

CARE RESEARCH PAPER

# couple penalty 2008/09

Third Annual Review of the disposable incomes after housing costs of families on low and modest incomes living together and living apart.

*Foreword by Leonard Beighton*

By Don Draper  
Fiscal Policy Consultant





Copyright © CARE 2009  
All rights reserved  
Published by CARE  
ISBN 978-0-905195-10-0

British Library Cataloguing-in-Publication Data  
A catalogue record for this book is available from the British Library

**CARE**

53 Romney Street / London SW1P 3RF  
t: 0207 233 0455 mail@care.org.uk www.care.org.uk

Charity Number 1066963 Scottish Charity Number SC038911



# preface

It is a great pleasure to bring you *The Third Annual Review of the Couple Penalty* which measures the couple penalty for the fiscal year 2008/09.

The Review demonstrates that sadly the couple penalty very much remains in place and is now impacting more people than in 2007/08.

The Couple Penalty generates a very unfortunate incentive for couples with children on low to modest incomes to live apart, which is the last thing needed in a country wrestling with the social and economic costs of weak family formation/family breakdown and all its negative implications for parenting, child development and youth disaffection.

Created as an unintended consequence of government tax credit and benefits policy, the couple penalty is not an unfortunate 'given' we have to live with. In the same way it was created by government policy, so too it can - and must - be removed by government policy.

CARE is extremely grateful to Don Draper for the huge amount of work he has put in to the production of this research (not to mention preceding Annual Reviews) and to Leonard Beighton, Janet Horgan and Alistair Pearson for their invaluable assistance to him.

We hope that *The Third Annual Review* will be widely read and that removing the couple penalty (or at least substantially eroding it) will become one of the key political issues in the run up to, and during, the next General Election.

**Nola Leach**  
Chief Executive  
**CARE**

# about the author

Don Draper is an independent fiscal policy consultant. He has given evidence on behalf of CARE to Parliamentary Committees which have investigated tax credits and child poverty. He is the author of - among other things - the three Annual Reviews of the Couple Penalty and, with Leonard Beighton, *The Taxation of Families 2006/7* and *The Taxation of Families 2007/8*, publications that have received widespread media coverage, promoting considerable political debate.

# acknowledgements

This paper measures the disposable incomes of couples with children on low to modest incomes in 2008/09 living together and living apart. It updates previously published figures for 2006/07 and 2007/08. I would like to thank CARE for their continuing support of this work and not least for their secretarial and editorial assistance. I am indebted to my colleagues Leonard Beighton and Alistair Pearson for their encouragement, many helpful suggestions and comments; also, and most particularly, to Janet Horgan who has once again audited the underlying calculations. I would also like to thank Professor Anderberg for permission to reproduce Table 13.

Although every effort has been made to weed out errors, there are over 7,000 figures involved and some may still remain. For these I alone am responsible. Without access to the Department of Work and Pensions interactive Tax Benefit Model Tables, this research would have been impossible. All of us who use these tables or the figures derived from them owe the DWP statisticians who assemble the data, and who write the formulas for the tables, a deep debt of gratitude.

**Don Draper**

# foreword

Increasing attention has been paid in recent years to the comparative treatment under the tax and benefit systems of lone parents and of couples. One reason for the wider interest in this matter is the contribution to the debate resulting from the research on the impact of the systems on couples undertaken by Don Draper – my colleague as a CARE consultant. At first some commentators questioned whether the couple penalty did exist. This now seems unarguable even when the additional housing costs of living apart are taken into account. Other researchers have confirmed this.

In the present paper – the third in the series – Don brings up to date his earlier research on the impact of tax and benefits on individuals who are thinking of coming together as a couple, or, if they are already a couple, considering splitting up. No-one has suggested that financial considerations are likely to be the only, or even the major, factor in such decisions, but both economic theory and analysis, as well as anecdotal evidence, suggests that they do matter.

It is only right and proper that government policies should pay full regard to the difficulties in which lone parents can find themselves and provide help and support to relieve them. But because such measures are rarely complemented by comparable measures for couples on low incomes, an imbalance between the two has arisen. This seems perverse, particularly given the well-proven advantages which, in general, the children of couples, and in particular of married couples, enjoy; for example better health, education and behaviour, compared with children of lone parents.

Don's research provides some revealing insights which should influence the policies of whatever Government we may vote into power at the next General Election. Although at a time of very serious economic difficulties it will be especially difficult to make changes, the Exchequer cost of family breakdown cannot be ignored. The challenge will be to find answers which will provide fair and compassionate systems laced with common sense. We have to recognise that society has moved a long way, but that is no reason for adopting solutions which are less than optimal for the wellbeing of our children and grandchildren.

**Leonard Beighton**

# Couple Penalty 2008/09

## Executive Summary

1. This paper is the third annual review of the disposable incomes, after housing costs, of 98 families on low and modest incomes.
2. Most couples lose significant amounts of tax credits if they live together. The review takes account of not only tax and benefits but also the additional housing costs that result from a decision to live apart. It updates a similar analysis of disposable incomes in 2006/07 and 2007/08.<sup>1</sup> As in the previous paper, the incomes of couples are compared living together and living apart. Separate figures are shown where maintenance payments are made by the non-resident parent (NRP).
3. When housing costs are taken into account, the financial disadvantage of living together is less, but for 75 per cent of the families modelled, the disadvantage remains. The biggest losers from living together are one-earner couples where the parent-with-care (PWC) would receive income support when living alone. Although in general two-earner couples do not gain significantly by splitting up; there appears to be a significant advantage for higher-income couples.
4. The review suggests that in 2008/09 there has been an increase in the number of couples who would have been better off living apart. This was largely due to changes in the benefit rules that apply to maintenance payments. In 2008/09, where maintenance payments were made, 74 couples would have been, on average, £58 better off in 2008/09, compared with £48 per week in the previous year.
5. If maintenance payments are disregarded, the number of couples worse off living apart remained almost unchanged. 76 couples were worse off living apart in 2008/09 compared with 75 in 2007/08. For these couples the average couple penalty remained unchanged at £68 per week.
6. The average disposable income of these families after tax and rent is taken into account was £302 per week. The couple penalty represented 22 per cent of disposable family income. In other words, the couples affected would have been 20 per cent better off staying apart or separating, even when housing costs are fully taken into account. The figures do not take account of any saving in utility and food costs that result from families living together, but it does not seem likely that these savings would amount to as much as £68 per week for the average family.

7. Although, disregarding the possibility of maintenance payments, the number of families affected by the couple penalty has remained much the same and the average penalty unchanged, these findings mask some changes. For couples on lower incomes the penalty has decreased, whereas for couples on higher incomes the penalty has increased. This appears to be the result of the changes in the tax and tax credit system that took effect in 2008/09.
8. For single-earner couples with the lowest surveyed income (in 2008/09, £260 per week), the couple penalty was £40 per week compared with £44 per week in 2007/08. For couples with the second lowest surveyed income (in 2008/09, £390 per week), the penalty was £82 per week compared with £83 per week in 2007/08. For couples with the highest surveyed income (in 2008/09 £520 per week), the average penalty increased from £138 per week to £142 per week.
9. For two-earner couples, the couple penalty is not significant where the combined income is less than £400 per week, but becomes significant above £550 per week.
10. For couples on income support, there is a £26 per week advantage in living apart.
11. Finally, the paper looks briefly at the arguments both for reducing the couple penalty and for retaining it as an accepted part of the tax and benefit system.



