

## Low pay, household resources and poverty

Since 1997, the Government has been pursuing a policy agenda to promote paid work, to make work possible and to make work pay. Wages play a major part, but are not the only factor, in lifting working households out of poverty. This study, by Jane Millar and Karen Gardiner, investigates the extent of low pay in the UK, and explores the relationship between individual low pay and household poverty, hours of work, benefits and tax credits and other sources of household income. The analysis, based on the latest available figures from 2000/01, shows that:

-  About 23 per cent of workers have gross hourly pay below two-thirds of the median. This has not been much affected by the National Minimum Wage, which is set below this low pay threshold.
-  Almost 30 per cent of female employees are hourly low paid compared with about 18 per cent of male employees. However, since the late 1960s, the risk of low pay has been falling for women and rising for men.
-  Those most at risk of hourly low pay are young and single people. But half of low-paid people are aged between 21 and 49, half are married or living with a partner, and a third have dependent children.
-  About 14 per cent of low-paid employees live in poor households (less than 60 per cent of median income). The remainder escape household poverty in various ways:
  - Just 8 per cent of low-paid people have wages that on their own are enough to avoid household poverty; this compares with 53 per cent of all employees.
  - Among single people on low pay, the incomes of other people in the household, typically parents, are most likely to prevent them being poor.
  - Low-paid people in dual-earner couples most commonly avoid poverty because of their partners' earnings. Where partners do not work, tax credits and benefits can help, if the couple has children. However, a couple with a single earner on low pay remains at very high risk of poverty.
  - Low-paid lone mothers are more likely than other groups to escape poverty by means of tax credits and benefits. Living with others, typically adult children, is also important. Poverty among low-paid lone mothers has fallen since the mid-1990s.

## Low hourly pay: incidence, trends and characteristics

'Low pay', defined as gross hourly pay of less than two-thirds of the median for all employees, affected 5.4 million or 23 per cent of UK employees in 2000/1 (see Table 1). These are workers earning less than £4.86 per hour, a threshold higher than the adult rate of the National Minimum Wage of £3.70 at that time.

The trends differ for men and women. For employed men, the proportion with low pay rose from about 14 per cent in the mid-1990s to about 18 per cent at the end; for employed women, it fell from 33 to 30 per cent.

## Low hourly pay, family and household type

The risk of low pay is highest for women, for young people and for single people. But many low-paid people do not fit these categories: half are aged 21 to 49, half are married or living with a partner, and a third have dependent children. Over half have people in their household other than their partner or dependent children, compared with about a third of all employees. Single low-paid people often live with their parents. Low-paid lone parents often live with their adult children. Couples are least likely to live with others who might contribute to household income. Furthermore, low-paid people living in couples are more likely than other workers to have a non-employed partner or a partner who is also low paid.

Those who are hourly low paid also tend to work fewer hours, with mean weekly hours of 30.5 compared with 37.5 for those who are not low-paid. The average weekly earnings of the low paid are less than a third of those who are not low paid (£115 and £405 respectively). However, about a quarter of *hourly*

low-paid men are not low paid on a weekly basis. These men work very long hours (over 52 hours per week on average) in their main job; some also have subsidiary jobs.

## The overlap between low pay and poverty

Defining poverty as net equivalent household income below 60 per cent of the median, the researchers estimated that about 20 per cent of all individuals - adults and children - lived in poor households in 2000/1. Employed people have a much lower risk of living in poverty, with five per cent living in poor households. Low-paid workers have a much higher likelihood - 14 per cent - of living in poor households. Low-paid men have a higher risk of household poverty than low-paid women (17 per cent compared with 13 per cent).

So most low-paid people - 86 per cent - do not live in poor households. However, the overlap between low pay and poverty is much higher than previously. In the 1970s and 1980s, the risk of a low-paid employee being in poverty was about three to four per cent. This started to increase by the late 1980s. Since 1994/5, the overlap between low pay and poverty has increased slightly from 11 to 14 per cent in 2000/1. The only low-paid group for whom the risk of poverty has fallen significantly is lone mothers: the proportion living in household poverty fell from 28 per cent in 1994/5 to 20 per cent in 2000/1.

