

# Households below a Minimum Income Standard: 2008/09 – 2014/15

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This report looks at the changes in the adequacy of incomes, as measured by individuals' ability to reach the Minimum Income Standard (MIS), a measure rooted in what the public considers necessary for a minimum acceptable standard of living. This is the fifth in an annual series of reports monitoring the total number of individuals in the UK living below the MIS threshold.

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## **The report:**

- looks in detail at the family and household characteristics of those below this threshold
- focuses in particular on three demographic groups – children, working-age adults and pensioners – exploring how they have fared between 2008/09 and 2014/15.

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# Executive summary

## Key points

- The Minimum Income Standard (MIS) is a benchmark of income adequacy, rooted in what the public thinks is needed for a minimum socially acceptable standard of living. This report looks at the proportion of individuals who fall below this benchmark and at those with incomes below 75% of MIS. JRF uses 75% of MIS as an indicator of poverty: people with incomes below this level face a greatly increased risk of deprivation compared with those whose incomes are above the MIS benchmark.
- In 2014/15, 30% of all individuals were in households with incomes below MIS, an increase of a fifth since 2008/09. The number of people below MIS increased from 15 million to just over 19 million, representing 4 million more people with household incomes insufficient to afford the things that the public thinks are needed to meet material needs and participate in society.
- Over the same six-year period, the proportion of people with household incomes below 75% of MIS rose from 15 to 17.5%, and their numbers rose from 9 million to 11 million. This represents 2 million additional people whose incomes are well below what is needed and who face a high risk of material deprivation.
- These increases in numbers below MIS and below 75% of MIS occurred in the first half of the period analysed here (2008/09 to 2011/2012). In the following three years, the risk of low income levelled off, but with no sign that the small growth in general incomes over that later period reduced the numbers on low incomes.
- The risk of having household income below MIS is three times as high for children as for pensioners – 45% compared to 15% – while working-age adults sit between these two groups, at 30%. The average shortfall of those below MIS – that is, how far individuals are below the MIS threshold on average – is also considerably lower for pensioners than for other groups. However, all three groups have seen the risk of falling below MIS and below 75% of MIS increase substantially since 2008/09.
- Some groups, notably single pensioners and people in lone parent families, were continuing to see an increase in the risk of low income in 2014/15. Others, notably single people in work, had seen a reversal of the earlier increase, due in particular to a healthier job market.
- For the population as a whole and for each demographic group, the rise in the proportion below MIS contrasts with a steady or falling proportion reported as being below 60% of median income, the conventional 'relative income poverty' indicator. This is because for much of this period median income fell, but the cost of a minimum acceptable living standard rose, relative to the Consumer Prices Index (CPI).

For the first time, this report makes estimates of the risk of living in a household with an income below MIS for the entire population. It also uses the proportion living below 75% of MIS as an indicator of poverty, based on the observation that a household at this level is around four times as likely to experience deprivation as a household with an income at or above MIS level. A third indicator set out here gives an indication of the overall 'depth' of low income. This shows how many people live below MIS in combination with the average percentage that they fall below it, to create an indicator expressing the overall amount that the population falls short of meeting minimum standards.

The report's main finding is that some improvement in economic indicators, including increases in employment rates, real wages and real incomes in the later part of the period under review, did not feed through to a general reduction in the incidence and depth of low income, using these indicators. An increase in numbers below MIS by about a fifth contrasts with a modest fall in the incidence of relative income poverty. While the median income benchmark fell in real terms over much of this period, creating a lower 'poverty line', the actual minimum cost of living as measured by MIS rose substantially faster than CPI – largely because commodities that are important in a minimum basket, such as food and domestic fuel, rose in price relatively quickly.

Among groups who have fared the worst in this period, children living in lone parent families stand out as having a particularly high risk of low income, a risk that has increased substantially and continued to rise. By 2014/15, only one in four children with a lone parent had a household income sufficient to reach a minimum acceptable standard of living as defined by the public, while nearly half had incomes below 75% of this level, with the accompanying high risk of deprivation.

Pensioners, who have generally fared well in recent years, saw some increase in their risk of low income in this period – particularly single pensioners. This has, in part, been due to increases in the cost of basics such as food and domestic fuel, but also because of some additional spending requirements such as on technological items needed for social participation. Singles have been hit more than couples, because these increases have tended to come for items for which there are economies of scale.

The risk of low income is higher, and has risen faster, for people renting their homes than for those with mortgages. It is also higher for households headed by younger adults, although it has increased somewhat faster for those aged 35 to 64 (many of whom are parents) than for those aged 16 to 34. The risk of living below MIS is greatest in London, but it has increased relatively less there than in three other regions – the North East, the West Midlands and Northern Ireland – where the risk is now almost as great as in London.

In the period after the financial crash, reduced employment contributed to a growing risk of low income for households with working-age adults. Following the recovery of employment rates, over the period as a whole, the effect of employment status (how many people are in full-time, part-time or no work) is broadly neutral. The increased risk of being below MIS has been driven principally by the increased chance that someone within each of these employment categories has low income. Even those with full-time jobs are facing higher rates of low income than previously.

For single people, better employment prospects have helped reduce the number below 75% of MIS to a similar level as in 2008/09, but the risk of not reaching MIS has reduced by less; by 2014/15, a single person working full time had a one-in-six chance of being below MIS. For families with children, who have not just had to contend with falling real wages, but also with reductions in tax credits, the outcomes are much worse: for example, the risk of not reaching MIS grew from 28% to 42% for a lone parent working full time between 2008/09 and 2014/15.

Overall, therefore, the substantial increase in the numbers below MIS since 2008 has been driven by the declining adequacy of wage and benefit levels relative to costs, more obviously than by changes in the number of people in work or in full-time employment. Wages, benefits and tax credits have not systematically kept up with general costs, as represented by CPI inflation. In addition, the minimum cost of living has gone up faster than CPI, largely because the cost of some basics like energy, food and rent have risen by more than average. Looking ahead, the projected return of food and energy inflation, combined with planned cuts in benefits and tax credits, risk causing a continued increase in the number of people whose incomes fall below the minimum – especially among families with children, who rely heavily on state support even when working. The National Living Wage (NLW) could, on the other hand, help reduce low income among groups without children, who rely less on in-work support, and if general earnings increase, this will be good news for pensioners, too, who will gain from the linking of pensions to earnings growth.

# 1 Introduction

The economic challenges of recent years, and their impacts, are still being felt across the UK. Certain selected key indicators of economic success can be seen as signalling a change in fortunes for some households: the number of individuals in employment currently stands at record levels, for example, and a sustained period of historically low inflation has, in part, helped to support a small upturn in average incomes. During the period being examined here – 2008/09 to 2014/15 – median equivalised household income, after housing costs, increased by 1.5%, while between 2013/14 and 2014/15 the increase was 3.5%. However, pay over the period in question has largely been flat, and it is suggested that typical hourly pay is unlikely to be restored to its pre-recession high point before 2020 (Corlett et al, 2016).

Alongside signs of a measure of recovery within the UK, there exists a continued concern for the fortunes of households who are on low incomes. Theresa May's reference to 'just about managing' families (see Box 1) draws attention to those who may not be obviously deprived, but who nevertheless struggle to make ends meet, face insecurity and lack options to improve their lives. Pay and employment undoubtedly remain key components of any drive to boost living standards, but families who are working but on very modest household incomes are affected by a range of other factors, including the cost and availability of housing, job insecurity, rising inflation and the four-year freeze on benefits, tax credits and Universal Credit (UC). The period under consideration here pre-dates the significant global political and economic uncertainty that has been a feature of 2016; the as-yet unknown consequences of Brexit for the UK could have a long-term impact on prospects for a return to improved living standards. More immediately, forecasters have downgraded their predictions for the next few years. The Office for Budget Responsibility (2016) suggests that 'GDP growth will continue to slow into next year as uncertainty leads firms to delay investment and as consumers are squeezed by higher import prices, thanks to the fall in the pound'.

### **Box 1: 'Just about managing' and a minimum standard**

Theresa May (2017) has stated that she wants to help people who are 'just managing', but who 'feel that the system is stacked against them'. She distinguishes 'social reform' to help this group from 'social justice' to help the very poorest and 'social mobility' to help bright people from poor families to progress. In a break from a right-of-centre view that the government needs to get out of the way, May argues that this group 'need an active government that will step up and champion the things that matter to them'.

Neither the composition of 'just about managing' households nor the scope of measures to help them have yet been clearly defined by the government, and each person may judge subjectively whether they are managing or meeting their needs. Nevertheless, there are three useful aspects of this concept that relate to the analysis in this report of who falls below MIS.

The first concerns what it means to 'manage'. The notion of managing or coping suggests just meeting everyday needs with little or nothing to spare. One way of interpreting this would be as just having enough to meet MIS. However, research shows that families with incomes somewhat below MIS often feel that they can just about cope with everyday life and avoid material hardship, even though there are some things identified in MIS budgets (such as a short annual holiday) that they have to forego (Hill et al, 2016). Moreover, these families are vulnerable to a change in circumstances that could create more extensive unmet needs. On this basis, we could think of 'just about managing' families as typically having more than 75% but below 100% of MIS. These are people who may not feel that they are in hardship or poverty, but cannot afford all the things that the public regards as part of a minimum acceptable living standard.

The second aspect relates to which groups the government sets out to help. May refers to those 'just above the threshold that typically attracts the government's focus'. This can be interpreted in different ways. For example, around 55% of children live in families receiving means-tested support through the tax credit system, so a focus only on those with literally no existing help from the state would perversely exclude families on low to middle incomes. On the other hand, when it comes to making housing more affordable, only one in five children lives in social housing, so efforts to extend state help could reach more people on modest incomes. The analysis in this report shows that three people in ten, and more than four in ten children, live in households below a socially acceptable minimum, and that six in ten working-age households below MIS have someone in work. This confirms that it is not just people right at the bottom of the income distribution who need help.

The third aspect concerns opportunities. May emphasises how people who are 'just managing' have not been able to progress, and are often held back by limited housing choices and unstable employment. MIS defines a minimum standard of living as including the opportunities and choices that you need to participate in society. Only just getting by can often mean having limited opportunities and constrained choices. This can trap families in a cycle where a lack of resources limits their opportunity to improve their income (for example because of a lack of childcare choices, or limited housing and transport options that affect access to work).

Thus, while 'just about managing' is in itself a subjective and imprecise characterisation of a group requiring help, the MIS framework can help to identify who is falling behind, in terms that mirror many of the themes highlighted in current political debate about groups who are not thriving.

In the context of a continuation of the economic uncertainty that has marked much of the last decade, tracking and monitoring what has been happening to people's living standards remains a critical task. Analysis charting the adequacy of incomes relative to MIS – looking at how many people are living below a minimum socially acceptable standard of living, and at how individuals have fared over time – continues to be of significant value, particularly given the limitations of relative income thresholds as poverty indicators (Hirsch et al, 2016). MIS (see Box 2) is a benchmark of minimum needs, rooted in what the public thinks are the goods and services required for an acceptable standard of living.

## Box 2: 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 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.

The MIS research is funded by the Joseph Rowntree Foundation (JRF) 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.

Further information and publications are available at: <http://www.minimumincomestandard.org>

In annual reports over the last four years (Padley and Hirsch, 2013, 2014 and 2016; Padley et al, 2015), the trends in the number of households living below and a long way below this standard have been explored. The focus in these reports has been on identifying those households facing the greatest risk of lacking the income needed for a minimum socially acceptable standard of living, and charting what has happened to them over time. The emphasis has been on income adequacy, defined as reaching MIS, rather than on poverty, although the numbers living well below MIS and therefore risking poverty have also been noted. This year’s report has been reoriented to look jointly at:

1. the number of individuals in households with incomes below MIS, representing those with incomes too low to afford the things identified by the public as necessary in order to meet material needs and participate in society
2. the number in households below 75% of MIS, representing an indicator of poverty, by showing how many have a greatly increased risk of deprivation associated with low income
3. a new ‘depth indicator’ summarising the overall amount that household income falls short of MIS.

The ‘75% of MIS’ threshold is JRF’s new indicator of poverty, based on an understanding that different levels of low income have different consequences (Hirsch et al, 2016; JRF, 2016). JRF (2016), in their strategy to solve poverty in the UK, distinguished different levels of income inadequacy, poverty and destitution. People move between the different layers, and the experiences of each person differ. Destitution, for example, is the most severe form of poverty in the UK and means that individuals are unable to afford even the most basic of essentials to eat, stay warm and dry, and keep clean.

Evidence (Berthoud and Bryan, 2010; Whelan et al, 2001) shows that the relationship between low income and deprivation is by no means straightforward. In research exploring the experiences of families living below MIS, Hill et al (2016) report that families on low incomes differ not only in terms of how they cope with living on those incomes, but also in terms of how disadvantaged they feel and the sacrifices that they make – influenced by many aspects of their lives other than income, including characteristics that bring additional needs, such as disability. However, it is clear that people on lower incomes are on average more likely to be deprived. The 75% of MIS indicator is supported by analysis undertaken by the Centre for Research in Social Policy exploring the relationship between the proportion of MIS provided by an individual’s income and indicators of deprivation (see Hirsch et al, 2016). This analysis suggests that households with incomes below 75% of MIS are about four times as likely to be deprived as all households who have incomes at the MIS level or above.

One aspect of 75% of MIS as an indicator is that it represents a broadly similar income level to 60% of median equivalised income. This is the conventional indicator of poverty, produced in the annual Households Below Average Income (HBAI) indicators (DWP, 2016). A limitation with this as an indicator of the trend in low living standards in the past decade is that the median benchmark has sometimes fallen, so that some households can rise above 60% of the median without being better off. Since the MIS benchmark keeps track of what the UK public says households need, rather than fluctuating with actual median income, it provides an alternative indicator of trends. This report compares the movement of these two indicators.

It is important however to bear in mind that 75% of MIS is an indicator, and not a description either of poverty or of a particular standard of living. It differs in this respect from MIS, which can be described in terms of a basket of goods that a household can afford, and a definition of a minimum endorsed by members of the public. Having a certain amount less than this is an **indicator** that a household risks having too few resources to meet its needs – JRF’s definition of poverty. If more households fall below this threshold, we can assume that more will have unmet needs. Thus it is the change in the numbers below 75% of MIS, not their absolute level, which is most significant in this report.