## Introduction

12. This paper is the third annual review of the disposable incomes, after housing costs, of 98 families on low and modest incomes. It updates a similar analysis of disposable incomes in 2006/07 and 2007/08.<sup>2</sup> As in previous reviews, the incomes of couples living together and living apart are compared. Separate figures are shown where maintenance payments are made by the non-resident parent (NRP). The only material change has been an up-rating of incomes to take account of the growth in earnings as recorded in the Annual Survey of Hours and Earnings (ASHE).

## Methodology

13. For every family, disposable income after housing costs has been calculated using the Department of Work and Pensions' (DWP) Tax Benefit Tables, June 2008 edition. Housing costs were taken to be those used in the tables, i.e. rent and council tax. Utility costs are not taken into account. The families modelled are not actual families and the families, selected are not a statistical representation of any sector of society. Consequently the average figures quoted in this paper only give a broad indication of the 'bias' in the system.
14. It is thought that the families selected do nevertheless represent a fair cross-section of families on or below average incomes, including those who depend entirely on income support. The make-up of the sample by family type is set out in Table 1 below.

**Table 1**

### Family Types

Family Type	Number
Unemployed couples with one child	2
One-earner couples with one child	12
One-earner couples with two children	13
Unemployed couples with two children	2
Two-earner couples with one child	33
Two-earner couples with two children	36

15. Various housing situations were selected. The make-up of the sample by tenure is set out in Table 2.

**Table 2****Housing Types**

Housing Type	Number
Social housing	40
Private rented	35
Owner occupier with mortgage	23

16. Incomes selected are based on the 2008 figures for median earnings.<sup>3</sup> In April 2008 full-time male median earnings were £521 per week, female £412 per week and part-time female £150 per week. Accordingly one-earner families were modelled with earnings of £520, £390 and £260, i.e. incomes which approximate to full, three-quarter and half average male earnings. Two-earner families were assumed to have a second earner earning £92 per week (i.e. 16 hours at the £5.73 minimum wage), £150 per week and £410 per week. Table 3 below shows the breakdown by family income.<sup>4</sup>

**Table 3****Income Types**

Income Type	Number
Income support only	4
One earner £260 per week	7
One earner £390 per week	9
One earner £520 per week	9
Two earners £260 and £92 per week	12
Two earners £260 and £150 per week	12
Two earners £390 and £92 per week	12
Two earners £390 and £150 per week	12
Two earners £520 and £92 per week	6
Two earners £520 and £150 per week	3
Two earners £520 and £410 per week	12

17. The benefits taken into account were child benefit, housing benefit, council tax benefit and two of the passported benefits (welfare foods and school meals). Examples were worked both with and without child care costs. Child care costs were assumed to be the same as in 2007/08. Table 4 opposite shows the breakdown of the sample by assumed child care costs. One-earner couples were assumed not to have any child care costs.

**Table 4**

**Child Care Costs**

Child Care Costs	Number
None	61
£60 per week	29
£120 per week	8

18. Disposable incomes were calculated in three different ways:

- The couple lived together either as a married couple or cohabiting as husband and wife, with the result that they were treated as a couple for tax credit and benefit purposes.
- The couple lived apart and no maintenance payments were made.
- The couple lived apart, maintenance payments were made and current tax credit and benefit rules applied.

19. For the maintenance payments examples, it was assumed that non-resident fathers were making payments approximating to those that would have been awarded by the Child Support Agency, i.e. in the case of a non-resident parent with a net weekly income of £200 or more, 15 per cent for one child and 20 per cent for two children.

20. Rents paid were assumed to be those used in the Model Tables for couples and lone parents. In the case of the non-resident parent, the rents used in the tables were for single persons without dependants. It is assumed that, on a split, the parent-with-care (PWC) remains in the 'matrimonial home' on the same terms as before. The Model Tables do not provide information on the housing costs of owner-occupiers, and assumptions have had to be made about the mortgage interest payments of owner-occupier couples. These assumptions may be wide of the mark in some cases. The figures for owner occupier couples should be taken with considerable caution bearing in mind that nearly 70 per cent of all children live in owner-occupied property (see paragraph 22 over).

21. The DWP tables assume that weekly rents are:

Single in social housing	£53.98
Single in private rented accommodation	£120.90
Lone parent one child in social housing	£59.99
Lone parent one child in private rented accommodation	£142.10
Married couple one child in social housing	£59.99
Married couple one child in private rented accommodation	£142.10
Lone parent two children in social housing	£66.99
Lone parent two children in private rented accommodation	£192.10

Married couple two children in social housing	£68.99
Married couple two children in private rented accommodation	£191.10

22. The DWP provide information about the composition of low income groups of children by tenure.<sup>5</sup> The figures for 2006/07 (latest available) for households with incomes below 70 per cent of median income are set out in Table 5 below.

**Table 5**

**Children in households below 70 per cent of median equivalised income (after housing costs)**

Housing Type	Children below 70% of median income		All children	
	Percentage	Number (million)	Percentage	Number (million)
Social housing	40	2.0	21	2.7
Privately rented	18	0.9	11	1.4
Owned with mortgage	35	1.8	58	7.5
Owned outright	7	0.3	10	1.3
ALL TYPES	100	4.9	100	12.8

23. The figures for households below 50 per cent of median income are set out in Table 6.<sup>6</sup> These may be more relevant to the more fragile families with the lowest incomes. Unsurprisingly, the percentage of children in families that own their own homes (38 per cent) is much smaller than for all children.<sup>7</sup>

**24. Table 6**

**Children in households below 50 per cent of median equivalised income (after housing costs)**

Housing Type	Percentage of children	Number (million)
Social housing	40	1.1
Privately rented	22	0.6
Owned with mortgage	31	0.9
Owned outright	7	0.2
ALL TYPES	100	2.8

## Results

25. For over three-quarters of the 98 couples, there is potentially a significant benefit from living apart. The review suggests, moreover, that in 2008/09 there was an increase in the number of couples who found themselves better off living apart than living together, largely due to changes in the benefit rules that apply to maintenance payments.

## Overview

26. If maintenance payments are ignored, 76 couples were found to be worse off living apart in 2008/09 compared with 75 in 2007/08. The average couple penalty remained unchanged at £68 per week.

27. Where maintenance payments are included, 74 couples would have been better off living apart compared with 65 in 2007/08, on average by £58 per week compared with £48 per week in the previous year.

28. The average disposable income of these families after tax and rent is taken into account was £303 per week. The couple penalty represented 22 per cent of the disposable family income. In other words, the couples would have been 20 per cent better off staying apart or separating.

29. There is considerable variation. The couple at the biggest disadvantage is a two-earner, two-child couple in private rented accommodation with weekly incomes of £520 and £150 and child care costs of £120. Living together, the couple has a disposable income of £308 per week. Living apart in rented accommodation, they would have a joint disposable income of £494 per week. For this couple, living together costs £186 per week; living apart increases the family income by 60 per cent.<sup>8</sup>

30. In contrast, two-earner two-child couples with weekly incomes of £520 and £410 and no child care costs would have found that there was a weekly cost of more than £100 in living apart. This is because, living apart, the couple's only additional tax credit benefit of £21.33 per week would be cancelled out by the additional housing costs.<sup>9</sup>

31. For a one-earner, one-child couple living in social housing with an income of £260 per week, the financial advantage in living apart would have been £48 per week. Together, this family would have had a disposable income of £232 per week. Living apart, their joint disposable income (assuming the non-resident parent could find rented accommodation costing £54 per week) would have been £280, an increase of £48. Living apart could increase this family's income by 21 per cent.<sup>10</sup>

If the non-resident parent were paying maintenance of £30 per week, the advantage would be less, at £38 per week.

