



A Minimum Income Standard for the United Kingdom in 2019

by Donald Hirsch

This is the annual update of the Minimum Income Standard (MIS) for the UK, based on what members of the public think we all need for an acceptable minimum standard of living. It shows that after a decade of austerity, many households with low incomes both in and out of work are being held back from reaching MIS.

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Actions

Two urgent changes can unlock families being held back from reaching a minimum acceptable standard of living:

- Up-rating and restoring the value of benefits, particularly for families with children, should be a key priority. Start by up-rating benefits at least by inflation after the freeze ends next year. Then start to improve benefit levels, in and out of work, with the long-term aim that at least families working full time on the National Living Wage would reach MIS.
- Ensure that Universal Credit (UC) supports childcare at the prices actually being charged. Average full-time nursery fees are now around £240 a week, and increasing the limit to at least this amount per child would help realise the benefits of the higher rate of reimbursement (85%) under UC rather than 70% under tax credits.

We can solve UK poverty

JRF is working with governments, businesses, communities, charities and individuals to solve UK poverty. *A Minimum Income Standard for the United Kingdom in 2019* plays an important part in strengthening families and communities – a key focus of our [strategy to solve UK poverty](#).

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Executive summary

Since 2008, the Minimum Income Standard (MIS) has shown what incomes households of different types require in order to reach a living standard currently considered a minimum in the UK. It is based on regular research involving groups of members of the public agreeing on what things you need in order to meet material requirements and participate in society. This report updates MIS to 2019, and shows recent trends in how close households get to MIS if they are on out-of-work benefits or working for the National Minimum Wage/National Living Wage (NMW/NLW).

Although new research regularly updates contemporary minimum requirements, the 2019 update is based on inflation only, applying price increases in the year to April 2019. While Consumer Prices Index (CPI) inflation was running at a modest 2.1%, the cost of some necessities was rising faster than this, pushing up the minimum cost of living. Working-age households without children saw their minimum budgets rise by nearly 4% because of the simultaneous increase in the costs of domestic fuel (by 10.4%), bus fares (by 8.9%) and Council Tax (by 4.7%). Other items rose in price more slowly than inflation, most notably food (0.5%), and this helped bring MIS inflation closer to the CPI rate for pensioners (who do not pay for bus travel) and families with children (who are assumed to need a car, so have lower public transport costs). However, families requiring paid childcare have been hit by a continued increase in this cost, by 3–4% in 2019, coming on top of larger increases in the previous year. The effect of this increase is particularly severe for those who require full-time childcare, the average cost of which has risen above the maximum level supported by tax credits and Universal Credit (UC) (£175 for one child; £300 for two or more children) in most areas. The cost of rent, which has risen significantly in recent years, is presently increasing more slowly than CPI inflation.

As prices continue to increase, and working-age benefits are frozen, out-of-work households continue to get worse off relative to MIS. For a single person of working age, benefits now provide less than 32% of the required household budget, down from 42% in 2008. For families with children, the proportion has reduced from around two thirds to barely half, so a couple with two children relying on benefits has only 56% of what they need.

An important recent policy development has been to increase the minimum wage for over 25s, branded the NLW, which has risen by 17% in real terms over four years. This policy is intended to improve the living standards of working households, but has it done so? An analysis of how living standards are moving relative to MIS for a range of households affected by this change shows a mixed picture.

For single people, a decline in the adequacy of the minimum wage in the first half of this decade has been clearly reversed. An over-25 year old working full time would be £69 a week short of MIS if the NMW had only been updated by inflation since 2015, but the NLW has reduced this to £36. The Chancellor's ambition of ending low pay by raising the NLW further, to around two-thirds of median earnings, would bring such a single person to about the MIS level.

However, for families with children, the gains have been far more variable, first because the more you earn, the less you get in tax credits or Universal Credit; and second, because the value of those in-work benefits, net of inflation, has been cut. Dual-earner families with children have gained the most, with some such families able to increase their disposable income to around 90% of what they need for MIS. However, several family types have seen a steep decline in the incomes they can achieve through work on the NMW/NLW, relative to MIS. Those for whom the gap compared to MIS is widening include:

- lone parents, whether working full time or part time – they have gained less from the NLW compared to reductions in their in-work benefits. Most cannot reach more than 75% of MIS through their earnings, regardless of how much they work, trapping them on very low incomes
- any family with at least two children under 5, for whom the punitive cost of childcare makes it impossible to improve net earnings by working more hours
- single-earner couples, who do not generally require childcare but, like lone parents, they have made more modest gains from the NLW than dual earners; the effect of in-work benefit cuts has also been to leave them at least 25% short of MIS

- households in any category with a third child born since April 2017, who no longer triggers an extra tax credit or UC entitlement; these families have disposable incomes a third to a half below the MIS budget, regardless of working patterns.

The report concludes that improved minimum wages can be one part of a strategy to address minimum living standards, but is not enough on its own. In order to help families more effectively, it makes two specific recommendations:

- After the end of the current benefits freeze in 2020, as well as restoring a default uprating that keeps pace with inflation, the Government should aim to improve in-work benefit levels, with the target that working full time will get families to MIS in future. This situation was almost reached in 2010.
- In order to make childcare more affordable, UC should provide 85% reimbursement of eligible childcare fees, as it does now, but with a higher maximum eligible fee of £240 a week per child (the average cost of a full-time nursery place), rather than £175 for one child and £300 for two or more. This will help make the switch to UC more of a positive move than at present, by enabling more low-income parents to afford to work.

1 Introduction

The Minimum Income Standard (MIS) tells us what UK households need today in order to have a decent living standard, considered the minimum by the general public. Millions of families are trapped on incomes below this level, some of them in deep poverty, some just managing to keep their heads above water. Recent research on the experiences of families with incomes below MIS shows that they are being held back by unstable jobs, insufficient support from the state when things go wrong and rising living costs, particularly housing and childcare (Hill and Davis, 2018). The MIS benchmark helps identify the extent to which society needs to change in order for its citizens not only to escape the immediate experience of poverty, but also to reach a living standard that the public considers to be acceptable.

Since 2008, the MIS research has calculated what incomes are required in order to reach this minimum standard, updated continuously in light of social change, inflation, and changes in the tax and benefits system. Groups of members of the public regularly identify what should go into a minimum household budget – items ranging from household goods such as toasters and toothpaste, to aspects of social participation such as birthday presents and weekly social activities. Their decisions are informed, where needed, by expert knowledge on certain living requirements, including energy use and nutrition. Different budgets are calculated for different household types. The details of the MIS research programme are described in Box 1 at the end of this chapter.

The way in which MIS is updated is shown in Table 1. Based on what groups of members of the public say, each household budget is researched from scratch ('rebased') and checked for any required changes ('reviewed') every four years, and reviewed every two years. In other years, including 2019 ('Year 4' in the 2016–2019 cycle), previously identified budgets are updated to take inflation into account.

Table 1: How the sequence of updates works on a regular cycle

	Year 1	Year 2	Year 3	Year 4
Households without children	Review	Inflation uprating	Rebase	Inflation uprating
Families with children	Rebase	Inflation uprating	Review	Inflation uprating

This report updates the MIS figures for 2019, and shows how changes are affecting households' ability to make ends meet. Last year's report (2018) described how over the past decade, changes in society, in costs and in income patterns have affected who can afford a minimum living standard. The 2019 report gives a more recent update on the effects of changing costs and factors affecting household incomes. These are having different effects on different types of household. In particular, while rents have stopped rising faster than inflation, increases in childcare costs continue to impact families with young children.

