

UNHAPPY BIRTHDAY!

The two-child limit at one year old

APRIL 2018

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Summary

One of the core foundations of a just and compassionate welfare state, and one that has been embedded within our social security system since its inception, is that the level of support available to families should be linked to their level of need. On April 6th 2017, the two-child limit came into effect, restricting financial support through tax credits or universal credit to families with more than two children – regardless of need. As this policy reaches one year old, around 160,000 families are now up to £2,780 a year worse off than they would have been if their youngest child had been born in the previous year. Half a million children live in these families, and some may find that their families cannot afford to throw them a birthday party this year. Over the next few years, more and more families and children will be affected by the two-child limit – around 2 million children by 2020/21, and 3 million children by 2025.

The two-child limit has not attracted as much attention as other welfare reforms, such as the bedroom tax and the benefit cap, even though its long-term impact will be greater in terms of both the number of families affected and the impact on poverty. Because it only currently applies to children born after April 2017, the impact of the two-child limit will be more gradual, with the full effects not being felt for at least a decade. Nor does it lead to a sudden fall in a family's income, like the benefit cap or bedroom tax. Instead, families having a third or subsequent child will experience a tight squeeze on their finances, because they no longer qualify for additional support.

From February next year, the two-child limit will also apply to families with three or more children who fall on hard times and make a new claim for universal credit, irrespective of when their children were born. They will have substantially less to live on than universal credit first promised, as a result of both the two-child limit and other cuts such as work allowance reductions and the four-year benefits freeze. Many families will find that they do not have enough money in their pockets to meet their basic needs, even though they may not fully understand why this is happening.

Eventually, this reform will mean about 600,000 three-child families receiving around £2,500 a year less on average than they would otherwise have got, with a further 300,000 families with four or more children getting £7,000 a year less on average. Including the impact of other changes since 2010, families with three or more children will be more than £5,000 a year worse off, on average, by 2021/22 than in the absence of welfare reforms.

The UK is unique in having a two-child limit that restricts support to the first two children. The majority of developed countries offer extra support to subsequent children, not less.

Impact on poverty

If you set out to design a policy that was targeted to increase child poverty, then you could not do much better than the two-child limit. Families with three or more children are already at greater risk of being in poverty, due to the additional costs of looking after children and the impact of caring responsibilities on parental employment, particularly when the children are very young. And for every family affected by this policy, at least three children are at risk of being pushed into, or deeper into, poverty.

By 2021/22, more than half of children in families with three or more children are forecast to be in poverty - nearly twice the rate for families with two children. The sharp projected rise in poverty among larger families is a direct result of the two-child limit and other policies that disproportionately impact on families with more children. The two-child limit alone will push an estimated 200,000 more children into poverty, as well as 100,000 adults. Certain communities, particularly those with a high proportion of Pakistani or Bangladeshi families, will be hit especially hard, widening the income disparities identified in the Government's Race Disparity Audit.

Impact on wellbeing and family life

The impacts of such severe reductions in income will not only be financial. The stress of living without enough money has a negative effect on both parents' and children's wellbeing, especially if families fear losing their home. Poverty is associated with an array of adverse physical and mental health conditions, and negatively affects children's school attainment.

The Government's Impact Assessment argued that the two-child limit could have a positive impact on overall family stability, by encouraging parents to reflect carefully on their readiness to support an additional child. It also claimed that the policy "would increase financial resilience and support improved life chances for children", although no evidence has ever been presented to support these assertions. The case studies in this report suggest that the policy is having precisely the opposite effect, whilst academic studies point to the detrimental long-term impact of poverty on children's health, education, and life chances.

There is very little evidence that the policy will encourage low-income families to have fewer children, if indeed that is one of its objectives. Furthermore, it will penalise many families who have more children when they can afford to do so, but then experience an unforeseen change in their circumstances, such as the breakdown of a relationship, the onset of disability, or a reduction in their earnings. The majority of those affected are in work and contribute in taxes over the course of their working lives. Withdrawing support at their point of greatest need runs counter to the argument that this measure is about fairness to the taxpayer.

Impact on work incentives

Furthermore, the two-child limit makes it harder for larger families to escape the poverty trap, by having a number of unintended effects on work incentives. Many parents on low wages will not be able to fully compensate for the loss of income by working more hours, locking them in poverty. Non-working families who are subject to the benefit cap, most of whom have three or more children, may be deterred from finding work, because they would escape the benefit cap only to be trapped by the two-child limit.

Exceptions to the two-child limit

Very limited exceptions are available for children who are born in multiple births, conceived non-consensually, adopted or in kinship care. Exceptions are only available if the children meeting these criteria are the third or subsequent child in a family. Children with disabilities are not exempt from the limit. The exception for non-consensual conception requires women to disclose their circumstances to a third party, which could be traumatic and puts their privacy at risk. Many organisations have criticised the government for not making this exception available to women in a coercive and controlling relationship unless they no longer live with the abusive partner.

Human rights implications

The two-child limit is very likely to breach the UK's obligations under human rights law. It is likely to breach the right to private and family life (Article 8 of the European Convention on Human Rights) and the right to marry and found a family (Article 12), and also the requirement on the UK government under the UN Convention on the Rights of the Child to give primary consideration to the best interests of the child. For these reasons the policy was challenged in a judicial review in February 2018.

Breaking the link between need and entitlement

The two-child limit is one of several policies, along with the benefit cap and the freeze in Local Housing Allowance rates, that severely undermine the basic principle that entitlement to support should be based on need. It is wrong that children are being impoverished and their life chances stifled in a misguided attempt to influence their parents' behaviour.

We, therefore, call on the Government to lift the two-child limit and replace it with a positive, coherent strategy for tackling the real causes of child poverty in the UK: low and insecure wages; lack of affordable housing; high childcare costs; the freeze in children's benefits; and the poverty premium, whereby those on low incomes pay more for essential goods and services.

Introduction

The purpose of this report is to gather evidence on the impact of the two-child limit to date, and to re-iterate the serious concerns with this policy raised by children's charities, faith groups, academics, and others who have opposed it before and since its implementation. In the absence of government data or research to substantiate the claims made by Ministers and officials, we have collated information from independent sources, as well as a small number of case studies of families who have been, or potentially will be, affected by the two-child limit. We will continue to monitor its impact and collect further case studies as this policy continues to be rolled out in the years ahead, recognising the importance of listening to families who are directly affected by the changes.

There has been a system of support for low income working families for almost 50 years, to help with the additional costs of raising children. Family Income Supplement was introduced by the Conservative government of Edward Heath in 1970 and replaced by Family Credit in 1986, which grew in generosity and the number of claimants. In 2003, Child Tax Credit integrated tax credits for working families with the child element of benefits for non-working families, and further increased their generosity and scope. In each case, the maximum entitlement was largely determined by the number of children in the household, with a family's entitlement gradually withdrawn for those with incomes above a certain threshold. As with other income-related benefits, such as Housing Benefit, the level of entitlement was intended to reflect the needs of each family. Larger families received more support, because they had greater needs – and, in some cases, families with very young or older children received more for the same reason.

