****

**Compounding the hardship:**

**The two-child limit, the benefit cap and the cost of living crisis**

**Summary**

* Research from a three year mixed-methods research project shows that the two-child limit and the benefit cap are not meeting their aims.
* Instead these policies leave families unable to afford basic necessities and push families into deeper poverty.
* Families affected by the two-child limit and the benefit cap are experiencing extreme hardship during the ongoing cost of living crisis, which the cost of living payments have been insufficient to alleviate.
* Both the two-child limit and benefit cap need to be abolished urgently.

Families affected by the two-child limit and the benefit cap have been hit particularly hard by the ongoing cost of living crisis. These policies disproportionately affect larger families, who have higher energy and food needs and so are especially affected by rising prices. The two-child limit and the benefit cap reduce entitlement to amounts below the very basic levels of social security provided in the UK, making it impossible for families to cope with the cost of living crisis. However, even before the cost of living crisis, families subject to the two-child limit and the benefit cap did not have adequate benefit payments to cover basic needs including food, clothing and heating. [Benefit levels are already at a forty year low](https://www.jrf.org.uk/press/family-finances-under-major-strain-benefits-hit-40-year-low), and the two-child limit and the benefit cap mean that affected families receive even lower amounts.

Abolishing the benefit cap would substantially reduce the depth of poverty for the 220,000 children living in families affected by the cap, and cost £250 million. Scrapping the two-child limit would lift 250,000 children out of poverty and mean 850,000 children are in less deep poverty, at a cost of £1.3 billion.

The poverty line is calculated as 60% of the median income after housing costs, and adjusted for family size. Households below 50% of the median income are defined as living in deep poverty, and households below 40% of the median income are defined as living in very deep poverty.

In this briefing, we summarise findings from the [Benefit Changes and Larger Families project](https://largerfamilies.study/), a three-year mixed-methods research programme which has investigated the impacts of the two-child limit and the benefit cap on families with three or more children (see Appendix A for methodology). We present findings from analysis of large scale data sets and from interviews with parents affected by the policies (three rounds conducted between April 2021 and January 2023).

**The two-child limit and the benefit cap**

The two-child limit was introduced in 2017 and restricts the child element of Universal Credit and tax credits to the first two children in a family. This means families lose out on £270 a month for every child they have after the first two. The policy was introduced with the aim of "ensuring those on benefits face the same financial choices around the number of children they can afford as those supporting themselves through work". It was also justified in the context of the government's overall aim to increase moves into paid work, although in nearly two-thirds of affected families, someone is working. The latest [DWP figures](https://www.gov.uk/government/statistics/universal-credit-and-child-tax-credit-claimants-statistics-related-to-the-policy-to-provide-support-for-a-maximum-of-2-children-april-2023) show that 1.5 million children live in families affected by the two-child limit, meaning the policy now reaches more than one in ten children in the United Kingdom. As the policy applies to children born after 2017, every year more families are affected. When fully rolled out, an [estimated 3 million children](https://cpag.org.uk/policy-and-campaigns/report/all-kids-count-impact-two-child-limit-after-two-years) will be affected by the two-child limit.

The benefit cap was introduced in 2013 and sets a limit on the total amount a working-age household can receive in benefit payments if no-one in the household is working a minimum number of hours (there are exemptions for households in receipt of some disability benefits). The cap was originally set at £26,000 for families across the UK. In 2016, it was lowered to £23,000 for families living in London and £20,000 for families living elsewhere. The cost of living crisis prompted the first increase in the cap levels to date: in 2023 the cap was raised to £25,323 for families living in London and £22,020 for families living elsewhere. The key aim of the benefit cap is to move people into paid work. Recent [DWP figures](https://www.gov.uk/government/statistics/benefit-cap-number-of-households-capped-to-february-2023/benefit-cap-number-of-households-capped-to-february-2023) show that on average, families lose £50 per week due to the cap. Some households are capped by much larger amounts: as of February 2023, 24% of affected households were capped by between £50 and £100 a week, while 13% were capped by over £100 a week. [Analysis from the Child Poverty Action Group](https://cpag.org.uk/policy-and-campaigns/briefing/benefit-cap-unhappy-anniversary) shows that lone parents with three children are now likely to be capped across most areas of the country, and can be left with as little as £44 a week to live on after paying their housing costs. The benefit cap affects 114,000 households, with an estimated 280,000 children living in capped families.

