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@TheIFS

# Living standards and inequality



# This presentation

1. **Trends in living standards** since pandemic
  - Average household incomes
  - Changes across income distribution
  - Components of incomes
  
2. Living standards of **recently inactive older people**
  - Material living standards
  - Wellbeing



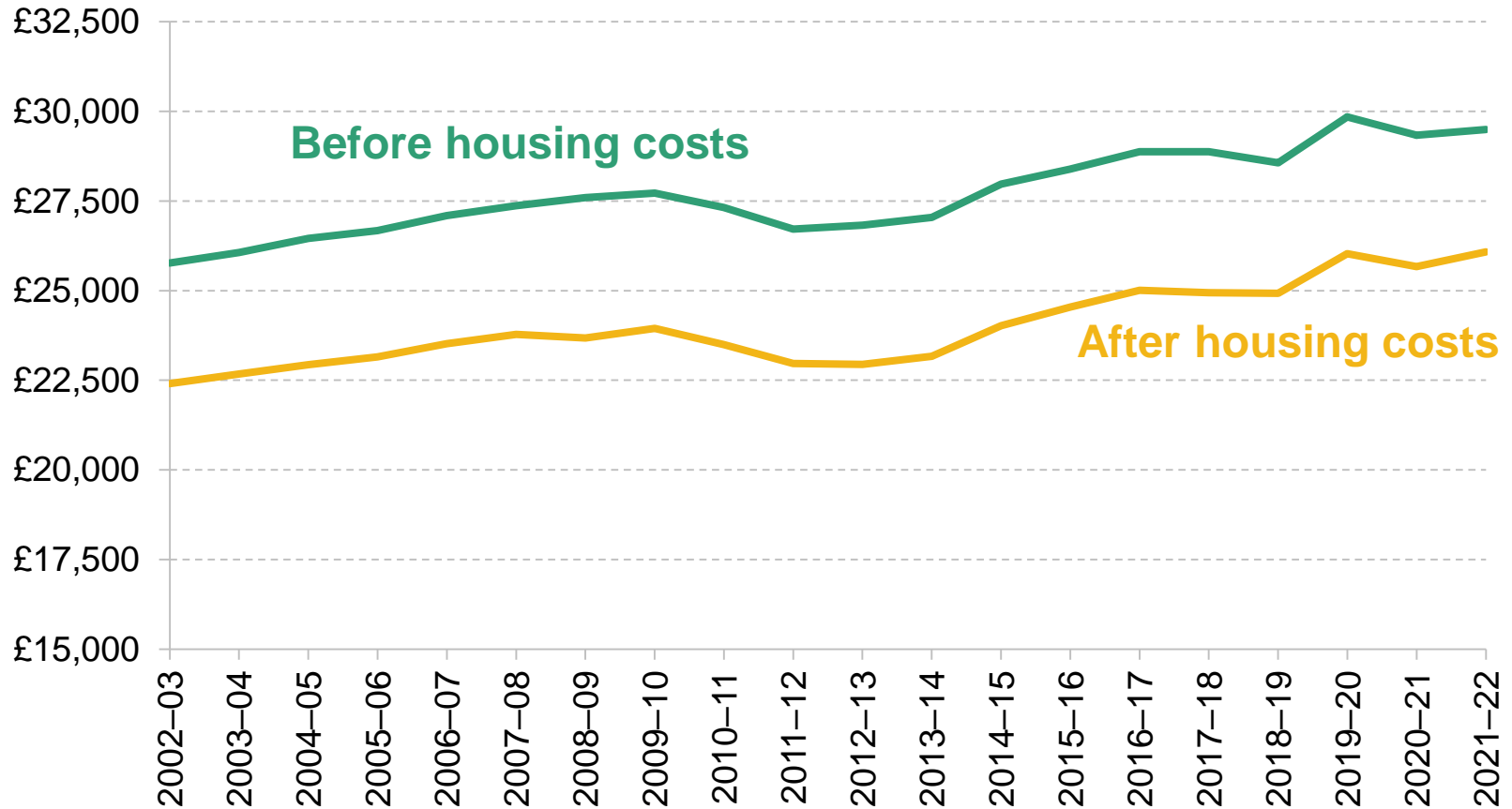
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# Recent trends in living standards