The two-child limit represents a very significant shift away from this long-standing principle. Instead of linking entitlement to need, recent welfare reforms are being used to try to influence claimants' behaviours or at least to signal the government's (dis)approval of certain choices, even if this is at the expense of meeting children's needs.

The two-child limit policy was announced at the Summer 2015 Budget and came into effect on April 6th 2017. From this date onwards, families having a third or subsequent child lose their entitlement to additional support through child tax credits and universal credit (worth up to £2,780 a year per child), although they will continue to receive child benefit for these children, as well as disability-related premiums and help with childcare costs.

The two-child limit was part of a package of welfare reforms to tax credits and universal credit aimed at reducing spending on social security for working-age families. As well as generating expected savings of £1.6 billion by 2020/21, the government argued that it is meant to ensure 'fairness' by ensuring that those on benefits face the same financial choices around the number of children they can afford as those supporting themselves (solely) through work.¹ This argument shows that the policy is based on two implicit assumptions: first, that all children can be planned and unplanned births avoided; and second, that

¹ HM Treasury and DWP (2015) Welfare Reform and Work Bill: Impact assessment of Tax Credits and Universal Credit, changes to Child Element and Family Element. <https://www.parliament.uk/documents/impact-assessments/ia15-006e.pdf>

families can accurately predict their financial circumstances eighteen years into the future at the point when they decide to have a child. However, neither is always true.

Initially, this policy only affects families with children born after April 2017. However, from February 2019, all households making a new claim for universal credit will be subject to the two-child limit, irrespective of when their children were born, and will only receive support for a maximum of two children. Families who are already receiving payments for a third or subsequent child will continue to receive money for those children, including when they move from tax credits to universal credit. But anyone putting in a new claim for universal credit, who has not had a previous claim within the last six months, will be subject to the two-child limit.

Eventually, all larger families will be affected by the two-child limit, unless they fit one of the available exceptions. These cover children born as part of a multiple birth, children adopted from local authority care or looked after by a relative, and those conceived as a result of a non-consensual sexual act. According to the Government's policy costings, the number of exceptions is expected to be relatively small – between 3-4% of cases.²

Who will be affected?

We do not know the actual number of families affected to date, because the Government is either unable or unwilling to provide this information. In response to a series of written questions from the Bishop of Durham, Ministers have repeatedly referred back to the original Impact Assessment, published in July 2015 - even though the policy has been in effect for nearly a year, and even though the projections will have been affected by subsequent delays to the roll out of universal credit.³

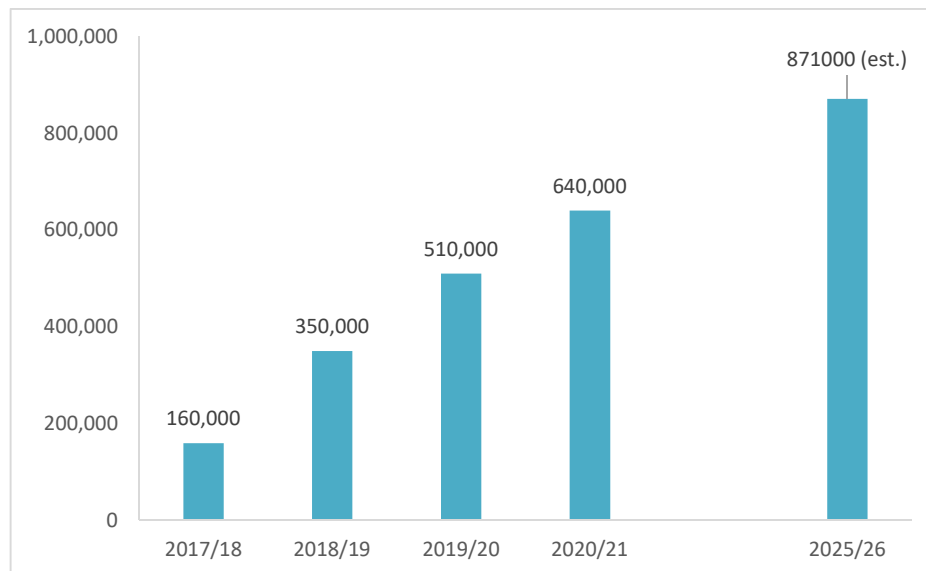
According to the original Impact Assessment, the policy was expected to affect around 160,000 families in 2017-18, rising to 350,000 after two years, 510,000 after 3 years and 640,000 by 2020/21.⁴ By around 2025, virtually all larger families in receipt of universal credit will be affected – expected to be approximately 900,000 families, based on the current number of claimants. Each contains at least three children, so around half a million children will have been affected to date, 2 million will be affected by 2020/21, and around 3 million by 2025.

² H M Treasury estimates that the total cost of the four exceptions to the two-child limit (multiple births, kinship carers, children adopted from local authority care, and non-consensual conception) will be around £55m in 2021-22, or between 3-4% of the total estimated savings in that year (£1,615m).

³ See <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-questions-answers/?page=1&max=20&questiontype=AllQuestions&house=commons%2clouds&member=4312&keyword=s=two-child>

⁴ HM Treasury and DWP (2015) Welfare Reform and Work Bill: Impact assessment of Tax Credits and Universal Credit, changes to Child Element and Family Element. <https://www.parliament.uk/documents/impact-assessments/ia15-006e.pdf>

Chart 1: Number of families affected by the two-child limit



Source: HMT and DWP (2015) 'Welfare Reform and Work Bill: Impact Assessment of Tax Credits and Universal Credit, changes to Child Element and Family Element' (for 2017/18 to 2020/21). The estimate for 2025/26 is based on the latest publicly available data on the number of families with three or more children who are in receipt of tax credits (from Table 2.2 of the DWP's 'Child and Working Tax Credits Statistics, Finalised annual awards in 2015-16').

The majority of affected families are low income working families with three or four children. Many larger non-working families are already subject to the benefit cap, so the two-child limit appears to be targeted at families who are in work, but who rely on tax credits and benefits to supplement their low earnings.