Some families are affected by both policies at the same time. The government does not publish figures on the overlap between the benefit cap and the two-child limit, but [we estimate](https://largerfamilies.study/publications/benefit-cap-two-child-limit-interact) that 32,327 households were subject to both the benefit cap and the two-child limit as of March 2022. These households contain at least 110,000 children.

**Neither policy meets its objectives**

*Employment*

Our quantitative analysis of large scale survey data shows that the benefit cap and the two-child limit do not lead to moves into paid work. Our research also suggests these policies can be counterproductive. To investigate the impacts of the benefit cap on employment outcomes, we drew on data from the Labour Force Survey. We found there is a slight increase in the number of people in paid work among those at risk of being capped compared to those not at risk of being capped. However, we saw a larger rise in economic inactivity among those at risk of being capped. This is striking because it is the opposite of the trend observed in the population across the same period. It suggests that in some cases, the cap actually pushes families further away from the labour market. Overall, the majority of capped households remain subject to the cap month by month. Our findings are consistent with [recent research](https://www.gov.uk/government/publications/lower-benefit-cap-quantitative-analysis-of-outcomes-of-capped-households) commissioned by the DWP.

To analyse the two-child limit's impact on employment, we used the Annual Population Survey. [The results](https://sticerd.lse.ac.uk/CASE/_NEW/PUBLICATIONS/abstract/?index=10186) show no notable increase in employment after the introduction of the two-child limit in April 2017. Additionally, there is no evidence of increases in working hours.

Our interviews with parents subject to the benefit cap and the two-child limit help explain the lack of moves into paid work. The parents told us of a range of barriers that made entering and sustaining paid work difficult and, in many cases, impossible. The key barriers faced were lack of childcare and health conditions. Bushra, whose son had a health condition which required him to be fed through a tube, told us:

*Every childminder that I’ve tried, they’re all scared about his tube, something happens like they think they can get in trouble … Otherwise I’m very active; I could get a receptionist job or what I studied as a facilitator, I’m a speaker as well, motivational speaker … But then three childminders have rejected me because of his condition so then I kind of like, OK, slide it away, look after your child, that’s it.*

*(affected by the two-child limit and the benefit cap)*

Also, although most of the parents had worked in the past and were planning on working again in the future, the majority of the parents who had preschool age children wanted to look after their children themselves while their children were young.

The interviews with parents also showed that the benefit cap and the two-child limit can push people further away from the labour market. Some participants found that the reduced entitlement made it harder to afford the financial costs involved in entering paid work (e.g. childcare, interview clothes and transport to work) and to afford training or further education. Both our quantitative and qualitative analysis found that the benefit cap had [a negative impact on parents' mental health](https://onlinelibrary.wiley.com/doi/pdfdirect/10.1111/spol.12768). Our qualitative evidence also found strong indications of negative effects of the two-child limit. These negative impacts on mental health made it difficult for the participants to enter and sustain employment. Daneen explained:

*They’re telling me now to live with three [children] off that money; so it causes me worry. Like even before I get paid like I know what’s going out and I know what I’m gonna be left with and I know it’s gonna be a struggle again … it makes you lose everything, your motivation, your ambition, you know, your mental health; how can I even think about working when I’m constantly feeling ill, I feel sick and I feel like I haven’t been able to do anything that I wanted to?*

*(affected by the two-child limit)*

*Fertility*

We also looked at whether or not the two-child limit had an effect on fertility rates. [Our findings](https://docs.iza.org/dp15203.pdf) from quantitative quasi-experimental research indicates that the two-child limit has had no significant fertility effects. At most, the analysis suggests that approximately 5,400 fewer births a year have taken place due to the two-child limit. By contrast, [CPAG](https://cpag.org.uk/news-blogs/news-listings/five-years-two-child-limit) estimates that 50,000 children are pushed into poverty each year as a result of the policy. [Our interviews](https://onlinelibrary.wiley.com/doi/pdf/10.1111/spol.12877) with parents affected by the two-child limit help to explain the lack of fertility effects. Many of the families we interviewed did not know about the two-child limit until after their child was born. In some cases, conception was not a choice, but was the result of failed contraception or an abusive relationship. In other cases, the family was not receiving benefits when the affected child was born, and parents only found out about the policy when their circumstances later changed as a result of relationship breakdown or job loss. Ifemelu, who lost her job during the pandemic and subsequently had to claim Universal Credit, explained:

*While I was pregnant with them I wasn’t on any benefits, I didn’t even know anything about benefit then … my third child, he was around two years old when I was going on benefits. So that’s when I realise there is two-child limit.*

*(affected by the two-child limit and the benefit cap)*

**Poverty-producing policies**

The benefit cap and two-child limit do not result in their intended outcomes: instead they cause severe and significant harm to families in affected households. By severing the link between entitlement to social security and need, the two-child limit and the benefit cap mean that households do not have adequate benefit payments to cover basic necessities including food and clothing. Lucy and Ashley explained:

*Everything was going wrong for me because when you can’t feed your children and you keep going to the food bank it’s not so easy; because in the food bank it’s not like you can do an actual shopping, it’s what they give you and like mostly it’s tinned food, and, you know, living on tinned food constantly can get kind of like boring and frustrating for the children.*

*(affected by the benefit cap)*

*My daughter’s been walking around with like holes in her shoes because I can’t afford to get her a pair of school shoes.*

*(affected by the benefit cap)*

The benefit cap and the two-child limit also make it difficult for households to afford essential bills, including utility, water and council tax bills, and to pay their rent. Jessica, who became affected by the benefit cap following a relationship breakdown, explained:

I’ve always been, you know, good with money and, and never been in any debt whatsoever, but the last few months that’s changed…so gas and electric are behind, council tax is just an absolute nightmare.

*(affected by the two-child limit and the benefit cap)*  
  
Because the parents were unable to meet basic costs, they could not save, which meant that when furniture or white goods needed replacing, families were unable to do this. Leylo told us:

*At the moment the cooker is broke, the washing machine is broke, none of it, it’s not working, and I have no more money to [replace them].*

*(affected by the two-child limit and the benefit cap)*

The parents adopted a wide range of strategies to try to get by. These included using food banks, shopping at the cheapest supermarkets, buying cheaper versions of food and clothing, looking for reduced food items and food offers, borrowing money from family and friends, budgeting carefully, and buying second-hand clothing and items. However, no amount of financial strategising could make up for the inadequacy of the benefit payments the parents were receiving. On being asked if she had received any support or advice in managing her benefit payments since being subject to the two-child limit, Daneen replied:

*I know what to do; I mean unless they can go round, you know, changing what things cost and; I mean I don’t know how more less we can, like I said, I shop from the most cheapest stores out there.*

*(affected by the two-child limit)*

As a result of lack of finances to make ends meet, the parents frequently reported incurring various forms of debt including rent, council tax, water, gas and electricity arrears, budgeting loans, money owed to family and friends, credit card debt and catalogue debt.

**The cost of living crisis: creating an impossible context for families**

The harm caused by the two-child limit and the benefit cap has been worsened by the cost of living crisis, which sees a collision of rising prices with inadequate social security support. Christina and Lucy described the increased pressure they were under:

*We’ve decided we are not putting the heating on unless it gets absolutely ridiculously freezing, we’re gonna just keep warm with blankets and jumpers and stuff like that cos we know we just can’t afford a big hike in the bill...I’m cutting down the washing to only maybe two, two times a week, where before I could, when it’s sunny and everything I was doing like washing every single day, because there are five of us, you know one of who’s a toddler who’s covered in everything.*

*(affected by the two-child limit)*

*My mental health has gone down because my mood has changed and I just feel like everytime I go to the children's centre to get an actual food bank voucher I literally, I just keep crying because I feel like I can't do a lot and also because of the gas and electric rising as well, I can't afford to like top up gas and electric.*

*(affected by the benefit cap)*

The majority of the participants received the two cost of living payments paid in 2022 (£326 in the summer and £324 in the autumn); The parents welcomed these payments; however, many of the participants told us that they were inadequate, particularly as they were one-off payments. Vicky and Rachel said:

*It made the summer holidays a little bit easier not that we went for days out or anything like that… but then towards the end of the summer holidays when the money ran out and things were getting back to normal it was like a slap in the face because like obviously that big chunk of money that you had then you haven’t got coming at this time now.*

*(affected by the benefit cap)*

*It made shopping that month a bit easier but other than that it made, long-term it made no difference, it just meant I could go out and do a proper shop rather than sorta putting stuff back and, and things. But yeah, long-term no difference.*

*(affected by the two-child limit)*

A key issue with the cost of living support payments was that they were paid at a flat rate and were not adjusted to household size. Therefore, they were not sufficient to meet the needs of larger families who inevitably have been one of the groups in society hardest hit by the cost of living crisis due to their greater energy and food needs.