As well as looking at the effect of these cost rises, the report considers the effects of an important recent development for low-paid working families: an increase by a quarter in the minimum wage rate for over-25s over the past four years. Labelled the National Living Wage (NLW), this policy was announced in 2015 with the intention of giving people the ability to reach a decent living standard rather than being trapped on low wages. This reflected the growing prominence of the idea of a Living Wage and its application in the Living Wage Foundation's voluntary accredited Living Wage, based on MIS. The extent to which the compulsory NLW improves opportunities to move towards a decent income, relative to MIS, is thus an important criterion for judging its success.

Box 1: MIS in brief

What is MIS?

MIS is the income that people need in order to reach a minimum socially acceptable standard of living in the UK 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. Specifically, the minimum is defined as follows, based on consultation with groups of members of the public in the original research:

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.

How is it arrived at?

A sequence of groups has detailed negotiations about the things a household needs in order to achieve an acceptable living standard. They go through all aspects of the budget, in terms of what goods and services would be needed, of what quality, how long they would last, and where they would be bought. Experts make selective inputs, notably checking on the nutritional adequacy of the food baskets, calculating domestic fuel requirements and advising on motoring costs. Subsequent groups check and amend the budget lists, which are then priced at various stores and suppliers by the research team. Groups typically comprise six to eight people from a range of socioeconomic backgrounds, but all participants within each group are from the household category under discussion. So parents with dependent children discuss the needs of parents and children, working-age adults without children discuss the needs of single and partnered adults without children, and pensioner groups decide the minimum for pensioners. In all, over 120 groups have been used to research MIS since its inception in 2008, with a new set of participants on each occasion.

A crucial aspect of MIS is its method of developing a negotiated consensus among these socially mixed groups. This process is described in detail in Davis et al (2015). The MIS approach uses a method of projection, whereby group members are asked not to think of their own needs, but of those of hypothetical individuals (or case studies). Participants are asked to imagine walking round the home of the individuals under discussion, to develop a picture of how they would live, in order to reach the living standard defined above. While participants do not always start with identical ideas about what is needed for a minimum socially acceptable standard of living, through detailed discussion and negotiation they commonly converge on answers that the group as a whole can agree on. Where this does not appear to be possible, for example where there are two distinct arguments for and against the inclusion or exclusion of an item, or where a group does not seem able to reach a conclusion, subsequent groups help to resolve differences.

What does it include?

As set out in the definition above, a minimum is about more than survival alone. However, it covers needs, not wants; necessities, not luxuries – items that the public think people need in order to be part of society. In identifying things that everyone requires as a minimum, it does not attempt to specify extra requirements for particular individuals and groups who may have additional needs – for example, those resulting from living in a remote location or having a disability. So, not everybody who has more than the minimum income can be guaranteed to achieve an acceptable living standard. However, someone falling below the minimum is unlikely to achieve such a standard.

To whom does it apply?

MIS applies to households that comprise a single adult or a couple, with or without dependent children. It covers most such households, with its level adjusted to reflect their make-up. The needs of more than a hundred different family combinations (according to numbers and ages of family members) can be calculated. It does not cover families living with other adults in the main calculations, although supplementary reports on single adults sharing accommodation (Hill et al, 2015) and single adults in their 20s living with their parents (Hill and Hirsch, 2019) estimate variations for these household types.

Where does it apply?

MIS was originally calculated as a minimum for Great Britain; subsequent research in Northern Ireland in 2009 showed that the required budgets there were all close to those in the rest of the UK, so the national budget standard now applies to the whole of the UK.

This main UK standard is calculated based on the needs of people in urban areas outside London. Most groups are held in Midlands towns and cities, but from 2018 budgets have been reviewed in other parts of the UK. The research has also been applied in other geographical contexts, in supplementary projects considering costs in rural England (Smith et al, 2010), London (Padley et al, 2019), remote rural Scotland (Hirsch et al, 2013), and Guernsey (Smith et al, 2011). The London research is ongoing, and Inner and Outer London budgets are shown as a variation of the main UK results budgets in the online Minimum Income Calculator ([CRSP, 2018](#)). Other countries have used the same overall method but employed their own definitions of the minimum, such as in Japan (Davis et al, 2013), Portugal (RAP, website), and France (Gilles et al, 2014). An ongoing MIS programme in the Republic of Ireland uses methods based on the UK work (Collins et al, 2012). Pilot research has been carried out in South Africa (Byaruhanga et al, 2017) and Mexico (Valadez-Martínez et al, 2017), and MIS studies are presently underway in Mexico, Singapore and Thailand.

How is it related to the poverty line?

MIS is relevant to the discussion of poverty, but does not claim to be a poverty threshold. This is because participants in the research were not asked to talk about what defines poverty, but instead what, in today's society, constitutes an acceptable minimum. However, it is relevant to the poverty debate in that almost all households officially defined as being in income poverty (having below 60% of median income) are also below MIS. Thus households classified as being in relative income poverty are generally unable to reach an acceptable standard of living as defined by members of the public.

Who produces it?

The main MIS research is supported by the Joseph Rowntree Foundation (JRF) and carried out by the Centre for Research in Social Policy (CRSP) at Loughborough University. The original research in 2008 was developed by CRSP in partnership with the Family Budget Unit (FBU) at the University of York.

2 Main MIS results 2019

Tables 2 to 5 present the MIS 2019 results in their standard form: the budgets for four household types, how they compare to median income, how safety-net incomes compare to MIS, and how the incomes of working households on the minimum wage compare to MIS requirements.

The overall budgets, shown for four household types in Table 2, have risen between 2.1% and 3.4% since 2018, not including rent and childcare. This compares to an overall increase in the Consumer Prices Index (CPI) of 2.1%. The reasons why some of the budgets rose by above CPI inflation are summarised in Chapter 3.

Table 2: Summaries of weekly MIS budgets for four family types, April 2019

	Single adult, working age	Couple	Lone parent, one child aged 0–1	Couple, two children aged 2– 4 and primary school age
Food	£49.64	£74.45	£60.03	£106.32
Alcohol	£5.90	£11.99	£4.50	£9.39
Tobacco	£0.00	£0.00	£0.00	£0.00
Clothing	£8.42	£14.73	£22.26	£43.12
Water rates	£6.19	£7.30	£10.11	£10.63
Council Tax	£17.29	£23.06	£20.19	£26.91
Household insurances	£1.60	£1.57	£1.81	£2.17
Fuel	£14.15	£15.80	£17.65	£21.18
Other housing costs	£1.44	£2.91	£1.92	£1.92
Household goods	£9.73	£16.79	£21.22	£26.06
Household services	£7.15	£10.04	£17.83	£13.52
Childcare	£0.00	£0.00	£239.77	£209.11
Personal goods and services	£16.47	£35.08	£26.95	£42.42
Motoring	£0.00	£0.00	£57.23	£61.76
Other travel costs	£40.94	£18.12	£4.56	£26.49
Social and cultural participation	£42.27	£78.04	£52.40	£98.76
Rent	£92.49	£83.28	£83.28	£89.23
Total excluding rent and childcare	£221.19	£309.89	£318.67	£490.65
Change since 2018	+3.6%	+2.6%	+2.1%	+2.3%
TOTAL ALL	£313.68	£393.17	£641.72	£788.99
Total excluding childcare	£313.68	£393.17	£401.95	£579.88
Total excluding rent, childcare, Council Tax and water (comparable to After Housing Cost income measure)	£197.71	£279.53	£288.37	£453.11
Total excluding childcare and Council Tax (comparable to Before Housing Cost income measure)	£296.40	£370.11	£381.76	£552.97
Total excluding rent, Council Tax, childcare (used when calculating ‘disposable income’ as a percentage of MIS)	£203.90	£286.83	£298.49	£463.74

Table 3 shows what these budgets represent as a percentage of median income, after housing costs. For most household types, this is around 70–75%, and for pensioners closer to 60%, the commonly used criterion for poverty. As shown in the Appendix (Table 7), these percentages are at present stable, as median incomes are rising at a similar rate to minimum costs.