The depth indicator introduced this year gives a further check on the overall trend in low income. It considers, in combination, the proportion of a group whose incomes fall below MIS and the average percentage that they fall below it. Multiplying these two together gives an indicator of the overall shortfall being faced by the population. This produces an indicator of the trend in low income that is not distorted by the choice of any one threshold.

In order to provide a more complete income profile of the population relative to MIS than previously, the analysis has this year been extended to cover estimates for all individuals, not just those in households for whom MIS budgets are calculated directly. The method for doing this is summarised in Box 3. The headline comparisons are now made based on individual demographic characteristics, as in the HBAI series, rather than on household types, although more detailed analysis goes on to distinguish the effect of family and household characteristics. In all cases, the income status of individuals is based on the income of the household in which they live, not on individual incomes within households.

### Box 3: Analysing households below MIS

MIS allows minimum budgets to be calculated for about 80% of households in the UK. On this basis, using the Family Resources Survey, the risk of falling below MIS, or below a certain percentage of MIS (based on post-tax income net of housing and childcare costs), can be estimated for households of these types. However, MIS only looks at needs for households comprising a single person or a couple with any dependent children, not for households that include additional adults. In order to estimate incomes for the whole population, a method has now been developed for estimating the requirements of additional household members – also including families with more children than calculated directly by MIS. For example, MIS only measures directly the cost of families with up to four children, but additional costs for a five-child family are estimated from the difference between those with three children and those with four children. The estimated cost of additional adults is based on information from a MIS study of sharers (Hill et al, 2015), combined with observed differences in costs between single adults and couples. They distinguish between people living as partners, living with close relatives and living with unrelated sharers. These approximations avoid the cruder assumption in HBAI data that every adult contributes an identical amount to family income requirements.

In comparing trends in the number below MIS to HBAI income trends, one issue is that MIS budgets only get fully rebased every four years, whereas relative income thresholds can change continuously in real terms according to actual real incomes. To reduce this discrepancy, the benchmarks have been 'smoothed' using a rolling four-year average to ensure that changes resulting from the evolving contents of MIS baskets are introduced gradually, not suddenly in the year in which they are identified.

A further amendment to previous estimates is that benefits paid directly to cover the additional costs of disability are excluded, based on the assumption that households receiving these benefits will also have higher costs than in the standard MIS model. This adjustment in particular raises the number of pensioners living below MIS, although these numbers are still far lower than for other groups.

A full description of these new aspects of estimating the numbers below MIS is set out in Hirsch et al (2016).

The report this year looks at the period 2008/09 to 2014/15 (the latter being the most recently available survey year). The report begins by examining the proportion and number of individuals with incomes below that needed for a minimum standard of living in the UK, and those with incomes below 75% of MIS, in four broad demographic categories: all individuals in the UK, children, working-age adults and pensioners. Chapter 2 also explores the depth of low income within these four groups and how this has changed over the period in question. Chapter 3 makes comparisons with the current relative income threshold, as set out annually in *Households Below Average Income*. Chapter 4 looks in more detail at the risk of having an income below MIS and below 75% of MIS. This includes looking at how the risk of low income might be linked to particular family/household characteristics for each of three groups: children, working-age adults and pensioners. The chapter goes on to look at the proportion below MIS and below 75% of MIS by region, tenure and age of household reference person. The final chapter explores how the risk of falling below MIS varies according to employment status (full-time employment, part-time employment, self-employment, and being out of work), looking at the numbers with insufficient income in each of these categories and how this has changed over time.

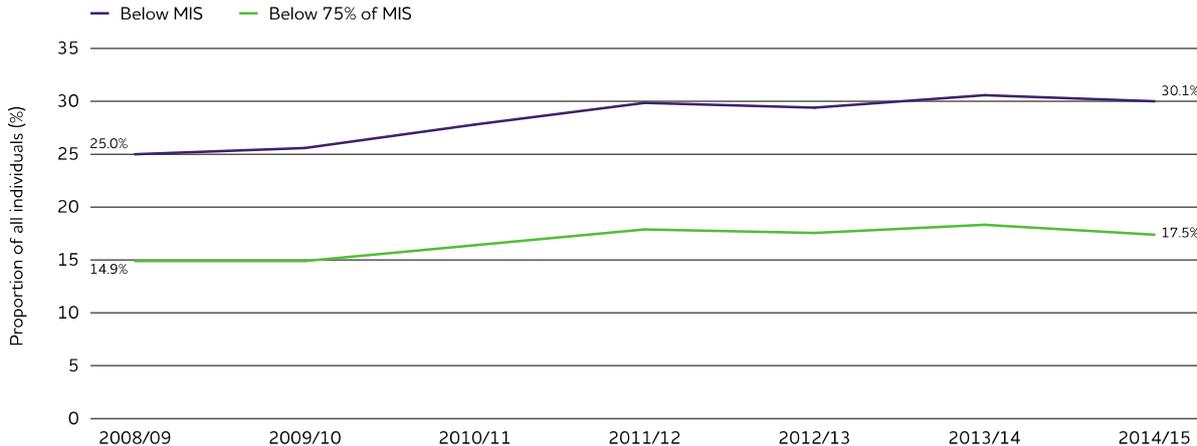
# 2 Who is most at risk of having an income below MIS?

This year’s report shows how the risk of having an income that falls below MIS has changed for all individuals in the UK between 2008/09 and 2014/15. For the first time in this series, it makes estimates for the whole population (see Box 2).

Figure 1 shows that the overall picture in the six years in question is of an increased risk of inadequate income. Over the period covered here, the proportion of all individuals with incomes below MIS increased by a fifth. All of this increase occurred between 2008/09 and 2011/12, while between 2011/12 and 2014/15 there was no overall change in the proportion of individuals below MIS, with around 30% of individuals below MIS in each of these three years. The number of individuals below MIS increased over the whole period by nearly 4 million: from 15.2 million in 2008/09 to 19.1 million in 2014/15.

The proportion of individuals below 75% of MIS – and consequently at greater risk of experiencing some deprivation – increased by one sixth between 2008/09 and 2014/15, an increase of 2 million individuals, from 9.1 to 11.1 million over these six years.

**Figure 1: Proportion of all individuals below MIS and below 75% of MIS**



While Figure 1 provides a clear indication of the direction of travel in terms of income adequacy over recent years, it is important to look more closely at how the risk of having an income below MIS varies for demographic groups, divided into children, working-age adults and pensioners. Figure 2 shows that the proportion of children who are living in households below MIS and below 75% of MIS is about half as high again compared with all individuals. The proportion of children below MIS rose from 39% to 45% between 2008/09 and 2014/15 – bringing nearly a million more children into families unable to reach a minimum socially acceptable standard of living. While over the whole period examined here there has been a substantial increase in the proportion of children living in households with inadequate incomes, there has been little change in this proportion since 2011/12. The same trend can be seen for children below 75% of MIS, with an overall increase between 2008/09 and 2014/15 from 23% to almost 27%. This means that in 2014/15 there were 6 million children below MIS and 3.5 million below 75% of MIS. Although children comprise only around a fifth of the total population, they accounted for nearly a third of all individuals both below MIS and below 75% of MIS in 2014/15.

**Figure 2: Percentage of children below MIS and below 75% of MIS**

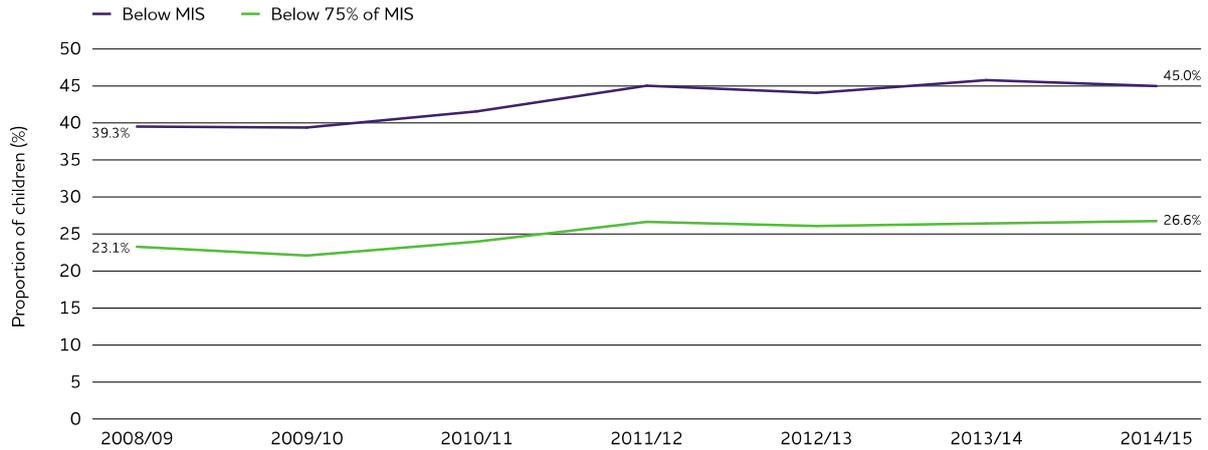
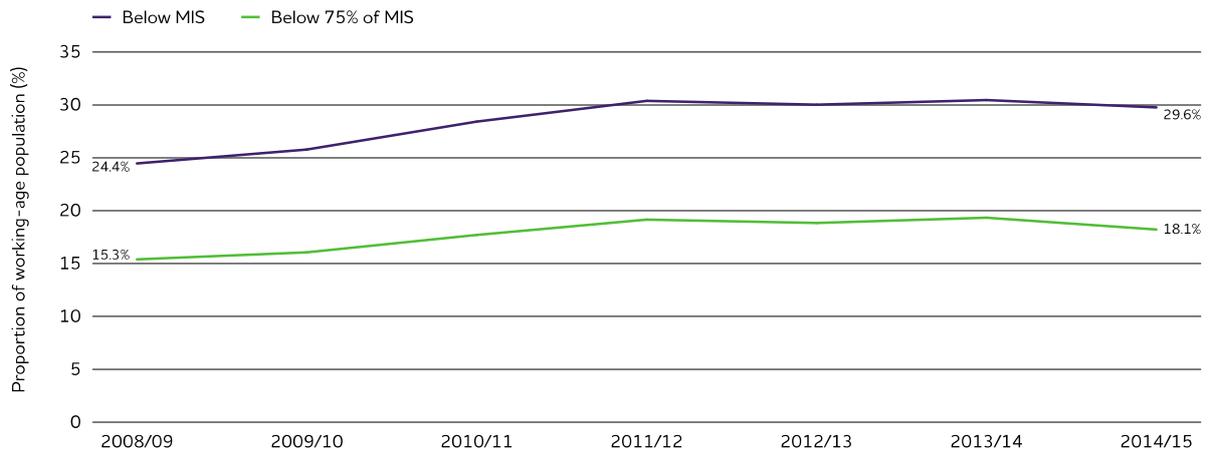


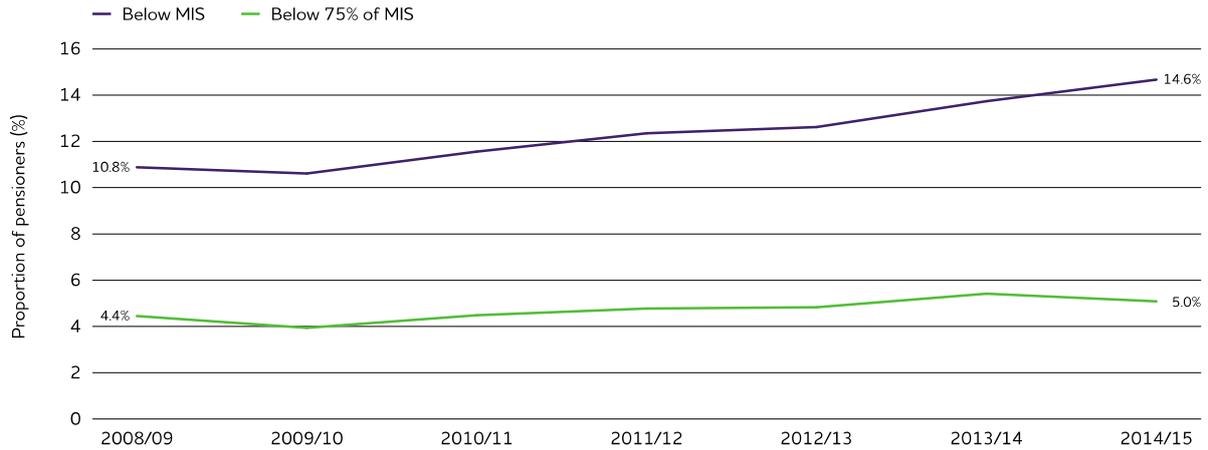
Figure 3 shows a broadly similar pattern to that seen for all individuals, as working-age adults account for the greatest proportion of the population. Over the six-year period being analysed here, the proportion of working-age adults below MIS increased by just over a fifth, a rise of 2.4 million. The most significant change in the proportion of working-age adults below MIS occurred between 2008/09 and 2011/12, while since this point the proportion below this level has remained at around 30%. The proportion of working-age adults with incomes below 75% of MIS also increased most between 2008/09 and 2011/12, and in the most recent year has fallen back from a peak in 2013/14.

**Figure 3: Proportion of working-age adults below MIS and below 75% of MIS**



The proportion of pensioners with inadequate incomes has remained at a relatively low level for the majority of the six-year period under consideration here (see Figure 4). However, about half a million more pensioners were below MIS in 2014/15 than in 2008/09, with around half of this increase coming in the last two years of the six-year period. The numbers with incomes below 75% of MIS, on the other hand, have remained very low, rising from just 500,000 to 600,000 in a pensioner population of 12 million.

