

HOUSEHOLDS BELOW A MINIMUM INCOME STANDARD: 2008/09 TO 2012/13

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. This research examines the changes in the adequacy of incomes, as measured by households' ability to reach the Minimum Income Standard between 2008/9 and 2012/13.

Key points

- The proportion of people living in households with an income below MIS increased by nearly a third between 2008/9 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 4 per cent to 6 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.

The research

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BACKGROUND

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 2008/9 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 enables a more accurate picture of what is happening to living standards in a period when median income has been falling.

Changes to living standards

The analysis presented here shows that between 2008/9 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.

Factors that affect households

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 are comprising a growing percentage of those who fall below the standard. There are similar proportions of private tenants as 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 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.

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 (7 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. Recovering employment rates will help families with children to regain an adequate income less than it helps other working households, unless combined with improvements in wages and in-work benefits.

About the project

The team at the Centre for Research and Social Policy at Loughborough University who compile the Minimum Income Standard for the UK examined data from the Family Resources Survey and compared actual household incomes with the MIS benchmarks for each household type.

FOR FURTHER INFORMATION

This summary is part of JRF's research and development programme. The views are those of the authors and not necessarily those of JRF. The main report, **Households below a minimum income standard: 2008/09 to 2012/13** by Matt Padley, Laura Valadez and Donald Hirsch, is available as a free download at www.jrf.org.uk

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