

**JRF Programme Paper**  
**Minimum Income Standard**

**HOUSEHOLDS BELOW A  
MINIMUM INCOME  
STANDARD**

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This paper:

- examines changes in the adequacy of household incomes between 2008/09 and 2012/13;
- looks at who is most likely to lack the income needed for an adequate standard of living;
- analyses the numbers and characteristics of those falling above and below the minimum income standard.

**The Joseph Rowntree Foundation (JRF)**  
**commissioned this paper as part of its programme**  
**on the Minimum Income Standard, which aims to**  
**define an 'adequate' income, based on what**  
**members of the public think is enough money to live**  
**on.**

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## Key points

- The Minimum Income Standard (MIS) is a benchmark of income adequacy based on what the public think you need for a minimum acceptable living standard. The proportion of people living in households with an income below MIS increased by nearly a third between 2008/09 and 2012/13. The proportion below this level has increased every year since 2008, but most of the increase occurred in the second half of this period.
- After the 2008 economic downturn, the most severe increase in the percentage unable to afford this minimum acceptable standard of living was initially among single people of working age. Since 2010, however, families with children have seen the greatest increases.
- The risk of having a very low income – less than half the minimum income required – remains low but has increased sharply in the four years to 2012/13, rising from four per cent to six per cent.
- Pensioners and couples without children remain the most likely to have an adequate income. However, a growing proportion of couples without children are finding themselves on an income that is just adequate rather than being well above the minimum.
- Changes in employment status help explain the growth in the numbers below MIS among some groups. In particular, increased unemployment accounts for 70 per cent of this growth for single households under 35 between 2008/09 and 2012/13.
- For most working households, however, the increase in numbers below MIS can be explained more by stagnant wages and cuts to in-work benefits than people having less work. This means the risk of a household falling short of MIS can increase, despite their work status remaining the same. For example, for a couple with children where one partner works full-time and the other does not work, the risk of being below MIS rose from 38 to 51 per cent, and for a lone parent working full-time it rose from 26 to 33 per cent.

## Summary

This report examines the changes in the adequacy of incomes, as measured by households' ability to reach the Minimum Income Standard (MIS): a measure based on what the public think is needed for a minimum acceptable standard of living. It looks at the period between 2008/09 and 2012/13, a period when living standards fell substantially in real terms. This is the third in an annual series of reports tracking how many people live in households with insufficient income to afford a minimum socially acceptable standard of living according to MIS. As well as monitoring numbers below this threshold, the report also looks at how many are well above and how many well below this standard.

The 'households below MIS' approach to monitoring income adequacy tracks changes in the economic well-being of low-income households relative to socially defined minimum household needs. Unlike other poverty measures that depend on relative income thresholds, MIS is not affected by fluctuations in average incomes. Instead it is rooted in current public views of what is essential, views that have not changed significantly between 2008 and 2013. As such it gives a more accurate picture of what is happening to living standards in a period when median income has been falling.

The analysis presented here shows that between 2008/09 and 2012/13 the risk of having insufficient income rose for all groups, although this risk is not distributed evenly across different household types. In the first part of the period, the most important influence was rising unemployment, combined with a period of relatively steep inflation not matched by increases in earnings. This especially hit the incomes of young working-age adults living alone, whose job prospects deteriorated the most. Since 2010, however, continuing wage stagnation has combined with cuts in benefit and tax credit entitlements to the detriment of living standards; this has had an especially strong impact on families with children.

Overall:

- Of the 3.7 million individuals living in **single working-age** households in the UK, 1.4 million lacked the income required for an adequate standard of living in 2012/13. This was 37 per cent of single working-age households, up from 29 per cent in 2008/09.
- Of the 9.3 million individuals living in **couple working-age** households without children in the UK, 1.6 million lacked the income required for an adequate standard of living in 2012/13. This was 17 per cent of couple working-age households, up from 10 per cent in 2008/09.

- Of the 3.2 million individuals living in **lone parent households with between one and three children** in the UK, 2.3 million lacked the income required for an adequate standard of living in 2012/13. This was 71 per cent of lone parent households, up from 65 per cent in 2008/09.
- Of the 17.5 million individuals living in **couple households with between one and four children** in the UK, 5.9 million lacked the income required for an adequate standard of living in 2012/13. This was 34 per cent of such households, up from 24 per cent in 2008/09.
- Of the 9.6 million individuals living in **pensioner households** in the UK, 715,000 lacked the income required for an adequate standard of living in 2012/13. This was 7.5 per cent of pensioner households, up from 7.3 per cent in 2008/09.
- **In total**, 43.2 million people live in households of types whose minimum needs are covered by the MIS research. Of these, 11.8 million were below MIS in 2012/13. This was 27 per cent of such individuals, up from 21 per cent in 2008/09. This increase in risk by nearly a third gives an indication of how much more common it has become to live on an income below what you need, although it is not a full count of how many people in the UK are below this level since not all household types are covered.

The analysis shows that the level and trend in numbers below MIS varies according to:

- **Age group:** households with members under 35 are now more than four times as likely to be below MIS than pensioners.
- **Tenure:** tenants are more likely to be below MIS than owner-occupiers, and private tenants comprise a growing percentage of those who fall below the standard. There are similar proportions of private tenants and social tenants on very low incomes, below half of MIS.
- **Region:** London remains the part of the country where households face the greatest risk of being below MIS, influenced by high housing and childcare costs. However in some other regions, notably Wales and the North East, there has been a particularly sharp increase in this risk, to levels close to London's.

Even though young single people have the highest risk of being below MIS, the great majority of people living below the standard continue to be in families with children. Nearly half are in couples with children.

When looking at the overall income distribution, including people below and above the threshold, there are greatest disparities among single people, who have relatively high chances both of being well below and well above MIS.

For the first time, this report also considers how living standards have changed according to the employment status of the household. The analysis shows the risk of falling below MIS has remained high for households without work, and for some household types without work, rose substantially between 2008/09 and 2012/13: from 69 to 75 per cent for non-working singles over 35, and from 54 to 70 per cent for couples without children.

The risk of falling below a socially acceptable living standard decreases as the amount of work in a household increases, but even full-time workers have seen their risk of falling below MIS increase. The proportion of full-time workers below MIS who are single and over 35 has risen from 7 to 14 per cent, and the proportion of lone parents working full-time from 26 to 33 per cent in the period covered. Among households where at least one person works but at least one person is not employed full-time, risks have been more variable.

What drives changes in the overall numbers below MIS is different for different groups. For single people – especially those aged under 35 – the lack of work, or lack of work with sufficient hours, has been influential. Between 2008/09 and 2012/13, the proportion of single households under 35 not working rose from 16 per cent to 24 per cent. These employment trends accounted for 70 per cent of the growth of households below MIS in this group. Lone parents were also affected by the availability of full-time work, and the proportion working full-time fell by six percentage points while the proportion working part-time rose by four percentage points. Employment shifts accounted for 36 per cent of the growth in lone parent households below MIS; most of the increase was due to the inadequacy of wages and tax credits to cover minimum living expenses. For couple households – either with or without children – employment status shifts explain only a negligible share of the increased numbers falling short of MIS, with almost all the increase explained by wage adequacy and benefit changes.

## Introduction

In the period since 2008, households have seen the longest period of falling real incomes in living memory. Median household incomes reached a peak in 2009. Earnings continued falling relative to prices until 2013, and in 2014 barely kept pace with headline inflation. Unemployment rose substantially during the economic downturn, although recently it has shown a significant fall. In addition, tighter fiscal policy has driven reductions in the value of many benefits and tax credits on which low-income households depend.

The consequences of these trends for low income households can be summed up by looking at how many live below a minimum acceptable standard of living. The Minimum Income Standard (MIS – see Box 1) is a benchmark showing what the public considers this minimum to be. For the past two years, the trend in the number of households living below this standard and a long way below it – as well as how many are substantially above it – has been analysed in this annual stocktake (Padley and Hirsch, 2014; Padley and Hirsch, 2013). This has shown a continuous increase in the number of households below the minimum, and has tracked which households have been hardest hit.

This report takes the analysis up to 2012/13, the latest year for which income data is available. It shows no let-up in the upward trend in the overall numbers living below MIS, but a marked shift to families with children as the group where the number is growing fastest.

The figures are broken down by age, region and housing tenure. In new analysis this year, they are also broken down by employment status of the adults in each household (other than pensioner households). This makes it possible to analyse the extent to which increases in the numbers below MIS have been affected by the rise in the number of households without work, or without full-time work, during the period under review. In terms of employment status, an increase in low income can be broken down into such changes in the ‘composition’ of the population by employment status (a shift towards employment categories where the risk of low income is higher, such as part-time and self-employment) and on the other hand a change in ‘incidence’ of low income within each category (the proportion of people of a given employment status experiencing low income). The contribution of composition and incidence to the increase in the numbers below MIS are considered for different household categories in Section 5 below.

### **Box 1: The Minimum Income Standard**

The Minimum Income Standard (MIS) is the income that people need in order to reach a minimum socially acceptable standard of living in the United Kingdom today, based on what members of the public think. It is calculated by specifying baskets of goods and services required by different types of household in order to meet these needs and to participate in society.

The MIS research is funded by the Joseph Rowntree Foundation and carried out by the Centre for Research in Social Policy (CRSP) at Loughborough University. It has produced annual updates since 2008. MIS was originally developed in partnership with the Family Budget Unit at the University of York, bringing together expert-based and 'consensual' (based on what the public think) methods. The research entails a sequence of detailed deliberations by groups of members of the public, informed by expert knowledge where needed. The groups work to the following definition:

*'A minimum standard of living in the UK today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.'*

MIS distinguishes between the needs of different family types. It applies to 'nuclear' families and to childless adults: that is, households that comprise a single adult or a couple, with or without dependent children.

MIS is relevant to the discussion of poverty, but does not claim to be a poverty threshold. This is because participants in the research were not specifically asked to talk about what defines poverty. However, it is relevant to the poverty debate in that almost all households officially defined as being in income poverty (having below 60 per cent of median income) are also below MIS. Thus households classified as in relative income poverty are generally unable to reach an acceptable standard of living as defined by members of the public.

Further information and publications available at:

[www.minimumincomestandard.org](http://www.minimumincomestandard.org)



## Methodology

The report uses detailed survey information on the living conditions of people in the UK and the resources available to them, such as household incomes. It compares this with what the public think is required for an acceptable standard of living in the UK today, according to the Minimum Income Standard (MIS) research. The analysis offers insight into how many people are below the minimum, how far they are below the minimum, and who they are.

What is presented here is based on a detailed analysis of the Family Resources Survey (FRS) from 2008/09 to 2012/13 (DWP, 2012a; DWP, 2012b; DWP, 2012c; DWP, 2013; DWP, 2014a) and comparison with MIS requirements for previous years, back to 2008/09. The comparisons made here are based on the income required to achieve an acceptable standard of living for different households in relation to their composition. The calculations both of requirements and actual incomes are made net of both housing and childcare costs, in order to consider whether net disposable income after paying for these items meets the minimum standard.

The households covered by MIS, and hence those reported here, are those comprising either a single adult or couple, of working age or of pension age, plus up to four dependent children for couples or three for lone parents. Other household compositions, including those with more than one adult other than a couple – such as where individuals are living in houses of multiple occupation – are not included in this analysis. The calculations presented here cover nearly two-thirds of the UK population – 41 million individuals. Because they do not cover the whole population, the figures presented here cannot be used to make an accurate estimate of the total numbers of people with inadequate income in the UK or be compared with poverty totals. Rather the purpose here is to monitor the situation for particular groups.

MIS divides children into four age bands, each with different needs. This allows the calculation of income benchmarks for multiple household types (for example, a couple with two children of pre-school age and two children of primary school age), and gives a total of 107 different household types. The calculations here are based on the minimum budget requirements for each of these household types in April 2008 and April 2012, not including housing or childcare costs. These income requirements are compared with the equivalent actual net income for all FRS households coded according to which of the 107 types they fit into. This comparison allows for the construction of a new dataset calculating the percentage of the MIS requirement provided by actual net incomes. This dataset is then weighted using the FRS grossing factors to ensure that it is representative of the UK household population. The grossing methodology used within Family Resources Survey (FRS) was revised in 2014 following a review and has been updated to take account of the 2011 Census. Analysis undertaken by the Department for Work and Pensions,

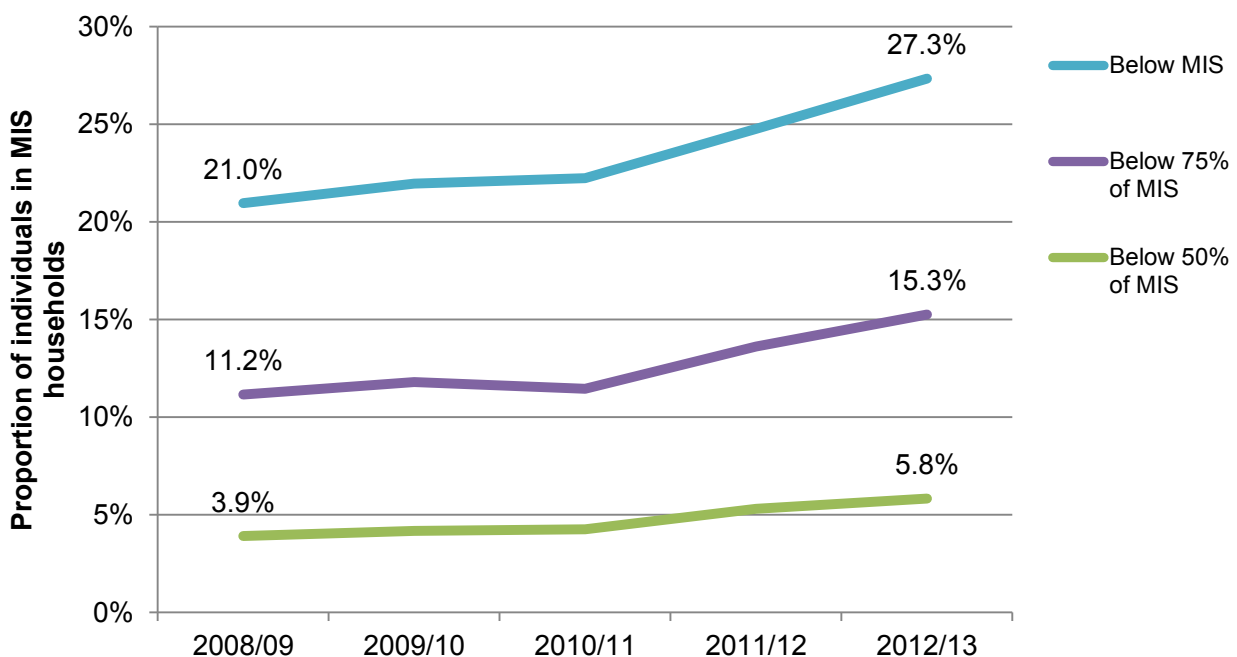
looking at data from 2002/03 to 2012/13, suggests that these revisions have had only minor effects (DWP, 2014b). Note that unlike the after housing costs (AHC) income measure used in the HBAI (Carr *et al.*, 2014) the income measure here subtracts childcare costs, which are also excluded from the minimum income threshold. Therefore the comparison is between people's disposable income after paying for housing and childcare, and minimum budget requirements excluding these items. The analysis is conducted in this way because of the significant variability in the costs of these two items.

# Who is most likely to lack the income needed for an adequate standard of living? The risk of being below MIS

*The risk of being in a household without an adequate standard of living increased significantly between 2008/09 and 2012/2013 and has increased by more than a fifth since 2010*

Currently, about two-thirds of the UK population are covered by households whose income requirements and adequacy can be measured through MIS. Figure 1 below shows that of individuals living in these households more than a quarter now have a household income that falls below MIS. This is an increase of more than six percentage points between 2008/09 and 2012/13 – a proportionate increase in risk of nearly a third among individuals in these households.

**Figure 1: The risk of an individual being below MIS increased substantially between 2008/09 and 2012/13**



Since 2010/11 the risk of an individual being in a household with income below that needed for an adequate standard of living has risen sharply. This is a trend that is echoed in the risk that individuals are in a household below three-quarters and half of MIS. The fastest proportionate increase in risk has been of very low income – being in a household with an income below half of what is needed for an acceptable standard. While only a relatively small proportion of individuals are experiencing this

extreme form of low income, the risk has increased by a half (from around four to around six per cent) since 2008/09.

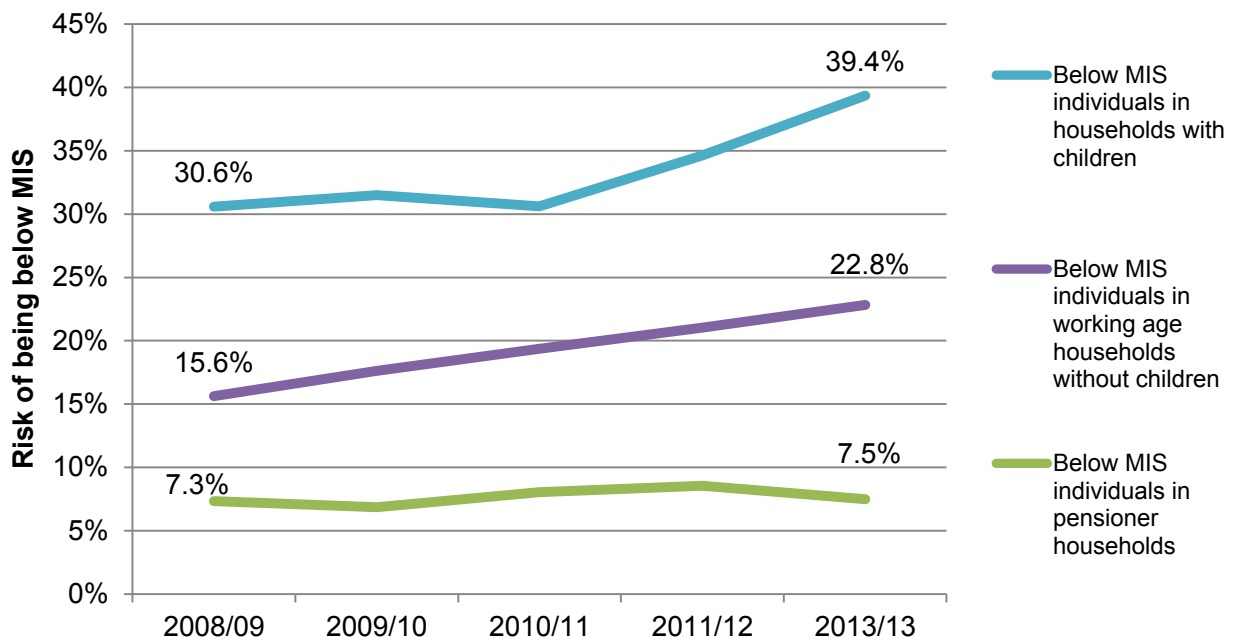
Figure 1 provides a useful overall sense of what is happening in relation to the risk of being below an adequate income in the UK. However one-third of the population are excluded from this analysis at present and these households may well have different risks from those included in MIS. As in preceding years, looking at the relative levels of risk for individuals within particular household types and how this has changed continues to deliver a more useful insight into key questions about the impact of economic hard times. In looking at what has happened to the number of households with insufficient income according to what members of the public think over the period since 2008/09, it is possible to make assessments about who has been hit hardest and who has benefited from more robust protection from the state.