32. Most of the families modelled who faced a couple penalty were in rented accommodation. Only nine of the 23 couples living together in owner-occupied accommodation had a couple penalty.
33. Figures for all 98 couples are in Appendix A.

## ***Policy changes***

34. In 2008/09 a number of changes to the tax, tax credit and benefit system took effect, which affected the 'couple penalty'. One of the more important of these changes was an increase in the child element of the Child Tax Credit (CTC) coupled with an increase in the Working Tax Credit (WTC) threshold, and a rise in the withdrawal rate to 39 per cent. This had the effect of increasing the tax credits which families on the lowest incomes receive, with the result that couples on the lowest incomes (in this study, single-earner couples earning £260 per week) now have less incentive to live apart, whereas couples on higher incomes (in this study couples on £390 and £520 per week) have a greater incentive.
35. There was also an important change in the way maintenance payments are treated for benefit purposes. A lone parent on benefits (income support) can now keep up to £20 a week of any child maintenance received or collected on their behalf before it affects the amount of benefit received. Also, maintenance payments are now totally disregarded for housing benefit and council tax benefit purposes, as well as for tax credit purposes. Previously only £15 was disregarded. These changes explain why the 'couple penalty' has increased by a larger amount on a maintenance paid basis.
36. The case for this policy change is understandable. Absent fathers should not be discouraged from supporting their families. Under the previous rules, some families received little net benefit for maintenance payments, as these were taken into account in assessing the recipient's entitlement to benefit. An unavoidable consequence has been that an even bigger gap has opened up between the disposable income a couple would receive living together as opposed to living apart. In effect these couples are allowed a measure of income pooling without any loss of in-work benefits.<sup>11</sup>
37. Also important was a cut in the basic rate of income tax to 20 per cent, coupled with the abolition of the 10 per cent starting rate, and the increase in the individual personal allowance to £6,035. An unintended consequence of the abolition of the 10 per cent rate was a reduction in the tax paid by couples living together on low incomes. Couples who have benefited from this change and the increase in tax

credits have seen some reduction in the ‘couple penalty’ in 2008/09. However, it remains the case that for three-quarters of the couples sampled there is still a significant couple penalty, and for couples on modest incomes the penalty has increased. Averaging the results for all couples sampled, couple penalty is higher in 2008/09 than in 2007/08, which in turn was higher than in 2006/07. In considering the results, it needs to be borne in mind that for the couples facing a couple penalty, the average disposable income (net of tax, benefits, rent and council tax) was only £302 per week. This means that on average the couples affected would be more than 20 per cent better off living apart. Put the other way round, if they are currently living apart and want to either cohabit or marry, they would need to budget for a 20 per cent drop in income.

## Types of family

38. Table 7 below shows the average amount by which families (split by income type) would be better off living apart.

**Table 7**

### Average amount better off living apart by type of income

Income Type	No Maintenance Payments	Maintenance Payments <sup>12</sup> Current Law
Income support only	£26.05	£26.05
One earner	£91.80	£53.42
Two earners	£26.65	£26.10
All couples	£43.25	£33.77

39. The couple penalty paid by one-earner families is a staggering £92 per week (on a non-maintenance basis) but lower than the £101 penalty in 2007/08. In 2008/09 the mean disposable income of one-earner families in the sample was £276, which means that the ‘penalty’ accounts for one-third of their income. These families as a group would be more than a third better off living apart than living together, even when additional housing costs are taken into account. On the other hand, two-earner families are much less affected by the couple penalty. For these families as a group, the penalty (again on a non-maintenance basis) was only £26.65. Table 8 shows the number of families affected.

**Table 8****Number of families better off living apart by type of income**

Income Type	All Families	Families Better off	
		No Maintenance Payments	Maintenance Payments Current Law
Income support only	4	4	4
One-earners	25	25	23
Two-earners	69	47	47
All families	98	76	74

40. It will be seen that if there are no maintenance payments, all the one-earner couples are better off living apart and two-thirds of the two-earner couples are also better off living apart. Following the maintenance rule changes, only two of the one-earner couples would be worse off living apart.
41. Of the 98 families sampled, 76 are better off living apart – one more than in 2007/08 and five more than in 2006/07. On a no maintenance basis, the amount by which these families are better off living apart has scarcely changed: the 2008/9 figure is £67.64 and the 2007/08 figure was £67.74. It is still higher than the 2006/07 figure, which was £62.89. On a maintenance payment basis, the 2008/09 figures was £57.75 compared with £47.94 in 2007/08. The change in the maintenance payment rules has increased the couple penalty for the families affected.
42. The average cost of living together in 2008/09 for one-child, one-earner couples is now £95.55 per week after housing costs are taken into account. In 2007/08 it was £91.84 per week.
43. The number of families better off living apart is shown by income type in Table 9 opposite. The average amount by which they are better off living apart is shown by income type in Table 10.



**Table 9**

**Number of families better off living apart by type of income**

Income Type	All Families	Families Better off	
		No Maintenance Payments	Maintenance Payments Current Law
Income support only	4	4	4
One earner £260 pw	7	7	5
One earner £390 pw	9	9	9
One earner £520 pw	9	9	9
Two earners £260+£92 pw	12	7	7
Two earners £260+£150 pw	12	6	6
Two earners £390+£92 pw	12	11	11
Two earners £390+£150 pw	12	10	10
Two earners £520+£92 pw	6	6	6
Two earners £520+£150 pw	3	3	3
Two earners £520+£410 pw	12	4	4
All families	98	76	74

Figures for all 98 couples are in Appendix B.

**Table 10**

**Average amount better off living apart by type of income**

Income Type	Disposable Income Living Together After Housing Costs	Amount Better off No Maintenance Payments	Couple Penalty as Percentage of Disposable Income	Amount Better off Maintenance Payments Current Law	Couple Penalty as Percentage of Disposable Income
One earner £260 pw	£242.80	£39.79	16.4%	£25.52	10.5%
One earner £390 pw	£275.57	£81.55	29.6%	£48.66	17.7%
One earner £520 pw	£323.68	£142.50	47.08%	£87.55	28.93%
Two earners £260+£92 pw	£208.98	£16.57	7.93%	£16.57	7.93%
Two earners £260+£150 pw	£330.80	£11.06	3.3%	£11.02	3.3%
Two earners £390+£92 pw	£314.59	£47.48	15.09%	£47.23	15.01%
Two earners £390+£150 pw	£324.13	£32.46	10.01%	£32.46	10.01%
Two earners £520+£92 pw	£294.00	£96.10	32.72%	£96.19	32.72%
Two earners £520+£150 pw	£349.63	£112.69	32.23%	£112.69	32.23%
Two earners £500+£400 pw	£540.72	-£30.60	N/a	-£30.60	N/a
All couples	£329.53	£43.25	13.1%	£33.77	10.3%

## Housing arrangements

44. There are a number of factors, apart from income, which affect whether a couple will be better off living apart. One of these is housing. Table 11 shows the average financial advantage of living apart for all 98 couples by type of housing.

