The income distribution over the long run

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Outline of what’s to come

• Changes by family type
  – Income levels
  – Income inequality

• Changes by age
  – Income levels
  – Income inequality

• Conclusions
The big picture

• Over last 30 years, incomes have generally
  1. Grown (e.g. by about 50% at median since 1979; 70% at mean)
  2. Become more unequal
     - ...but at very different speeds for different parts of population
INCOMES BY FAMILY TYPE
Real income growth by percentile point (BHC, GB) 1978-1980 to 1996-97

- Parents and children
- Working-age without children
- Pensioners

Average annual real income change

Notes and source: see Figure 5.2 of *Living Standards, Poverty and Inequality in the UK: 2013*
Real income growth by percentile point (BHC, GB) 1996-97 to 2011-12

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The big picture

• Over last 30 years, incomes have generally
  1. Grown (e.g. by about 50% at median since 1979; 70% at mean)
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     – ...but at very different speeds for different parts of population

• Higher income growth for pensioners than non-pensioners
  – e.g. ~ 2% per year vs ~ 1% per year at the median
  – Particularly slow growth for working-age childless

• Larger rise in inequality for non-pensioners
  – This has slowed or been (partially) reversed since 1996-97, particularly for families with children
The result: convergence across family types
Position in income distribution (BHC, GB)

Notes and source: see Figure 5.1 of Living Standards, Poverty and Inequality in the UK: 2013
...and on an after-housing-costs (AHC) basis

Notes and source: see Figure E.1 of *Living Standards, Poverty and Inequality in the UK: 2013*
Summary: convergence across family types

• ‘Catch-up’ of pensioners is most striking
  – % in lowest (BHC) income quintile down from 47% in 1978-1980 to 21% in 2011-12...
  – ...while proportion in top two quintiles rose from 18% to 31%

• Working-age childless (the highest-income group) now less/more likely to be relatively rich/poor

• Parents and children more likely to be relatively rich and relatively poor than in late 1970s (more unequal)
  – But % relatively poor has come down since 1996-97
Long run growth in pensioner incomes

1. State benefits

2. Private pensions
Pensioner income sources (GB)

Notes and source: see Figure 5.3 of Living Standards, Poverty and Inequality in the UK: 2013
Long run growth in pensioner incomes

1. State benefits
   - e.g. more entitlements to state pensions; Pension Credit
   - Biggest driver of growth for lower-income pensioners
   - Bottom quintile: 43% real growth in benefits income since 1978-80

2. Private pensions
   - Biggest driver of growth for higher-income pensioners
   - Top quintile: four-fold real growth in private pension income since 1978-80; up from 18% to 36% as share of income
INCOMES ACROSS THE AGE SPECTRUM
Median income by age (GB)

Before housing costs, 2011-12
Before housing costs, 1978-1980
After housing costs, 2011-12
After housing costs, 1978-1980

Notes and source: see Figure 5.6 of Living Standards, Poverty and Inequality in the UK: 2013
The elderly

- Incomes now dip much less at older ages, especially AHC
  
  - In 1978-80, median household income for those in late 60s lower than for any younger age-group
  - Now higher than for children; about the same AHC as for those in their early 40s

- And inequality now dips at pensioner ages, especially AHC
  
  - In early ‘60s, inequality among pensioners was higher than it is now, and higher than for non-pensioners
  - By 1978-80, inequality quite flat across age spectrum
  - Since late ‘70s, inequality has risen much less among pensioners
Young adults

- More recent trend is the falling-behind of young adults
- Began pre-recession, and has accelerated since...
Growth in median income by age (BHC, GB)

Notes and source: see Figure 5.7 of *Living Standards, Poverty and Inequality in the UK: 2013*
Young adults

More recent trend is the falling-behind of young adults

Began pre-recession, and has accelerated since...

- No growth at median among those in 20s between 2001-02 and 2007-08
- And a fall of 12% between 2007-08 and 2011-12

...which is not surprising, given employment trends
Employment rates by age (GB)

Notes and source: see Figure 5.9 of *Living Standards, Poverty and Inequality in the UK: 2013*
Young adults

– More recent trend is the falling-behind of young adults

– Began pre-recession, and has accelerated since...
  • No growth in median income among those in 20s between 2001-02 and 2007-08
  • And a fall of 12% between 2007-08 and 2011-12

– ...which is not surprising, given employment trends

– Though bear in mind longer term perspective
  • Income growth quite uniform across working-age spectrum since late ‘70s
Growth in median income by age (BHC, GB)

Notes and source: see Figure 5.7 of *Living Standards, Poverty and Inequality in the UK: 2013*
Incomes for young adults since recession

- About 4 in 10 adults under 30 live with parents
  - So individual incomes of young adults and their partners (‘benefit unit’ incomes) often only part of total household income
  - Living with parents has reduced the hit to household income for many


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<thead>
<tr>
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<th>Living on own or with partner only</th>
<th>Living with parents</th>
<th>Living with others</th>
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<tbody>
<tr>
<td>Median household income</td>
<td>-10.8%</td>
<td>-5.7%</td>
<td>-14.7%</td>
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<tr>
<td>Median benefit unit income</td>
<td>-10.8%</td>
<td>-16.8%</td>
<td>-16.9%</td>
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</tbody>
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Notes and source: see Table 5.4 of *Living Standards, Poverty and Inequality in the UK: 2013*
Conclusions

• We’ve got richer and more unequal in recent decades

• But also big changes to who is relatively rich and poor
  – Other groups have been catching up with the working-age childless

• Incomes now dip much less at pensioner ages

• And inequality now falls at pensioner ages

• More recent trend is falling-behind of young adults
  – How persistent will effects of these early experiences be for these cohorts?