***Risk varies substantially across different household types. The risk remains highest for families with children but working-age individuals without children have seen the greatest proportionate increase in risk in the four years following the economic downturn.***

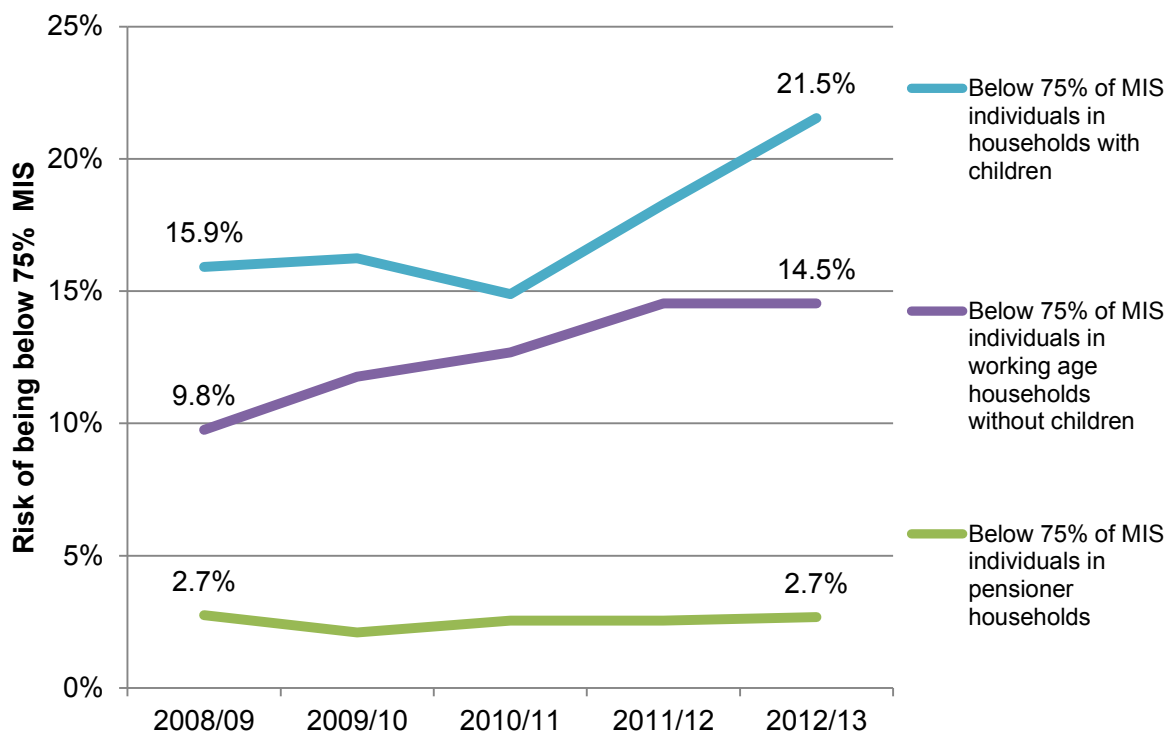
Household type is a key influence on the risk of having an inadequate income according to what the public thinks. As outlined in the previous reports in this series, there are clear differences between the risks faced by individuals in households with and without children. As Figure 2 shows, individuals in households with children have a greater risk of being below MIS than those in working-age households without children (39 per cent compared with 23 per cent in 2012/13). Over the period 2008/09 to 2012/13, individuals in working-age households without children saw the greatest proportional increase in the risk of having an inadequate income. However, since 2010/11 the risk of being below MIS has increased most significantly for individuals in households with children: the numbers of individuals in households with children living below this level increased by just over a third between 2010/11 and 2012/13. This increase in risk since 2010/11 can be seen, at least in part, as a result of significant changes in tax credits and benefits received by families with children.

Pensioners have a substantially lower risk (eight per cent) of being below MIS than either of the other household types and the risk was relatively stable between 2008/09 and 2012/13. The gap between pensioners and all individuals in working-age households is growing. While other household types are facing an increasing risk of having a low income, pensioners have been protected from changes to the benefit system. Specifically, the state pension and Pension Credit have risen by at least the rate of inflation, whereas working-age benefits have fallen behind.

**Figure 2: The most significant increase in risk of being below MIS between 2008/09 and 2012/13 was for working-age households without children, but since 2010/11 the most significant rise was for families with children**



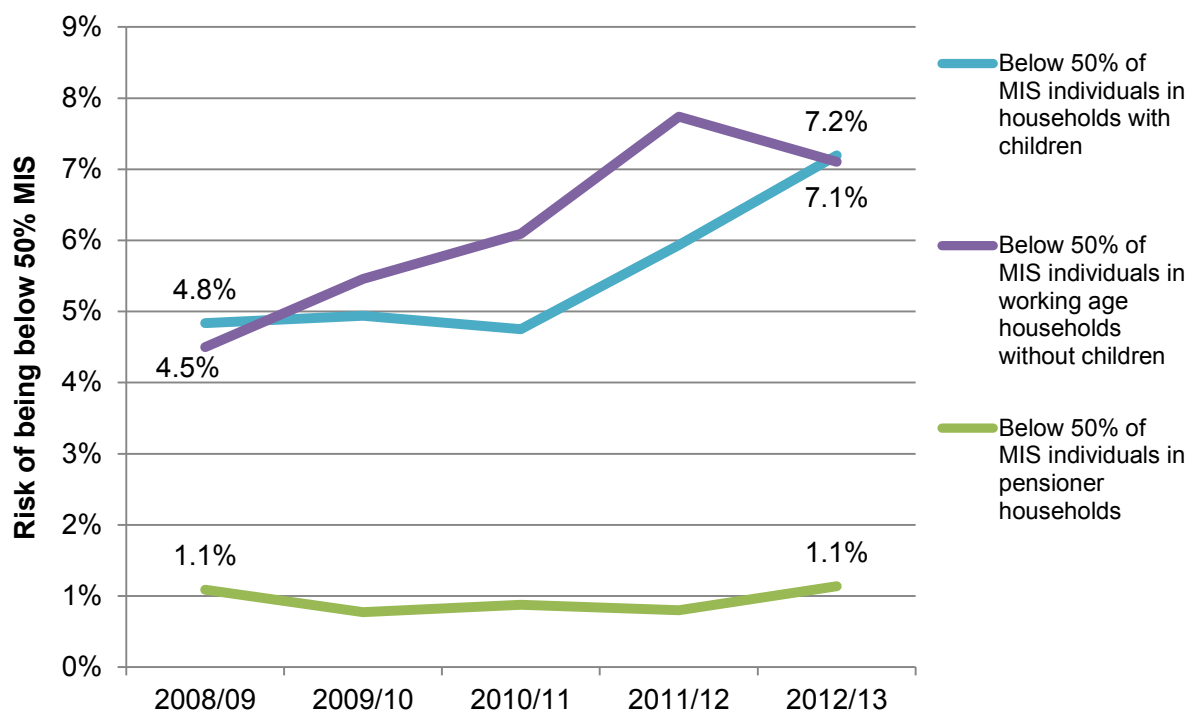
**Figure 3: The risk of being below three-quarters of MIS has risen significantly for both working-age households with and without children...**



Individuals in households with children have the greatest risk of having less than three-quarters of what they need for an adequate standard of living when compared with households without children (22 per cent compared with 15 per cent in 2012/13). As can be seen from Figure 3, more than a fifth of individuals in households with children now have less than three-quarters of what they need. This risk to families with children has increased particularly sharply since 2010, while working-age individuals in families without children have seen a far slower pace of change, and the risk to pensioners in 2012/13 is the same as it was in 2008/09.

Individuals in households both with and without children have seen an increase in their risk of having an income below half of MIS since 2008/09. However, as Figure 4 shows, for the first time since 2008/09 the risk of having an income below half of MIS is greater for individuals in households with children (7.2 per cent) than in those without, while the risk for individuals in households without children increased up to 2011/12 but has fallen back since.

**Figure 4 ... and there was a similar pattern for the risk of being below half of MIS, with households without children seeing a fall over the last reported year**



Looking in more detail at how the risks for different groups have changed since 2008/09 may begin to explain why households without children have generally fared better than those with children since 2010/11. Table 1 indicates a difference in the experiences of various types of household. In particular, there has been a continuous increase in risk for couples and single people without children over this period, with a steep rise for couples without children in the latest year.

Among families with children, couples had seen only a very small increase in risk of being below MIS up to 2010/11, and for lone parents there had been a marked fall. Between 2010/11 and 2012/13 however there has been a considerable increase in the proportion of individuals in these households living below MIS. Over these two years, lone parents have seen more than a ten percentage point increase in risk and any gains made between 2008/09 and 2010/11 have been decisively reversed. The risk of having an insufficient income for households with children was relatively stable until 2010/11 at around 31 per cent, but since this point has increased dramatically to just under 40 per cent. This increase in risk coincides with changes to benefits and tax credits for families, and it is likely that the significant increase in risk faced by families will continue as further changes introduced through the Welfare Reform Act didn't start to bite until April 2013.

**Table 1: Changes in percentage of individuals below MIS by household type**

|                | Single working-age | Couple working-age | Single pensioner | Couple pensioner | Lone parent | Couple parent |
|----------------|--------------------|--------------------|------------------|------------------|-------------|---------------|
| <b>2008/09</b> | 28.6%              | 9.5%               | 10.4%            | 5.0%             | 65.1%       | 23.5%         |
| <b>2009/10</b> | 32.0%              | 10.3%              | 10.7%            | 4.2%             | 63.1%       | 25.1%         |
| <b>2010/11</b> | 34.0%              | 12.2%              | 11.9%            | 5.3%             | 60.4%       | 24.7%         |
| <b>2011/12</b> | 36.2%              | 13.3%              | 13.1%            | 5.4%             | 66.7%       | 28.5%         |
| <b>2012/13</b> | 36.6%              | 17.3%*             | 12.9%            | 4.0%             | 71.1%*      | 33.6%         |

\* Due to a change in the 'grossing' factors used (see [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/321819/frs-grossing-methodology-review-2011-census-updates.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321819/frs-grossing-methodology-review-2011-census-updates.pdf)), change in risk rates between 2011/12 and 2012/13 for couples without children and for lone parents need to be interpreted with caution. The change in basis may overstate the increase in risk by around 2–3 percentage points for couples, but understate it for lone parents by 3–4 percentage points. For other groups, the change has negligible effect.

The numbers below 75 per cent and below 50 per cent of MIS show similar patterns to those outlined above: since 2010/11 the situation has worsened for families with children at a faster rate than for individuals in households without children. These were groups who in the past had been protected through the benefits and tax credits

system, but now are more likely than households without children to have incomes well below MIS. Households without children on the other hand have benefited disproportionately from increases in personal tax allowances and this has meant a reduction in the earnings needed to meet MIS (Davis *et al.*, 2014). While in 2011/12, a substantially greater proportion of people without than with children were living below half MIS, now the risk is very similar for individuals in households with and without children. Figure 4 shows that the recession initially hit working-age individuals in households without children hardest, but the introduction of welfare reforms and increases in tax allowances has resulted in an equalisation of risk across these two groups. In other words, the risk of very low income is almost identical for those with and without children.

***... single working-age adults without children face a higher risk of living below MIS than couples, but the risk is growing fastest for couples without children.***

As shown in Table 1 above, within the category of working-age households without children, the highest risk of being below MIS is faced by single people (37 per cent) rather than couples (17 per cent). Single people also still face a significantly higher risk of having a very low income, with around a quarter (25 per cent) having less than three-quarters of what is needed for an acceptable standard of living and 14 per cent having less than half. The risk of having a very low income for single people without children is the greatest of any group examined here.

It is not easy to explain why the percentage of single people with less than half of the MIS income level stopped its sharp rise after 2011, and indeed fell slightly, from 15 per cent in 2011/12 to 14 per cent in 2012/13 – while for other groups it continued rising. It is unlikely that this fall in the number of single households below half of MIS signals a sudden amelioration in circumstances for single working-age individuals living on their own. What is more likely – particularly in light of the extension of the shared room rate to single housing benefit claimants under 35 rather than under 25 – is that a growing number of single working-age adults on the lowest incomes are no longer able to live on their own and have had to seek alternative living arrangements such as sharing or moving back in with parents (see: [www.ons.gov.uk/ons/rel/family-demography/young-adults-living-with-parents/2013/sty-young-adults.html](http://www.ons.gov.uk/ons/rel/family-demography/young-adults-living-with-parents/2013/sty-young-adults.html) ). In these circumstances, the effect on living standards of expensive housing or cuts in benefits is not fully reflected in the disposable incomes of these groups, but rather affects their housing choices and outcomes, with more people being constrained to share accommodation.

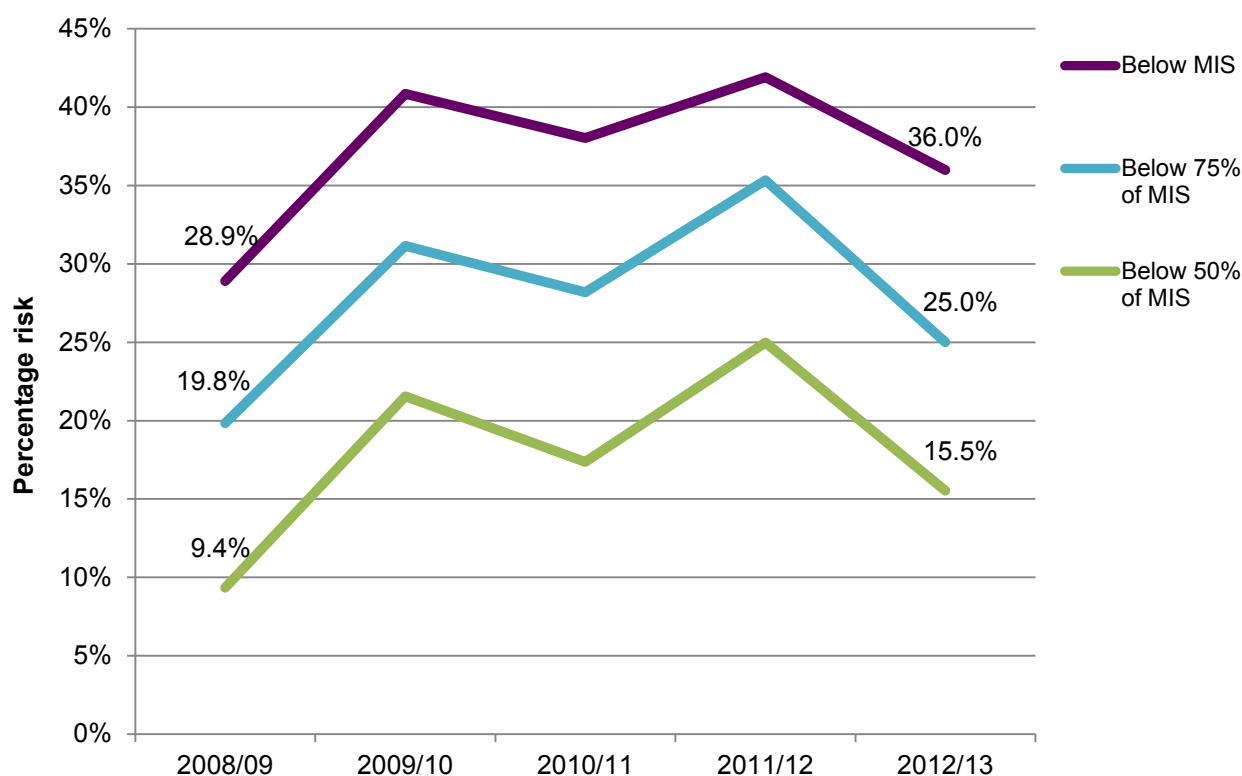
While the risk of being below MIS remains relatively low for working-age couple households without children, this group have seen their risk of being below MIS increase by at least half between 2008/09 and 2012/13. The risk of having a very low income has also increased by at least half over this period.



**Younger single adults have seen their risk of having a very low income fall back.**

Between 2008/09 and 2011/12, young singles, defined here as single working-age adults under the age of 35 and living on their own, saw their risk of low income increase dramatically: the risk of having less than half of the income needed for an acceptable standard of living more than doubled over this period. However, between 2011/12 and 2012/13 there was a significant fall in the risk of having insufficient income and particularly in the risk of having a very low income. While young singles still face significant risks of being below MIS, the proportion with incomes below three-quarters and below half of MIS have each fallen by about ten percentage points. As noted previously, this could be caused by single people on the lowest incomes no longer being able to live alone, rather than by an improvement in their incomes. It is also possible that changes in tax allowances and some decreases in unemployment levels for this group between 2010/11 and 2011/12 may have contributed to a fall in the risk of being below and well below MIS.

**Figure 5: The proportion of young single people with a very low income without children has fallen significantly between 2011/12 and 2012/13**



Overall for young single people, the risk of not having enough income for an acceptable standard of living rose from 29 to 36 per cent between 2008/09 and 2012/13 – a rise of around a quarter. Although the risk of having a very low income has fallen between 2011/12 and 2012/13, it has increased by nearly two-thirds since

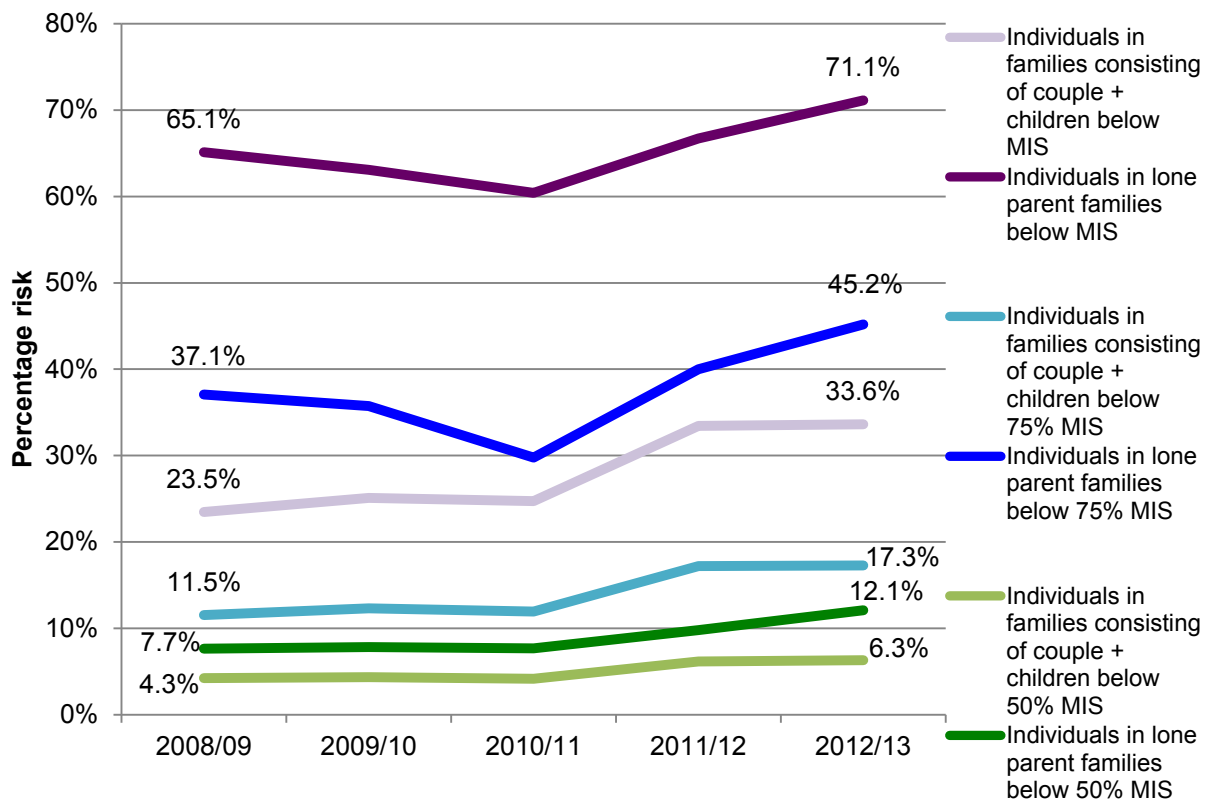
2008/09. The risk of having an income of less than three-quarters of MIS increased from 20 to 25 per cent over this period, an increase of just over a quarter.

***More than one in ten individuals in lone parent families are living on very low incomes, but all families with children have become more likely to be living on low (below MIS) and very low incomes (below half of MIS).***

In households with children, the risk of being on a low income varies significantly according to whether or not there are one or two parents in the family. Individuals living in lone parent households face the greatest risk of being in a household with an income insufficient for an acceptable standard of living, a risk that increased from 65 per cent in 2008/09 to 71 per cent in 2012/13. (As noted in the footnote to Table 1, this increase may itself be an underestimate.) This means that more than two-thirds of individuals in lone parent households do not have all that they need in order to have an acceptable standard of living. Despite an initial reduction in risk for lone parents, the period between 2010/11 and 2012/13 has seen a sharp rise in the risk of having low income.

The picture is even bleaker when looking at the risk of having an income below three-quarters of MIS for individuals in lone parent families. By 2012/13, nearly half of individuals in these households (45 per cent) had less than three-quarters of MIS. This is an increase of more than 50 per cent between 2010/11 and 2012/13. For individuals in lone parent households with very low incomes (below half of MIS), the pattern is very similar. This risk has increased by more than half between 2010/11 and 2012/13, rising from 7.7 per cent to 12.1 per cent. In other words, more than one in ten individuals in lone parents households is living on an income well below that needed to provide an acceptable standard of living.

**Figure 6: Lone parents have a greater risk of being below MIS, but the risk has increased for all families with children**



As Figure 6 shows, while the risks faced by couples with children have increased since 2008/09, individuals in these households face considerably lower risks than lone parent families. That said, by 2012/13 a third of individuals in these households had an income below MIS, up from just under a quarter in 2008/09. By 2012/13, just over three million individuals were in households consisting of a couple and children with an income of less than three-quarters of what is needed for an acceptable standard of living, an increase of more than a million in the four years since 2008/09.

### Risks by household characteristics

The following comparisons look at the risk of a given household falling below MIS according to age, housing tenure and regional location of the household. This provides an indication of which factors are linked to households being on low incomes.

*As in previous years the younger the household, the more likely it is to be living on a low income...*

The risk of being below MIS according to age is related to the age of the household reference person. Table 2 shows that the risks of falling below MIS are smallest for the over-65s and greatest for those under 35. The risk of being below MIS for under-35s has seen the largest increase since 2008/09, rising by nearly nine percentage points, but the 35–64s groups have seen an eight percentage point increase. Moreover Table 2 shows that since 2010/11 the increase in risk of having an income below that which provides an acceptable standard of living has been slightly higher for the 35–64s compared with the under-35s.

