

lost 1/3 of my salary
having to go part time when
I became a single parent.

SKILLS GOING TO WASTE

MADE TO FEEL WORTHLESS

DEHUMANISING **NO STABILITY**

WORK

CAN'T PLAN FOR ANYTHING

NOT BETTER OFF

HURDLES AT EVERY STEP

Don't get why the
summer holidays have
to be so long. what are
we supposed to do?

Work

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The rise of in-work poverty

The rising tide of poverty among workers has coincided with another important change for society: even though employment rates have risen to their highest ever levels, more than half (56%) of people in poverty are now in a working family. This change has been particularly dramatic for children, with seven in ten children in poverty now in a family where at least one person is working. This chapter looks at poverty for working families.

Key stat

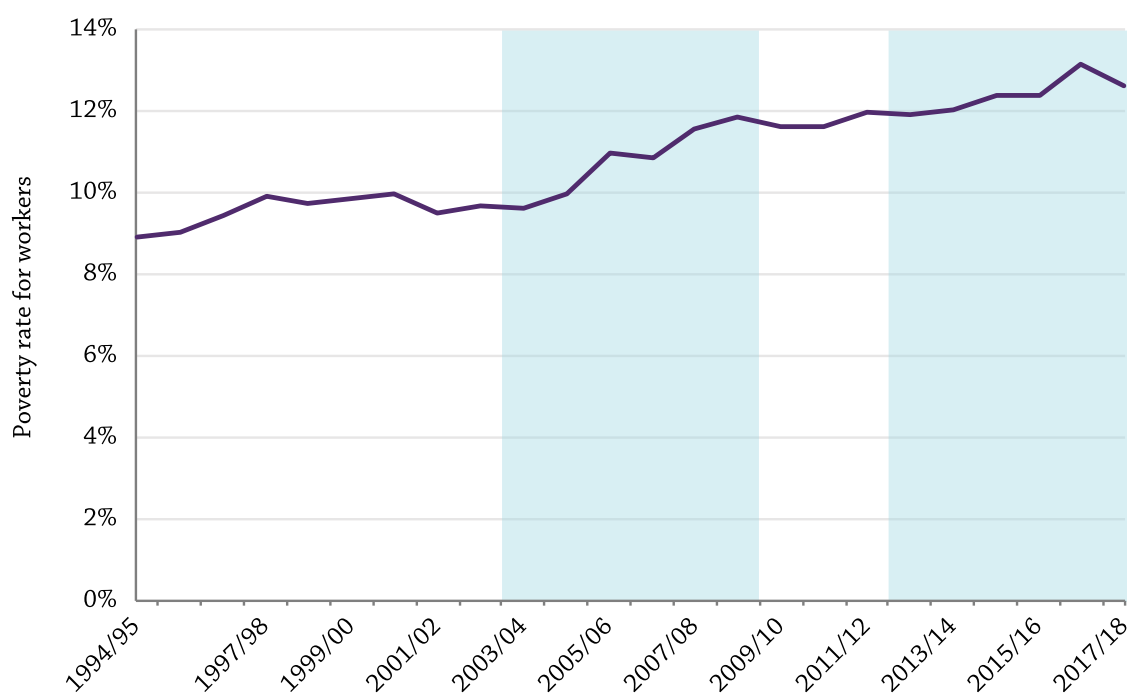
Around 56% of people in poverty are in a working family. In-work poverty has risen from 10% of workers 20 years ago to 13%.

- Not all workers have been equally affected by poverty. The risk is greater for disabled and Black, Asian and minority ethnic (BAME) workers than non-disabled and White workers. Workers in families with children have a higher poverty rate than workers without children and working single parents have seen the fastest rise in the risk of being in poverty; three in ten working single parents are now in poverty.
- Where people live and the sector they work in have a big impact on whether they are likely to be living in poverty. The accommodation¹⁴ and catering sector, retail and residential care have the highest levels of in-work poverty. Some areas of the country – including cities and towns in the Midlands and north of England, Wales, Northern Ireland and Scotland – have employment rates and pay far below the national average. It is much harder to find work that releases your family from poverty's grip if you live in a place where good jobs that pay well are not available or accessible.
- Despite the introduction of the National Living Wage, rising housing costs and reduced benefit incomes and tax credits have made it harder for low-income working families to escape poverty. Households are also working fewer hours on average than they used to as they cannot find more hours to work and because of childcare and transport barriers.

How is in-work poverty changing?

Paid employment reduces the risk of poverty compared with not being employed. However, the rise of in-work poverty – poverty among people in families with at least one worker – has been one of the most striking socio-economic changes of the last 20 years. In 1997/98, 10% of workers were in poverty; now 13% of workers are. Despite a slight fall in the last year, the rate is still higher than in 2012/13, when it was 12%. The rise since then, though, is smaller than the rise in the five years before the Great Recession, when the chance of workers being in poverty rose by 2 percentage points. More working people are finding themselves trapped in poverty.

