

Living standards, poverty and inequality in the UK: 2019

19 June 2019

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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:

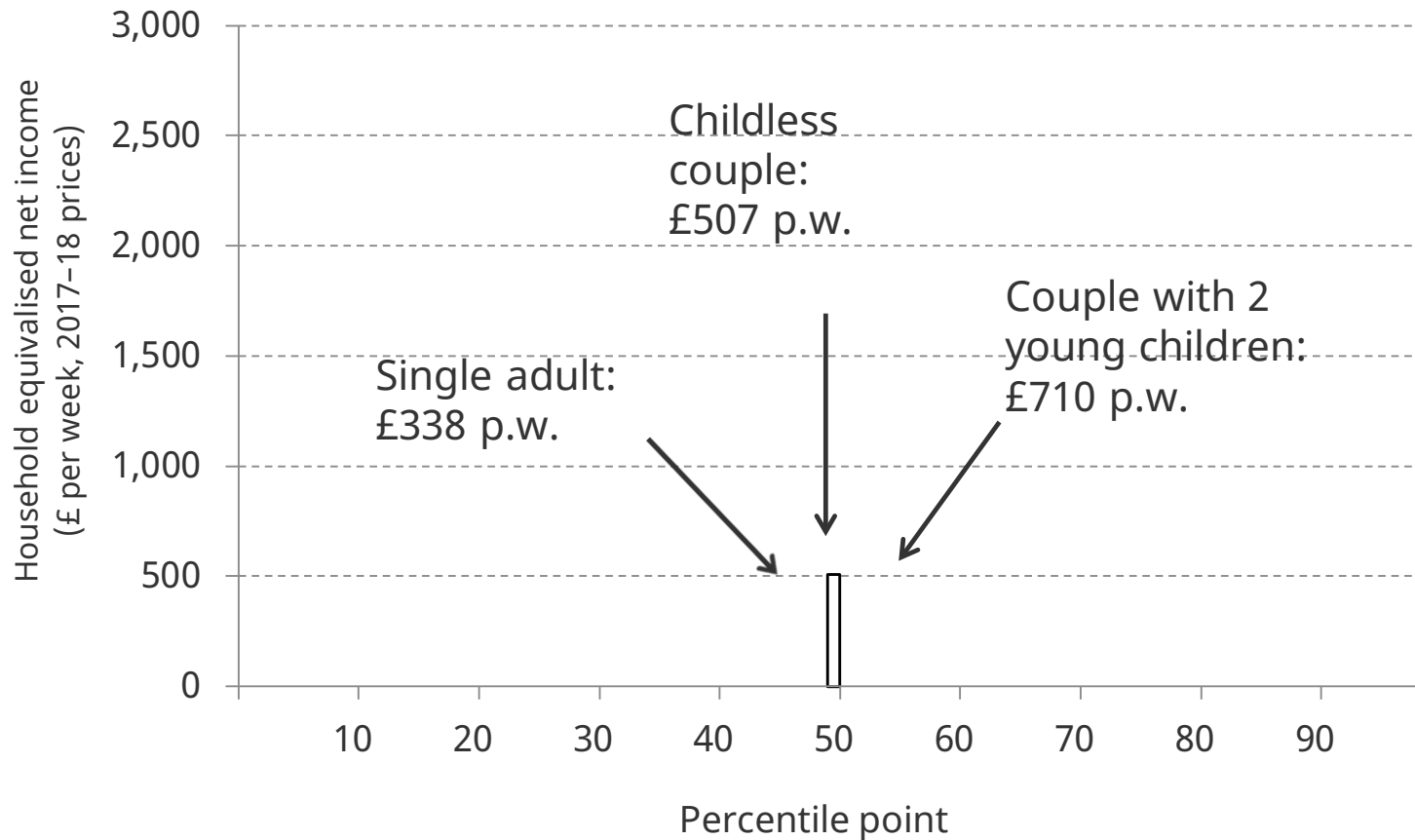
- Net of direct taxes and benefits
- At the household level
- Before and after housing costs have been deducted (“BHC” and “AHC”)