Of those with incomes below three-quarters and below half of MIS, the under-35s have witnessed the most significant increases in risk. However, between 2011/12 and 2012/13 there was a reduction in the risk facing under-35s, while the 35–64s have seen a sustained increase in their risk of having a very low income.

**Table 2: The risk of having a low income is greater and has grown sharply for younger households**

|                         | Year           | 16–34 | 35–64 | 65+  |
|-------------------------|----------------|-------|-------|------|
| <b>Below MIS</b>        | <b>2008/09</b> | 29.1% | 21.0% | 8.3% |
|                         | <b>2009/10</b> | 31.3% | 22.4% | 8.0% |
|                         | <b>2010/11</b> | 33.4% | 22.6% | 9.3% |
|                         | <b>2011/12</b> | 35.8% | 25.3% | 9.8% |
|                         | <b>2012/13</b> | 37.9% | 28.5% | 9.0% |
| <b>Below 75% of MIS</b> | <b>2008/09</b> | 16.4% | 12.7% | 3.2% |
|                         | <b>2009/10</b> | 19.1% | 13.5% | 2.6% |
|                         | <b>2010/11</b> | 19.4% | 13.2% | 3.1% |
|                         | <b>2011/12</b> | 23.8% | 15.2% | 3.0% |
|                         | <b>2012/13</b> | 23.2% | 17.1% | 3.4% |
| <b>Below 50% of MIS</b> | <b>2008/09</b> | 5.7%  | 5.1%  | 1.3% |
|                         | <b>2009/10</b> | 7.7%  | 5.2%  | 1.0% |
|                         | <b>2010/11</b> | 8.2%  | 5.4%  | 1.1% |
|                         | <b>2011/12</b> | 10.7% | 6.6%  | 1.0% |
|                         | <b>2012/13</b> | 9.1%  | 7.6%  | 1.5% |

*... and the risks remain greatest in the rental sector.*

As outlined in previous reports in this series, it is clear that the risk of having an income below MIS varies according to housing tenure. Households in the rental sector have a far greater and generally growing risk of not having the income needed to reach an adequate standard of living compared with those who own their home. Those in the social rented sector continue to face the greatest risk of being below MIS, where nearly 50 per cent of households are below this level. The risk faced by private tenants of being below MIS continues to increase, although households in this sector have seen a slight reduction in the risk of having less than three quarters and less half the income that they need in order to reach an acceptable standard of living. This may be accounted for by the reduction in the total number of single person households included in this analysis who are more likely to be living in the private rented sector than households with children.

**Table 3: Social tenants are most likely to have incomes below MIS**

|                         | Year           | Social rented | Private rented | Mortgage | Owned outright |
|-------------------------|----------------|---------------|----------------|----------|----------------|
| <b>Below MIS</b>        | <b>2008/09</b> | 42.6%         | 36.4%          | 9.4%     | 9.5%           |
|                         | <b>2009/10</b> | 43.5%         | 37.7%          | 11.3%    | 8.4%           |
|                         | <b>2010/11</b> | 44.1%         | 39.8%          | 10.3%    | 9.8%           |
|                         | <b>2011/12</b> | 47.8%         | 41.7%          | 12.0%    | 10.8%          |
|                         | <b>2012/13</b> | 48.9%         | 43.7%          | 12.9%    | 10.5%          |
| <b>Below 75% of MIS</b> | <b>2008/09</b> | 25.7%         | 22.3%          | 4.7%     | 4.2%           |
|                         | <b>2009/10</b> | 26.0%         | 24.3%          | 5.6%     | 3.6%           |
|                         | <b>2010/11</b> | 25.9%         | 24.2%          | 5.1%     | 4.0%           |
|                         | <b>2011/12</b> | 30.3%         | 27.9%          | 6.0%     | 4.2%           |
|                         | <b>2012/13</b> | 30.6%         | 27.2%          | 6.2%     | 4.9%           |
| <b>Below 50% of MIS</b> | <b>2008/09</b> | 7.7%          | 9.0%           | 2.4%     | 2.0%           |
|                         | <b>2009/10</b> | 8.8%          | 10.0%          | 2.4%     | 1.7%           |
|                         | <b>2010/11</b> | 9.6%          | 10.7%          | 2.1%     | 1.7%           |
|                         | <b>2011/12</b> | 11.7%         | 13.1%          | 2.9%     | 1.8%           |
|                         | <b>2012/13</b> | 12.5%         | 10.8%          | 2.8%     | 2.5%           |

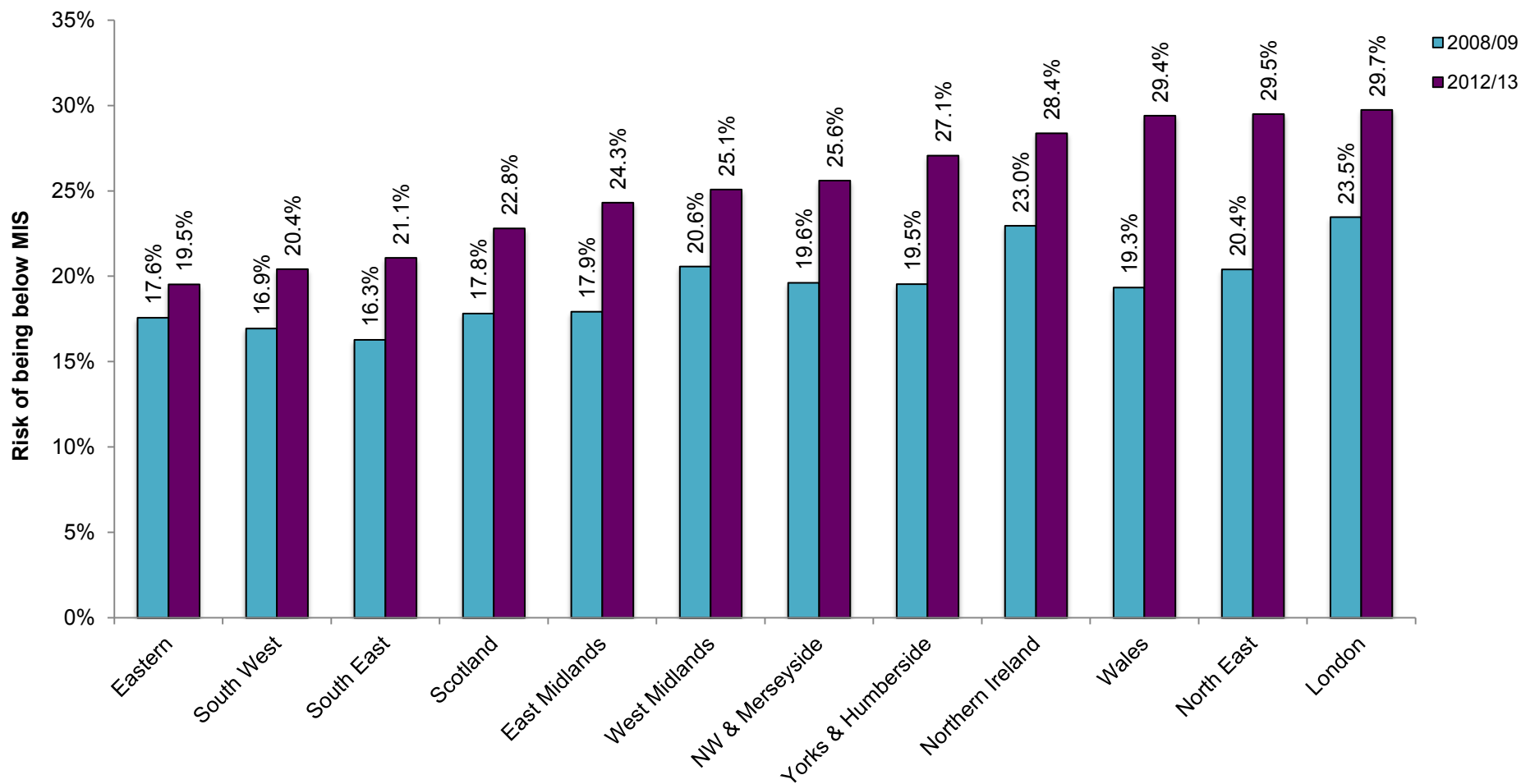
***Households in Wales, the North East and London have the highest risk of low income and the risk has increased most in Wales and the North East.***

The risk of being below MIS varies considerably by region. Fewer than one in five MIS households in the Eastern region in 2012/13 had an income below the threshold. In London, the North East and Wales, by contrast, more than 29 per cent of households had an income below MIS. Figure 7 shows that all regions have seen an increase in the risk of being below MIS between 2008/09 and 2012/13, but that some regions have fared far worse than others over this period. Wales and the North East in particular have seen increases of around ten percentage points in the proportion of households with incomes below that needed for an acceptable standard of living. In Wales, around half of this increase has occurred between 2011/12 and 2012/13 whereas in the North East there has been a gradual increase in risk.

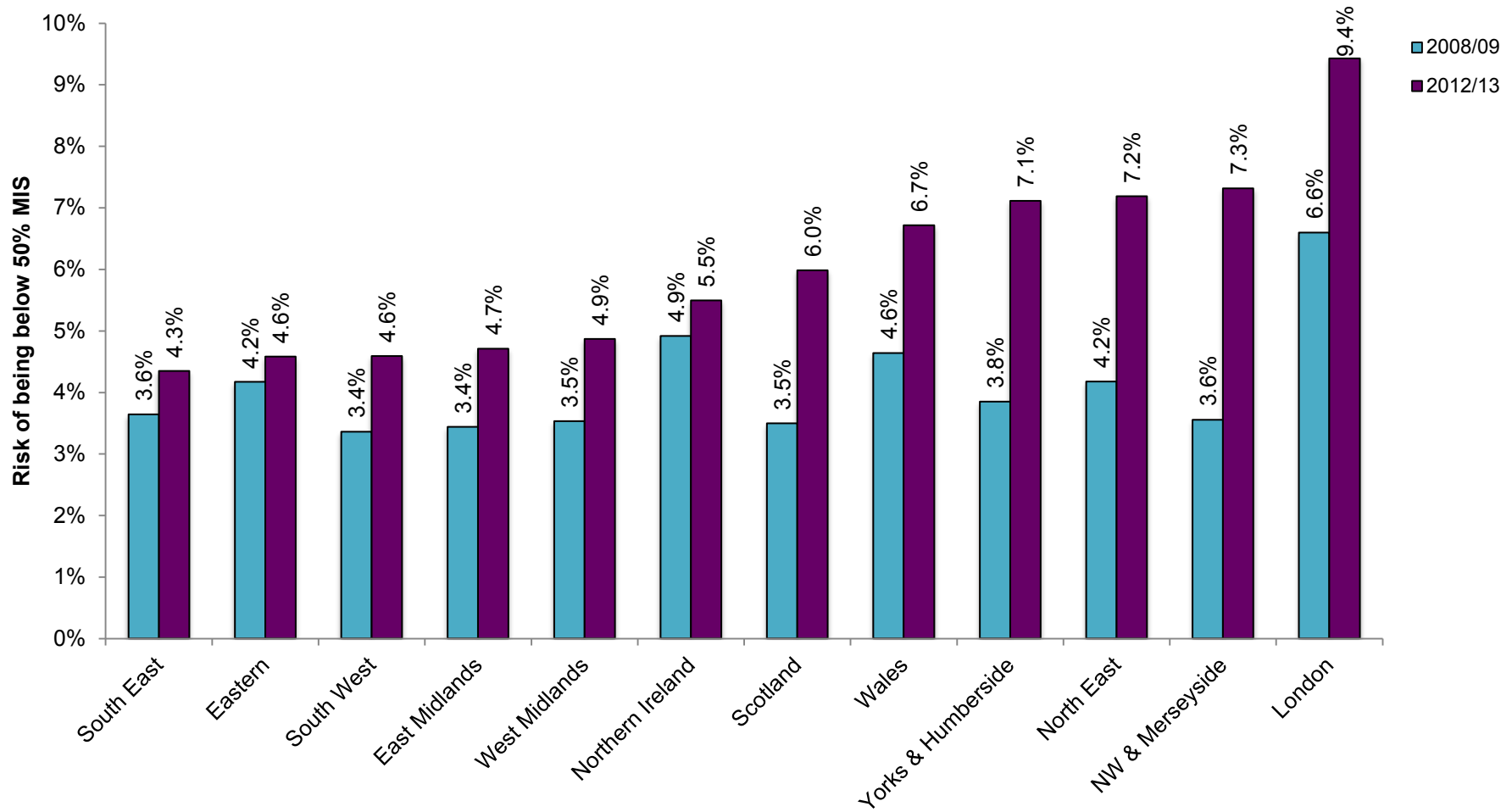
Figure 8 shows that the proportion of very low income households, with incomes below 50 per cent of MIS, has also increased in all regions since 2008/09. London remains the region where households face the greatest risk of falling below half of MIS, but has seen only a small increase in risk between 2011/12 and 2012/13. The region that has seen the sharpest increase in the proportion of households with less than half of the income needed for an adequate standard of living is the North West and Merseyside region. Between 2008/09 and 2012/13, the proportion of households below half of MIS doubled, with most of this increase coming in the year from 2011/12 to 2012/13.

In general the North of the England appears to have fared worse than the Midlands and South of England since 2008/09. The North East region has suffered particularly badly over this period: it has seen a sharp rise in the proportion of households with incomes below MIS, and a significant increase in the proportion of households with very low incomes.

Figure 7: The risk of having a low income is greatest in London, but has increased most in Wales



**Figure 8: The risk of having a very low income is greatest in London, but has more than doubled in the North West and Merseyside region**





## **What is the distribution of people lacking the income needed for an acceptable standard of living? The composition of numbers below MIS**

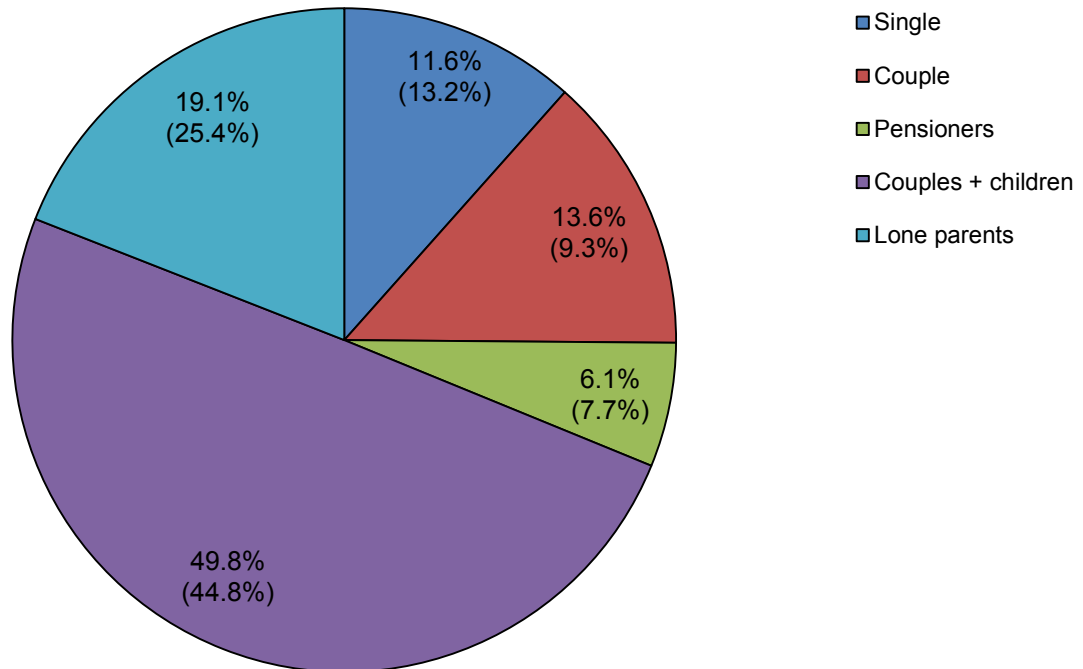
This section examines how many individuals and households are below MIS in different groups. While some groups have a relatively small risk of being below MIS, it is conceivable that they may make up a significant proportion of those who have inadequate incomes if their numbers overall are large as a proportion of the population.

### ***More than two-thirds of individuals with household incomes below MIS are in families with children ...***

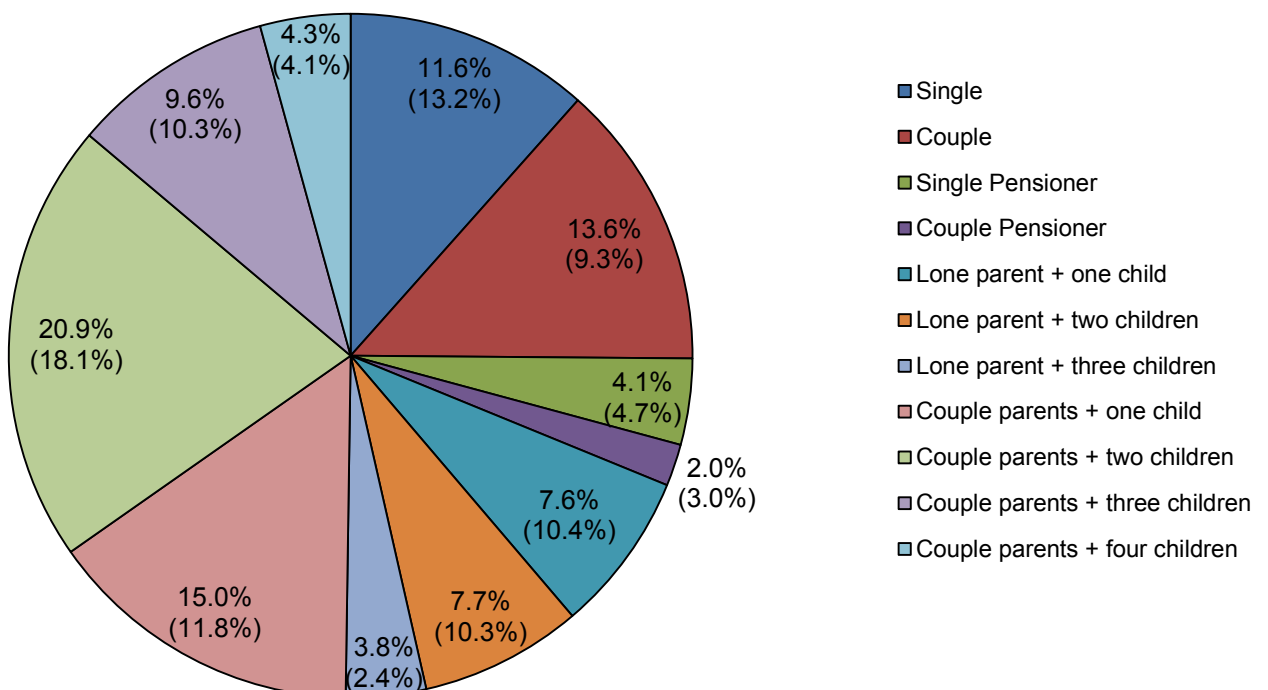
Figures 9 and 10 show how individuals in households below MIS are distributed across different groups. Since 2008/09, individuals living in couple households with children have consistently been the largest group, and in 2012/13 accounted for half of all people below MIS. Consequently, households comprising couples with children not only account for a significant proportion of the numbers with an insufficient income to provide an acceptable standard of living, but also have a higher than average risk of being below MIS. As in previous years, the next biggest group is made up of individuals living in lone parent households, a group with a very high risk of being below MIS. They accounted for just under a fifth of the total in 2012/13 and when combined with couple households with children make up more than two-thirds of all people below MIS.

The overall composition of the numbers below MIS has not changed significantly between 2008/09 and 2012/13. However, the proportion of individuals living below MIS who are in lone parent households has fallen over this period from 25 to around 20 per cent – associated in part with a slight fall in the number of people living in such families, compared with an overall increase in the total population. At the same time, the proportion accounted for by individuals in couple households with children has increased from 44 to 50 per cent.

