IFS

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Poverty

Economic and Social Research Council

JRF JOSEPH ROWNTREE FOUNDATION

Measuring poverty

- **Absolute** poverty line – **60% of 2010-11 median** household income, adjusted for inflation.

  - 2021-22: £14,048.41 (equivalent for childless couple shown)

- **Relative** poverty line – **60% of contemporaneous median** household income.

  - 2020-21: £15,348.59

  - 2021-22: £15,593.76

Trends in poverty

Poverty rates (AHC)
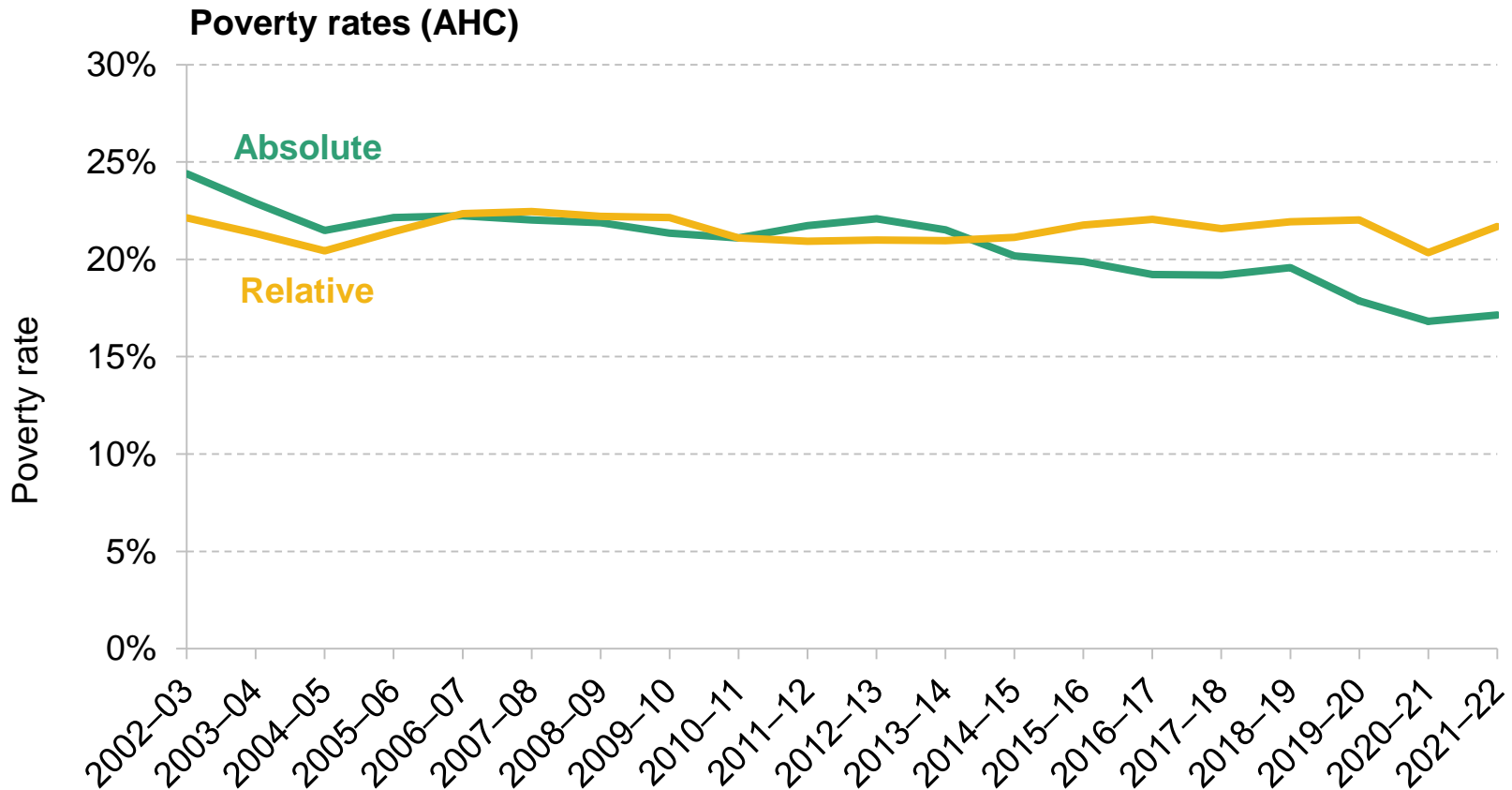
Note: Incomes measured net of taxes and benefits, with housing costs deducted.
Source: Authors' calculations using the Family Resources Survey, 2002-03 to 2021-22
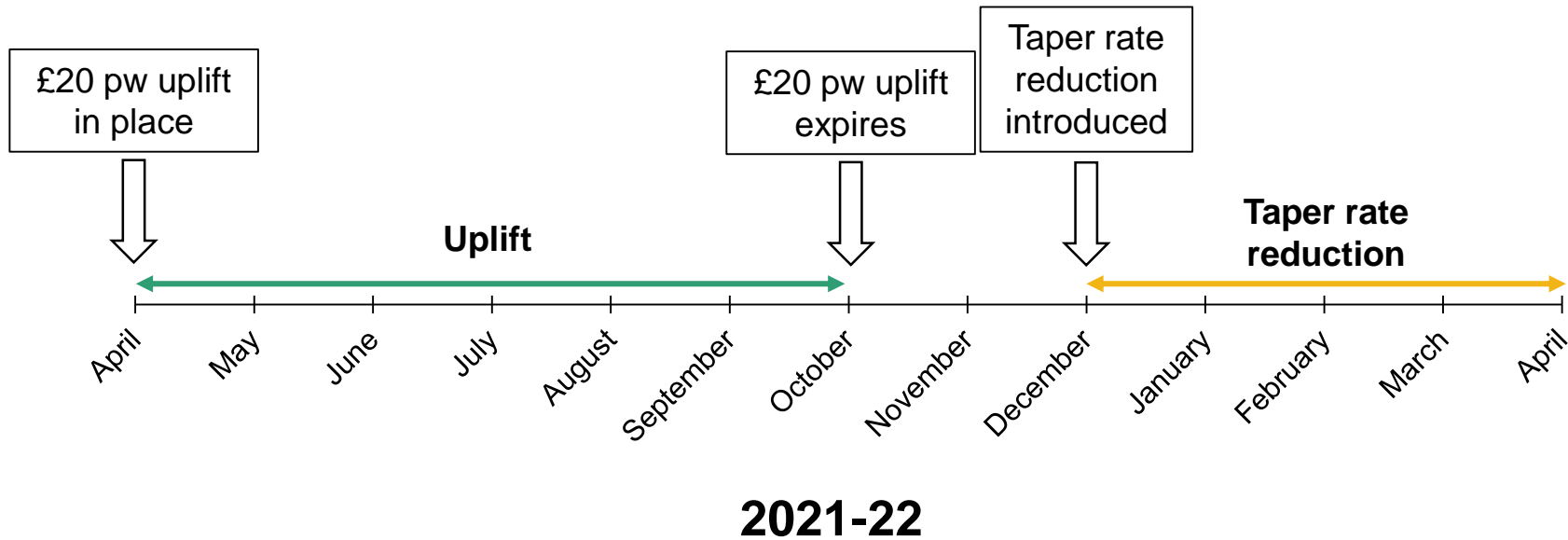
Effects of benefit reforms