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# Little change in average household incomes in 2021–22

## Average (median) disposable household income per year

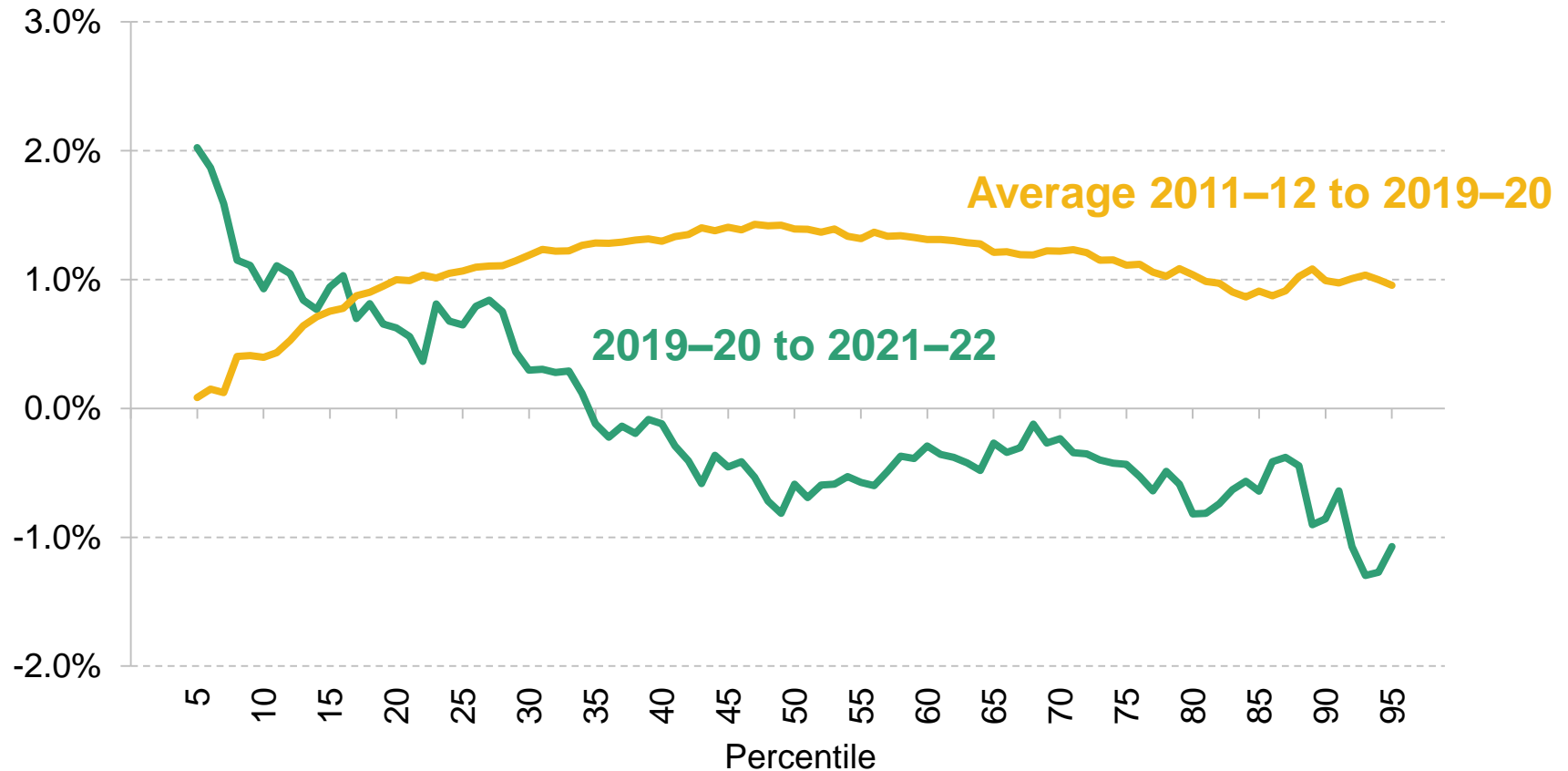


Source: Figure 2.1

Notes: Incomes have been measured net of taxes and benefits, and are expressed in 2021–22 prices. All incomes have been equivalised using the modified OECD equivalence scale and are expressed in terms of equivalent amounts for a childless couple.