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

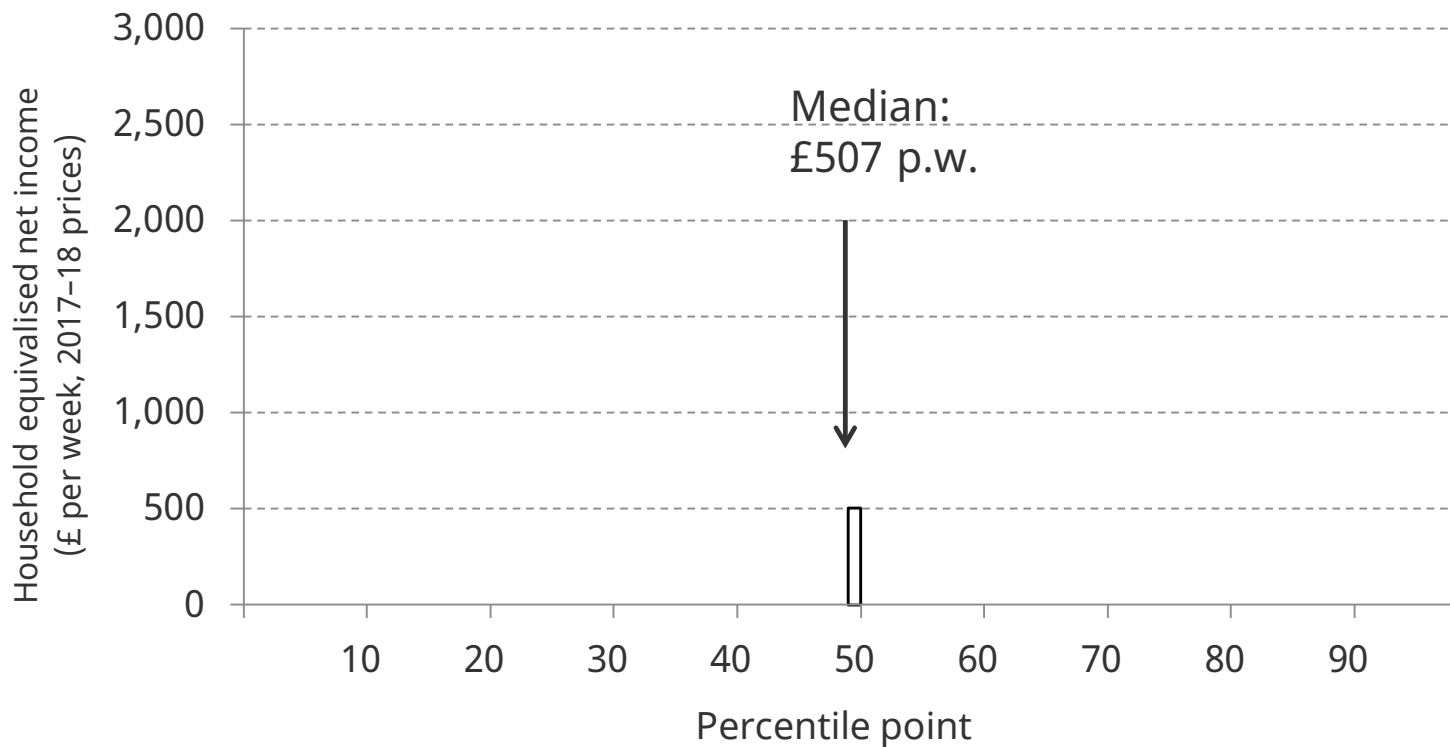
The UK income distribution in 2017-18



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

The UK income distribution in 2017-18

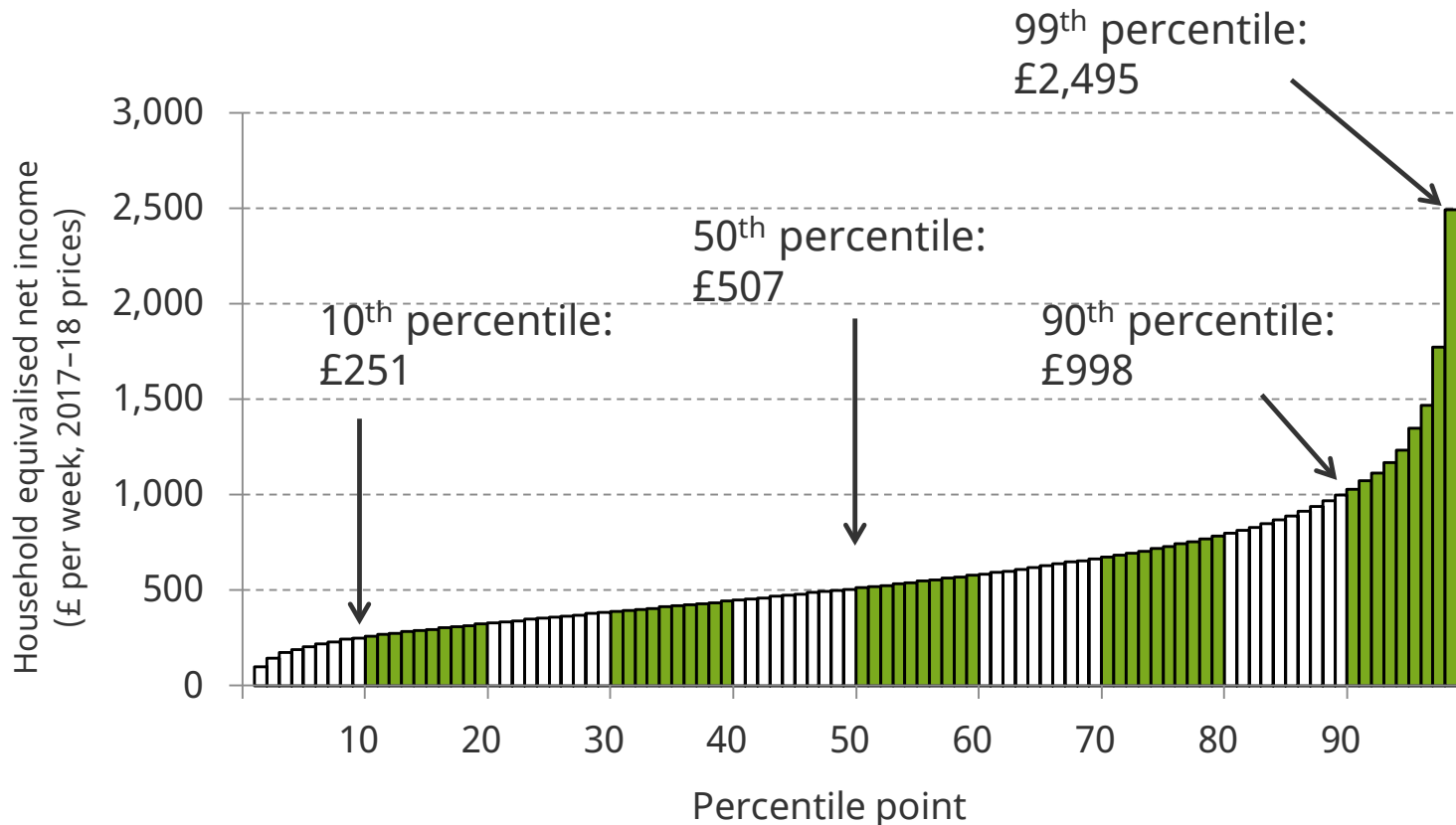
Expressed as equivalent living standards for a childless couple



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

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This presentation

Trends in household incomes in the UK

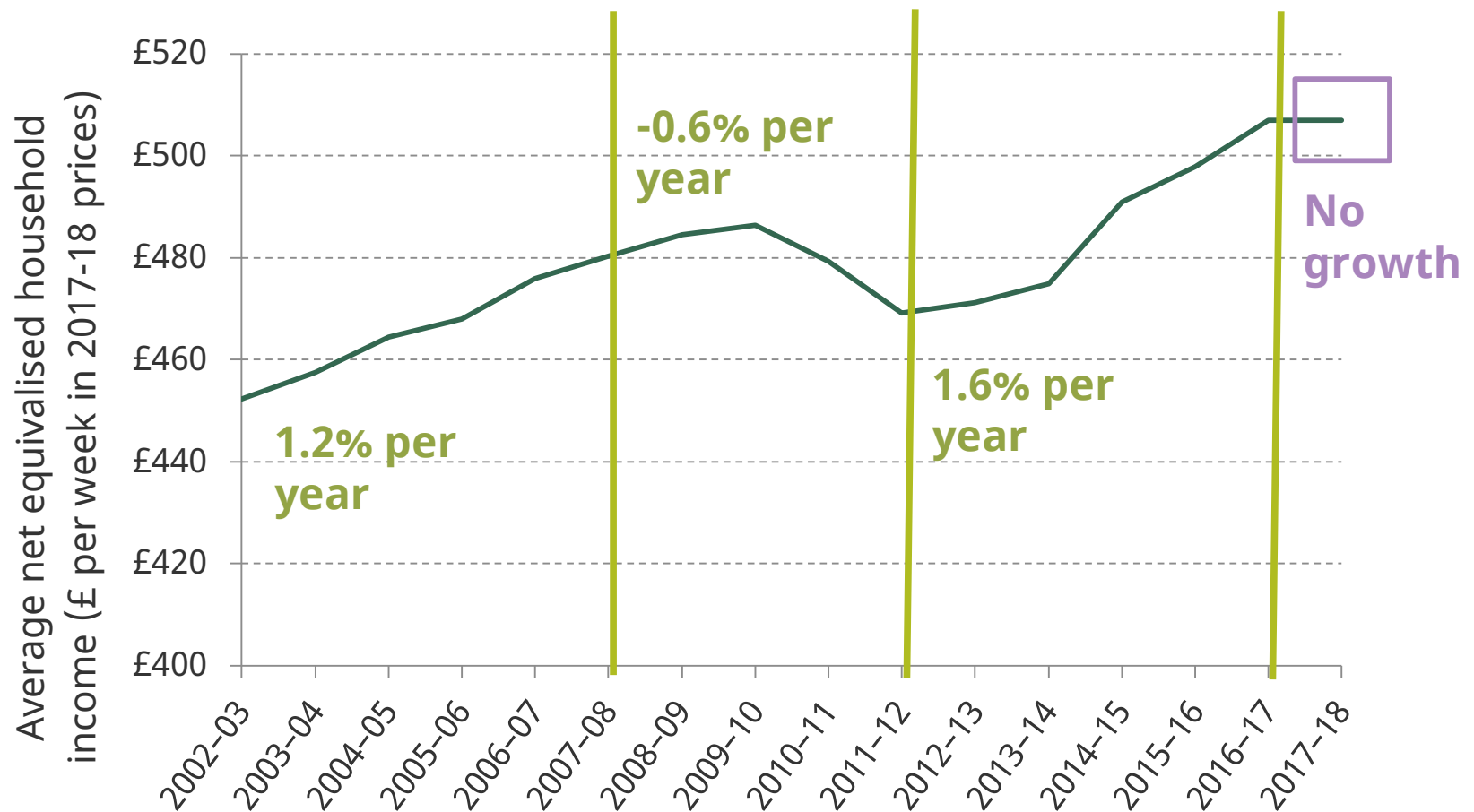
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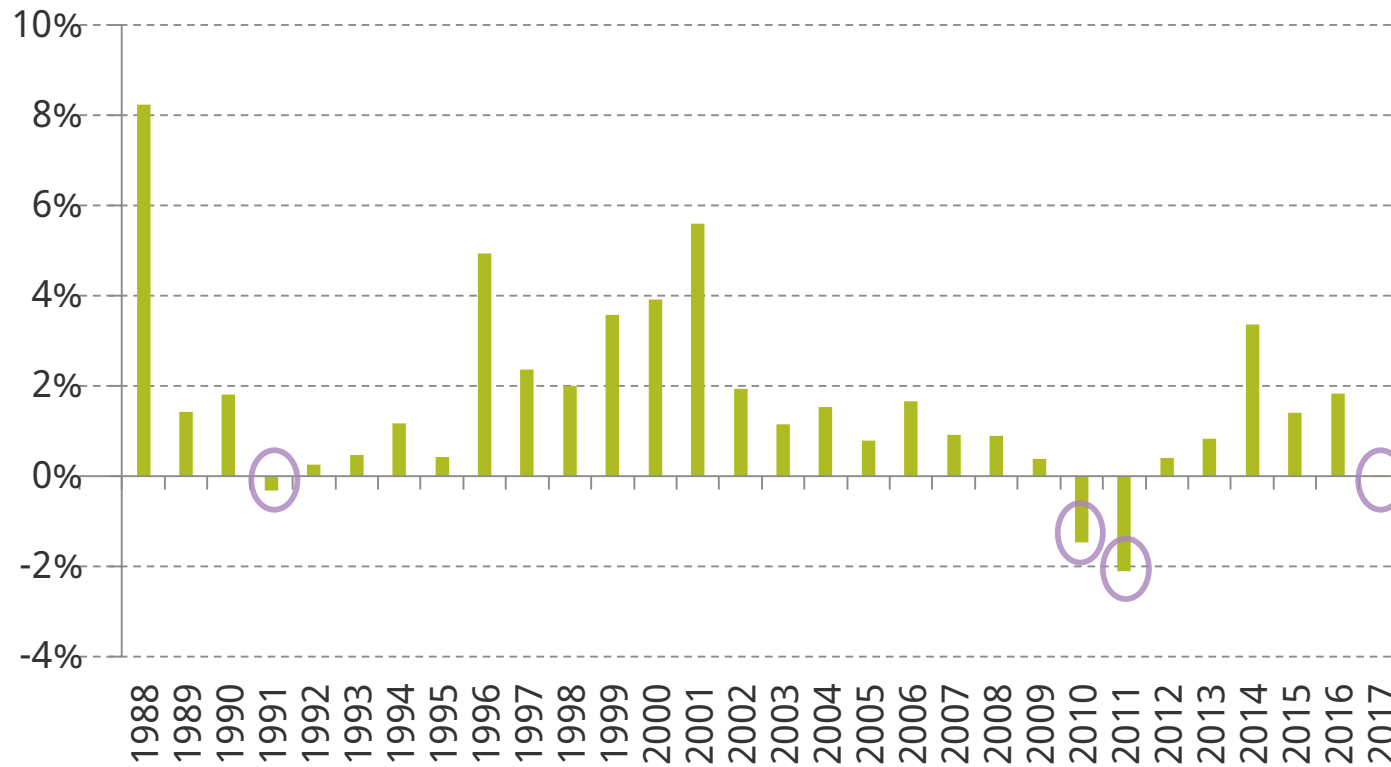
How has income growth differed across age groups?

