Living standards, poverty and inequality in the UK: 2018

20 June 2018
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Institute for Fiscal Studies

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Network name: The Building Centre
(Open network)
Living standards and income inequality

Jonathan Cribb
What do we mean by “income”?

**Income is measured:**
- Net of direct taxes and benefits
- At the household level
- Before and after housing costs have been deducted ("BHC" and "AHC")

**Income is adjusted to account for:**
- Differences in household size and structure ("equivalisation")
- Inflation over time (using variants of the CPI)

**Latest official income data** – based on a survey of 20,000 households – are available for 2016–17
The UK income distribution in 2016–17

Source: Figure 3.1 of *Living Standards, Poverty and Inequality in the UK: 2018*
The UK income distribution in 2016–17

Net household income (£ per year, 2016–17 prices)

Childless couple: £25,700 p.a.

Source: Figure 3.1 of Living Standards, Poverty and Inequality in the UK: 2018
The UK income distribution in 2016–17

Source: Figure 3.1 of *Living Standards, Poverty and Inequality in the UK: 2018*
The UK income distribution in 2016–17

Expressed as equivalent living standards for a childless couple

Median: £25,700 p.a.

Source: Figure 3.1 of Living Standards, Poverty and Inequality in the UK: 2018
The UK income distribution in 2016–17

Expressed as equivalent living standards for a childless couple

<table>
<thead>
<tr>
<th>Percentile point</th>
<th>10th percentile</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net household income (£ per year, 2016-17 prices)</td>
<td>£12,900 p.a.</td>
<td>£25,700 p.a.</td>
</tr>
</tbody>
</table>

Source: Figure 3.1 of *Living Standards, Poverty and Inequality in the UK: 2018*
The UK income distribution in 2016–17

Expressed as equivalent living standards for a childless couple

Net household income (£ per year, 2016–17 prices)

- 10th percentile: £12,900 p.a.
- Median: £25,700 p.a.
- 90th percentile: £50,000 p.a.

Source: Figure 3.1 of Living Standards, Poverty and Inequality in the UK: 2017
The UK income distribution in 2016–17

Expressed as equivalent living standards for a childless couple

- **10th percentile:** £12,900 p.a.
- **Median:** £25,700 p.a.
- **90th percentile:** £50,000 p.a.
- **99th percentile:** £120,500 p.a.

Source: Figure 3.1 of *Living Standards, Poverty and Inequality in the UK: 2018*
This presentation

What has happened to average incomes in recent years?
- What has driven recent income growth?
- How has average income growth compared to previous periods?
- How has it differed for working age people and pensioners?

How has income growth differed for high and low income people?
- What implications has that had for income inequality?
- What has driven recent changes in income inequality?
This presentation

What has happened to average incomes in recent years?

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How has income growth differed for high and low income people?

- What implications has that had for income inequality?
- What has driven recent changes in income inequality?
Median income in Britain since the 1960s

Note: Great Britain only
Source: Authors calculations using the Family Expenditure Survey and Family Resources Survey, various years.

2.0% per year in 40 years prior to 2007-08

0.6% per year since 2007-08
Median income in the UK since 2002-03

Median equivalised net household income (£ per year, 2016-17 prices)

- 1.1% per year 2002-03 to 2007-08
- -0.6% per year 2007-08 to 2011-12
- 1.6% per year 2011-12 to 2016-17

Source: Figure 2.2 of Living Standards, Poverty and Inequality in the UK: 2018
Explaining average (mean) income growth

Contribution since 2007-08

Gross employee earnings
Gross self employment income
Working age benefits
Pensioner benefits
Private pensions and savings
Other
Direct taxes

Contribution since 2011-12

Still lower income from employee earnings
Fall in working age benefit incomes
Higher income from pensioner benefits, private pensions and savings
Modest recovery in employment incomes

Contribution to average income growth (ppt)

Note: Excludes individuals subject to the top income (SPI) adjustment due to responses to dividend taxation in 2016-17
Source: Table 2.1 of Living Standards, Poverty and Inequality in the UK: 2018

Living Standards, Poverty and Inequality in the UK: 2018 © Institute for Fiscal Studies
Average pensioner vs non-pensioner incomes