Many of the participants had already been receiving reduced entitlement for a considerable amount of time prior to the increase in prices, in part due to the two-child limit and/or the benefit cap. This meant that when the cost of living crisis became especially acute, these families were already in a very difficult financial position. Consequently, many of the participants used the money to pay for items and to cover costs unrelated to the cost of living crisis. Of the twenty-six participants who detailed how they spent the cost of living payments, only twelve participants spent the money on food, gas and electricity. A quarter of the participants used the cost of living payments to make debt payments. Other participants used the money for one-off expenditures that they had needed for a considerable time. Khadra and Angela explained how they spent the first cost of living payment:

*I can tell you what I’ve done with that as well. My son usually is sleep on a mattress in his room because his bed broke like a long time ago; and I bought him a bed with it.*

*(affected by the two-child limit)*

*I did owe my mum some cos she’d lent me some through the summer, so I, obviously I gave her that back, and obviously kids needed school uniforms.*

*(affected by the two-child limit*)

While welcome, then, the cost of living support payments were insufficient and did not succeed in protecting larger families from the cost of living crisis. Families reported experiencing severe financial hardship, and, amidst rising prices, many were incurring rapidly increasing debt.

**Conclusion**

The two-child limit and the benefit cap do not meet their aims and instead push families into deeper poverty. Families are experiencing severe hardship in the here and now, and these policies will also harm families in the long-term, for example by hindering children's healthy physical and social development.

The ongoing cost of living crisis has worsened the plight of families subject to these policies. While the crisis is receiving less media attention and the government's help with energy costs has ended, food prices are still rising and energy bills are 50 percent higher than in winter 2021-22. This will leave a legacy: our evidence shows families are getting into new and deeper debt as a result of the crisis. Repaying this debt will be extremely difficult if not impossible for families affected by the two-child limit and benefit cap.

The cost of living crisis has highlighted that benefit payments were inadequate, especially for those subject to the two-child limit and the benefit cap, even before the prices began to rise. Many families were unable to use the cost of living payments to cover the price increases as they had more pressing needs for the money (eg debt repayments, replacing essential items) due to longer term insufficient benefit receipt. There is one clear conclusion to our three year investigation into the two-child limit and the benefit cap: both policies need to be abolished urgently.

**Acknowledgements**

The research reported in this briefing has been funded by the Nuffield Foundation, but the views expressed are those of the authors and not necessarily the Foundation. Visit [www.nuffieldfoundation.org](http://www.nuffieldfoundation.org/)

This briefing has been funded by York ESRC IAA - ES/X00435X/1 and Research England Policy Support Fund facilitated by The York Policy Engine.

**Appendix A: *Benefit Changes and Larger Families* Research Methods**

The Benefit Changes and Larger Families research project is a collaboration between researchers at the University of York, the University of Oxford and the LSE, with the Child Poverty Action Group as project partner. To investigate the impacts of the two-child limit and benefit cap on larger families (classified as those with three or more children), the Benefit Changes and Larger Families project is using both quasi-experimental quantitative methods and qualitative longitudinal research. Qualitative longitudinal research involves repeat interviews, with time becoming both a tool and a focus of study. In this briefing, we report on evidence from three waves of interviews, which were conducted from April 2021-January 2023.

The main aim of the qualitative longitudinal work is to find out how larger families are experiencing and responding to the changing policy context. We have followed 45 larger families in Yorkshire and London over 22 months. We had initially planned to do face-to-face interviews, but due to Covid-19 we have done most of the interviews over the phone.

We conducted the first round of interviews in 2021. The second round of interviews took place between January and June 2022 and the third round of interviews took place between September 2023 and January 2023. At the first round of interviews, 21 participants were affected by the two-child limit, 12 were affected by the benefit cap and 12 were affected by both policies. Reflecting the national picture, families with three children were most common in the sample. We intentionally have participants from a mix of ethnic backgrounds due to concerns raised about the disproportionate effects these policies could have on families from certain ethnic minority backgrounds. The research is underpinned by an ethics of care and reciprocity, and principles of anonymity and confidentiality mean that all names have been changed in this briefing.

The Benefit Changes and Larger Families Final Report is available at:

<https://largerfamilies.study/publications>