**Figure 9: Below MIS 2012/13 (2008/09): couples with children have had the greatest numbers below MIS since 2008/09 and their share is growing**



**Figure 10: Below MIS 2012/13 (2008/09): the more detailed breakdown reveals that couples with one or two children are the two most common groups**

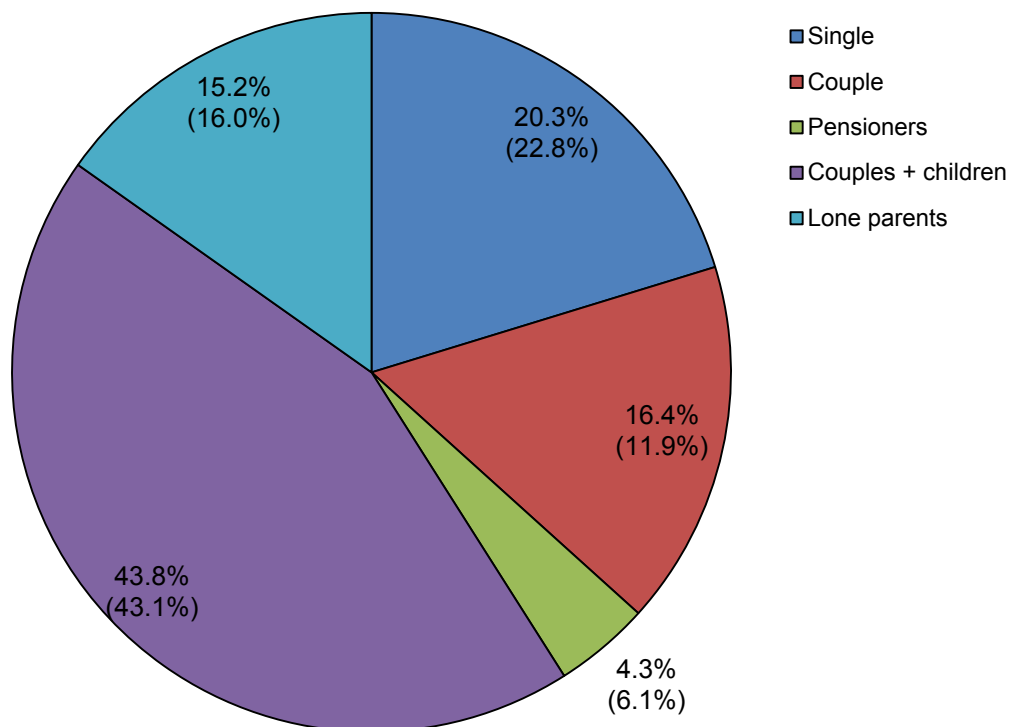


*... and among those with very low household incomes, 60 per cent are in families with children.*

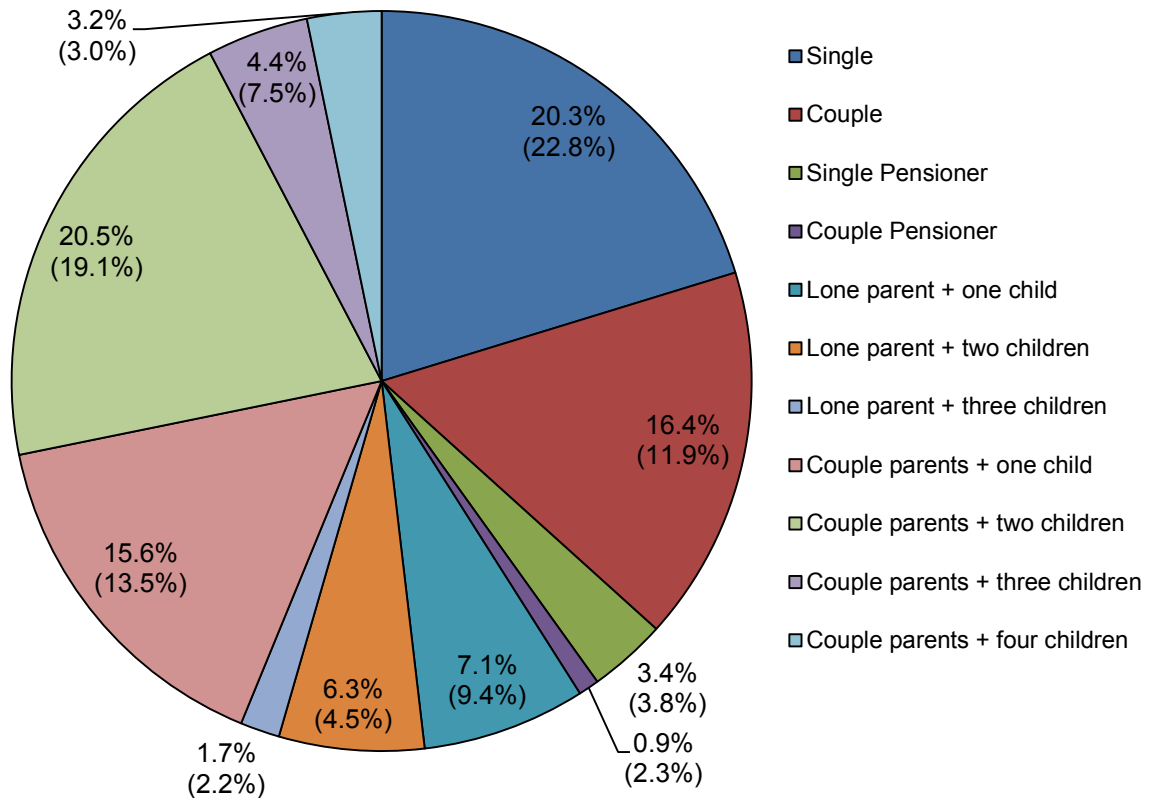
As with the numbers below MIS, the largest proportion of people with an income below half of what is needed for an adequate standard of living are individuals in couples households with children. This group accounts for 44 per cent of the total, a proportion above that in 2008/09 and the highest over the four-year period. Individuals in lone parent households make up 15 per cent of the total, a smaller proportion than the 19 per cent share of all of those below MIS. As with the composition of those below MIS, individuals in households with children account for the greatest share of numbers whose incomes are at least 50 per cent below MIS, accounting for 59 per cent of this group as in 2008/09.

Couple working-age adults as a group have increased as a proportion of the total from 12 per cent in 2008/09 to 16 per cent in 2012/13.

**Figure 11: Below 50 per cent of MIS in 2012/13 (2008/09): working-age individuals in couples make up a growing proportion of this group, while those in households with children still account for the largest share**



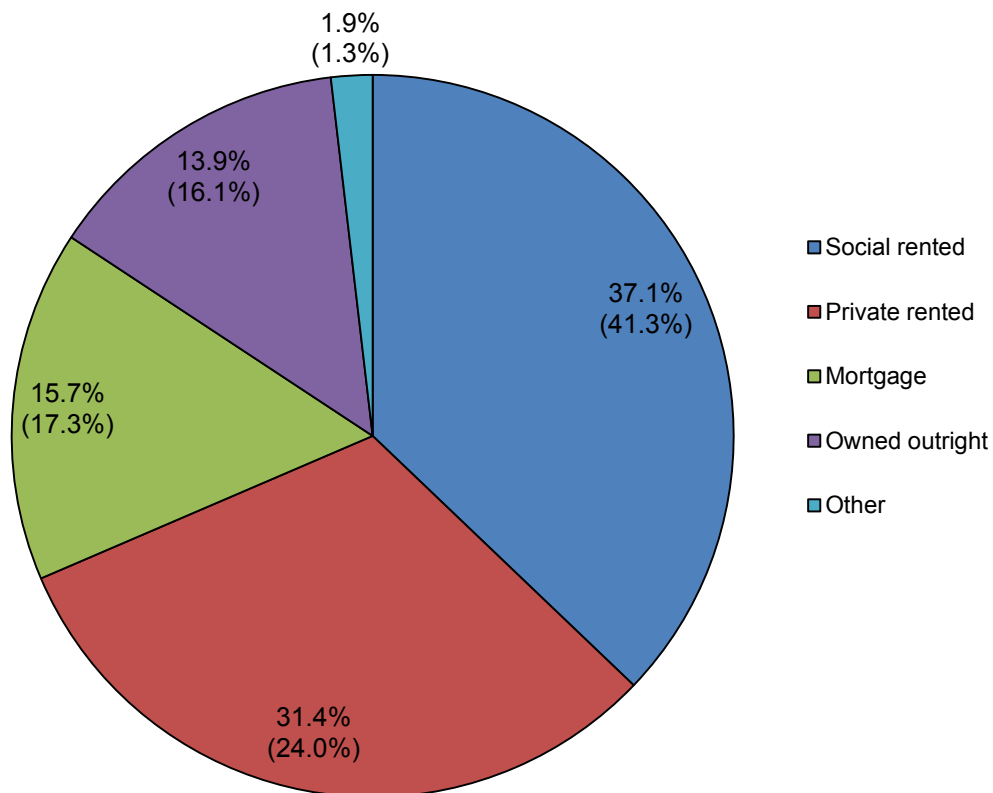
**Figure 12: Below 50 per cent of MIS 2012/13 (2008/09): the more detailed breakdown shows that couples households with two children and single people are the groups with the most individuals living on very low incomes**



***Households in the private rented sector account for a growing proportion of households living on low incomes ...***

The number of private tenancies among the households included in the analysis here grew by nearly 50 per cent between 2008/09 and 2012/13 and a growing proportion of households below MIS are found within this sector. The proportion of households below MIS in the private rental sector increased year-on-year from 24 per cent in 2008/09 to 31 per cent in 2012/13. The proportion of households below MIS that are in the social rented sector has fallen from 41 per cent (2008/09) to 37 per cent (2012/13) where it has been since 2010/11.

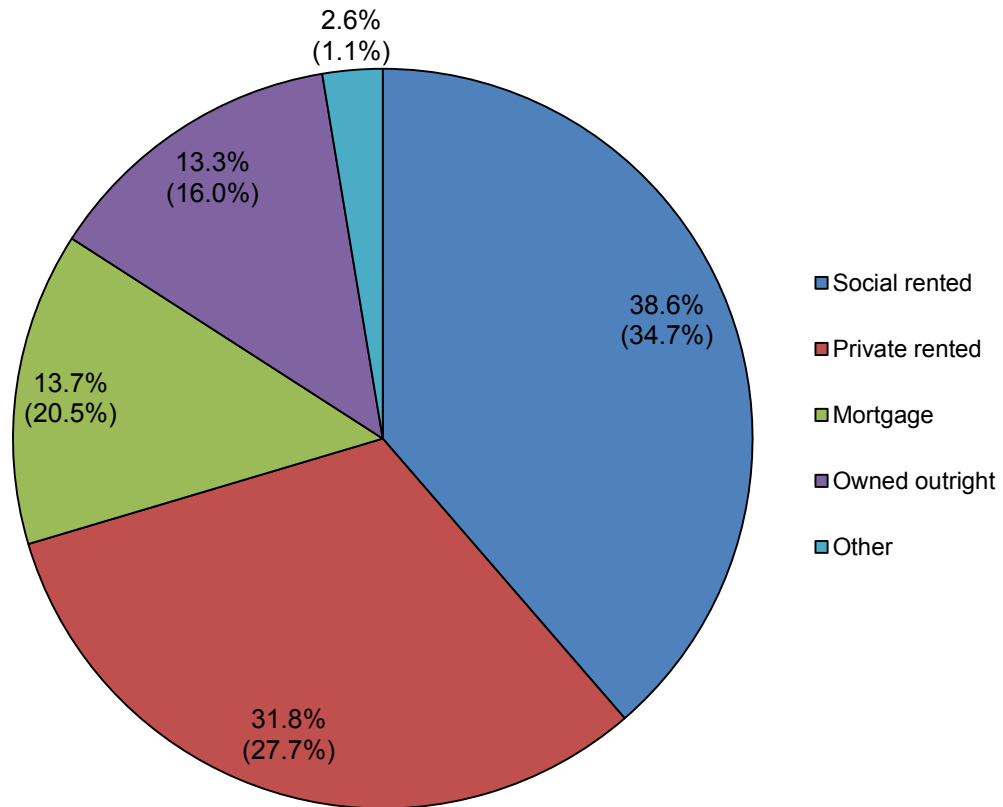
**Figure 13: Below MIS 2012/13 (2008/09): nearly a third of households on low incomes are in the private rented sector**



*... while an increasing proportion of all households with a very low income are in rented housing.*

When looking at the composition of those with less than half of the income needed for an adequate standard of living, the greatest proportion is made up of households in the social rented sector. This group accounted for 39 per cent in 2012/13, up from 35 per cent in 2008/09.

**Figure 14: Below 50 per cent of MIS 2012/13 (2008/09): approaching half of all households with fewer than half of the income they need are now in the private rented sector**



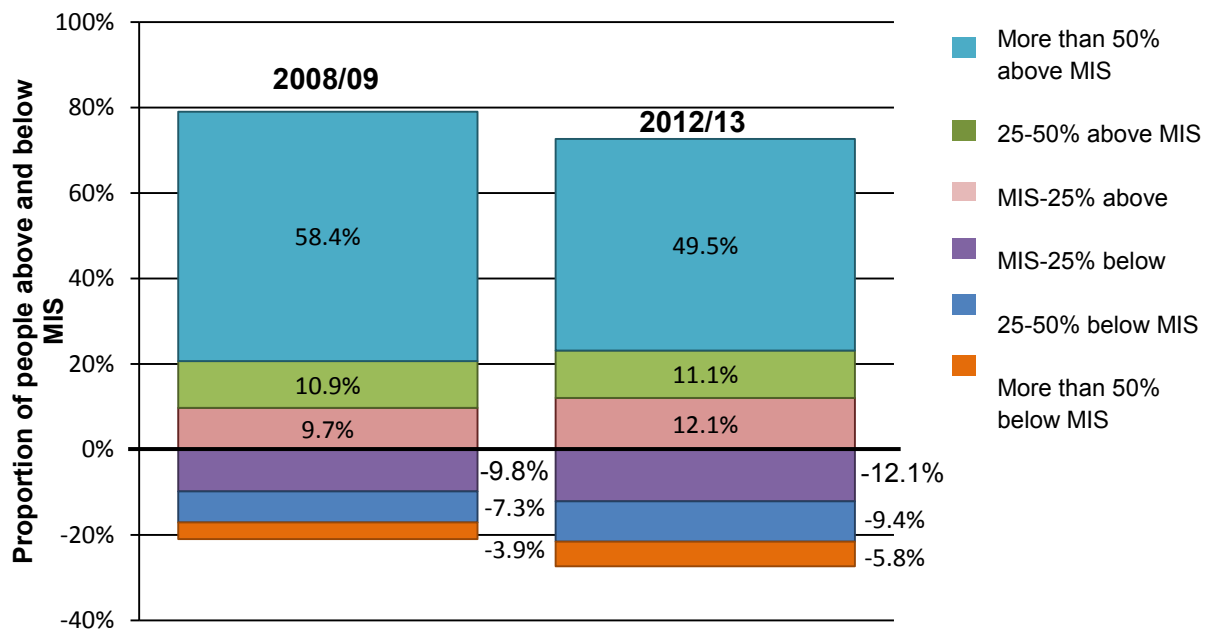
## **Who exceeds and who falls short of what is required for an adequate income and by how much? The profile of numbers above and below MIS**

This section looks at the income profiles of various groups in relation to MIS, showing the proportion whose incomes are in various bands above and below MIS, expressed as a percentage of MIS. This analysis shows how the overall distribution of income has changed since 2008/09. It may be expected that in times of austerity, the public view of what is needed in order to have a minimum socially acceptable standard of living would shift accordingly. However, public views about what is needed in order to have this acceptable standard of living have remained relatively stable (Davis *et al.*, 2014). Consequently the changes explored here are accounted for by changes in available resources rather than changes in views about what constitutes a minimum socially acceptable standard of living.

***The numbers below MIS have increased and the numbers well above MIS are also lower.***

Figure 15 looks at the profile of all individuals in households that are covered by MIS. In 2012/13, the majority (73 per cent) had enough income to afford what the public think is needed for an acceptable standard of living. In spite of this, there was, in general, a downward pressure on incomes relative to the MIS threshold in the years between 2008/09 and 2012/13. As this report has already made clear, a growing proportion of individuals have incomes below MIS, but there have also been some significant changes in the profile of those with incomes above MIS. The overall proportion of people with at least MIS has fallen by six percentage points, but the proportion who have an income at least 50 per cent higher than MIS – those that could reasonably be considered to be ‘comfortably’ above the minimum – has fallen by nine percentage points. This means that in 2012/13 less than half of all individuals in households covered by MIS had an income at least 50 per cent above MIS.

**Figure 15: The profile of individuals relative to MIS – most people remain well above the threshold**

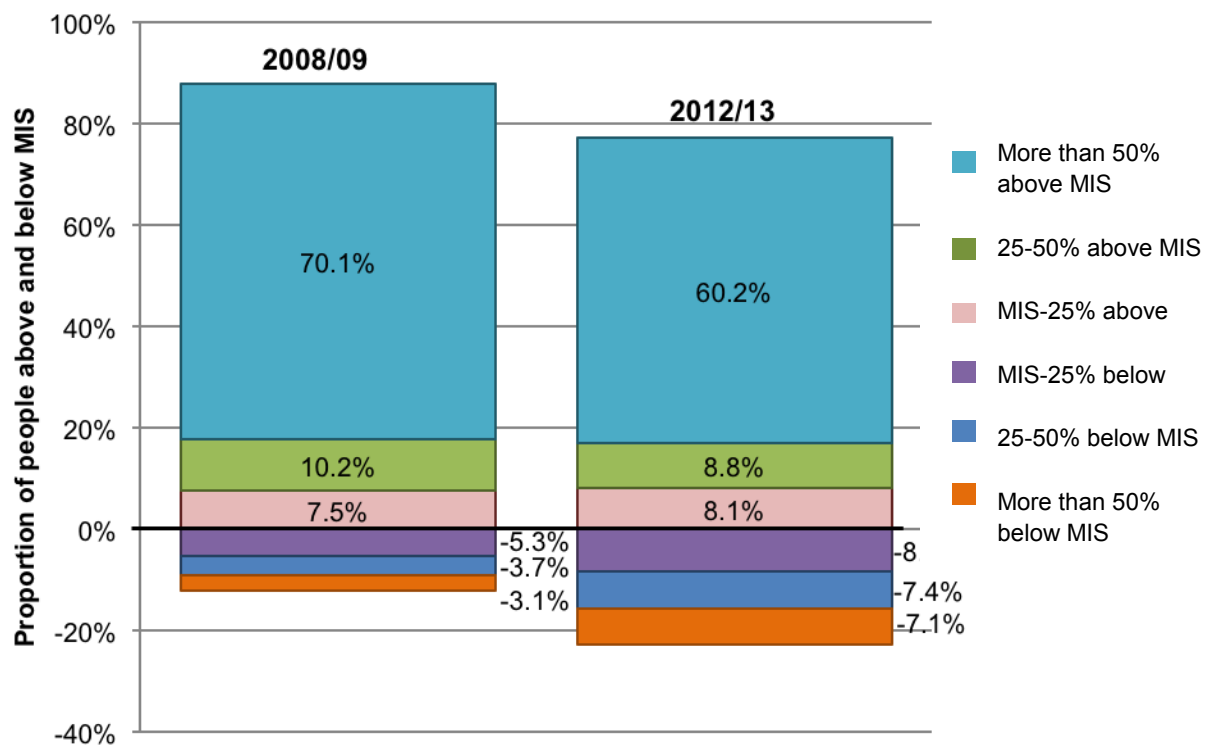


***Working-age adults without children have a good chance of being at least 50 per cent above the MIS threshold, but for single working-age people this has fallen to less than half.***

As a combined group, the position of individuals in working-age households without children relative to MIS saw significant downward pressure between 2008/09 and 2012/13. Figure 16 shows that the number of individuals with incomes of at least 50 per cent above MIS decreased by around 10 percentage points between 2008/09 and 2012/13. At the same time as there has been a decrease in the numbers above the MIS threshold, there has also been a dramatic increase in the numbers of individuals with incomes below and well below MIS. The number with between MIS and 50 per cent below MIS increased by about 75 per cent during this period. The number with incomes below 50 per cent of MIS more than doubled over this period.