Reforms to universal credit in 2021-22

£20 pw uplift in place

£20 pw uplift expires

Taper rate reduction introduced

Uplift

Taper rate reduction

April May June July August September October November December January February March April

2021-22

UC uplift had larger impact on poverty rates

Annualised effects of benefit policy reforms on absolute poverty rates
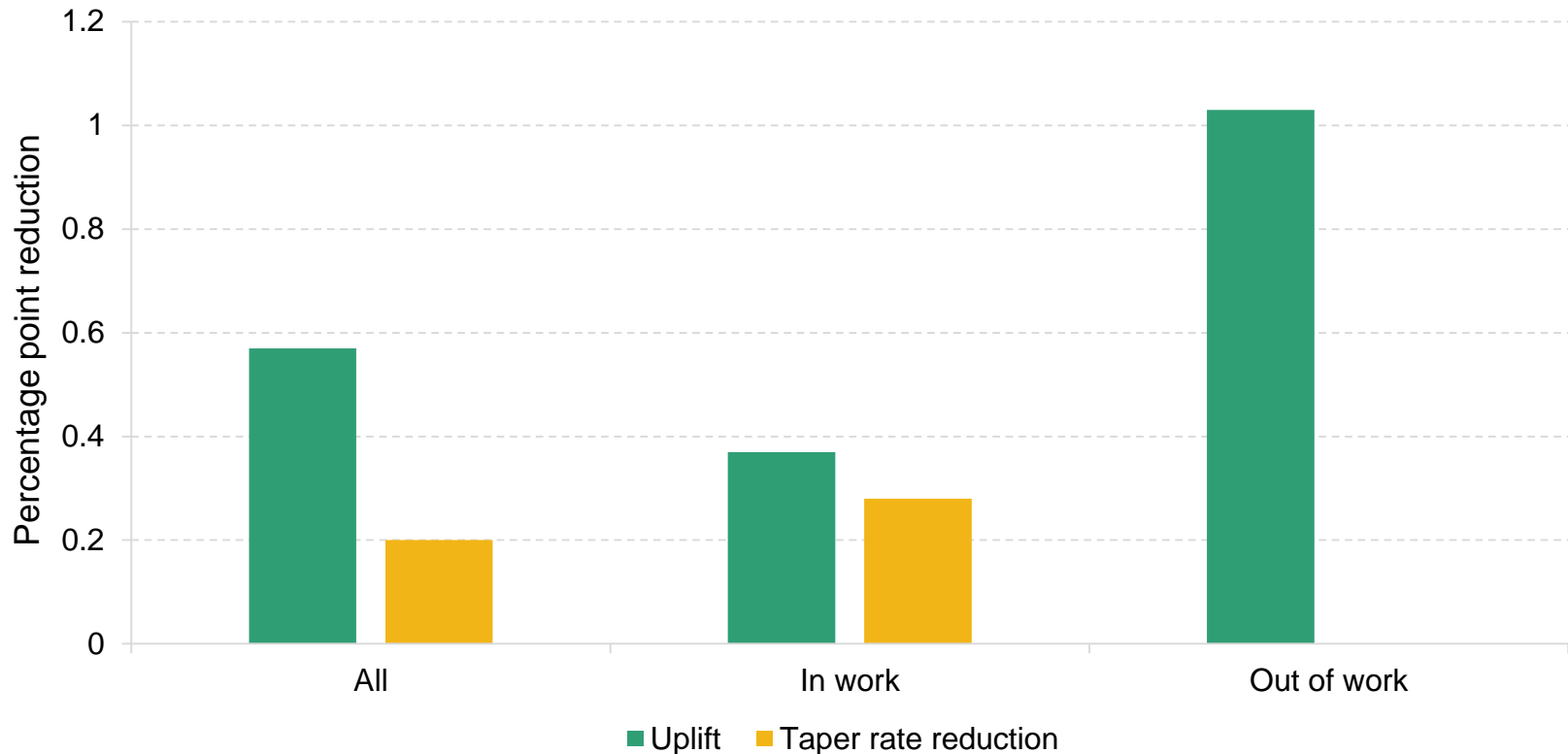
Note: Shows percentage point reduction in absolute poverty rate, measured after housing costs are deducted.
Source: Authors' calculations using TAXBEN, the IFS tax and benefit microsimulation model, and Family Resources Survey 2021-22

