand any chance of crossing the poverty line.

But the problems of responding to change and to variability in conditions are symptomatic of larger structural problems in policy that are mostly beyond the scope of this report. Current means-tested programmes seem poorly adapted to take on the constraints and characteristics of those who have reduced ability to work. The inability to react promptly and adequately has already been discussed. However, our illustrative tax-benefit modelling often demonstrated both the inadequacy of the system in money terms to meet poverty level income standards alongside incredible complexity in this failure for many. Take-up is a problem and is often one that involves small entitlements to Housing Benefits and Council Tax Benefits at crucial times. Improving take-up without structural change and simplification is difficult. But some recent changes seem to have been implemented inconsistently in terms of smoothing and simplifying benefit packages. When tax credits were originally introduced in the late 1990s they were heralded as being more generous in order to lift most out of the need to claim Housing and Council Tax Benefits. As rents and council taxes have risen consistently and tax credits have risen and eroded inconsistently, this becomes less and less true. This is not just about reducing complexity by reducing the number of benefits that have to be claimed; it is also crucial to anti-poverty strategy. Without a firm commitment to consistently keep the value of all elements of tax credits rising alongside rises in the poverty line then its anti-poverty impact worsens over time.

The cost to child poverty of complexity in the system is not limited to the issue of non take-up. There are costs in efficiency in delivering anti-poverty outcomes because complexity and

insecurity influence the perception of risk, and working in low-paid jobs with constraints from health and disability is inherently risky. Policy is not performing well to smoothing income and thus smoothing perceived risk. Barr identifies three important factors in designing incentives to work: first, making work pay, where current programmes have most focus; second, ensuring incentives to earn more are not blunted by too high marginal deduction/tax rates, where the current system has significant problems; and third, ensuring some platform of income certainty by not revising means tests too frequently (Barr, 1998). It is in this last area where the problems for child poverty are most worrying because the current design is worse both ways – benefits like Housing and Council Tax Benefits will immediately cut back and immediately (subject to administration and take-up) cut in again, but tax credits will respond poorly – smoothing only on assumptions of increases of overall income change over a year and poorly responding to changes in need that require additional assistance. Improved work incentives from ‘making work pay’ are undermined by uncertainty and policy implementation itself overly contributes to such uncertainty.

Much of this implementational uncertainty comes from the multiplicity of agencies and means tests involved. We have not considered the issue of Education Maintenance Allowances or student fees and bursaries that will affect older parents with older children, but even so, targeting efficiency is being blunted by administration costs for government and in compliance and information costs for the public. Having two separate parts of Her Majesty’s Revenue and Customs (HMRC), the DWP and local authorities involved at the same time is a recipe for duplication of effort and poor co-ordination. The arrival of new ‘better off in work credits’ in work while well intended and correctly appreciating an incentive problem is a clear indication of piecemeal addition of new elements of transfers that worsen overall transparency and information, and potentially make take-up problems yet worse. Information costs are huge. But worse in many ways is that the overall administration of programmes essentially shifts the transaction costs of multiple means testing on to the individuals concerned – blunting gains to work incentives and



making risks greater than necessary for a risk-averse population.

Put together the unresponsiveness, the take-up issues, the multiple agencies and what we have in place at the moment is homage to Greek civilisation: both labyrinthine and Byzantine.

It is time to be positive and to make some tentative recommendations. Before we do so we should stress the limitations of our approach once more. Our analysis has been simple: a review of the quantitative evidence together with simple tax-benefit models to illustrate how current programmes protect against child poverty or otherwise. We have identified areas where the design of programmes appears problematic. It should be stressed again that these are illustrative and not necessarily representative profiles. But in most cases we have been unable to accurately estimate the incidence of child poverty associated with the problems of design and coverage of programmes that we have identified. In some instances this is of real concern, and came as quite a shock to us. The inability to know what percentage of births is covered by maternity provision is a crucial strategic hole in planning to eradicate child poverty, for instance. Our illustrative tax-benefit modelling has also based itself on the 'baseline' of Minimum Wage levels for earnings. Further analysis could be undertaken to estimate the level of wages where the problems of child poverty end. This would be separate and new research and could not be accommodated in the current set of analysis for this report.

