

HOUSEHOLDS BELOW A MINIMUM INCOME STANDARD: 2008/09 TO 2014/15

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 analysis monitors changes in the number of people in households with incomes below MIS, and the number below 75% of MIS, an indicator of poverty.

Key points

- The proportion of people in households with incomes below MIS grew between 2008/09 and 2014/15, from 25% (15 million individuals) to 30% (19 million) of the population. This increase mostly came between 2008/09 and 2011/12. Since then the growth in low income has stopped, but not reversed.
- The proportion below 75% of MIS grew from 15% (9 million) to 17.5% (11 million) between 2008/09 and 2014/15. This increase contrasts with a slight fall in 'relative poverty' (below 60% of median household income). This is because median income has fallen substantially relative to minimum living costs.
- The risk of low income is much higher than average for children and much lower than average for pensioners. Lone parents and their children have the greatest risk of low income – three in four have incomes below MIS and nearly half have incomes below 75% of MIS.
- Six in ten working-age households below MIS have at least one person in work. The risk of being below MIS has grown despite record employment because more working people are on low incomes. For lone parents, even those working full-time have a 42% risk of being below MIS, up from 28% in 2008/09.
- Forecasts of renewed inflation and slow growth in wages, combined with a freezing of benefits and tax credits, suggest that the number unable to reach MIS will increase further, posing severe challenges to the Government's aim of helping 'just about managing' families.

The research

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BACKGROUND

Household incomes have been slow to recover from their decline following the financial crash. Median incomes started to rise again in real terms in the middle of this decade. However, with the projected return of inflation, it is now forecast that hourly pay is unlikely to be restored to its pre-recession high point before 2020. With benefits and tax credits frozen, this creates particular risks for those on low incomes.

The Minimum Income Standard (MIS) sets a threshold below which households struggle to make ends meet – based on research on what members of the public consider is needed for a socially acceptable standard of living. Identifying trends in the numbers below this standard indicates how the prospects of low-income households change over time.

The latest set of indicators of households below a minimum income creates a more complete picture than previously of the numbers below MIS. Using income benchmarks that for the first time cover all UK households, it estimates how many children, working-age adults and pensioners are below MIS, and therefore at best are only 'just about managing'. It also uses the benchmark of the number below 75% of a minimum income (lacking a quarter of the income that they need) as an indicator of poverty, based on the high risk of deprivation faced by people below this level – four times the risk of those whose incomes are at or above the MIS level. A new indicator also looks at the overall extent to which people are below MIS, by multiplying the proportion of the population below this level by the percentage that they fall short of the income they need.

Charting changes to living standards

Table 1 shows the change in the number and proportion of people below MIS between 2008/09 and 2014/15. The risk of low income increased by about a fifth over that period, with almost every group seeing an increase in the proportion both below MIS and below 75% of MIS. Most of the increase came in the first half of the period. However, even though median incomes started to rise in real terms after 2012/13, the proportion of the population below MIS did not fall significantly.

The substantial increase in low income relative to MIS in recent years has not been captured by relative poverty indicators, which show the percentage living in households below 60% of median income. According to this indicator, poverty has fallen slightly, but this is relative to a median income level that fell in real terms (lowering the poverty threshold), before recovering to close to its 2008 level. In contrast, the cost of a minimum basket of goods and services, represented by MIS, has risen much faster than the Consumer Prices Index, driven especially by the higher cost of food.