Cost of living payments
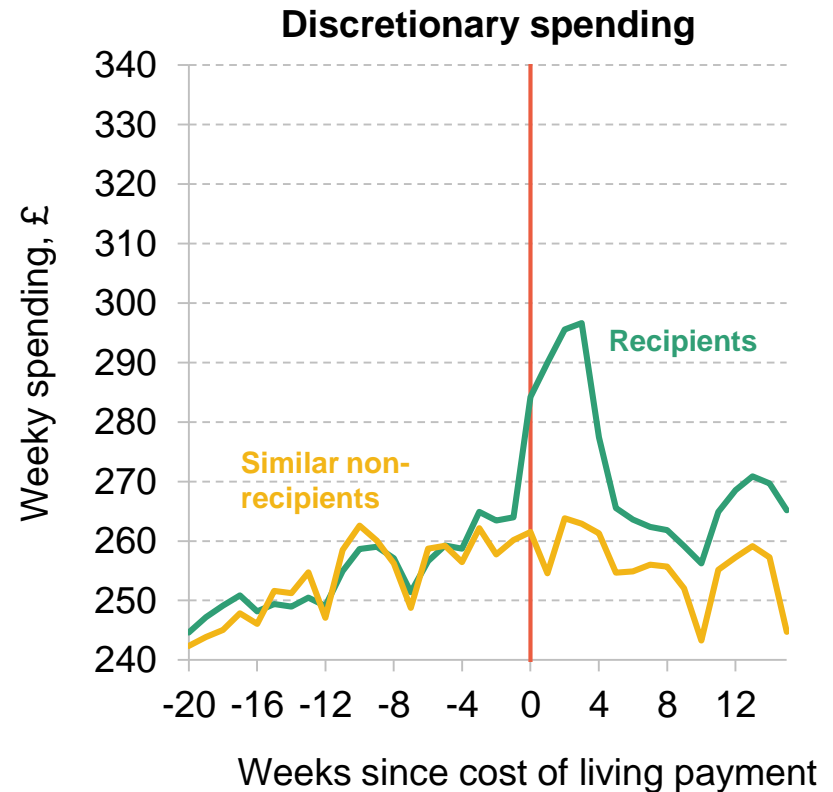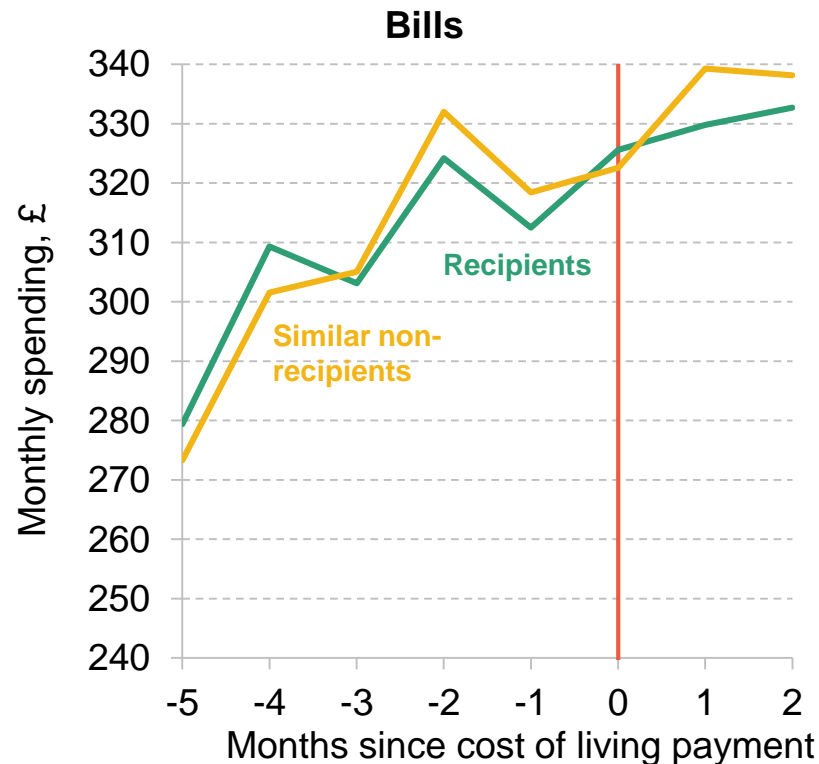
Background

.il IFS

- UK government is spending almost **£19bn** over two years on cost of living payments for **households on means-tested benefits**.

- Compensating for **declining real value** of benefits due to **out-of-date uprating**.

- For 2022-23 and 2023-24 introduced **5 payments** totalling £1,550, with each instalment going to at least **7 million households**.

- We analyse how households spent the first of these, a **£326** payment made in **July 2022**.

Poverty

Data

- Exact.One Transactional Dataset provided by ClearScore.

- **Transaction-level** data at a **daily** frequency.

- **98,000 users** who received a cost of living payment in July 2022.

- Individuals getting very low (high) benefit amounts are somewhat over (under)-represented

  - We find **similar** responses **across levels of UC**.

  - Spending patterns **match** those of benefit receiving households in other data.

# Cash from payments used for discretionary spending rather than bills

Broad spending categories

Bills

Monthly spending, £

Recipients

Similar non-recipients

Months since cost of living payment

Discretionary spending

Weeky spending, £

Recipients

Similar non-recipients

Weeks since cost of living payment

Note: Backward-looking four-week moving average shown for discretionary spending. CoL is short for cost of living.
Source: Authors' calculations using the Exact. One Transactional Dataset.

