

The Chancellor is [expected](#) to use her budget in November to end the Two Child Limit (2CL) in Universal Credit. Scrapping it entirely would cost as much as [£3.5 billion by 2028-29](#) and ‘[those with more than six children would be entitled to thousands of pounds in additional benefits](#)’. Other options are being considered despite [strong public support for the limit’s retention](#) as any change would mean even more welfare spending.

The Conservative position, that the 2CL encourages families on welfare to shoulder the same responsibilities as those who fully support themselves through work, should be maintained. Key policy questions considered here reinforce that position.

1. Will lifting the Two Child Limit (2CL) reverse demographic decline;
2. What effect would lifting the 2CL have on child poverty and school readiness;
3. What impact would lifting the 2CL have on work incentives.

Headline findings:

- The two-child limit has **not** significantly reduced the number of low-income families having three or more children, but it **has slowed the growing trend for families with three or more children to be concentrated in poorer deciles.**
- This is partly because **the trend for non-welfare families away from having three or more children slowed**, suggesting these parents might have decided to have more children because their taxes would no longer support an unlimited number of children through welfare.
- Previously there was a **distinct pronatalist bias in welfare**: the trend towards more larger poor families followed reforms by the last Labour Government which increased per child spending by 50 per cent in real terms.
- The IFS found a **15% increase in births among those benefiting** and a decline in contraception use, **ahead of even greater generosity to non-working families.**
- Lifting the 2CL will likely increase fertility among families dependent on welfare, but **not among those supporting the welfare system through taxation.**
- The IFS found that 70,000 of the poorest households subject to the two-child limit would see the gains from its reversal partially or fully wiped out by the household benefit cap – therefore Labour would also need to scrap that popular measure at even greater cost.
- **The introduction of the two-child limit has had no significant effect on the proportion of third and subsequent children in England achieving a good level of development at age 5**, the cornerstone metric of the Government’s Opportunity Mission.
- The IFS said lifting the 2CL was not a magic bullet and other measures such as supporting parents into quality jobs are vital for reducing poverty in the long run.
- **Yet for half of those affected, the 2CL significantly improves work incentives.**

1. Will lifting the Two Child Limit reverse demographic decline?

The effect of the Two Child Limit in tax credits and universal credit (2CL) on fertility was examined in a [2022 academic paper](#) using birth data (only) two years after the policy was introduced (three and a half years after it was announced). It found that **the policy led to only a small decline in low-income families having three or more children.** However, **the likelihood that families with three or more children were poor, was on an upwards trend ahead of the policy change and the policy slowed that trend.**

Higher income families were previously less likely to have three or more children, but that downwards trend **slowed following the introduction of the 2CL.**

The paper did not consider the possibility that **parents on higher incomes might have had more children in the knowledge that their taxes were no longer supporting an unlimited number of children through the benefits system** but we should.

Previously **there was a distinct pronatalist bias in welfare:** the upwards trend of larger poor families followed reforms in 1999 when the UK government introduced Working Families' Tax Credit (WFTC) and then in 2003, Child Tax Credit (CTC).

Between 1999-2003 government spending **per-child** on these benefits rose by 50 per cent in real terms, an unprecedented rise over a thirty-year period, [according to the IFS](#). They examined whether the introduction of WFTC led to greater childbearing and found an **increase in births (by around 15 per cent) among those affected by the reforms.** They also found evidence of a decline in use of contraception among this group.

WFTC was **money per child but only for working families**, whereas CTC was **money per child, for almost all low-/middle-income families, regardless of work status.**

International evidence¹ finds that cash transfers lead to increased fertility when benefits are stable, predictable and, of particular relevance, **unconditional**, so it can be reasonably assumed that any fertility effects (established by the IFS) from WFTC would have been amplified by CTC's introduction as it did not depend on work status.

As to whether lifting the 2CL would reverse demographic decline, it will likely increase fertility among families dependent to a greater or lesser extent on welfare, but not among those supporting the welfare system through taxation. The trend away from having three or more children in these families could become more marked again in response. (Without significant reform to the taxation of families, demographic decline among families outside of welfare is likely to worsen. We will say more on this in later work.)

¹ [Gromadzki, J. \(2024\). Universal Child Benefit and Child Poverty: The Role of Fertility Adjustments. IZA Discussion Paper No. 17456](#); [Costanzo, M. A. \(2025\). A Research Note on Unconditional Cash Transfers and Fertility](#); [Cowan, S. K., & Douds, S. \(2022\). Examining the Effects of a Universal Cash Transfer on Fertility. Social Forces, 101\(2\), 1003-1029](#)

2. What effect would lifting the 2CL have on child poverty² & school readiness

[The IFS](#) have argued that although ‘Reversing the two-child limit would be a quick and cost-effective fix for bringing large numbers of children above the poverty line, it is not a ‘silver bullet.’ The benefit cap would wipe out the gains for some children in the poorest families as removing the two-child limit would lead to 70,000 more households being affected by the household benefit cap.

They do say that the rise in children living in poor households has been entirely driven by a large increase in relative poverty among families with three or more children.