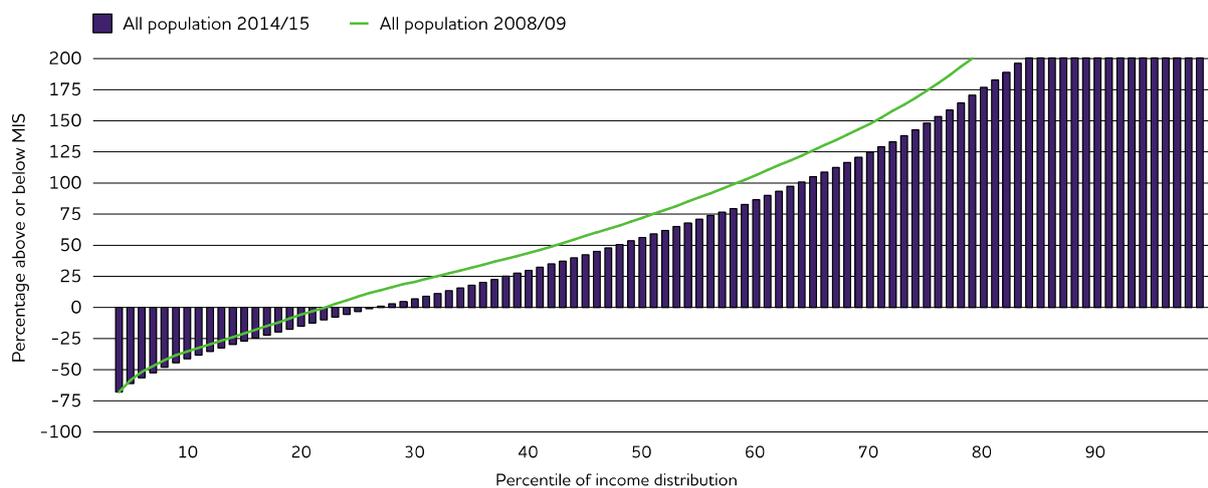
**Figure 4: Proportion of pensioners below MIS and below 75% of MIS**



Figures 5, 6, 7 and 8 illustrate the depth of low income for these demographic categories. For each percentile of the population, ordered by household income as a proportion of MIS, the figures show how far above or below MIS they were in 2014/15. Each percentile's risk is shown as a bar, so for example someone at the 10th percentile of the distribution (meaning their income is lower than that of 90% of the population) had income about 40% below MIS. (At the bottom of the distribution, data showing incomes at least 70% below the MIS level have been shown to be unreliable, and so the bottom percentiles are therefore excluded; Hirsch et al, 2016.) The line on each figure shows the situation in 2008/09 for comparison. Figure 5 shows the overall pattern of income relative to MIS, across the distribution, while Figures 6–8 focus on those individuals below MIS.

In each of these figures, the line showing the distribution in 2008/09 indicates that every percentile of the population had reached an income relative to MIS considerably higher than in 2014/15. In other words, it is not just that fewer people were below MIS, but that at each point in the distribution, shortfalls were lower.

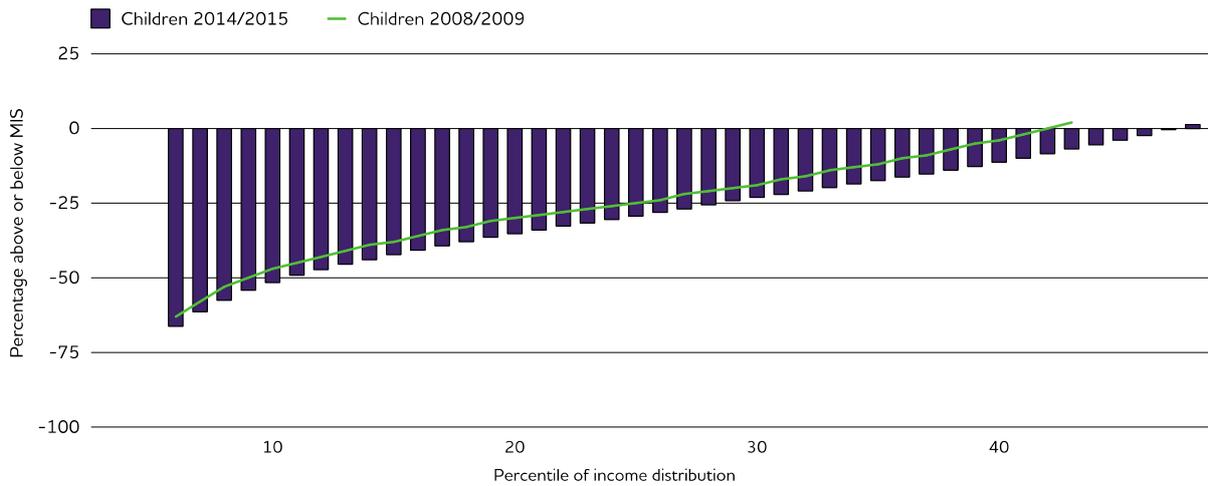
**Figure 5: All individuals – household income as a proportion of household MIS requirement 2008/09–2014/15**



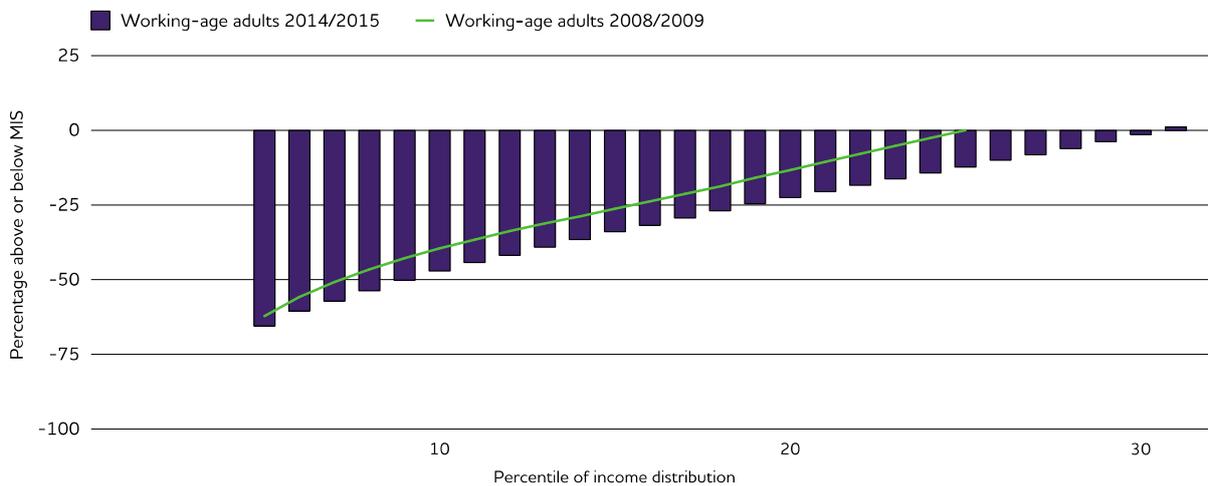
Notes: individuals on the 99<sup>th</sup> percentile have household incomes above 1,300% of MIS. To avoid this skew in the distribution dominating the graph's scale, incomes of more than twice the MIS level are not fully shown.

Results showing the very lowest incomes (at least 70% below MIS) are unreliable and these percentiles are excluded.

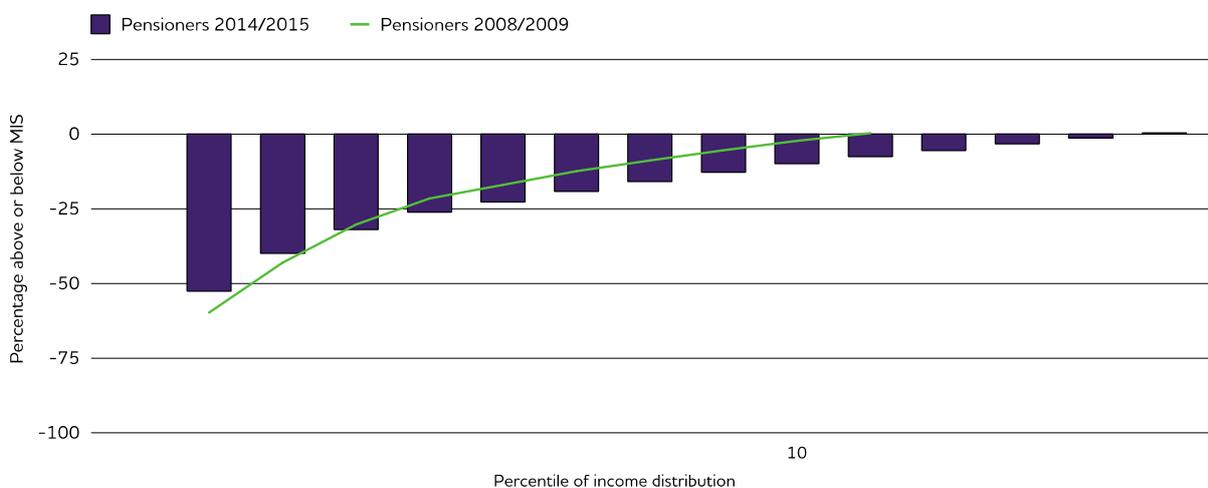
**Figure 6: Children – household income below MIS as a proportion of household MIS requirement 2008/9–2014/15**



**Figure 7: Working-age adults – household income below MIS as a proportion of household MIS requirement 2014/15**



**Figure 8: Pensioners – household income below MIS as a proportion of household MIS requirement 2014/15**



Summarising the preceding figures, it is possible to express the collective shortfall relative to MIS as the percentage of individuals below MIS multiplied by the average percentage that their households' income

falls short. This indicator can be described as the ‘average amount that the whole population falls short of MIS’. This average includes people with a zero shortfall. For example, if 25% of the population had incomes on average 20% short of MIS, we could say that the total shortfall is equivalent to 5% for the whole population. This single figure captures the extent and depth of low income, and avoids giving similar weight to everyone who falls below a line, when they may do so by very different amounts.

Table 1 shows the change in this depth indicator over the six years. The table shows that for all groups, not only has the risk of being below MIS increased, but the average shortfall for those below this threshold has grown. This growth in the shortfall is minor for children and working-age adults, but more substantial for pensioners, meaning that the overall ‘depth’ indicator for this group grew by over a half (compared to a growth of just over a third in incidence). However, it must be emphasised that the average shortfall has been and remains far lower for pensioners than for other groups. As a consequence, while the incidence of below-MIS income is about half as high for pensioners as for working-age adults, the depth indicator summarising the collective shortfall is only about a third as high for pensioners.

**Table 1: Depth of income below MIS**

	Children		Working-age adults		Pensioners	
	2008/09	2014/15	2008/09	2014/15	2008/09	2014/15
Percentage of population below MIS (incidence)	39.3%	45.0%	24.4%	29.6%	10.8%	14.6%
Average percentage that they are below MIS (shortfall)	28.1%	29.2%	29.3%	30.7%	17.3%	20.1%
Depth indicator (incidence times shortfall)	11.0%	13.1%	7.1%	9.1%	1.9%	2.9%

Note: The very bottom of the distribution, which cannot be measured reliably, is excluded from this calculation.

# 3 Trends in risk of low income – comparing MIS and relative income indicators

The first section of this report has outlined the general trends in income adequacy between 2008/09 and 2014/15, looking at both the proportion of individuals with incomes below that needed for a minimum socially acceptable standard of living, and also at those below 75% of MIS. The latter indicator – being used by JRF to monitor risk of poverty – reveals the proportion of individuals with a greatly increased risk of deprivation associated with low income.

Government-produced relative income indicators of poverty also seek to track the number of people whose low household income puts them at risk, but in doing so use a benchmark that varies with median income, rather than with the cost of a minimum basket of goods and services. This section compares the trends shown when using MIS as a benchmark to those shown using a relative poverty line. Specifically, it compares changes in the numbers below 100% and 75% of MIS with those below 60% of median income, published in the HBAI series each year (DWP, 2016).

Over what is now nearly a decade since the start of the financial crisis, real incomes have in general been below pre-economic downturn levels, and it is only in the latest year that median equivalised household income has risen above this level. Figure 9 shows what has happened to median equivalised weekly income since 2008/09 (both before and after housing costs): from a peak in 2009/10, median income fell sharply before bottoming out between 2011/12 and 2012/13. One result of this is that the median income benchmark, to which the relative poverty indicator is tied, has at times fallen in this period, meaning that some households will have risen above the 60% median threshold without a change in their income, in other words without being better off. As noted earlier, because the MIS benchmark is rooted in and tracks what the UK public says households need, rather than being coupled to actual median income, it provides a valuable alternative indicator of trends. In interpreting Figure 9, it is also important to note that inflation adjustments of median income now use the Consumer Prices Index (CPI), excluding housing costs from this index when tracking income after housing costs. Previous adjustments using the Retail Prices Index (RPI) suggested a steeper slump in real incomes, and in general MIS data has shown that a minimum basket has been rising in price significantly faster than CPI (Hirsch, 2015; see also Box 4 at the end of the chapter for further discussion).