**Table 11**

**Average amount better off (after housing costs) living apart all 98 couples weekly figures)**

Housing Type	No Maintenance Payments	Maintenance Payments Current Law
Social housing	£26.77	£7.40
Private rental	£77.55	£50.26
Owner occupied with mortgage	-£5.33	-£13.74
All families	£43.25	£33.77

45. Couples who have the most to gain from staying apart or separating are those where the couple or the PWC are living in private rented accommodation. If the couple live in owner-occupied accommodation, in most cases, there appears to be no financial advantage in living apart. Owner-occupiers on income support will be given a measure of help with mortgage costs; owner-occupiers in work receive no help with their mortgage payments. Those in private rented accommodation are likely to receive substantial help with rent through housing benefit.

46. The figures for couples paying mortgage interest need to be treated with some caution. The results are affected not only by the benefit rules but also by the assumptions made about interest rates. If it is right that in general the couple penalty is only likely to apply to families in rented accommodation this still means that potentially a third of families are affected. However, over 80 per cent of children living in households with incomes below or just above the poverty line live in rented accommodation.<sup>13</sup> It is these families who are likely to be most affected by the couple penalty.

## Maintenance payments

47. Where maintenance payments are involved, there has been an increase in the number of families facing a couple penalty. Whereas before 2008/09, maintenance payments reduced the advantage of living apart, they no longer do so to the same extent. Although they did not reduce the recipient's tax credits (because they did not count as income for taper purposes), they did reduce out-of-work and in-work benefits. The old system allowed some parents-with-care on benefits to keep the first £10 a week of any maintenance paid. After this, their benefit was reduced pound-for-pound. This 'disregard' was doubled in 2008 to £20 a week and extended to all parents-with-care and on benefits. The disregard will further increase to £40 a week from April 2010. Previously there was only a £15 disregard for Housing Benefit and Council Tax Benefit; now all maintenance payments are ignored. These changes have increased the financial advantages of living apart, and hence the number of couples facing a couple penalty. Table 12 shows the figures for both 2007/08 and 2008/09.

**Table 12**

### Couple penalty where maintenance payments are made

	2007/08 Maintenance Payments	2008/09 Payments Current Law
Number of families	65	75
Average weekly couple penalty	£47.94	£57.75

48. The latest Family Resources Survey suggests that 22 per cent of single parents receive maintenance payments. The amounts vary, but for almost half of these parents the amounts received each week exceed £50. For 13 per cent, the amount received is in excess of £100 per week.<sup>14</sup> For these families, the way in which maintenance payments are treated for tax credit and benefit purposes changes the economics of living together or living apart.

## Cost to the Treasury

49. The couple penalty not only affects family finances; it also affects the Treasury's finances. The average annual cost to public funds of the 98 couples modelled of choosing to live apart would have been £8,007. This is the cost of additional tax credit and benefit payments net of additional council tax payments resulting from the need to maintain two residences. If maintenance payments are factored in, the cost is less, but at £7,411 it is still substantial. The corresponding 2007/08 figures were £7,668 and £6,854. These figures suggest that the cost to the Treasury of couples living apart has risen by over 4 per cent on a no maintenance basis, and by over 12 per cent on a maintenance paid basis.

## Conclusion

50. A number of points seem to emerge:

- Most couples lose significant amounts of tax credits and benefits if they live together.
- Where couples live apart, there is a significant cost to the Treasury.
- When housing costs are taken into account, the financial disadvantage of living together is obviously less. For 23 per cent of the families modelled there is no financial disadvantage, but for 77 per cent of the families the disadvantage remains (75 per cent if maintenance payments are included).
- The biggest losers from living together are one-earner couples, where the PWC would receive income support living on her/his own.
- Although in general two-earner couples do not gain very much by splitting up, there appears to be a significant advantage for higher income two-earners, i.e. couples where the main earner's income is £520 per week and the second earner has income of £150 per week or £390 per week. The reason for this is that if they live together, their joint incomes take them out of the range of most tax credits and benefits, but if they live apart, the second earner's income will be sufficiently low to attract most of the credits and benefits.
- The type of families most likely to have a significant advantage in staying apart or living apart are those in private rented accommodation, one-earner couples, two-earner couples with modest but relatively high joint incomes, and couples on income support.
- Couples with no or very little advantage in living apart appear to be couples who are owner-occupiers and two-earner couples with relatively low incomes.

51. Although it is by no means the case that all couples would benefit financially from staying apart or living apart, it is clear that many would gain financially. For many low income families the gain would be very significant, and it is difficult to believe that this is not having some effect on family relationships. Economic theory would suggest that a financial advantage would have an effect and, in the absence of unequivocal empirical evidence to the contrary, there is a strong case for arguing that tax credits and benefit policy should be based on the assumption that any bias will have an effect on family structures and children's outcomes.

## Other Research

52. Researchers at the International Centre for Public and Social Policy at the University of Nottingham have examined the literature on the link between financial incentives in the tax and welfare systems and partnership formation and childbearing for the DWP. Their conclusions have been set out in a recently published DWP Research Report.<sup>15</sup> Whilst the researchers accept that there is a couple penalty and that economic theory does see the decision to marry, cohabit or have children as being influenced by financial considerations, including tax and benefits, they say, however, that there is 'no consistent and robust evidence that the welfare system has a significant impact on family structure'.

53. The report does, however, draw attention to CARE's work measuring the couple penalty, and to recent work by Professor Anderberg,<sup>16</sup> which in broad terms confirms the statistical conclusions reached in this and earlier CARE research papers.

54. Using a large representative data set (75,940 couples) taken from the Family Resources Survey 1995-2004, Anderberg has looked at what couples aged 20-60 would receive in welfare transfers when living together and apart. He does not, however, take account of housing benefits or council tax benefits: as he rightly says, these benefits depend on the assumptions made about accommodation decisions on separation. Also, Anderberg does not take account of maintenance payments, which in his survey years would have reduced the couple penalty; the additional housing costs that arise when living apart; or the child care component of WTC. Moreover, the analysis also stops at 2004, since when there appears to have been a further increase in the couple penalty. He also emphasises that the methodology he used only allowed him to cover existing couples. Singles and lone parents were not covered. The omission of lone parents may be important, as much of the anecdotal evidence suggests that the main effect of the couple penalty may be on lone parents. His work also assumes no change in labour supply following separation.

55. Anderberg has, however, covered a very large number of real families, and the conclusions he reaches are clearly important. He found that the couple penalty was both frequent and quite often substantial. Table 13 below shows the percentage of couples affected by the couple penalty.<sup>17</sup>

**Table 13**

**Percentage of existing couples affected by partnership penalties or subsidies; and the average penalty and subsidy among affected couples.**

	1995	2001	2004
Percentage penalised	87%	86%	93%
Percentage subsidised	8%	10%	5%
Average penalty	£38.10 per week	£38.10 per week	£45.60 per week
Average subsidy	£7.80 per week	£19.60 per week	£13.90 per week

56. Twenty per cent of couples had an overall partnership penalty of more than £60 per week. The average weekly penalty tended to be larger for couples with children compared to childless couples, women who are economically inactive, couples with females aged 30-50 (younger and older women were less likely to have dependant children), and couples with fewer educational qualifications. Moreover, as Table 13 above shows, the percentage of existing couples affected by the couple penalty increased from 87 per cent in 1995 to 93 per cent in 2004, and the average penalty increased from £38.10 per week to £46.60 per week. Tax credits have increased since 2004<sup>18</sup>, and it is to be expected that both the percentage of couples affected and the average penalty will increase. For the 98 couples covered by our work, the penalty has increased from £63 per week in 2006/07 to almost £68 per week in 2008/09. We do not have a figure for 2004/05.

