

WILL THE 2015 SUMMER BUDGET IMPROVE LIVING STANDARDS IN 2020?

Low-earning and workless households became worse off between 2010 and 2015, as living costs outstripped income growth. This study's calculations project what will happen to their living standards by 2020.

- The Minimum Income Standard (MIS) benchmarks budgets for a minimum acceptable standard of living. Working-age families on out-of-work benefits will fall further behind this standard as inflation and cuts erode benefits. Single claimants will have just 35 per cent of MIS in 2020, down from 41 per cent in 2010. Families with children had nearly two-thirds of MIS in 2010, but will have only half in 2020.
- Pensioners on means-tested benefits have enough for the minimum; their income is linked to earnings growth.
- Low-pay households not needing state help will see substantial increases in living standards, through the National Living Wage (NLW) and rising personal tax allowance. Single people over 25, working full-time on the NLW, will have 97 per cent of MIS by 2020, compared with 79 per cent on the national minimum wage (NMW) in 2010.
- Many working families, especially lone parents, will lose significantly through benefit reductions outstripping pay increases. Full-time working lone parents with one child, earning the NMW/NLW, will have 71 per cent of MIS by 2020, compared with 97 per cent in 2010.
- Low-paid working couples with children will gain if both work full time on the NMW/NLW, if costs rise modestly. For those working part-time, benefit cuts will cancel out wage gains.
- Most low-income families – both working and non-working households relying on state support – will see living standards eroded substantially between 2010 and 2020, from an already inadequate level. The lack of a link between state support and rising prices means that even those who may become better off are vulnerable to inflation, which could quickly erode any gains.

The research

By Donald Hirsch, Centre for Research in Social Policy,
Loughborough University

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BACKGROUND

Since 2008, research on the Minimum Income Standard (MIS) has identified the budgets that various household types require to reach a minimum acceptable living standard, based on what goods and services groups of members of the public agree are needed. This study projects the disposable incomes of households on out-of-work benefits and minimum wages, comparing them with MIS between 2010 and 2020.

Main influences on income adequacy

The value of working-age benefits, including in-work tax credits and Universal Credit, is falling in real terms through 1 per cent rises since 2013 and a freeze from 2016 to 2019. In addition, all new claimants will see Child Tax Credit lowered further from 2017, most sharply for those with three or more children. A freeze in housing support will require low-income private tenants to fund rent increases without state help. Meanwhile, the 'work allowance' – the amount earnable before withdrawal of benefits starts – has been cut. These reductions in working-age benefits contrast with pensioner benefits, which have been rising at least to match inflation and will increase in real terms in line with earnings.

For those in work, real wages fell in the early 2010s, but are recovering and forecast to rise significantly. In particular, for the lowest paid workers over 25, the NLW will raise pay by around 30 per cent in real terms. Improved state assistance will also help families with childcare costs.

These factors combine to produce the following different trends in income adequacy for various household types, with changing levels of social protection.

Winners and losers

Households on safety-net benefits

Out-of-work benefits will fall further below the MIS. In 2010, they provided less than half what single people needed (41 per cent), falling to 35 per cent by 2020 (see Figure 1).

Figure 1: Single person's disposable income compared with MIS budget (weekly, 2015 prices)



For most families with children, benefits will fall from over 60 to around 50 per cent of the required budget (see Figure 2). The annual shortfall will be around £3,000 higher in 2020 than 2010 for families with one or two children, and almost £6,000 for those with three children.

Figure 2: Couple with two children (age 4 and 10), disposable income compared with MIS budget (weekly, 2015 prices)



*Second earner working half time

The pensioners' safety net, Pension Credit, has proved much stronger. In 2010 it provided disposable income 2 per cent above the MIS level. Rapid increases in the cost of certain essentials mean that it is currently 4 per cent below MIS, but Pension Credit is now set to rise in line with earnings, producing a projected 6 per cent surplus by 2020.