## Options for policy and analysis

What are the potential effects on child poverty and the ability of government to meet the target of abolition, and what more is needed in information and in policy development? Before putting forward our own suggestions we would like to emphasise the need for clearer indication of the effect of existing policy commitments on child poverty. For instance, what effect will extending the school leaving age to 18 have? What effects will extending maternity allowance to 12 months? There appears to be a need for a timely policy audit of existing policy commitments to assess how far these will lower child poverty by 2020.

First, when we step back, there is some uncertainty about what 'abolition' means and a growing realisation that an underlying low level of child poverty will meet the target as the target is in part to match the best in Europe – which means having rates of child poverty that may be around 5% to 8% (Work and Pensions Committee, 2008). This raises issues of how far 'short-term' frictional rates of child poverty, as outlined in Section 2, may actually be a hidden assumption of policy-makers. 'Work for those that can, security for those that cannot' may fundamentally mean that poverty will be assured if you are not employed unless you are exceptionally 'unable to work' as opposed to routine non-employment or interruptions in employment. If this is the case then it should be made explicit and not remain a hidden built-in risk of poverty that comes with low-waged employment for parents. If it is not a hidden assumption then we need to effectively deal with such issues and improve our knowledge and policy making.

Our first recommendation is thus to take comparative lessons from our low poverty peers in Europe. Do the countries with low levels of child poverty have them because of such short-term risks or do they reflect other assumptions? Knowing more about which children are poor in the best countries in Europe and why should help us greatly to make policy that matches their performance. Target setting on child poverty should be aligned to a bigger evidence base from peer performance.

Our analysis has also suggested some poor reconciliation of equality issues. We have seen horizontal questions of equality, for instance, in maternity for women and for people with disabilities and their carers, poorly reconciled with vertical equality. It seems essential to have these better aligned if one's aim is an anti-poverty one. For instance, the evidence indeed suggests that those with the best wages and employment conditions receive relatively much larger direct and indirect benefit in maternity provision. Equalising opportunity or 'opportunity for all' may be a hollow or shallow approach if it cannot also equalise underlying constraints.

## Maternity and child poverty

The absence of clear descriptive data on the incidence and underlying composition of child



poverty for the first 12 months and in late pregnancy make this a priority area for prompt new analysis. Better information on the proportion of births covered presently by Statutory Maternity Pay and Maternity Allowance, on the overall performance of income and employment packages prevent child poverty for these children and the position of take-up of income-related benefits is needed.

There are several potential policy interventions that should be modelled and costed.

- What would ‘universal’<sup>3</sup> coverage of a Maternity Allowance – based on the flat-rate Statutory Maternity Pay/Maternity Allowance for those births that are currently not covered – have as an impact on cross-sectional child poverty?
- How could current tax credits and other transfers be adapted to provide simpler clearer entitlements with lower administrative and information costs and better incentives to return to work after maternity?
- What are the incentive problems associated with such provision and how could ‘conditionality’ be designed to lessen these?

### **Short-term unemployment and child poverty**

Policy has to move to support the dynamic needs of low-paid labour market participation for parents. Recent announcements on piloting retention and advancement are welcome (DIUS and DWP, 2007; DWP, 2008a) and will take forward evidence from the Employment Retention and Advancement Study (Hall, *et al.*, 2005; Hoggart, *et al.*, 2006; Riccio, *et al.*, 2008). We would welcome confirmation of commissioning longer-term findings from the Employment Retention Study. However, a clear set of improvements to retention and advancement needs to underlie the child poverty target to take forward the recommendation of the Harker review of child poverty (Harker, 2006).