57. Anderberg concludes that between 1995 and 2004, 9 per cent of the decline in the number of couples living together can be attributed to welfare benefits. A couple penalty of £100 per week decreases the probability of a women living with a partner by seven percentage points. He points out that the 2003 changes to tax credits significantly increased the average partnership penalty.

58. The research summarised in this paper covers a much smaller number of couples. Moreover, the couples are not real couples, but the data is contemporary and it takes account, not only of tax credits and income support, but also of housing benefit and council tax benefit, and the additional housing costs involved in living apart. The conclusion reached is that even when these costs are taken into account, many couples on low and modest incomes face a significant couple penalty which is likely to affect the decision to live separately or together.

# Policy Issues

59. The question that has to be asked is whether the couple penalty matters, and if so, what is the appropriate policy response? The existence of a significant couple penalty for many couples on low and modest incomes is no longer in doubt. It has been suggested in the past that the existence of a couple penalty is balanced by the savings that arise from living together. It is clear that even when the additional housing costs incurred in living apart are taken into account the couple penalty is significant. Any saving in utility and food costs is unlikely to cancel out this advantage.
60. There are two separate issues. One is whether partnership decisions respond to financial incentives of this kind and the other is whether the couple penalty can be defended.
61. The DWP Research Paper recognises that economic theory sees the decision to marry, cohabit or have children as being influenced by financial incentives and disincentives. As the researchers say, family structure is affected by other factors, including social norms, race and educational attainment. But the DWP researchers conclude that a review of the literature suggests that 'there is no consistent and robust evidence to support claims that the welfare system has a significant impact upon family structure.' More specifically, they say there is no strong evidence to support claims that the welfare system is responsible for the breakdown of the traditional family. Some of us would want to question this conclusion.
62. The DWP Research Paper's conclusion does not fit comfortably with economic theory, or with anecdotal evidence that the combined effect of tax, tax credits and benefits is having an effect. Anderberg has said that between 1995 and 2004 nine per cent of the decline in the number of couples living together can be attributed to welfare benefits. The DWP Research Paper quotes work by Francesco and van der Kaauw<sup>19</sup> which found that the introduction of the Working Family Tax Credit (WFTC) in 2003 resulted in a 'substantial' reduction in partnership rates for single parents. Single parents were on average 2.4 percentage points less likely to form a union than single childless women. This represented a 28 per cent decrease on the average annual rate of union formation, which was viewed as a 'large effect'. Moreover the studies reviewed in the DWP Paper appear to ignore the quality of family life – this is an important omission.
63. The DWP researchers say that a case can be made for 'marriage penalties'. Couples, they say, benefit from household economies of scale and from the time that a second adult can devote to a family. There is also, they say, a trade-off between pursuing neutrality in the welfare system and achieving greater equity. By neutrality they mean a system which gives all families with the same number of children and the same pre-tax income the same benefits. Pro-marriage policies

‘run the risk of (re-) stigmatising other family forms. They undermine the acceptance of, and being neutral towards, individual choices about family structure’.<sup>20</sup>

64. The DWP Research Paper suggests that there is a trade-off between ‘neutrality’ and equity. The tax credit system is certainly neutral in that lone-parent families receive the same tax credits as a couple family on the same pre-tax income. However the Treasury used to argue that support should be based on family need, not family structure. If the official equivalisation scales which are used both for measuring poverty and estimating the distributional effects of tax changes give even approximately right answers, the present tax and benefit system does not do this.
65. Is there really a risk that reducing the couple penalty (the penalty is so large that removing it completely is probably an unrealistic aspiration) would ‘run the risk of (re-)stigmatising other family forms’? Income support benefits, as well as Housing Benefit and Council Tax Benefit, take account of a second parent. No-one has suggested that these benefits stigmatise non-couple households.
66. Although it may be unrealistic to expect the couple penalty to be eliminated entirely, the case for reducing it for the most vulnerable families would seem unanswerable. The advantages to children of living in stable two-parent families, and the long-term benefits for society at large, are so well known that it is surprising that couples are being discouraged from living together. Reducing the couple penalty for low-income families would make a major contribution to child poverty reduction, as well as making the tax and benefit system fairer.<sup>21</sup>
67. It may be said that Treasury finances now rule out any increased support for families. But is it acceptable that where the tax and benefit system is out of balance, as it clearly is, there can be no change until national finances are stabilised? At a time when the tax burden is increasing, it is all the more important that it be fairly shared.

**Don Draper**  
May 2009



# APPENDIX A - Cost /benefit of living together or living apart 2008/09

Positive figures couple better off separated: Negative worse off

Family	Net Income as couple	Cost/Benefit NN Maintenance	Cost/Benefit Maintenance Paid
NRP: Non Resident Parent / LP: Lone Parent			
<b>UNEMPLOYED COUPLES</b>			
<i>One child families</i>			
Example 4: Unemployed couple - one child aged 2 / Social housing, after break-up man moves into rented accommodation paying rent of £53.98 pw	167.29	26.05	26.05
Example 5: Unemployed couple - one child aged 2 / Social housing, after break-up man moves into rented accommodation paying rent of £120.90 pw	167.29	26.05	26.05
<b>SINGLE EARNER EXAMPLES</b>			
<i>One child families</i>			
Example 6: One-earner couple on £260 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £53.98 pw	232.50	47.62	37.62
Example 7: One-earner couple on £260 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw	232.50	15.40	5.40
Example 8: One-earner couple on £260 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £53.98 pw	212.90	67.22	57.22
Example 9: One-earner couple on £260 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw	212.90	35.00	25.00
Example 10: One-earner couple on £390 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £53.98 pw	271.50	98.32	74.32
Example 11: One-earner couple on £390 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw	271.50	31.40	7.40
Example 12: One-earner couple on £390 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £53.98 pw	226.55	143.27	119.27
Example 13: One-earner couple on £390 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw	226.55	76.35	52.35

Example 14: One-earner couple on £520 pw gross one children aged 2 / Couple & LP rent £59.99 pw and NRP rent £53.98 pw	342.57	116.95	78.95
Example 15: One-earner couple on £520pw gross one children aged 2 / Couple and LP rent £59.99 pw and NRP rent £120.9 pw	342.57	50.03	12.03
Example 16: One-earner couple on £520 pw gross one children aged 2 / Couple & LP rent £142.1 pw and NRP rent £53.98 pw	219.94	239.58	143.74
Example 17: One-earner couple on £520 pw gross one children aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw	260.46	140.87	94.14

**UNEMPLOYED COUPLES**  
*Two child families*

Example 18: Unemployed couple - two children aged 2 and 4 / Social housing, couple rent £66.99 after break-up man moves into rented accommodation paying rent of £53.98 pw / NB maintenance would normally be paid if both on IS	216.05	26.05	26.05
Example 19: Unemployed couple - two children aged 2 and 4 / Social housing, after break-up man moves into rented accommodation paying rent of £120.9 pw	216.05	26.05	26.05

