Living standards, poverty and inequality in the UK: 2019

19 June 2019

https://www.ifs.org.uk
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Institute for Fiscal Studies
Living standards and income inequality

Pascale Bourquin
This presentation

Trends in household incomes in the UK

- How has average income growth compared to previous periods?
- How has it differed for high and low income people?
- What implications has this had for income inequality?

What has driven recent income growth?

- How has this differed across the income distribution?
- ...and by time period?

How has income growth differed across age groups?
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 Consumer Prices Index)

Latest official income data (“HBAI”) – based on a survey of 19,000 households – data up to 2017–18
The UK income distribution in 2017–18

Percentile point

Household equivalised net income (£ per week, 2017–18 prices)

- Childless couple: £507 p.w.
- Single adult: £338 p.w.
- Couple with 2 young children: £710 p.w.

Source: Figure 2.4 of Living Standards, Poverty and Inequality in the UK: 2019
The UK income distribution in 2017–18

Expressed as equivalent living standards for a childless couple

Median: £507 p.w.

Source: Figure 2.4 of Living Standards, Poverty and Inequality in the UK: 2019
The UK income distribution in 2017–18

Expressed as equivalent living standards for a childless couple

- 10th percentile: £251
- 50th percentile: £507
- 90th percentile: £998
- 99th percentile: £2,495

Source: Figure 2.4 of *Living Standards, Poverty and Inequality in the UK: 2019*
This presentation

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How has income growth differed across age groups?
Median real UK household (BHC) income

Average net equivalised household income (£ per week in 2017-18 prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Income (£ per week)</th>
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<tr>
<td>2002-03</td>
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<td>2003-04</td>
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<td>2016-17</td>
<td>£460</td>
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<tr>
<td>2017-18</td>
<td>£500</td>
</tr>
</tbody>
</table>

Source: Figure 2.2 of Living Standards, Poverty and Inequality in the UK: 2019
Median income growth over the last 30 years

Source: Figure 2.3 of Living Standards, Poverty and Inequality in the UK: 2019
Real income growth by percentile point, UK

Source: Figure 2.5 of Living Standards, Poverty and Inequality in the UK: 2019
Trends in income inequality

Source: Figures 2.6 and 2.7 of Living Standards, Poverty and Inequality in the UK: 2019
Trends in income inequality

Source: Figures 2.6 and 2.7 of Living Standards, Poverty and Inequality in the UK: 2019
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What has driven recent income growth?
- How has this differed across the income distribution?
- ...and across time?

How has income growth differed across age group?
Employment rate (ages 16-64)

Source: Figure 2.8 of Living Standards, Poverty and Inequality in the UK: 2019
Median earnings growth in cash-terms and inflation

Source: Figure 2.10 of Living Standards, Poverty and Inequality in the UK: 2019
Contributions to mean net income growth by quintile, 2016-17 to 2017-18

Source: Figure 2.11 of Living Standards, Poverty and Inequality in the UK: 2019
Contributions to mean net income growth by quintile, 2016-17 to 2017-18

- Contributions to change in net household income
  - Total net income growth
  - Net employment earnings
  - Net working-age benefits and tax credits
  - Other net income and deductions

Source: Figure 2.11 of *Living Standards, Poverty and Inequality in the UK: 2019*
Contributions to mean net income growth by quintile, 2016-17 to 2017-18

Source: Figure 2.11 of *Living Standards, Poverty and Inequality in the UK: 2019*
Contributions to mean net income growth by quintile, 2011-12 to 2017-18

Source: Figure 2.12 of Living Standards, Poverty and Inequality in the UK: 2019
Why did this year differ from the rest of the recovery period?

- Employment growth previously had been much larger in low (and middle) income households – **but not in 2017-18**
- Earnings growth had been strongest for low earners (particularly benefits middle income households) – **but not in 2017-18**
- Earnings growth had been weak for high earners, which suppresses incomes of high income households – **still true in 2017-18, but true for whole distribution**
This presentation

Trends in household incomes in the UK

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What has driven recent income growth?

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– ...and across time?