Table 1: Profile of families with three or more children claiming tax credits

	In-work	Out-of-work	Total
Three children	400,000 (46%)	190,000 (22%)	590,000 (68%)
Four or more children	173,000 (20%)	108,000 (12%)	281,000 (22%)
Total	573,000 (66%)	298,000 (34%)	871,000 (100%)

Source: Child and Working Tax Credit Statistics UK, Finalised annual awards in 2015-16 (Table 2.2)

Key statistics

- There are around 1.2 million families with 3 or more dependent children in the UK, out of a total of 8 million families with dependent children. Around 4 million dependent children (out of a total of 14 million children in the UK) live in families with 3 or more dependent children (ONS 2017)
- Only 2,000 families in the UK contain eight or more dependent children, and only 73,000 families contain five or more dependent children - less than 1% of all families with dependent children (Labour Force Survey 2012, 2016).
- Between 15-16% of families with dependent children in England and Wales contain three or more children, rising to 24% in Blackburn & Darwen, Bradford and Birmingham, 25% in Newham, and 28% in Tower Hamlets (Census 2011).
- The proportion of families with 3 or more dependent children varies from 11.2% in Scotland and 12.9% in the South East, to 18.9% in London and 21.4% in Northern Ireland (ONS 2016)
- The proportion of households with 3 or more children has declined from between 8-9% in the 1960s to between 3-4% in the 2000s.
- In recent years, the number of children born to mothers with 2 or more previous children in England and Wales has fallen from 175,283 in 2014 to 162,305 in 2016 (ONS 2017)
- Married couples with children are more likely to have large families than lone parents – 16% and 11% respectively (Labour Force Survey 2014).
- 35% of families with 3 or more dependent children are found in the poorest fifth of households, and only 6% are in the richest fifth (DWP 2018).
- Families with 3 or more children are disproportionately represented among food bank users, accounting for around 37% of food bank referrals with children (Trussell Trust, 2017).

Some religious and ethnic groups will be disproportionately affected by the policy, if they are more likely to have larger families and/or more likely to be in receipt of tax credits or UC (see Table 2 below).

Table 2: Number of children living in large families by religion

	Total number of dependent children ('000s)	No. of children living in families with 3+ dependent children ('000s)	Proportion of children living in families with 3+ dependent children (%)
No religion	3,570	1,036	29%
Christian	6,048	1,696	28%
Buddhist	33	7	22%
Hindu	171	34	20%
Jewish	59	31	52%
Muslim	984	589	60%
Sikh	100	31	31%
Other religion	24	6	27%
Religion not stated	928	254	27%
Total	11,916	3,685	31%

Source: Census 2011, specially commissioned table from ONS by the Church of England's Mission & Public Affairs Team.

Financial impacts

Affected families will lose up to £2,780 per year for each additional child beyond the first two. The exact effect of the two-child limit on particular families in the coming few years will depend on the date of the claim (due to transitional protection arrangements). For many families this will come on top of the effect of other cuts such as the removal of the first child premium in universal credit.

A House of Commons Library report looked at the example of a lone parent working 35 hours on the National Living Wage with three children:⁵

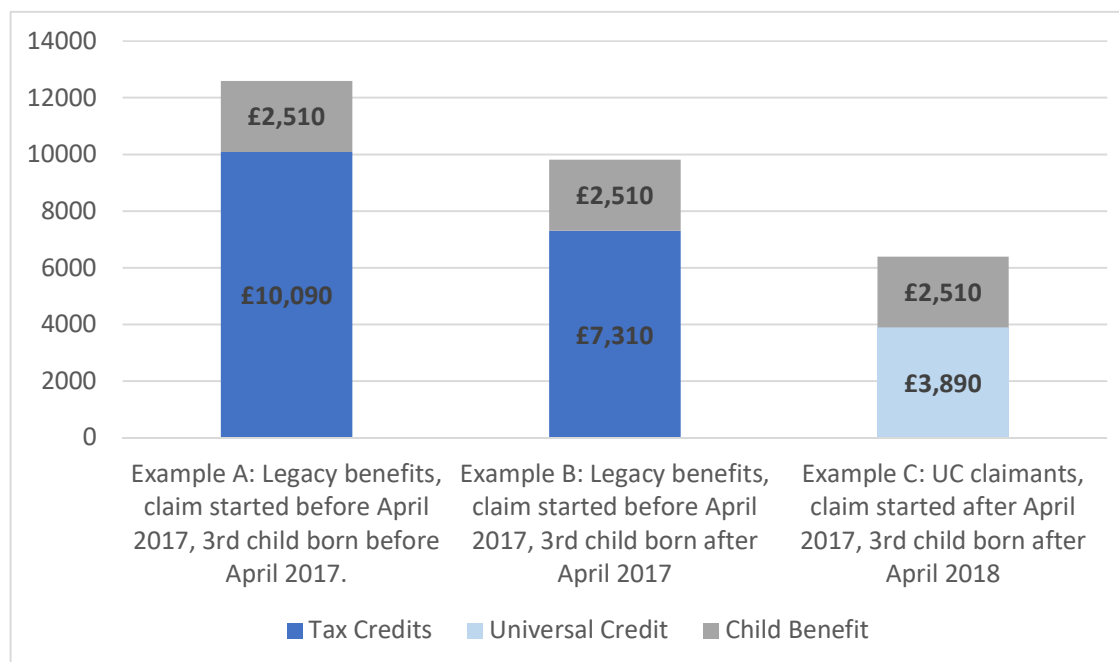
- Example A: if this family's claim started before April 2017 and if all the children were born before April 2017, then they would expect to receive a tax credits award of **£10,090** in 2019-20.
- Example B: if, however, one of the children were born after April 2017, then their entitlement would drop to £7,310 – **a loss of £2,780**.
- Example C: if the same family were to make a brand new claim for universal credit after February 2019, then they would also be affected by the removal of the first

⁵ House of Commons Library Briefing Paper 7935, 'The two child limit in tax credits and Universal Credit' (10 April 2017).

child premium and other cuts to universal credit, reducing their entitlement to £3,900 – a loss of £6,200, compared to the base case.

Chart 2: Financial impact of two-child limit and other changes to tax credits and universal credit, 2019-20

*Based on lone parent with 3 children, working 35 hours a week on the National Living Wage and not in receipt of housing support**



*Examples A, B and C in this chart correspond to Examples 1,2, and 6 in the HoC report.

Source: House of Commons Library Briefing Paper 7935, 'The two child limit in tax credits and Universal Credit' (10 April 2017).

These losses will push many families below, or further below, the poverty line, as the case of Rebecca (overleaf) shows.

The two-child limit has not attracted as much attention as other welfare reforms, such as the bedroom tax and the benefit cap, even though its long-term impact will be greater in terms of both the number of families affected and the impact on poverty.⁶ Because it only currently applies to children born after April 2017, the impact of the two-child limit will be more gradual, with the full effects not being felt for at least a decade. Nor does it lead to a sudden fall in a family's income, like the benefit cap or bedroom tax. Instead, families having a third or subsequent child will experience a tight squeeze on their finances, because they no longer qualify for additional support.

⁶ 63,000 households had their benefit capped at November 2017 (DWP, 2018). By April 2018, it is estimated that 160,000 households will be subject to the two-child limit, rising to 640,000 by April 2021. Around 500,000 households are subject to the bedroom tax (or underoccupancy penalty), but the average reduction in benefits (£728pa) is substantially smaller than for those affected by the two-child limit.

Rebecca

Rebecca has two daughters aged seven and four. Her former partner passed away from heart disease in 2013. In 2016 Rebecca became pregnant, and her son was born in August 2017. Her son's father does not live with the family so Rebecca claims a number of benefits - including child tax credit - as a single mother.

Her son is subject to the two-child limit, and she receives no child tax credit award for him. Rebecca suffers from epilepsy and learning disabilities.