**SINGLE EARNER EXAMPLES**  
*Two child families*

Example 20: One-earner couple on £260 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 NRP £ 53.98pw	273.59	55.18	35.29
Example 21: One-earner couple on £260 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP £120.9 pw	273.90	22.76	2.76
Example 22: One-earner family on £260 pw gross two children aged 2 and 4 / Couple and LP rent £192.10 pw and NRP £120.9 pw	261.30	35.36	15.36
Example 23: One-earner family on £390 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw	309.58	18.58	-21.42
Example 24: One-earner family on £390 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £53.98 pw	312.59	105.99	65.99
Example 25: One-earner family on £390 pw gross two children aged 2 and 4 / Couple & LP rent £66.90 pw and NRP rent £120.9 pw	312.59	39.07	-0.93
Example 26: One-earner family on £390 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £53.98 pw	274.64	143.94	103.94
Example 27: One-earner family on £390 pw gross two children aged 2 and 4 / Couple & LP rent £102.10 pw and NRP rent £120.9 pw	274.64	77.02	37.02

Example 27: One-earner family on £390 pw gross two children aged 2 and 4 / Couple & LP rent £102.10 pw and NRP rent £120.9 pw	274.64	77.02	37.02
Example 28: One-earner family on £520 pw gross two children aged 2 and 4 / Mortgage costs £140 pw and NRP rent £120.9 pw	278.58	115.78	63.78
Example 29: One-earner family on £520 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £53.98 pw	351.59	156.69	100.69
Example 30: One-earner family on £520 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw	351.59	89.77	33.77
Example 31: One-earner family on £520 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £53.98 pw	288.39	219.89	163.89
Example 32: One-earner family on £520 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw	288.39	152.97	96.97

**TWO-EARNER EXAMPLES**  
*One child families*

Example 78: Two-earner family on £250 and £92 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	278.61	-50.18	-50.18
Example 79: Two-earner family on £260 and £92 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw no child care costs	288.62	6.17	6.17
Example 80: Two-earner family on £260 and £92 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw no child care costs	232.54	62.25	62.25
Example 81: Two-earner family on £260 and £92 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £117.50 pw child care costs £60	266.48	-13.05	-13.05
Example 82: Two-earner family on £260 and £92 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw child care costs £60	276.49	16.49	16.49
Example 83: Two-earner family on £260 and £92 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw child care costs £60	228.29	64.69	64.69
Example 33: Two-earner family on £260 and £150 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	302.25	-40.94	-40.94
Example 34: Two-earner family on £260 and £150 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw no child care costs	312.26	-6.24	-6.24
Example 35: Two-earner family on £260 and £150 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw no child care costs	240.81	63.60	63.60
Example 36: Two-earner family on £260 and £150 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £120.9 pw child care costs £60	290.12	-6.24	-6.24

Example 37: Two-earner family on £260 and £150 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw child care costs £60	300.13	0.24	0.24
Example 38: Two-earner family on £260 and £150 pw gross one child aged 2 / Couple & LP rent £139 pw and NRP rent £117.50 pw child care costs £60	236.57	63.60	63.60
Example 84: Two-earner family on £390 and £92 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	318.13	-16.73	-16.73
Example 85: Two-earner family on £390 and £92 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw no child care costs	344.87	4.92	4.92
Example 86: Two-earner family on £390 and £92 pw gross one child aged 2 / Couple & LP rent £139 pw and NRP £120.9 pw no child care costs	262.76	87.03	84.13
Example 87: Two-earner family on £390 and £92 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £120.9 pw child care costs £60	305.48	2.95	2.95
Example 88: Two-earner family on £390 and £92 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw child care costs £60	315.49	32.89	32.89
Example 89: Two-earner family on £390 and £92 pw gross one child aged 4 / Couple & LP rent £142 pw and NRP rent £120.9 pw child care costs £60	233.38	114.60	114.60
Example 39: Two-earner family on £390 and £150 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	381.12	-30.11	-30.11
Example 40: Two-earner family on £390 and £150 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw no child care costs	391.13	-30.11	-30.11
Example 41: Two-earner family on £390 and £150 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw no child care costs	309.02	50.39	50.39
Example 42: Two-earner family on £390 and £150 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £120.9 pw child care costs £60	329.12	9.76	9.76
Example 43: Two-earner family on £390 and £150 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw child care costs £60	339.13	9.76	9.76
Example 44: Two-earner family on £390 and £150 pw gross one child aged 4 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw child care costs £60	257.02	98.15	98.15
Example 45: Two-earner family on £520 and £410 pw gross one child aged 2 / Mortgage costs £140 pw and NRP rent £120.9 pw no child care costs	233.26	-117.37	-117.37
Example 46: Two-earner family on £520 and £410 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw no child care costs	660.23	-117.37	-117.37
Example 47: Two-earner family on £520 and £410 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw no child care costs	578.12	-96.76	-96.76

Example 48: Two-earner family on £520 and £92 pw gross one child aged 2 / Mortgage costs £140 pw and NRP rent £120.9 pw child care costs £60	294.56	31.14	33.57
Example 49: Two-earner family on £520 and £92 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw child care costs £60	374.57	62.11	62.11
Example 50: Two-earner family on £520 and £92 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw child care costs £60	292.46	144.75	144.75
Example 51: Two-earner family on £520 and £410 pw gross one child aged 2 / Mortgage costs £140 pw and NRP rent £120.9 pw child care costs £120	460.22	-21.63	-21.63
Example 52: Two-earner family on £520 and £410 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw child care costs £120	540.23	-21.63	-21.63
Example 53: Two-earner family on £520 and £410 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw child care costs £120	458.12	14.75	14.75

## TWO-EARNER FAMILIES

### *Two child families*

Example 90: Two-earner family on £260 and £92 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	326.70	-45.68	-45.68
Example 91: Two-earner family on £260 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw no child care costs	341.21	-28.53	-28.53
Example 92: Two-earner family on £260 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw no child care costs	246.76	100.62	100.62
Example 93: Two-earner family on £260 and £92 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw child care costs £60	314.57	-8.96	-8.96
Example 94: Two-earner family on £260 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw child care costs £60	317.58	26.26	26.26
Example 95: Two-earner family on £260 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £173.30 pw and NRP rent £117.50 pw child care costs £60	345.16	68.78	68.78
Example 54: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	350.34	-38.84	-38.84
Example 55: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw no child care costs	420.34	-99.96	-99.96
Example 56: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw no child care costs	228.24	126.83	126.36

Example 57: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Mortgage Costs £70 pw and NRP rent £120.9 pw child care costs £60	338.21	-4.14	-4.14
Example 58: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw child care costs £60	341.22	9.14	-4.14
Example 59: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw child care costs £60	284.66	65.70	65.70
Example 96: Two-earner family on £390 and £92 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	365.70	5.02	5.02
Example 97: Two-earner family on £390 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw no child care costs	368.71	35.69	35.69
Example 98: Two-earner family on £390 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw NRP rent £120.9 pw no child care costs	260.41	143.99	143.89
Example 99: Two-earner family on £390 and £92 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £117.50 pw child care costs £60	353.57	7.04	7.04
Example 100: Two-earner family on £390 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £62.95 pw and NRP rent £117.50 pw child care costs £60	356.58	42.26	42.26
Example 101: Two-earner family on £390 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw child care costs £60	290.03	110.13	110.13
Example 60: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	389.34	12.33	12.33
Example 61: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw no child care costs	392.35	17.73	17.73
Example 62: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw no child care costs	302.55	107.52	107.52
Example 63: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw child care costs £60	377.21	11.86	11.86
Example 64: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £62.95 pw and NRP rent £120.9 pw child care costs £60	380.22	25.14	25.14
Example 65: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw child care costs £60	298.31	107.05	67.54
Example 66: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / mortgage costs £140 per week;NRP rent £120.9; no child care costs	588.27	-75.23	-75.23
Example 67: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw no child care costs	661.28	-75.23	-75.23
Example 68: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw no child care costs	536.17	-4.62	-4.62