Table 3: MIS relative to median income, after housing costs, 2017/18 (latest year data available)

	2017/18
Single, working age	74%
Couple, working age	73%
Single pensioner	68%
Couple pensioner	59%
Lone parent, children aged 4 and 7	84%
Couple, children aged 4 and 7	72%

The percentage of MIS covered by safety-net benefits for four household types is shown in Table 4. As in previous years, benefits cover most of the income requirements of pensioners, just over half that of families with children, and only about a third of what is needed by working-age households without children. In 2019, the continuing benefits freeze caused a significant decline in the adequacy of out-of-work benefits for working-age groups. As shown in Appendix Table 8, there has been a persistent decline in the value of working-age benefits relative to household needs over the past decade. Most dramatic are the falls for a lone parent family with two children, from benefits covering 69% of MIS in 2009 to 58% in 2019, and for a single person from 42% to below 31% – a cut of a quarter in an already very low income relative to minimum needs.

Table 4: MIS compared with out-of-work benefits, 2019

£ per week	Single, working age	Pensioner couple	Couple with two children aged 4 and 7	Lone parent with two children aged 4 and 7
MIS excluding childcare, rent and Council Tax	£203.90	£286.83	£463.74	£377.90
Safety-net income*	£64.25	£259.09	£260.70	£220.47
Benefit income as a percentage of MIS	31.5%	90.3%	56.2%	58.3%
Percentage point change since 2018)	(-1.6%)	(0.0%)	(-1.3%)	(-1.2%)

Note: *Includes: IS/JSA plus Child Tax Credit plus Child Benefit for working-age adults; Pension Credit plus winter fuel allowance for pensioners. From this amount we subtract amounts that working-age households are assumed to contribute to rent and Council Tax costs, not covered in Housing Benefit/Council Tax Support. In 2019 this is assumed to be 6% of rent for households without children (based on private renting: since the link between Local Housing Allowance (LHA) and local rents was broken, LHA limits have risen 6% less than average rents. For Council Tax (all working-age households), contribution is assumed to be 20%, based on the median local authority rate in the latest available survey (New Policy Institute, 2017).

Table 5 shows the calculation of what earnings are required to meet MIS. These have remained fairly stable over the past five years. For a single person, they have risen from £17,000 to just under £19,000 since 2014. For couples with young children, they have remained around £20,000 for each parent. For a lone parent with two children, the earnings requirement is higher, and has risen from £32,000 to over £36,000 a year over the same period. As shown in Table 5, for the families with children in these

examples, the requirements are lower under Universal Credit (UC) because it covers a higher proportion of childcare costs than tax credits, and the examples assume full-time working, where childcare costs are high. The relationship between earnings and MIS are explored further in Chapter 4.

Table 5: Disposable income relative to MIS, working full time on NLW

	Single, working age	Couple with two children, primary and preschool age, supported by tax credits	Couple with two children supported by UC	Lone parent with two children, supported by tax credits	Lone parent with two children, supported by UC
MIS weekly budget (including rent, childcare and Council Tax)	£313.68	£788.99	£788.99	£696.43	£696.43
Annual earnings requirement (per adult)	£18,800	£20,600	£17,000	£36,500	£28,700
Hourly earnings requirement	£9.61	£10.54	£8.69	£18.67	£14.68
Disposable income on NLW*	£167.44	£416.24	£454.56	£297.51	£316.96
MIS budget after rent, Council Tax and childcare	£203.90	£463.74	£463.74	£377.90	£377.90
Disposable income as a percentage of MIS	82.1%	89.8%	98.0%	78.7%	83.9%

Note: *Disposable income: net of direct taxation and of rent, childcare and Council Tax. Takes no account of child maintenance paid or received.

3 Cost trends influencing household incomes relative to MIS

Inflation has been moderate in recent years, and in the year to 2019, the CPI rose by 2.1%, close to the official target rate of 2%. MIS budgets excluding housing and childcare costs are increasing at a similar rate to this for families with children, slightly faster for single and couple pensioners (2.8% and 2.6%, respectively), and considerably faster for singles and couples without children (3.6% and 3.8%, respectively).

The increase in the MIS budgets in 2019 is based purely on CPI inflation. The reason why some budgets rose faster than the overall index is that certain categories of goods and services that are heavily represented in the MIS baskets have had higher than average inflation rates. Most particularly, there was a sharp jump in the cost of **domestic fuel** in April 2019, to an annual rate of 10.4%. This was partly offset by relatively slow **food** inflation, running at just 0.5% for groceries, although inflation was 2.6% for food eaten out. On the other hand, **public transport** continues to rise rapidly in price, with bus fares 8.9% higher – particularly affecting the cost of travel in the MIS budgets for working-age adults without children (whose minimum budgets do not include cars). For all groups, **Council Tax**, which rose on average by 4.7%, has added to the cost of living.

Despite families with children having seen relatively modest increases in their headline MIS budgets, this does not include a very large expense some families is: **childcare** costs. Nursery fees rose by 3% for children under 2 and 4% for over-2s in 2019 (Coram Family and Childcare, 2019), following even steeper increases of 10% and 7%, respectively, in the previous year. Childcare has repeatedly risen faster than inflation over the past decade. This increase has been making life steadily more expensive for working families who require childcare and, in some cases, is a barrier to working.

To some extent, the gradual introduction of UC is helping to address these rising childcare costs, with UC recipients eligible for support with up to 85% of their childcare costs, rather than the 70% available under tax credits. However, an important development affecting families under both systems is the freeze on the limits in the value of childcare that can be supported, which has not changed since 2005, at £175 a week for one child and £300 for two or more children. The latest national survey of childcare costs finds that in 94% of local authorities, the average cost of a full-time nursery place exceeds the £175 limit, and in 8% of authorities this is even true of a part-time nursery place (Coram Family and Childcare, 2019).

Few families on low incomes are likely to be able to afford childcare costs that exceed the limit for tax credit or UC subsidy, and thus it requires them to cover in full the excess of childcare fees above those limits. Figures 1 and 2 illustrate how, based on the full-time childcare costs for a working family estimated in MIS, the net cost to the family grows rapidly once the limit has been exceeded. Over the past two years alone, full-time fees charged by nurseries for a preschool child aged 0–2 have risen from £210 to £240 a week.

Since this amount exceeds the £175 limit for a family with one child, the £30 per week increase must be borne in full by the family, rather than being funded through additional tax credits or UC. This raises the total net cost of childcare for such a family on tax credits from just under £90 to nearly £120 a week.