After Housing Costs are deducted

Before Housing Costs are deducted

Source: Figure 2.7 of Living Standards, Poverty and Inequality in the UK: 2018
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- What has driven recent changes in income inequality?
Long-run inequality: 1961 to 2016–17 (GB)

Source: Figures 3.7 and 3.8 of Living Standards, Poverty and Inequality in the UK: 2018
Long-run inequality: 1961 to 2016–17 (GB)

Source: Figures 3.7 and 3.8 of Living Standards, Poverty and Inequality in the UK: 2018
Long-run inequality: 1961 to 2016–17 (GB)

Gini coefficient

Top 1% share of income (RH axis)

Source: Figures 3.7 and 3.8 of *Living Standards, Poverty and Inequality in the UK: 2018*
Changes in income inequality in the recovery

Average annual income growth

Increases in inequality between bottom and middle

Decreases in inequality between middle and top

Source: Figure 3.10 of Living Standards, Poverty and Inequality in the UK: 2018
Why did middle incomes grow faster than low or high incomes during the recovery?

1. Employment growth much larger in low (and middle) income households
Growth in employment favoured bottom and middle

16-64 employment rate

<table>
<thead>
<tr>
<th>Income Level</th>
<th>2011-12</th>
<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest income 20%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Middle income 20%</td>
<td>80%</td>
<td>90%</td>
</tr>
<tr>
<td>Highest income 20%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Why did middle incomes grow faster than low or high incomes during the recovery?

1. Employment growth much larger in low (and middle) income households

2. Earnings growth has been strongest for low earners, which particularly benefits middle income households (!)

3. Earnings growth has been weak for high earners, which suppresses incomes of high income households
Real weekly earnings growth

Average position (percentile) in household income distribution in 2016-17 (RH axis)

Real weekly earnings growth 2011-12 to 2016-17 (LH axis)
Why did middle incomes grow faster than low or high incomes during the recovery?

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3. Earnings growth has been weak for high earners, which suppresses incomes of high income households

4. Benefit incomes have fallen for lowest income households
Changes in working age benefit incomes since 2011-12

-23% = £420 per year

-6% = £620 per year
Why did middle incomes grow faster than low or high incomes during the recovery?

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Summary

Income growth during the recovery has been slow by long run historical standards, but faster than in the run up to the recession

- Driven by (relatively weak) growth in employment incomes
- If OBR forecasts are correct, expect relatively slow income growth in coming years

Income inequality much higher than it was late 1970s, little change overall since 1990

During the recovery from the recession, inequality rising between middle and bottom, falling between top and middle

- Due to trends in employment and earnings, and falls in benefit incomes
- Modest earnings growth + working age benefit cuts suggest increasing inequality in coming years
Poverty

Agnes Norris Keiller
Measuring poverty

Measure of low material living standards
• Proxy living standards with net household income
• Focus on income measured after housing costs are deducted (AHC)

Absolute income poverty (poverty line fixed in real terms)
• Income less than 60% of 2010–11 median income (CPI adjusted)
• £7.2k p.a. for childless single adult; £17.5k p.a. for couple with 2 kids

Relative income poverty (moving poverty line)
• Income less than 60% of the contemporary median income
This presentation

How has poverty changed in recent years?
  • How does this compare to previous periods?
  • How has it differed for children and pensioners?

How have housing costs among low-income children changed?
  • What does this mean for measuring poverty?

How have the living standards of low-wage employees changed following the introduction of the National Living Wage?
  • How have these changes impacted poverty?
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Absolute AHC poverty in the UK since 2002–03

Source: Figure 4.1 of Living Standards, Poverty and Inequality in the UK: 2018
Recent falls in poverty vs earlier trends

Change in absolute AHC poverty rate (percentage points)

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Pensioners</th>
<th>Children</th>
<th>Working-age non-parents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002–03 to 2007–08</td>
<td>-8</td>
<td>-4</td>
<td>-2</td>
<td>-6</td>
</tr>
<tr>
<td>2007–08 to 2011–12</td>
<td>-6</td>
<td>-2</td>
<td>0</td>
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<td>0</td>
<td>2</td>
<td>2</td>
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Source: Figure 4.2 of *Living Standards, Poverty and Inequality in the UK: 2018*
Why has pensioner poverty reduction slowed?

Many pensioners in 2002–03 had incomes slightly below poverty line
Why has pensioner poverty reduction slowed?