Example 69: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Mortgage costs £140 pw and NRP rent: £120.9 pw child care costs £120	468.27	20.51	20.51
Example 70: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Couple & LP rent £62.95 pw and NRP rent: £120.9 pw child care costs £120	541.28	20.51	20.51
Example 71: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Couple & LP rent: £192.1 pw and NRP rent: £120.9 pw child care costs £120	322.57	106.89	106.89
Example 72: Two-earner family on £520 and £92 pw gross two children aged 2 and 4 / Mortgage costs £140 pw and NRP rent: £120.9 pw child care costs £60	395.58	58.05	58.05
Example 73: Two-earner family on £520 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £62.95 pw and NRP rent: £120.9 pw child care costs £60	395.58	94.59	94.59
Example 74: Two-earner family on £520 and £92 pw gross two children aged 2 and 4 / Couple & LP rent: £192.10 pw and NRP rent: £120.9 pw child care costs £60	303.68	186.49	186.49
Example 75: Two-earner family on £520 and £150 pw gross two children aged 2 and 4 / Mortgage costs £140 pw and NRP rent: £120.9 pw child care costs £120	334.08	65.46	65.46
Example 76: Two-earner family on £520 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent: £120.9 pw child care costs £120	407.09	86.62	86.62
Example 77: Two-earner family on £520 and £150 pw gross two children aged 2 and 4 / Couple & LP rent: £192.1 pw and NRP rent: £120.9 pw child care costs £120	307.71	186.00	186.00

## APPENDIX B - Cost to Treasury of Family Break-Up/Living Apart Cost to couples of Living Together

### Annual 2008/09

NRP: Non Resident Parent / LP: Lone Parent

#### UNEMPLOYED COUPLES

##### *One child families*

	No Maintenance	Maintenance Paid
	£	£
Example 4: Unemployed couple - one child aged 2 / Social housing, after break-up man moves into rented accommodation paying rent of £53.98 pw	-1689.48	-1689.48
Example 5: Unemployed couple - one child aged 2 / Social housing, after break-up man moves into rented accommodation paying rent of £120.90 pw	-5169.32	-5169.32

#### SINGLE EARNER EXAMPLES

##### *One child families*

Example 6: One-earner couple on £260 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £53.98 pw	-5283.2	-4763.2
Example 7: One-earner couple on £260 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw	-7087.6	-6567.6
Example 8: One-earner couple on £260 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £53.98 pw	-6302.53	-5782.53
Example 9: One-earner couple on £260 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw	-8106.93	-4960.93
Example 10: One-earner couple on £390 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £53.98 pw	-7919.6	-6671.6
Example 11: One-earner couple on £390 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw	-7919.6	-6671.6
Example 12: One-earner couple on £390 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £53.98 pw	-7457.32	-6209.32
Example 13: One-earner couple on £390 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw	-10257	-9009
Example 14: One-earner couple on £520 pw gross one children aged 2 / Couple & LP rent £59.99 pw and NRP rent £53.98 pw	-9652.76	-7676.76



Example 15: One-earner couple on £520pw gross one children aged 2 / Couple and LP rent £59.99 pw and NRP rent £120.9 pw	-7570.16	-6358.56
Example 16: One-earner couple on £520 pw gross one children aged 2 / Couple & LP rent £142.1 pw and NRP rent £53.98 pw	-13158.08	-11182.08
Example 17: One-earner couple on £520 pw gross one children aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw	-13158.08	-11182.08
<b>UNEMPLOYED COUPLES</b>		
<i>Two child families</i>		
Example 18: Unemployed couple - two children aged 2 and 4 / Social housing, couple rent £66.99 after break-up man moves into rented accommodation paying rent of £53.98 pw / NB maintenance would normally be paid if both on IS	-4161.56	-4161.56
Example 19: Unemployed couple - two children aged 2 and 4 / Social housing, couple rent £66.99 pw after break-up man moves into rented accommodation paying rent of £120.9 pw	-7641.4	-7641.4
<b>SINGLE EARNER EXAMPLES</b>		
<i>Two child families</i>		
Example 20: One-earner couple on £260 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 NRP £ 53.98pw	-5682.04	-4642.04
Example 21: One-earner couple on £260 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP £120.9 pw	-7470.32	-5914.48
Example 22: One-earner family on £260 pw gross two children aged 2 and 4 / Couple and LP rent £192.10 pw and NRP £120.9 pw	-8141.64	-5297.24
Example 23: One-earner family on £390 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw	-7252.96	-5172.96
Example 24: One-earner family on £390 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £53.98 pw	-7802.6	-6238.44
Example 25: One-earner family on £390 pw gross two children aged 2 and 4 / Couple & LP rent £66.90 pw and NRP rent £120.9 pw	-8318.44	-6238.44
Example 26: One-earner family on £390 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £53.98 pw	-10291.84	-8211.84
Example 27: One-earner family on £390 pw gross two children aged 2 and 4 / Couple & LP rent £102.10 pw and NRP rent £120.9 pw	-10291.84	-8211.84
Example 28: One-earner family on £520 pw gross two children aged 2 and 4 / Mortgage costs £140 pw and NRP rent £120.9 pw	-12307.36	-8879.52

Example 29: One-earner family on £520 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £53.98 pw	-10439	-7527
Example 30: One-earner family on £520 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw	-10954.84	-8042.84
Example 31: One-earner family on £520 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £53.98 pw	-14241.24	-11329.24
Example 32: One-earner family on £520 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw	-14241.24	-11329.24
<b>TWO-EARNER EXAMPLES</b>		
<i>One child families</i>		
Example 33: Two-earner family on £260 and £150 pw gross one child aged 2 / Mortgage costs £70 pw no child care costs and NRP rent £120.9 pw	-4157.92	-4157.92
Example 34: Two-earner family on £260 and £150 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw no child care costs	-4157.92	-4157.92
Example 35: Two-earner family on £260 and £150 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw no child care costs	-8343.92	-8343.92
Example 36: Two-earner family on £260 and £150 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £120.9 pw child care costs £60 pw	-4157.92	-4157.92
Example 37: Two-earner family on £260 and £150 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw child care costs £60 pw	-4484.48	-4157.92
Example 38: Two-earner family on £260 and £150 pw gross one child aged 2 / Couple & LP rent £139 pw and NRP rent £117.50 pw child care costs £60 pw	-10558.6	-10558.6
Example 39: Two-earner family on £390 and £150 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	-4721.08	-4721.08
Example 40: Two-earner family on £390 and £150 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw no child care costs	-4721.08	-4721.08
Example 41: Two-earner family on £390 and £150 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw no child care costs	-8907.08	-8907.08
Example 42: Two-earner family on £390 and £150 pw gross one child aged 2 / Mortgage costs £70 pw and NRP rent £120.9 pw child care costs £60	-6794.32	-6794.32
Example 43: Two-earner family on £390 and £150 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw child care costs £60	-6794.32	-6794.32
Example 44: Two-earner family on £390 and £150 pw gross one child aged 4 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw child care costs £60	-11390.6	-11390.6