Median real UK household (BHC) income



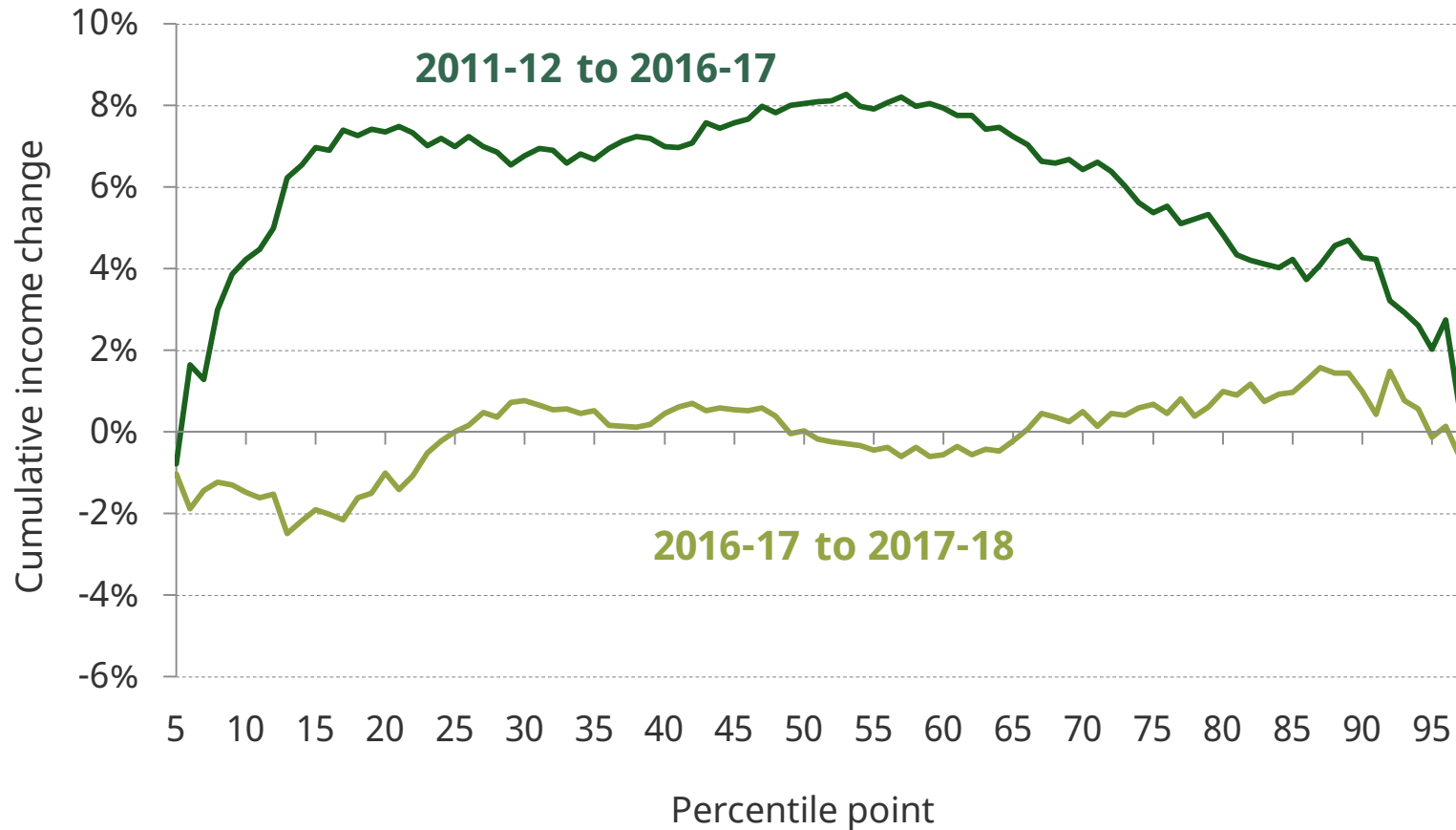
Source: Figure 2.2 of Living Standards, Poverty and Inequality in the UK: 2019

