Policy brief: the social security system and households where a young adult lives with their parent(s)

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Key points:

- The growing number of families with adult children living at home are neglected by the social security system – 3.6 million young adults (age 20-34) live with their parents.
- Where such families are on low incomes, their income from state benefits falls sharply when their children stop being treated as dependent – with losses of between £300-£680 a month.
- This could be mitigated for working families by prolonging access to the Universal Credit (UC) Work Allowance.
- Families helped to pay their rent by UC or Housing Benefit (HB) have this support reduced if grown-up children live with them, whether or not those young adults can afford to contribute to the rent.
- This could be mitigated by ending this deduction where the young adult is not working.

The context

A growing proportion of young adults now live with their parents – four in ten families with children in their 20s have at least one living with them. However, this is a stage of life that can be overlooked by the social security system, which tends to focus support on families with dependent children or adults living independently.

Parents sometimes support older children living at home or help them to move out, if they can afford to offer this help. But families on low incomes don't have these options and face particular challenges when relying on the social security system.

This briefing draws on research (from the Centre for Research in Social Policy funded by abrdn Financial Fairness Trust) looking at households where young adults are living with parents in low to middle income families. The evidence stems from interviews and focus groups with young adults and parents, and consultations with stakeholder organisations about what would help.

The briefing highlights two particular features of the social security system that present difficulties for this group, and suggests how they could be mitigated:

- The **sudden loss of benefits** when a child is no longer classed as dependent
- A **deduction from housing support** (applied to Universal Credit or Housing Benefit) for renters who have adult children living at home.

1. The 'benefit cliff edge' when children become non-dependent

The issue:

More and more young adults continue to live with their parents beyond the age at which they are considered by the social security system to be 'dependent' – i.e., after they have left full-time secondary-level education or approved training, usually around the age of 18. At this point parents no longer receive Child Benefit, or the child element of Universal Credit (or Child Tax Credit) for these young adults. Parents who are working may also lose the Universal Credit Work Allowance*. This can cause a sharp drop in income in these families, even though their costs do not change and children may be bringing in less income as adults than their parents have lost. Our research shows that parents on low incomes can struggle to cope with this sudden loss of income. Even if parents knew it was coming (and giving them better advance information would help), the substantial income shock can leave a huge gap in their finances, that cannot instantly be filled. While some may be able to increase their earnings from work, it will depend on their circumstances, if they face barriers to employment, and can take time.

Details:

When a child becomes a 'non-dependent', a family loses different amounts according to (a) whether the child has younger siblings, still dependent, (b) whether the parents are working, (c) whether the family is renting or owner occupiers. This can be summarised as follows for families on Universal Credit:

Loss of benefits associated with non-dependent children for parents on Universal Credit

Monthly loss	When a child with younger siblings becomes non-dependent	When the only or last child becomes a non-dependent; parent is tenant**	When the only or last child becomes a non-dependent; parent is owner occupier**
Child Benefit	£60.83	£91.90	£91.90
Universal Credit child element	£237.08	£282.50	£282.50
Value of Work Allowance*	0	£184.07	£305.62
Total loss for working parents	**£297.91**	**£558.47**	**£680.42**
Total loss for parents not in work	**£297.91**	**£374.40**	**£374.40**

* The loss of the Work Allowance (which enables parents in paid work to earn a certain amount of income before it affects their UC) occurs when the last child becomes non-dependent or leaves home. This is because parents with no dependent children are not entitled to the Work Allowance (unless they have a health condition or disability), meaning that their UC will be reduced by 55% of *all* earnings, rather than the first £335 or £557 per month being exempt.

** Since families not benefiting from rent support in UC get higher Work Allowances to compensate, the loss of this allowance for an owner occupier is especially steep.

This shows that working parents on low incomes, especially owner occupiers, can lose particularly large amounts when their last child is no longer classed as dependent. While non-working parents lose less, they are likely to be less able to cope with a reduced income. These losses can be compounded if they coincide with any loss of child maintenance, and single parents also face the loss of the Council Tax single person discount.

If the young adult is working, they may at least partially make up this shortfall, although sporadic working patterns and modest pay may limit the extent to which the young adult contributes regularly to household costs. However, the income a non-working young adult receives in basic benefits is lower than the loss incurred to the family in the above scenarios. An 18-24 year old who is not working will only be able to claim £257.33 a month on UC, less than even the lowest of the totals in the above table.