# Stronger growth at bottom of income distribution since 2019–20

Growth in average disposable household income growth, by income percentile

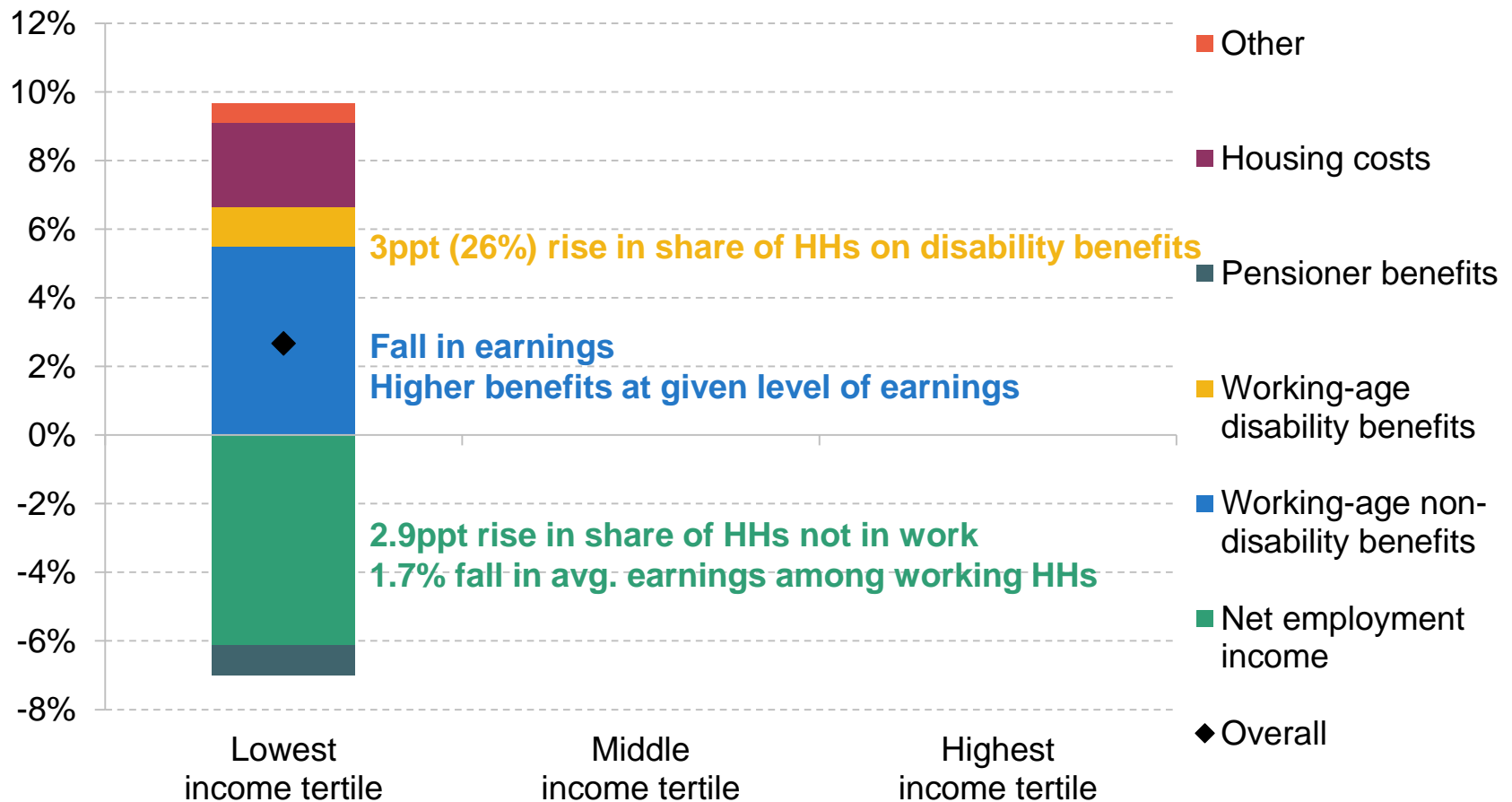


Source: Figure 2.3 and Figure 2.2 in 'Living standards, poverty and inequality in the UK: 2022'

Notes: Incomes have been measured net of taxes and benefits and before housing costs have been deducted, and are expressed in 2021–22 prices. All incomes have been equalised using the modified OECD equivalence scale.