**Figure 9: Median equivalised income, CPI-adjusted, 2008/09 to 2014/15 (2008/09 = 100)**

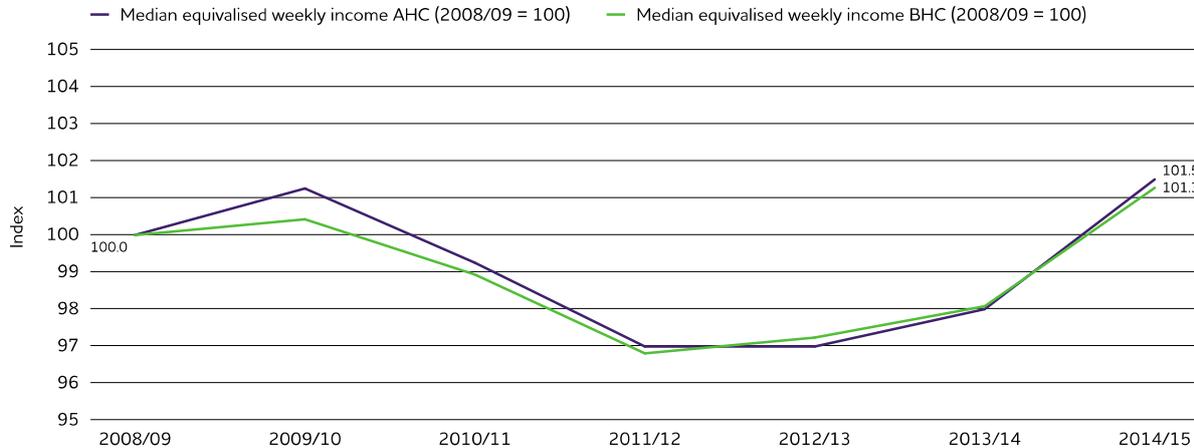
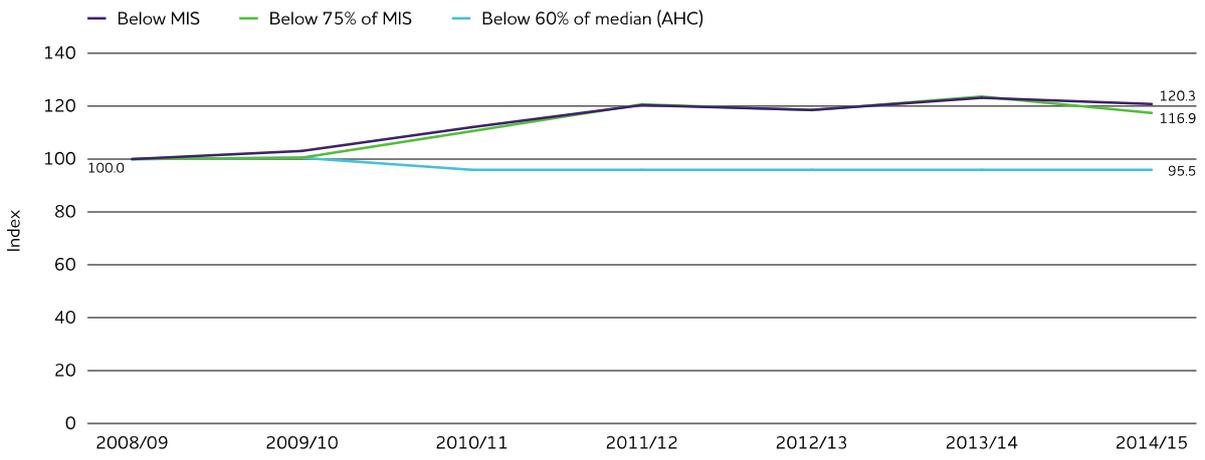


Figure 10 compares two MIS thresholds to the relative income indicator of poverty over the six-year period under consideration for all individuals (in all cases looking at income net of housing costs). There is a clear contrast here between the relative poverty indicator, which has, in general, shown a reduction in

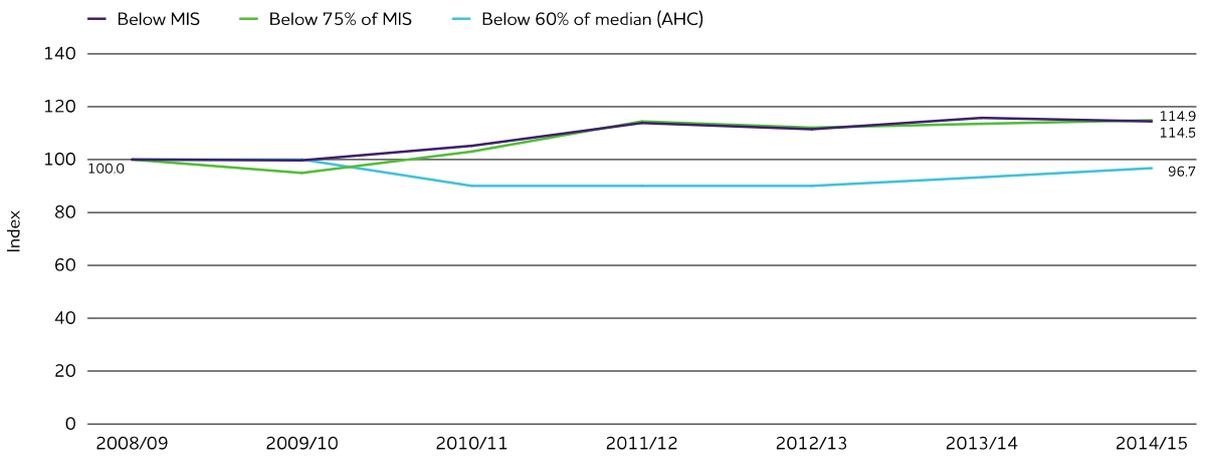
poverty levels and remained stable since 2010/11, and MIS indicators, which have shown the opposite, namely a decrease in the adequacy of incomes (below 100% of MIS) and an increase in poverty as indicated by the below 75% of MIS threshold. While the relative poverty indicator suggests that poverty is at lower levels now than in 2008/09, both MIS indicators point to a reduction in the adequacy of incomes over this period and a rise in the proportion of individuals with an increased risk of experiencing deprivation. This clear difference in trends suggests that a relative income indicator on its own has failed to capture a significant increase in people's risk of falling below a socially agreed minimum.

**Figure 10: Comparison of MIS and relative income indicators, all individuals (2008/09 = 100); changes in the percentage of the population falling below various thresholds**



As in Figure 10, Figure 11 again shows the different story that is told by looking at and comparing these alternative indicators, in this instance in relation to children. Looking at the relative income indicator used in HBAI as the means of tracking poverty levels, the story of the last six years is, in general, of a reduction in the proportion of children growing up in poverty, with levels in 2014/15 below those in 2008/09. Looking at both the below MIS and below 75% of MIS indicators paints a different picture though, with increases in the proportion of children below each of these levels. Again, this questions the assertion that child poverty has fallen in any meaningful way. Note that in the latest two years, the relative poverty indicator for children has started to rise again, influenced by the fact that median income has been increasing, but incomes of low-income families have stagnated. This underlines the fact that fluctuations in median income have to a significant extent been driving the relative poverty indicator over this period.

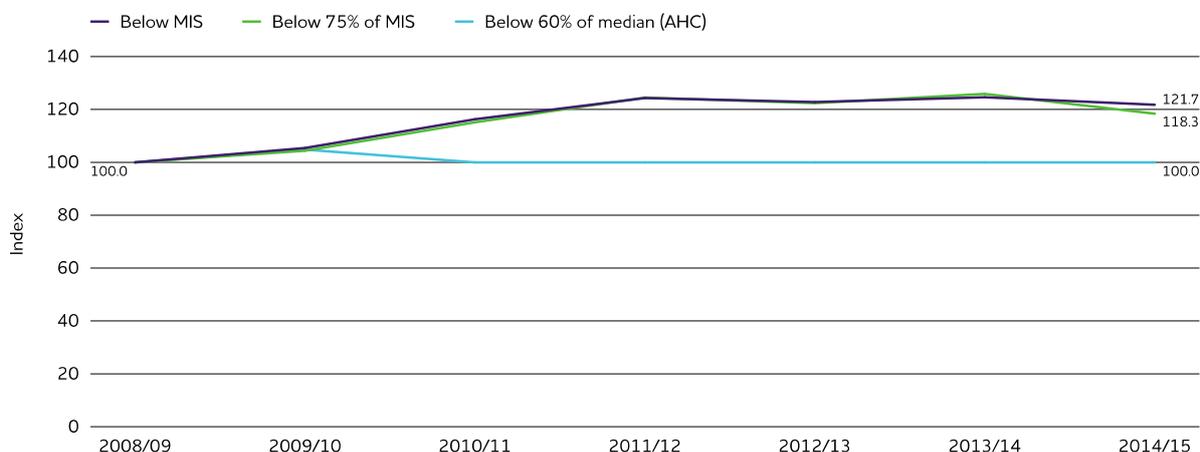
**Figure 11: Comparison of MIS and relative income indicators, children (2008/09 = 100); changes in the percentage of the population falling below various thresholds**



A comparison of MIS and relative income indicators for working-age adults once again draws attention to the alternative narrative about living standards revealed by each indicator. Using the 60% of median income indicator, the period between 2008/09 and 2014/15 appears to have been one of stability, with

very little fluctuation in the living standards of working-age adults. However, looking at the below MIS and below 75% of MIS indicators reveals a contrasting story: since 2008/09 a growing proportion of working-age adults has lacked the income they need for a minimum socially acceptable standard of living, and a growing proportion face an increased risk of deprivation.

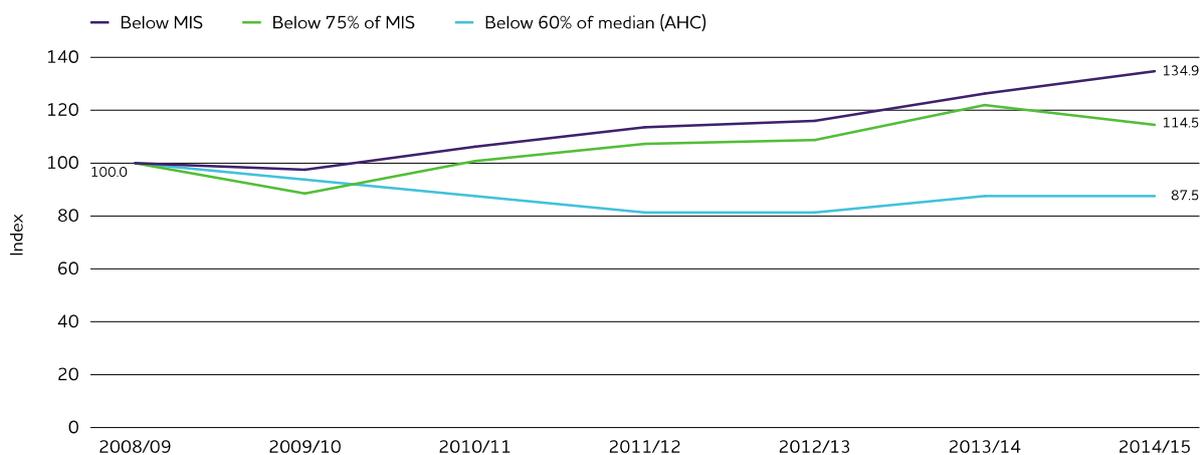
**Figure 12: Comparison of MIS and relative income indicators, working-age adults (2008/09 = 100); changes in the percentage of the population falling below various thresholds**



The most clear-cut contrast in terms of the patterns revealed by comparing these different indicators is for pensioners (see Figure 13). Looking at the 60% of median income indicator for pensioners suggests that there was a substantial reduction in the pensioner poverty rate between 2008/09 and 2011/12, and that levels in 2014/15 remain well below those at the start of this period. The below MIS and below 75% of MIS indicators once again show a contrasting pattern, with significant increases for pensioners, particularly below MIS, over this period. Note, however that the high **proportionate** change shown for pensioners compared to other groups is due largely to a low starting point. Pensioners' risk of being below MIS grew from 11% to 15% compared to children's risk from 39% to 45%. The former is larger as a proportionately greater increase in the numbers below MIS, but a smaller increase as a percentage of the population group.

One contributing factor in the difference between the below-MIS and the below 60% median trends shown in Figure 13 is that the minimum budget for pensioners has increased by over 10% faster than CPI (Davis et al, 2016). This is partly due to the relatively fast increase in the price of goods (such as food and home energy) that comprise a large part of a minimum pensioner budget. Another influence is a modest increase in the real-terms value of the minimum pensioner basket, particularly for single pensioners, as explained further in Box 4.

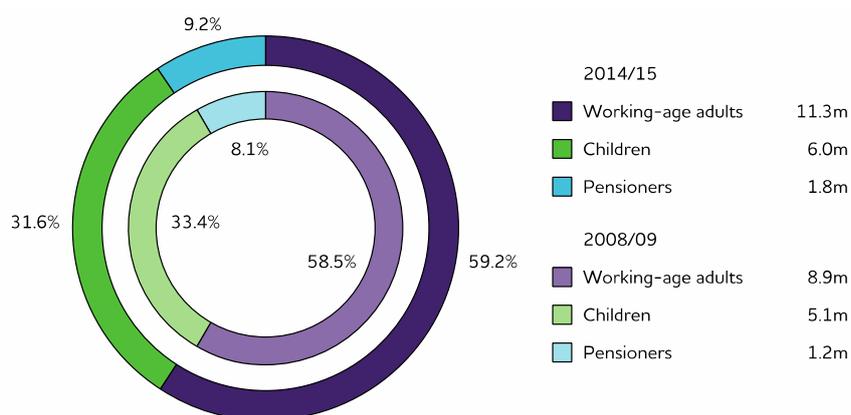
**Figure 13: Comparison of MIS and relative income indicators, pensioners (2008/09 = 100); changes in the percentage of the population falling below various thresholds**



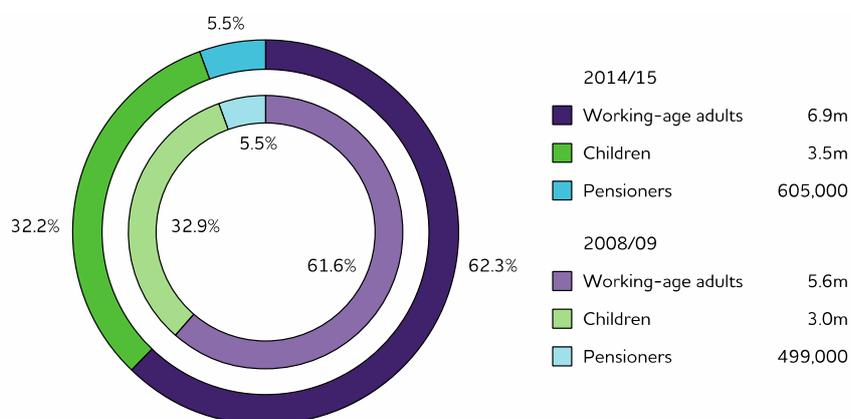
Overall, these comparisons with the conventional indicator of poverty published in HBAI each year show that claims made on the basis of relative income indicators about the direction of travel for poverty do not necessarily give a complete and accurate picture of what is happening to living standards. Looked at as a whole, relative income indicators present the last six years as a somewhat benign period during which not a great deal has happened to levels of poverty. Conversely, indicators using below MIS and below 75% of MIS tell a different story about living standards: children, working-age adults and pensioners are all more likely to have incomes that are insufficient to cover all their needs as defined by the public in 2014/15 than they were in 2008/09. Further, individuals within each of these groups have a greater risk of deprivation (with incomes below 75% of MIS) in 2014/15 than in 2008/09. Contrary to the lack of significant change reported through relative income indicators, MIS indicators show that reaching a minimum living standard continues to be a struggle for many.