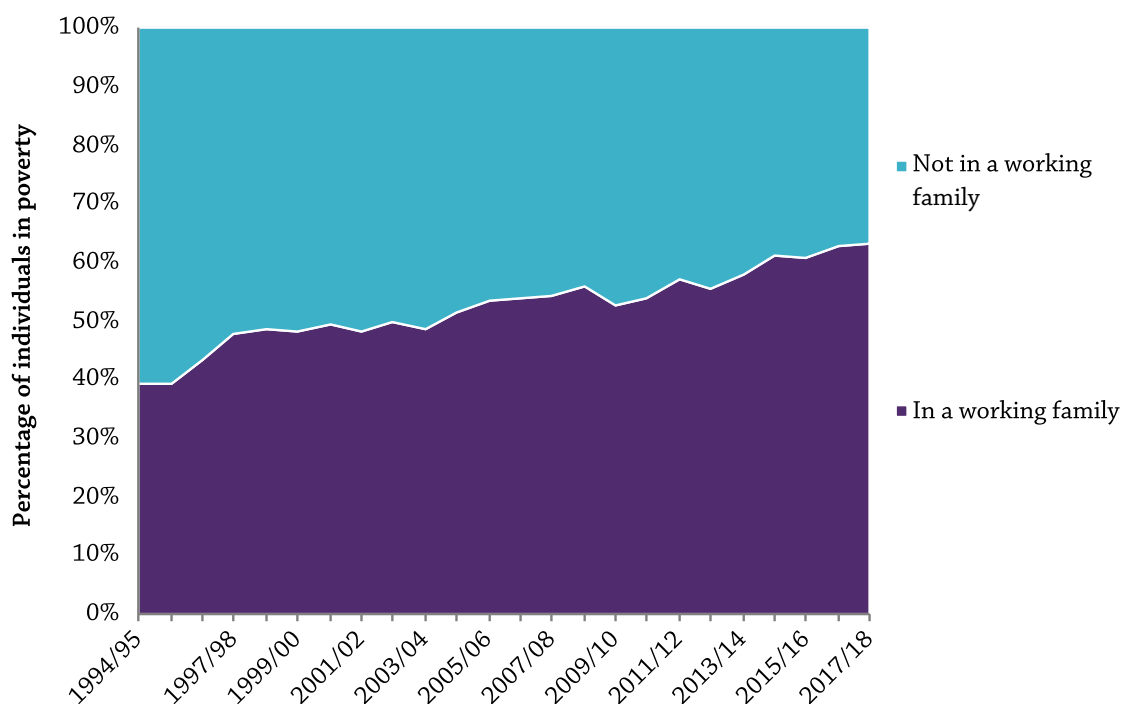
The two periods of rising in-work poverty



Source: Households Below Average Income and Family Resources Survey

The rising tide of poverty among workers has coincided with another important change in society: as employment rates have risen to their highest ever levels, more people living in poverty now live in a working family, with fewer in a family with no one in work. Together, these changes mean that more than half (56%) of people in poverty are now in a working family, a significant change from 20 years ago when 39% were. This change has been particularly dramatic for children: seven in ten children in poverty are now in a working family. Poverty is becoming increasingly concentrated in working families.

Most people in poverty now live in a working household – a big change from 20 years ago



Source: Households Below Average Income

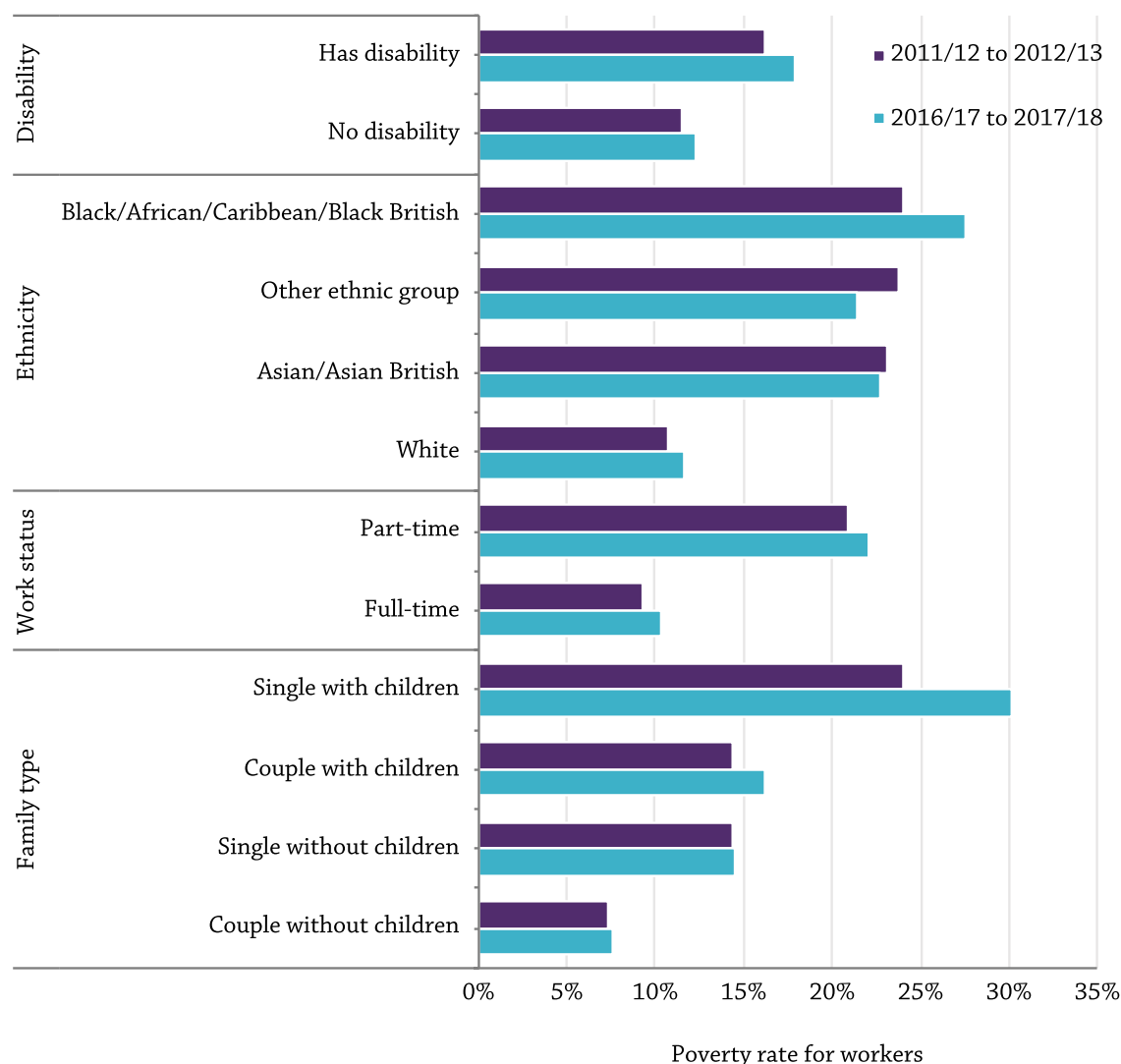
Which workers are most at risk of poverty?