How has income growth differed across age groups?
Real median income (BHC) by age, indexed to 100 in 2007-08

Source: Figure 2.14 of Living Standards, Poverty and Inequality in the UK: 2019
Real median income (BHC) by age, indexed to 100 in 2007-08

Source: Figure 2.14 of Living Standards, Poverty and Inequality in the UK: 2019
Summary

Income growth stalled in 2017-18 after a 5 year post-recession recovery period of reasonable growth

- Real earnings fell
- Continued cash freeze of most working-age benefits and tax credits

Income inequality remained more or less unchanged

- Inequality in 2017-18 much higher than it was in 1970s, but little change overall since early 1990s

Pensioners’ incomes have performed the best since 2007-08

- But, recent recovery has been stronger for young working-age people
Poverty

Xiaowei Xu
How has poverty changed in recent years?

- Differences by demographic group
- Focus on child poverty

Why has relative pensioner poverty risen?

- From 13% in 2012-13 to 16% in 2017-18
- After decades of virtually continuous falls
Measuring poverty

Focus on income poverty

- Can be measured before or after housing costs (BHC or AHC) – we focus on AHC

Absolute poverty

- Fixed poverty line: 60% of median 2010-11 income (inflation adjusted)
- ~£12,800 a year for a childless couple (AHC)

Relative poverty

- Moving poverty line: 60% of contemporary median income
- ~£13,600 a year for a childless couple (AHC)

Material deprivation

- Can families afford a certain (weighted) number of important items?
Absolute poverty (AHC)

Source: Figure 3.1 of Living Standards, Poverty and Inequality in the UK: 2019
What explains the latest uptick in child poverty?

Fall in benefit income for low-income households with children

- Largest source of income for 30% poorest households with children
- FRS recorded 6% fall in real terms between 2016-17 and 2017-18
- Real benefits lower for any given level of employment income

A number of benefit changes in 2017-18

- Sharp rise in inflation reduced value of working-age benefits – most frozen in cash terms
- ‘Two-child limit’ introduced
- ‘Family element’ in Child Tax Credit abolished
- More families affected by removal of family premium in HB (May 2016)
Relative poverty (AHC)

Source: Figure 3.6 of *Living Standards, Poverty and Inequality in the UK: 2019*
Material deprivation

Source: Figure 3.3 of *Living Standards, Poverty and Inequality in the UK: 2019*
How has poverty changed in recent years?
- Differences by demographic group
- Focus on child poverty

Why has relative pensioner poverty risen?
- From 13% in 2012-13 to 16% in 2017-18
- After decades of virtually continuous falls
Not because of the rise in the female state pension age

Female state pension age rose from 60 in 2009-10 to ~64 in 2017-18

- Change in composition of pensioners
- Could mechanically increase pensioner poverty (if older pensioners are more likely to be poor)

In reality, the effect is very small

- Slightly reduces average employment income among pensioners
- Increased relative poverty among male pensioners living with affected women (3% of pensioners)
How have incomes of low-income pensioners changed?

Consider changes in 2 periods

1. 2005-06 to 2011-12: relative pensioner poverty falling
2. 2011-12 to 2017-18: relative pensioner poverty stagnant or rising

Focus on low-income pensioners

• Bottom quarter of pensioners’ household incomes
How have incomes of low-income pensioners changed?

2005-06 to 2011-12

2011-12 to 2017-18
How have incomes of low-income pensioners changed?

2005-06 to 2011-12

Contribution to net income growth (ppt)

- Employment income
- Benefits
- Private pensions
- Savings + other income
- Taxes + other deductions
- Housing costs
- Total net income

2011-12 to 2017-18

Contribution to net income growth (ppt)

- Employment income
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- Private pensions
- Savings + other income
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Living Standards, Poverty and Inequality in the UK: 2019
How have incomes of low-income pensioners changed?

### 2005-06 to 2011-12

<table>
<thead>
<tr>
<th>Component</th>
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<tr>
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### 2011-12 to 2017-18

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How have incomes of low-income pensioners changed?

**2005-06 to 2011-12**

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<th>Contribution to net income growth (ppt)</th>
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How have incomes of low-income pensioners changed?

### 2005-06 to 2011-12

- **Employment income**: 1.7
- **Benefits**: 2.4
- **Private pensions**: 3.7
- **Savings + other income**: -1.3
- **Taxes + other deductions**: -0.7
- **Housing costs**: -0.8
- **Total net income**: 5.1

### 2011-12 to 2017-18

- **Employment income**: 0.8
- **Benefits**: -0.2
How have incomes of low-income pensioners changed?