In addition to comparing the trends in relative income and MIS indicators, it is also useful to look at what each of these three indicators reveals about the composition of those with low incomes. Figures 14, 15 and 16 show the composition of individuals below MIS, below 75% of MIS and below 60% of contemporary median in 2008/09 and 2014/5. (These can be seen against the background of working-age adults comprising about 60% of the population, and children and pensioners 20% each.) While the risk of being below MIS and below 75% of MIS has grown over this six-year period, the figures show little change in the composition of these groups. For both below MIS and below 75% of MIS, children account for around a third of these groups, with working-age adults making up around 60%. The composition of those below 60% of contemporary median income has also changed little over this period, but there are differences between the relative indicator and MIS indicators: a greater proportion of those with incomes below 60% of median are pensioners, and a smaller proportion are children. This reflects the fact that the relative level of income benchmarks for families with children compared to pensioners are somewhat higher in MIS than in HBAI. The weighting given to children in the HBAI equivalence scales is low relative to the evidence of relative costs in MIS. In addition, pensioner costs in MIS are distinguished from, and somewhat lower than those of, working-age adults (to a large extent due to tangible differences such as free pensioner bus travel), whereas the HBAI scales regard all adults identically.

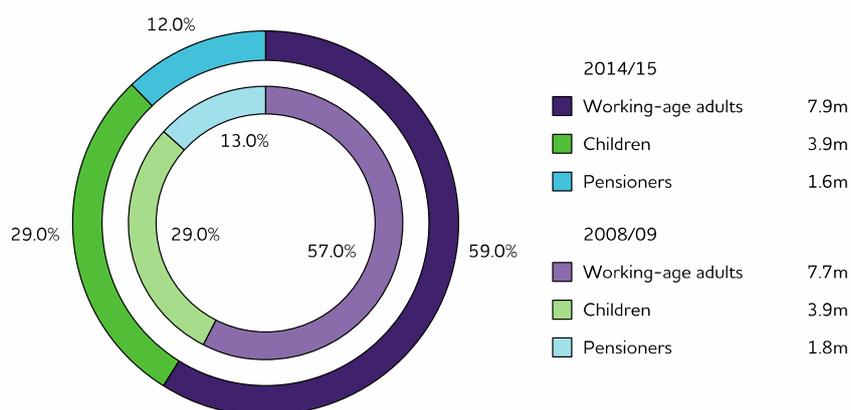
**Figure 14: Composition of individuals below MIS 2008/09 (inner circle) and 2014/15 (outer circle)**



**Figure 15: Composition of individuals below 75% of MIS 2008/09 (inner circle) and 2014/15 (outer circle)**



**Figure 16: Composition of individuals below 60% of contemporary median income 2008/09 (inner circle) and 2014/15 (outer circle)**

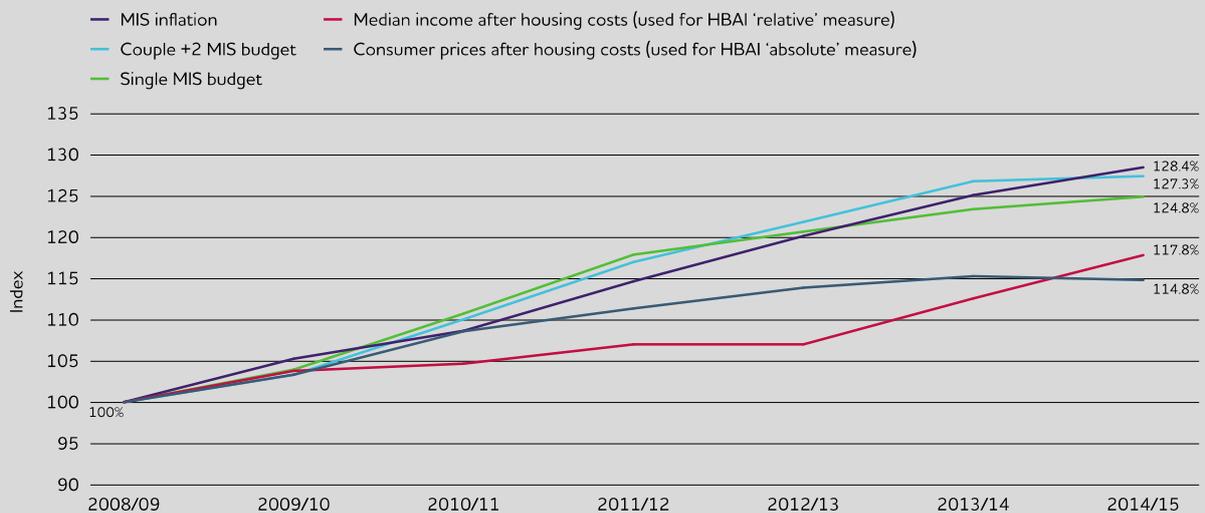


#### Box 4: Absolute or relative low income? How different thresholds are moving

Indicators of the trend in how many people have low incomes depend crucially on how thresholds of low income are set and how they change over time. Relative income thresholds (such as the 60% of median income poverty line) move in proportion to average household incomes. 'Absolute' income thresholds move only with inflation, to represent a low-income line that is constant in real terms. The MIS thresholds vary according to ongoing research on the composition and price of a minimum 'basket' of goods and services, which is influenced both by costs and by how society and social norms change over time, affecting what is considered part of the minimum.

Figure 17 shows how each of these thresholds changed between 2008/09 and 2014/15. For much of the period, median income (and hence the benchmark for relative income poverty) had risen by less than CPI, meaning that the relative poverty line had fallen in real terms. By 2014/15, median income had risen by more than CPI inflation since 2008/09 – so someone now needs to be slightly better off in real terms than pre-recession in order to escape relative poverty.

**Figure 17: Movement of benchmarks used to calculate low-income thresholds (2008/09 = 100)**



However, this relies on CPI being an accurate measure of the costs facing low-income households. MIS research suggests that CPI underestimates the true inflation rate, and an estimate of 'MIS inflation' is shown here, calculated by applying inflation index data to components of a constant MIS basket (see Hirsch, 2015). The MIS inflation line is an alternative threshold expressed in 'absolute' terms – that is, showing the income you need to buy the same things from one year to the next. Two important observations can be made from the graph:

- the actual MIS budgets shown have grown roughly in line with MIS inflation, suggesting that MIS has been steady overall in absolute terms, rather than changing greatly with the contents of the basket
- while a relative income threshold is similar in absolute terms to where it was in 2008 based on a CPI measure of inflation, MIS data suggest that it is significantly lower when compared to the rise in the price of a minimum basket.

This does not mean that changes in the contents of MIS baskets have been unimportant. The research has charted some significant changes to the items required in MIS, some creating increases and some decreases in costs (see Davis et al, 2016). Changes in the quality and cost of public transport have pushed costs up, especially for families with children: since 2012, parents in MIS groups have said that they require a car, which previously they thought they could do without. Offsetting this has been a reduction in some costs related to social participation such as eating out, with a more modest specified minimum apparently influenced by more frugal times. While the net effect on the real cost of a minimum has been very small for most household types, for some there has been a modest increase. The fixed cost of owning a car is particularly large relative to total budgets for the smallest families, and the biggest net increase has therefore been for a lone parent with one child, whose minimum budget has risen by 12% above inflation. For single pensioners, the equivalent real increase was 9%. Compared to couple pensioners, the introduction of a computer and the internet makes a proportionately greater addition to single pensioners' budgets. Also, the proportional effect of higher heating costs is greater for singles, since heating is a lower proportion of couples' budgets due to economies of scale.

A common thread has been that some of the drivers of cost increases have been in areas where economies of scale mean that the effect hits smaller households more than larger ones. Conversely, some savings have come in areas where costs are closer to pro rata for each household member, such as eating out, and where therefore larger households gain more. Another spending category where there are scale economies is rent, especially for families, where a couple and a lone parent with a given number of children may occupy homes of a similar size (and in social housing, the additional rent for an additional bedroom tends to be small). The calculations in this report look at disposable income after deducting rent, and for a lone parent the effect of recent rent increases will have a greater effect on disposable income, relative to the overall MIS budget, than for couple parents, whose MIS budgets are higher.

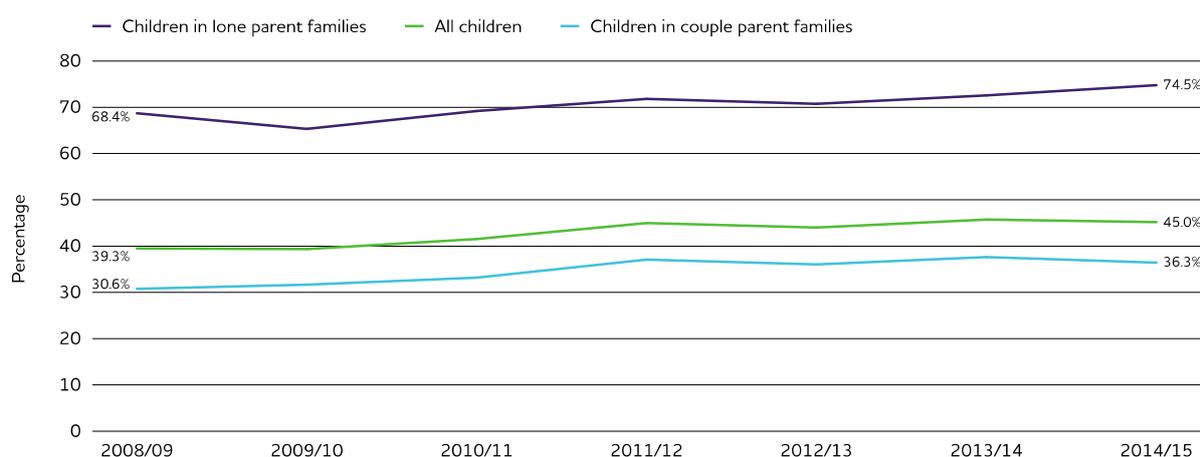
## 4 Additional characteristics affecting the risk of having an income below MIS

In the preceding sections, this report has examined the overall patterns and trends in terms of income adequacy – as measured by household income relative to MIS requirements – between 2008/09 and 2014/15, and also how indicators based on MIS compare with the conventional relative indicator of poverty, set at 60% of contemporary median income. This section looks in more detail at the risk of having an income below MIS and below 75% of MIS. The analysis explores how the risk of having an insufficient income to meet publicly defined minimum needs varies according to family characteristics and household composition, and also looks at the proportion of individuals and children both below MIS and below 75% of MIS by region, housing tenure and the age of the household reference person.

Figure 18 reveals the stark difference in the proportion of children in lone parent families with insufficient incomes compared to children living in couple parent families. Children who are growing up in lone parent families face a significant and growing risk of being unable to reach a socially acceptable standard of living. The proportion of children in lone parent families with incomes below MIS has increased from 68% to 75% in the six-year period covered here, an increase of around a tenth. This means that of the 23% of all children who live in lone parent families, three-quarters do not have all they need for a minimum socially acceptable standard of living. Moreover, unlike the picture for the population as a whole, the risk for children of lone parents has continued to increase in the most recent two years. As explained in Box 4, one aspect of the increasing risk for lone parents is that they have been especially vulnerable to rising costs.

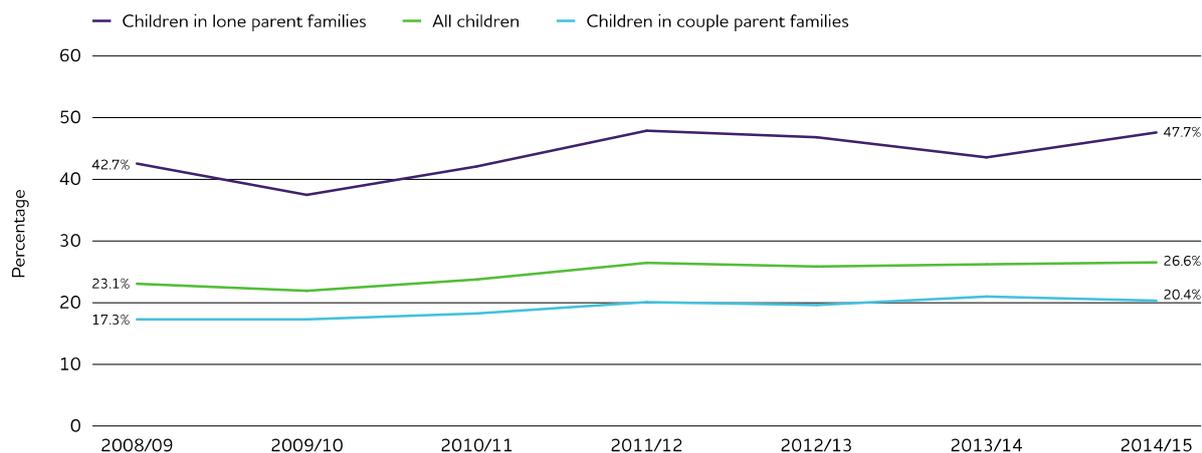
A smaller proportion of children living in couple parent families have insufficient incomes, but the proportion has increased by nearly one fifth between 2008/09 and 2014/15, so that just over a third of children in couple parent families are also below MIS. Of the 6 million children in families with incomes below that needed for an acceptable minimum standard of living, 3.7 million are in couple families while the remainder are living with lone parents.

**Figure 18: Proportion of children below MIS by family type**



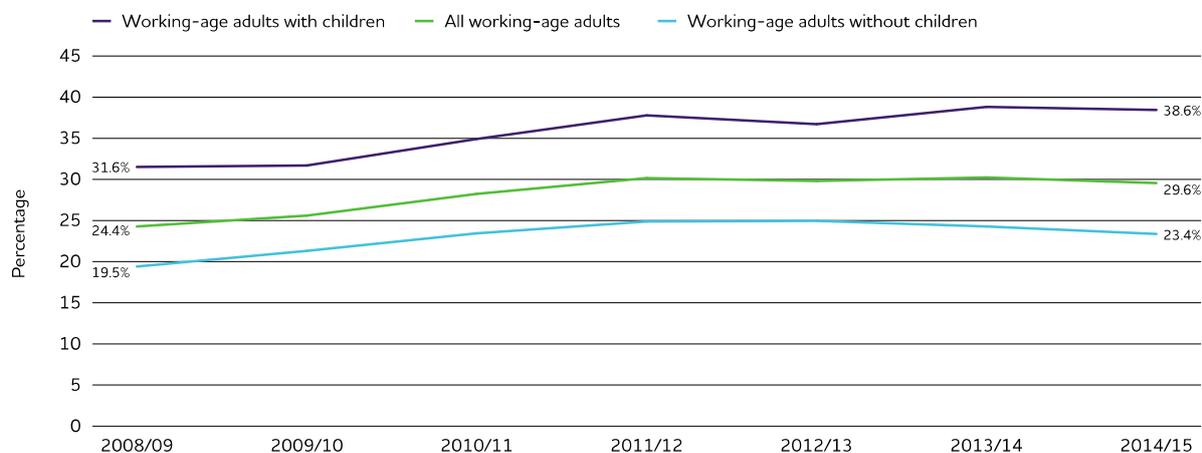
The pattern is broadly similar for below 75% of MIS, with a greater proportion of children in lone parent families with incomes below this level: 1.5 million, or nearly half of children in lone parent families, compared to 3.6 million, or one in five in couple parent families.

