

Press Release

Elderly see incomes rise, whilst young adults see large falls

The incomes of those in their 60s and 70s have continued to rise since the recession. In contrast, median (middle) income among people in their 20s fell by 12% between 2007–08 and 2011–12, after adjusting for inflation – the largest fall of any age group.

These differences amongst age groups are not new, but reflect longer-term trends. Median income for people in their 20s had not grown in the six years before the recession, between 2001–02 and 2007–08. Pensioners, on the other hand, have consistently seen faster income growth than other family types and age groups over the past thirty years.

These are among the findings of a new report by IFS researchers published today: *Living Standards, Poverty and Inequality in the UK: 2013*, funded by the Joseph Rowntree Foundation. The research is based on the government's *Households Below Average Income* data, an analysis of which was published yesterday by the Department for Work and Pensions.

Key findings for the population as a whole include:

- Average incomes fell again in 2011–12, reaching 7.2% below their 2009–10 peak at the mean and 5.8% below their 2009–10 peak at the median.
- Income *inequality* changed little in 2011–12 but remained significantly lower than before the start of the recession.
- Relative poverty also changed little in 2011–12, remaining more than a million below its pre-recession level – its lowest level since 1986. Numbers in 'absolute poverty', however, rose.

Today's report provides a more detailed analysis of trends in living standards, poverty and inequality amongst different family types and age groups over the long run.

Incomes of the elderly performed better than other groups during recession, continuing longer-term trend ...

Individuals aged 60 or above are the only age group not to see real falls in median income since the recession, with total median income growth of around 2–3% between 2007–08 and 2011–12. This continues a much longer-term trend. Since the late 1970s,

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median income growth has averaged around 2% per year among pensioners and around 1% per year for working-age adults. These add up to very big differences in income growth over time. Since 1979, median income has almost doubled among pensioners, increased by around 50% among individuals in families with children and grown by just a third (33%) among working-age adults without children.

... while recent falling-behind of young adults accelerated

Median household income among adults in their 20s fell by about 12% in real terms between 2007–08 and 2011–12. This was a larger fall than that experienced by any other age group. This fits with the sharp falls in the employment rates of the group since the recession, at a time when employment among other age groups has been remarkably robust. This comes on the back of a pre-recession period in which young adults had already started to fall behind: median household income among individuals in their 20s did not grow at all between 2001–02 and 2007–08.

Falls in relative poverty since the start of the recession driven by pensioners and children

The fractions of pensioners and children in relative poverty fell substantially between 2007–08 and 2011–12. The relative poverty rate for pensioners fell particularly sharply – by more than one-quarter – over those four years. The primary reason for this is that, unlike wages, benefit rates broadly kept pace with inflation over the period, and benefits are a particularly important income source for low-income pensioners and families with children. On the other hand, relative poverty among working-age adults without children increased, driven by increasing levels of unemployment, and falls in real wages.

Recent trends continue long-term changes in types of people who tend to be relatively poor

In the 1960s and 1970s, poverty rates were up to eight times higher for pensioners than for the rest of the population. However, substantial and sustained falls in pensioner poverty since the late 1980s, and increases in relative poverty among the rest of the population, mean that pensioners now have a similar risk of poverty to everyone else. Indeed, once their lower housing costs are taken account of, pensioners are now at a *lower* risk of poverty than any other demographic group (see the table).

Table: relative poverty rates

	Children	Pensioners	Working-age adults without children	All
Before housing costs				
1961	12.9%	37.7%	6.0%	13.0%
1979	13.1%	35.2%	5.5%	13.4%
1996–97	26.7%	24.6%	12.0%	19.4%
2011–12	17.4%	16.4%	15.2%	15.9%
After housing costs				
1961	13.4%	37.6%	6.6%	13.5%
1979	14.1%	31.4%	6.4%	13.7%
1996–97	34.1%	29.1%	17.2%	25.3%
2011–12	27.0%	13.5%	20.2%	21.1%

Note: Figures for 2011–12 cover the whole of the United Kingdom. Other figures are for Great Britain only. The top/bottom set of numbers gives poverty rates using incomes measured before/after deducting housing costs. Poverty line is 60% of contemporary median income. See notes to editors for poverty lines for different family types in 2011–12.

Source: Family Expenditure Survey and Family Resources Survey.

Working-age adults without children are now about as likely to be poor as the rest of the population. This is very different from the historic norm and partly reflects substantial increases in the number living in workless families and a decline in the relative value of out-of-work benefits for working-age adults without children. But relative poverty rates among working-age adults without children living in families where someone works have also increased. Between the late 1970s and 1996–97, this reflected an increase in hourly and weekly earnings inequality. Since 1996–97, it reflects the fact that earnings growth was generally weak for this group right across the income distribution. The increase in in-work poverty means that almost half of all poor working-age adults without children work or have a partner who works, compared with just 30% in 1978–1980.

Rates of child poverty down since the late 1990s, but in-work poverty an increasingly important component

Child poverty rose over the period to the early 1990s, but fell substantially in the 15 years between 1996–97 and 2011–12. This fall was driven mostly by substantial increases in the generosity of means-tested benefits for low- and middle-income families with children, although increases in parental employment rates also

played a role. By 2011–12, a large majority of poor children lived in a family with at least one parent in work – a sharp contrast with earlier periods. In part, though, this reflects the impact of the benefit system in keeping many more of the workless out of poverty than used to be the case.

“The face of poverty has become much younger during recent decades,” says David Phillips, a Senior Research Economist at the Institute for Fiscal Studies. “Whereas in the 1960s and early 1970s the poverty rate for pensioners was around six to eight times as high as for working-age adults without children, by 2011–12 the risks had near enough equalised. Indeed, once housing costs are accounted for, pensioners actually had a substantially lower risk of poverty by 2011–12.

“This is in many ways a triumph of social policy. But these figures also confirm that it is young people who have suffered most as a result of the recent recession and who are now at risk of falling further behind. It is important that policymakers and politicians understand these profound changes to patterns of low incomes and respond accordingly.”

ENDS

Notes to Editors:

1. The full *Households Below Average Income* publication can be found on the Department for Work and Pensions website at <http://research.dwp.gov.uk/asd/hbai/hbai2011/index.php?page=contents>
2. The full report *Living Standards, Poverty and Inequality in the UK: 2013* will go live on the IFS website (www.ifs.org.uk) at 00.01 Friday 14 June 2013. Embargoed copies are available from bonnie_b@ifs.org.uk / 020 7291 4818.
3. The authors are very grateful for financial support from the Joseph Rowntree Foundation for the project ‘Living Standards, Poverty and Inequality in the UK: 2013’. Co-funding from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS is also very gratefully acknowledged.

Poverty lines (60% of median household equivalised income) in 2011–12 include:

£ per week	Childless couple	Single individual	Couple, one child (age 8)	Couple, two children (ages 8 & 15)	Lone parent, one child (age 8)	Lone parent, two children (ages 8 & 15)
AHC	£220	£128	£264	£357	£172	£264
BHC	£256	£172	£308	£392	£223	£308



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