Individual characteristics

Poverty varies considerably across different types of worker, matching many of the patterns of difference in overall poverty rates discussed in the opening chapter. The risk is higher for disabled workers than for those who are not and is higher for BAME workers than for White workers. It is also affected by how many hours someone works: part-time workers face a much higher risk of poverty than full-time workers. Workers in families with children have a higher poverty rate than workers in families without children, and workers in single-adult families have a higher risk than workers in couples.

The rising tide of in-work poverty has not affected all types of worker equally over the last five years. Workers in families with children are more at risk, whereas there has been little change for workers in families without children. Working single parents have seen the fastest rise, with three in ten working single parents now in poverty. Both full-time and part-time workers have seen poverty increase, as have both those with and without disabilities.

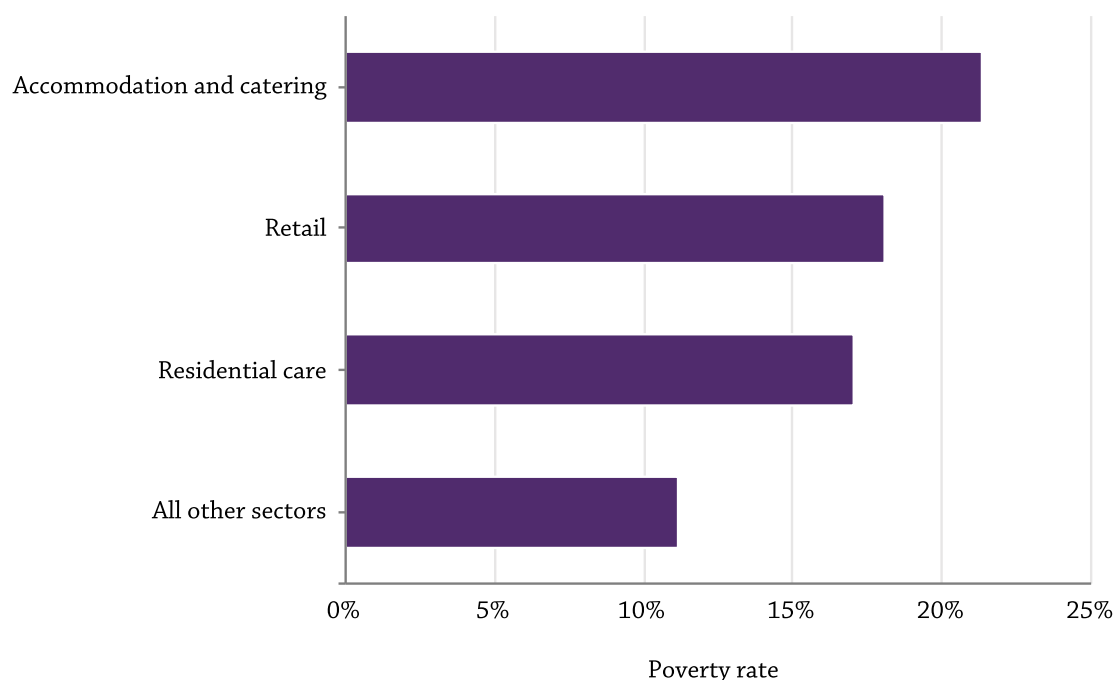
Poverty varies substantially across types of worker, and some have seen faster rises



Source: Households Below Average Income and Family Resources Survey

In-work poverty differs by sector as well. Accommodation and catering have the highest levels of in-work poverty than any other sector. Although retail and residential care have a lower poverty rate than accommodation and catering, a greater number of workers in poverty work for these sectors. These sectors employ millions of workers, and therefore, as around one in six of these workers are in poverty, this affects hundreds of thousands of people.