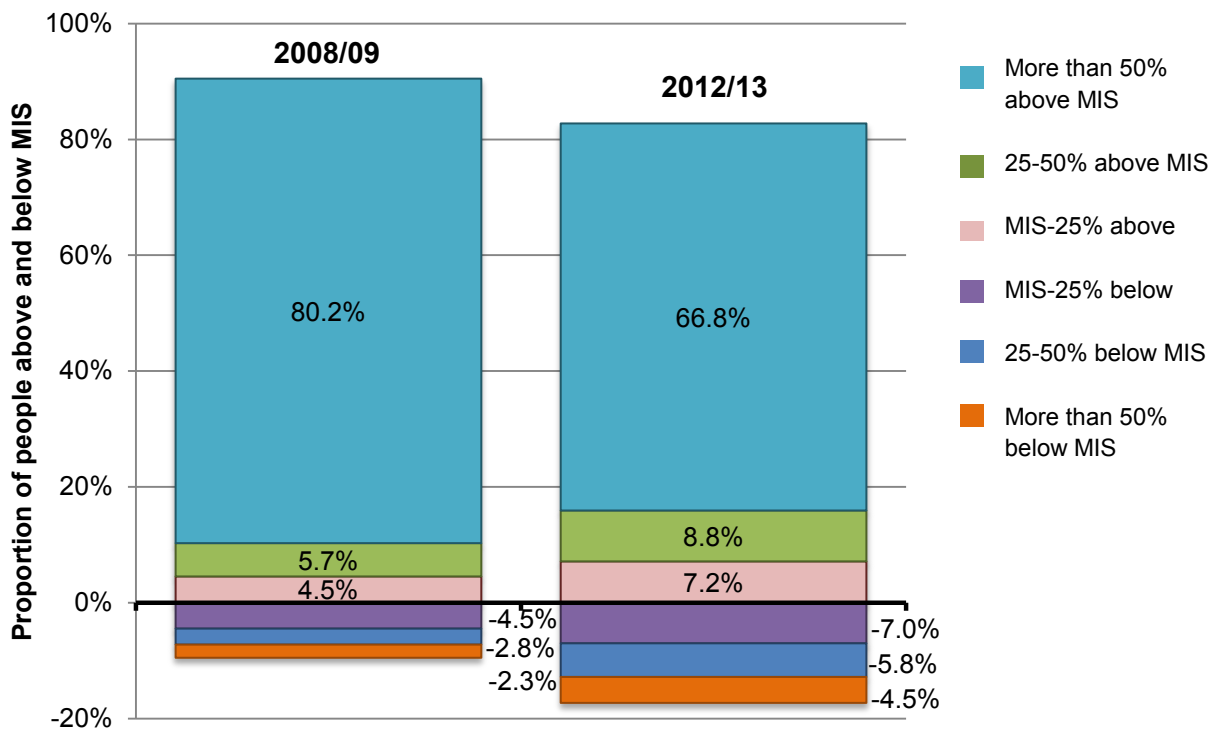


**Figure 16: For working-age adults without children, the number substantially above the MIS threshold has fallen sharply**

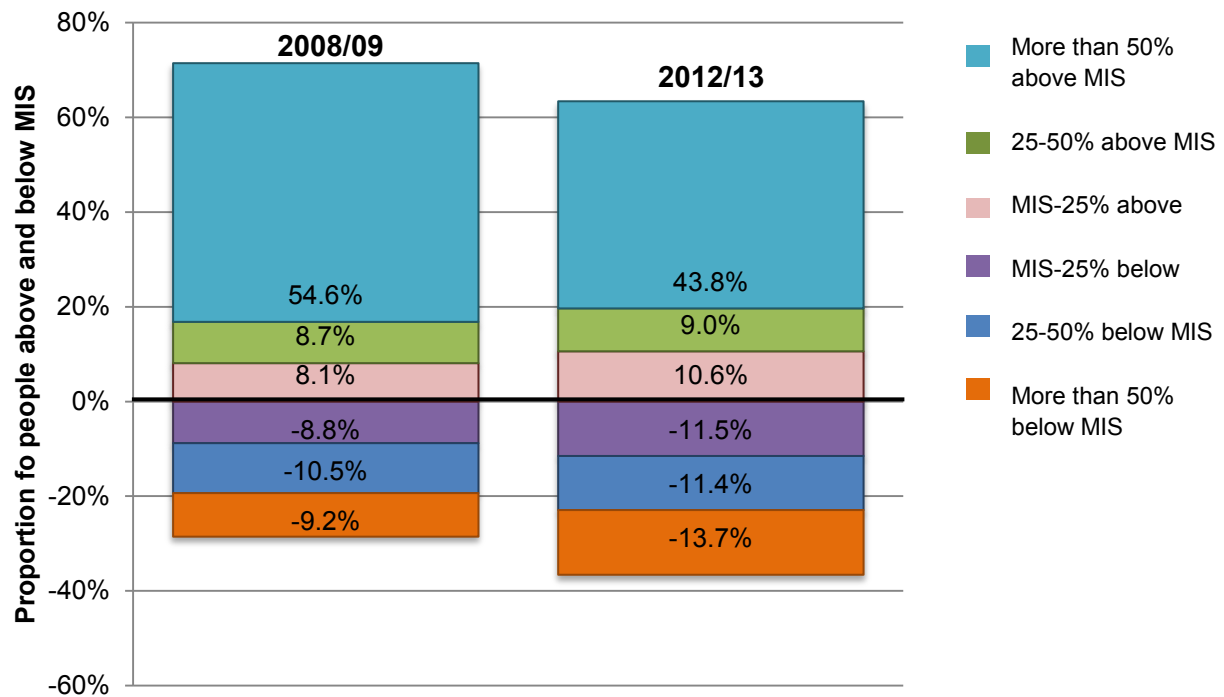


When working-age individuals without children are looked at separately as individuals in single and couple households (Figures 17 and 18), there are some stark differences in the distribution relative to MIS. Couples have a far greater chance of being well above the MIS threshold. Just over two-thirds of couples, but under half of single people, have an income that is at least 50 per cent above MIS. Between 2008/09 and 2012/13, both groups saw a fall in the proportion of individuals with incomes at least 50 per cent above MIS. For couples, the decrease in those with incomes at least 50 per cent above MIS was accompanied by an increase of 50 per cent in the number above MIS level but by a smaller amount. There was also a significant increase in the numbers of couples without children falling below the MIS threshold; the proportion below this line increased by more than 80 per cent over this period. For single working-age individuals, the main rise was in people who fell below the MIS threshold itself, where there was an increase of just over a quarter.

**Figure 17: More than two-thirds of couples without children are still well above the MIS benchmark, but a growing proportion have incomes below MIS**



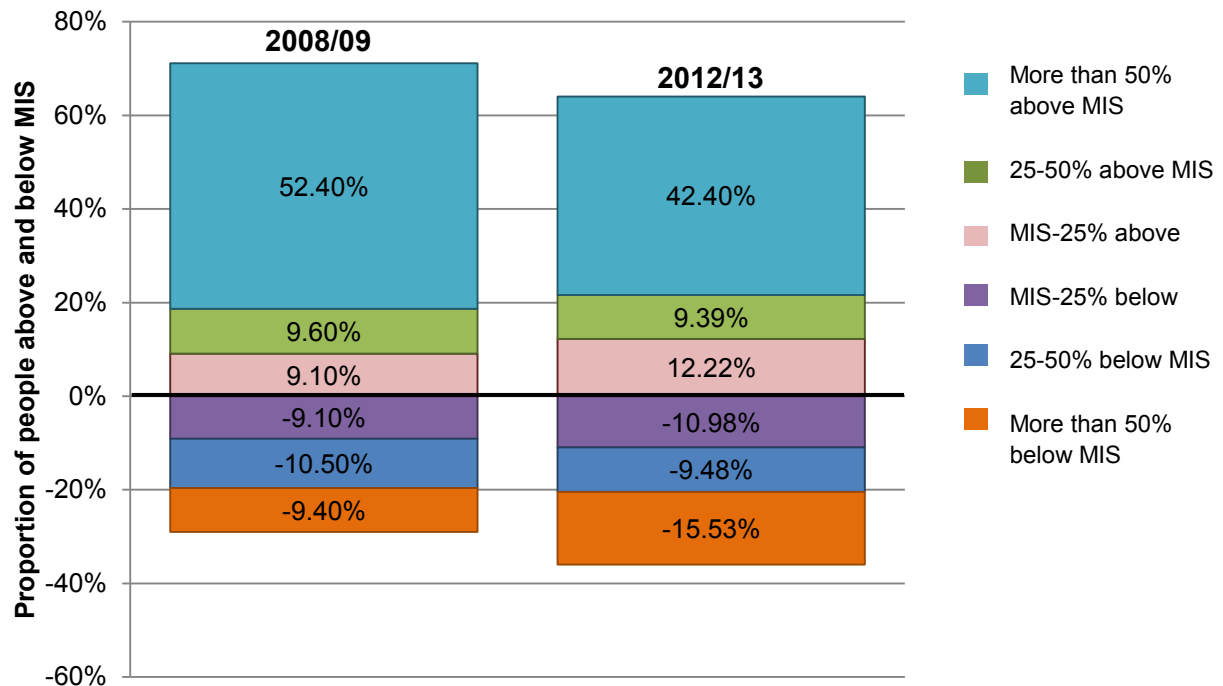
**Figure 18: Fewer than half of single people have an income that is at least 50 per cent above the MIS level**



As in previous years, single working-age individuals remain a polarised group in terms of income distribution. When compared with the distribution overall, singles living on their own have a much higher proportion below half of MIS (14 per cent compared with six per cent for all individuals). At the same time, the proportion of single working-age individuals at least 50 per cent above MIS is not too dissimilar to the average (44 per cent compared with 50 per cent).

Disaggregating working-age adults without children even further, we can isolate what has happened to young single individuals (under 35) living alone. Between 2008/09 and 2011/12 the proportion of this group with very low incomes – more than 50 per cent below the MIS threshold – more than doubled from nine per cent (2008/09) to 25 per cent (2011/12). Between 2011/12 and 2012/13 however, there was a reduction in the proportion of young singles with very low incomes, and the most recent figures show that 15 per cent have an income 50 per cent or more below MIS.

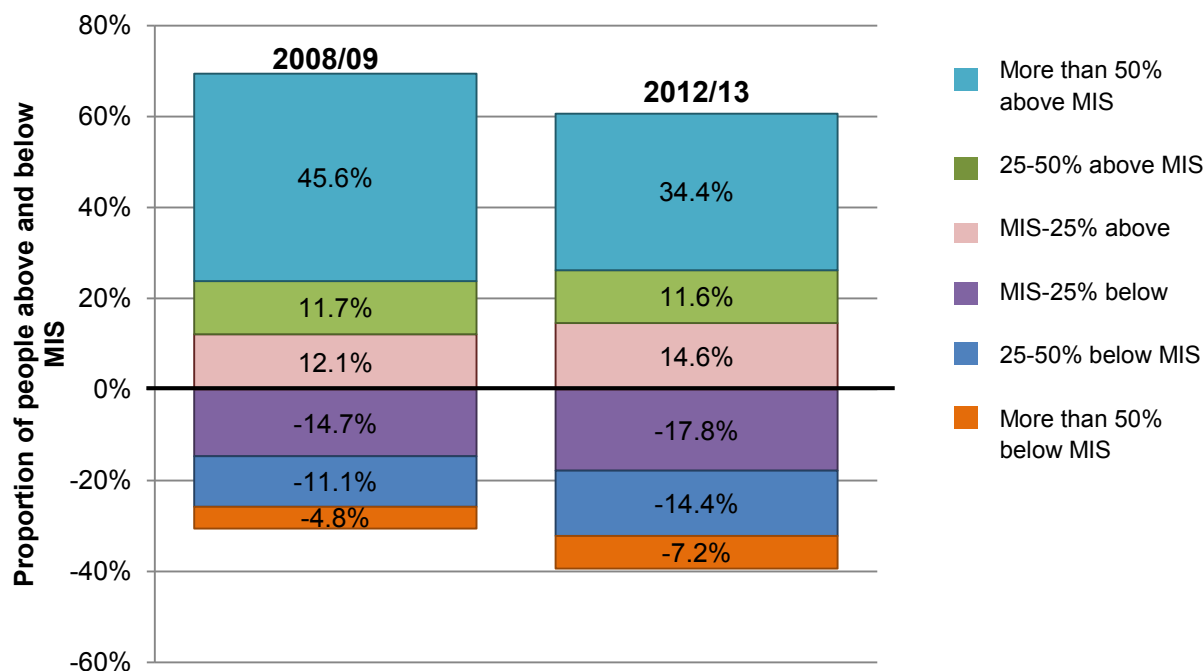
**Figure 19: A quarter of young single people living on their own have incomes more than 25 per cent below the MIS threshold**



***The income profile of families with children has seen a stronger downward pressure over the past year.***

Up to 2011/12, individuals in households with children had not experienced the same intensity of downward pressure on incomes as other household types: between 2008/09 and 2011/12 the proportion of households with children with incomes at least 50 per cent above the MIS threshold fell by around five percentage points. However, between 2011/12 and 2012/13 households with children have seen a further decrease of around five percentage points in the proportion with incomes at least 50 per cent above the MIS threshold. Since 2008/09 the proportion with incomes of less than 50 per cent of MIS increased by a half.

**Figure 20: All families with children have seen a significant downward shift since 2008/09, with much of this change coming between 2011/12 and 2012/13**

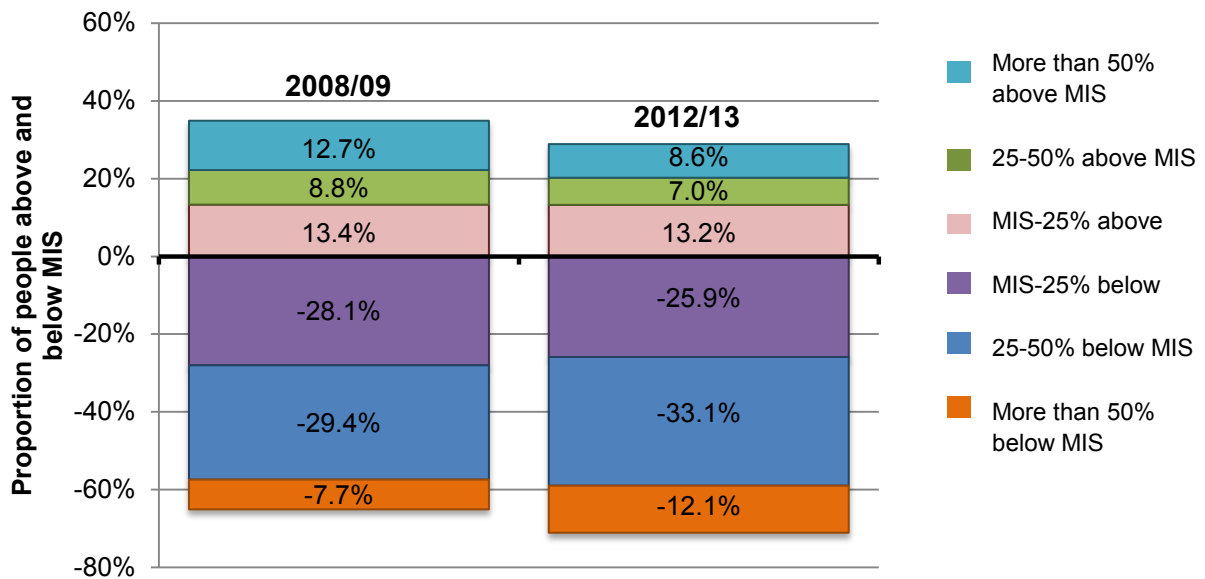


***For couple parents, the proportion with an income below MIS has increased particularly fast.***

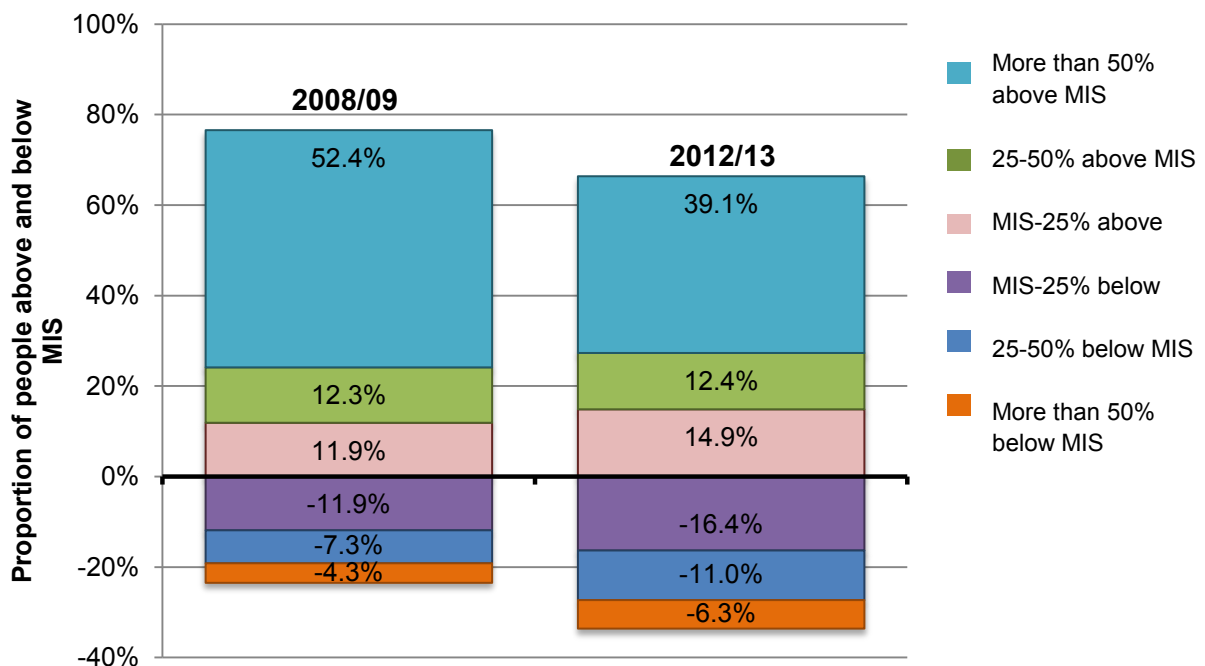
When families with children are separated into individuals in lone parent households and couples with children households, it is clear that these household types have had different experiences in terms of what has happened to their income profile. Lone parents and couple families have experienced downwards pressure, but for couples there has been a far greater increase in the numbers with incomes more than a quarter below MIS. Between 2008/09 and 2012/13 the proportion of individuals in couple households with children more than a quarter below MIS has increased by a half; for lone parents the increase over this period was around a quarter.

Couple households with children saw a particularly sharp change in the risk of being below MIS, from 24 to 34 per cent. For lone parents the increase was proportionately much lower – from 65 to 71 per cent, but this meant people in lone parent households were still over twice as likely to be below MIS than those in couples with children. Moreover, while more than half of couples with children are at least 25 per cent above MIS, only 16 per cent of lone parent families are in this situation. To put this another way, more than 80 per cent of lone parent families have incomes either below MIS or not far above it.

**Figure 21: More than 80 per cent of individuals in lone parent households have an income below or just above the MIS threshold**



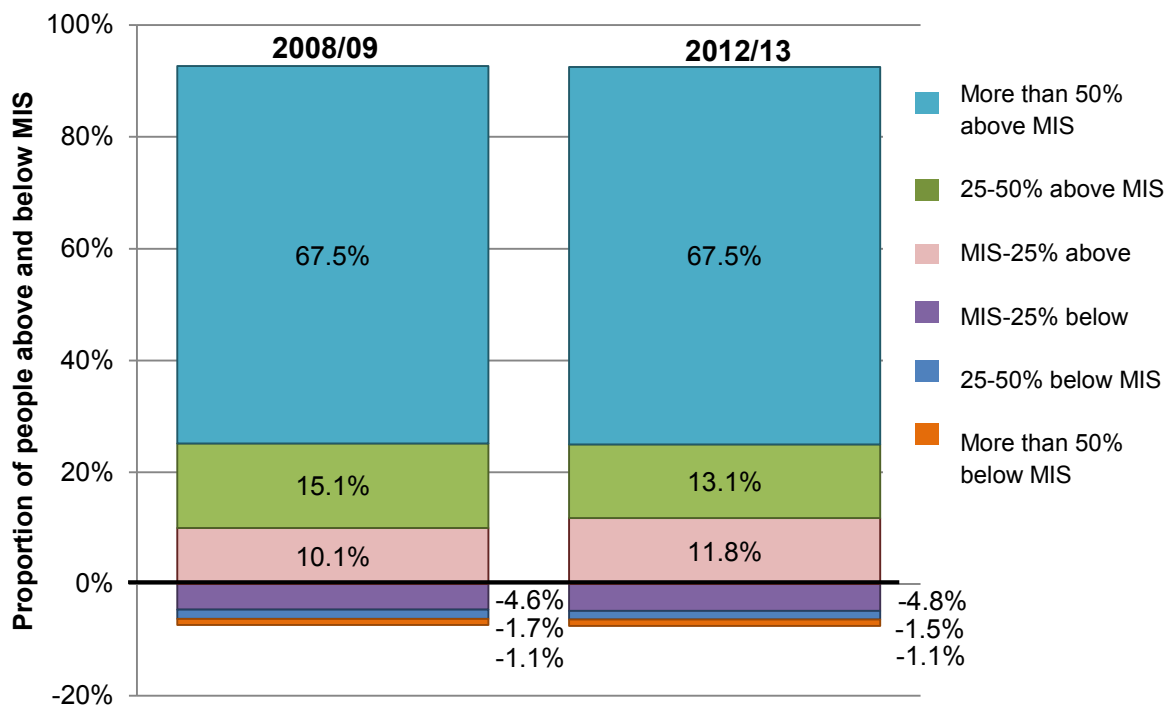
**Figure 22: Couples with children have experienced a significant increase in the proportion below the MIS threshold**



***Pensioners are the least likely to have an income below MIS and most have incomes well above this threshold.***

The overwhelming majority of pensioners – more than 90 per cent – have incomes above the MIS threshold and when compared with all other groups the proportion with incomes below MIS is very small. Moreover, while there have been fluctuations in the proportion of pensioners who are at least 50 per cent above MIS in the years between 2008/09 and 2012/13, the same proportion have an income above this level in 2012/13 as did in 2008/09. This provides some indications of the ways in which pensioner incomes have been protected over this period, while other household types have fared less well.

**Figure 23: More than three-quarters of pensioners have an income at least 25 per cent above the MIS threshold**



## Employment status and low income

Recent evidence (Hirsch and Valadez, 2014; McInnes *et al.*, 2014; Wills and Linneker, 2013) has pointed out the declining adequacy of in-work incomes. Part of this can be attributed to wage and benefit rates rising more slowly than general prices and the cost of essentials (Davis *et al.*, 2014). However, average earnings can also be affected by reductions in the number of hours worked, either because full-time workers become part-time, workers lose their jobs entirely or the number of hours worked by part-time workers falls.