**Figure 19: Proportion of children below 75% of MIS by family type**

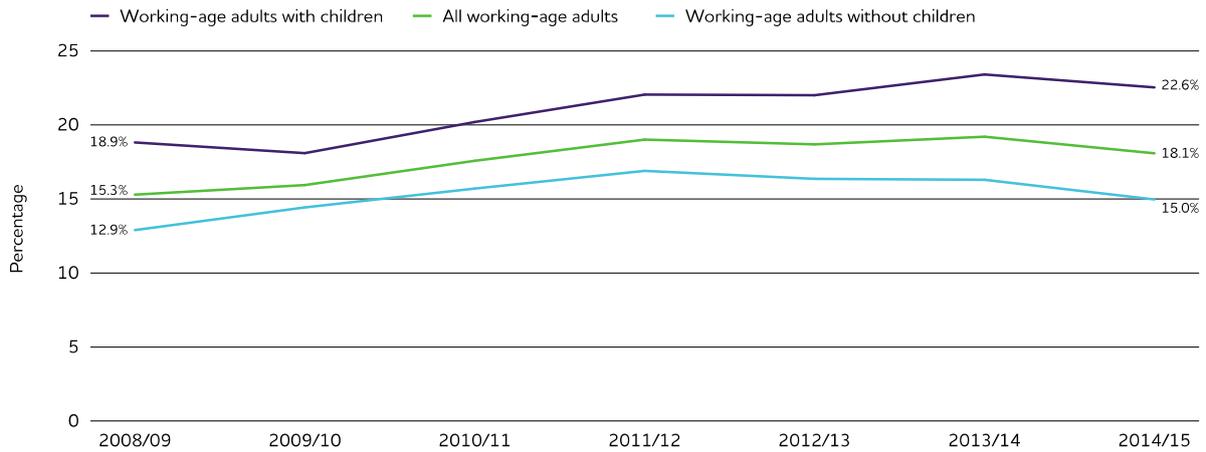


As highlighted in previous reports in this series (Padley and Hirsch, 2016), in general families with children have become particularly vulnerable to the risk of low income in recent years. This is due in part to a real-terms reduction in the value of support received by many families both in and out of work from 2010/11 onwards, alongside below-inflation earnings increases and a rise in the cost of essentials over much of this period. Figures 20 and 21 show this difference; a greater proportion of working-age adults with children have incomes below that needed for a minimum acceptable standard of living than those working-age adults without children. Overall, the change in risk between working-age adults with and without children has been similar – an increase of about a fifth over the period, albeit from a higher starting point for those with children. It is worth noting, however, that there has been a significant reduction in the risk of low income for those without children, but not for those with children, in the past two years.

**Figure 20: Proportion of working-age adults below MIS by household type**

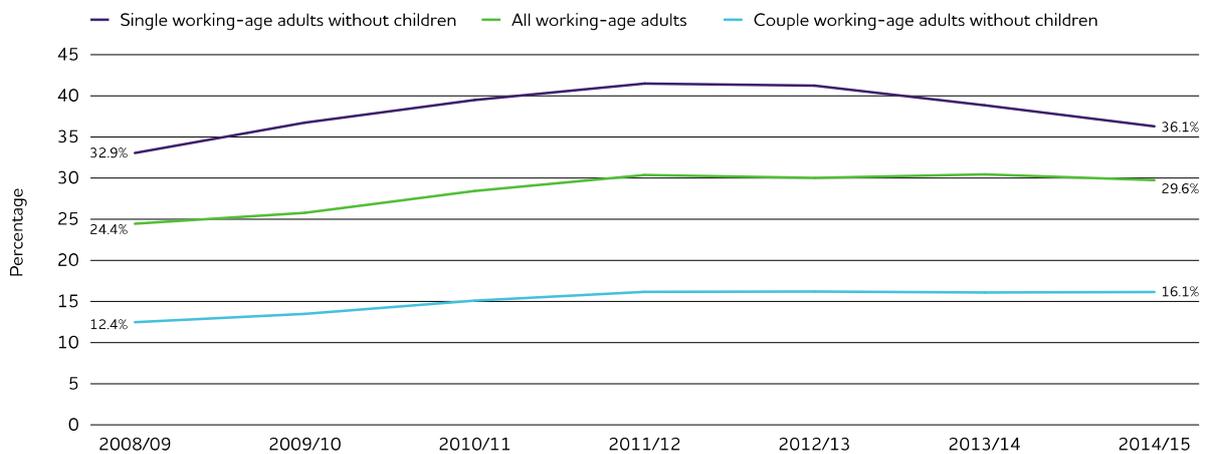


**Figure 21: Proportion of working-age adults below 75% of MIS by household type**

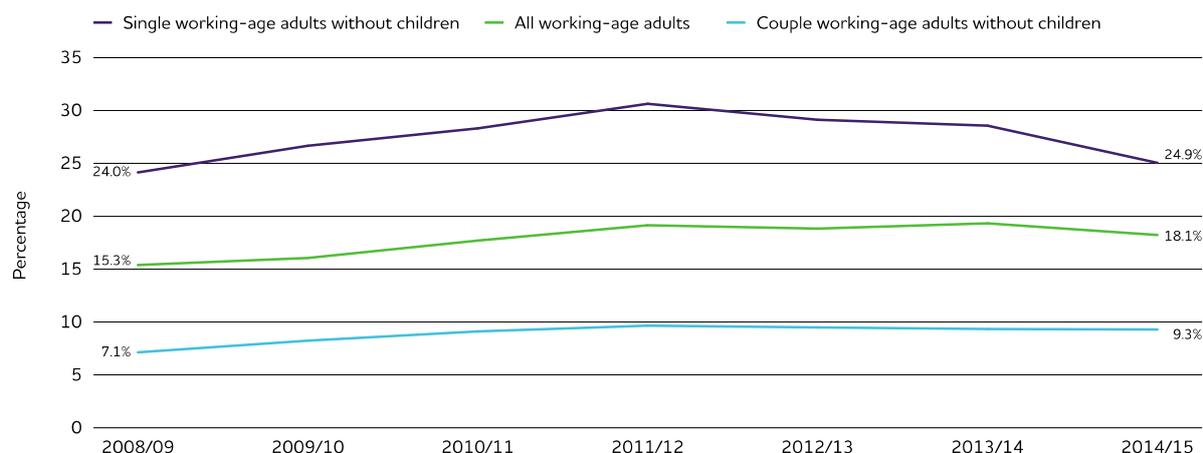


Separating working-age adults without children into singles and couples helps pinpoint where this recent reversal has taken place (see Figures 22 and 23). Single working-age adults without children initially saw their risk of low income increase steeply, but since 2012/13 they have gained most from modest increases in earnings and jobs growth, and been less affected by changes in the value of benefits, because for those in work, most benefits and tax credits are targeted at families with children. As a consequence, the risk of singles being below MIS fell between 2011/12 and 2014/15 by half as much as it had previously risen since 2008/09. Moreover, almost all the increase in the risk of singles being below 75% of MIS had disappeared. Despite this reversal for single working-age adults without children, more than one-third of this group still have incomes below that required for a minimum socially acceptable standard of living. For couples, the deterioration in the recession has not been recovered, but the risk remains far lower.

**Figure 22: Proportion of working-age adults without children below MIS by household type**

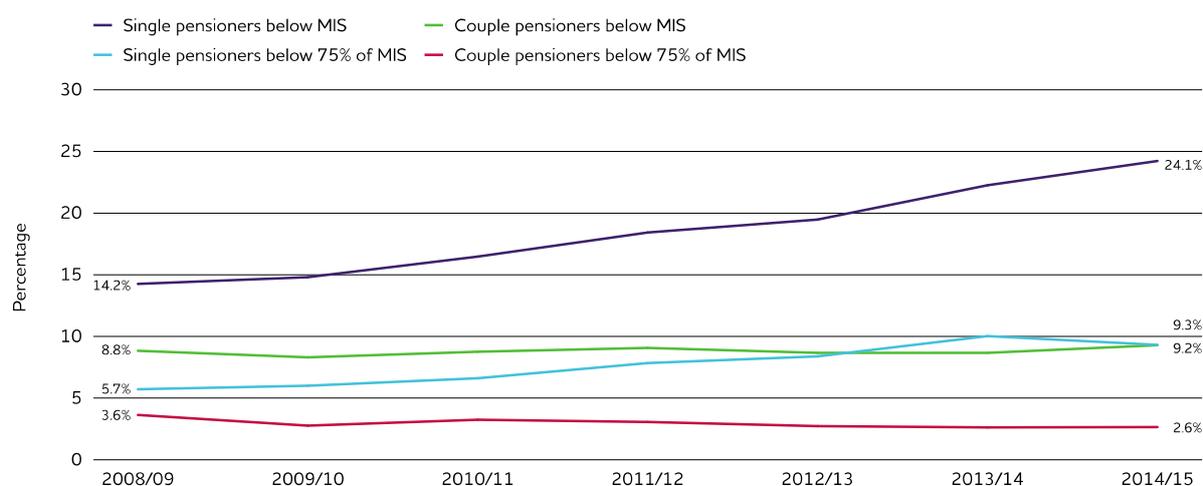


**Figure 23: Proportion of working-age adults without children below 75% of MIS by household type**



One of the most surprising trends observed over the six-year period in question here is the increase in the proportion of pensioners with inadequate incomes, from around one in ten in 2008/09 to one in seven in 2014/15 (see Figure 24). As noted in Chapter 3, this is in stark contrast to the trend depicted by the 60% of median income indicator, which suggests that the lot of pensioners has improved steadily over this time. Looking at incomes relative to MIS for pensioners in more detail reveals that this increase in the proportion with incomes below that needed to reach MIS has been driven principally by a greatly increased risk of low income among single pensioners – which was already higher than for couple pensioners – and this gap has now widened. The proportion of single pensioners below MIS has increased by more than two-thirds between 2008/09 and 2014/15, while the proportion of couple pensioners below this level had changed very little. To put this another way, nearly half a million more single pensioners are unable to reach a socially acceptable standard of living in 2014/15 than in 2008/09; the number of pensioners living as a couple below this level has increased by less than 90,000 over the same period. A significant contributing factor is likely to be a greater increase in the cost of a minimum basket on which the MIS threshold is based, for single compared to couple pensioners. This is associated with certain additional items, such as technology, that are fixed household costs for which couples get an economy of scale, as explained in Box 4.

**Figure 24: Proportion of pensioners below MIS and below 75% of MIS by household type**



While single pensioners have seen a significant increase in the risk of low income relative to MIS since 2008/09, this risk of low income remains greatest for younger people. Just over a third of those in the 16–34 age group have incomes below MIS in 2014/15, while more than a fifth have incomes below 75% of MIS. However, as shown in Table 2, the largest increase in risk in both cases has been among 35–64 year olds.

**Table 2: The risk of low income by age group**

	Year	16 to 34	35 to 64	65 and over
<b>Below MIS</b>	2008/09	29.7%	21.5%	10.4%
	2009/10	31.3%	22.6%	10.3%
	2010/11	35.4%	24.6%	11.1%
	2011/12	37.3%	26.6%	11.8%
	2012/13	36.9%	26.4%	12.2%
	2013/14	36.1%	27.4%	13.6%
	2014/15	33.9%	27.6%	14.4%
<b>Below 75% of MIS</b>	2008/09	19.2%	13.2%	4.0%
	2009/10	20.2%	13.7%	3.6%
	2010/11	22.9%	14.9%	4.0%
	2011/12	24.8%	16.1%	4.5%
	2012/13	23.5%	16.3%	4.5%
	2013/14	22.8%	17.4%	5.3%
	2014/15	20.7%	16.8%	4.9%

The risk of low income, either below MIS or below 75% of MIS, is much greater in the rented sector than among owner occupiers (Table 3); nearly two-thirds of individuals in the social rented sector have an income below MIS, while just less than half in the private rented sector have incomes below this level. Overall the increase in the risk of being below MIS has grown faster for people paying a rent than for those paying a mortgage, and this corroborates reports about a growing strain on incomes because of rapidly increasing rents during this period (for example, Clarke et al, 2016), a period when incomes themselves were generally stagnant. As well as increases in rents, the changing profile of people living in each sector is likely to have played a part. Between 2008/09 and 2014/15, the proportion of private tenants who had children rose from 30% to 37% (DCLG, 2016), meaning that the high cost of a private rent and the additional cost of children are more often being combined.

**Table 3: The risk of low income by housing tenure**

	Year	Social rented	Private rented	Mortgaged	Owned outright
<b>Below MIS</b>	2008/09	57.0%	43.7%	12.4%	14.6%
	2009/10	56.6%	44.7%	11.4%	15.4%
	2010/11	60.5%	48.9%	12.2%	16.3%
	2011/12	63.6%	48.8%	13.7%	18.9%
	2012/13	61.7%	50.0%	14.4%	16.9%
	2013/14	64.7%	50.5%	14.2%	17.4%
	2014/15	63.8%	49.6%	13.3%	17.0%
<b>Below 75% of MIS</b>	2008/09	34.0%	30.2%	5.5%	8.0%
	2009/10	33.5%	29.1%	5.6%	8.3%
	2010/11	38.0%	32.4%	5.7%	8.1%
	2011/12	40.1%	33.3%	6.6%	9.8%
	2012/13	38.9%	32.5%	7.1%	9.0%
	2013/14	40.9%	33.3%	6.8%	9.1%
	2014/15	39.9%	31.4%	5.8%	8.6%

Looking at differences in income adequacy across regions can reveal particular hotspots of low income, and show which regions have fared least well over recent years. Figure 25 shows that London, Northern Ireland, the North East and the West Midlands have the highest proportion of individuals with incomes below MIS, but that all regions have seen a rise in the proportion of individuals with inadequate incomes between 2009 and 2013. The North East, South East and Northern Ireland have all experienced increases of around a fifth over this four-year period. Since the increase has been relatively low in London, the region with the highest proportion below MIS, the North East, West Midlands and Northern Ireland have almost 'caught up' with London in this respect.