Accommodation and catering, retail and residential care have the highest rates of poverty by sector, 2017/18



Source: Households Below Average Income and Family Resources Survey

Place

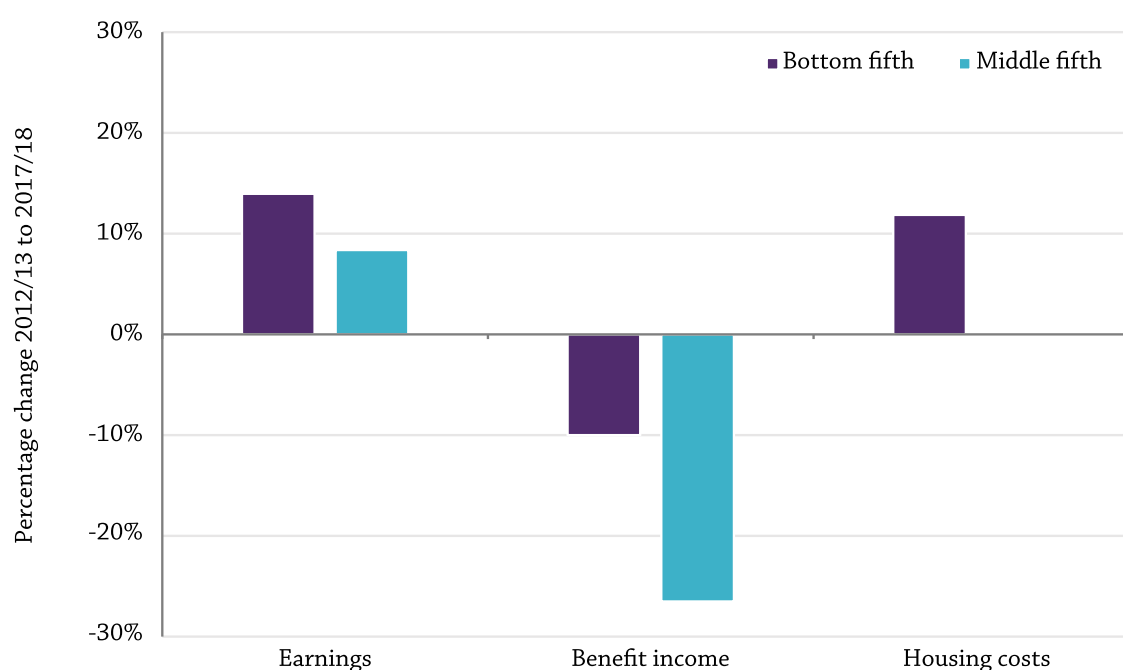
We know that someone's chances of finding a route out of poverty through work varies according to where they live. Unfortunately, it's not possible to get a reliable measure of poverty at a local level due to the sample sizes in the Households Below Average Income dataset being too small. As an alternative, JRF has previously highlighted the differences in employment rates and earnings across local authorities in Britain (Tinker, 2018). Some areas of the country – including cities and towns in the Midlands and north of England, Wales, Northern Ireland and Scotland – have employment rates and pay far below the national average. It is much harder to find work that releases your family from poverty's grip if you live in a place where good jobs that pay well are not available or accessible.

Why is in-work poverty rising?

We measure poverty based on a family's total earnings in work (after taxes), plus any income from benefits and other sources, after they have paid their housing costs. This means the risk of poverty in working families could rise because low-income families' earnings are growing slowly, because changes to the tax and benefits system leave them worse off with any given level of earnings, or because of a rise in housing costs.

Over the last five years, low-income working families have seen earnings grow by 14% – driven in part by the introduction of the National Living Wage – much higher than the rate of earnings growth for the average working family. In percentage terms, the benefit cuts seen by low-income families have been smaller than those seen by middle-income working families, but this is partly because middle-income families had lower initial benefit incomes, so a £10 reduction in their benefit income would represent a larger percentage change for middle-income families than low-income families. Low-income families have also been hit by faster rises in housing costs than middle-income families.

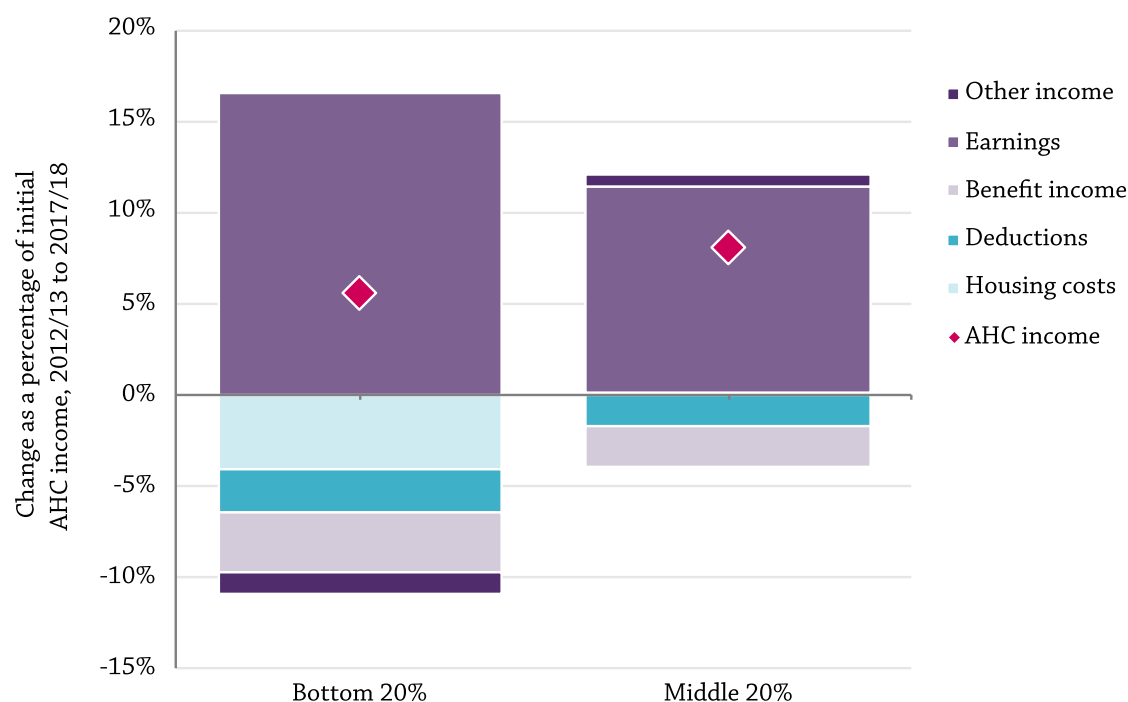
Low-income working families have seen faster earnings growth than middle-income families, but have been hit by benefit cuts and growing housing costs