**2005-06 to 2011-12**

- Employment income: 1.7
- Benefits: 2.4
- Private pensions: 3.7
- Savings + other income: -1.3
- Taxes + other deductions: -0.7
- Housing costs: -0.8
- Total net income: 5.1

**2011-12 to 2017-18**

- Employment income: 0.8
- Benefits: 7.1
- Private pensions: 3.7
- Savings + other income: -1.3
- Taxes + other deductions: -0.7
- Housing costs: 5.1
- Total net income: -0.2
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- **Housing costs**: 0.0
- **Total net income**: -0.2
How have incomes of low-income pensioners changed?

2005-06 to 2011-12
- Employment income: 1.7ppt
- Benefits: 2.4ppt
- Private pensions: 3.7ppt
- Savings + other income: -1.3ppt
- Taxes + other deductions: -0.7ppt
- Housing costs: -0.8ppt
- Total net income: 5.1ppt

2011-12 to 2017-18
- Employment income: 0.8ppt
- Benefits: 7.1ppt
- Private pensions: -3.4ppt
- Savings + other income: -0.3ppt
- Taxes + other deductions: 0.0ppt
- Housing costs: -4.4ppt
- Total net income: -0.2ppt
Average private pension income among low-income households have fallen since 2014-15...

Source: Figure 3.10 of *Living Standards, Poverty and Inequality in the UK: 2019*
...Driven by a fall in the share of pensioners receiving private pension income

Source: Figure 3.11 and Figure 3.12 of *Living Standards, Poverty and Inequality in the UK: 2019*
...Driven by a fall in the share of pensioners receiving private pension income

Source: Figure 3.11 and Figure 3.12 of Living Standards, Poverty and Inequality in the UK: 2019
Difficult to explain why receipt of private pension incomes has fallen

Introduction of pension freedoms in April 2015

• Gap between recorded incomes and living standards

But should only affect younger pensioners

• Share of pensioners with private pensions fell across all pensioner age groups

Likely to reflect data quality issues

• Are we correctly measuring pensioner incomes and poverty?
Summary

Absolute (AHC) poverty unchanged in latest year at 19%
- Unusually long period with little progress
- Still lowest ever level, 16 ppts below 1997-98

Small uptick in both absolute child poverty and material deprivation among children
- Not statistically significant, but consistent with changes in working-age benefits and tax credits

Official data show relative pensioner poverty rising in recent years
- May be an issue with quality of data on private pensions
- Material deprivation among pensioners continued to fall
Why has relative in-work poverty risen?

Jonathan Cribb
Introduction

Increased policy and political interest in in-work poverty

The fraction of people in relative AHC poverty living in a working household risen from 37% in 1994-95 to 58% in 2017-18

Why has this increased?
Definition of in-work poverty

“In-work poverty”: having an income below a given poverty line, while at least one adult in the household is in paid work

• Both being an employee and self-employment count

Excludes all pensioner families (with a woman aged 60+ or a man aged 65+)

Use relative AHC measure of poverty (unless stated otherwise)

• Looking at the extent to which poorer households are falling behind median
% of those in poverty by work and family type

1994-95
- Working age family - working: 42
- Working age family - workless: 22
- Pensioner family: 37

2017-18
- Working age family - working: 58
- Working age family - workless: 18
- Pensioner family: 24

Source: Figure 1 of Bourquin et al. (2019)
Why has % of those in poverty who are in working households increased?

There are four possible reasons:

1. Decrease in poverty rate for workless households

2. Decrease in poverty rate for pensioner households
Why has % of those in poverty who are in working households increased?

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2. Decrease in poverty rate for pensioner households

3. Increased % of working households in the population

Just under 1/3 of increase

Just over 1/3 of increase
Why has % of those in poverty who are in working households increased?

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2. Decrease in poverty rate for pensioner households

3. Increased % of working households in the population

4. Increase in poverty rate for working households
Why has % of those in poverty who are in working households increased?

There are four possible reasons:

1. Decrease in poverty rate for workless households
   - Just under 1/3 of increase

2. Decrease in poverty rate for pensioner households
   - Just over 1/3 of increase

3. Increased % of working households in the population
   - Around 1/3 of increase

4. Increase in poverty rate for working households
Rise in the in-work poverty rate, 1994 to 2017

Source: Figure 2 of Bourquin et al. (2019)
Absolute AHC in-work poverty rate, 1994 - 2017

Source: Appendix Figure 3 of Bourquin et al. (2019)
Why has the in-work poverty rate risen?