## Avoiding poverty: State transfers and other household income sources

How do low-paid people avoid household poverty? The study calculated which income sources, if any, take the household over the poverty line, looking at,

Table 1: **Low pay, all employees: UK, 2000/1**

	All	Full-time employees <sup>1</sup>	Part-time employees <sup>2</sup>
Low pay threshold (hourly)	£4.86	£4.86	£4.86
Mean hourly pay of low-paid employees	£3.67	£3.72	£3.60
Number of low-paid employees	5.4 million	2.9 million	2.5 million
% of all employees who are low paid	23.2 %	16.0 %	48.2 %
Number of low-paid men employees	2.1 million	1.5 million	0.6 million
% of men employees who are low paid	17.5 %	13.6 %	58.0 %
Number of low-paid women employees	3.2 million	1.3 million	1.9 million
% of women employees who are low paid	29.6 %	19.8 %	45.7 %

Notes: 1. 30 hours and above.

2. Under 30 hours.

Source: here and in other tables, own analyses of the Family Expenditure Study.

**Table 2: Avoiding poverty: all employees and low-paid employees, 2000/1**

	All employees	All low-paid employees
<i>Avoiding poverty</i>	%	%
Own market income	53	8
Partner's market income	21	32
Non means-tested benefits	5	8
Tax credits	1	2
Means-tested benefits	1	3
Other's income	13	30
Other household income	1	2
Remaining in poverty	5	14
Total	100	100
Unweighted base	(5,673)	(1,274)

in order: own market income, partner's market income, non-means-tested social security benefits, tax credits, means-tested social security benefits, the market incomes of other household members and other household income (see Table 2). The poverty calculations assume that all income contributes to the living standards of all household members equally; such an assumption may be more realistic for some household types than others.

For just over half of all employees their own market income is sufficient to enable their households to avoid poverty. This market income is almost entirely earnings, but also includes self-employment and investment income. Another 21 per cent avoid poverty by means of partner's market income. Benefits and tax credits play a relatively minor role in taking these households out of poverty, less so than income from other household members.

However, only eight per cent of low-paid employees can take their households out of poverty with their market incomes alone: again earnings are most important. Partners' incomes take another 32 per cent across the poverty line. Benefits and tax credits take another 13 per cent above the poverty line, and 30 per cent avoid household poverty due to the incomes of people in the household, other than their partner.

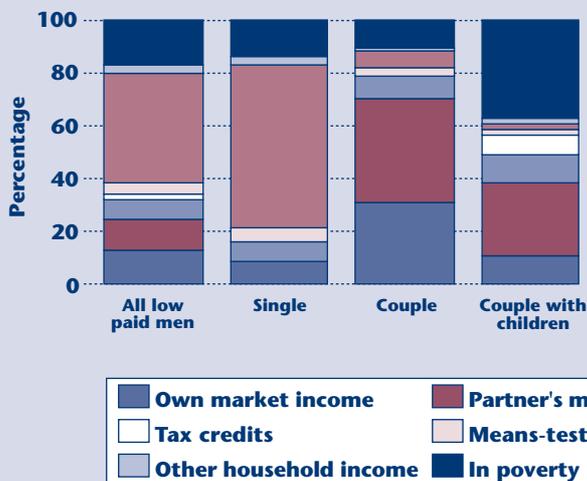
The situation differs for men (see Figure 1) and women (see Figure 2). For single men, income from other household members (e.g. parents) is very important. For men with partners, a second earner is a key factor. Benefits and tax credits play an important role for low-paid men with partners and children. Nevertheless, these families are the least likely to avoid poverty.

For single women, as for single men, the income of other household members plays an important role. For women in couples, living with a partner is again the best way to avoid poverty. For low-paid lone mothers, benefits and tax credits are very important, taking about half out of poverty, including 25 per cent by means of tax credits. Another 19 per cent of lone mothers avoid poverty because of the contribution of other household members (e.g. grown-up children), and a further six per cent as a result of other household income (probably maintenance payments from an ex-partner).