Source: Households Below Average Income

However, low-income families get a smaller share of their income from earnings, so their faster earnings growth contributes a smaller amount to increasing their overall income than for the average family. For low-income families' income growth to keep up with the average family, benefit income would have to rise but falling benefit incomes and rising housing costs meant low-income families saw slower AHC income growth of 6% compared with 8% for the average working family.

Falling benefit incomes and rising housing costs have swept working families into poverty despite greater earnings



Source: Households Below Average Income

Despite faster earnings growth than the average family, all is not well in the labour market for low-income working families. The growth they have seen has only just brought their earnings back to their level just pre-recession – they faced the biggest hit to their earnings during the recession. They are also working fewer hours on average than they used to as they cannot find more hours to work (see below).

Why hasn't the rising minimum wage reduced in-work poverty?

In July 2015, George Osborne announced the introduction of the National Living Wage, bringing about fast rises in the minimum wage for those aged 25 and over. The National Living Wage has successfully pushed up the hourly wage of the lowest-paid, eligible employees. It seems almost paradoxical that raising the wage floor has coincided with rising in-work poverty.

There are two important reasons that the rising minimum wage hasn't reduced in-work poverty. The first is that low-income families don't keep that much of any extra income they get from work, because they see their social security payments reduced sharply as they earn more. Most Universal Credit claimants only get to keep 37p in every extra pound they earn; some keep even less.

An even more important reason is that poverty is about whether a family's income is enough to meet their necessary costs. That means hourly pay is just one element; how many hours members of the family are working, their family composition and their costs all matter too. Despite the introduction of the National Living Wage, rising housing costs and reduced benefit incomes and tax credits have made it harder for low-income working families to escape poverty (Innes, 2020).

For work to be a more reliable route out of poverty, we need to do more than just raise hourly pay. There is more that can be done through the labour market to make work a more effective route out of poverty. Part of the solution is that people need to be able to work sufficient hours – and have enough certainty over their hours – to earn enough to cover their essential costs. And people need to have the opportunity to progress into better quality jobs.

The rest of this chapter will focus on understanding the barriers families face to working more hours to escape the trap of poverty, and what holds people back from progressing into better quality jobs.

What stops families from working more hours?

The above analysis highlights the importance of the hours that people work in determining whether they are in poverty. But what stops families from taking on more hours to find a route out of poverty? This section focuses on three key reasons that low-income families' working hours are constrained: wanting more hours but being unable to find work with more hours; a lack of affordable, flexible childcare; and transport barriers.

Underemployment

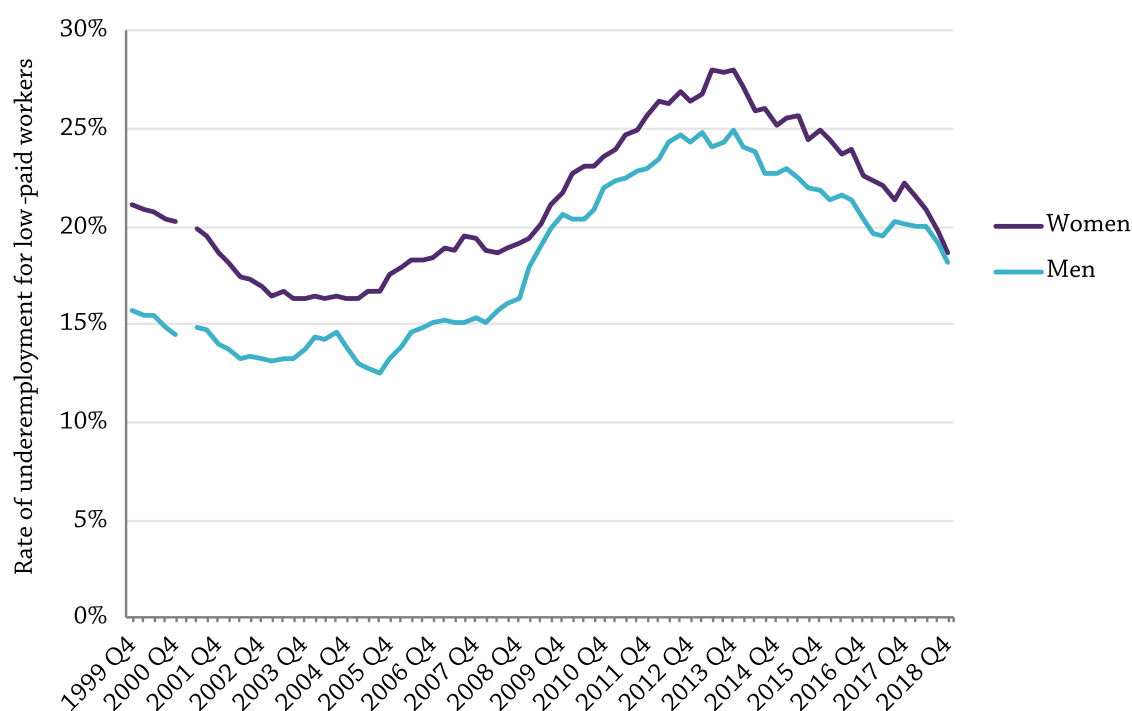
Even when people want and are available to work more hours, it is not always easy to find them. People are said to be underemployed if they would like to work more hours than they do in their current job, including those working part-time despite wanting a full-time job. People in poverty are much more likely to be underemployed, especially if they work part-time. Around 18% of low-paid workers say they would like to work more hours but can't find them, compared with 8% for all workers who are not low paid.