Discretionary spending categories

Groceries
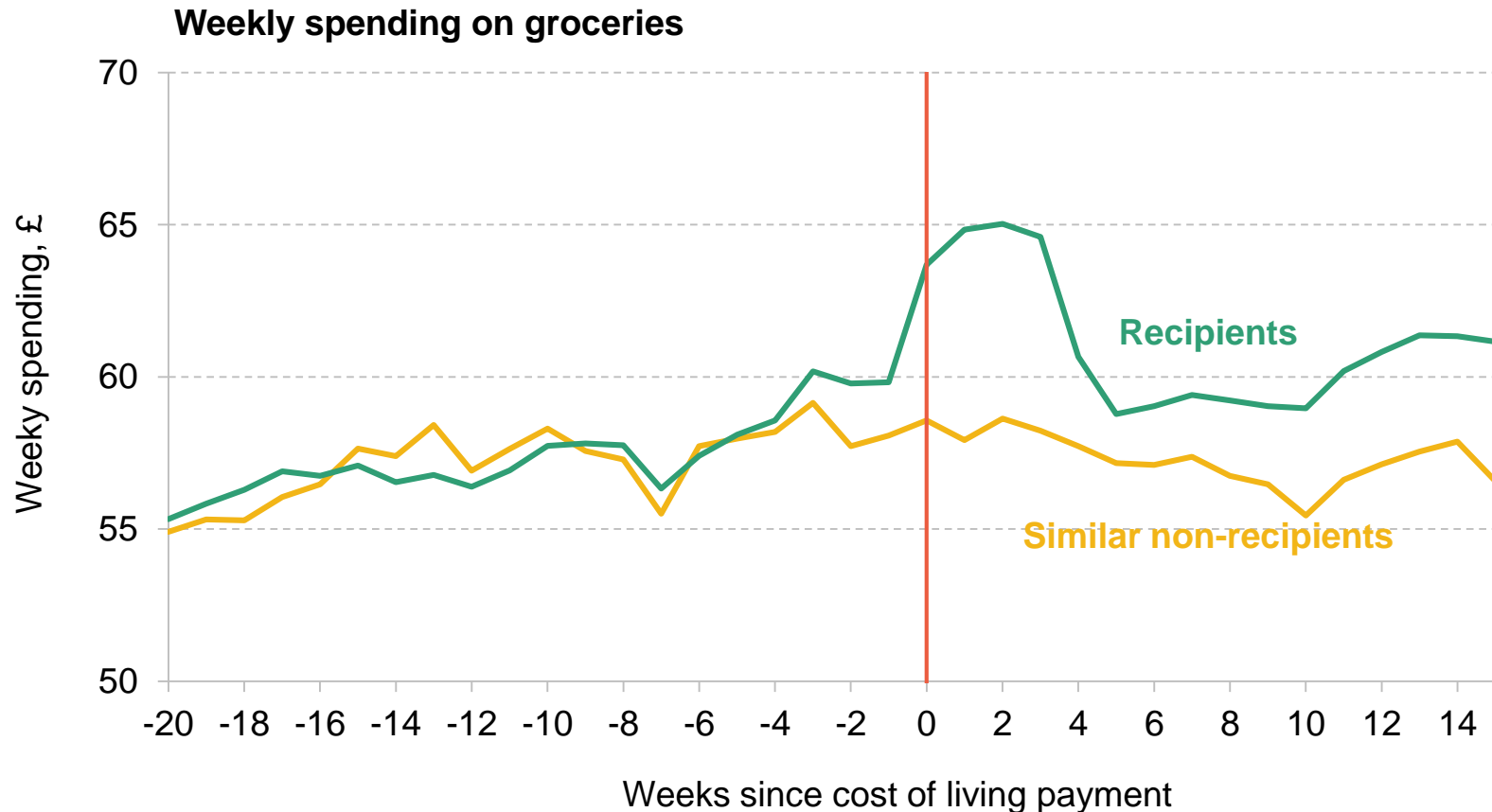
Weekly spending on groceries

Weeky spending, £

Recipients

Similar non-recipients