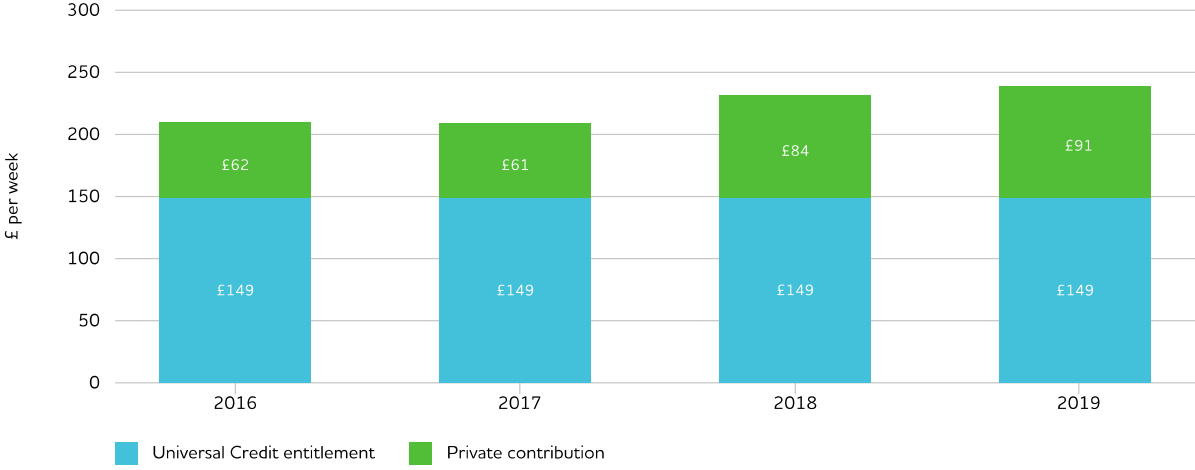
A lone parent with one young child needs a budget (net of rent and childcare) of around £300 a week to reach MIS, so this recent increase alone would reduce their disposable income by an amount equal to 10% of a minimum household budget.

Figure 1: Public and private contributions towards weekly childcare costs for a child under 2 whose parents work full time, with tax credits



Note: Based on MIS figures using average nursery costs outside London.

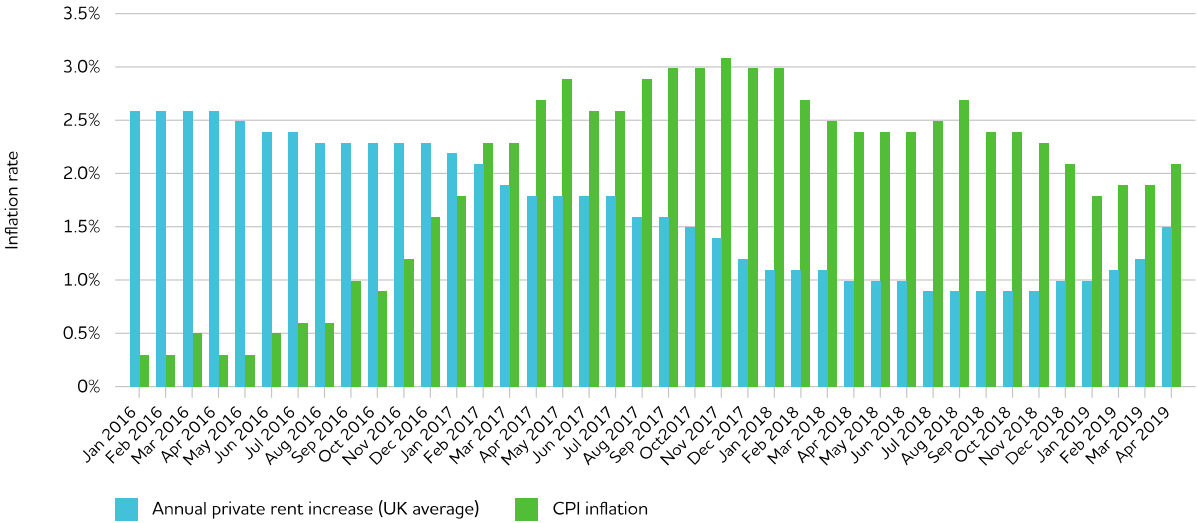
Figure 2: Public and private contributions towards weekly childcare costs for a child under 2 whose parents work full time, with UC



Note: Based on MIS figures using average nursery costs outside London.

A final point to note in relation to costs is that **rent** has, on average, increased only very modestly over the past two years. Social rents have been reduced systematically by 1% a year since 2016 (although from 2020 this policy is set to be reversed, by allowing social providers to increase social rents by 1% above CPI inflation; MHCLG, 2019). Private rents increased only by about 1% last year. As shown in Figure 3, since 2017, the previous situation in which rents were increasing faster than general prices has been reversed. Since rent has been the largest single factor driving higher costs for households in private rented accommodation, this is an important development, especially were it to be sustained over a longer period.

Figure 3: Private rent inflation and general inflation rate, 2016–2019



Source: ONS

4 Is the National Living Wage helping working families to achieve a minimum living standard?

The new National Living Wage is an essential part of building the higher-wage, lower-welfare, lower-tax society that Britain needs and it's great to see that over a million people will see their living standards boosted when this comes into force.

George Osborne (2016)

When the MIS was first calculated just over a decade ago, one of its key findings was that most people working on the National Minimum Wage (NMW) were unable to reach an acceptable standard of living by working full time. Even a single person, with no family to support, was left around 15% short of the disposable income that they needed. Over the following five years, minimum wages increased by only 12%, compared to 17% CPI and a 27% increase in the MIS budget for a single person. As a consequence, the shortfall for a single person doubled to 30% of the MIS budget by 2013.

The widespread perception that it cannot be right to trap people on wages insufficient to meet their minimum needs contributed to the growth of the Living Wage movement over this period. Previously focused on London, it was extended to the whole of the UK in 2011, based on the MIS benchmark, leading to the accreditation of a growing number of Living Wage employers (presently over 5000).

Wages and their impact on living standards became a central issue in the 2015 election. In this context, the incoming Conservative Government announced the National Living Wage (NLW) policy, which has raised the compulsory minimum for over-25s from £6.50 to £8.21 an hour, an increase of 26% (or 17% in real terms). While the NLW has not been associated with a specifically defined minimum acceptable living standard, its ambition to use pay to give people the chance to earn a decent living has always been clear.

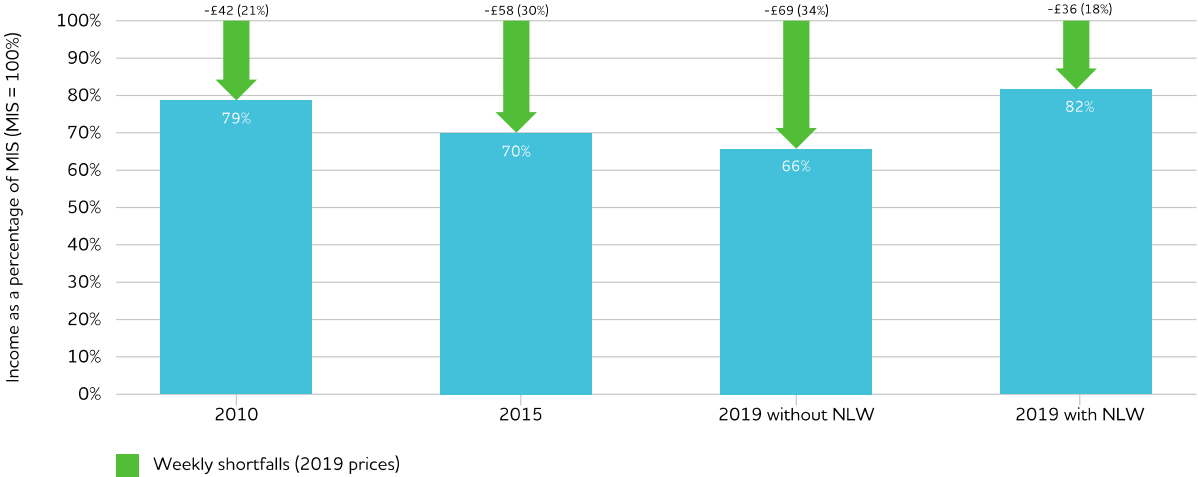
There remains a significant gap between the NLW and the 'real' living wage, although this has narrowed to under £1 an hour outside London. Other limitations of the NLW are that it excludes workers under 25, and it remains over £2 an hour below the London Living Wage, which takes account of higher costs in the capital. On the other hand, the Government has stated its ambition of moving further than the commitment to set the NLW at 60% of median income by 2020, with the ambition of 'ending low pay' (HM Treasury, 2018), commonly interpreted as bringing pay at least to the OECD-defined low-pay threshold of 66% of the median. According to one recent estimate, that would presently mean a pay rate of £9.61 an hour. This is higher than the present £9 voluntary living wage outside London (Savage, 2019), and happens to be identical to what a single person needs to earn in 2019 to cover the MIS budget (see Table 4). This does not mean that if, in the future, the NLW were to reach 66% of median income, single people working full time would have exactly enough to reach MIS: if median income rose rapidly relative to MIS budgets, they would have more than enough, but stagnating median wages and rising costs could mean they still had too little. Nevertheless, the wage ambitions of the Government appear to correspond to a roughly adequate income threshold, at least for single people working full time.