Four key reasons for increase in in-work poverty rate:

1) “Catching up” of pensioners incomes pushes up median income and relative poverty line
   • Stripping out this, in-work poverty would have risen by 3 ppt instead of 5 ppt

2) Fall in worklessness brings low-earning households into work
   • E.g. 30 percentage point fall in worklessness for lone parent HHs

3) Increased inequality in household earnings for working HHs
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Real growth in household earnings by centile group, working HHs only

Why has in-work poverty risen?

Source: Figure 4 of Bourquin et al. (2019)

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Real growth in household earnings by centile group, working HHs only

Why has in-work poverty risen?

Source: Figure 4 of Bourquin et al. (2019)
Factors that have increased in-work poverty

If household earnings had grown by 35% across the distribution

- Relative in-work poverty: 1.4 ppts lower
- Absolute in-work poverty: 2.9 ppts lower

Why is the effect on relative in-work poverty not larger?

- Middle income households benefit too
- Households with low earnings get a large % of income from benefits
- For poorer families, higher earnings means lower benefits due to means testing
Why has the in-work poverty rate risen?

Four key reasons for increase in in-work poverty rate:

1) “Catching up” of pensioners incomes pushes up median income and relative poverty line

2) Fall in worklessness brings low-earning households into work

3) Increased inequality in household earnings for working HHs

4) Housing costs (net of HB) increased more for poorer working households
Changes in housing costs (net of HB) since 1994 for working households

Source: Figure 12 of Bourquin et al. (2019)
Why has the in-work poverty rate risen?

Four key reasons for increase in in-work poverty rate:

1) “Catching up” of pensioners incomes pushes up median income and relative poverty line

2) Fall in worklessness brings low-earning households into work

3) Increased inequality in household earnings for working HHs

4) Housing costs (net of HB) increased more for poorer working households
   - If housing costs growth the same across the income distribution:
     - In-work relative poverty be 2.4 percentage points lower in 2017

BUT: Changes to tax and benefit system have pushed down relative in-work poverty since mid 1990s
Change in real mean benefit incomes for working households, by AHC income quintile

Source: Figure 11 of Bourquin et al. (2019)

Why has in-work poverty risen?
Effect of tax and benefit changes on in-work poverty

Since 1994-95, tax and benefit reforms have:
- Reduced relative in-work poverty (AHC) by 2.1 percentage points

Tax and benefit reforms do not explain increase in in-work poverty, they actually reduced in-work poverty

Since 2010-11, tax and benefit reforms have:
- Increased in-work relative poverty by 1.8 percentage points
- But have not affected absolute in-work poverty
- Benefit cuts have pushed down poorer working households’ incomes, but increase in personal allowance has pushed them up

Why has in-work poverty risen?

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Conclusions

Big rise in the % of people in relative poverty who live in a working households, from 37% to 58% since 1994

• 1/3 of this explained by higher in-work poverty rate (13% to 18%)

Four key reasons for higher in-work poverty rate:

• Pensioner incomes catching up with working-age incomes
• Increases in employment of people with low earnings e.g. lone parents
• Higher earnings inequality for working households
• Higher growth in housing costs for poorer households

Tax and benefit reforms since 1994 has leaned against these trends (though not since 2010)
Severe poverty

Tom Waters
Introduction

• 22% of people are in headline relative poverty

• But there is variation in the living standards of those within poverty

• We are going to look at living standards meaningfully below the poverty line

• But we are not looking at ‘destitution’ (rough sleeping, malnutrition)
  • And we are using ‘relative’ measures, not absolute
Measuring severe poverty

Income measures
• After housing cost incomes below 50%, 40% of median
• Significant measurement error, particularly at the bottom, and sensitive to temporarily low incomes (e.g. someone between jobs)

Expenditure measures
• Non-housing expenditure below 50%, 40% of median
• Closer to ‘material living standards’ than income
• Deals better with temporary low incomes and has less measurement error at the bottom
• But – sensitive to infrequent purchases of durable goods; still subject to some measurement error
Measuring severe poverty

Material deprivation

- Measures what basic items families report being unable to afford
  - e.g. keeping home warm, replacing broken electrical goods
- Directly measures perceptions of living standards
- But clearly subjective; list of items included somewhat arbitrary
- Cannot compare pensioner and working-age families – so only looking at the latter
- Use two measures – more and less severe material deprivation – defined such that 10% and 20% are materially deprived in 2010–11
Measuring severe poverty

All in income poverty (50% of median)

None in income poverty (50% of median)