Rebecca and her children are 11 per cent worse off than they would have been before the two-child limit was introduced, losing £46 a week or £2,416 a year. Rebecca's income now puts her family £126 a week below the poverty line.

Rebecca's name has been changed to protect her identity.

Source: CPAG

Various estimates have been made of the impact of the two-child limit on poverty. Policy in Practice estimated that it would increase child poverty by 266,000 by 2020.⁷ CPAG analysis comparing universal credit both *without* the two-child limit in place, and *with* it, showed that removing the two-child limit alone would protect 200,000 children from poverty who will otherwise be pushed below the poverty line.⁸ Many more children than this will be pushed into deeper poverty.

Cumulative impact of multiple welfare reforms

Families affected by the two-child rule will also be facing other changes to financial support for families, including the four-year freeze of most working-age benefits, the removal of the tax credit family element (and its equivalent in universal credit), the introduction of universal credit and subsequent cuts to it including to the work allowances, and changes to the taper rate. At least fifty-seven separate cuts and changes have been made to working-age benefits since 2010.⁹

⁷ Policy in Practice (2017), 'The Impact of the Two Child Limit to Tax Credits': <http://policyinpractice.co.uk/two-child-limit-tax-credits-set-drive-child-poverty-10-2020/>

⁸ Tucker, J. (2017) The Austerity Generation: the impact of a decade of cuts on family incomes and child poverty. Child Poverty Action Group. <http://www.cpag.org.uk/austerity>

⁹ Tucker, J. (2017) The Austerity Generation: the impact of a decade of cuts on family incomes and child poverty. Child Poverty Action Group.

Analysis by independent researchers shows that families with three or more children are being disproportionately impacted by the welfare reforms introduced since May 2010, particularly the cuts which have come in since May 2015. According to a recent report for the Equality and Human Rights Commission (EHRC), households with three or more children will, on average, be £5,150 worse off in 2021/22 than they would have been without the welfare reforms since 2010.¹⁰ This is more than three times the average loss for households with two children (around £1,600) and over six times that for households with one child (around £800). These losses are largely due to cuts in benefits and tax credits, which are not offset by the introduction of the National Living Wage and changes to the personal tax allowance (see Chart 3 below).

One of the main reforms driving these results is the introduction of the two-child limit. Larger families are also more adversely affected by the freeze in most working age and child-related benefits, because benefits comprise a larger share of their income than for smaller households.

A comparison of universal credit as it was first introduced, with the design of the scheme being implemented today – after huge cuts – tells a similar story. Families with three children are expected to be 10 per cent (£2,540 a year) worse off at the end of the decade on average than had the original promises of universal credit been maintained, and families with four or more children an alarming 19 per cent (£5,000 a year) worse off.¹¹

As a result, child poverty in families with three or more children is forecast to rise very sharply. Under current policies, and based on official forecasts for employment and real earnings, **more than half (52%) of children in larger families are predicted to be in poverty by 2021/22**, nearly twice the rate for families with two children.

Children in families with 3 or more children are already at much greater risk of poverty than those in smaller families, with 42% of children in these families below the poverty line according to latest statistics (after housing costs) - see Chart 4. The EHRC projects that by 2021/22, 52% of children in families with three or more children will be in poverty.

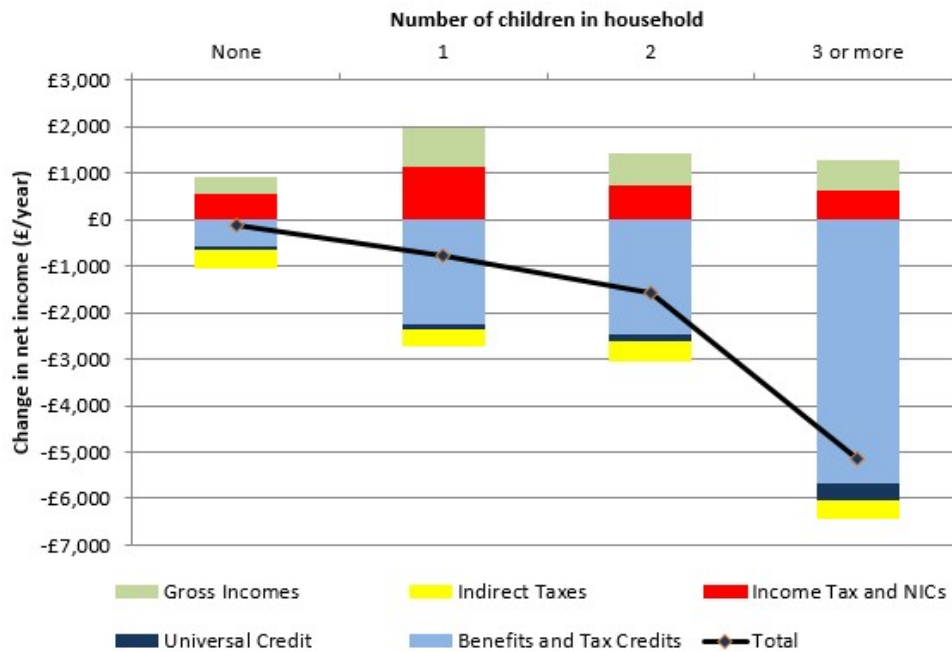
Overall, child poverty is forecast to be over 10 percentage points higher in 2021/22 than it would have been in the absence of the welfare reforms, compared to a 1.4 percentage point rise in adult poverty. The projected increase in child poverty is 16.5 percentage points among families with three or more children, 2.9 percentage points among families with two children, and 0.9 percentage points among families with one child.

Future levels of child poverty will be heavily influenced by other economic developments, including the impact of Brexit, but these are the best available estimates of what will happen to child poverty under current policies. **This analysis shows that larger families are bearing the brunt of welfare reforms, driving most of the predicted rise in child poverty over the next five years.**

¹⁰ Portes, J. et al (2018) The cumulative impact of tax and welfare reforms. Equality and Human Rights Commission.

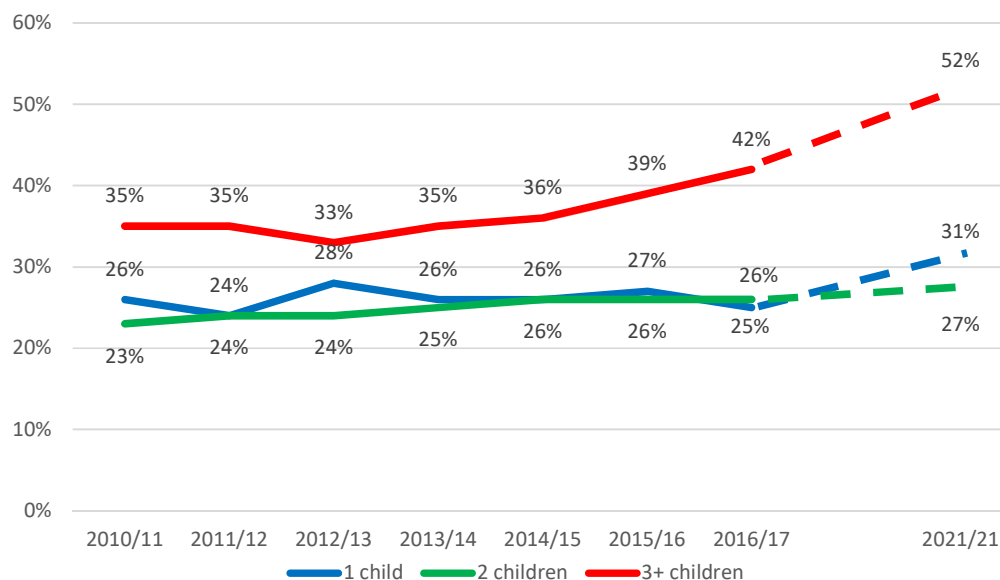
¹¹ See footnote 9.