As the Government reviews its next steps on this journey, it is worth considering how the already substantial increase in minimum pay for over-25s has affected the potential for lower-paid people to make ends meet. How successfully has it reduced the degree to which people are trapped on pay insufficient to reach a decent living standard?

To answer this question, Figure 4 starts by considering the simplest case of a single person working full time. As referred to above, it does not seem right that minimum wages should be set at a level too low even for one person to support themselves adequately. Figure 4 shows that the shortfall for a minimum-wage worker widened in the first half of this decade, as rising costs coincided with below-inflation

increases in the NMW. Had the NMW only been updated with CPI inflation since 2015 (the reference point used by the Government when describing recent wage increases in real terms), such a worker's disposable income would be a third below MIS. The effect of the NLW has been to halve this shortfall. Nevertheless, such a worker remains £36 a week short of what they need.

Figure 4: How much closer does the NLW get a single person, working full time, to a minimum income standard?

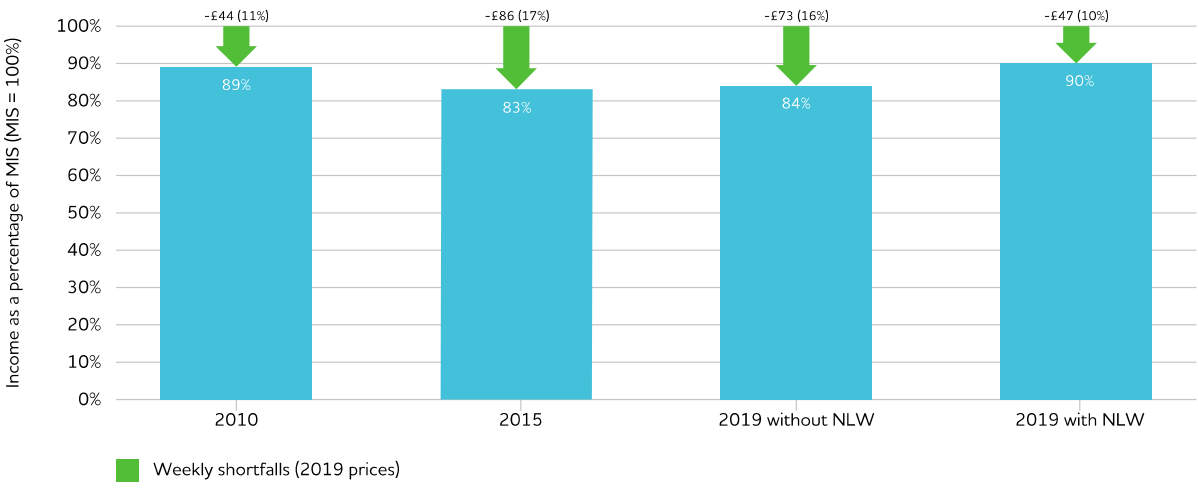


For families with children, the picture is more complex. This is partly because they find themselves in a range of different situations in terms of number and age of children, working hours and childcare costs. In addition, families receiving tax credits do not benefit as much from pay increases as single people, because the increase in income is 'clawed back' by the means test on tax credit entitlements.

As a starting point, Figure 5 considers whether a couple with two young children have the opportunity to reach a minimum standard by both working full time, assuming that this also entails paying for childcare in a nursery. It shows that in 2010, they fell 11% short of being able to do so – a smaller shortfall than a single person without children – helped by tax credit entitlements. However, falling real pay and a reduction in in-work benefits increased this gap by 2015. For such a family, the NLW has helped redress this balance, but still left a full-time working family £47 a week short in 2017, a similar level to 2010.

However, the picture for couples with children varies greatly according to the children's ages and how much parents work. The latter factor is particularly important because, while the full-time working example given in Figure 5 is a measure of the theoretical possibility for families to make ends meet, in practice, this is not an option for many families. Only one in four working couples with children sees both parents employed full time, and this is much lower for those on more modest incomes (below 10% for those with 70% median income or less), for whom childcare costs can be prohibitive (DWP, 2019).

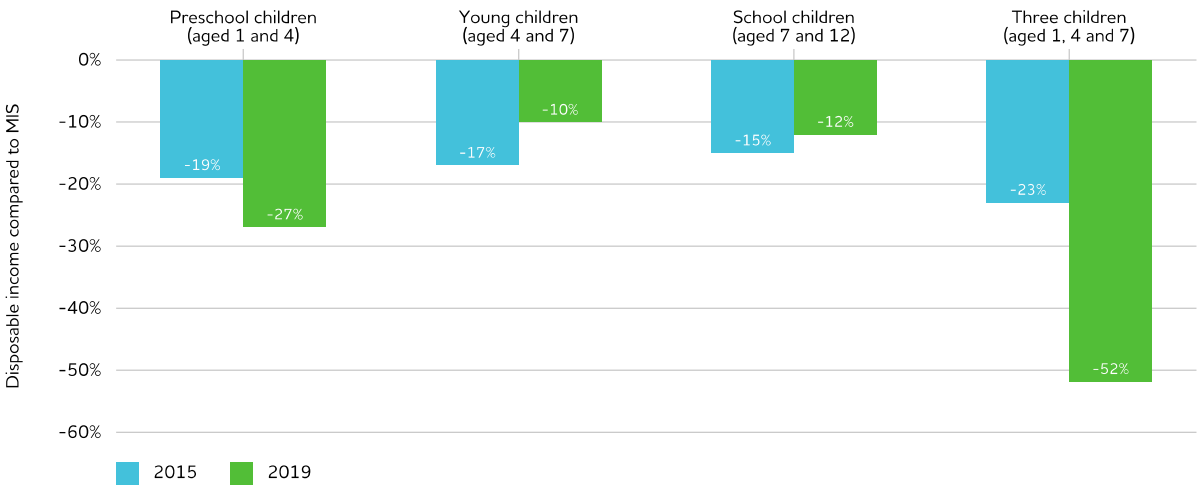
Figure 5: How much closer does the NLW get a couple with children aged 4 and 7, where both parents work full time, to a minimum income standard?