Therefore, it is important to explore the extent to which not having the income necessary to achieve a socially acceptable standard of living is associated with changes in employment status or with increases in the risk of low income associated with a given employment status ('compositional' and 'incidence' effects, respectively, as explained in Section 1 above).

This section therefore looks at the risk of falling below MIS by employment status (full-time employment, part-time employment, self-employment, and out of work <sup>1</sup>), and at the numbers in these categories. Note that this does not give a full picture of the role of the interaction of employment and wage effects, since an increase in risk for part-time workers might be caused either by a reduction in their average hours or lower real wages for someone with unchanged hours. Nevertheless, it allows a broad analysis of composition and incidence effects broken down by the above categories. In terms of demography, the analysis breaks down the MIS working-age population into five groups distinguished by different employment patterns: single working-age adults under 35 years, single working-age adults of 35 years or more, couples without children, lone parents, and couples with children.

The analysis looks in turn at:

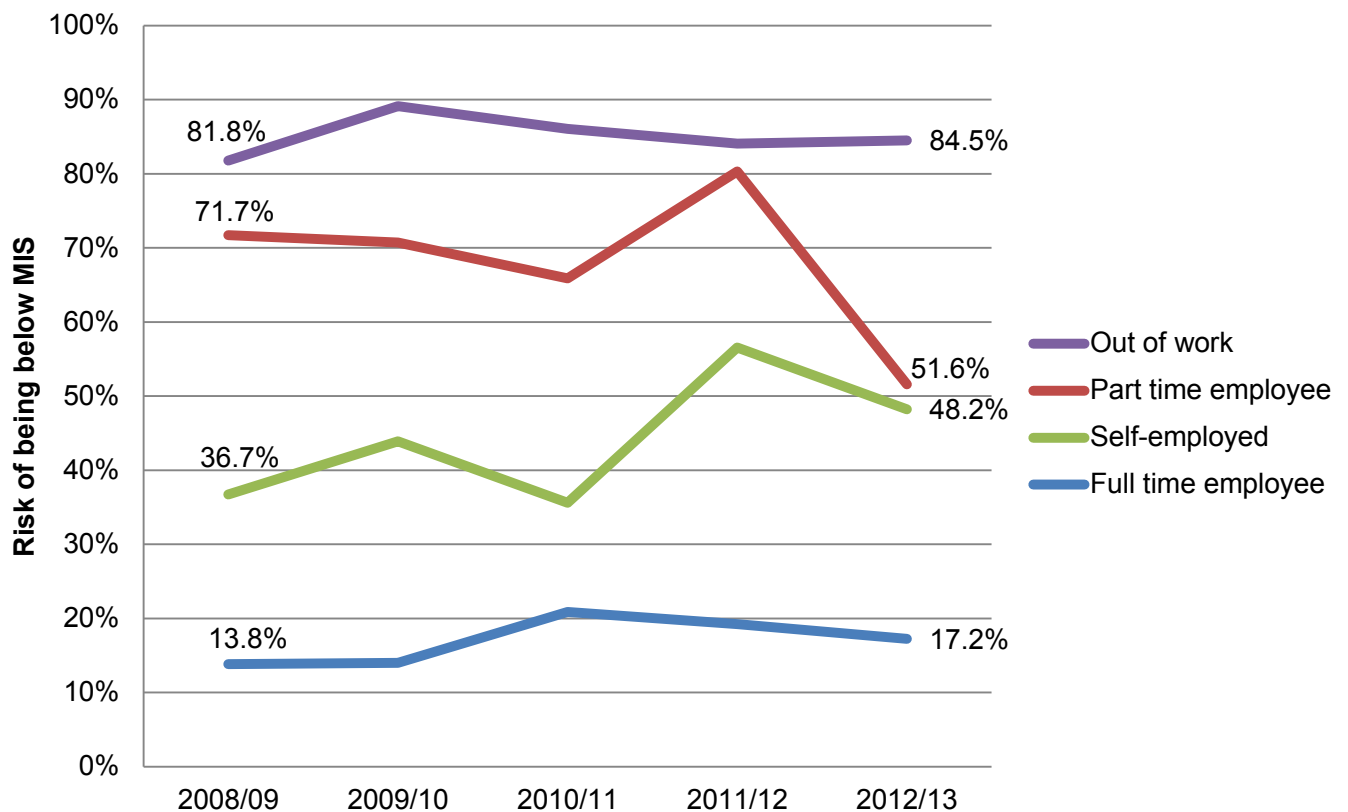
- how the risk of households being below MIS differ by working status for different groups;
- how this interacts with the changing distribution of households across these employment categories to influence the overall numbers below MIS;
- as a result, the proportion of households below MIS that are fully employed, partially employed and not working, and how this is changing over time.



## The risk of being below MIS by employment status

*Younger singles are at high risk of low income if they do not work full-time.*

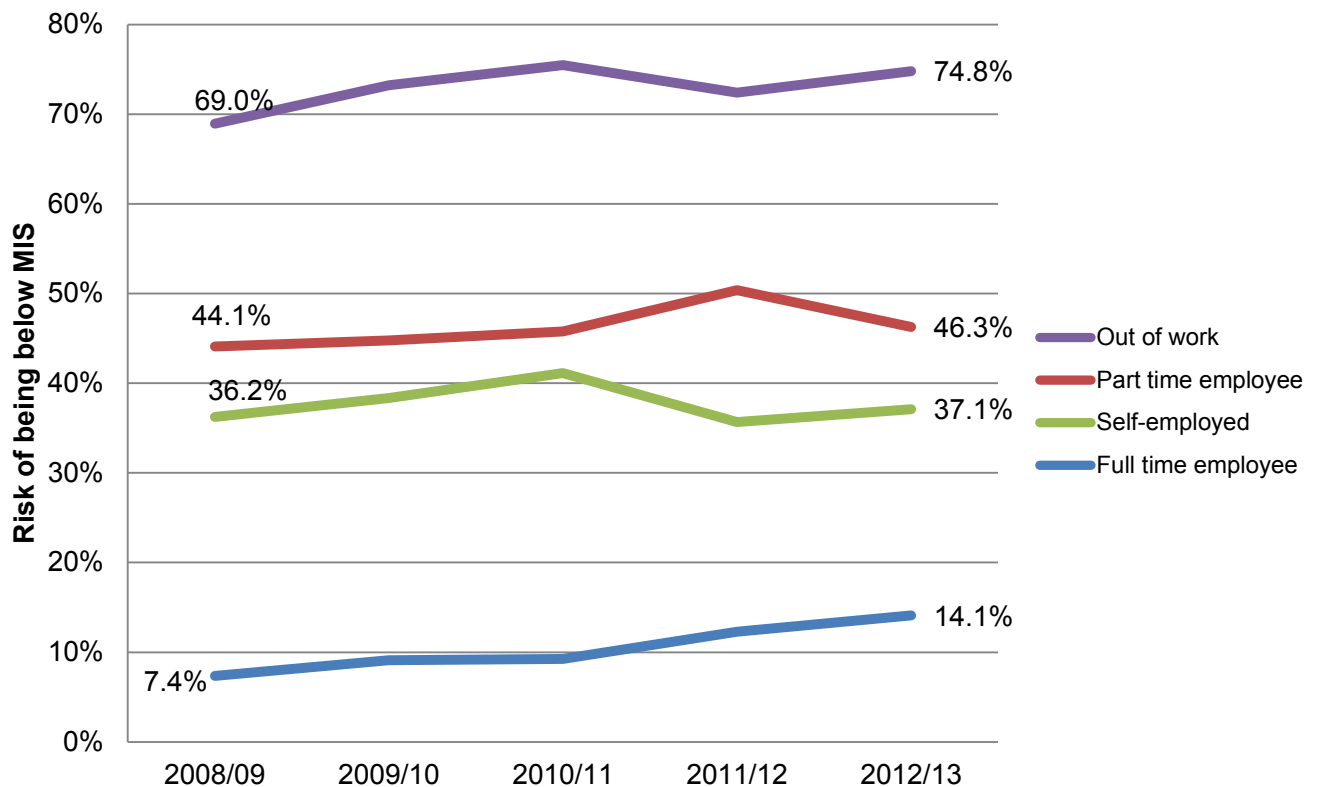
**Figure 24: The risk of falling below MIS for single working-age adults younger than 35 years is high, even with some work**



Single working-age adults under the age of 35 years have generally seen an increase in the risk of having an income below MIS since 2008/09. This risk is highest for those who do not work, but young self-employed people are more at risk than previously, with nearly half below MIS by 2012/13 – up from just over a third.

To some extent, these risks have fluctuated. By 2011/12, both self-employed and part-time young adults had much higher risks of low income than previously, suggesting that more may have responded to a difficult labour market for young people by taking jobs with fewer hours or become self-employed in work that did not yield much income. However, the risk for both reduced after 2011/12, especially for part-time workers whose risk peaked at around 80 per cent in 2011/12, before falling to the lowest level in the period under review. This suggests that opportunities in terms of hours may have improved in 2012/13; the figures underline the erratic pattern of incomes that this group can experience.

**Figure 25: The risk of falling below MIS has doubled for single full-time employees over 35**



***Single working-age adults aged over 35 have lower risk of low income than younger singles, but among full-time workers, these risks are converging.***

Older singles in each employment category have faced a growing risk of not having the income needed for an acceptable standard of living. This risk remains lower than for younger adults in each case, but for full-time workers in particular it is catching up. In 2008/09 this risk was 7 per cent for over-35s compared with 14 per cent for under-35s; by 2012/13 it was 14 and 17 per cent respectively.

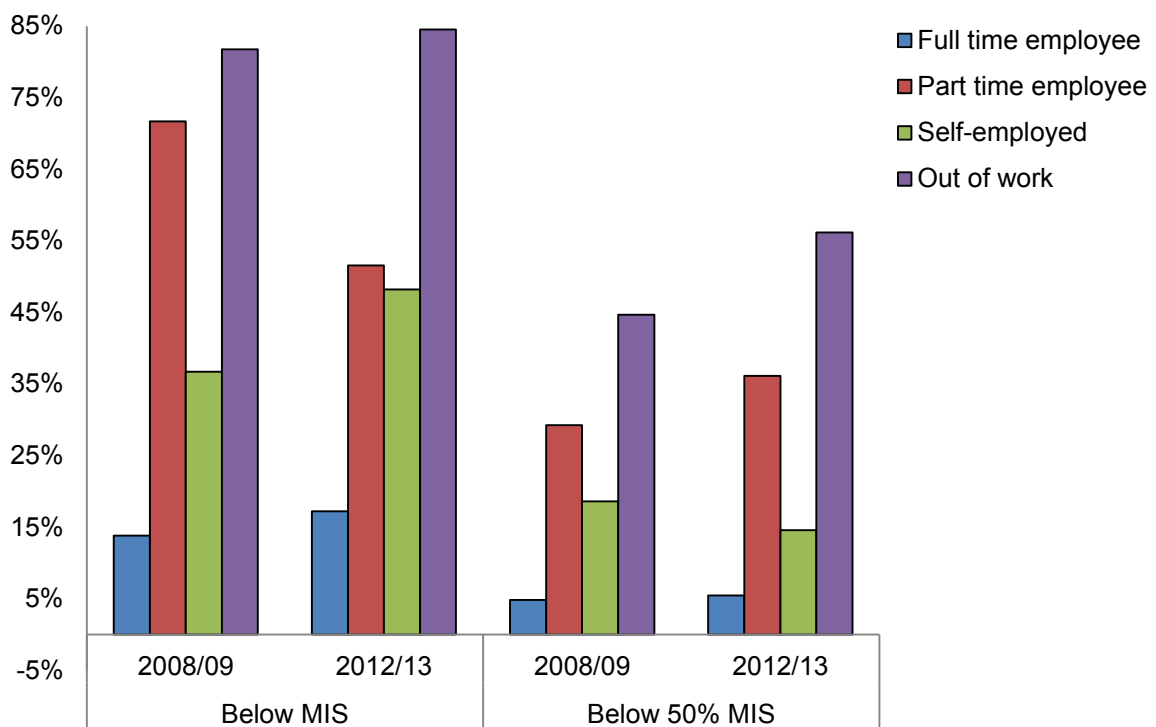
The only group of over-35s which has seen a slight decline in the risk in the last year is those who are part-time employed, from 50.4 per cent in 2011/12 to 46.3 per cent in 2012/13. Nevertheless, what is perhaps the most striking feature of Figure 25 is that the risk of having incomes below MIS for full-time employees almost doubled between 2008/09 (7.4 per cent) to 2012/13 (14.1 per cent)

***While young single part-timers have a lower risk of being below MIS than previously, their risk of very low income, below half of MIS, has grown.***

A comparison of the proportion of young adults under 35 who had incomes below 50 per cent of MIS in 2008/09 with those in 2012/13 shows a situation that worsened

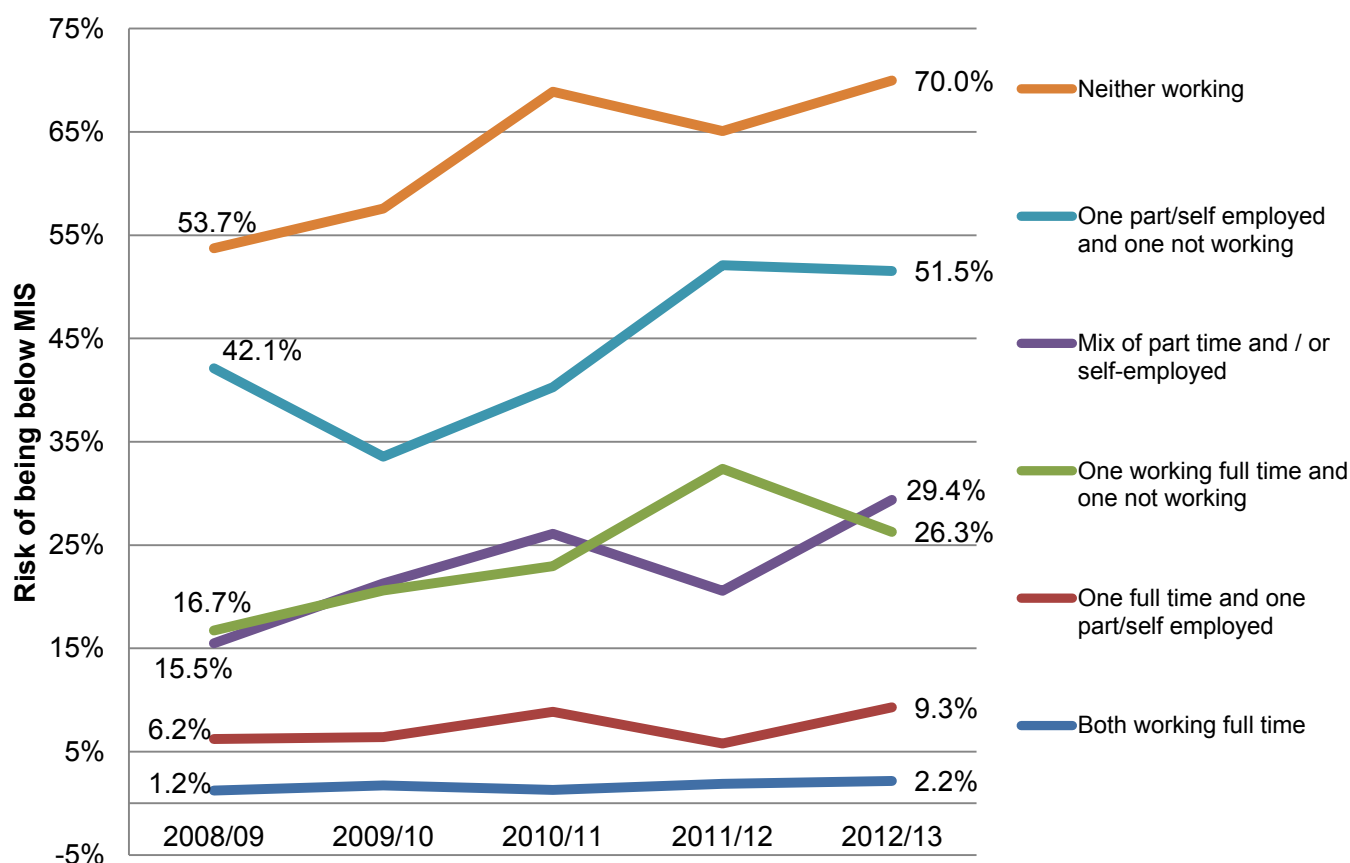
particularly for those working part-time. This contrasts with the equivalent comparison for the numbers below the MIS threshold. Figure 26 shows that in 2008/09, 72 per cent of young adults who were working part-time were below MIS and 29 per cent were below half of MIS. In contrast, in 2012/13, 52 per cent of young adults working part-time were below MIS but 36 per cent of them had incomes below half of MIS. In other words, young part-timers with low income became more concentrated among those with very low income.

**Figure 26: Young singles have a substantial risk of being on low or very low income, not just if they do not work but also if they work part-time**



*For couples without children, the situation has got particularly bad for those where neither of the adults are working.*

**Figure 27: The risk of falling below MIS for non-working couples without children has risen from just over half to over two-thirds**



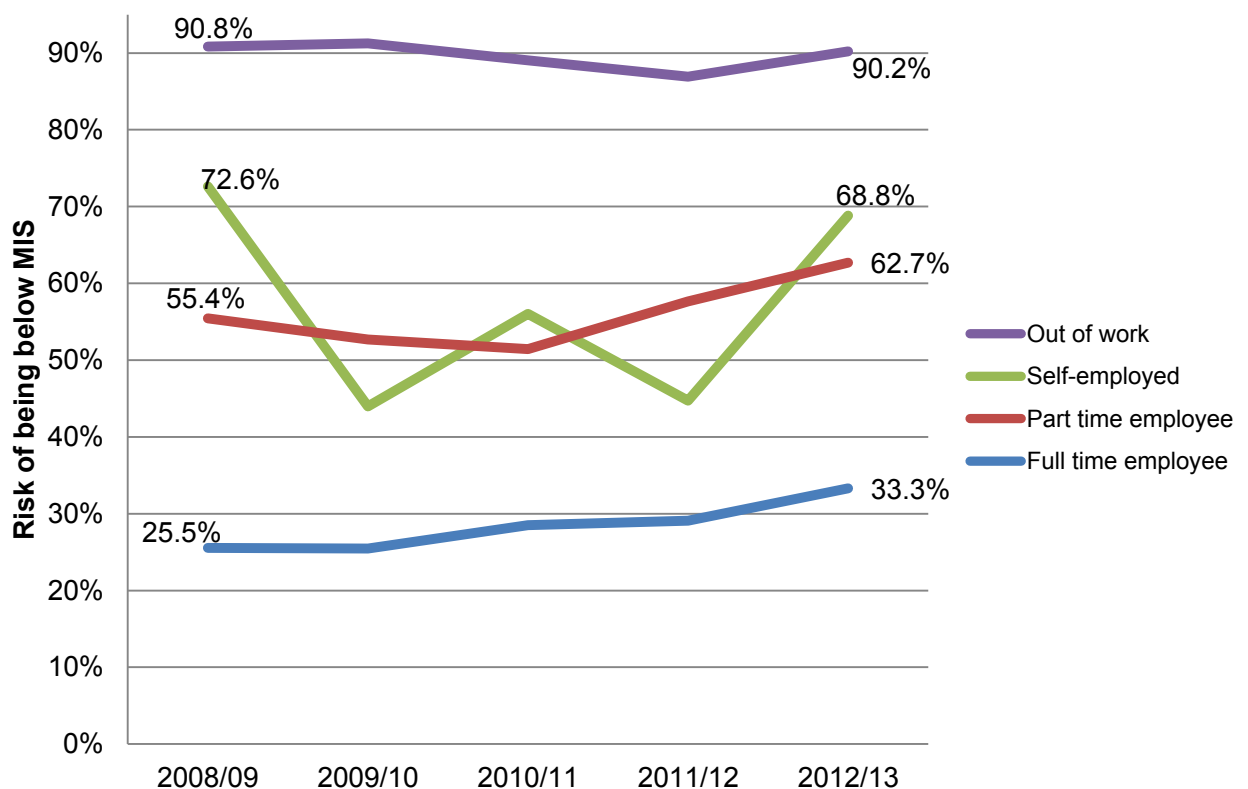
For couples without children, the highest risk of having incomes below MIS is for households where neither adults are working, and the risk decreases as the overall amount of work in the household increases. With regard to the change in the risk of falling below MIS between 2008/09 and 2012/13, the sharpest decline in prospects of adequate income has come among those with the highest risk in the first place: those where neither works. Their risk rose from 54 per cent in 2008/09 to almost 70 per cent in 2012/13. At the other end of the employment spectrum, only 2 per cent of couples with both in full-time employment were below MIS in 2012/13.