Share in poverty

Income (AHC) as a share of median

Source: Figure 4.1 of *Living Standards, Inequality and Poverty in the UK: 2019*
Measuring severe poverty

All in income poverty (50% of median)

None in income poverty (50% of median)

Share in poverty

Below 10% 10-30% 30-50% 50-70% 70-90% Above 90%

Income (AHC) as a share of median

Material deprivation (less severe, working age)

Expenditure poverty (50% of median)

Source: Figure 4.1 of *Living Standards, Inequality and Poverty in the UK: 2019*
Measuring severe poverty

All in income poverty (50% of median)

None in income poverty (50% of median)

Material deprivation (less severe, working age)

Expenditure poverty (50% of median)

Source: Figure 4.1 of Living Standards, Inequality and Poverty in the UK: 2019
Trends in severe poverty – income

Headline relative poverty (60% of median)

Source: Figure 4.3 of *Living Standards, Inequality and Poverty in the UK: 2019*
Trends in severe poverty – income

Headline relative poverty (60% of median)

Source: Figure 4.3 of Living Standards, Inequality and Poverty in the UK: 2019
Trends in severe poverty – income

Headline relative poverty (60% of median)

50% of median

40% of median

Source: Figure 4.3 of Living Standards, Inequality and Poverty in the UK: 2019
Trends in severe poverty – expenditure

Source: Figure 4.4 of *Living Standards, Inequality and Poverty in the UK: 2019*
Trends in severe poverty – expenditure

Source: Figure 4.4 of *Living Standards, Inequality and Poverty in the UK: 2019*
Trends in severe poverty – expenditure

Source: Figure 4.4 of Living Standards, Inequality and Poverty in the UK: 2019

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Trends in severe poverty – income and expenditure

• Since mid-90s – fall in headline income poverty not reflected in more severe forms of income & expenditure poverty

• Since 2010–11 – little change in headline poverty; not much different for more severe forms of income or expenditure poverty

• Does not seem that big increases in severe poverty on these measures are ‘hiding’ behind small change in headline statistics
Trends in severe poverty – material deprivation
Working-age families only

Source: Figure 4.6 of Living Standards, Inequality and Poverty in the UK: 2019
Trends in severe poverty – material deprivation
Working-age families only

Relative income poverty

Source: Figure 4.6 of *Living Standards, Inequality and Poverty in the UK: 2019*
Trends in severe poverty – material deprivation
Working-age families only

Source: Figure 4.6 of Living Standards, Inequality and Poverty in the UK: 2019
Trends in severe poverty – material deprivation

Share of those in working-age families unable to afford various items

- Keep home warm enough
- Keep up with bills and debt repayments
- Keep home in decent state of repair
- Have household contents insurance
- Replace or repair broken electrical goods
- Have money to spend each week on yourself
- Replace any worn-out furniture
- Make savings of £10 a month or more
- Week-long holiday once per year

Source: Figure 4.7 of *Living Standards, Inequality and Poverty in the UK: 2019*
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Source: Figure 4.7 of *Living Standards, Inequality and Poverty in the UK: 2019*
Trends in severe poverty – material deprivation
Working-age families only (more severe measure)

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Working-age families only (more severe measure)

Source: Figure 4.6 of Living Standards, Inequality and Poverty in the UK: 2019
Trends in severe poverty

• Since 2010–11, severe income & expenditure poverty little changed

• But a clear decline in material deprivation (incl. more severe forms), across the distribution and for different items

What explains the difference?

Possible that prices are part of the story:

• Prices of goods and services associated with material deprivation measures (e.g. price of appliances) fallen or not risen as quickly as wider consumer prices
Composition of severe poverty

Regional patterns
- Similar to headline poverty – highest in London, lowest in rest of South
- But more concentrated in London than headline poverty

Housing tenure
- More severe forms of poverty are more concentrated in social renters
- But – just as with headline poverty – increasingly about private renters

Working and workless households
- Severe poverty more concentrated in workless households
- But working households making up rising share
Conclusion

• The severe poverty measures investigated are not destitution

• Severe poverty is difficult to measure – but we do not find much evidence of it rising since 2010–11
  • Severe income and expenditure poverty little changed

• Material deprivation falling
  • Including in most ‘severe’ items
  • Across the income distribution
  • Possibly partially related to prices for material deprivation ‘items’

• Growing share of those in severe poverty are private renters and are in working households
Living standards, poverty and inequality in the UK: 2019