Figures 6 to 8 therefore show the situation for a wider range of families, focusing on the change between 2015 under the NMW and 2019 with the NLW. It shows three important things:

- While the NLW has allowed some families with two working parents to move closer to the MIS level, for those with just one parent working, the shortfall compared to MIS has grown. This is because with just one salary benefitting from the increase, the impact of cuts in tax credits and child benefit has more than offset the gain.
- Even for families with two working parents, the disposable incomes of those with two preschool children have fallen further short of MIS. This is because of the effect of high childcare costs, exceeding the limit for tax credit support (see Chapter 3). Indeed, a family with two children under 5 ends up worse off with a second parent working full time than if that person is not working. The most favourable scenario where children are very young is for a second parent to work part time, limiting childcare costs, but even for such a family, income relative to MIS has declined.
- The damage done to a larger working family’s income from the new policy of limiting tax credit entitlements to the first two children far outweighs any gains such a family could achieve from the NLW. To have a third child born after 2017, the criterion for this policy being imposed, means being at least a third below MIS regardless of the family’s working patterns. This can be seen in the final bar of Figures 6 to 8. This emphasises the degree to which families with three or more children unable to access well-paid work are having to live on a very low income as a result of this policy.

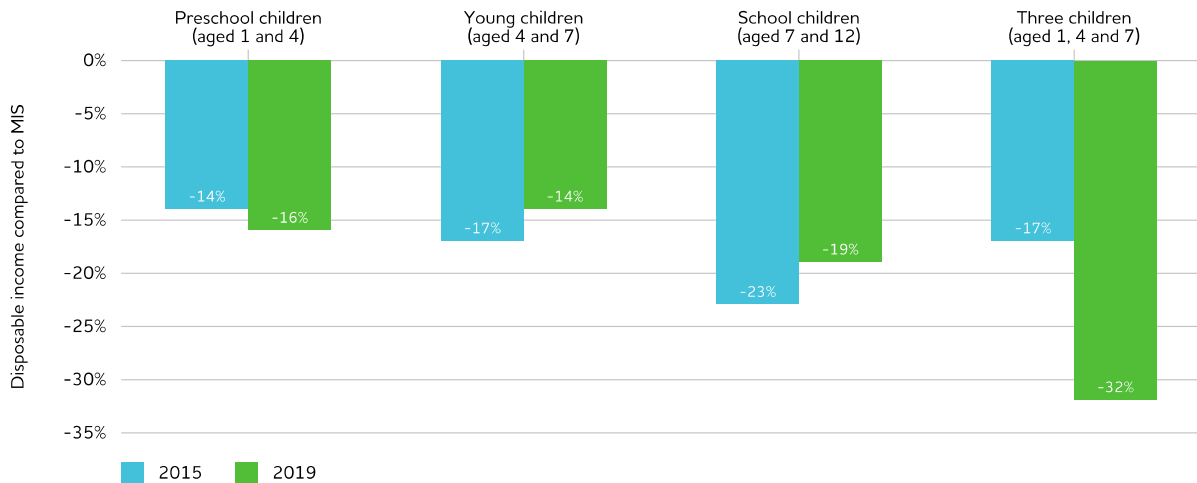
Figure 6: How has the shortfall for couples with children changed since 2015 if both parents work full time on the NMW/NLW?



Note that:

- some two-earner families have been brought closer to the MIS level by the NLW
- for others, with high childcare costs, the shortfall has grown
- childcare costs can make them worse off with a second full-time earner than if they worked part time (see Figure 7).

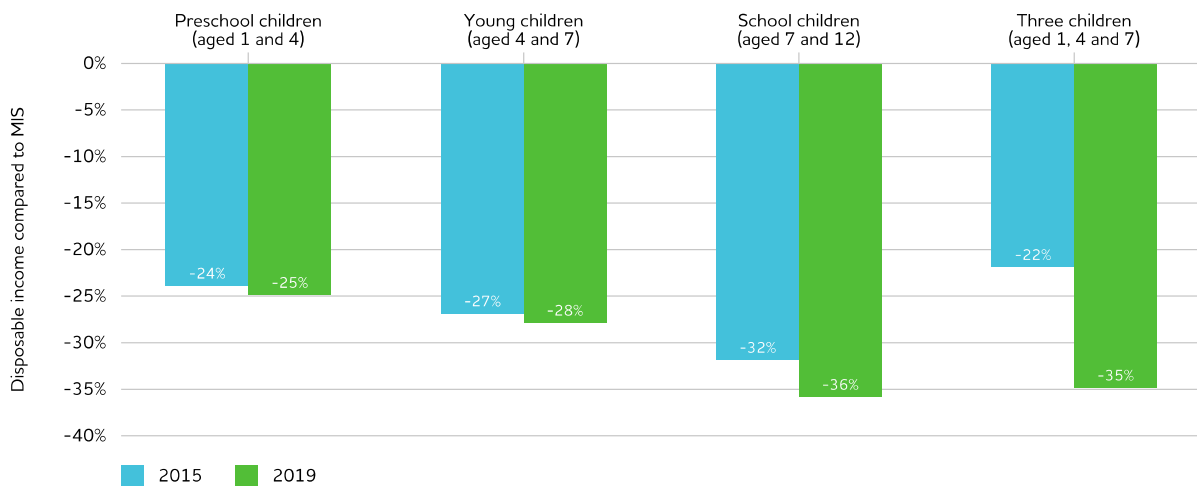
Figure 7: How has the shortfall for couples with children changed since 2015 if one parent works full time and the other part time (half of a 37.5-hour week)?



Note that:

- some families with a full-time and part-time earner have moved closer to MIS
- others have moved further away, especially larger families.

Figure 8: How has the shortfall for couples with children changed since 2015 if one parent works full time on the NMW/NLW and the other does not work?



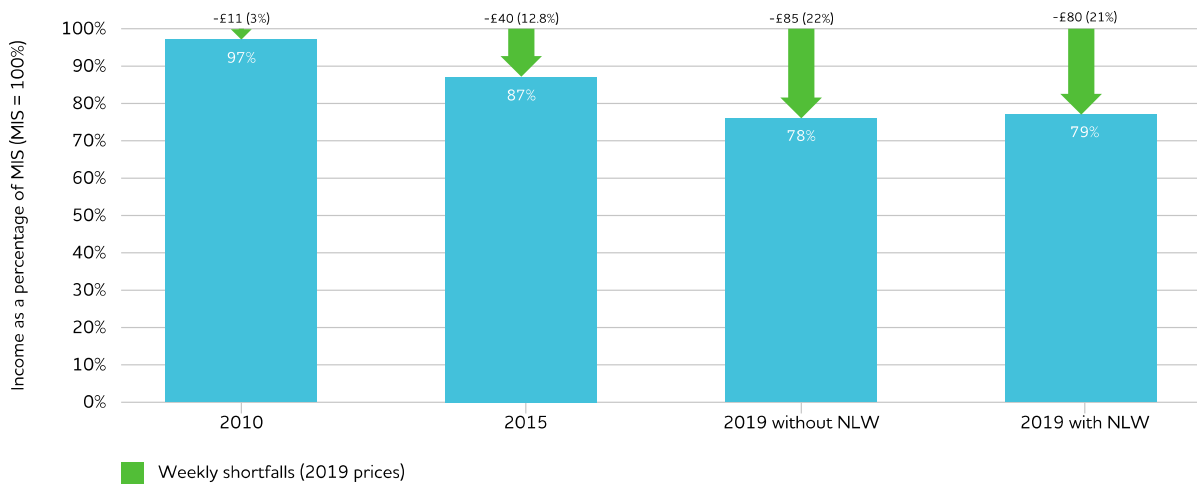
Note that:

- a range of single-earner families faces a growing shortfall compared to MIS, despite the higher NLW
- the increase in one full-time wage is more than offset by the fall in real value of tax credits, especially for larger families.