Chart 3: Cumulative impact of welfare reforms by number of children, 2010-2021/22



Source: Portes, J. et al (2018) The cumulative impact of tax and welfare reforms. Equality and Human Rights Commission.

Chart 4: Child poverty by number of children, 2010/11-2021/22*



*Percentage of children living in households with less than 60 per cent of contemporary median household income, After Housing Costs.

Source: Table 4.18ts from DWP's 'Household Below Average Income: 1994/95-2015/16' (up to 2015/16) and Table 7.5 from the Equality and Human Right Commission's 'The cumulative impact of tax and welfare reforms' (for projections in 2021/22)

Non-financial impacts of the two-child limit

Increasing financial stress will have a host of consequences for the wellbeing of both children and their parents, as the case of Louise shows. The stress of living without enough money has adverse effects on parents and children alike, especially if families cannot pay the rent and fear losing their home. Children may be unable to take part in out of school activities or invite their friends around for meals or celebrations. Having to work longer hours can mean parents have less time to spend with their children. Poverty increases the risk of a wide range of physical and mental health difficulties, which can affect children throughout their lives, and is linked to lower average school attainment.^{12,13}

Louise

Louise lives with her partner and four children – aged 5, 10, 11 and 15 - in an industrial city in the North of England. Her partner, who has always worked, most recently in a food processing factory, suffered a back injury at work in 2016 and is currently unable to work. He was receiving Employment Support Allowance, but recently failed a medical assessment, which he is appealing against. Louise has applied for Jobseeker's Allowance and is actively looking for work, although she struggles to imagine how on earth she can keep a job with such dependent children and with her partner needing so much help at the moment.

Louise and her family are not currently affected by the two-child limit. However, they are typical of the kind of family who could be hit by this policy in less than a year's time. Having had their children in good times, when Louise's partner was in good health and working full-time, they find themselves in difficult times and reliant on benefit income to get by.

Until Louise is able to find work, her family is subject to the benefit cap. This reduces their housing benefit to just 50 pence a week, leaving around £100 per week (or £5,200 a year) in rent for Louise and her partner to cover out of their other benefits.

Since their benefit income was cut, Louise and her partner have gone into arrears with the rent. This has never happened before, and she is very scared of losing their council home. The house is in a bad state of repair and she is getting help from friends with a faulty boiler. Louise is stressed out deciding what to pay. Electric or food? Food or shoes? Clothes or rent? The children have been unable to take part in out of school activities or home entertainment, and only the strong commitment of both parents allows the family unit to survive – just!

¹² See, for example, CPAG (2016) 'Improving Children's Life Chances' for a review of the evidence on the impact of poverty on children's health, education, and well-being.

¹³ For more about the impact of welfare reform on larger families from listening to those directly affected by these changes, see: <https://largerfamiliespovertywelfarereform.wordpress.com/>

Through this time, Louise and her partner have managed to provide for their children by borrowing money from family and friends, using the food bank regularly, and not eating that much themselves so they can feed their children. They spend a lot of time finding places they can borrow cash from, in order to keep some heat and light on. Louise doesn't think how much she owes at this point!

In future years, a family like Louise's will find it much harder to escape poverty. If she is successful in finding a job, then they would be exempt from the benefit cap, but would still be hit by the two-child limit. Losing their entitlement to tax credits for their two youngest children would cost them £5,560 a year – about the same as the current impact of the benefit cap.

Source: adapted from Case 2 in 'Grim Reality Tales', edited by Julie Pryke (January 2018)

Implications for family life

The Government's Impact Assessment argued that the two-child limit could have a positive impact on overall family stability, by encouraging parents to reflect carefully on their readiness to support an additional child. It also claimed that the policy "would increase financial resilience and support improved life chances for children", although no evidence has ever been presented to support these assertions.¹⁴

Contrary to its stated aim, however, there are many ways in which the two-child limit is likely to have a profoundly negative impact on family life:

- Money worries and debt problems are the most common cause of serious difficulties within families, which this measure will exacerbate, according to research by Relate and others.¹⁵
- Older children may feel under pressure to leave home before they are ready, in order to help their family manage and so that the family can then obtain tax credits/universal credit for a younger child. The difficulties faced by families on a low income mean that some young people are already under pressure to leave home if they are unable to contribute financially,¹⁶ and again the two-child limit will increase these pressures.

¹⁴ See, for example: <https://hansard.parliament.uk/Lords/2018-03-26/debates/13975ED6-EED8-4800-BDE5-29D0AAA814CF/BenefitsTwo-ChildLimit>

¹⁵ See <https://www.relate.org.uk/about-us/media-centre/press-releases/2017/3/13/money-top-strain-relationships>

¹⁶ Gill, A. (2016). Families under pressure: preventing family breakdown and youth homelessness. Centrepont. https://centrepont.org.uk/media/1701/families-under-pressure_final.pdf

- Single parents with children may be discouraged from re-partnering and forming a new blended family. Step-parents who would like to have their own biological children may feel unable to do so if there are already two step-children in the household.
- Separated parents with more than two children may be encouraged to make decisions about who children live with, which are based on maximising their financial support, rather than what is otherwise in the best interests of the child. Larger families may even be encouraged to separate in order to avoid the two-child limit.
- Parents with three or more children who have been bereaved or have experienced family breakdown are likely to need extra support where the deceased or former partner was the main earner. But, as a result of this policy, these families will not be adequately supported at a time of acute need.
- Women who have fallen pregnant unintentionally (for example due to contraception failure) may feel that they have no option but to terminate their pregnancy even if this goes against their wishes or their personal moral beliefs. Child Poverty Action Group (CPAG) and other organisations have already been contacted by pregnant women in distress, who are considering whether they can afford to keep a third child or whether to terminate the pregnancy.¹⁷
- It undermines the rights of parents who have conscientious or religious objections to birth control or abortion, or for whom larger families are a tenet of faith, with particularly severe implications for certain faith communities.
- The ordering rules for exceptions (see below) may discourage young people from becoming adopters or taking on family members' children in a crisis, if they wish to have their own children in future.