**Figure 25: All individuals below MIS by region (rolling three-year averages)**

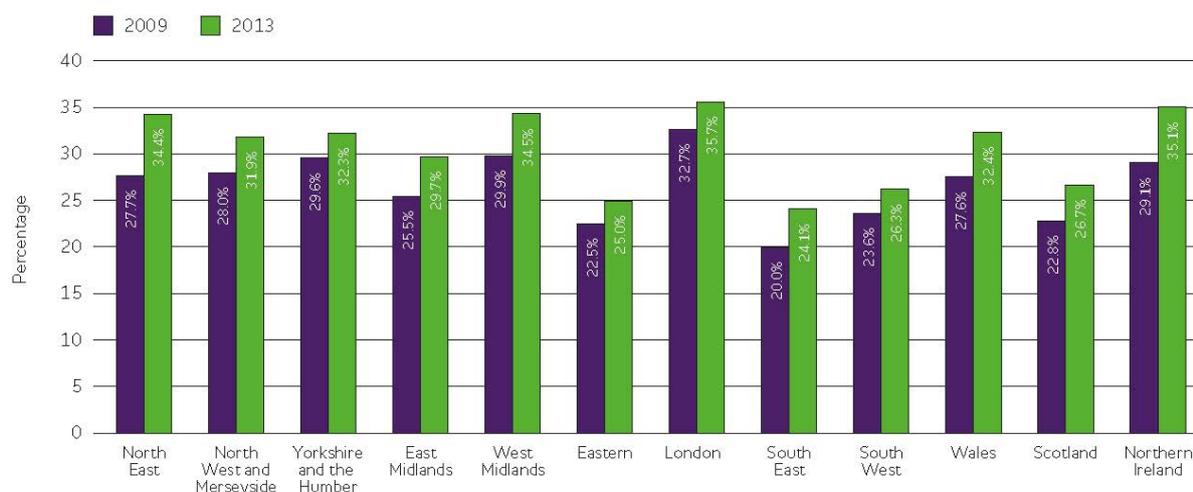
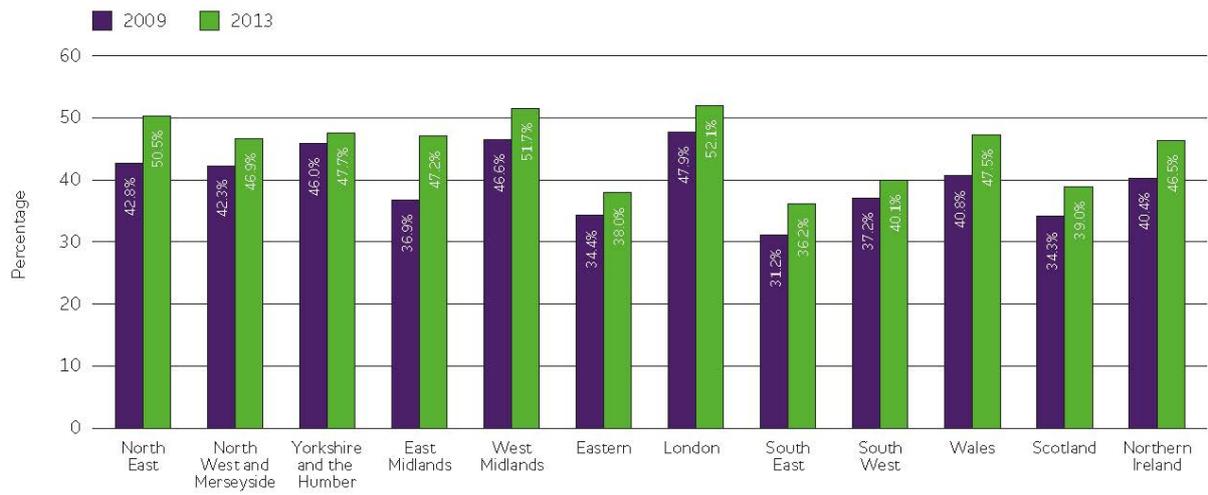


Figure 26 looks at the proportion of children in households with incomes below MIS. All regions have seen an increase in the proportion below this level, but in London, the West Midlands and the North East, over half of children are living in households that do not have all they need for a minimum socially acceptable standard of living. The East Midlands has seen the most significant increase over this period, with the proportion of children in households below MIS rising by over a quarter.

**Figure 26: Children below MIS by region (rolling three-year averages)**

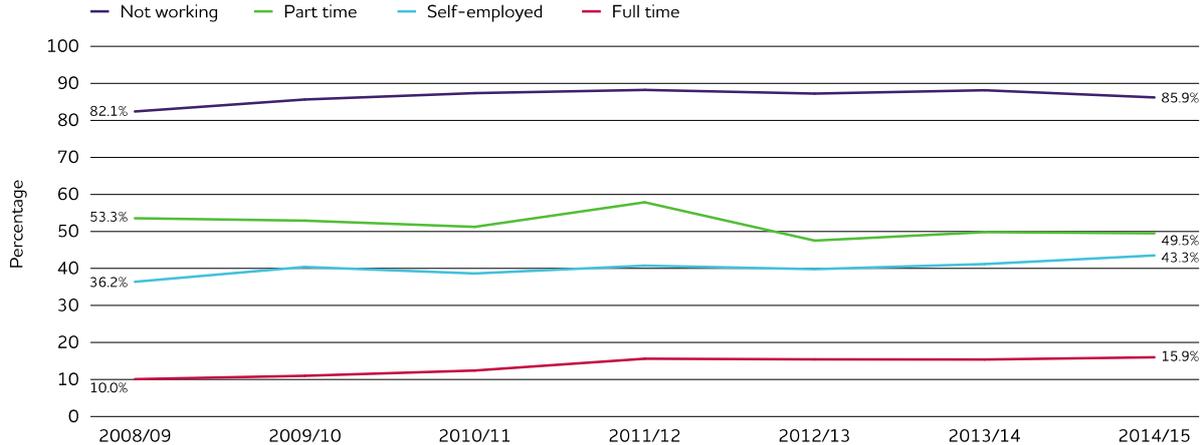


# 5 Employment status and low income

This chapter looks at how the risk of having insufficient income for a minimum acceptable standard of living varies according to employment status (full-time employment, part-time employment, self-employment, and being out of work), for different household types. The analysis looks at income adequacy at the household level for working-age adults in four groups: single working-age adults, couples without children, lone parents and couples with children. Figures 27 to 30 show the differences in the risk of having an income below MIS facing these four groups, and how the risk of low income has changed over time for each.

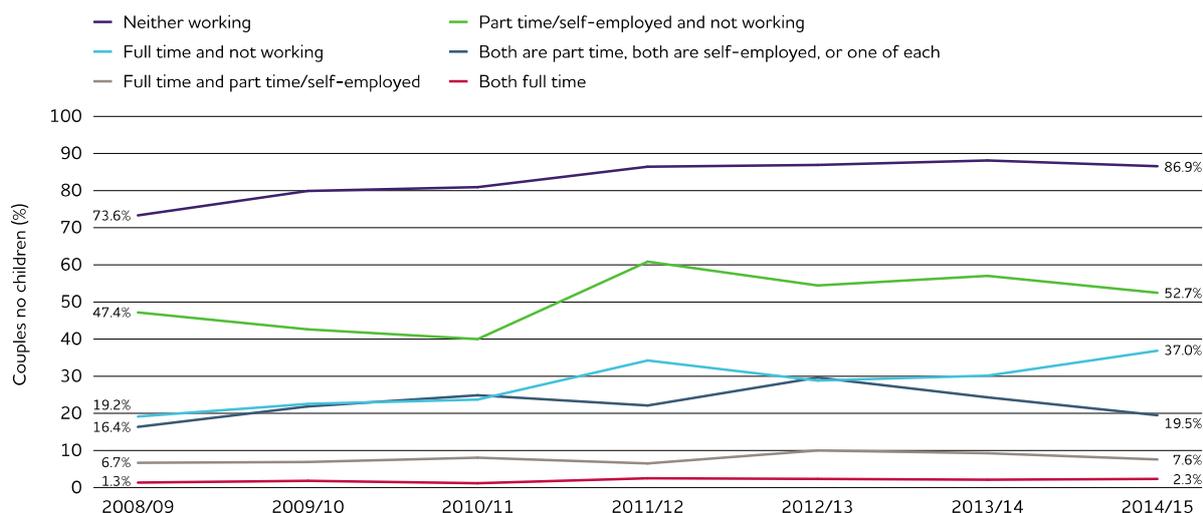
Figure 27 shows that the risk of a single working-age adult being below MIS, even when working full time, has increased from one in ten to more than one in seven since 2008/09, although this risk has now stabilised. Faster increases in the National Minimum Wage, introduced after these data were collected, could help reverse this trend. For part-time workers, the risk of being below MIS has been falling, although for self-employed workers it continues to rise. Figure 27 highlights a particularly sharp increase in the risk of being below MIS for couples without children, where only one adult is working: this has increased from less than one in five to more than one in three since 2008/09.

**Figure 27: The risk of falling below MIS for single working-age adults without children**

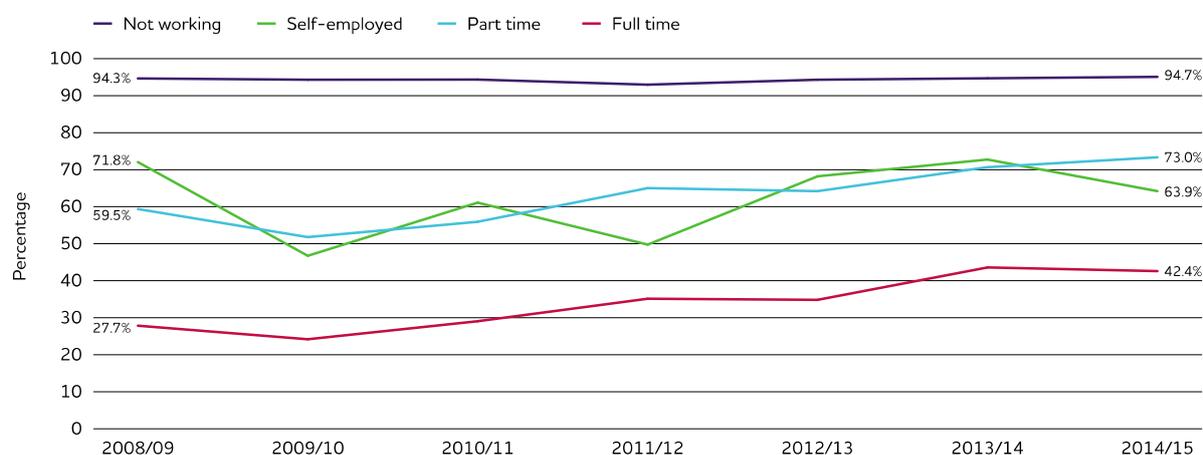


As outlined in Chapter 4, a greater proportion of individuals in households with children are below MIS than in households without children, and this is seen across all employment groups, both for lone and couple parents. For lone parents, the proportion of those in full time employment who lack the income needed for a minimum socially acceptable standard of living has increased by more than half between 2008/09 and 2014/15. Working part time has also become a significantly less reliable route to adequate income for lone parents. Note that the data shown for self-employed lone parents is based on a small sample size with a high error rate, helping to explain the large fluctuations.

**Figure 28: The risk of falling below MIS for couples without children**

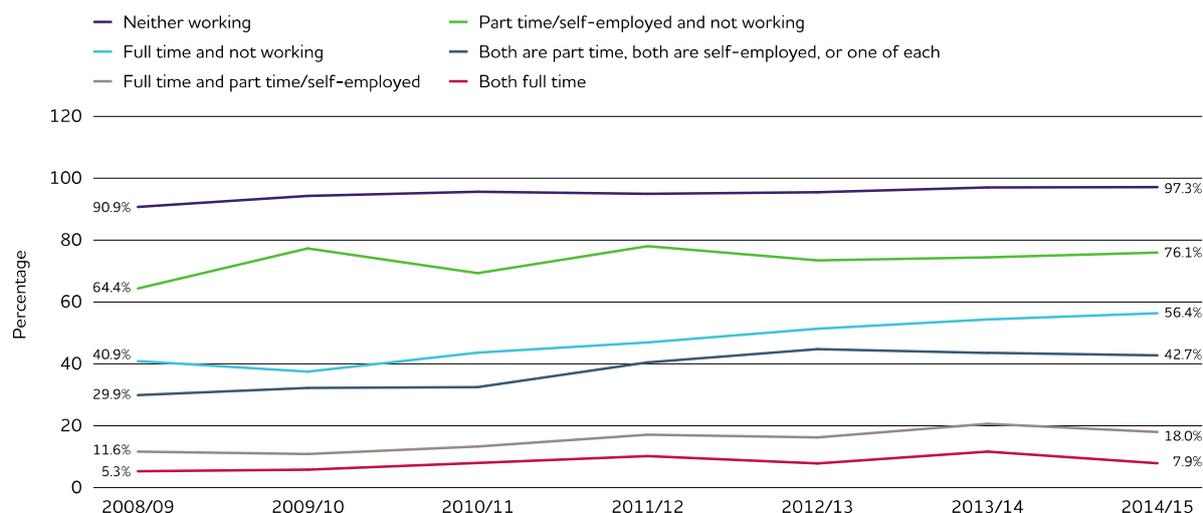


**Figure 29: The risk of falling below MIS for lone parents**



A similar, if slightly more complex, picture emerges when looking at the risk of low income by employment status for couples with children. As for lone parents, there has, in general, been a deterioration in the adequacy of incomes across all employment groups between 2008/09 and 2014/15, although the latest year has seen a small improvement in all cases where both adults have some work. This is not true of 'single bread-winner' households: the proportion with inadequate incomes has increased steadily since 2009/10, with now more than half of these households lacking the income needed to reach a socially acceptable standard of living. In the previous report in this series (Padley and Hirsch, 2016) it was noted that the reduction in the value of state support for working families – including the freezing of disregards and real-terms cuts in benefits – in tandem with rising costs, was putting a real strain on family finances. While for couples where each adult has some work, there has been a fall in the proportion below MIS; for most other working statuses the risk of low income continues to grow, or remains stable at high levels.

