

Slow growth in average income but large fall in pensioner poverty

Slow growth in average living standards, but a rapid fall in pensioner poverty, are amongst the findings revealed in a new report published by the Institute for Fiscal Studies, which analyses the latest official low income statistics published by the Department for Work and Pensions last week. The report also examines why child poverty has fallen under Labour, and why it did not fall enough for the child poverty targets for 2004/05 to be met.

The key findings of the report are:

Living standards

- There was modest growth in average income between 2003/04 and 2004/05, with mean income rising by 1.4 per cent in real terms (from £421 to £427) and the median income rising by 1.1 per cent (from £346 to £349). These changes are not statistically different from zero.
- Between 1996/97 and 2004/05, mean income has risen by an average of 2.4 per cent per annum. But the average annual growth in mean and median income over the last two years has been considerably lower than between 1996/97 and 2002/03. Though this may be due to sampling error, it appears that growth of average living standards has slowed.
- Since 1996/97, on average, the fastest rises in mean and median income have been among lone parents and single pensioners. The region with the fastest growth in average income has been London, although the differences in average income and income growth between regions are much less pronounced once housing costs are taken into account.

Inequality

- Between 1996/97 and 2001/02, income inequality rose on a variety of measures, and, measured by the Gini coefficient, reached its highest level since comparable records began in 1961. Since 2001/02, income inequality has fallen slightly down to a level similar to that of 1996/97: the net effect of eight years of Labour government has been to leave inequality effectively unchanged.

Pensioner poverty

- Since 2003/04, the number of pensioners in poverty has fallen by around 300,000 on an after housing costs basis (AHC) and around 100,000 measured before housing costs (BHC), and since 1996/97 the poverty rate has fallen by over a third measured AHC and 18 per cent measured BHC. There are now 1.8 million pensioners in relative poverty measured AHC and 2.0 million in poverty

measured BHC. The poverty rate amongst pensioners measuring income AHC (at 17.0 per cent in 2004/05) continues to be lower than that amongst the entire population (at 19.9 per cent).

- Part of the fall in pensioner poverty has been a direct result of increased government spending on pensioner benefits, such as the pension credit and the winter allowance. But fall in pensioner poverty is in part due to the fact that those individuals who have reached retirement age since 1996/97 have tended to be better off than their predecessors.

Child poverty

- By 2004/05, child poverty had fallen by 700,000 since 1998/99 (AHC and BHC) to reach its lowest level since the late 1980s. But the government fell 100,000 children short of meeting its target for 2004/05 measuring incomes BHC and 400,000 children short measuring incomes AHC.
- The main factors contributing to the decline in poverty since 1998/99 are the substantial declines in the proportion of children in workless households and large falls in the risk of poverty for children in workless families, those with part-time working lone parents and those in couple families with one full-time parent and one non-working parent. The government can take much credit for this fall in child poverty, both through its decisions to increase substantially the amount of cash transfers made to families with children and through welfare-to-work and other policies that have helped parents in previously workless families to find work and therefore increase their incomes.
- Forecasts made two years ago by civil servants and by independent researchers implied that the government was on track to meet its child poverty targets. These forecasts overstated the decline in child poverty since 2001/02 by around 300,000–400,000. It is too early to say why these forecasts were too optimistic, although forecasts of child poverty are extremely sensitive because 800,000 children were living in households within 5 per cent of the poverty line in 2004/05.
- One contributing factor, though, could be that the survey used to estimate child poverty – the Family Resources Survey – is recording a decreasing proportion of government spending on tax credits at a time when tax credits have become the government's main instrument for reducing child poverty. This may mean that HBAI is increasingly overstating the true level of child poverty. The government should review the ability of the FRS to record accurately families' income from tax credits, given that the government will be using the FRS to track progress towards its future targets for child poverty.
- The Government's new preferred measure of child poverty now has to fall by about 1 million between 2004/05 and 2010/11 after falling by just 600,000 between 1998/99 and 2004/05. This will need to be achieved with a lower planned growth rate in social security and tax credit expenditure. Unless the government is to fall short of this target, or there are radical shifts in parental working patterns, new spending will be needed, whether from extra borrowing, increased taxation or a reordering of spending priorities.

Poverty amongst other groups

- Overall, there are now 11.4 million individuals in poverty measured AHC and 9.2 million measured BHC, down from 13.8 million and 10.2 million respectively in 1996/97. The proportion of the population in poverty measured AHC has fallen from just under a quarter in 1996/97 to a fifth in 2004/05, with a slightly smaller fall measured BHC. Although poverty is therefore lower than at its 1996/97 peak, it remains considerably higher than it was before its steep rise during the 1980s. Poverty amongst the working-aged non-parent population has received little government attention, and it is now about 1 percentage point higher than it was in 1998/99.

ENDS

Notes to editors

1. 'Poverty and Inequality in Britain: 2006' by Mike Brewer, Alissa Goodman, Jonathan Shaw and Luke Sibieta will be launched at the IFS offices in Ridgmount Street, London on Monday 13th March 2006. The briefing will start at 10am and is expected to conclude by 11.30am. Slides from the presentations will be available online at www.ifs.org.uk from 11.30am onwards.
2. Households Below Average Income can be found on the Department for Work and Pensions website at www.dwp.gov.uk/asd/hbai/hbai2005/contents.asp.