Table 1: Number and proportion of individuals in households below MIS and below 75% of MIS, 2008/09 and 2014/15

	Number below MIS (millions)		Proportion below MIS		Number below 75% of MIS (millions)		Proportion below 75% of MIS	
	2008/09	2014/15	2008/09	2014/15	2008/09	2014/15	2008/09	2014/15
All	15.2	19.1	25.0%	30.1%	9.1	11.1	14.9%	17.5%
Working-age adults	8.9	11.3	24.4%	29.6%	5.6	6.9	15.3%	18.1%
Children	5.1	6.0	39.3%	45.0%	3.0	3.6	23.1%	26.6%
Pensioners	1.2	1.8	10.8%	14.6%	0.5	0.6	4.4%	5.0%
Sub-groups								
Children with lone parents	2.0	2.3	68.4%	74.5%	1.3	1.5	42.7%	47.7%
Children with couple parents	3.0	3.7	30.6%	36.3%	1.7	2.1	17.3%	20.4%
Parents	4.6	6.0	31.6%	38.6%	2.8	3.5	18.9%	22.6%
Single working age, no children	2.5	3.0	32.9%	36.1%	1.8	2.1	24.0%	24.9%
Couple working age, no children	1.8	2.3	12.4%	16.1%	1.0	1.3	7.1%	9.3%
Single pensioner	0.6	1.0	14.2%	24.1%	0.2	0.4	5.7%	9.3%
Couple pensioner	0.6	0.7	8.8%	9.2%	0.3	0.2	3.6%	2.6%

Different groups face very different risks of being below MIS

- Children in lone-parent families: the risk of low income is relatively high for children, and greatest in lone-parent families, where nearly 75% of children are in households below MIS, up from 68% in 2008/09. Nearly half of children in such families have below three quarters of the MIS requirement, putting them at high risk of deprivation. Many lone parents have experienced cuts in benefits and tax credits during this period, and increases in living costs have hit this group hard.
- Single working-age adults: just over a third of single working-age adults without children are below MIS. The risk for young single people of having low income rose sharply in the recession, to over 40%, but has reduced as employment levels have risen.
- Pensioners remain far less likely than working-age adults and children to have incomes below MIS, with only one in seven falling below this threshold. This has increased from just over one in ten since 2008/09, with the steepest rise for single pensioners, whose costs have increased substantially. Even though state pensions have been pegged at least to the Consumer Prices Index, the actual cost increases seen by pensioners have been greater than this index since 2008/09, influenced by sharp increases in energy and food prices. Nevertheless, the risk of having very low income – below 75% of MIS – remains low at only 5% for pensioners, influenced by the greater adequacy of safety net benefits for this group. A new indicator taking account of the depth of low income shows that among pensioners below MIS, the shortfall is on average equivalent to 20% of the MIS level, compared to 30% for adults and children below MIS. When taking account of both the smaller risk of pensioners being below MIS and the smaller extent of their shortfall, the overall amount by which pensioners fall short of MIS is only a quarter as great as for children.

Conclusion

The proportion of the population below MIS is influenced both by how many people are in full-time or part-time work and by the adequacy of earnings, benefits and tax credits relative to costs. After the financial crash, unemployment rose, but has subsequently recovered. While employment is now at record levels, those in work often lack stable earnings at a level sufficient to reach MIS – six in every ten working-age households below MIS now have someone in work – and tax credits to help low-income working families have been cut. As a result, the risk of being below MIS has risen sharply for some categories of working family. For example, a lone parent who works full-time had a 28% chance of being below MIS in 2008/09, but this has risen to 42% in 2014/15.

Between now and 2020, some of the factors that have been responsible for increasing the proportion below MIS could recur. Inflation is projected to return, driven by increases in the prices of commodities such as food that make up a relatively high proportion of a minimum household budget. This is predicted to limit real wage increases, and will cause the value of benefits and tax credits to fall, since these have been frozen in cash terms. A higher National Living Wage will help offset these losses for people on low wages, but this will benefit single people more than low-income families relying on tax credits or Universal Credit, which will be clawed back as earnings rise. The result will be to create a highly challenging environment for families whose low incomes mean they are, at best, only just managing to make ends meet.

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

The full report, **Households below a Minimum Income Standard: 2008/09 to 2014/15** by Matt Padley, Donald Hirsch and Laura Valadez, is published by the Joseph Rowntree Foundation. It is available as a free PDF at www.jrf.org.uk

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