Source: Figure 4.4 of *Living Standards, Poverty and Inequality in the UK: 2018*
Why has pensioner poverty reduction slowed?

Source: Figure 4.4 of Living Standards, Poverty and Inequality in the UK: 2018
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Why has pensioner poverty reduction slowed?

Many pensioners in 2002–03 had incomes slightly below poverty line
• Only small income growth needed to pull many out of poverty

Income growth among lowest-income fifth of pensioners has slowed
• 8% between 2002–03 and 2007–08; 1% between 2011–12 and 2016–17
• Largely due to slower growth in private pension and saving income
Why has child poverty reduction accelerated?

Between 2011–12 and 2016–17:
• Falls in child poverty among both working and workless households
• Rises in parental employment

Between 2002–03 and 2007–08:
• Child poverty fell among workless households only
• Little change in parental employment
AHC poverty in the UK since 2002–03

Source: Figures 4.1 and 4.6 of Living Standards, Poverty and Inequality in the UK: 2018
Relative AHC poverty in the UK since 2002–03

Source: Figure 4.6 of Living Standards, Poverty and Inequality in the UK: 2018
Relative AHC poverty in the UK since 2002–03

Source: Figure 4.6 of Living Standards, Poverty and Inequality in the UK: 2018
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How have housing costs among low-income children changed?
• What does this mean for measuring poverty?

How have the living standards of low-wage employees changed following the introduction of the National Living Wage?
• How have these changes impacted poverty?
Fast growth in housing costs among low-income hhs. with children

Change in mean real housing costs among children

2002–03 to 2016–17

Household income quintile (AHC)

Source: Figure 4.9 of Living Standards, Poverty and Inequality in the UK: 2018
Fast growth in housing costs among low-income hhs. with children

Source: Author’s calculations using the Family Resources Survey 2002–03 and 2016–17
Fast growth in housing costs among low-income hhs. with children

Mean real housing costs net of housing benefit among children

£120
£100
£80
£60
£40
£20
£0

1 (lowest)
2
3
4
5 (highest)

Household income quintile (AHC)

£29

2002–03
2016–17

Source: Author’s calculations using the Family Resources Survey 2002–03 and 2016–17

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Housing tenure of low-income children

More live in social rented housing than higher-income children
• 38% of children in bottom income quintile

Less live in owner-occupied housing than higher-income children
• 25% of children in bottom income quintile

Low-income children have seen biggest shift towards private renting
• Children in bottom income quintile: 15% in 2002–03; 36% in 2016–17
Large differences in costs between tenures

Mean real housing costs among children

- Private rented
- Social rented
- Owner occupied

Source: Figure 4.11 of *Living Standards, Poverty and Inequality in the UK: 2018*
Has relative child poverty fallen or risen?

Source: Figure 4.7 of *Living Standards, Poverty and Inequality in the UK: 2018*
Has relative child poverty fallen or risen?

Source: Figure 4.7 of *Living Standards, Poverty and Inequality in the UK: 2018*
AHC better at tracking changes in poverty than BHC

Fast growth in housing costs among low-income households

• Likely to have reduced living standards
• Overlooked in BHC measures of income poverty

Changes in BHC poverty do not always reflect changes in living standards of low-income households
This presentation

How has poverty changed in recent years?
• How does this compare to previous periods?
• How has it differed for children and pensioners?

How have housing costs among low-income children changed?
• What does this mean for measuring poverty?

How have the living standards of low-wage employees changed following the introduction of the National Living Wage?
• How have these changes impacted poverty?
Fast pay growth among low-wage employees but little change in av. living standards

Source: Figures 6.5 and 6.6 of Living Standards, Poverty and Inequality in the UK: 2018
Where are low-wage employees in the income distribution?

- 62% have below-av. household income
- 38% have above-av. household income

Av. household income grew by 2% in 2016–17
Av. household income fell by 2% in 2016–17

Source: Figure 6.10b of Living Standards, Poverty and Inequality in the UK: 2018
Poverty among low-wage employees has fallen.