A potential mitigation:

Parents in this research suggested that some delaying of the 'cliff edge' of losing children's benefits would help. However, there is no obvious rationale for rescheduling the end of state support for children that it regards as dependent. But a step towards preventing the most severe cliff edge would be to postpone the ending of the Work Allowance where a young adult still lives with a parent. This would recognise that low-earning parents need some support through this transition. Specifically, we propose the following:

Extend entitlement to the Universal Credit Work Allowance to any family with at least one child under the age of 23 living in their home.

This would give a period of approximately five years after children had become 'non-dependent', during which Universal Credit still recognised the pressures on parents working on low incomes to help support young adults living with them. It would give a chance for young adults to get established in the labour market and make a significant contribution to the cost of the home.

As shown below, the coverage and cost of this measure would be very modest, but it is a first step in recognising the pressures on these parents, by mitigating the greatest losses.

Coverage and cost:

It is not easy to calculate the precise cost and coverage of this policy, because it could potentially make some families eligible for UC who are not eligible now.

However, based on survey evidence, the cost and coverage of the policy would be modest. We estimate that up to 22,000 people presently claiming UC have sons or daughters aged under 23, but no dependents, living with them, and do not have disabilities that would already make them eligible for the Work Allowance. We estimate that the cost of making this group eligible for the Work Allowance would be not more than £50m a year.

Note that this would not help the worst-off families, where nobody works. The following proposal suggests a way of helping these families through an adjustment in support for housing costs.

2. Deductions to rent support when young adults live in the family home

The issue:

Parents living in rented accommodation who receive Housing Benefit or Universal Credit (UC) housing element have their support towards rent reduced if they have grown-up children living with them, on the expectation that their adult son or daughter will contribute a rent payment. Covering this deduction could be manageable if the young adult has sufficient earnings, for example from a full-time job. However, if they are not working, or have only occasional earnings, they will be dependent on benefits themselves. An anomaly here is that the social security system does not provide adults living with parents with an entitlement to housing costs through HB or UC to help make the contribution that could cover the rent shortfall their parents face. This discrepancy leaves a gap in the family's finances.

The state seems to be facing both ways here. It effectively treats a young adult as dependent on their parent to provide accommodation, so does not help cover rent as it would with an unrelated landlord. Yet it treats the parent as if their son or daughter is not dependent, and should be paying towards housing costs. For under-25s, this inconsistency is reinforced by paying a lower rate of benefit, making it all the harder for them to afford to make any rent contribution if they are out of work.

Our research highlights the difficulties this deduction raises for families in this situation: young adults are faced with covering the gap from their basic benefits (as well as potentially contributing to other household bills), otherwise parents are left with a shortfall in their finances which can cause financial strain and hardship. This can create tensions in families experiencing financial difficulties, and cause parents to feel penalised for providing a home for adult children who are struggling.

Details:

A 'housing costs contribution' (UC) or 'non-dependent deduction' (HB) is taken from a parent's housing support for each adult living in their home, other than a partner or a dependent child. For someone not working, the deduction is £75.53 a month from their Universal Credit, or £69.31 a month from Housing Benefit. This applies at different ages for UC (from age 21) and HB (from age 18 if the non-dependent works; or from age 25 if on JSA, IS, ESA or on UC with no earned income). In the case of HB, but not UC, the amount increases for those who are earning. Exemptions can apply where parents or the non-dependent receive certain levels of PIP / DLA.

Universal Credit is paid at a rate of £325 a month for a single person age25 and over, but only £257 a month for those under 25.

Policy proposal:

There would be two ways of being more consistent about how young adults living with their parents are treated by the social security system. One would be to treat them as independent adults making a full contribution to family finances. To do this would require them to have full access to rent support through HB and UC if their income is low or they are out of work. There would also be a case for abolishing the reduced rate of benefit for the under-25s.

A more modest and simple change would be to continue to treat young adults living with parents as ineligible for their own housing entitlements under the benefit system, *but* reflect this, by ending the reduction in housing support given to parents on low incomes where their son or daughter does not themself earn money enabling them to contribute.

Specifically, this latter approach implies the following policy proposal:

Reduce to zero the non-dependent deduction applicable to Housing Benefit or Universal Credit in cases where the non-dependent has no earned income.

This policy would make a significant difference to those with the lowest incomes: those where a parent has low or no earnings, who also have a non-working son or daughter living with them.

Research report reference

Hill, K., Webber, R. and Hirsch, D. (2021) *Staying Home and Getting On: Tackling the challenges facing low to middle income families where young adults live with their parents*. Edinburgh: abrdn Financial Fairness Trust

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