Median income growth over the last 30 years



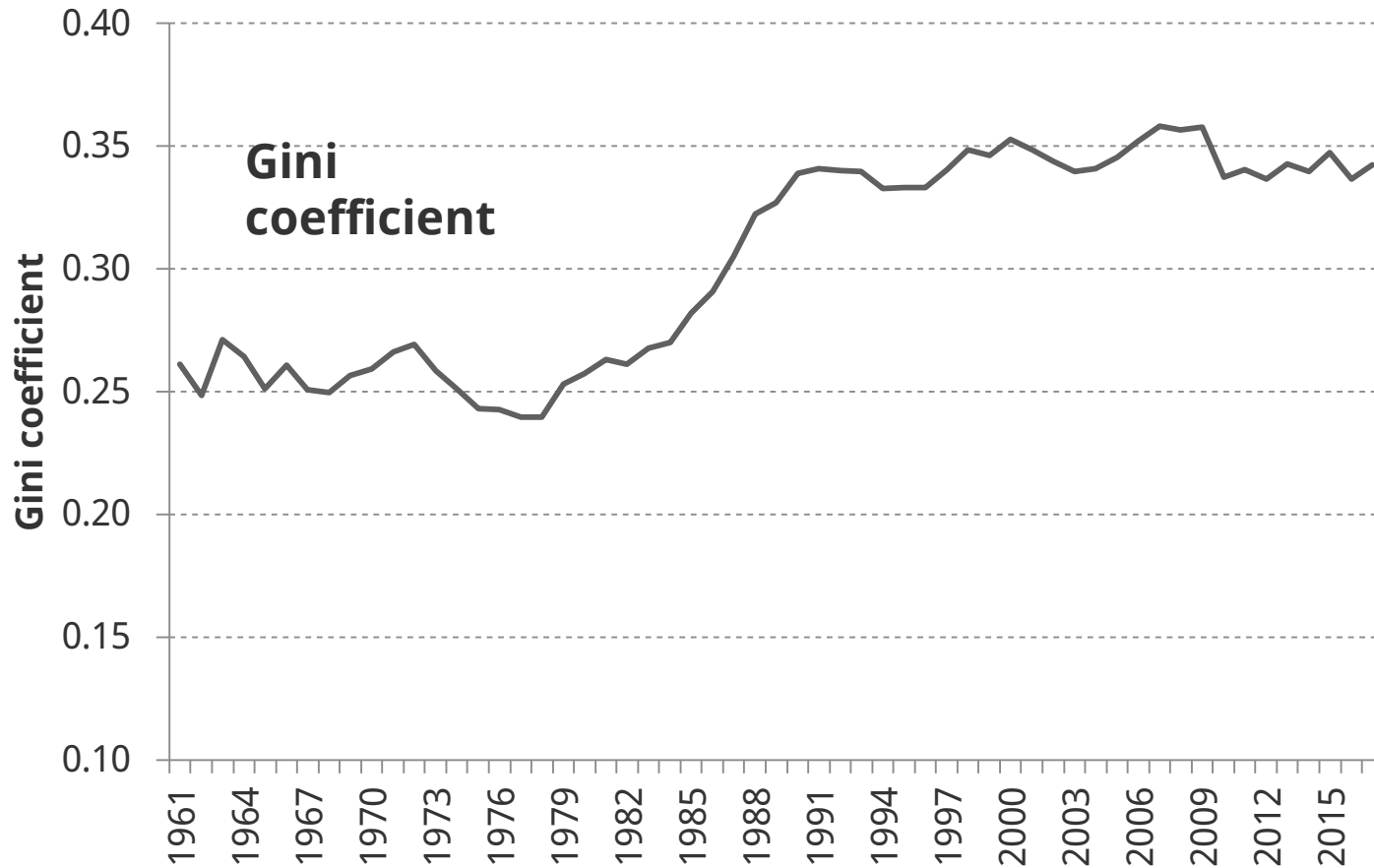
Source: Figure 2.3 of Living Standards, Poverty and Inequality in the UK: 2019

Real income growth by percentile point, UK



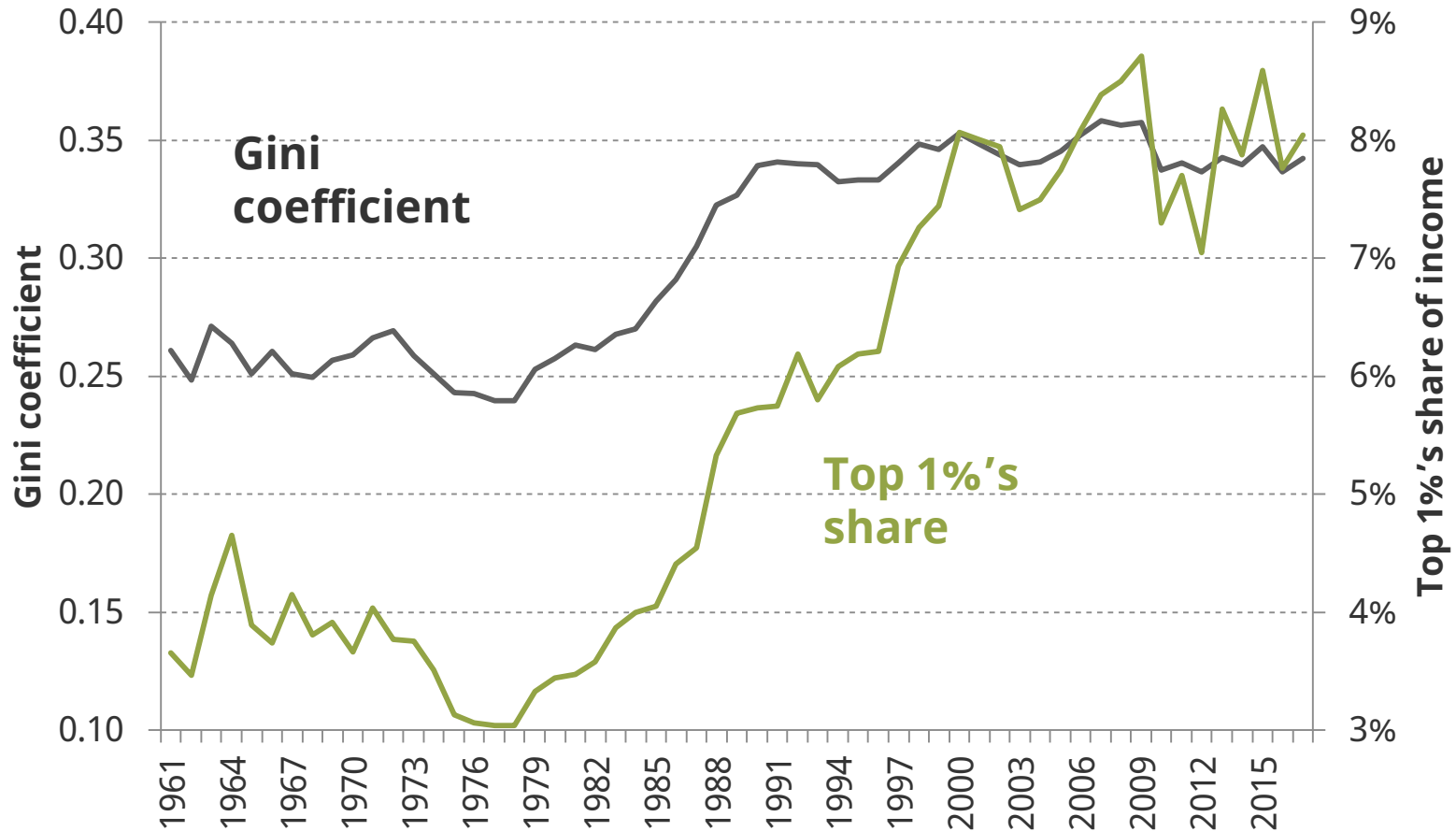
Source: Figure 2.5 of Living Standards, Poverty and Inequality in the UK: 2019