**Figure 30: The risk of falling below MIS for couple parents**



The number of individuals with inadequate incomes is influenced not just by the risk of a household with a particular demographic type and employment status being below MIS. It is also shaped by how many people are in each of the categories of employment status shown. Since the chance of being on a low income increases greatly the less you work, the relative numbers working full time, part time or not at all affects the overall numbers on low income, in combination with the levels of benefits and wages that affect the risk of low income within each of these categories.

Table 4 sets out the employment profile of each type of working-age household and shows the risk of having an income below MIS for each employment status in 2008/09 and 2014/15. 'Risk' in this table is the proportion of households within each household type and employment status that have an income below that needed to reach MIS. 'Composition' is the proportion that each employment status comprises within particular household types – so around 58% of single adults were in full-time employment in 2008/09 and one tenth were below MIS; in 2014/15, nearly 54% per cent of single adults were working full time, and around one sixth 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**

		Composition of demographic group by employment status			Risk of being below MIS		
		2008/09	2014/15	Change (percentage points)	2008/09	2014/15	Change (percentage points)
<b>Single working-age adults</b>	Full time	57.6%	53.8%	<b>-3.8%</b>	10.0%	15.9%	<b>5.8%</b>
	Part time	6.7%	7.2%	<b>0.5%</b>	53.3%	49.5%	<b>-3.9%</b>
	Self-employed	9.2%	9.7%	<b>0.5%</b>	36.2%	43.3%	<b>7.1%</b>
	Out of work	26.5%	29.2%	<b>2.7%</b>	82.1%	85.9%	<b>3.7%</b>
<b>Lone parents</b>	Full time	28.5%	24.4%	<b>-4.1%</b>	27.7%	42.4%	<b>14.7%</b>
	Part time	23.0%	27.8%	<b>4.8%</b>	59.5%	73.0%	<b>13.5%</b>
	Self-employed	4.2%	7.5%	<b>3.3%</b>	71.8%	63.9%	<b>-7.9%</b>
	Out of work	44.3%	40.3%	<b>-4.0%</b>	94.3%	94.7%	<b>0.4%</b>
<b>Couples, no children</b>	Both working full time	49.3%	49.3%	<b>0.0%</b>	1.3%	2.3%	<b>1.0%</b>
	One full time and one part time/self-employed	22.4%	22.9%	<b>0.5%</b>	6.7%	7.6%	<b>0.9%</b>
	One full time and one out of work	11.4%	10.4%	<b>-1.0%</b>	19.2%	37.0%	<b>17.8%</b>
	Mix of part time and/or self-employed	6.9%	7.8%	<b>0.9%</b>	16.4%	19.5%	<b>3.1%</b>
	One part time/self-employed and one out of work	4.7%	4.1%	<b>-0.6%</b>	47.4%	52.7%	<b>5.3%</b>
	Both out of work	5.3%	5.5%	<b>0.2%</b>	73.6%	86.9%	<b>13.3%</b>
	Both working full time	24.0%	27.4%	<b>3.4%</b>	5.3%	7.9%	<b>2.6%</b>
<b>Couples with children</b>	One full time and one part time/self-employed	35.4%	35.3%	<b>-0.1%</b>	11.6%	18.0%	<b>6.4%</b>
	One full time and one out of work	20.4%	17.9%	<b>-2.5%</b>	40.9%	56.4%	<b>15.5%</b>
	Mix of part time and/or self-employed	7.2%	8.5%	<b>1.3%</b>	29.9%	42.7%	<b>12.8%</b>
	One part time/self-employed and one out of work	7.8%	7.1%	<b>-0.7%</b>	64.4%	76.1%	<b>11.7%</b>
	Both out of work	5.2%	3.7%	<b>-1.5%</b>	90.9%	97.3%	<b>6.4%</b>

The table shows that for single working-age adults without children, across the six-year period considered here, there has been only a small change in composition, with more people not working and fewer working full time. More significant is the increase already noted, in the risk that a full-time worker

will be below MIS. Part-time workers are a bit less likely to be below MIS, but relatively few singles are in this category.

For lone parents it is clear from the final column of Table 4 that it is principally the increased risk of being below MIS among full- and part-time workers that is driving increases in the number with inadequate incomes. There are also some compositional effects here, specifically a reduction in the proportion of lone parents in full-time work and an increase in the proportion in part-time work and self-employment between 2008/09 and 2014/15.

For couple parents, there has been a small increase in the proportion of households with both parents working full time and a decrease in the proportion of single-breadwinner households between 2008/09 and 2014/15. These are the only meaningful compositional changes seen over this period. However, there has been an increase in the risk of being below MIS across several employment categories. The risk of being below MIS has risen substantially for single-breadwinner households, increasing by more than a third over this six-year period. In households where one adult works full time and the other is in part-time work or self-employment, the risk of inadequate income has increased by a half, and households where both parents are in part-time work or self-employment have seen the risk of being below MIS increase from 30% in 2008/09 to 43% in 2014/15.

Overall, this picture suggests that changes in the number of people working, and working full time, in each household type has been less of a driver of increased numbers below MIS than the increased risks in each category. This does not mean that the quantity of work is irrelevant. Within the part-time category, changes in the number of hours can be relevant. However, even where there is a full-time worker, the risk of being below MIS has risen greatly.

Figure 31 shows what has happened to the composition of working-age households with inadequate incomes between 2008/09 and 2014/15. Increasingly, those falling below the MIS level are people in work, although most commonly where at least one person does not work full time. This reflects the fact that employment has increased to record levels, but a growing proportion of households with any employment do not have the income needed in order to reach a socially acceptable standard of living. While this may partly be caused by the amount of work within each household, the fact that more people work full time and still fall below MIS suggests that wage rates and in-work benefit levels are also contributing.

**Figure 31: Composition of working-age households below MIS by employment status, 2008/09 (inner circle) and 2014/15 (outer circle)**

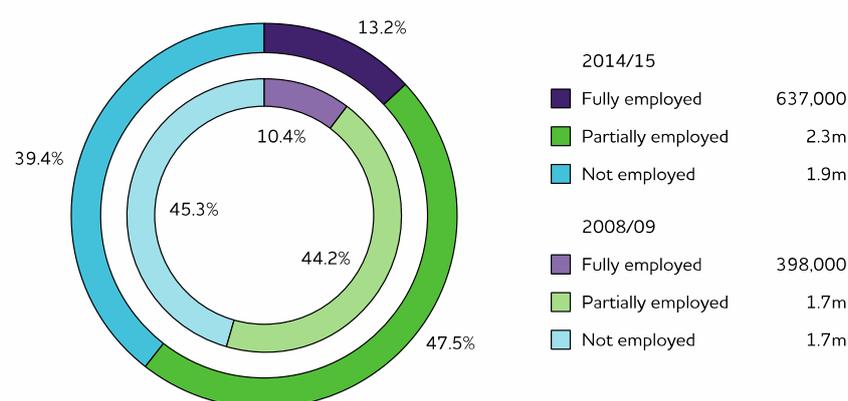
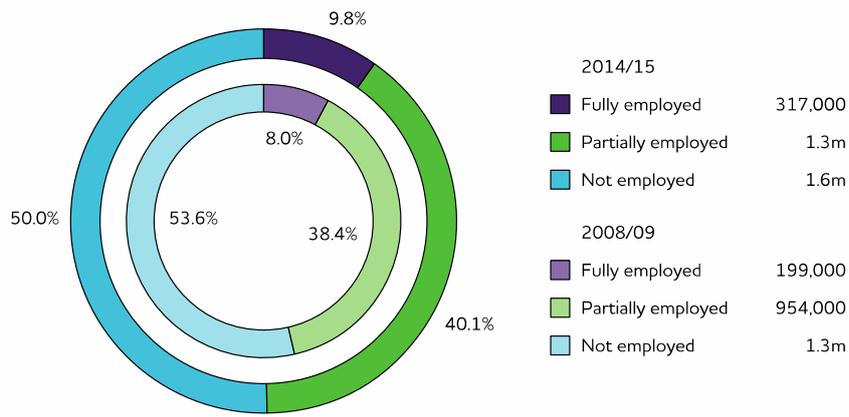


Figure 32 shows the same general trend for those with below 75% of MIS, although the share of non-working households in this case has declined by less, and still comprises half of those of working age. This is a reminder that while there is presently considerable focus on helping those who work and have low income, non-working households remain an important part of the picture, particularly among those with the lowest incomes.

**Figure 32: Composition of working-age households below 75% of MIS by employment status, 2008/09 (inner circle) and 2014/15 (outer circle)**



## 6 Conclusion

It is widely acknowledged that the past decade has been the toughest time for living standards since at least the 1930s. Average household incomes have stagnated, and the number of people living on incomes that fall below what the public considers to be a minimum has increased substantially. For the first time, this year's report on households below MIS estimates the proportion of the overall UK population that falls below MIS. It shows that this proportion rose from 25% to 30% between 2008/09 and 2011/12, and stabilised at this level in the subsequent three years. This means that compared to 2008/09, 4 million more people have incomes that do not allow them both to meet their material needs and participate in society. This broad trend is repeated when considering the numbers below 75% of MIS, with an increase by 2 million between 2008/09 and 2014/15 having occurred in the first half of this period.

For the three broad demographic groups looked at here, the relative risk of having inadequate income has not changed dramatically over this period. The risk for children is highest, followed by that for working-age adults, with pensioners having a much lower risk. Even those pensioners with incomes below MIS fall short, on average, by a far smaller margin than children and working-age adults. However, both the incidence of below-MIS income and the average size of the shortfall has grown proportionately faster for pensioners. Even though their incomes have been protected, some aspects of their costs have increased, and as a result, those pensioners who slip through the safety net provided by the Pension Credit are finding it tougher.

When looking in more detail within these broad categories, further significant distinctions between groups emerge. While the general picture is of a three-year increase having been followed by a three-year period in which the risk of being below MIS stabilised, the numbers below this threshold and below 75% of MIS have continued to increase for certain groups. People in lone parent families and single pensioners stand out as continuing to see increases in their risk of low income. Part of this is caused by relatively large increases in living costs – which can be greater for smaller households for items for which there are economies of scale – not fully matched by increases in income. For lone parents, an exacerbating factor has been cuts in the value of benefits, both in- and out-of-work, on which many depend.

Conversely, single adults without children have seen a significant reversal of their fortunes, particularly in terms of the risk of being below 75% of MIS, which is only slightly higher now than it was in 2008. This is likely to be closely connected to the revival of employment opportunities, and the fact that single working people are less exposed to cuts in in-work benefits than working families with children. Nevertheless, it is worth noting that by 2014/15, while the vast majority of single people working full time were above 75% of MIS, a growing number (over one in seven) fell short of the MIS threshold, even with full-time wages. Subsequent increases in minimum wages could start to reverse this, but another critical factor, high and rising housing costs, has the potential to undermine the impact of higher wages on disposable incomes for this group.

Looking at the period 2008/09 to 2014/15 as a whole, there has been no single trend in employment rates or in changes in employment status that does much to explain the substantial rise in the numbers below MIS. Rather, the driving force has been the growing risk for someone in a given demographic group, and with a given employment status, of having low income. The explanation is that wages, benefits and tax credits have not kept up with rising minimum living costs. Even though median incomes have now returned to around their 2008 level, adjusted by CPI, minimum living costs have grown faster, particularly when the increase in rents is taken into account.

Looking ahead, forecasts of factors affecting household income come with a high degree of uncertainty. The most important and worrying feature at present is a projected return to inflation, which according to the Office for Budget Responsibility will be around 2.5% on the CPI measure and over 3% on the RPI measure in each of the next three years. Based on these projections, it would be realistic to envisage the minimum cost of living rising by around 10% by early 2020 – taking account of the fact that inflation is likely to be driven by higher fuel and food prices, pushing up the minimum cost of living by more than the overall CPI.

Over this period, benefits, tax credits and Universal Credit rates are frozen, thus representing a significant cut in real terms. So, importantly, are the amounts that people can earn before having tax credits or Universal Credit withdrawn, at a rate of 63% of post-tax income. People on the lowest pay will gain from substantial increases in the National Living Wage (NLW), but for families receiving these credits from the state, nearly two-thirds of the gain will be clawed back (by the 63% taper). In addition, the effects of a lower benefits cap, of a freeze in housing support for private tenants, of the switch to Universal Credit (which reduces entitlements for many families, particularly lone parents) and of lower entitlements for new claimants from April 2017, will all reduce many families' disposable income. Low-paid people without children, who are less likely to receive support from the state, should fare better as a result of the NLW increase, provided there is no slump in employment. Pensioners have incomes protected against inflation as measured by CPI; this may not rise fast enough to cover the real increase in their costs, but if average earnings rise too, the triple lock should ensure that basic pensions rise faster than the minimum cost of living.

Thus, families with children, whose risk of low income is already higher than other groups', face the greatest future risks, although the prospects for all groups remain uncertain. In continuing to monitor how many are falling below what society considers to be an adequate household income, this year's report has shown how using MIS can show trends differently from those revealed by the below 60% of median income indicator. Falls in this median income benchmark have, in recent years, prevented these indicators from picking up the increase in the incidence of low disposable income relative to the cost of a minimum basket agreed by members of the public. We should not assume that such a discrepancy will always work in this direction: in the most recent two years, an increase in the median has contributed to child poverty on the relative indicator increasing significantly, while low income relative to MIS has remained largely steady. Whatever the future holds, income compared to MIS now provides a meaningful indicator of the ability of low-income families to reach an acceptable living standard, and makes it possible to identify which groups are doing better, and which are facing a growing risk of not being able to meet their minimum needs.

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