

HOUSEHOLDS BELOW A MINIMUM INCOME STANDARD: 2008/09 TO 2013/14

The Minimum Income Standard (MIS) is a benchmark of adequate income based on what the public think people need for a minimum acceptable living standard in the UK. This research examines changes in income adequacy between 2008/09 and 2013/14.

Key points

- The proportion of people in households with incomes below MIS increased by a third between 2008/09 and 2013/14, from 21 to nearly 28 per cent, although the rate of increase has slowed.
- Since 2010/11, families with children have seen the greatest increase in their risk of low income. The proportion below MIS continued rising in 2013/14, to 40 per cent. For households without children, the risk of being below MIS shows some signs of falling.
- Working families with children have faced a growing risk of low income; 41 per cent of lone parents working full time had incomes below MIS, up from 26 per cent in 2008/09; for families with both parents working full time, the risk rose from 5 to 12 per cent. In couples with a single breadwinner, the risk rose from 38 to 51 per cent.
- Older singles (over 35) living alone and working full-time have a growing risk of inadequate income: their risk of being below MIS increased from 7 to 14 per cent between 2008/09 and 2013/14.
- Social tenants became more likely to be below MIS in 2013/14, coinciding with introduction of the under-occupancy charge.
- For pensioners, the risk of being below MIS rose slightly, but remained far lower than for other groups, at 8.5 per cent.
- Just over half (51 per cent) of individuals with incomes below MIS were in couple families with children (45 per cent in 2008/09).

The research

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BACKGROUND

This study examines changes in incomes adequacy, as measured by households' ability to reach the Minimum Income Standard (MIS). This measure is based on what the public think is needed for a minimum acceptable standard of living in the UK. The study covers 2008/09 to 2013/14, when living standards fell substantially and the cost of essentials rose faster than average inflation. By 2013/14, gross domestic product and employment were picking up, but median household incomes remained 6 per cent below their 2009 peak, and earnings were stagnant.

This is the fourth annual report tracking how many people were in households with income below the MIS. Unlike the relative income poverty measure, fluctuations in average incomes do not affect MIS, as it is rooted in public views of what is essential, which did not change significantly between 2008 and 2014. It enables a more accurate picture of what happened to living standards when median income fell during the recession and was slow to pick up in recovery.

Changes to living standards

Between 2008/09 and 2013/14, the risk of insufficient income rose for all household types. However, this deterioration was uneven across groups and time. Three broad phases can be identified:

- Between 2008/09 and 2010/11, the most important influence was rising unemployment, combined with relatively steep inflation not matched by earnings increases. This especially hit the incomes of young working-age adults living alone, whose job prospects deteriorated the most.
- Between 2010/11 and 2012/13, continuing wage stagnation and changes to benefit and tax credits particularly affected living standards for families with children, as they were more likely to rely on state support.
- In 2013/14, this deterioration continued for families with children, with the proportion below MIS rising to 40 per cent. For working-age households without children, the risk of being below MIS reduced slightly, but this hides an increase for singles and a decrease for couples from a spike in 2012/13.

To summarise:

- Of the 3.8 million individuals in single person working-age households, 1.4 million lacked the income required for MIS in 2013/14. This was 38 per cent of such households, up from 29 per cent in 2008/09.
- Of the 8.2 million people in working-age couple households without children, 1.1 million lacked the income required for MIS in 2013/14. This was 14 per cent of such households, up from 10 per cent in 2008/09.
- Of the 3.2 million individuals living in lone parent households with one to three children, 2.3 million lacked the income required for MIS in 2012/13. This was 72 per cent of such households, up from 65 per cent in 2008/09.
- Of the 17.1 million individuals living in couple households with one to four children, 5.9 million lacked the income required for MIS in 2013/14. This was 35 per cent of such households, up from 24 per cent in 2008/09.
- Of the 9.7 million individuals in pensioner households, 823,000 lacked the income required for MIS in 2013/14. This was 8.5 per cent of such households, up from 7.3 per cent in 2008/09.