The options for revising the current system to provide better short-term income smoothing are limited if one wants to prevent adding more complexities to an over-complex system. Our suggestions are tentative:

- Analysis to obtain better dynamic evidence of interruptions from work through unemployment and their relationship to both incidence and risk of child poverty.
- Explore the ability to make tax credits more responsive to short-term fluctuations in income and/or provide a form of ‘run-on’ protection that is equivalent to a short-term unemployment benefit. Model the outcomes and effects of a short-term run-on to Working Tax Credit that operated for (a) all those with entitlement to both Working Tax Credit and Child Tax Credit and (b) to those with entitlement to Child Tax Credit alongside earnings below the threshold for family element only cases. If better income range targets are available then these can be used in place of these target groups. Our presumption is that such a run-on would be of three months at a maximum but a fuller estimation of labour supply effects would be needed to better specify this.
- Explore improved delivery and re-calculation of tax credits and other means-tested assistance when unemployment occurs in families with a continuing earner. The potential for delay and non-take-up for such families appears very high and would be linked to potential child poverty. These pre-emptive income smoothing services that ensure claims are made and economic shocks minimised should be part of the retention and advancement pilots.

### **Short-term sickness in work and child poverty**

There is a large data deficit. Many sick parents count as being ‘employed’ in the HBAI profiles even though they are unable to work. Data on the incidence and spending on Statutory Sick Pay is obscured by the fact that it is part state transfer and part occupational welfare.

Our recommendations for analysis and modelling are:

- Secondary analysis of the Family Resources Survey, Family and Children’s Survey and perhaps Labour Force Survey to obtain better estimates of incidence of parental sickness in

employment and any differential impacts for the low-paid and of take-up.

- Modelling of the effects of increasing Statutory Sick Pay to a level that will provide better income smoothing in employment for low-paid people (or parents in particular). Such modelling would also have to take account of any demand-side effects that would stem from any increase in employers' costs of Statutory Sick Pay.

### **Incapacity, disability and caring**

The new Employment Support Allowance will come into force in October 2008 and any consideration of its effects on parents with limited capacity for work should first consider the evidence and modelling produced by DWP of its impacts on employment and incomes over the short to medium term. This evidence can then be used to determine likely impacts on child poverty up to 2020.

Some short-term impacts require careful and explicit consideration in regard to lone parents. Alongside the introduction of Employment Support Allowance will be the introduction of changed entitlement rules for Income Support that will mean that lone parents with children aged 12 and over will have to claim either Jobseeker's Allowance or Employment Support Allowance. It is clear that a separate analysis and review of how many lone parents will potentially enter work, move on to Jobseeker's Allowance and on to Employment Support Allowance is required. Old evidence from New Deal for Lone Parent evaluations clearly show that many long-term lone parents suffer from limiting long-term illness. Existing transition patterns for lone parents when their youngest child reaches the age of 16 can be used to inform the analysis and projection.

Our recommendations are:

- Analysis on those with limited capacity to work and their entry into and progression in employment should also be undertaken in line with any recommendations from our sister reports on employment, equality and vulnerable groups.

- The relationship between child poverty and disability is clearly obscured presently by the failure of HBAI to equalise incomes to reflect the extra costs of disability. We strongly recommend further analysis of the 2006/07 HBAI to profile the extent to which such an approach would change child poverty incidence, shares and gaps. This analysis should also undertake decomposition of poverty gaps created by the new revised analysis to look at income packages of those with disabilities and the prevalence of specific disability benefits alongside earnings and other benefits and tax credits.
- We further recommend, preferably as a second part of the fore-mentioned analysis, an estimate of take-up of the range of benefits that affect disabled people. This should then be followed by re-estimation of poverty incidence, shares and gaps on revised estimates of improved take-up to demonstrate how far existing income packages and support for people with disabilities can go towards eradicating child poverty.
- We recommend modelling of a range of potential improvements to carers' benefits. However, this is an area already under review by DWP and will be reported on at some point in the near future.

## Notes

- 1 Periods of unemployment between jobs rather than long-term structural unemployment.
- 2 Take-up of the motability scheme is also linked to receipt of mobility elements of Disability Living Allowance.
- 3 We use 'universal' to indicate comprehensive coverage across all births so that current expansion of Statutory Maternity Pay to 12 months would also be accompanied by widened access to a provision that looks like Maternity Allowance on a non-contributory and non-work associated basis.

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