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

This presentation

Trends in household incomes in the UK

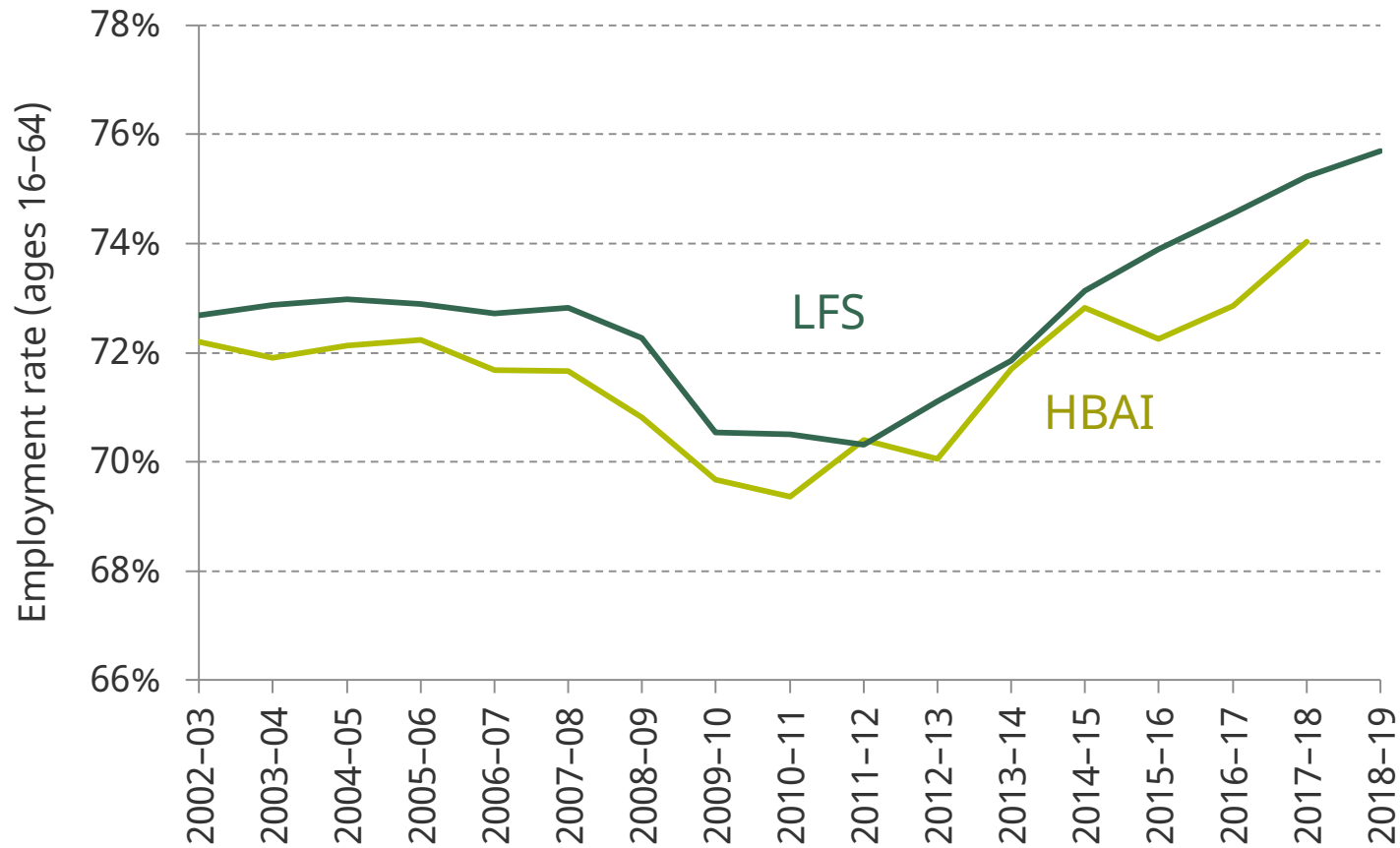
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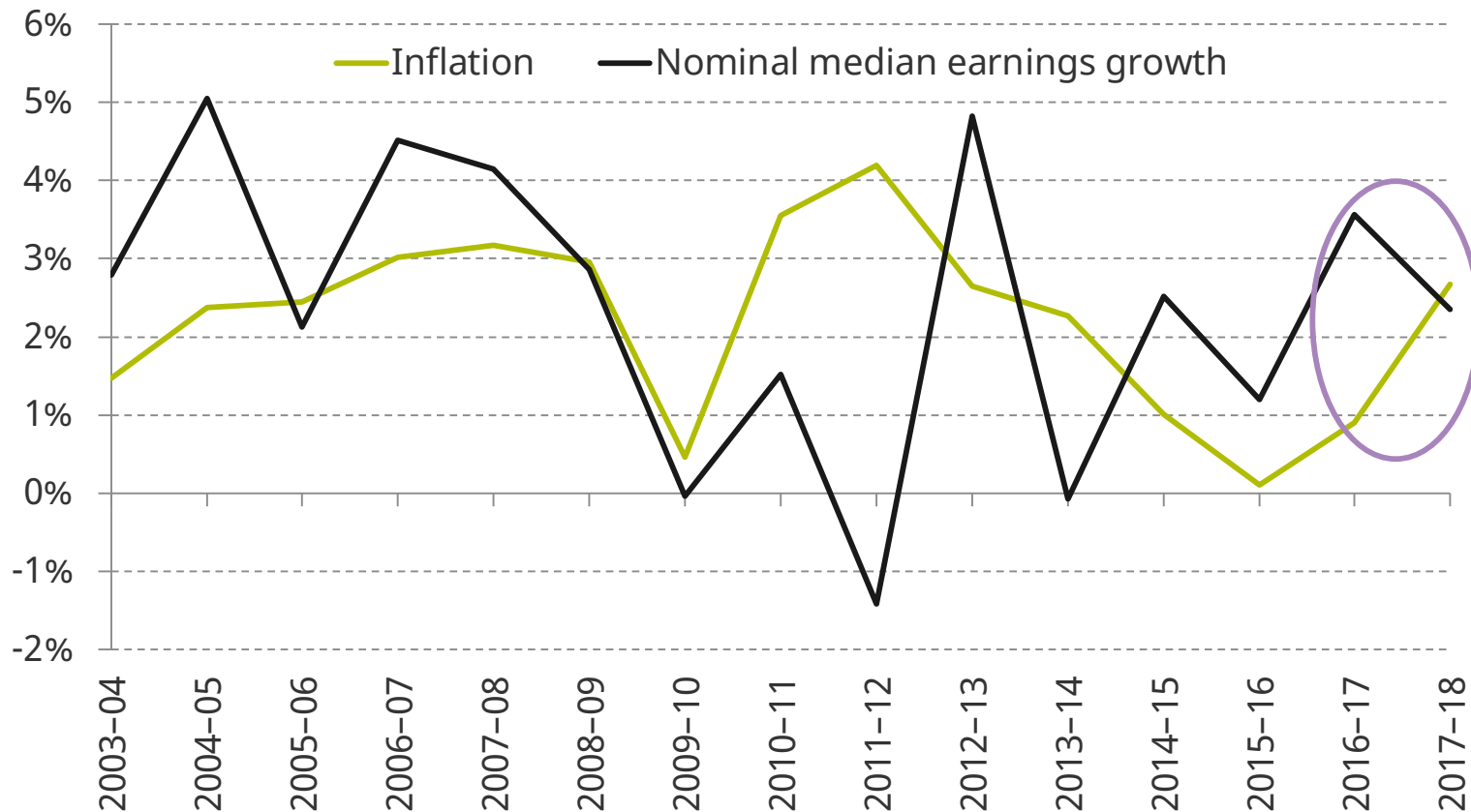
How has income growth differed across age group?

