Introduction

• Two definitions of poverty, both in Child Poverty Act:
  1. Absolute income poverty: in poverty if household income is less than 60% of 2010-11 median (in real terms).
  2. Relative income poverty: in poverty if household income is less than 60% of median in that year.

• Incomes are equivalised and measured net of taxes and benefits.

• In this presentation, will focus on:
  – poverty among dependent children and working-age individuals without dependent children (NB: not pensioners).
  – poverty with incomes measured before housing costs have been deducted.
Overview

• Methodology

• Poverty forecasts to 2013-14 under current policies

• The impact on poverty of coalition Government reforms

• Conclusions
Outline of methodology

1. Start with ‘base data’ on distribution of private income and household characteristics: 2008/09 Family Resources Survey.

2. Up-rate financial variables to expected future levels (Office for Budget Responsibility).

   - Give relatively more weight to household types expected to become more common. NB: employment changes modelled in this way.

4. Simulate tax liabilities and benefit and tax credit entitlements, given expected future tax and benefit systems.

5. Adjust incomes to reflect non-take-up (and non-reporting) of means-tested benefits and tax credits.
   - This yields a simulated future distribution of household incomes, from which we obtain results.
Aligning simulated poverty with HBAI-measured poverty

• Can apply these methods to the past (2008-09), and compare our simulated incomes with officially measured incomes.

• In practice, micro-simulation output will not perfectly replicate survey data on which it is based.

• Why?
  – We simulate tax liabilities, rather than using self-reported tax payments.
  – We simulate means-tested benefit/tax credit entitlements, rather than using self-reported receipts (our adjustment for non take-up lessens, but does not eliminate, this problem).

• How do we account for this?
  – For each household, calculate difference between simulated income and HBAI-measured income in 2008-09.
  – Assume this difference remains same (in real terms) in future years, i.e. add the difference back on to our simulated incomes in future years.
Uncertainties and limitations

• The official macroeconomic forecasts we use are highly uncertain (as the OBR itself makes clear).

• Behavioural change can not be fully accounted for.

• The income distribution is dense around the poverty line.

• Survey data is always subject to sampling error. This is true of our ‘base data’ and the future HBAI data that we are forecasting.

• All these limitations are generic to static micro-simulation modelling.

• With some planned tax and benefit reforms, data is insufficient to identify precise distribution of losses and gains across households.

• Judgement required about which reforms can be modelled precisely enough…
Tax and benefit reforms that we do not model

- Some tax credit reforms: changes to way in which tax credit payments respond to within-year changes in circumstances (estimated saving of ~£1.2bn in 2013/14).
- Localisation of Council Tax Benefit (an aggregate cut of 10%) in April 2013 (estimated saving of ~£0.5bn in 2013/14).
- Migration of Incapacity Benefit claimants onto Employment and Support Allowance.
- Reduction in age of youngest child at which lone parents can claim Income Support.

- Why don’t we model them?
  - Not enough information about distribution of losses and gains.
  - Note important differences between distributional analysis by decile group and poverty modelling.
- NB: In 2012-13, the set of reforms we model is close to the set the Treasury have modelled. Difference is that we model Local Housing Allowance reforms.
Poverty forecasts under current policies

Notes: 2008 figures are actual. 2009 figures are linear interpolations between 2008 and 2010. Years refer to financial years. Incomes measured before housing costs have been deducted.
Summary: forecasts under current policies

• Between 2008-09 (latest year of data) and 2010-11:
  – Median income, and hence relative poverty line, to fall in real terms.
  – Absolute child poverty stable, relative child poverty to fall by about 300,000 (to approx. 2.5 million, or 19%).
  – Among those of working age without children, absolute/relative poverty to rise by about 400,000/100,000.

• Between 2010-11 and 2012-13:
  – Small fall (~1%) in real median income.
  – Relative child poverty unchanged, absolute child poverty up 100,000.
  – Among working-age adults without children, absolute/relative poverty up by about 300,000/200,000.

• Between 2012-13 and 2013-14:
  – Absolute/relative poverty up by about 100,000/200,000 children and 100,000/200,000 working-age adults without children.
The impact on poverty of coalition reforms

• What if Government had simply implemented plans for the tax and benefit system that it inherited?
  – Interesting in its own right.
  – Government has claimed “no measurable impact” from modelled reforms on child poverty to 2012-13, based on Treasury analysis.

• Caveats (applying equally to our analysis and HM Treasury’s):
  – Plans the Government inherited are not necessarily what would have happened under a Labour Government.
  – Expected macroeconomic environment is taken as given. In reality, it may have been different without Government’s reforms.
Absolute poverty: the impact of coalition reforms

- Children (current policies)
- Children (no coalition reforms)
- Working-age without children (current policies)
- Working-age without children (no coalition reforms)

Notes: Years refer to financial years. Incomes measured before housing costs have been deducted.
Relative poverty: the impact of coalition reforms

Poverty rate

- Children (current policies)
- Children (no coalition reforms)
- Working-age without children (current policies)
- Working-age without children (no coalition reforms)

Notes: Years refer to financial years. Incomes measured before housing costs have been deducted.
Summary: impact on poverty of coalition reforms

• **In 2011-12:**
  - Negligible impact on child poverty. Reduce slightly absolute poverty among working-age adults without children, by about 100,000.

• **In 2012-13:**
  - Increase absolute/relative child poverty by about 200,000/100,000.
    - Do not quite agree with Government’s claim about child poverty in 2012-13.
    - But increase of 100,000 is smallest that would be measured in official series.
    - Discrepancy accounted for by fact that we model Local Housing Allowance reforms, whereas Treasury did not.
  - Increase absolute and relative poverty among working-age adults without children by about 100,000.

• **In 2013-14:**
  - Increase absolute/relative poverty by about 300,000/200,000 children and 300,000/200,000 working-age adults without children.
Prospects for 2020-21 child poverty targets

• Child Poverty Act sets targets for absolute and relative child poverty in 2020-21:
  – 5% absolute; 10% relative.

• Under current policies, in 2013-14 we are forecasting:
  – 20.9% absolute; 20.5% relative.

• So the required reductions in 7 years after 2013-14 would be:
  – 15.9 percentage points absolute; 10.5 ppts relative.

• Relative child poverty has not fallen by 10.5 ppts over any period since at least 1961 (when series began).
Conclusions

• Under current policies, we expect absolute and relative poverty to rise in next 3 years, particularly in 2013-14.

• We estimate that coalition Government’s reforms act to increase poverty slightly in 2012-13, and more clearly in 2013-14.

• Meeting absolute and relative child poverty targets in 2020-21 looks extremely difficult.

• Future work (after Welfare Reform Bill) will look at poverty beyond 2013-14, and how it relates to Universal Credit reform.