Turning to lone parents, the situation is considerably less favourable than for couple parents, due to the limited scope to enhance earnings through higher pay when there is only one parent who can earn – and

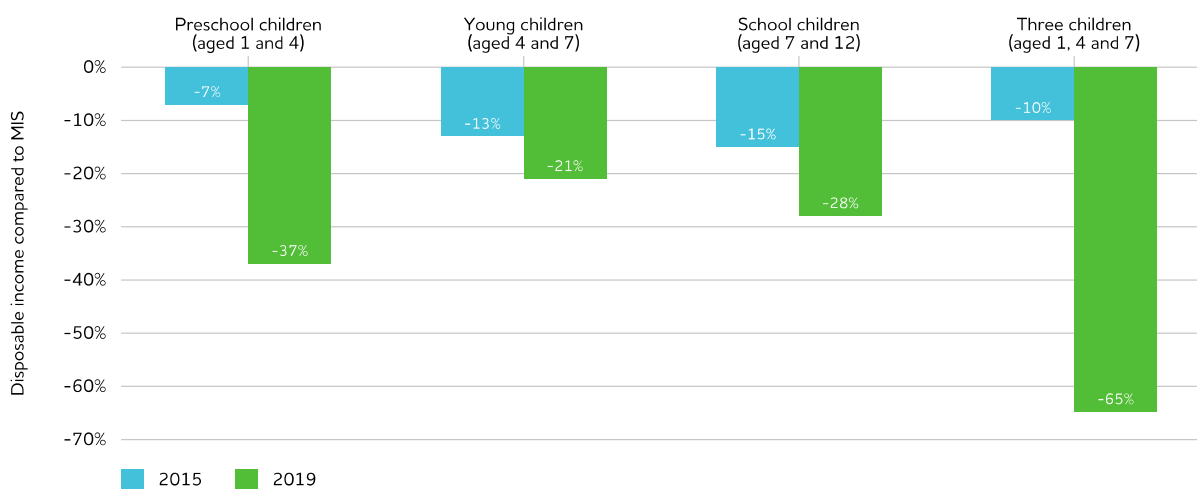
most commonly works part time (DWP, 2019). Figure 9 again starts by showing the potential to make ends meet through full-time work. In 2010, due to a relatively favourable tax credit regime, such a family could get close to the MIS level, lacking only £11 of the £320 a week they required (in 2019 prices). This has increased over sevenfold to £80 a week, over 20% of the £378 budget now needed, despite the advent of the NLW. In fact, the higher pay makes only a small difference to this picture, taking account of the lower entitlement to tax credits when earnings rise, and has been overshadowed by cuts in tax credit entitlements.

Figure 9: How much closer does the NLW get a lone parent with children aged 4 and 7, working full time, to a minimum income standard?



As shown in Figures 10 and 11, lone parents' situations also vary considerably according to their working status, and the age and number of children. For those with the youngest children, shortfalls are again greater if they work full time rather than part time, since additional childcare costs are not covered by additional earnings. Yet even where lone parents work part time and avoid such high childcare costs, those with two preschool children fall around a third short of MIS. Thus, the living wage is not enabling lone parents with young children to get anywhere close to meeting their minimum needs, and the living standards of low-paid lone parent families are systematically declining.

Figure 10: How has the shortfall for lone parent families changed since 2015 if the parent works full time on the NMW/NLW?

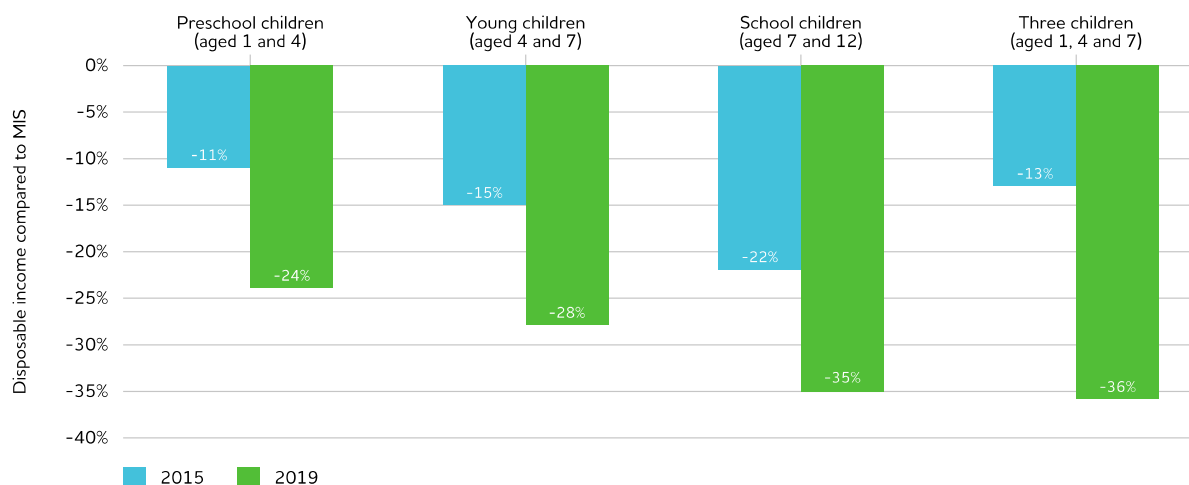


Note that:

- a range of lone parent families working full time on the NLW has become much worse off compared to MIS

- this is most severe for those requiring the most childcare, who have less disposable income than if they worked part time (see Figure 11).

Figure 11: How has the shortfall for lone parent families changed since 2015 if the parent works part time (half of a 37.5-hour week) on the NMW/NLW?



Note that:

- a range of lone parent families working part time on the NLW has become much worse off compared to MIS
- they have disposable income a quarter to a third below what they require, with little chance to reduce this, even if they worked longer hours (see Figure 10).

The above calculations have been based on the tax credit regime that continues to affect more families than UC, which is gradually replacing it. UC produces a similar pattern of results to those described here. For some families with high childcare needs, the higher rate at which childcare is reimbursed under UC reduces the shortfall by a few percentage points, but in no case eliminates it. In one case, that of a couple with two children aged 4 and 7 where both parents work full time, it reduces the deficit to less than 1%. For all of the lone parent cases shown above, as well as for couples with three children, working on the NLW under UC in 2019 leaves families much further below MIS than they were under tax credits and the NMW in 2015.

In summary, then, the NLW has provided opportunities for single people and some couple families to get closer to a decent living standard. However, other family types – most notably single-earner couples, lone parents and any family with a third child born after 2017 – have seen declining living standards irrespective of wage rates. These families are, in many cases, unable to get above three quarters of the MIS level and, in some cases, are at least a third below it. Both quantitative and qualitative evidence have shown that these income levels are associated with a severe risk of material hardship. A household at least 25% below MIS is four times as likely as a household above MIS to be unable to afford things considered essential by most people (Hirsch et al, 2016; Hill et al, 2016). They are the levels that non-working families were having to live on a decade ago; now, increasingly, they are being experienced by families in jobs.

5 Conclusion

After a decade of austerity, many households with low incomes both in and out of work are unable to reach a minimum acceptable standard of living. Even if they work full time on wages that have been improved in the past four years, they may still fall well short of what they need. For some households, particularly single people over 25, this gap has been narrowed by more adequate minimum pay. For others, particularly families headed by lone parents, larger families and single-earner couples, it has widened. In some cases, working families have similarly low living standards to those endured by families without work a decade ago – standards that greatly increase the risk of severe material hardship.