# Earnings falls for low-income households offset by higher benefits

Contributions to income growth (AHC) 2019–20 to 2021–22, by income tertile

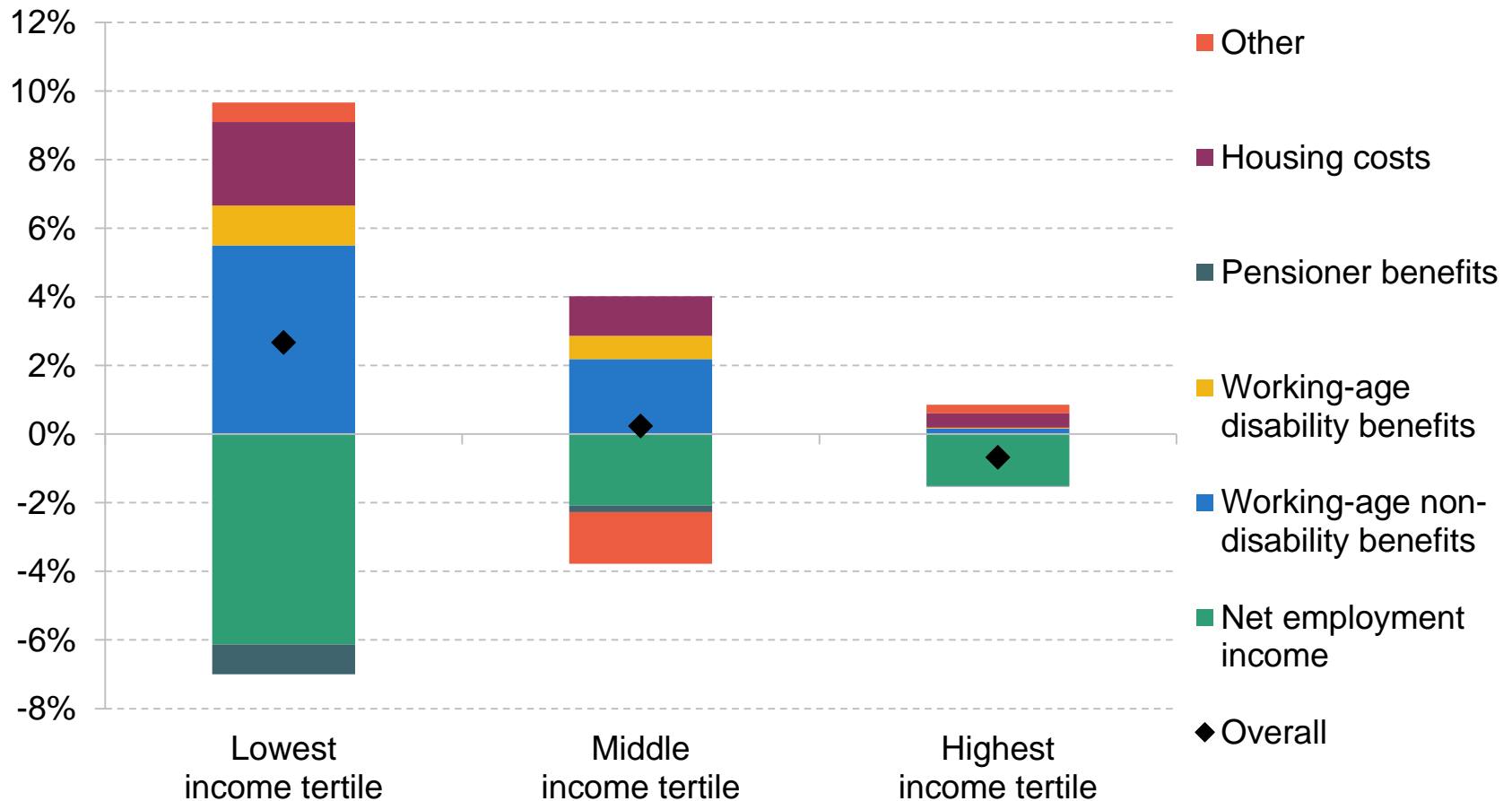


Source: Figure 2.6

Notes: Incomes have been measured net of taxes and benefits and after housing costs have been deducted, equivalised using the modified OECD equivalence scale. Households with very high and negative incomes are excluded. 