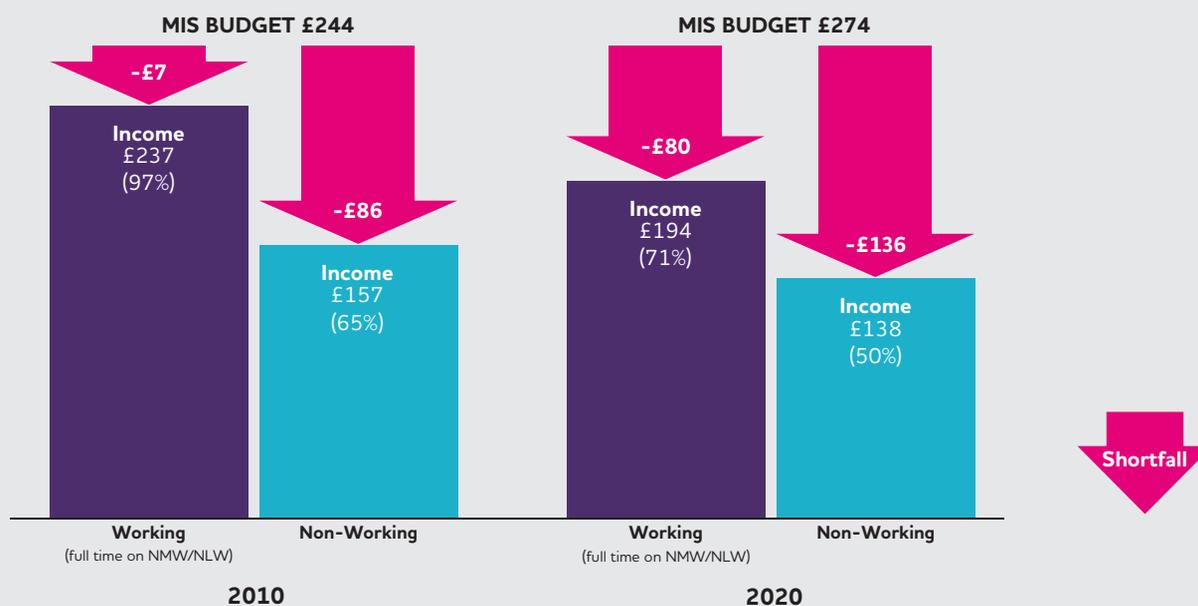
Working households on the NMW/NLW

The NLW will improve living standards for low-paid workers without children, who have little or nothing to lose in means-tested support. A single person over 25 working full time on NLW will by 2020 have close to MIS, falling only £6 a week short, compared with £39 on the NMW in 2010 (Figure 1).

Couples with up to two children, where both parents work full time, may also gain overall (Figure 2). Some will be helped by better support with childcare costs. Some without childcare costs will become ineligible for Universal Credit, partly through their higher earnings and partly because of cuts to Universal Credit. This increases their scope to improve living standards by earning more without having benefits reduced as pay rises. However, only 6 per cent of couples with children living below the MIS have two full-time workers. Families with a mix of full- and part-time working are likely to see the benefits of improved wages offset by cuts to in-work benefits, creating a small net loss (Figure 2).

Lone parents and large families (as noted above) will be the biggest losers. A lone parent with one child, working full time on the minimum wage, was typically just short of the MIS budget in 2010 (97 per cent – see Figure 3). The shortfall will grow to between a quarter and a third by 2020 (around 71 per cent). This will leave some lone parents working full time in a similar position to non-working lone parents in 2010, who had 65 per cent of the MIS.

Figure 3: Lone parent with one child (under 2), disposable income compared with MIS budget (weekly, 2015 prices)



Conclusion

This decade will bring big changes in living standards for low-income households. Families on out-of-work benefits will typically have only half the income they need by 2020, compared with two-thirds in 2010. For working households, the NLW will bring important gains, especially to those without children and full-time working couples. However, most working families will be net losers. In particular, a big shortfall between income and need will open up for many working lone parents. Furthermore, should costs rise faster than forecast inflation, disposable income will be further eroded for all households receiving working-age benefits. Overall, families relying on state help will find it hard to gain from economic growth, particularly if living costs start to rise again. Without a link between state support and rising prices, inflation is likely to erode or eliminate gains from wage rises.

About the project

The study's projections to 2020 are based on policies as announced in the July 2015 budget or earlier and the latest economic forecasts, tracking disposable incomes and making MIS comparisons between 2010 and 2020. Disposable income is net of taxes, rent, childcare and council tax, and includes income from in and out-of-work benefits.

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 the JRF.

The full report, **Will the 2015 summer budget improve living standards in 2020?** by Donald Hirsch, is available as a free download at www.jrf.org.uk

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Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP
Tel: 01904 615905

email: publications@jrf.org.uk
www.jrf.org.uk
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