Among couples without children who have just a small amount of work, fortunes have fluctuated. This group – those where one person is either part-time or self-employed and one is not working – became less at risk of low income between 2008/09 and 2009/10, but since then their risk has risen from a third to a half. This may suggest that members of this group have become more willing to take very low

paying or low hours jobs and that they may have lost out from changes in in-work benefits.

*Among households with children, lone parents working full-time and all categories of couple have a greater risk of low income in 2012/13 compared with 2008/09.*

**Figure 28: Lone parents who work full-time have seen the highest increase in the risk of having incomes below MIS**

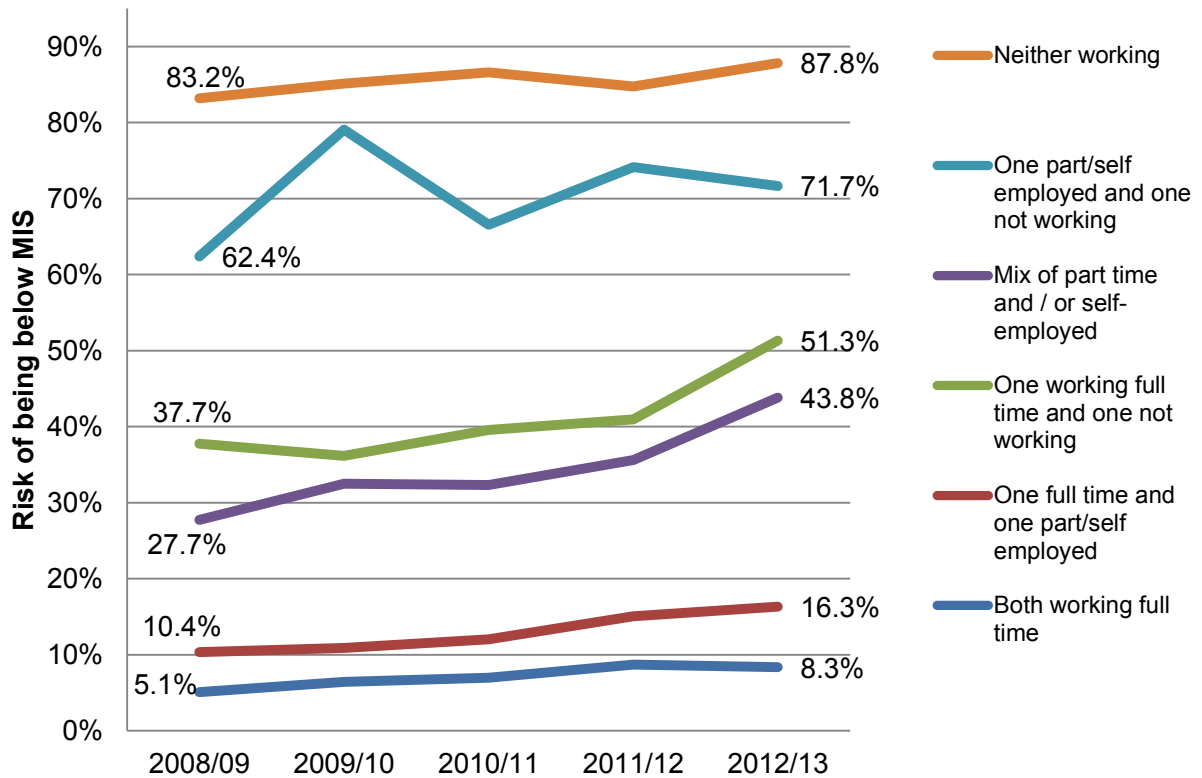


Around 90 per cent of lone parents who are not working do not have the income needed to achieve a socially acceptable standard of living, a trend which has been relatively stable between 2008/09 and 2012/13. In contrast, lone parents working full-time have seen the risk of having incomes below MIS increase, from a quarter to a third.

Part-time and self-employment have had unstable effects on the risk of not providing the sufficient income to achieve MIS over the same period. In 2008/09, 73 per cent of lone parents who were self-employed had incomes below MIS. The risk fluctuated in the intervening years, and in 2012/13 69 per cent of lone parents in self-employment had incomes below MIS. This could reflect the highly varied nature of self-employment, a changing mix among those in more or less fruitful forms, and

possibly that more lone parents turned to self-employment, thus relying on unstable incomes, during the crisis.

**Figure 29: Couples with children have seen their situation worsen regardless of their working status**



Between 2008/09 and 2012/13, the risk of not having the income needed for a minimum socially acceptable standard of living has shown a steady increase for couples with children. The risk increased from 5 to 8 per cent in households where both members of the couple are working, while it increased from 10 to 16 per cent for households where one adult is working full-time and the other is in part-time or self-employment.

The most drastic change, however, is for couples where one adult is working full-time but the other is not working (38 per cent to 51 per cent) and for couples where both are part-time employed, self-employed, or a combination of these (28 per cent to 44 per cent).

## **The interaction of employment profiles and risks of falling below MIS**

The number of people below MIS is influenced not only by the chance of a household of a given demographic and employment type having too little income, but also by the employment profile of households. For example, the number of families of a given type who are below MIS can rise either because wages and/or benefits become less likely to raise working and non-working families above the threshold, or because job loss or reduction in hours puts the family in an employment category where the risk of low income is higher. This is the 'composition and incidence' dichotomy described earlier.

Table 4 summarises the employment profile of each type of working-age household as well as the risk of having incomes below MIS for each working status for 2008/09 and for 2012/13. Risk refers to the proportion of households within each employment status and household type whose income was not sufficient to reach the minimum income standard for the specified year. Composition refers to the proportion that each employment type represented within that type of household. For example, 72 per cent of young adults under 35 were in full-time employment in 2008/09 and 13.8 per cent of them were below MIS. In 2012/13, 63.5 per cent of young adults were full-time employees, and 17.2 per cent of them had incomes below MIS.

**Table 4 Changes in the risk of falling below MIS by employment status, and the composition of each household type by employment status**

|                              |   | 2008/09      |              | 2012/13      |             |
|------------------------------|---|--------------|--------------|--------------|-------------|
|                              |   | Risk         | Composition  | Risk         | Composition |
| <b>Single under 35</b>       | Full-time                                   | 13.8%        | 72.0%        | 17.2%        | 63.5%       |
|                              | Part-time                                   | 71.7%        | 7.2%         | 51.6%        | 5.4%        |
|                              | Self-employed                               | 36.7%        | 5.0%         | 48.2%        | 6.8%        |
|                              | Out of work                                 | 81.8%        | 15.9%        | 84.5%        | 24.4%       |
|                              | <b>Total</b>                                | <b>33.1%</b> | <b>100%</b>  | <b>38.2%</b> | <b>100%</b> |
| <b>Single 35+</b>            | Full-time                                   | 7.4%         | 52.3%        | 14.1%        | 50.9%       |
|                              | Part-time                                   | 44.1%        | 6.6%         | 46.3%        | 7.2%        |
|                              | Self-employed                               | 36.2%        | 10.6%        | 37.1%        | 8.5%        |
|                              | Out of work                                 | 69.0%        | 30.6%        | 74.8%        | 33.4%       |
|                              | <b>Total</b>                                | <b>32.4%</b> | <b>100%</b>  | <b>39.7%</b> | <b>100%</b> |
| <b>Lone parents</b>          | Full-time                                   | 25.5%        | 28.2%        | 33.3%        | 22.2%       |
|                              | Part-time                                   | 55.4%        | 23.7%        | 62.7%        | 28.1%       |
|                              | Self-employed                               | 72.6%        | 4.0%         | 68.8%        | 6.0%        |
|                              | Out of work                                 | 90.8%        | 44.1%        | 90.2%        | 43.7%       |
|                              | <b>Total</b>                                | <b>63.7%</b> | <b>100%</b>  | <b>68.7%</b> | <b>100%</b> |
| <b>Couples no children</b>   | Both working full-time                      | 1.2%         | 49.3%        | 2.2%         | 48.5%       |
|                              | One full-time and one part-/self-employed   | 6.2%         | 22.4%        | 9.3%         | 25.0%       |
|                              | One working full-time and one not working   | 16.7%        | 11.4%        | 26.3%        | 10.3%       |
|                              | Mix of part-time and/or self-employed       | 15.5%        | 6.9%         | 29.4%        | 6.3%        |
|                              | One part-/self-employed and one not working | 42.1%        | 4.7%         | 51.5%        | 4.1%        |
|                              | Neither is working                          | 53.7%        | 5.3%         | 70.0%        | 5.7%        |
|                              | <b>Total</b>                                | <b>11.4%</b> | <b>100%</b>  | <b>14.8%</b> | <b>100%</b> |
| <b>Couples with children</b> | Both working full-time                      | 5.1%         | 23.9%        | 8.3%         | 24.7%       |
|                              | One full-time and one part-/self-employed   | 10.4%        | 35.8%        | 16.3%        | 33.8%       |
|                              | One working full-time and one not working   | 37.7%        | 20.4%        | 51.3%        | 20.1%       |
|                              | Mix of part-time and/or self-employed       | 27.7%        | 7.2%         | 43.8%        | 8.5%        |
|                              | One part-/self-employed and one not working | 62.4%        | 7.6%         | 71.7%        | 7.3%        |
|                              | Neither is working                          | 83.2%        | 5.0%         | 87.8%        | 5.5%        |
| <b>Total</b>                 | <b>24.3%</b>                                | <b>100%</b>  | <b>32.4%</b> | <b>100%</b>  |             |

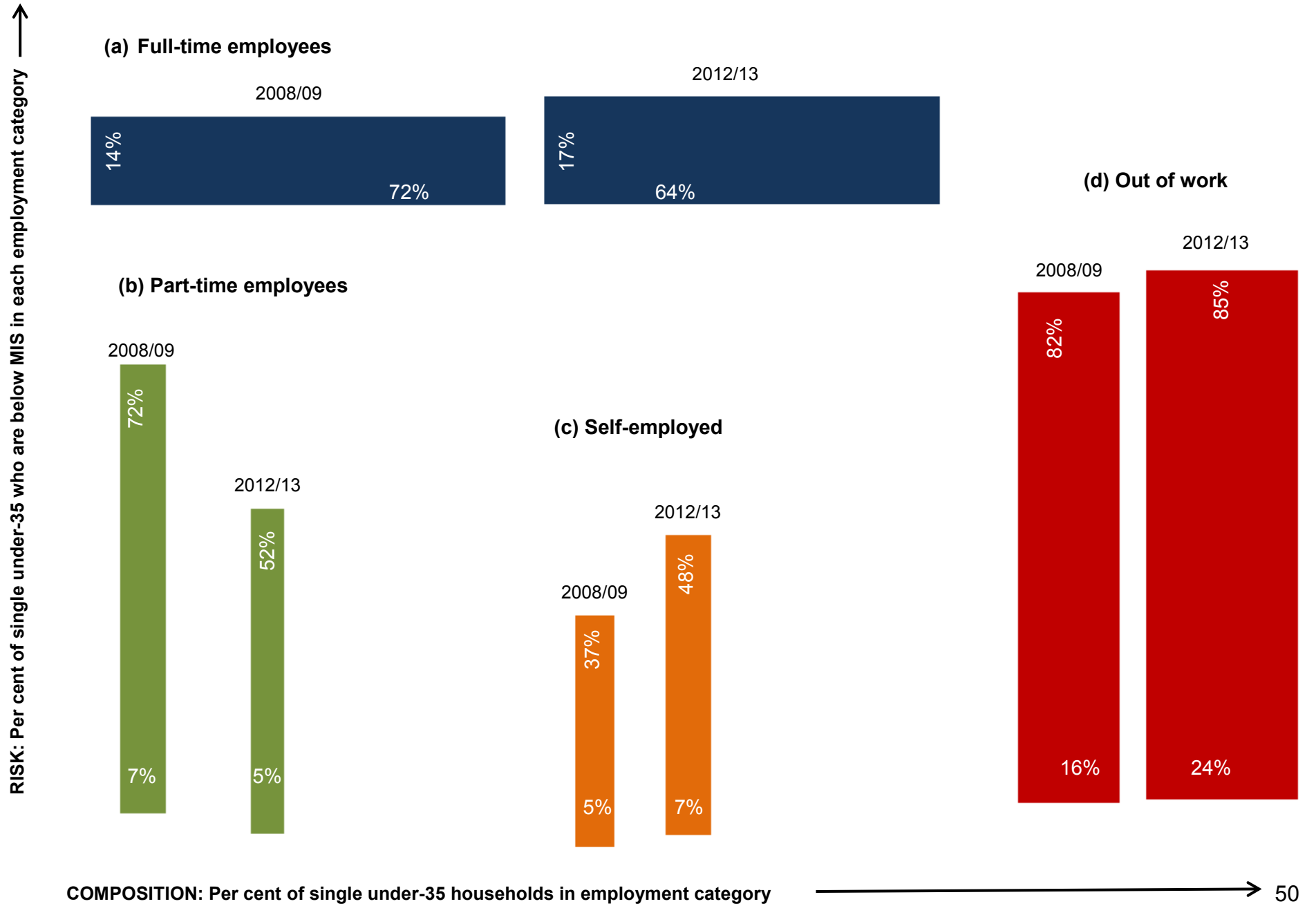


Figures 30 to 32 illustrate recent patterns for three household types, by showing for different employment categories the 'incidence' of being below MIS on the vertical axis and the 'composition' of the population on the horizontal. The overall numbers below MIS, which are proportional to the area of each bar, can increase in one of two ways. One way is for the risk to increase: the bar gets taller (and the bar gets smaller when the risk reduced between 2008/09 and 2012/13). The other is for more people to move to more risky categories, which is illustrated by the full employment bars getting narrower and the bars for other riskier employment groups getting wider.

While the incidence (or risk) of being below MIS has tended to go up in most categories (as shown in the previous section), the importance of compositional shifts varies greatly across demographic groups. This can be interpreted as showing that, for some groups, job loss or moving to more part-time employment has been a bigger factor, relative to reductions in real wage or benefit rates.

***For young single people, employment effects have driven the increase in numbers below MIS.***

Figure 30: Change in risk and composition by employment, single working-age adults under 35, 2008/09–2012/13



Among the three groups shown in these diagrams, the compositional effect has been easily the largest for single people aged under 35 (Figure 30). The right hand bar, showing non-working adults under 35 below MIS, has become much larger overall. This is only partly because those out of work now have a higher risk of an income below MIS, which went up from 82 per cent in 2008/09 to 85 per cent in 2012/13. The much larger effect, however, is an increase in the size of this high-risk group, as the proportion of young single people out of work has increased from 16 per cent in 2008/09 to 24 per cent in 2012/13. This increase has mainly been at the expense of a fall in full-time employment. In short, the deterioration in young adults' job prospects has driven the increase in their risk of having low income.

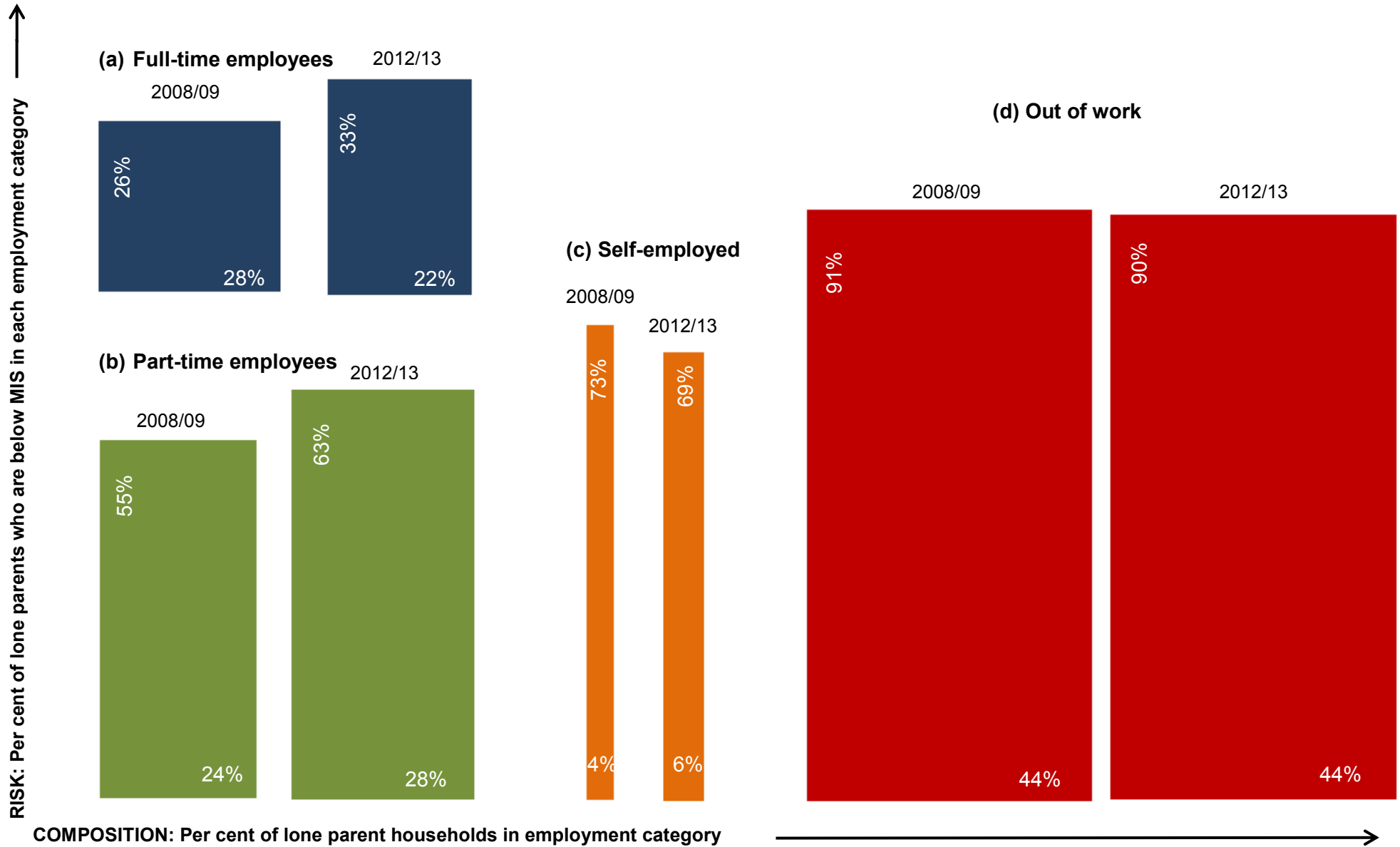
A single measure of the share of 'composition' compared to 'incidence' can be calculated taking all the movements in this diagram into account. (The technical formula for 'decomposing' change into compositional and incidence effects is set out in Sutherland *et al.*, 2003, which calculated a similar decomposition of the drivers of changes in poverty rates). In the case of young single people, this shows that 70 per cent of the increase in the numbers below MIS comes from composition and 30 per cent from incidence. In other words, worse employment outcomes account for over two-thirds of the increase in low income among this group.

For singles over 35, on the other hand, there have been less marked employment changes. Analysis of the results for this group show that 20 per cent of the increase in numbers below MIS result from compositional changes, while 80 per cent of the increase in the numbers below MIS are due to higher risks within employment categories, most likely associated with falling wages and changes to taxes and benefits.

***For lone parents there is a mixture of employment changes and an increased risk among both full-time and part-time workers...***

Figure 31 shows the results in the same form for lone parents. Here again, there is a noticeable compositional effect, but in this case it is an increased number of part-time (24 per cent in 200/08 to 28 per cent in 2012/13) and an increased number of self-employed (four per cent in 2008/09 to six per cent in 2012/13) along with a falling number of full-time workers (28 per cent in 2008/09 to 22 per cent in 2012/13).