Although, historically, underemployment has been higher for women than for men it is now equally likely for both low-paid men and women and just under a fifth of both low-paid men and women are underemployed. At the peak of the recession more than a quarter of low-paid women reported that they wanted to work more hours than they were able to find to work. Since the recession, the underemployment rate has fallen to a similar level for both low-paid men and women, but for low-paid men this remains considerably above its pre-recession level. This is despite the employment rate being historically high.

Key stat

Around 18% of low-paid workers say they would like to work more hours.

Around a fifth of low-paid men and women would like to work more hours than they can find in the labour market



Source: Labour Force Survey

Childcare

As discussed above, in-work poverty rates for households with children are higher than for those without children, and among families with children they are higher for single-earner than dual-earner families. Low-income households with children say that the issue of childcare is one of the reasons they are unable to work more hours. As highlighted above, working more hours is an important part of finding a route out of poverty.

Low-paid workers are also more likely to work non-standard hours such as evenings and weekends or have irregular shift patterns than other workers. Finding formal childcare to fit in with these work patterns is much more difficult. For example, more than four-fifths of women working in service sectors such as retail, social care and hospitality work at least some weekends with almost half working most weekends. Research found that low-paid workers use more informal childcare, with the inflexibility of their work patterns and the cost of childcare a large factor in why they don't work more hours (Buenning and Pollmann-Schult, 2016). Due to the inflexibility of their hours and cost of childcare, they rely on informal settings to bridge the gap between their hours and formal childcare options.

Help with childcare has been introduced in different ways at different times within the UK. This has included tax-free childcare and help with childcare through tax credits. In 2010, families of three- to four-year-olds became eligible for 15 free hours of childcare. In 2013, this was expanded to include two-year-olds from families receiving certain benefits. In 2017, the government expanded the free childcare hours to 30 free hours for families of three- to four-year-olds. The scheme allows the childcare to be taken at playgroups, pre-schools, nursery schools, nurseries in primary schools, children's centres or childminders. Since then, there has been a slight increase in the use of formal childcare among households below the poverty line, but it has been no faster than the increase for other households.

For families with young children, working more hours usually means using more childcare. Families on lower incomes use fewer hours of childcare than those on higher incomes. According to a 2018 survey by the Department for Education, children in families earning more than £45,000 a year received, on average, 26.6 government-funded hours a week, while households earning less than £20,000 a year received, on average, 16.9 government-funded hours a week.¹⁵ Finally, most (74%) families earning less than £20,000 a year were using the 15 hours offer only, and the remaining 26% of families were receiving the 30 hours. Families earning more than £45,000 a year were more likely to be using the 30 hours offer. This had not changed from when these families were previously surveyed (2017). Furthermore, once their children reach school age, they rely heavily on informal childcare settings for before and after school care as targeted funding ends.

Help with childcare costs is more generous under Universal Credit than under the previous system. Low-income parents can claim 85% of childcare costs. This still leaves working parents with 15% of the costs to pay, reducing the benefits of working or increasing their hours. The provision of support for 85% of costs is undermined by the requirement for parents to pay childcare fees first and then claim the cost back. Many low-income families cannot afford to make these large payments up front. The system increases barriers to work and the risk of debt (Work and Pensions Select Committee, 2018). The government has extended the length of time parents have to claim back childcare payments to two months, however this does nothing to remove the barriers for families who struggle to afford up-front payments out of extremely stretched budgets. In addition, the amount of support available is capped at £175 a week, a level which has not changed since April 2016. However, childcare costs have risen steeply in recent years; the average nursery fee for under twos in full-time nursery childcare (50 hours) in Great Britain is now £242 a week a child (Coleman and Cottell, 2019).