Source: Figure 6.7 of *Living Standards, Poverty and Inequality in the UK: 2018*
Summary

Absolute (AHC) poverty down from 22% in 2011–12 to 19% in 2016–17

Relative (AHC) poverty up slightly from 21% in 2011–12 to 22% in 2016–17

Fast growth in housing costs for low-income children have caused AHC and BHC poverty rates to diverge

NLW followed by strong pay growth for low-wage employees, little change in their av. living standards but falls in absolute poverty
Poverty among working-age adults in poor health

Tom Waters
Working age adults in poor health

Increasingly important policy issue:

1. More 25-54 year olds out of work because of sickness & disability than because they cannot find a job.
Working age adults in poor health

Increasingly important policy issue:

1. More 25-54 year olds out of work because of sickness & disability than because they cannot find a job.

2. Working-age health-related benefit (incapacity and disability) spending on the rise; spending on other working-age benefits falling.
Spending on working-age income replacement and disability benefits

Source: Figure 5.3 of Living Standards, Inequality and Poverty in the UK: 2018
Spending on working-age income replacement and disability benefits

Source: Figure 5.3 of Living Standards, Inequality and Poverty in the UK: 2018
Spending on working-age income replacement and disability benefits

Annual expenditure, £bn (2018–19 prices)

Source: Figure 5.3 of Living Standards, Inequality and Poverty in the UK: 2018
Spending on working-age income replacement and disability benefits

![Graph showing annual expenditure on various benefits from 1978-79 to 2022-23](image)

- Income support (lone parents)
- Income support (lone parents and carers)
- Unemployment benefits
- Incapacity benefits
- Disability benefits
- Forecast

Source: Figure 5.3 of *Living Standards, Inequality and Poverty in the UK: 2018*
Working age adults in poor health

Increasingly important policy issue:

1. More 25-54 year olds out of work because of sickness & disability than because they cannot find a job.

2. Working-age health-related benefit (incapacity and disability) spending on the rise; spending on other working-age benefits falling.

3. Government committed to halving ‘disability employment gap’.
Employment rates, disabled and non-disabled

Source: Office for National Statistics, *UK labour market: May 2018*
Employment rates, disabled and non-disabled

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This presentation

Measure health according to self-reported mental/physical condition lasting 12+ months – “longstanding illness”.

- e.g. Diabetes, respiratory problems, mental health problem.

Focus on the 25-54 year old population.

Questions to answer in this presentation:

- Who has a longstanding illness?
- How do they do in the labour market?
- How do their living standards compare to healthy people?
Who has a longstanding illness?
What kind of conditions do they have?
Share of 25-54 year olds with a longstanding illness

Source: Figure 5.4 of *Living Standards, Inequality and Poverty in the UK: 2018*
What kind of conditions do they have?
Share of 25-54 year olds with a longstanding illness

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Source: Figure 5.4 of *Living Standards, Inequality and Poverty in the UK: 2018*
Demographics and illness

Share of 25-54 year olds with a long-standing illness

Source: Figure 5.5 of Living Standards, Inequality and Poverty in the UK: 2018
Demographics and illness
Share of 25-54 year olds with a long-standing illness

Source: Figure 5.5 of Living Standards, Inequality and Poverty in the UK: 2018
Demographics and illness
Share of 25-54 year olds with a long-standing illness

![Chart showing the share of 25-54 year olds with a long-standing illness by education and relationship status.]

Source: Figure 5.5 of *Living Standards, Inequality and Poverty in the UK: 2018*
Demographics and illness
Share of 25-54 year olds with a long-standing illness

Source: Figure 5.5 of Living Standards, Inequality and Poverty in the UK: 2018
Geographical variation in health-related out of work benefits

Source: Figure 6.7 of Emmerson et al. (2017) *Working-age incapacity and disability benefits*
Who are the unwell population?

Back, neck, and limbs problems are the most common conditions.

Mental health problems on the rise.

Those with a longstanding illness are generally less educated, more likely to be single, and older.