Employment rate (ages 16-64)



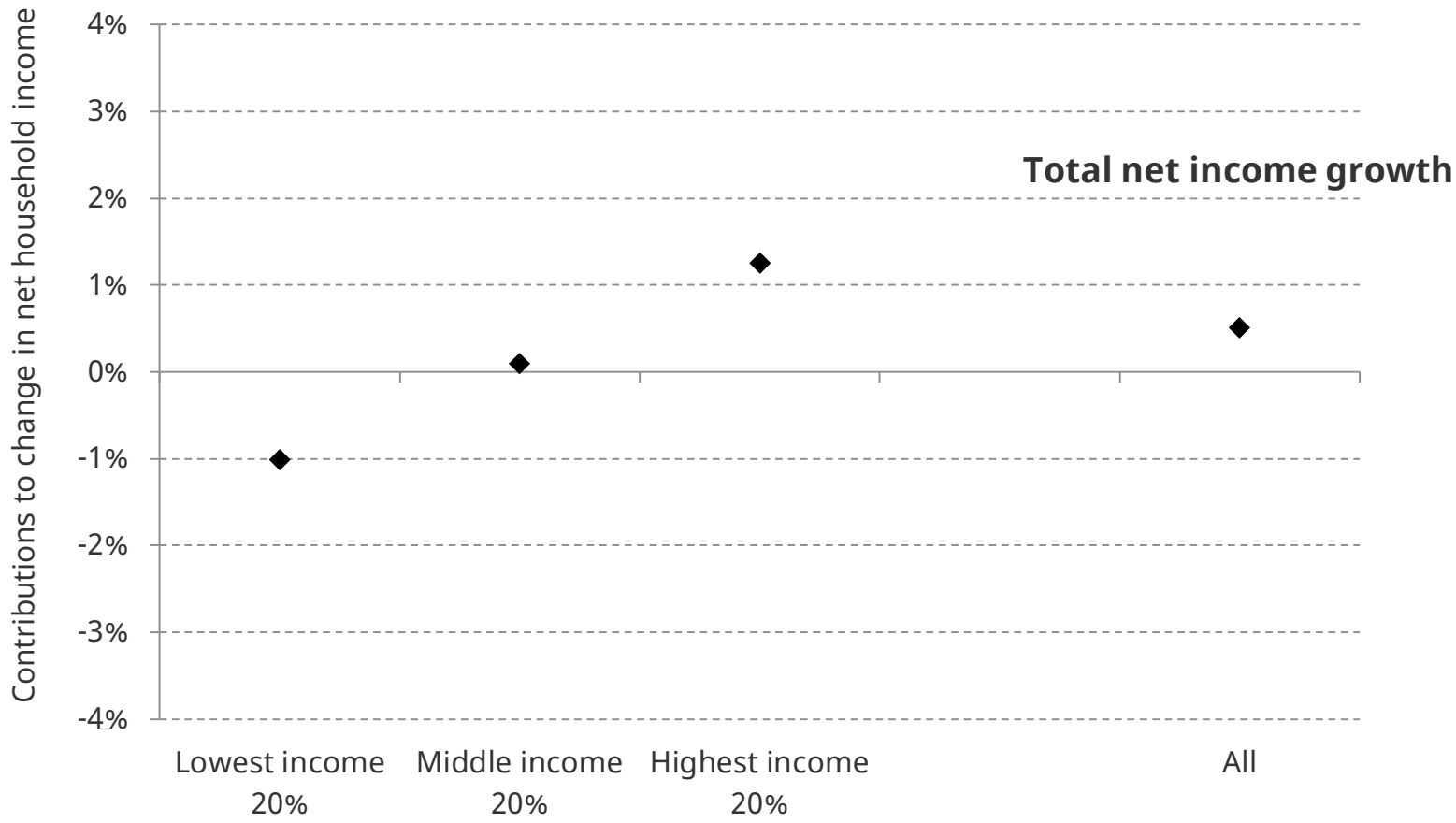
Source: Figure 2.8 of *Living Standards, Poverty and Inequality in the UK: 2019*

Median earnings growth in cash-terms and inflation



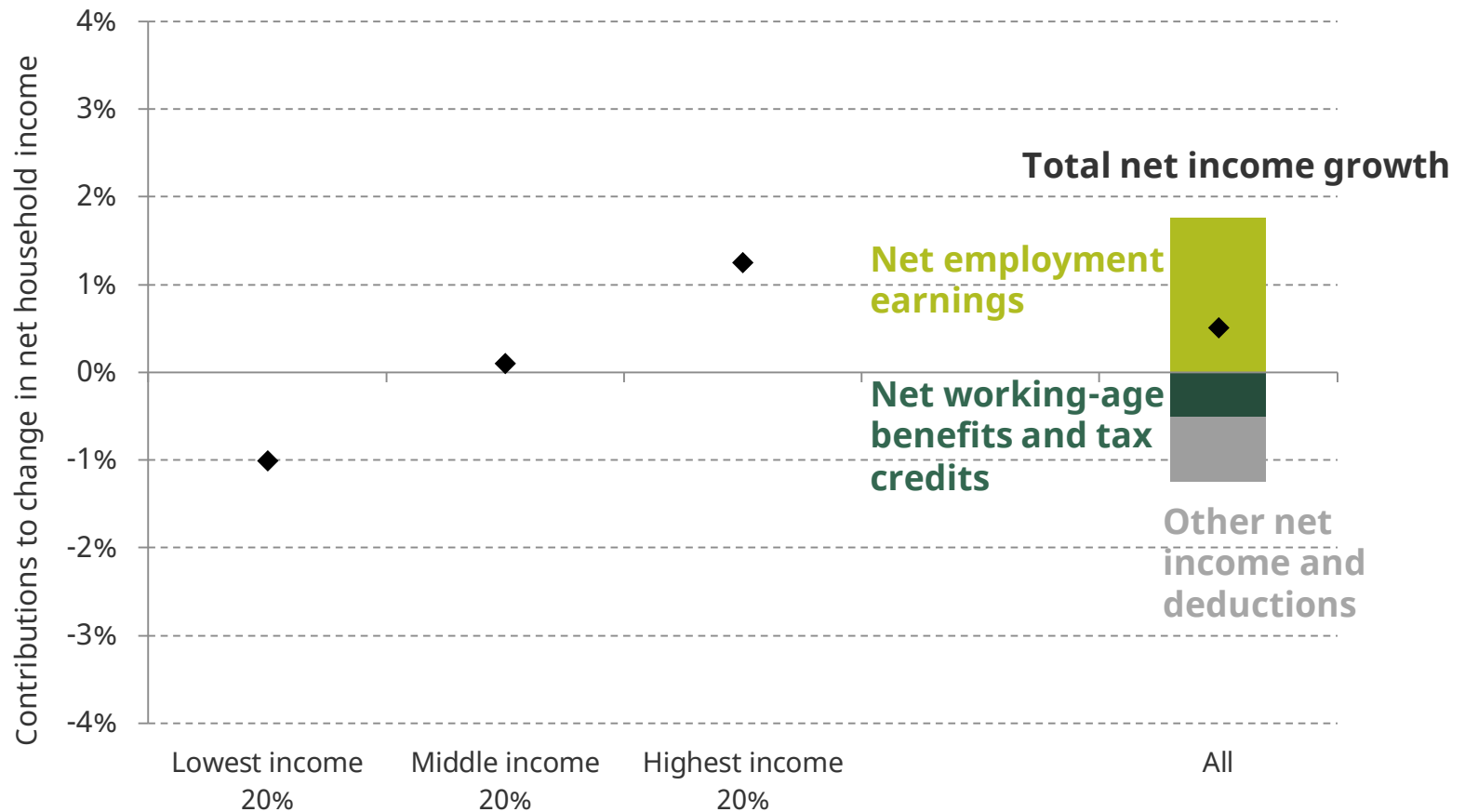
Source: Figure 2.10 of *Living Standards, Poverty and Inequality in the UK: 2019*