'Other' income contains mostly private pension income, investment income and payments such as student loan repayments; also includes private benefits and child income.

# Earnings falls for low-income households offset by higher benefits

Contributions to household income growth (AHC), by income tertile



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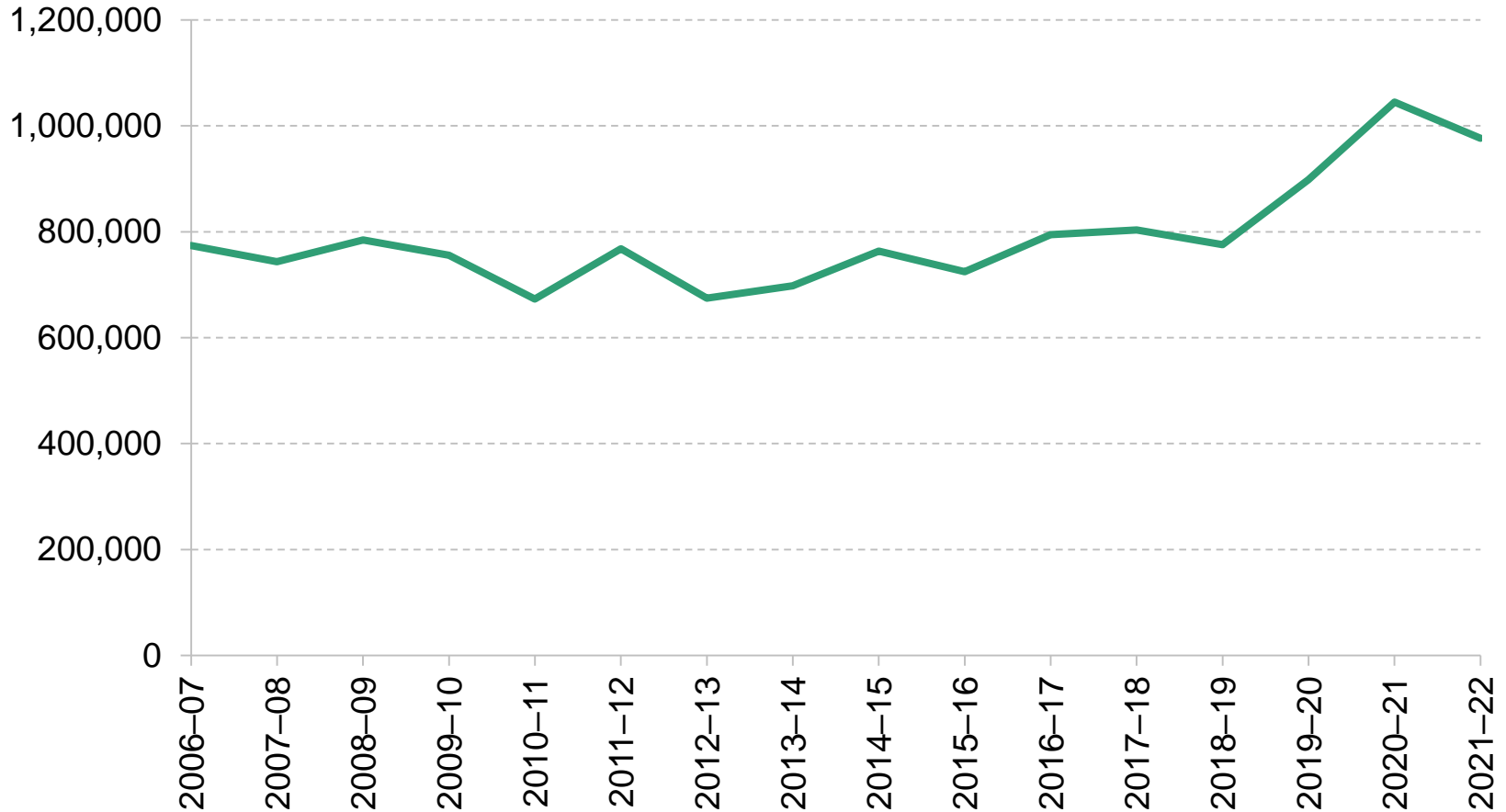
# Living standards of the recently inactive