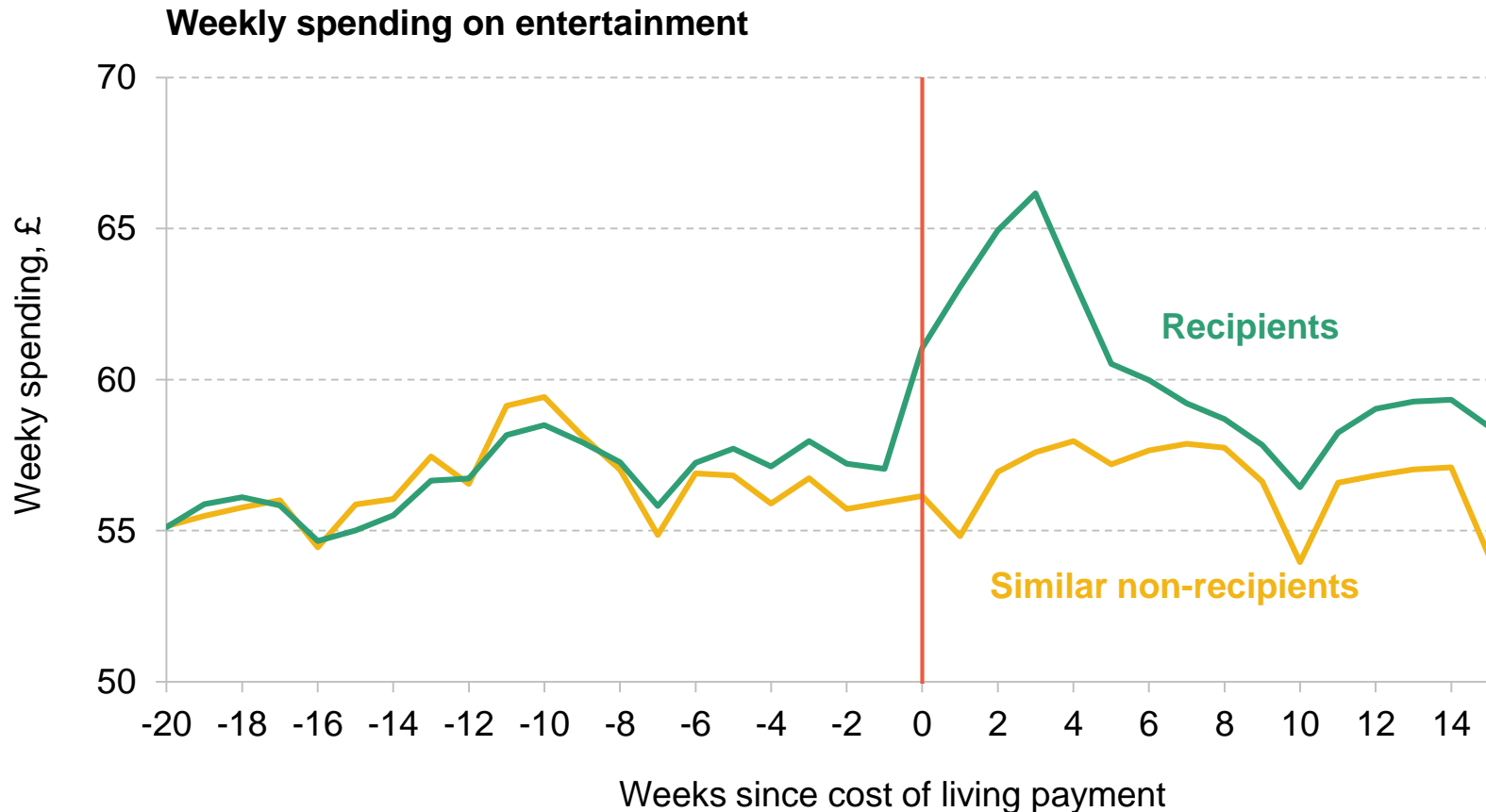
Weeks since cost of living payment

Note: Backward-looking four-week moving average.
Source: Authors' calculations using the Exact. One Transactional Dataset