One reason so many families are falling further behind what they need is because of rising costs. Costs such as childcare, public transport and household energy, which figure large in minimum household budgets, have risen faster than overall inflation over the past decade, and continued to do so in the past year. The Government has given some extra help to cover childcare, with the extension of the early years entitlement for 3 and 4 year olds, and a higher level of support under UC than under tax credits. However, this has not been coordinated in a way that ensures that childcare costs stop being a barrier to work for low-income families; in particular, its failure to raise the limit on the fees eligible for tax credit or UC support has undermined the effectiveness of this support.

The key problem, however, is not rising costs per se, but the failure of incomes to keep up with these costs. This report has shown that, on their own, higher minimum wages are not systematically bringing families closer to being able to reach a minimum, even if they work full time. The reason is that their effect has been outweighed by real-terms cuts in in-work benefits. It is important to note that this isn't simply because wages are too low to produce enough income, but because for families with children, better pay cannot achieve this on its own. While a wage set at two thirds of the median (the presumed reference point for the Chancellor's ambition of 'ending low pay') would be about enough to get a single person to MIS, for a lone parent it would barely be half the level needed under current levels of tax credits.

It is thus essential that alongside the ambition to abolish low pay, other determinants of low disposable income are addressed. A full agenda for doing so needs to address a range of factors, including opportunities to access stable work and affordable housing. This report has identified two factors that urgently need to be addressed.

1. Working-age benefits, both in and out of work, have lost value in recent years, both through specific cuts and the benefits freeze. For families with children in particular, uprating and improving the value of benefits should be a key priority. A starting point is to uprate benefits at least by inflation after the freeze in their level ends next year. A next step would be to improve their real value, with the long-term aim that at least families working full time on the NLW would reach MIS (which they almost did on the NMW in 2010).
2. Various subsidies to users of childcare have only partially succeeded, with many low-income families still finding it unaffordable or inaccessible. While long-term solutions may need to involve a more coordinated approach to providing accessible childcare at affordable prices, a more straightforward first step would be to ensure that UC supports childcare at the prices actually being charged, not maintaining the limits of £175 for one child and £300 for two or more children, set in 2005. Average full-time nursery fees are now around £240 a week (Coram Family and Childcare, 2019), and increasing the limit to at least this amount per child would help realise the benefits of the higher rate of reimbursement (85%) under UC than under tax credits.

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Appendix

Table 6: Budget totals, excluding rent and childcare, 2008–2019

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single, working age												
In current year prices	£158	£166	£175	£185	£193	£201	£195	£196	£199	£207	£214	£221
Inflation adjusted to 2019 prices	£202	£207	£211	£212	£215	£219	£209	£210	£213	£216	£218	£221
Single pensioner												
In current year prices	£132	£139	£147	£155	£159	£165	£182	£183	£187	£192	£196	£201
Inflation adjusted to 2019 prices	£168	£173	£177	£178	£177	£180	£195	£196	£200	£200	£200	£201
Couple, working age												
In current year prices	£245	£256	£273	£287	£302	£315	£320	£322	£330	£345	£351	£365
Inflation adjusted to 2019 prices	£313	£320	£328	£330	£337	£343	£343	£345	£353	£359	£359	£365
Couple pensioner												
In current year prices	£201	£211	£222	£233	£231	£241	£263	£264	£267	£275	£302	£310
Inflation adjusted to 2019 prices	£257	£263	£267	£268	£258	£263	£281	£283	£286	£286	£308	£310
Couple with two children												

In current year prices	£370	£387	£403	£425	£455	£471	£482	£484	£456	£468	£480	£491
Inflation adjusted to 2019 prices	£472	£482	£484	£488	£508	£514	£516	£520	£488	£487	£490	£491
Lone parent with two children												
In current year prices	£283	£295	£309	£326	£362	£375	£383	£384	£372	£381	£390	£398
Inflation adjusted to 2019 prices	£361	£368	£371	£375	£404	£409	£411	£412	£398	£397	£398	£398

Table 7: MIS relative to median income, after housing costs, 2008/09–2017/18 (latest year data available)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Single, working age	72%	74%	77%	79%	81%	79%	75%	74%	74%	74%
Couple, working age	66%	67%	71%	73%	75%	76%	73%	73%	73%	73%
Single pensioner	59%	60%	63%	64%	65%	69%	69%	68%	68%	68%
Couple pensioner	53%	54%	57%	56%	56%	59%	59%	58%	57%	59%
Lone parent with two children	79%	80%	83%	89%	93%	93%	90%	87%	84%	84%
Couple with two children	73%	74%	77%	80%	82%	82%	80%	76%	72%	72%

Table 8: MIS as a percentage of safety-net benefit income, 2008–2019

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single, working age	42%	42%	41%	40%	40%	38%	39%	40%	38%	35%	33%	32%
Couple, working age	42%	42%	40%	40%	39%	38%	37%	38%	35%	33%	32%	30%
Single pensioner	108%	107%	102%	100%	101%	99%	91%	92%	93%	93%	93%	93%
Couple pensioner	105%	105%	101%	100%	104%	102%	95%	96%	98%	97%	90%	90%
Lone parent with two children aged 4 and 7	68%	69%	68%	68%	63%	61%	60%	61%	63%	60%	60%	58%
Couple with two children aged 4 and 7	62%	63%	62%	62%	60%	58%	57%	57%	61%	58%	58%	56%

Table 9: Disposable income as a percentage of MIS, 2008–2019, working full time on NMW/NLW

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single	84%	83%	79%	75%	72%	70%	69%	70%	77%	78%	80%	82%
Couple with two children aged 4 and 7 (both parents working)	93%	91%	89%	83%	84%	83%	82%	84%	88%	87%	89%	90%
Lone parent with two children aged 4 and 7	97%	90%	97%	94%	90%	88%	87%	87%	84%	82%	80%	79%

Table 10: Disposable income relative to MIS of working families earning NMW/NLW, where one person does not work full time, 2008–2019: income as a percentage of MIS, with preschool and primary school child, if no paid childcare

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Couple working full time and half time	90.9%	92.5%	90.4%	87.8%	83.3%	81.3%	80.0%	82.1%	91.5%	89.9%	91.0%	86.0%
Couple working full time and not working	73.2%	74.9%	80.6%	79.3%	76.7%	74.1%	73.1%	73.6%	76.1%	73.3%	73.0%	76.0%
Lone parent working half time	86.7%	89.6%	96.4%	94.9%	87.7%	84.7%	83.6%	84.9%	83.8%	81.0%	80.0%	76.0%

Table 11: Annual earnings required to reach MIS, working full time and paying for childcare (£ per year)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single	13,450	13,859	14,436	15,000	16,383	16,852	17,072	17,102	17,311	17,934	18,390	18,800
Couple with two children aged 4 and 7 (combined earnings of both parents)	27,792	27,940	29,727	36,800	36,728	38,759	40,573	40,047	37,812	40,762	39,992	41,200
Lone parent with two children aged 4 and 7	[not calculated]	18,328	18,781	26,211	28,246	30,664	32,343	32,109	33,390	35,724	35,216	36,500

About the author

Donald Hirsch is Director of CRSP and Professor of Social Policy at Loughborough University. He leads the overall Minimum Income Standard programme. A former journalist, and writing and research consultant, he has been involved in MIS since its inception, and has carried out a range of analysis of MIS data, and its application in policy and practice. From 1998 to 2008 he was Poverty Adviser to JRF, where he wrote a number of major reports on child poverty, welfare reform, long-term care and the situation of older workers.

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