Incapacity benefit claimants concentrated in West of Scotland, South Wales, North of England
How do they do in the labour market?
Out-of-work rates and longstanding illness
Share of 25-54 year olds out of work

Out of work rates and longstanding illness
Share of 25-54 year olds out of work

Source: Figure 5.8 of *Living Standards, Inequality and Poverty in the UK: 2018*
Long-term out-of-work rates and illness
Share of 25-54 year olds out of work for 3+ years

Source: Figure 5.8 of *Living Standards, Inequality and Poverty in the UK: 2018*
Long-term out-of-work rates and illness
Share of 25-54 year olds out of work for 3+ years

70% of men who are long term out of work are ill

Source: Figure 5.8 of Living Standards, Inequality and Poverty in the UK: 2018
Long-term out-of-work rates and illness
Share of 25-54 year olds out of work for 3+ years

Source: Figure 5.8 of *Living Standards, Inequality and Poverty in the UK: 2018*
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Long-term out-of-work rates and illness

Share of 25-54 year olds out of work for 3+ years

Source: Figure 5.8 of Living Standards, Inequality and Poverty in the UK: 2018
Labour market outcomes by condition

Source: Table 5.1 of Living Standards, Inequality and Poverty in the UK: 2018
Labour market outcomes by condition

32% of those with an illness

% Employment rate (LHS)

- Respiratory Cardiovascular
- Diabetes
- Stomach, liver, kidney, digestion
- All healthy

Source: Table 5.1 of Living Standards, Inequality and Poverty in the UK: 2018
Labour market outcomes by condition

Source: Table 5.1 of *Living Standards, Inequality and Poverty in the UK: 2018*
Labour market outcomes by condition

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Labour market outcomes by condition

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Poverty among working-age adults in poor health
Labour market outcomes by condition

Source: Table 5.1 of *Living Standards, Inequality and Poverty in the UK: 2018*
How do those with an illness do in the labour market?

People with a longstanding illness are more likely to be out of work, and much more likely to be long-term out of work than those without.

Men & low educated especially likely to be long-term out of work if they have a longstanding illness.

Those with mental health conditions experience considerably worse labour market outcomes than people with other conditions.
How do their living standards compare to healthy people?
Living standards and poor health

Given poorer labour market outcomes of those with longstanding illness, likely to lead to lower incomes & living standards.
Living standards and poor health

'Snapshot' relative poverty (BHC)

- No longstanding illness
- With a longstanding illness
- Ratio (RHS)

Source: Figure 5.11 of *Living Standards, Inequality and Poverty in the UK: 2018*
Poverty among working-age adults in poor health

Source: Figure 5.11 of *Living Standards, Inequality and Poverty in the UK: 2018*
Living standards and poor health

Source: Figure 5.11 of *Living Standards, Inequality and Poverty in the UK: 2018*
Living standards and poor health

Given poorer labour market outcomes of those with longstanding illness, likely to lead to lower incomes & living standards.

But other ways illness related to living standards, including:

• Low income for longer periods
• Expenditure on health-related goods & services

Therefore, ‘snapshot’ (income) poverty doesn’t tell the whole story.
Living standards and poor health

Proportion of healthy/unwell 25-54 year olds

'Snapshot' relative poverty (BHC)
Persistent relative poverty (BHC)

No longstanding illness
With a longstanding illness
Ratio (RHS)

Source: Figure 5.11 of Living Standards, Inequality and Poverty in the UK: 2018
Living standards and poor health

Source: Figure 5.11 of *Living Standards, Inequality and Poverty in the UK: 2018*
Living standards and poor health

Proportion of healthy/unwell 25-54 year olds

'Snapshot' relative poverty (BHC)
Persistent relative poverty (BHC)
Material deprivation

No longstanding illness
With a longstanding illness
Ratio (RHS)

Source: Figure 5.11 of Living Standards, Inequality and Poverty in the UK: 2018

Poverty among working-age adults in poor health
Living standards and poor health

Poverty among working-age adults in poor health

Source: Figure 5.11 of Living Standards, Inequality and Poverty in the UK: 2018
Poverty, mental health, and multiple illnesses
Share of 25-54 year olds in relative poverty and material deprivation

No longstanding illness

With any longstanding illness

Relative poverty (AHC)
Material deprivation

Source: Figure 5.13 of Living Standards, Inequality and Poverty in the UK: 2018
Poverty, mental health, and multiple illnesses
Share of 25-54 year olds in relative poverty and material deprivation

Source: Figure 5.13 of *Living Standards, Inequality and Poverty in the UK: 2018*
Summary

Poor health is associated with significantly lower living standards

Those with mental health problems see markedly worse outcomes
  • Employment, earnings, living standards
  • Particularly concerning as mental health problems on the rise

Snapshot measures understate poor outcomes among those with a longstanding illness
  • Much more likely to be long term out of work
  • Large differences in persistent poverty & material deprivation
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