Discretionary spending categories

Entertainment

Weekly spending on entertainment

Recipients

Similar non-recipients

Weeky spending, £
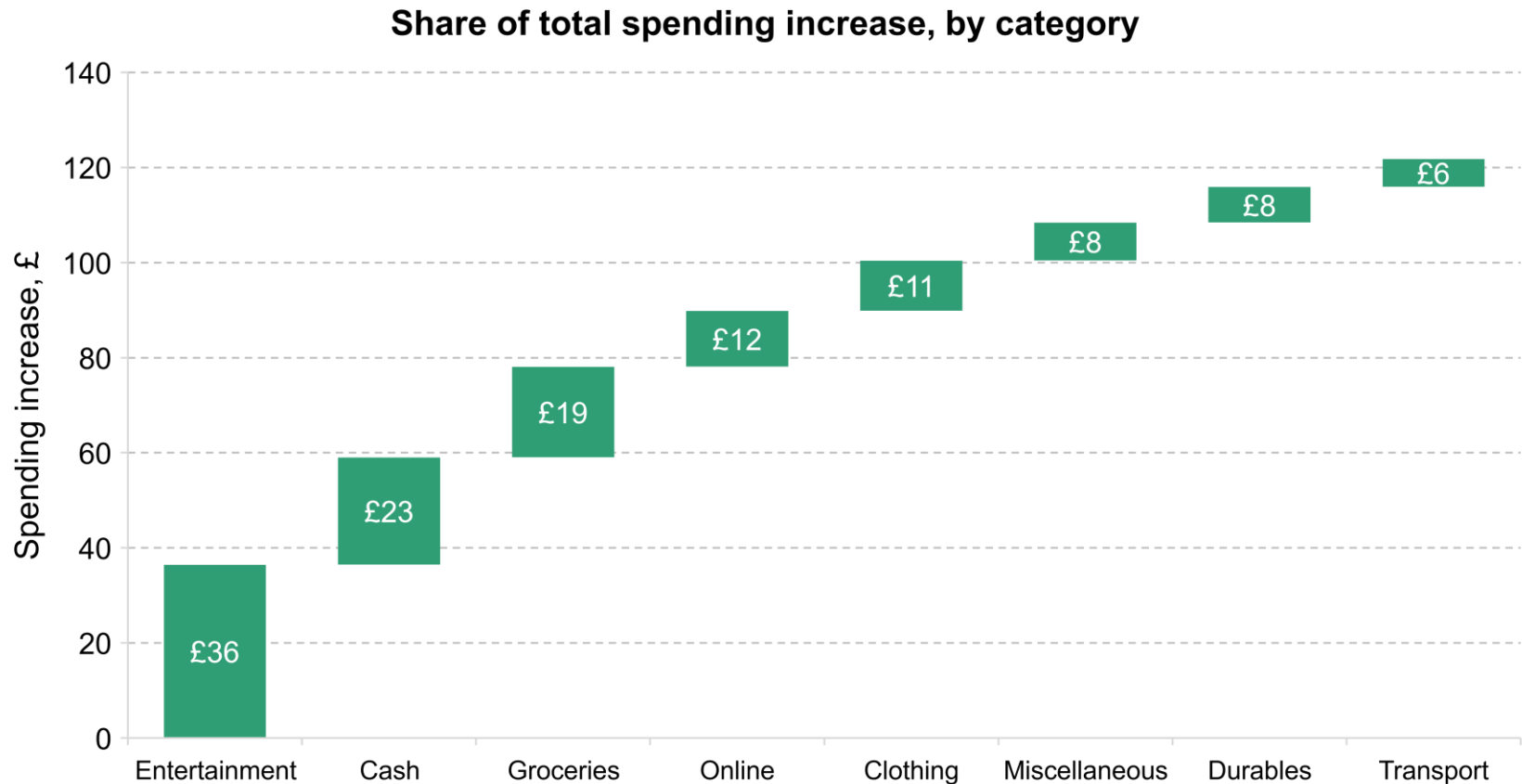
Weeks since cost of living payment

Note: Backward-looking four-week moving average.
Source: Authors' calculations using the Exact. One Transactional Dataset