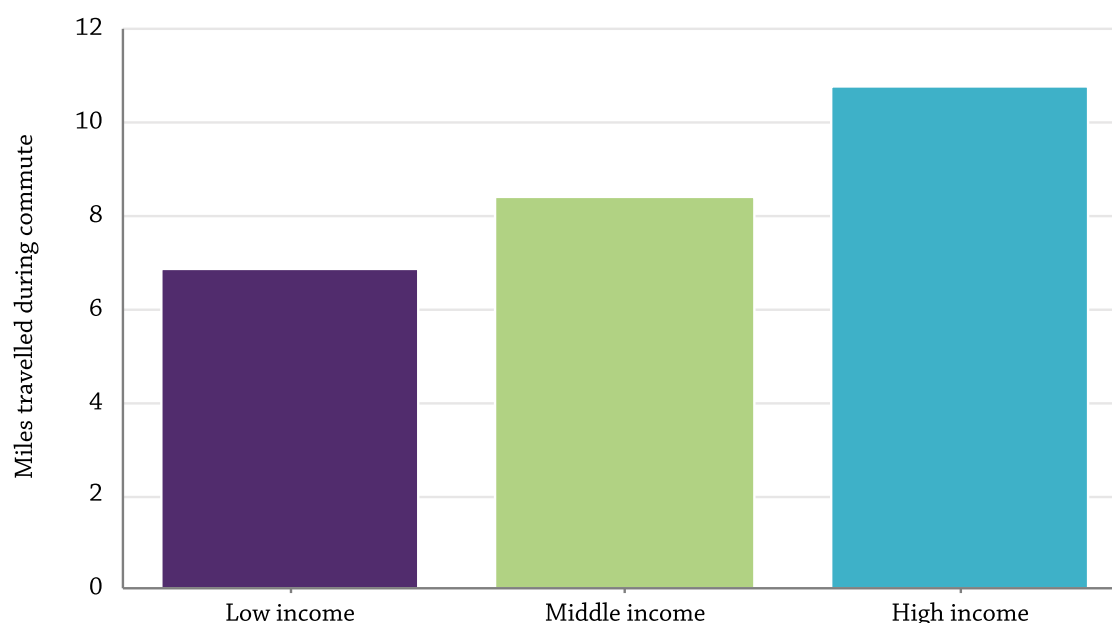
The inflexibility and cost of childcare is a large factor in why low-paid workers don't work more hours. Due to the inflexibility and cost, they rely on informal care to bridge the gap between their hours and formal childcare options. Another aspect of this is transport, which can hold low-paid workers back. If they are unable to travel to better childcare and work options, it can be another barrier for workers in poverty.

Transport

For low-income families with children, balancing work with childcare often means choosing a short commute. Longer commutes mean higher travel costs and the need to find more childcare, formal or informal. But the need for a shorter commute can restrict the jobs available to workers in low-income families to those near their home. These are often jobs in low-paid service sectors such as retail and hospitality, which also require more work in the evenings and weekends when it is more difficult to find childcare.

Low-income workers (households earning less than £25,000 a year) commute much smaller distances to work than other families. The average commute for a high-income worker (households earning more than £50,000 a year) is one-and-a-half times the average commute for a low-income worker. For low-income lone mothers, the pool of available jobs is even smaller. On average, lone mothers work less than four miles from their home. Compared with mid-income and high-income workers, they have a more constrained supply of available work than any other income group. Most of the trips are five miles or less, with very few travelling more than seven miles. Lone mothers usually travel within a two-mile radius (70% of low-income workers travel within a two-mile radius for work).

High-income workers commute further to work than low-income workers

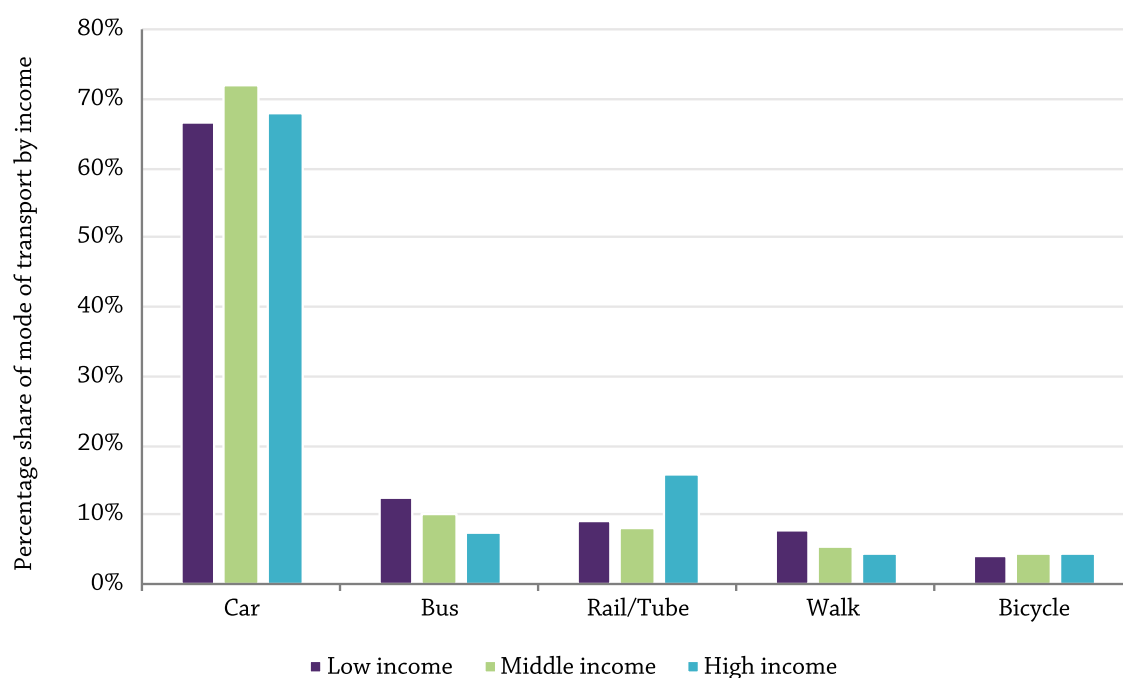


Source: National Travel Survey

Note: In the National Travel Survey, lower household income is defined as earning less than £25,000 a year, middle income is £25,000 – £50,000 a year, and upper income is more than £50,000 a year.