Contributions to mean net income growth by quintile, 2016-17 to 2017-18



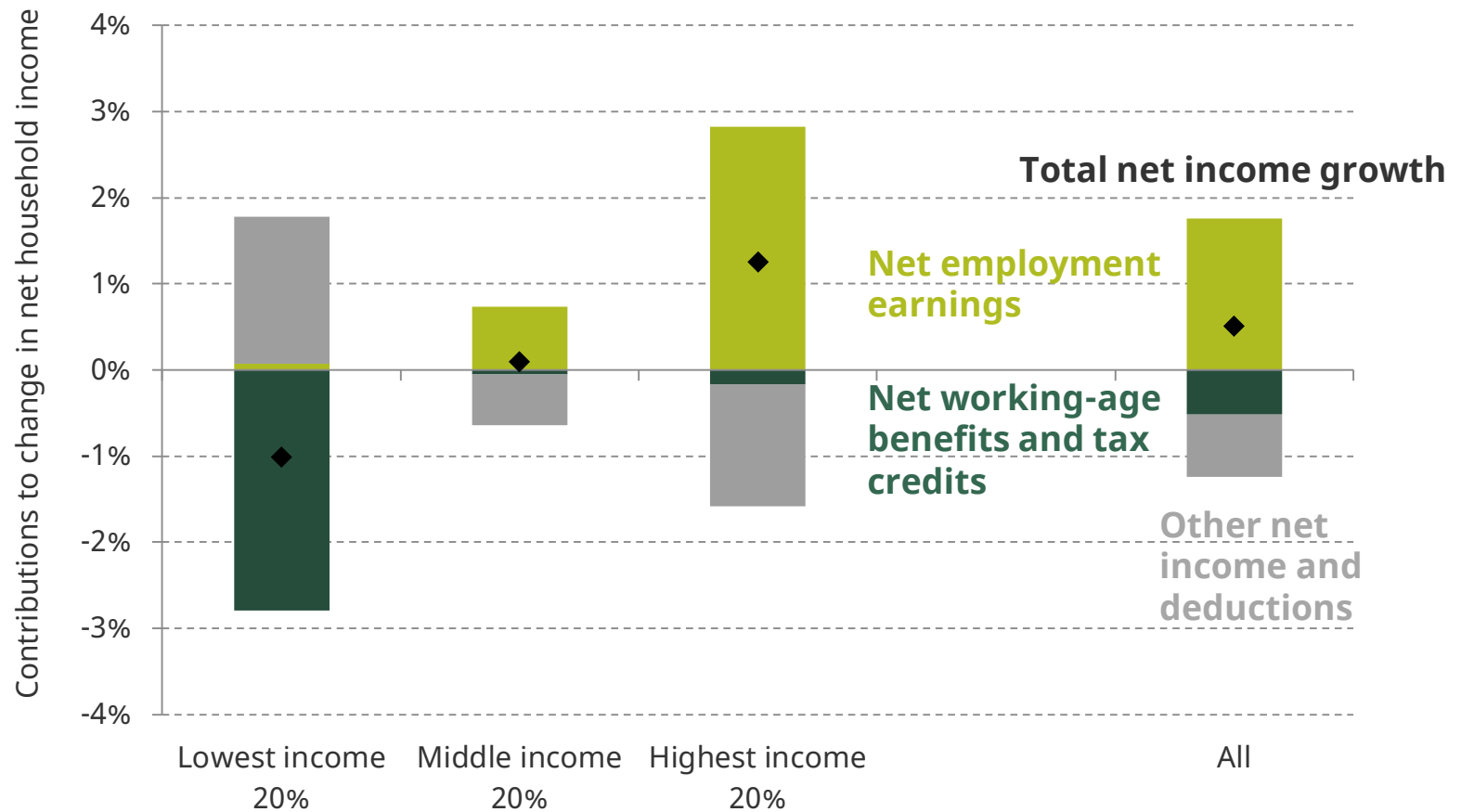
Source: Figure 2.11 of *Living Standards, Poverty and Inequality in the UK: 2019*

Contributions to mean net income growth by quintile, 2016-17 to 2017-18



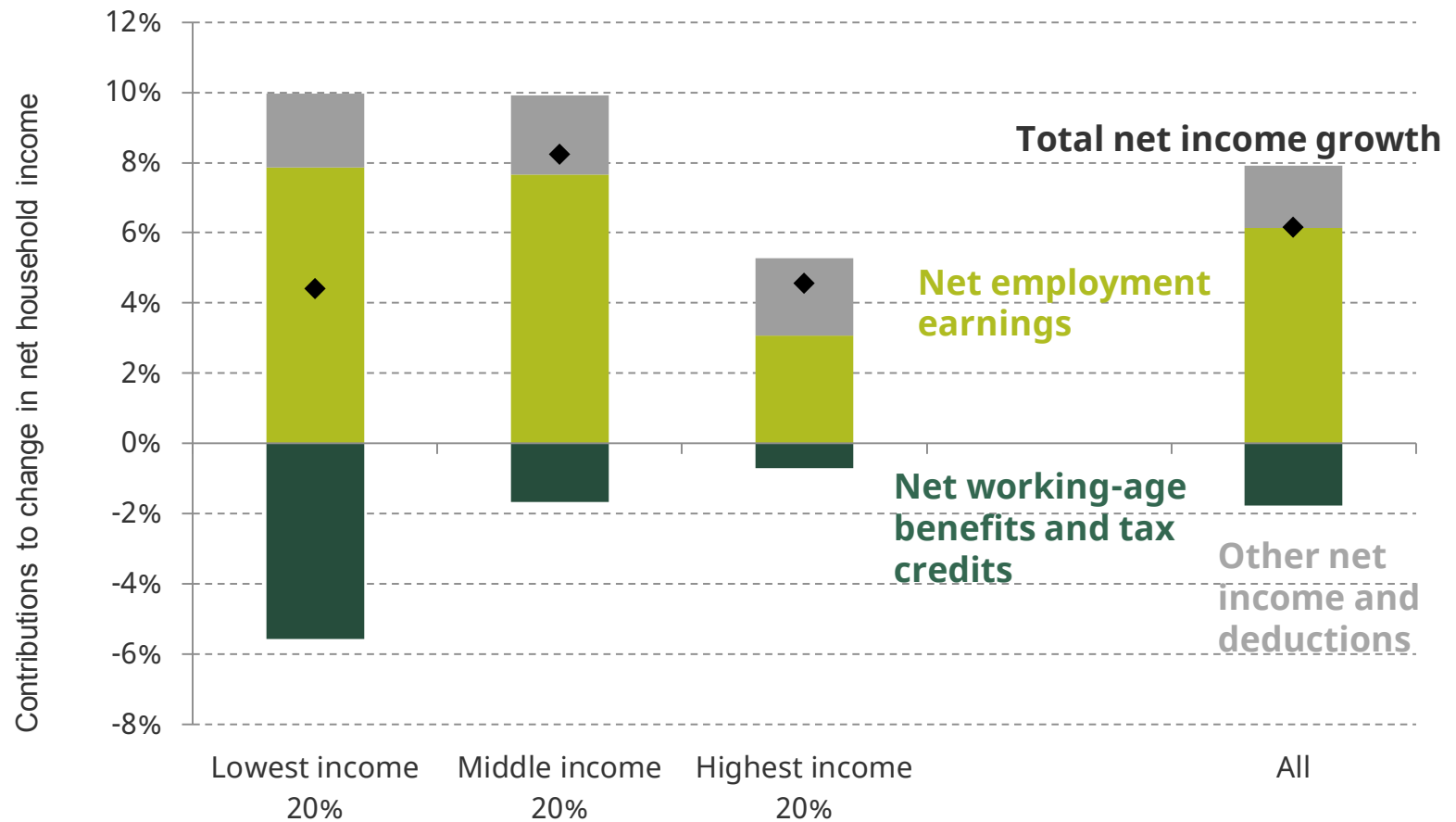
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Contributions to mean net income growth by quintile, 2016-17 to 2017-18