‘Reversing the two-child limit would...reduce child absolute poverty by 4 percentage points...at an eventual cost of £2.5 billion a year – a significant sum – or a cost of £4,500 per child brought out of poverty.’

However, 70,000 of the poorest households subject to the two-child limit would see the gains from its reversal partially or fully wiped out by the household benefit cap and that scrapping the benefit cap instead of the two-child limit would be cheaper. Although very few children would be lifted out of poverty altogether, it would significantly alleviate the depth of poverty for them, boosting their household incomes by a third on average.

Scrapping the benefit cap as well as the two-child limit would be highly unpopular with the electorate and come at a substantially higher total cost, of £3.3 billion a year, according to this IFS analysis and a higher cost per child lifted out of poverty.

Other measures would make a significant long-term difference but are attracting far less interest and they are much harder to achieve: **supporting parents into quality jobs is vital for reducing child poverty in the long run**. The IFS estimate that around 200,000 to 350,000 children could be lifted out of poverty if the government were to achieve its – very ambitious – goal of increasing the employment rate to 80%.

The IFS also point to wider costs of lifting the 2CL such as potentially reducing parents’ incentives to enter work, which we consider overleaf.

Finally, [other research by the IFS](#), finds that **the introduction of the two-child limit has had no significant effect on the proportion of third and subsequent children in England achieving a good level of development at age 5**, the measure of ‘school readiness’ that is the focus of the government’s ‘Opportunity Mission’ target.

This research suggests **scrapping the two-child limit would not be a cost-effective policy for improving children’s early educational performance**, compared with other policies that have proven cost-effective positive effects.

² A more Conservative phrase is ‘family poverty’ as the vast majority of children live in families and it is primarily families which are low- or higher-income.

3. What impact would lifting the Two Child Limit have on work incentives

The IFS has said that overall, the **Two Child Limit has only a modest effect on work incentives**, as replacement rates would rise by less than one percent if it were lifted (the higher the replacement rate, the lower the incentive to work). However, **for half of those affected, the 2CL lowers replacement rates by 4 per cent**, which is significant.

Moreover, poorly designed mitigation measures (such as direct cash top-ups) could introduce significant **cliff-edge effects**, where earning slightly more leads to large losses in benefit income.

1. Child elements increase out-of-work income

- Every extra child element is paid whether the parent is working or not.
- This **raises the income floor** for larger families out of work.

If a family's out-of-work income is higher, the *financial gap* between being in work and out of work shrinks.

2. Reduced incentive to move into work

- Work incentives are often measured by the **replacement rate**:
Replacement Rate=Income out of work/Income in work
- Higher child elements increase the numerator (out-of-work income), which pushes the ratio up. A **higher replacement rate = weaker incentive** to start work, since the relative gain from employment is smaller.

3. Flattened gains from progression

- Because UC tapers away at 55p per £1 earned, the **extra child element is also withdrawn gradually** as earnings rise.
- That means larger families could face longer periods of being subject to the taper, so a higher proportion of their wages gets “clawed back” by benefit reductions.
- This can make **progression within work** (taking more hours or higher pay) feel less rewarding.

4. The IFS backs this logic in principle

- Scrapping the two-child limit (restoring child elements for all children), would increase the average **replacement rate for larger families** from 62.1% to 63.0% but for those who, when out of work, are eligible for universal credit but not benefit capped – 50% of working parents with three or more children – their replacement rate falls by 4 percentage points. would be increased by 4%. **In other words, *their work incentives would be significantly affected.***

Appendix: Introduction to the Two Child Limit (2CL)

Since **6 April 2017**, families who have a **third or subsequent child** born on or after that date **cannot claim the child element** in Child Tax Credit (prior to 6 April 2025) or Universal Credit for that child. Welfare support (**but not child benefit**) is now limited to a family's **first two children**.

Who it applies to:

- **New claims** under UC and new births since April 2017 are subject but families can still receive support for all children born before under **transitional rules**.
- The policy applies **regardless of whether parents are in work or out of work**.

Some children do not count toward the limit:

- **Multiple births** – if twins/triplets are born and they take the family over two children, support continues for both/all, unless there were already two children in which case the ‘all but one’ rule applies as a multiple birth was not ‘chosen’
- **Adopted children** (but not stepchildren).
- Children living with relatives under **kinship care** arrangements.
- Children conceived by **non-consensual conception (“rape clause”)**, but only if the mother can provide evidence through a third party professional.

Financial impact

- The **child element** is worth about **£3,514 per year per child** ([2025/26 UC rates](#)) so, families with a third child after April 2017 do not receive that support.
- By 2024/25, it affects around **1.6 million children** across the UK.

Rationale given by the Government

- The measure’s intention was to make the benefits system ‘fairer’ to taxpayers who support themselves and their families solely through work. It encourages parents to “make the same financial choices” about family size as those not on benefits.
- As the [HoC library](#) states, ‘Exceptions to the two-child limit are made for some claimants who did not **choose** [my emphasis] to have a third or subsequent child, for example due to multiple births and non-consensual conception.’