Low-income workers also rely on different forms of transport to other workers. Although low-income workers are slightly less likely to travel to work by car than higher-income earners, it is by far the most common way for low-income workers to commute and two-thirds of low-income workers commute in this way. Reasons for driving short distances are mostly related to unreliability of public transport, or public transport not connecting them to their workplaces from home. The intersection of workplace and childcare/school is also an important factor: lone parents often drive to work so they can pick up their child on time from childcare.¹⁶ Low-income workers are more likely than higher-income workers to take the bus or walk to work, and less likely to commute by train or Tube. Previous work by JRF highlighted the importance of low-cost public transport for returning to work (Crisp et al, 2018). One of our findings in this report, however, is that public transport is all too often seen as something that constrains rather than enables a return to work, because of a lack of affordable and reliable transport that gets people to locations where there is suitable work.

Low-income workers are less likely to use rail/Tube and more likely to travel to work by bus than high-income workers



Source: National Travel Survey

What holds people back from moving into a better job?

Being in a low-paid job can often leave someone without the resources they need to support their family. It can also make it harder for that family to move out of poverty. Analysis by the Resolution Foundation has shown that only one in six low-paid workers successfully escaped low pay 10 years later, and working mothers were the least likely to escape low pay.¹⁷

To understand how people can progress out of poverty and low-paid jobs, JRF conducted analysis to determine the probability of being in poverty. We looked at how the chance of escaping poverty depends on the type of work people do, the sector they work in, their individual characteristics, family type and where they live and work. Here, we report only the factors found to have a statistically significant effect on someone's chances of escaping poverty.

Being in poverty now means someone is much more likely to be in poverty in the future. The chances of someone moving out of poverty also depends on their work status. Full-time workers and workers who increase their working hours are more likely to progress out of poverty, as are those earning a promotion. Those working part-time are least likely to move out of poverty.

It's harder to move out of poverty in some sectors, in particular low-wage service sectors such as retail and hospitality, whereas workers in the civil service or professional services are more likely to move out of poverty. The type of family someone lives in matters too – families with children are more likely to get stuck in or cycle in and out of poverty, and single parents are the most likely to be stuck in poverty.¹⁸

Our analysis also highlights regional differences in progressing out of poverty through work. For someone with the same life circumstances such as qualifications, wage, and family type, progress out of poverty is more likely if they live in Scotland or Northern Ireland than the rest of the UK, and least likely if they live in London or the North East. Our analysis cannot identify the exact reasons for these regional differences, but part of the explanation is likely to lie in two key differences across regions: the availability of good-quality jobs, and housing costs. For example, it may be that it's harder to progress out of poverty in the North East as it has a higher unemployment rate and lower average earnings than other regions¹⁹, but it's also more difficult to progress out of poverty in London because higher housing costs mean families struggle to meet their costs even when moving onto higher earnings; housing costs are lower in Scotland and Northern Ireland on average.

Table 2: Progressing out of poverty is easier for certain groups of workers than others, but increasingly difficult the longer they are in poverty*

Characteristics making someone more likely to:	Progress out of poverty	Get stuck in or cycle in and out of poverty
Family type	Being a single person, without any children in the household	Being a single mother
Individual characteristics	Not previously being in poverty Having a qualification	Previously being in poverty in the last eight years
Sector	Working in the civil service or other professional services	Working in the accommodation and retail sectors, currently or in the previous eight years
Where people work and live	Scotland or Northern Ireland	London or the North East
Work status	Working full-time, or increasing work hours Earning a promotion	Working part-time

*All statistically significant

This chapter gives us indications about what is effective or not in stemming the rising tide of in-work poverty. The National Living Wage has increased earnings for the lowest-paid workers, but this isn't enough by itself to loosen poverty's grip. The analysis shows that relaxing the constraints – through ensuring the availability of good, flexible and affordable childcare, and affordable and well-connected transport – that prevent low-income families working more hours would be a good starting point. Opportunities to progress into better-paid jobs wherever people live, action to reduce housing costs and ensuring social security effectively protects working families against the uncertainties of the labour market would also help.

The Joseph Rowntree Foundation is working with governments, businesses, communities, charities and individuals to solve UK poverty. This report provides a comprehensive, independent and authoritative overview of UK poverty in 2019/20, which we hope will make more people want to solve poverty, understand it and take action.

This is an extract from JRF's UK Poverty 2019/20 report. A pdf version of the full publication is available from the JRF website www.jrf.org.uk. Further copies of this report, or any other JRF publication, can be obtained from the JRF website www.jrf.org.uk/publications or by emailing publications@jrf.org.uk

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First published February 2020 by the Joseph Rowntree Foundation

ISBN 978 1 911581 68 0

Cover image: Eva Brudenell

Typeset by: Pinnacle Graphic Design Ltd

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Ref 3324