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# Big increase in flows out of workforce among older people

## Flows from employment into inactivity among 50- to 64-year-olds

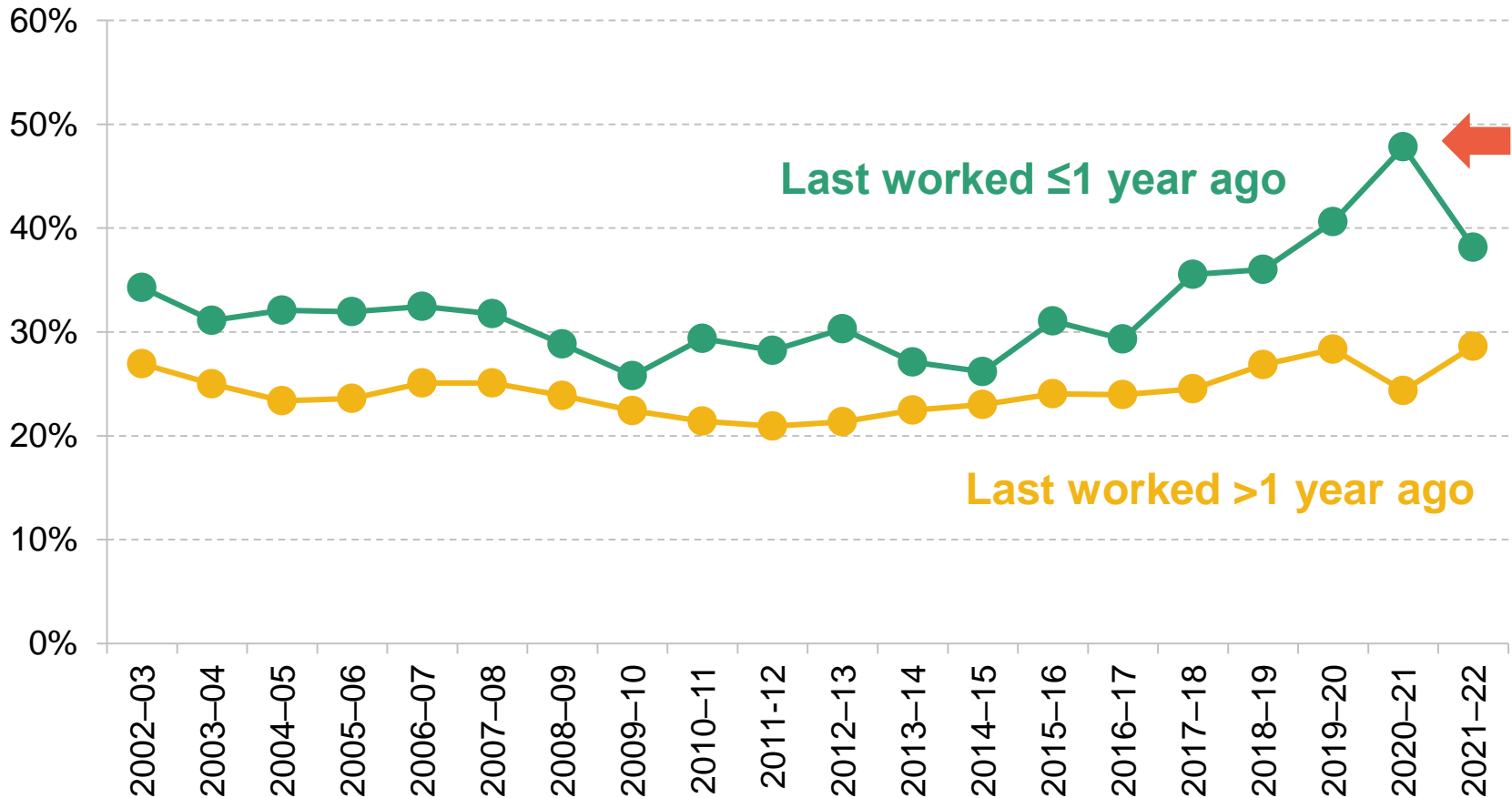


Source: Figure 2.12

Notes: Financial year 2006-07 includes data from on two-quarter flows starting between 2006Q2 to 2007Q1.

# Recently inactive older people in 2020–21 saw sharp increase in poverty

Share of economically inactive 50-70 yos in relative poverty, by when last worked



Source: Figure 2.13

Notes: Household incomes are measured net of taxes and benefits and after housing costs have been deducted, and equivalised using the modified OECD equivalence scale. Individuals who have never worked are included in the 'Last worked >1 years ago' category.

# Panel data shows pandemic cohort experienced fall in living standards



**Understanding Society survey, which follows same individuals over time, shows that newly inactive 50-70 yos in 2020–2021...**

- Cut their food spending by £60 a week
- Reported a fall in their subjective financial situation
- Were more likely to end up in relative poverty

