

Press Release

Child and working-age poverty set to rise in next three years

Between 2010–11 and 2013–14 average incomes are forecast to stagnate and both absolute and relative poverty among children and working-age adults are expected to rise, according to projections funded by the Joseph Rowntree Foundation and published today by the IFS.

The IFS researchers forecast absolute and relative income poverty¹ amongst children and working-age adults for each year to 2013–14, using a static tax and benefit micro-simulation model combined with official macroeconomic and demographic forecasts, taking into account current government policy. They also forecast poverty under a scenario where the coalition Government simply implemented the plans for the tax and benefit system it inherited from the previous administration. Poverty beyond 2013–14 is likely to be affected by the Universal Credit, and future work will forecast poverty to the end of this Parliament when the Government publishes its Welfare Reform Bill.

An individual is described as being in relative poverty if he or she lives in a household whose income is less than 60% of the median household income in that year. For the purposes of this report, an individual is considered to be in absolute poverty if he or she lives in a household whose income is less than 60% of the 2010–11 median household income in real terms. The absolute poverty line is therefore fixed in real-terms, but the relative poverty line will fall in real-terms between 2010–11 and 2013–14 as median income is forecast to fall. These form two of the four measures of poverty set out in the Child Poverty Act, which passed into law earlier this year with cross-party support. However, the coalition Government has questioned how poverty should be measured, and a report by Frank Field recommended the Government augment the current poverty indicators with a set of Life Chances Indicators.

Robert Joyce, a research economist and an author of the report, said “Among all children and working-age individuals, we forecast a rise in relative poverty of about 800,000 and a rise in absolute poverty of about 900,000 between 2010–11 and 2013–14. We find that the coalition Government’s measures act to increase poverty among these groups slightly in 2012–13, and more clearly in 2013–14. Meeting the legally-binding child poverty targets in 2020 would require the biggest fall in relative child poverty after 2013–14 since at least 1961”.

The report’s detailed findings are as follows:

Between 2008–09 (the latest year of actual data available) and 2010–11 the forecasts suggest that:

- Median income, and therefore the relative poverty line, will fall in real-terms, driven by the fall in real earnings;
- Absolute poverty amongst children will be roughly constant and that amongst working-age parents will fall by around 100,000, but absolute poverty among working-age adults without children will rise by about 400,000;
- Relative poverty amongst children and working-age parents will both fall by about 300,000, but relative poverty amongst working-age adults without children will rise by about 100,000.

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The difference in projected poverty trends between families with and without children over this period is partly driven by above-indexation increases in the Child Tax Credit in April 2009 and April 2010.

Between 2010–11 and 2012–13 the forecasts suggest that:

- Median income, and therefore the relative poverty line, will fall slightly in real-terms;
- Absolute and relative poverty amongst children and working-age parents will remain roughly constant;
- Poverty among working-age adults without children will continue rising, by about 300,000 and 200,000 for absolute and relative poverty respectively.
- The Government's tax and benefit reforms act to increase relative poverty in 2012–13 amongst each of children, working-age parents and working-age adults without children by about 100,000, and increase absolute poverty in 2012-13 by about 200,000 children, about 100,000 working-age parents and about 100,000 working-age adults without children. This finding is at odds with the Government's claim in the 2010 Spending Review that its reforms will have no measurable impact on child poverty in 2012–13. However, the impact estimated by the researchers (a rise of 100,000) is the smallest that would be captured by the official poverty figures. The discrepancy is entirely accounted for by the fact that IFS researchers have considered the impact of the Government's planned reforms to Local Housing Allowance on poverty rates, whereas the Treasury did not.

Between 2012–13 and 2013–14 the forecasts suggest that:

- Median income, and therefore the relative poverty line, will rise slightly in real-terms;
- Absolute child poverty will rise by about 100,000, and relative child poverty will rise by about 200,000;
- Absolute poverty amongst working-age adults without children will rise by about 100,000, and relative poverty amongst this group will rise by about 200,000.
- The Government's tax and benefit reforms act to increase absolute poverty in 2013–14 by about 300,000 children, about 200,000 working-age parents and about 300,000 working-age adults without children, and increase relative poverty in 2013–14 by about 200,000 children, about 200,000 working-age parents and about 200,000 working age adults without children. The reforms increase relative poverty by less than absolute poverty in 2013-14 because the reforms lower median income, and hence the relative poverty line, in that year.

The Child Poverty Act, which passed into law earlier this year with cross-party support, commits current and future governments to reducing relative child poverty to 10% and absolute child poverty to 5% by 2020–21. Under current policies this would require a reduction in relative child poverty of 10.5 percentage points, and a reduction in absolute child poverty of 15.9 percentage points, in the seven years after 2013–14. A reduction in relative child poverty of 10.5 percentage points has not taken place over any period of time since the consistent series began in 1961. The largest reduction in child poverty achieved by the previous Government was a fall of 4.8 percentage points over the 6 years to 2004-5, since when child poverty has risen.

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Notes to Editors:

1. Figures in this press release refer to poverty with incomes measured before housing costs have been deducted. The full report also presents projections of poverty with incomes measured after housing costs have been deducted. The qualitative conclusions are very similar for both measures.
2. In the current financial year, the poverty line implied by these measures of poverty is as follows:
 - Single adult, no children: £164 per week.
 - Couple, no children: £245 per week.
 - Lone parent, 1 child: £214 per week.
 - Lone parent, 2 children: £263 per week.
 - Lone parent, 3 children: £312 per week.
 - Couple, 1 child: £295 per week.
 - Couple, 2 children: £344 per week.
 - Couple, 3 children: £393 per week.

These values refer to all sources of income after subtracting all tax and national insurance payments, and adding all income from benefits and tax credits. They assume that all children are aged under 14.

3. For embargoed copies of the report or other queries, contact Bonnie Brimstone at IFS: 020 7291 4800, bonnie_b@ifs.org.uk.
4. IFS will hold a briefing from 10am – 11am on Friday 18 December 2010 (<http://www.ifs.org.uk/events/634>). Please let Bonnie Brimstone know if you wish to attend: 0207 291 4818 / bonnie_b@ifs.org.uk.
5. Chris Goulden, JRF Poverty Policy and Research Manager, is available for comment. Please contact Abigail Scott Paul on 07812 241220 or abigail.scottpaul@jrf.org.uk.
6. The Joseph Rowntree Foundation (JRF) is one of the largest social policy research and development charities in the UK. For further information go to www.jrf.org.uk.