Example 45: Two-earner family on £520 and £410 pw gross one child aged 2 / Mortgage costs £140 pw and NRP rent £120.9 pw no child care costs	-183.56	-183.56
Example 46: Two-earner family on £520 and £410 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw no child care costs	-183.56	-183.56
Example 47: Two-earner family on £520 and £410 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw no child care costs	-1255.28	-1255.28
Example 48: Two-earner family on £520 and £ 92 pw gross one child aged 2 / Mortgage costs £140 pw and NRP rent £120.9 pw child care costs £60	-7906.08	-8032.44
Example 49: Two-earner family on £520 and £92 pw gross one child aged 2 / Couple & LP rent £59.99 and NRP rent £120.9 pw child care costs £60	-9516.52	-9516.52
Example 50: Two-earner family on £520 and £92 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw child care costs £60	-13813.8	-13813.8
Example 51: Two-earner family on £520 and £410 pw gross one child aged 2 / Mortgage costs £140 pw and NRP rent £120.9 pw child care costs £120	-5162.04	-5162.04
Example 52: Two-earner family on £520 and £410 pw gross one child aged 2 / Couple & LP rent £59.99 pw and NRP rent £120.9 pw child care costs £120	-5162.04	-5162.04
Example 53: Two-earner family on £520 and £410 pw gross one child aged 2 / Couple & LP rent £142.1 pw and NRP rent £120.9 pw child care costs £120	-7053.8	-7053.8

## TWO-EARNER FAMILIES

### Two child families

Example 54: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	-4267.12	-4267.12
Example 55: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw no child care costs	-3330.6	-3330.6
Example 56: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw no child care costs	-11053.12	-11053.12
Example 57: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw child care costs £60	-4267.12	-4267.12
Example 58: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £66.99 pw and NRP rent £120.9 pw child care costs £60	-4957.68	-4267.12
Example 59: Two-earner family on £260 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw child care costs £60	-11463.4	-11463.4

Example 60: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw no child care costs	-6903.52	-6903.52
Example 61: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £86.99 pw and NRP rent £120.9 pw no child care costs	-6903.52	-6903.52
Example 62: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw no child care costs	-13689.52	-13689.52
Example 63: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Mortgage costs £70 pw and NRP rent £120.9 pw child care costs £60	-6903.52	-6903.52
Example 64: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £82.95 pw and NRP rent £120.9 pw child care costs £60	-7594.08	-6903.52
Example 65: Two-earner family on £390 and £150 pw gross two children aged 2 and 4 / Couple and LP rent £192.1 pw and NRP rent £120.9 pw child care costs £60	-14099.8	-12045.28
Example 66: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Mortgage costs £140 pw and NRP rent £120.9 pw no child care costs	-2374.84	-2374.84
Example 67: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Couple & LP rent £86.99 pw and NRP rent £120.9 pw no child care costs	-2374.84	-2374.84
Example 68: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw no child care costs	-6046.56	-6046.56
Example 69: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Mortgage costs £140 pw and NRP rent £120.9 pw child care costs £120	-7353.32	-7353.32
Example 70: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Couple & LP rent £82.95 pw and NRP rent £120.9 pw child care costs £120	-7353.32	-7353.32
Example 71: Two-earner family on £520 and £410 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw child care costs £120	-11845.08	-11845.08
Example 72: Two-earner family on £520 and £92 pw gross two children aged 2 and 4 / Mortgage costs £140 pw and NRP rent £120.9 pw child care costs £60	-9305.4	-9305.4
Example 73: Two-earner family on £520 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £82.95 pw and NRP rent £120.9 pw child care costs £60	-11205.48	-11205.48
Example 74: Two-earner family on £520 and £92 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw child care costs £60	-17711.2	-17711.2
Example 75: Two-earner family on £520 and £150 pw gross two children aged 2 and 4 / Mortgage costs £140 pw and NRP rent £120.9 pw child care costs £120	-9690.72	-9690.72
Example 76: Two-earner family on £520 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £86.99 pw and NRP rent £120.9 pw child care costs £120	-4.14	-4.14
Example 77: Two-earner family on £520 and £150 pw gross two children aged 2 and 4 / Couple & LP rent £192.1 pw and NRP rent £120.9 pw child care costs £120	9.14	-4.14

# Footnotes

- <sup>1</sup> Draper, *Families Compared 2006/07*, Revised March 2007, CARE 2007 and *Families Compared 2007/08*, CARE May 2008.
- <sup>2</sup> Draper, *Families Compared 2006/07*, Revised March 2007, CARE 2007 and *Families Compared 2007/08*, CARE May 2008.
- <sup>3</sup> ASHE Table 1.1.a. The 2007 figures are full-time male (£504), full-time female (£400) and part-time female (£144).
- <sup>4</sup> For the 2007/08 survey the incomes selected for one-earner families were £500, £375 and £250. Two-earner families were assumed to have second-earner earnings of £89, £145 and £400 per week.
- <sup>5</sup> *HBAI 2006/7*. Table 4.4
- <sup>6</sup> Data extracted from Table 4.4. *HBAI 2006/07* (rounded)
- <sup>7</sup> The sample of families may need to be expanded to take account of the number of families with very low incomes who nevertheless own their own homes.
- <sup>8</sup> Example 75
- <sup>9</sup> Examples 45, 46 and 47
- <sup>10</sup> Example 6
- <sup>11</sup> Tax credits, housing benefit and council tax benefit.
- <sup>12</sup> It is understood that it is unlikely that maintenance would be paid if both parents are on income support.
- <sup>13</sup> There are 12.8 million children, of which 4.1 million live in families who rent accommodation. However, of the 5.1 million children who live in families with equivalised income below 70 per cent median after housing costs, three-quarters live in rented accommodation, and, of the 4 million who live in households with income below 60 per cent median after housing costs (poverty line), 80 per cent live in rented accommodation (Table 4.6 *HBAI 2007/08*).
- <sup>14</sup> DWP, Family Resources Survey, Table 3.27. It is understood that these figures include payments received by recipients of out-of-work benefits.
- <sup>15</sup> *Department of Work and Pensions Research Report 569 'The impact of financial incentives in welfare systems on family structure'*.
- <sup>16</sup> Appendix B of the DWP Research Report and *Welfare Reform: the impact on partnership formation, Research in Public Policy Autumn 2008*.
- <sup>17</sup> Research in Public Policy Autumn 2008.

- <sup>18</sup> In 2004/05 a couple with a parent working 30 hours a week and two children were entitled to tax credits before taper of £7,680. In 2008/09 the entitlement was £9,020.
- <sup>19</sup> Research Paper 569 page 49
- <sup>20</sup> Research paper 569 Section 5.4.1
- <sup>21</sup> There are more children in poverty in two-parent families than in one-parent families. On the Government's preferred definition of ignoring housing costs, and using the OECD modified equivalence scale (rather than the McClements scale which it used previously), there were in 2006-07 over 1.77 million children in couple families in poverty, compared with 1.5 million children in lone-parent families.



# couple penalty 2008/09

Third Annual Review of the disposable incomes after housing costs of families on low and modest incomes living together and living apart.

“**CARE’s Annual Couple Penalty Review** demonstrates an increase in the number of people negatively affected by the couple penalty for a third year in a row. It is vital that we find a way of addressing welfare need without creating perverse incentives for the parents of children on low to modest incomes to live apart.”

*Rt. Hon Frank Field MP*

“I am pleased that **CARE** has produced this important research. The need to tackle the couple penalty clearly remains an important priority.”

*Rt. Hon Iain Duncan Smith MP*



9 780905 195100 >

ISBN 978-0-905195-10-0

BT108 **£5.99**