Exceptions to the two-child limit

There are currently very limited exceptions available, for third or subsequent children:

- Born as part of a multiple birth;
- Conceived non-consensually (by rape or in a coercive and controlling relationship);
- Adopted from local authority care;
- In kinship care (looked after by relatives); or,
- Born to children under 16.

Women wishing to claim an exception for 'non-consensual conception' must complete a form and must also submit a form signed by a recognised professional (e.g. a health worker) confirming that their circumstances are consistent with the child having been conceived

¹⁷ See, for example, the evidence provided by Turn2Us to the DWP Select Committee:
<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/the-benefit-cap/written/49856.html>

non-consensually. It is a matter of great concern that women will have to disclose this very private information on pain of losing money needed for their child, and there have been warnings that this kind of forced disclosure could be extremely traumatic.

The government has also admitted that there is a risk that the privacy of women might be breached.¹⁸ Women's partners or family members, other agencies to whom they have to prove their income, or even the children themselves could easily discover that this exception has been claimed if they see that a third child element has been awarded and know that none of the other exceptions apply.

Many organisations have criticised the government for not making this exception available to women in a coercive and controlling relationship unless they no longer live with the abusive partner, noting that women put themselves at great risk when they attempt to leave a violent partner.¹⁹

Rules about the ordering of children mean that exceptions are only available to third or subsequent children in a family. A woman who had twins conceived within an abusive relationship and who subsequently marries and wishes to have a child with her new partner, will receive no support for that child. A family looking after two children in kinship care who then wish to have their own biological child will not receive any additional support (see Alyssa's story below), while a family with a child of their own who then take in a relative's children *will*. Not only is this unfair, but it risks dis-incentivising young people from becoming adopters or carers for children in need, if they know that they might want to have biological children later in life.

Legal challenge to the two-child limit

The Child Poverty Action Group (CPAG) argues that the policy is likely to bring the UK into breach of international law, including the European Convention on Human Rights, and has issued a claim for judicial review against the Secretary of State for Work and Pensions. The case was heard in February 2018 and judgment is currently awaited at the date of writing.

The grounds for the legal challenge are that the two-child limit breaches the right to private and family life (Article 8) and the right to marry and found a family (Article 12), given that policy is intended to influence intimate behaviour and bring about smaller families. It also discriminates against children with multiple siblings, given that a child with no siblings or only one sibling has their subsistence needs met through the social security system, while a child with two or more siblings does not.

¹⁸ Secondary Legislation Scrutiny Committee, 30th Report of Session 2016-17.

<https://publications.parliament.uk/pa/ld201617/ldselect/ldsecleg/148/14803.htm>. See paragraph 35: 'this risk is unavoidable'.

¹⁹ Ibid, see paragraph 27 quoting Isabelle Kerr: 'the most dangerous time for a woman and her children is at the point of leaving an abuser'.

Alyssa

When her mother died suddenly four years ago, Alyssa Vessey was a Grimsby teenager training to become a hairdresser. Just days later she was asked whether she would be prepared to look after her three younger siblings – become, in effect, their replacement mother.

She agreed willingly: “We went to social services and my family said to me, ‘we’d understand if you didn’t want to take them on’. But my brother and sisters would have gone into care if I didn’t step up and bring them up. They’d be in the care system.”

Becoming a kinship carer aged 18 was, she says, the hardest thing she’d ever done. “I had to do everything, waking them up in the morning and making sure they got breakfast, making sure they got to school, doing the tea when they got back, and making sure they did their homework. “I was there for every parents’ evening, every GCSE meeting. I did everything to make sure the children do well in life.”

Money was always tight as she adjusted to her new role. She got a job at Primark to help make ends meet and put a bit aside to take her siblings to Lincoln on a rare holiday. She is proud that this year the eldest of her three siblings, Keeley, went to university, the first in their family to do so. This summer, Alyssa and her partner, Adam, celebrated the birth of their own child, Joey. But they have had to cut back hard after being informed that Joey did not qualify for tax credits or a Sure Start maternity grant because they had breached the two-child limit. She appealed twice, but was turned down on both occasions.

Campaigners have called on Ministers to change the rules whereby kinship carers who act as guardians for at least two children are refused child tax credits and maternity grants when they decide to have their own children.

Source: The Guardian (1 October 2017)

The case is being brought on behalf of three families. These include two lone mothers, who each already had more than one child born before 6 April 2017 and gave birth to an 'additional' child after that date. A third family took on care of a relative's child after having one child of their own, and then had another biological child. Because the child under kinship care joined the family before the youngest child was born, this family is not entitled to an exception. The case also argues that the ordering requirement to qualify for an exception is unlawful for the reasons given above.

As the policy is expected to have a severe effect on child poverty, CPAG argues that the policy is in breach of the UK's obligation under the UN Convention on the Rights of the Child to give primary consideration to the best interests of the child, and that discriminatory treatment cannot therefore be justified.

Will the policy reduce the number of children born?

If the two-child limit is intended to encourage lower income families to have fewer children - and this is not explicit - then there is very little evidence that it will be effective. In the US, where family caps have been applied in a number of states, most studies find little or no effect on fertility. According to Bruce Stafford, who co-authored a DWP review of the evidence in 2009:

“Decisions about reproduction and family size are not simply the outcome of some rational calculation of the costs and benefits of having a child. Unless policy makers can highlight something about the UK context that means financial incentives here work differently from those across the Atlantic, then I can’t see any case for using a ‘cap’ to control fertility decisions.”

Fairness?

Whether the aim of the policy is to influence actual decisions around how many children to have, or simply to make claimants face the financial consequences of choosing to have more children, it is unclear why the new rules will be applied to new claimants with three or more children who were all born before April 2017. Yet from February 2019, the two-child limit will apply to families who made the decision to have children before the policy came into effect, and who could not possibly have factored this into their family planning decisions.

The two-child limit will also hit families who decide to have more children when they can afford to do so, but then experience a change in their circumstances due to unpredictable life events such as job loss, the onset of disability, family breakdown, or bereavement. The story in the box below gives an example of the sorts of circumstances in which families may be hit by the two-child limit at the most difficult times in their lives.

The other stated objectives of this policy are to ensure that the benefits system is more affordable and fairer to those who pay for it. Whilst the two-child limit will undoubtedly generate savings for the Exchequer, at least before the societal costs of increased poverty are considered, it does not seem very fair on at least two counts:

- The majority of those affected are in work and will contribute substantially in taxation over the course of their working lives. Withdrawing support at their point of greatest need, often due to unforeseen circumstances, runs counter to the argument that this measure is about fairness to the taxpayer.
- More fundamentally, this measure will penalise, and in many cases impoverish, children who are unlucky enough to be born into a large family. How can it be fair that children should be left without enough to meet their basic needs in an attempt to influence their parents’ behaviour?

A case from CPAG's early warning system in Scotland

The client and his wife have three children, including two of pre-school age. Recently the client's wife suffered a serious head injury. She is in hospital and may never return home, and he has had to reduce his working hours in order to look after the children. This has left the family short of the income they need. The children's mother may not survive, and if she survives she may be unable to work again and may require significant care. Their father hopes to increase his working hours again in the future but in the meantime tax credits are vital for the family to manage.