In total, 42 million people were living in household types covered by MIS research. Of these, 11.6 million were below MIS in 2013/14. This amounted to 28 per cent, up from 21 per cent in 2008/09. This increase in risk by a third indicates how much more common it has become to live on an income below what is needed (it is not a full count of how many people in the UK are below this level, since it does not cover all household types). Notably, 51 per cent of all those with incomes below MIS lived in couple families with children, up from 45 per cent in 2008/09.

Hardest-hit households

The level and trend in numbers of those below MIS varied by the following factors:

- Age group – households with members aged under 35 were nearly four times as likely to be below MIS than pensioners.
- Tenure – tenants were more likely to be below MIS than owner-occupiers, with private renters comprising a growing percentage. However, in 2013/14, the largest growth in risk was for social tenants, over half of whom are now living below MIS. This coincided with the 2013 introduction of the under-occupancy charge (the so-called 'bedroom tax'), which has reduced help with rent for almost half a million low-income tenants by an average of £15 a week– it has affected around one in seven of social tenants claiming Housing Benefit.
- Region – London and Northern Ireland remained the areas with the highest risk of low income, with 29 per cent of households now below MIS. The fastest growth in risk was in the East Midlands and Wales; in the latest three years, the figure rose from about one in five households to more than one in four.

Employment not guaranteeing decent living standards

After 2012, the employment rate started to rise rapidly, but did not stem the increase in the number of people living in households below MIS:

- Couples with children became more likely to work full time in 2013/14, and their employment rates were higher than before the recession. However, changes to tax credits, lower real wages and high costs meant that the risk of working families being below MIS also increased; for full-timers it has more than doubled. For couples with children with both parents working full time, the risk has increased from 5 to 12 per cent. With just one breadwinner, this risk increased from 38 per cent in 2008/09 to 51 per cent in 2013/14.
- Lone parents became more likely to work full time in 2013/14; compared with 2008/09, more were in part-time jobs, matched by fewer out of work. However, as with couples, work has become a less sure route to adequate income, with even full-timers having a four in ten chance (41 per cent) of being below MIS, up from 26 per cent in 2008/09. Lone parents in part-time jobs saw their risk of being below MIS increase from 55 to 69 per cent between 2008/09 and 2013/14.
- Young single-person households faced recovering fortunes with the fall in youth unemployment. Their risk of being out of work fell to just above pre-recession levels. Their overall risk of being below MIS also fell, while remaining higher than in 2008/09. The number achieving MIS incomes or above was also lower, since fewer people were living alone, influenced by high costs.
- Although workless households had the highest risk of incomes below MIS, the risk of falling short increased sharply for many people in working households. Consequently, of all those in households below MIS, the proportion living in households with all adults in full-time employment increased from 11 to 15 per cent, while the workless proportion fell from 44 to 38 per cent between 2008/09 and 2013/14.

Conclusion

The Minimum Income Standard has allowed monitoring of the number of people living on low incomes during the recession and in the subsequent recovery. This latest review shows that rising employment and a return to growth in the economy slowed the increases in the numbers falling short of a decent living standard by 2013/14, but has not yet resulted in improvements. It also shows which households remained furthest from reaching this standard.

Growth in real wages has a key role in increasing incomes. The introduction of the National Living Wage in April 2016 represents a welcome first step in tackling low pay, particularly as it comes at a time of very low inflation. But this wage growth is happening against a backdrop of reductions in state support for low-income households, both in and out of work. Critical questions remain about the role of the state and employers in enabling people to secure better living standards.

Falling support for housing costs for those in rented accommodation also appears to play a role in increasing the risk of inadequate income. While in recent years shortfalls in Housing Benefit compared with actual rents have hit some private tenants, this year's MIS report shows increased risk among social tenants in the year when the under-occupancy charge was introduced.

Overall, the risk of falling short of a decent living standard has increased sharply since 2008/09. An improving economy alone is not guaranteed to reverse this rise.

About the project

The team at the Centre for Research and Social Policy at Loughborough University who compile the MIS 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 full report, *Households below a Minimum Income Standard: 2008/09 to 2013/14* by Matt Padley and Donald Hirsch, is published by the Joseph Rowntree Foundation. It is available as a free download at www.jrf.org.uk

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