

A Minimum Income Standard for the United Kingdom in 2019

This annual update of Joseph Rowntree Foundation's Minimum Income Standard (MIS) considers the effect of rising costs and analyses the effect on living standards of the National Living Wage.

- In order to reach a minimum acceptable living standard in 2019, a single person needs to earn £18,800 a year and a couple with two children need to earn £20,600 per parent.
- Essential living costs are rising faster than the official inflation rate of 2.1% (CPI), particularly for single people, for whom steep increases in the cost of home energy, public transport and council tax pushed the minimum cost of living up by 3.6% in the past year.
- Families requiring childcare have seen above-inflation increases of 3-4% in nursery fees. These increases further limit parents' work opportunities, partly because in most areas full-time childcare now costs on average more than the limit eligible for help through tax credits and Universal Credit.
- The National Living Wage (NLW) has raised minimum pay for the over-25s by 26% in four years. This has helped raise living standards for single people and for couples with children where both parents work full-time, although they still cannot reach MIS on these wages (falling £36 and £47 a week short, respectively).
- For most families, higher minimum pay has been more than offset by falling state financial support and rising costs. Lone parents, single-earner couples, and families with three or more children where both parents are earning the NLW typically have disposable incomes between 25% and 50% short of the minimum, creating a high risk of material hardship. That's true even if they work full-time.
- To help families escape this trap of inadequate disposable income, the Government needs to provide enough support so that a full-time job brings families at least to MIS.
- In addition, parents could be helped to access work if Universal Credit gave rebates on up to £240 a week per child in childcare costs (the average nursery fee), rather than £175 for one child and £300 for two or more as at present: in line with increased fees.

The research

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Background

Since 2008, the Minimum Income Standard (MIS) has shown how much households need for a minimum socially acceptable standard of living, as specified by members of the general public in ongoing research. In 2019, while there was no new research into what should go into a minimum household budget, the picture was updated based on the inflation rate of different kinds of goods and services included in minimum budgets.

Cost increases and consequences for earnings requirements

In the year to April 2019, Consumer Price Index Inflation (CPI) inflation was 2.1%, just above the Government's 2% target. However, some spending areas that are heavily represented in a minimum household budget saw prices increase much faster over the same period:

- Domestic fuel increased by 10.4%.
- Bus travel by 8.9%.
- Council tax by 4.7%.
- Childcare by 3-4% (varying by age).

The net result was for the minimum cost of living to rise faster than the headline inflation rate. For a single person, it increased by 3.6%. The total gross annual earnings that households need in order to reach the MIS level also rose – to £18,800 for a single person and to £20,600 per parent for a couple with two children.

Consequences for the safety net

As the freeze in working-age benefits continues, these increases in costs have not been matched by income rises for the poorest households. For working-age singles, benefits now provide less than 32% of what they require for a minimum acceptable living standard, down from 42% in 2008. For a couple with two children it is 56% in 2019 compared to 62% in 2008, and for a lone parent with two children, it is 58%, down from 68%. Thus, out-of-work families with children are trying to keep afloat on just over half of what they need.

The National Living Wage and the ability to attain an acceptable living standard

The introduction of a higher minimum wage for the over-25s in 2016, the 'National Living Wage' (NLW), has meant that by April 2019 minimum pay for this group was over 26% higher than in April 2015. After adjusting for CPI inflation, that is still a 17% increase. The MIS research can be used to test the extent to which this change has succeeded in its aim of helping low-income working families to improve their living standards, considering offsetting factors such as cuts to in-work benefits.

As shown in Table 1, the picture varies for different groups. Single people have been brought closer to MIS, as have some families with two working parents. The shortfall compared to MIS has almost halved for singles to 18%, although this remains substantial: £36 a week out of a £204 budget. A couple with children aged four and seven, where both parents work full time on the NLW, now has 90% of what they need for MIS, and their shortfall has fallen from £86 to £47 in the past four years.

But for other groups, the gap relative to MIS has widened. Lone parents and single-earner couples, who have gained less from higher hourly wages than dual earners, have fared poorly. Families with two pre-school children requiring childcare have also got worse off. An important factor in this is that as the cost of childcare increases, such families have to bear the whole additional cost themselves, since in most areas full-time childcare fees are now above the maximum level supported by tax credits (£175 a week for one child, or £300 for two or more). Finally, larger families affected by the new two-child limit for calculating tax credits/Universal Credit are a lot worse off than their predecessors.

Table 1: Introduction of the National Living Wage and working households' living standards

How much disposable income* falls short of MIS, working on the National Minimum Wage in 2015 and National Living Wage in 2018, by family type and working status.

	2015		2019	
Single person working full time	-30%		-18%	

	Pre-school children (aged 1 and 4)		Young children (aged 4 and 7)		School children (aged 7 and 12)		3 children (aged 1, 4 and 7)	
	2015	2019	2015	2019	2015	2019	2015	2019
Family with children								
Couple, both working full time	-19%	-27%	-17%	-10%	-15%	-12%	-23%	-52%
Couple, one full time the other part time**	-14%	-16%	-17%	-14%	-23%	-19%	-17%	-32%
Couple, one working, one not working	-24%	-25%	-27%	-28%	-32%	-36%	-22%	-35%
Lone parent working full time	-7%	-37%	-13%	-21%	-15%	-28%	-10%	-65%
Lone parent working part time**	-11%	-24%	-15%	-28%	-22%	-35%	-13%	-36%

* Disposable income: income including benefits and net of direct taxes, rent, childcare and council tax.

** Part time: half of a 37.5-hour week.

These results have two particularly important features. One is that many families with young children remain trapped in a situation whereby working more hours reduces net income because of additional childcare costs. This is true whether they are on tax credits or in the new Universal Credit system. The second striking feature is that the widening income shortfalls compared to MIS are leaving many working families unable to get anywhere close to the minimum, regardless of working hours. Typically, families relying on a single wage, those with preschool children and those with at least three children have no route to getting an income as high as 75% of the MIS level. Thus, they must forgo items worth at least 25% of the MIS budget, putting them at very high risk of material hardship.

Conclusions and recommendations

This study concludes that a wider range of policies is needed to help families keep their heads above water and attain an acceptable standard of living. While higher pay has brought benefits for some, most of those who are out of work or on minimum pay remain trapped on a very low income at which the risk of hardship is high. The benefits freeze and other social security cuts have contributed to this.

When the benefits freeze comes to an end in 2020, restoring inflation-based up-ratings would stop a further decline in living standards for those relying on in- and out-of-work benefits. However, to start bringing low-income families closer to meeting their minimum needs, a longer-term objective would be for the National Living Wage to combine with more adequate in-work benefits to ensure that where people work full-time, disposable income at least reaches the MIS level.

A second, complementary policy is to ensure that Universal Credit gives enough childcare support to make additional work worthwhile for those with young children. Building on its payment of 85% of eligible childcare costs, the limits to the fees eligible for this support need to be raised to reflect the rising cost of childcare in recent years: from £175 a week for one child and £300 for two or more (limits first set in 2005) to £240 a week per child, the average full-time nursery fee.

About the project

The Minimum Income Standard is updated annually to reflect changes in costs and living standards. It is based on what groups of members of the public identify as the items and services households need to reach a minimum acceptable standard of living, covering essential requirements and allowing participation in society.

For further information

The full report, **A Minimum Income Standard for the United Kingdom in 2019**, is published by the Joseph Rowntree Foundation. It is available as a free PDF at www.jrf.org.uk

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