From February 2019, a family in this situation who puts in a new claim for universal credit will only receive the child element for two of their children, putting them under additional financial pressure at a time of acute need.

One of the core foundations of a just and compassionate system is that the level of support should be linked to the level of need. Along with the benefit cap and the freeze in Local Housing Allowance rates, this policy is a major contravention of this principle.

Unintended effects on work incentives

As well as failing against most of its stated objectives, the two-child limit has several unintended effects that undermine the underlying aims of the Government's welfare reforms to ensure that work is an effective route out of poverty, and to simplify the benefits system.

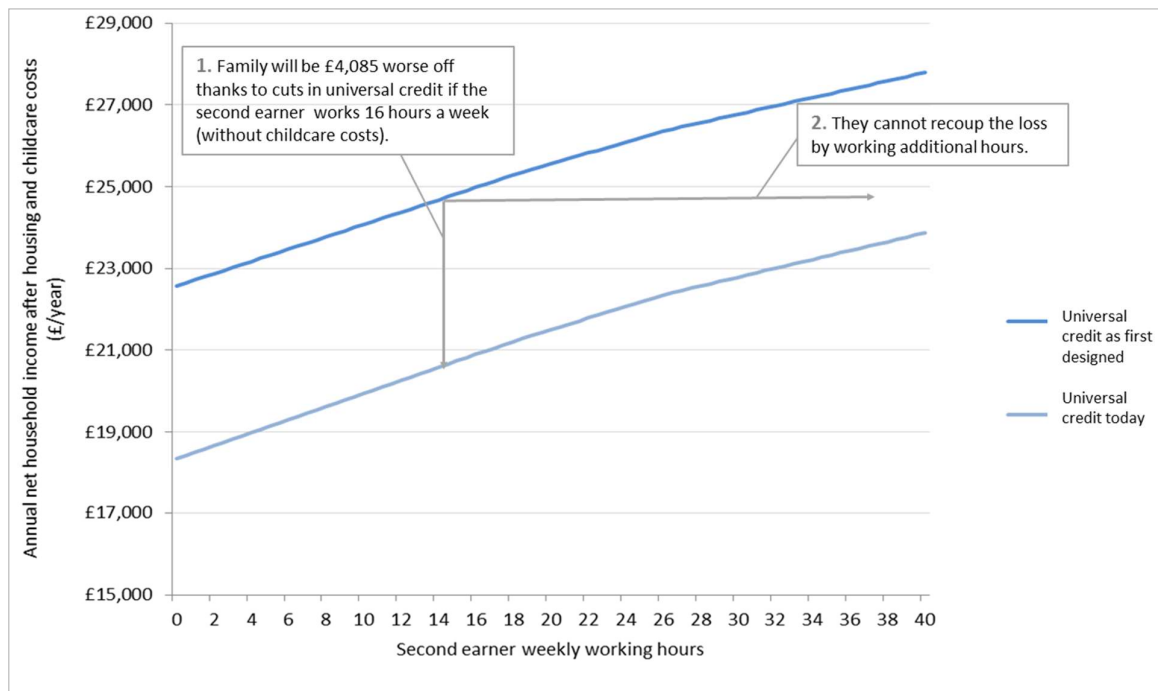
Firstly, the two-child limit makes it harder for larger families to escape the poverty trap. As the example below shows, many families on low wages will not be able to compensate fully for the loss of income by working more hours, locking them in poverty. For these families, work is no longer a route out of poverty (see the Chart 5 below).

Secondly, existing claimants, who are exempt from the two-child limit, may be deterred from taking on a better paid job that lifts them off tax credits or universal credit in case they need to claim universal credit again in the future and then are treated under the much less generous rules for new claimants with three or more children.

Thirdly, non-working families who are subject to the benefit cap, most of whom have three or more children, may also be deterred from finding work, because they would escape the benefit cap only to be trapped by the two-child limit.

Fourthly, the two-child limit is one of a number of recent changes that runs counter to the aim of simplifying the benefits system. HMRC's detailed guidance note for advisers is 17 pages long, including convoluted rules for deciding when an exception applies and how to "order" children in families where an exception may apply. A family's entitlement to universal credit will now depend on when they started their claim and when their children were born, adding significantly to the complexity of the system.

Chart 5: Effect of the two-child limit and other universal credit cuts on the income of a couple with three children (One full time-earner and a second earner working up to 40 hours a week, both on the 'national living wage')



Source: Tucker, J. 2017 The Austerity Generation: the impact of a decade of cuts on family incomes and child poverty. CPAG.

Unlike the benefit cap, there is almost no way to avoid the two-child limit once a child is born. Families can potentially avoid the benefit cap by working more than 16 hours or by claiming a disability-related benefit. They may be able to move to a smaller or cheaper property, or apply for a discretionary housing payment as a stop-gap. None of these is an easy option, but there is at least potentially a way out. But no one can escape the two-child limit unless their child fits one of the tightly-defined exceptions, all of which are beyond their control.

International comparisons

We have compared the UK's two-child limit with policies governing child-related benefits and tax credits in 9 other OECD countries, all of which offer additional support for families with dependent children – either universal benefits and/or top-up payments for low- and middle-income families (see Annex).

The UK is the only one of these countries that has an explicit two-child limit, although the US has an implicit three-child limit in its Earned Income Tax Credit schedule, as well as 'family caps' in 15 states. (7 US states have repealed their family caps since 2003 and none has introduced one since then.)

- In two of the countries, Canada and Australia, the level of support per child does not vary with family size.
- In four of the countries, the level of support per child *increases* with family size – marginally so in Germany and substantially so in France, Japan and Sweden.
- In the two remaining countries – New Zealand and the Netherlands - the level of support per child *decreases* with family size – though only for fourth and subsequent children in the case of New Zealand.

A separate piece of analysis by Kitty Stewart at the London School of Economics found that out of the EU28 countries, only one other country had lower per child benefits for later children.²⁰ 10 countries had the same level of benefits for each child and 16 had higher per child benefits for later children. **The UK is therefore unique in having a two-child limit that offers no additional support for third or subsequent children.**

Conclusions

A year on from the introduction of the two-child limit, our concerns about the impact of this policy have only grown as we observe its impact on families and children. From February 2019, many more families who already have three children but fall on hard times, will fall foul of this policy. They have had no chance to prepare for it, and will have no means to escape it. All the evidence suggests that this policy will increase child poverty and damage family life. It is already causing distress and hardship.

The two-child limit is premised on faulty logic which assumes that all children can be planned, and that all families can secure their financial circumstances eighteen years into the future at the point when they decide to have a child. In reality, life is not this predictable: contraception can fail; families may separate and re-form; jobs can be gained and lost; and none of us can guarantee that we will not one day face ill-health or bereavement.