Discretionary spending categories

Other categories

Share of total spending increase, by category

Note: Compares spending in first four weeks after the cost of living payment with spending in final four weeks before the payment.
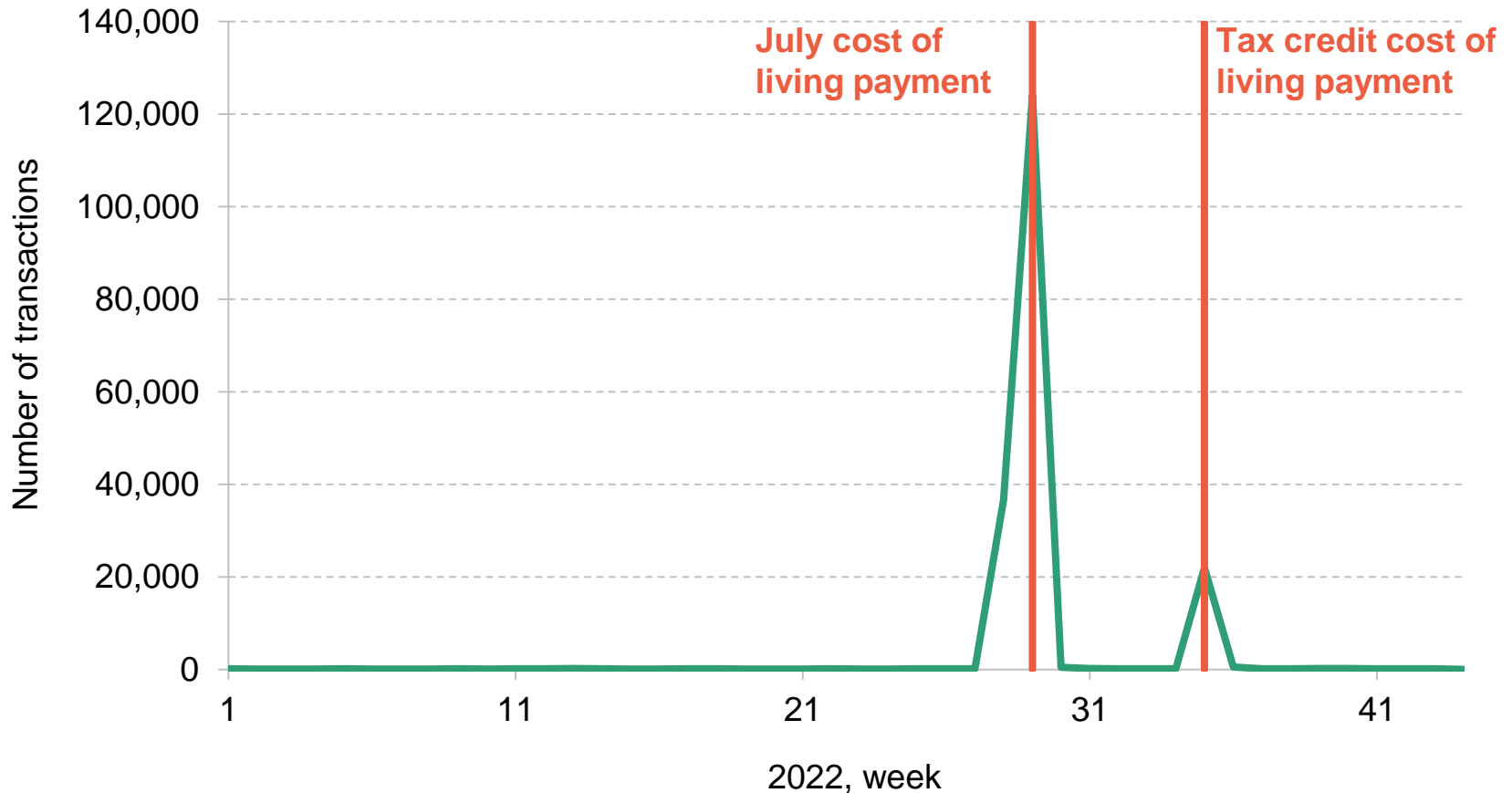Source: Authors' calculations using the Exact. One Transactional Dataset

Conclusions

- **Falls in absolute and relative poverty** since the beginning of the pandemic.

- Important driver was **£20pw uplift** policy, which **targeted poverty more effectively** than the taper rate reduction introduced later.

- Cost of living payments are blunt instruments, **poorly designed** for alleviating deprivation.

  - **Large, infrequent** payments make l**ong-term budgeting** more challenging.

  - **Lack of targeting**, all households received same amount.

  - Eligibility based on **one month's income** introduces unfairness.

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Number of weekly payments of £326

July cost of living payment

Tax credit cost of living payment

Number of transactions

140,000

120,000

100,000

80,000

60,000

40,000

20,000

0

1   11   21   31   41

2022, week

Note: Counts payments into bank accounts only. The second, smaller spike is the week in which recipients of tax credits were given a cost of living payment. We consider only the first payment in our analysis.
Source: Authors' calculations using the Exact.One Transactional Dataset.