Figure 31: Change in risk and composition by employment, lone parents, 2008/09–2012/13

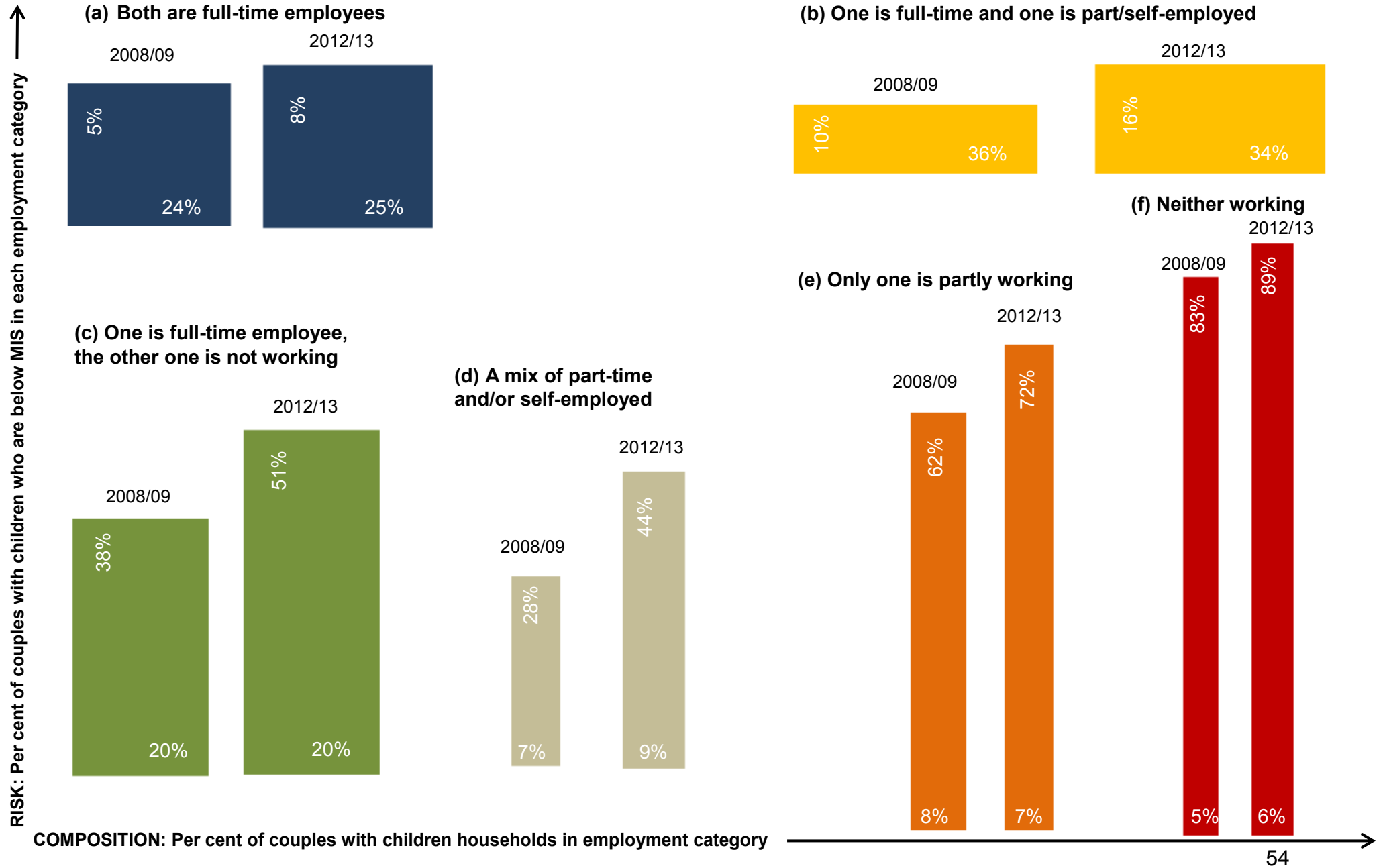


Shifts in employment (composition) in this case account for 36 per cent of the overall increase in the numbers below MIS, with the higher risk of low income among full-timers and among part-timers accounting for most of the increase. This suggests that the growing inadequacy of wages and tax credits to cover minimum living expenses are the main factors. However, note that these results do not fully capture the effect of reduced employment among lone parents: we can directly observe the effect of having to work fewer hours on those moving from full-time to part-time work, but for anyone having reduced part-time hours, the reduction in employment cannot be distinguished from a fall in real wages, both of which contribute to the higher incidence of low income among part-timers.

***...but for couples with children employment changes bring no net effect.***

Figure 32 shows no distinctive trend for couples with children towards employment categories with relatively high risk of low income. Indeed, the decomposition calculation shows that changes in employment status have had a slight *negative* effect on this risk overall. Yet the overall risk of being below MIS has risen substantially for couples with children. In particular, it has risen rapidly for two employment categories that between them comprise about half of families with children: a full-time worker and a part-time/self-employed worker (from 10 per cent in 2008/09 to 16 per cent in 2012/13) and a full-time worker with a non-working partner (from 38 per cent in 2008/09 to 51 per cent in 2012/13). In other words, a family with a full-time worker has a decreasing chance of reaching a minimum income without a second full-time worker as well – although having a part-time or self-employed partner still reduces the risk greatly compared with having a non-working partner, from about a one in two chance to a one in six chance of being below MIS.

Figure 32: Change in risk and composition by employment, couples with children, 2008/09–2012/13



Finally, couples without children (not shown in these graphs) have a similar pattern to couples with children: changes in the composition of employment have only a negligible effect, with almost all of the increased numbers below MIS being caused by higher incidence of low income within categories.

*In sum, the risk of not having an adequate standard of living in recent years has been caused largely by falling real wages and benefits, but reductions in employment have also played a part.*

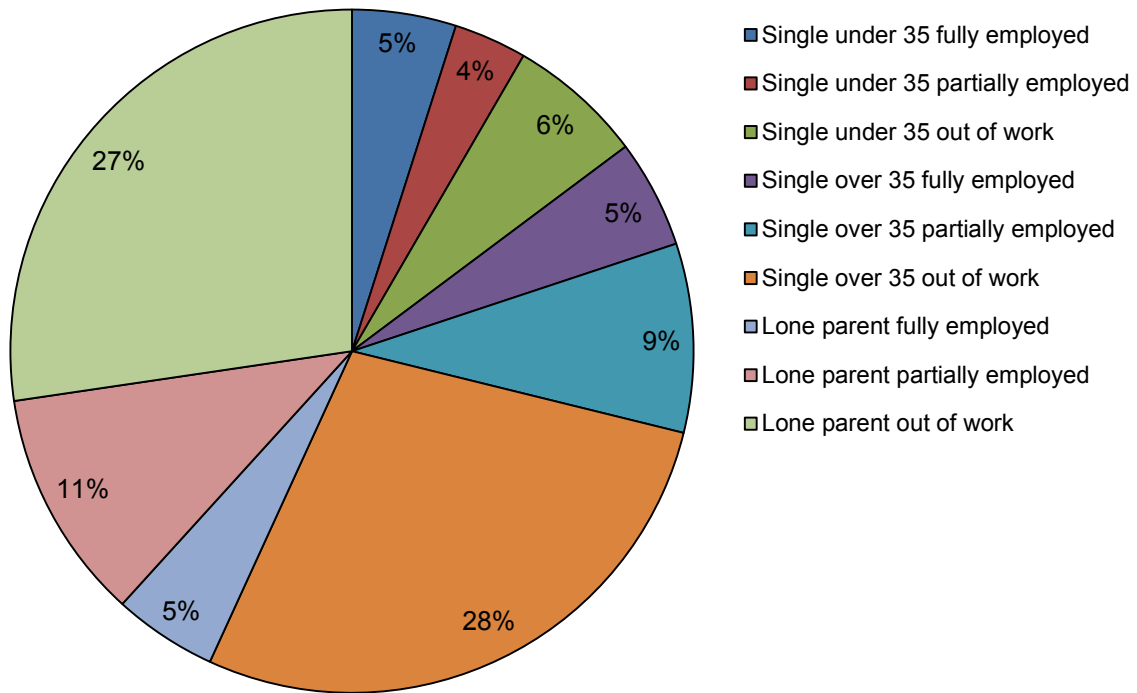
## **The profile of households below MIS, 2008/09 and 2012/13 by employment status**

*The working profile of single-adult households below MIS has shifted over time: single unemployed adults under 35 and full-time working adults over 35 have an increased share of households below MIS.*

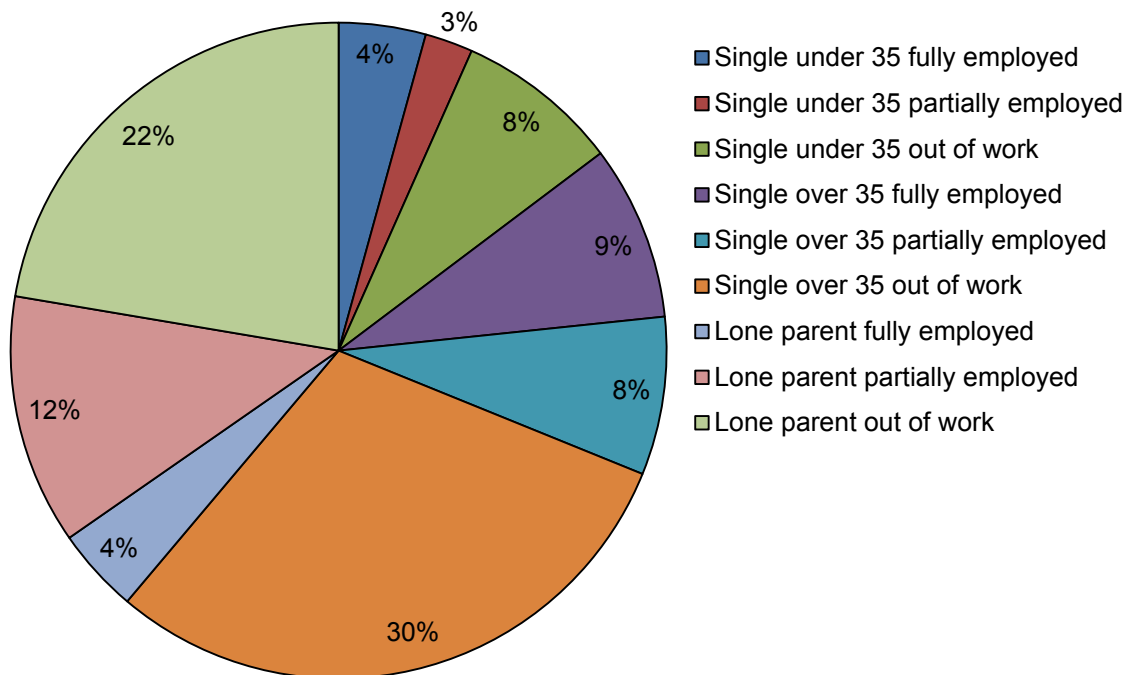
A final aspect of the relationship between working status and low income is the distribution of households below MIS by their demographic and employment characteristics. In terms of Figures 31 to 32, the respective areas of the darker bars show how below-MIS households are distributed within each household type. The pie charts below bring this information together and look across household types. In these descriptions, the classification of households by working status is simplified into three categories:

- fully employed: all adults in the household work full-time;
- out of work: no adults in the household work;
- partially employed: all other households. These are working households in which, potentially, income could increase by someone entering employment or working more hours (although this arbitrarily assumes that a self-employed person could do so).

**Figure 33: Single-adult households (with and without children) below MIS by employment status, 2008/09**



**Figure 34: Single-adult households below MIS by employment status, 2012/13**

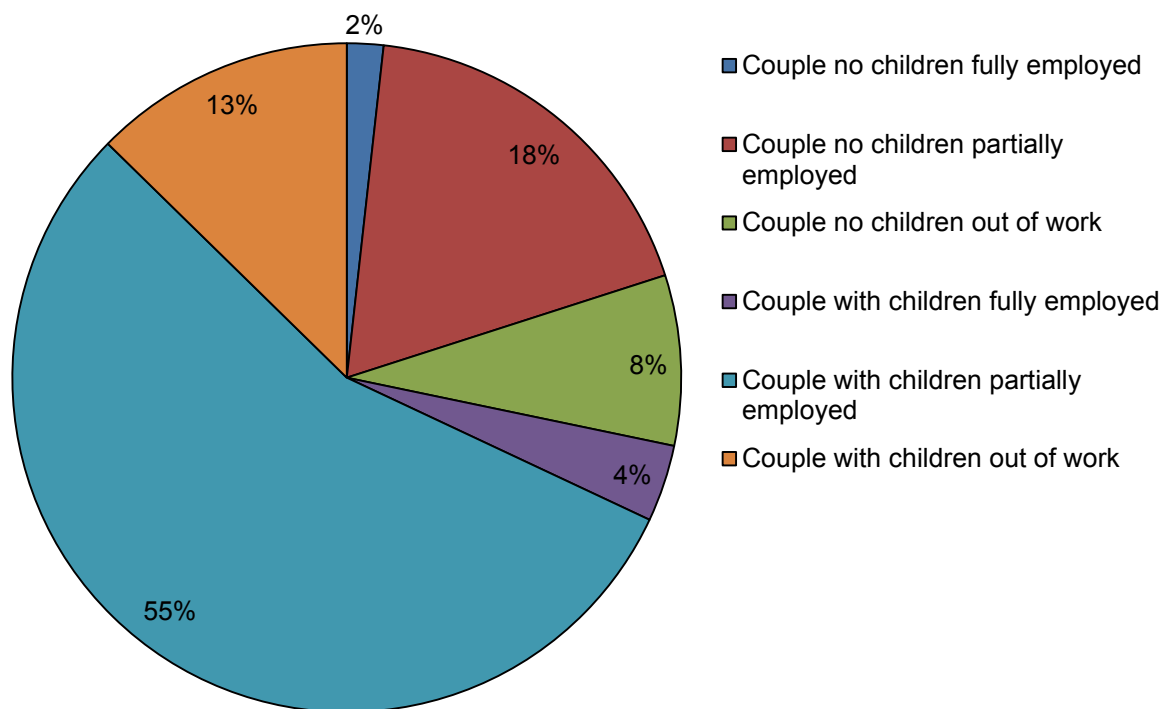




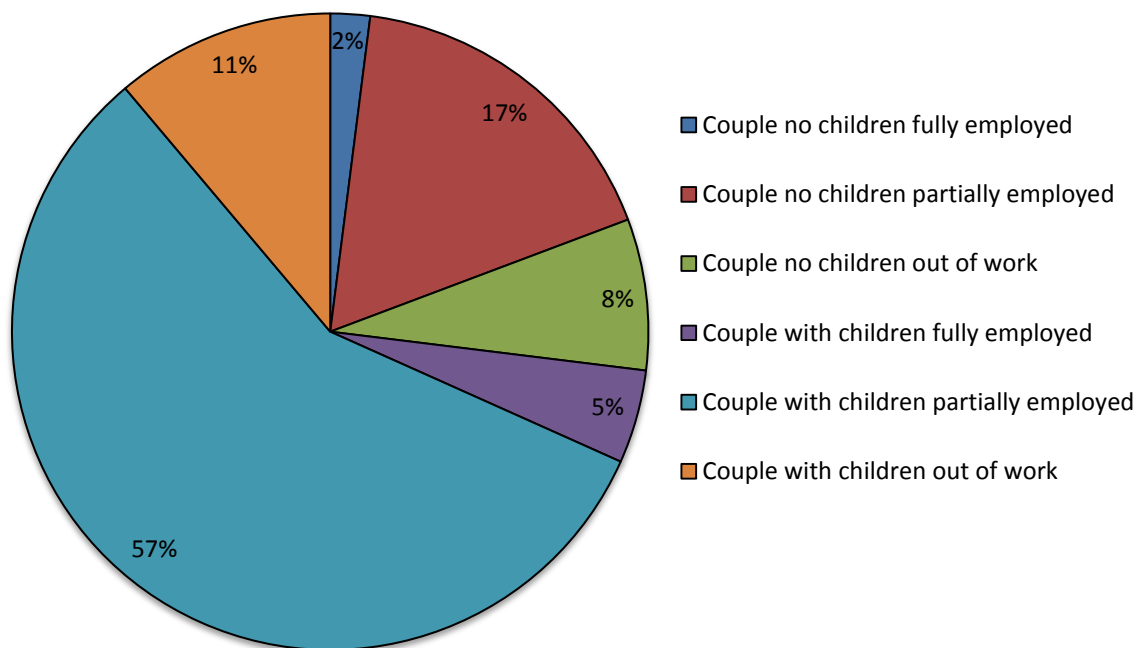
About half of all single adults whose households are below MIS are people without work in one of two demographic categories: lone parents and adults over 35 without children (about three quarters of single adults without children are over 35). However, some smaller groups have become more important in this regard. In 2008/09, non-working single adults under 35 represented around 6 per cent of the single adult households below MIS (and 4 per cent of all households below MIS); and fully-employed single adults of 35 years and more comprised 5 per cent of the single adult households with incomes below MIS (and 3 per cent of all households with incomes below MIS). Four years later, the share of these groups went up to 8 and 9 per cent of single adult households with incomes below MIS (4 per cent and 5 per cent of all households below MIS), respectively. These two groups have seen their situation deteriorate over time as mentioned above. While younger adults have faced a higher risk of being out of work, older adults have faced increased risks of having incomes below MIS even if they have stayed in the same employment category.

*For couples, it was those with children and with partial employment who saw their share increase in the composition of households below MIS.*

**Figure 35: Couple households below MIS by employment status, 2008/09**



**Figure 36: Couple households below MIS by employment status, 2012/13**



Figures 35 and 36 show the profile of couple households, with and without children, below MIS by employment status. While couples without children maintained their share among couples below MIS between 2008/09 and 2012/13, partially employed couples with children increased from 55 to 57 per cent of couples below MIS, and from 24 to 27 per cent of all households below MIS. Also, fully employed couples with children went from being 4 per cent of all couple households below MIS (2 per cent of all households below MIS) in 2008/09, to 5 per cent of all couple households below MIS (2 per cent of all households below MIS) in 2012/13.

In summary, this section has shown that, among all households below MIS, relatively more are unemployed adults under 35, full-time employed adults over 35, and partially-employed couples with children in 2012/13 than in 2008/09.

## Conclusion

Since 2008, the Minimum Income Standard has provided a reference point against which to monitor how many households have incomes insufficient to achieve what the public think is required for a minimum acceptable standard of living. The results in this report show that the number has been growing continuously since that time. However, for different household types, the pattern has been different, both in terms of the rate of growth and in terms of the main factors that have driven this growth.

Overall, among households covered by MIS (about two-thirds of all households), the risk of being below this benchmark grew by nearly a third, from 21 per cent to 27 per cent, over the four years from 2008/09 to 2012/13. For working-age households without children, it grew by nearly half – from 16 to 23 per cent. For households with children the risk started off higher, and grew from 32 to 39 per cent. While this was a lower proportionate increase in the number below MIS than for those without children, the increase represented the same proportion (seven per cent) of the total population in each of these two demographic categories. For pensioner households, the risk remained far lower: only around seven per cent of the pensioners are below MIS.

An important observation in the four-year period under review is that for households with children, the numbers below MIS changed little up to 2010/11 but rose steeply thereafter, whereas for those without children, especially singles, most of the increase came earlier. This is important in relation to new analysis in this year's report, showing how income relative to MIS relates to working status. For single people, especially younger ones, worse employment outcomes have played a crucial role in increasing the risk of being below MIS – in simple terms, the harsh job prospects for young people in the recession left many more of them on low income because they do not work. For families with children and especially couples, on the other hand, changes in working status have been less important to the picture than the growing risk of being below MIS for households with a given working status. In simplified terms, the sharp rise in unemployment in 2009 hit single young people more than families in the early part of the period, whereas ongoing real-terms cuts in wages and more recent cuts in benefits and tax credits have made things progressively worse over time for families with children.

These distinctions between employment and other effects on the risk of low income are important in considering current and future trends. At present, income data is available only until early 2013, since when there has been a marked upturn in employment. Unemployment fell by 23 per cent between the third quarter of 2012 and the third quarter of 2014 (ONS 2014, Table 9(1)). If this trend continues, it will in particular help reduce the number of young adults who are out of work and on very low incomes, whose previous increase has been noted in this report. For families

with children, however, among whom worklessness had not risen much in the recession, this improvement will have less effect. On the other hand, families have continued to feel the effect of stagnating real wages, and are seeing the real level of benefits and tax credits cut year on year. These factors make it likely that the risk of having income below MIS has continued to increase for families, and will do so further. Between 2012/13 and 2013/14, average weekly earnings continued to increase by less than inflation. Benefits also generally fell in real terms. Some benefit changes had already come in during the earlier of these years: the increase in hours requirements for couples claiming tax credits and the removal of the second income threshold will already have affected the incomes reported for 2012/13 in this report. However, further changes resulting from the Welfare Reform Act, including the introduction of the 'bedroom tax' and the ending of benefit and tax credit uprating in line with inflation, only took effect in April 2013 and so will start affecting the figures reported next year.

The analysis by employment status also suggests that whereas the extent of worklessness has not had much impact on families' risk of being below MIS, the type of work can be important. For example, among couples with children where both adults work either part-time or are self-employed, the risk of being below MIS increased from 28 per cent in 2008/09 to 44 per cent in 2012/13. The amount and reliability of work that people have when not employed full-time can be just as important as real wage levels in determining earnings. Thus, if economic recovery creates mainly jobs with unstable hours and prospects, the number of families below MIS could increase further. This is especially true for working lone parents, about 60 per cent of whom are either part-time or self-employed.

Thus, there is presently no reason to assume that the long period of falling living standards, unprecedented in recent history, will stop causing an increase in the number of households with incomes below MIS in the near future. A reversal of this trend would need to involve changes both on the part of employers and government. It would require not just rising real wages but also a change in plans to cut the real level of in-work and out-of-work benefits and a labour market that provides more secure employment to people not working full-time. Unfortunately, the prospects of all these things happening in the future does not look promising.

## Notes

1 The definitions for full-time, part-time, and self-employment used here follow the FRS definitions, which are based upon self-assessment and not on number of hours worked. The percentages shown in the graphs below reflect the fluctuating number of hours that part-time and self-employed could include, especially after the recession. Out of work includes unemployment, looking after family, and temporarily or permanently disabled; it excludes students and retired people.

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