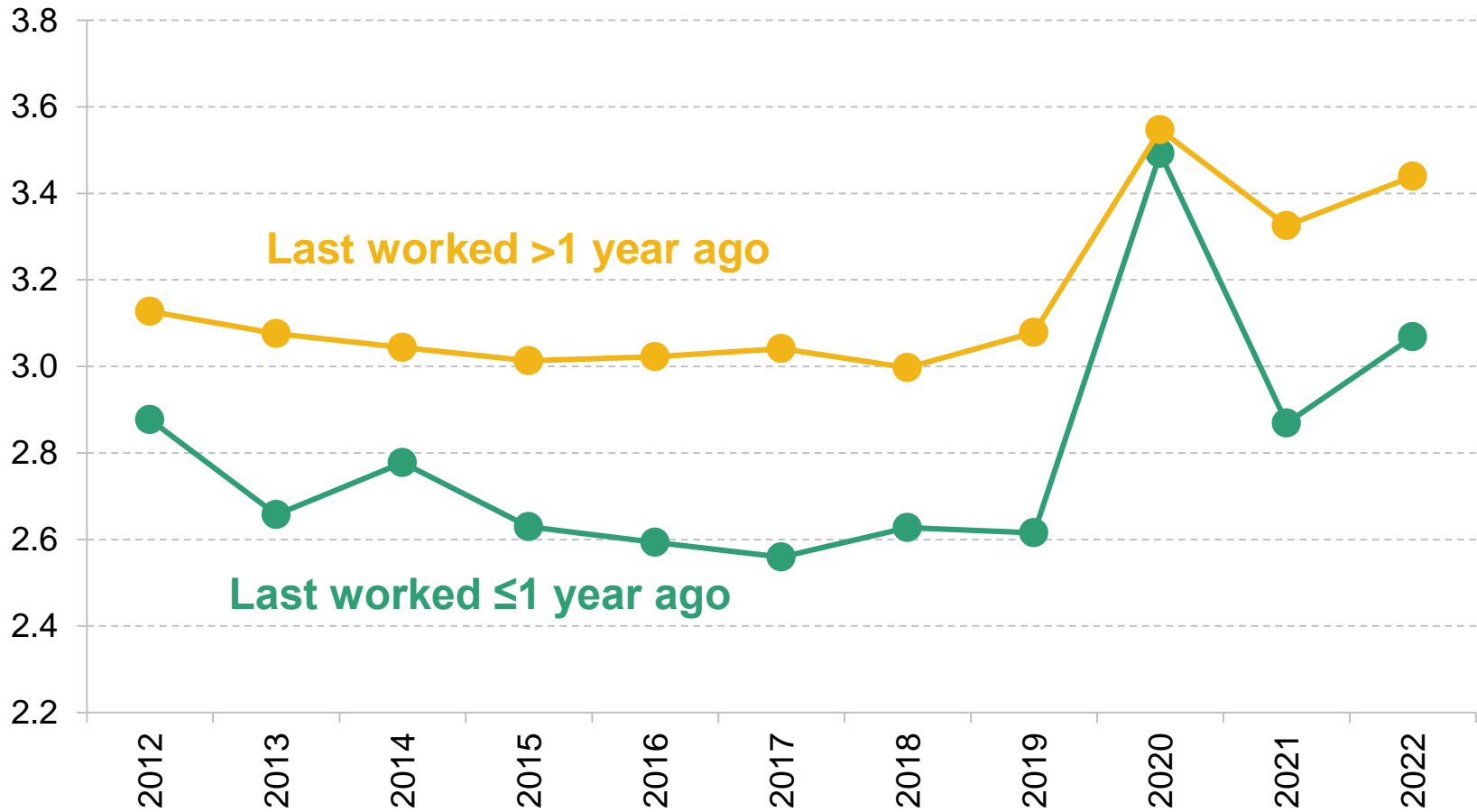
...compared with the year before they left the workforce

**Changes much larger than for cohorts before pandemic**

**Do not simply reflect wider declines in living standards among older inactive population over pandemic**

# And also saw big falls in self-reported wellbeing

Self-reported anxiety score of economically inactive 50-70 yos



Source: Figure 2.16

Notes: Anxiety scored on a 0–10 scale where 10 is extremely anxious. Individuals who have never worked are included in the 'Last worked >1 years ago' category.

# Results challenge perception that exodus was driven by wealthy people



## **Newly inactive older people in 2020–21 much less likely to have access to pensions**

- 8ppt less likely to be above state pension age than 2019–20 cohort; 5ppt less likely to have private pension income
- 49% did not have access to either state or private pensions

## **Suggests many may have been ‘forced’ into early retirement**

- Consistent with existing research (Carillo-Tudela et al. 2022)
  - Lower-middle incomes
  - Sectors hit hard by pandemic and not amenable to home working

## **Those newly inactive in 2021–22 look much more similar to pre-pandemic cohorts**

## **Recovery in household incomes stifled by sharp rise in inflation**

- Average household incomes in 2021–22 just back to pre-pandemic when deducting housing cost

## **Higher working age benefits offset earnings falls for low-income households**

- Fall in income inequality at bottom of income distribution

## **Evidence suggests that many of those who became inactive in first year of pandemic were ‘forced’ out of workforce**

- More likely to end up in poverty, cut food spending, experience declines in wellbeing
- Those who became inactive a year later look much more like pre-pandemic cohorts

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