It is unconscionable to treat some children whose parents are struggling to get on in low paid work, or who are facing some of the hardest times in their lives, as undeserving of support simply because they have two or more siblings. One of the core foundations of a just and compassionate system is that the level of support available to families should be linked to their level of need. The two-child limit will deny millions of children the support they need.

²⁰ From a presentation to the Social Policy Association Conference in Durham in July 2017 ('UK child allowances in historical and comparative perspective'). This analysis is based on EUROMOD Country Reports for 2011-15.

Annex:

Child-related benefits and tax credits, international comparisons

Country	Name	Payment structure ¹
Australia	Family tax benefit (FTB)	A higher FTB benefit is available for low income earners, up to a maximum of £3,000 per child (aged 0-12) or £3,800 per child (13-19); plus an additional element for lone parents, non-parent carers, and couples with one main income. Families with incomes less than £28,900pa receive the maximum rate, after which the amount is tapered until the base payment is reached. Part of the FTB is conditional upon meeting the immunisation and health check requirements. A Large Family Supplement (LFS) for families with 4 or more children was removed in 2016.
Canada	The Canada Child Benefit (CCB)	CCB provides an income-related payment of up to £3,500 per child (ages 0-6) or £3,000 per child (ages 6-17). The amount of CCB is reduced for families with incomes over £16,500pa. CCB is a non-taxable benefit and linked to prices as of July 2018.
France	Allocations Familiales (AF)	Paid to families with two or more children up to age 20, and tapered at incomes above £59,200pa (with a higher income threshold for larger families). Older children (14+) are entitled to a supplement. The maximum entitlement increases with the number of children: £1,000 per child for a family with 2 children, £1,300 per child for a family with 3 children, and £1,400 per child for 4 children. ²
	Prime d'activité	An in-work benefit for low income workers. The maximum entitlement increases with family size and includes child elements that are higher for the third and subsequent children than for the second.
Germany	Kindergeld (Child Benefit) and	Child Benefit is a universal benefit for all children up to the age of 18 (or 25, if in tertiary education). This is worth £2,000 per child for each of the first two children, £2,100 for the third child, and £2,300 for each subsequent child.
	Kinderzuschlag (Children's Allowance)	In addition, parents on low incomes (and not in receipt of out-of-work benefits) are entitled to a Children's Allowance of up to £1,500 per child, depending on their income and assets.
Japan	Child Allowance System	Child allowance is paid to families with children up to age 12 and with earnings below a specified threshold - £38,100pa for families with 1 child, rising to £48,300 for families with 5 children. It is worth £400 per child for the first and second child and £800 per child for the third and additional children. Younger children (aged under 3) also receive the higher rate.

Netherlands	<p>Hoogte kindgebonden budget (Child-related budget); and</p> <p>Kinderbijslag (Child Benefit).</p>	<p>The Child-related budget is an income-related payment to families with dependent children, which is tapered beyond a family income of £26,100pa. The maximum entitlement decreases with family size: £900 per child for families with 1 child, £600 per child for 2 children, and £400 per child for 4 children.</p> <p>Child Benefit is a universal benefit, which increases with the age of the child: £700 per child (ages 0-5), £800 per child (ages 6-11) and £900 per child (ages 12-17).</p>
New Zealand	<p>Family Tax Credit (FTC); and</p> <p>In-Work Tax Credit (IWTC)</p>	<p>The amount of FTC depends on family income and the number and age of dependent children (more for older children). The maximum entitlement is between £2,500-2,700 for the first child and between £1,700-2,400 for each subsequent child. The amount is reduced for incomes above £18,700pa.</p> <p>IWTC is an additional payment for in-work families, worth up to £1,900 per child for the first three children and up to £400 for each additional child.</p>
Sweden	Barnbidrag (Child allowance), including Flerbarnstillagg (Large family supplement)	A universal benefit paid to families with children under 16 or in compulsory education. The amount per child increases with family size: £1,100 per child for a family with 1 child, £1,300 per child for a family with 3 children, and £1,700 per child for a family with 5 children.
United States	<p>Earned Income Tax Credit (EITC); and</p> <p>Child Tax Credit (CTC)</p> <p>Temporary Assistance for Needy Families (TANF)</p>	<p>EITC is an additional tax credit for low-income working families. The maximum credit is £2,400 for families with one child, £4,000 (or £2,000 per child) for families with two children, and £4,500 for families with three or more children.</p> <p>CTC is a tax credit, which reduces your federal tax liability by up to £700 per child under 16. CTC is phased out at incomes above £53,500 (single parents) or £78,500pa (couples).</p> <p>Some US states also operate a ‘family cap’, capping the amount of welfare assistance (TANF) to out-of-work claimants who have more children while in receipt of state aid.⁴ However, at least 7 out of 22 states have repealed the family cap rules since 2003, and none have introduced a new family cap since then.³</p>
United Kingdom	<p>Child Tax Credit/ Universal Credit (UC); and</p> <p>Child Benefit (CB)</p>	<p>CTC/UC is an income-related benefit for in- and out-of-work families, incorporating a maximum per child element of around £2,800 for each of the first two children only.⁵</p> <p>In addition, parents with individual earnings less than £50,000pa are entitled to CB, which is worth £1,100 for the first child and £700 for each subsequent child.</p>

Sources:

Australia: <https://www.humanservices.gov.au/individuals/services/centrelink/family-tax-benefit>

Canada: <https://www.canada.ca/en/revenue-agency/services/child-family-benefits/canada-child-benefit-overview/canada-child-benefit-we-calculate-your-ccb.html>

France: <https://www.service-public.fr/particuliers/vosdroits/F13213>

Germany: <https://www3.arbeitsagentur.de/web/content/EN/Benefits/ChildBenefit/index.htm>

Japan: <http://www.mhlw.go.jp/english/topics/child-support/>

Netherlands:

<https://translate.google.co.uk/translate?hl=en&sl=nl&tl=en&u=http%3A%2F%2Fwww.kinderbijslag.org%2Fcontent%2Fkinderbijslag>

New Zealand: <http://www.ird.govt.nz/wff-tax-credits/understanding/all-about/all-about.html>

Sweden: https://www.forsakringskassan.se/wps/wcm/connect/07a63f80-05f7-4254-b294-71e9568f0999/4058_barnbidrag_flerbarnstillagg_eng.pdf?MOD=AJPERES

United States: <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/eitc-income-limits-maximum-credit-amounts>

Notes:

1. All amounts are annualised and rounded to the nearest £100. Figures are converted to pounds sterling using the exchange rate on 21/3/18.
2. Based on one child in the family being aged over 14, and the rest being under 14.
3. According to the latest data from the Urban Institute's Welfare Rules Database (up to July 2016).
4. Some US states fixed the level of support to the size of the family at the point the claimant first applied for TANF, while other states broke the link between benefits and family size altogether.
5. System as it will apply to new Universal Credit claimants from February 2019.

This report was written by Tom Sefton, Advisor on Social Policy, The Church of England (www.churchofengland.org) and Josephine Tucker, Head of Policy and Research, Child Poverty Action Group (www.cpag.org.uk) .

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