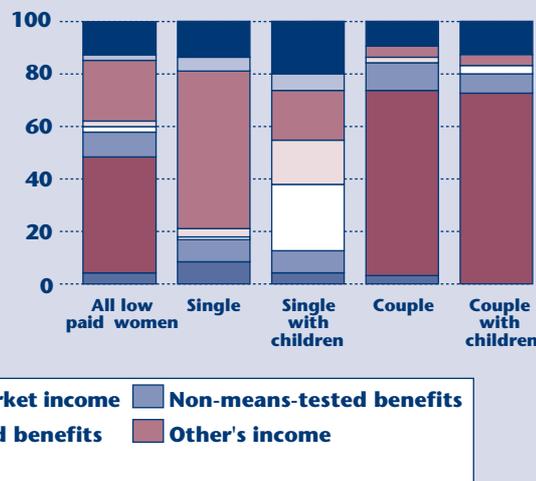
**Discussion and policy issues**

In terms of regular household income, paid work is the best way to avoid poverty. But this does not necessarily mean individual earnings. About a quarter of all employees have hourly earnings which are insufficient to keep them out of poverty, unless they

**Figure 1: Avoiding poverty: hourly low-paid men by family type, 2000/1**



**Figure 2: Avoiding poverty: hourly low-paid women by family type, 2000/1**



work very long hours each week. For sole earners in low-paid work, the risk of living in household poverty is high. The risk is much reduced for those living with other earners. In-work benefits and tax credits can help some families - particularly lone parents - but not to the same extent as market income. Thus, for low-paid workers, the statement that 'work is the best route out of poverty' needs to be modified: 'having a job and living with other people in work is the most effective way to avoid poverty'. And even this conclusion should be weighed against potential disadvantages to a reliance on paid work, such as what happens when households split up, or how to combine paid work and care for children or other household members.

The study shows clear differences between different groups.

- For low-paid *single people* without children, family support rather than the tax/benefit system most often prevents poverty. Opportunities for financial independence are thus limited for this group. Bringing young people into both the adult National Minimum Wage and the tax credit system at 21 would align these two types of support and extend a minimum income guarantee to more young workers.
- Low-paid *lone parents* can also rarely avoid poverty by their wages alone. About a quarter of employed lone parents are low paid, but the combination of wages, child benefit, tax credits, other means-tested benefits and child support provides most with an income above the poverty line. Living with other people, typically adult children, is also important. Receipt of the new tax credits is high among lone parents. Just eight per cent of the low-paid lone mothers working 16 hours plus live in household poverty and 40 per cent avoid poverty because of tax credits. However, for working lone parents the complex income package required to avoid in-work poverty can be difficult to set up, making the transition into work problematic. Increasing Child Tax Credit (rather than the Working Tax Credit) would help to smooth this transition. Making a more substantial contribution to the costs of working would further assist lone parents.
- For low-paid *couples*, joint employment is the most effective way to avoid poverty. Low-paid women are more likely to have partners who are employed

and not low paid than low-paid men, who often have either non-employed partners or partners who are also low paid. For these couples, tax credits can provide a valuable addition to low wages. However, the family-based means test used to determine eligibility for tax credits creates a potential disincentive for second earners.

The stated goal of the Working Tax Credit – to make work pay – means that a number of policy aims are rolled up in this one transfer. For example, a flat-rate, time-limited benefit or tax credit might better help people to make the transition into work. A protected system of paid parental leave might better help families where one parent is providing full-time childcare. Such measures would make the in-work financial system more complex: there is a trade-off between a single system trying to cover lots of needs and a more differentiated system. But as in-work supplementation comes to occupy a more central place in policy it will be increasingly important to address directly these questions of goals and targeting.

### About the project

The analysis is based on the Family Expenditure Survey (now called the Expenditure and Food Survey) for the years 1994/5 to 2000/1; this collects detailed income and expenditure data annually from a sample of households. For this study, a sub-sample of about 5,700 employees was selected for each year.

### How to get further information

The full report, **Low pay, household resources and poverty** by Jane Millar and Karen Gardiner, is published by the Joseph Rowntree Foundation (ISBN 1 85935 257 X, price £14.95).