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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

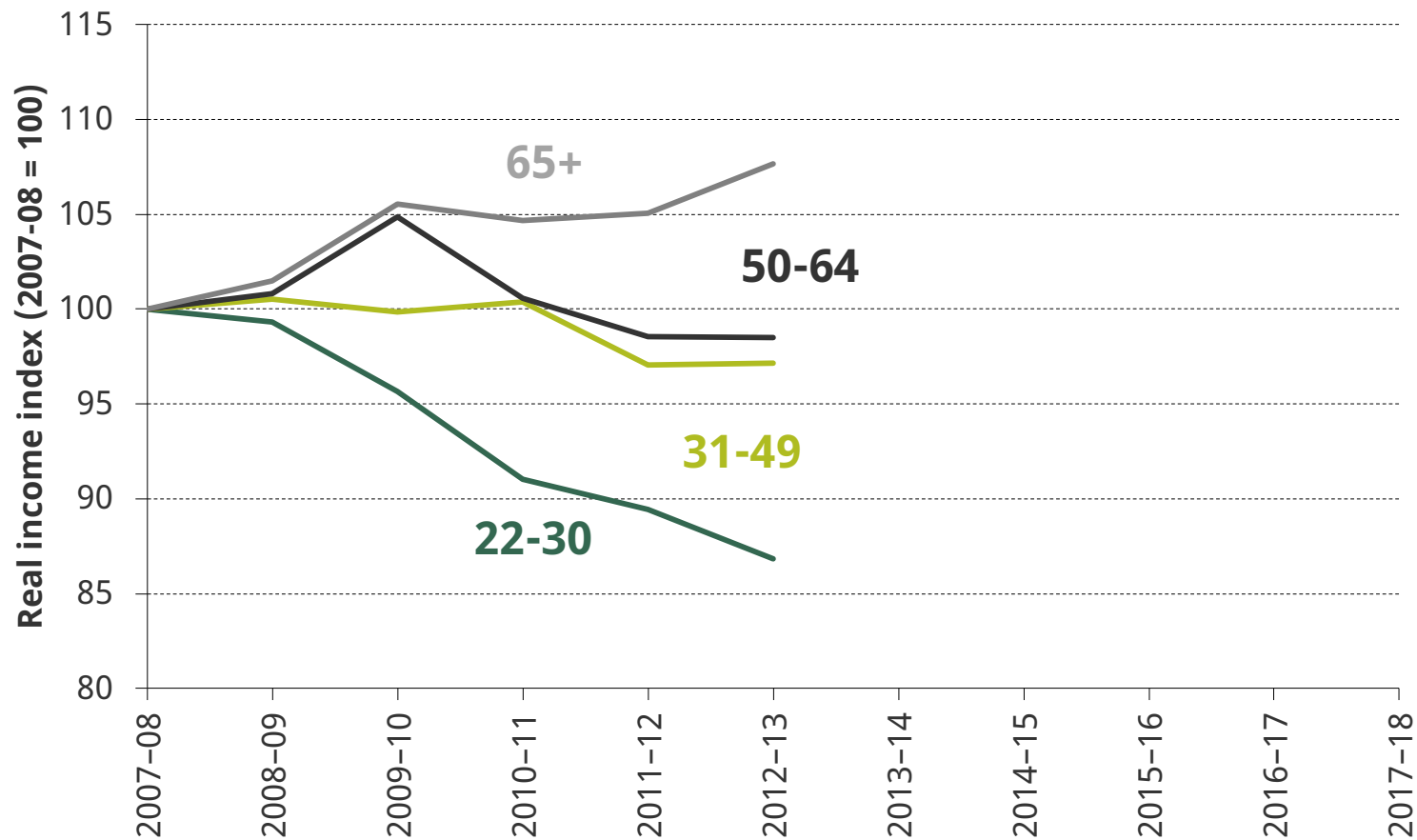
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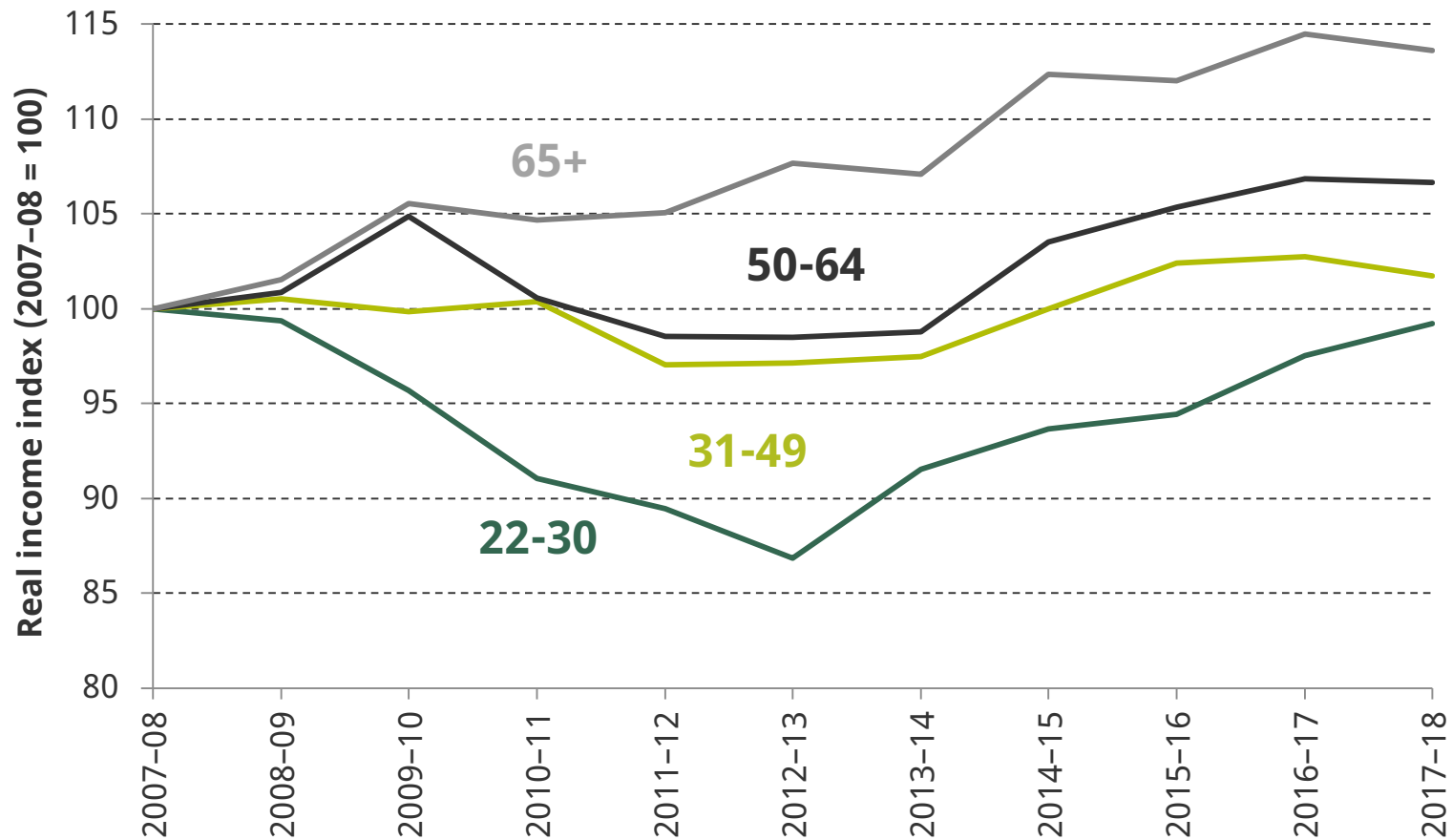
How has income growth differed across age groups?

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

This presentation

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)

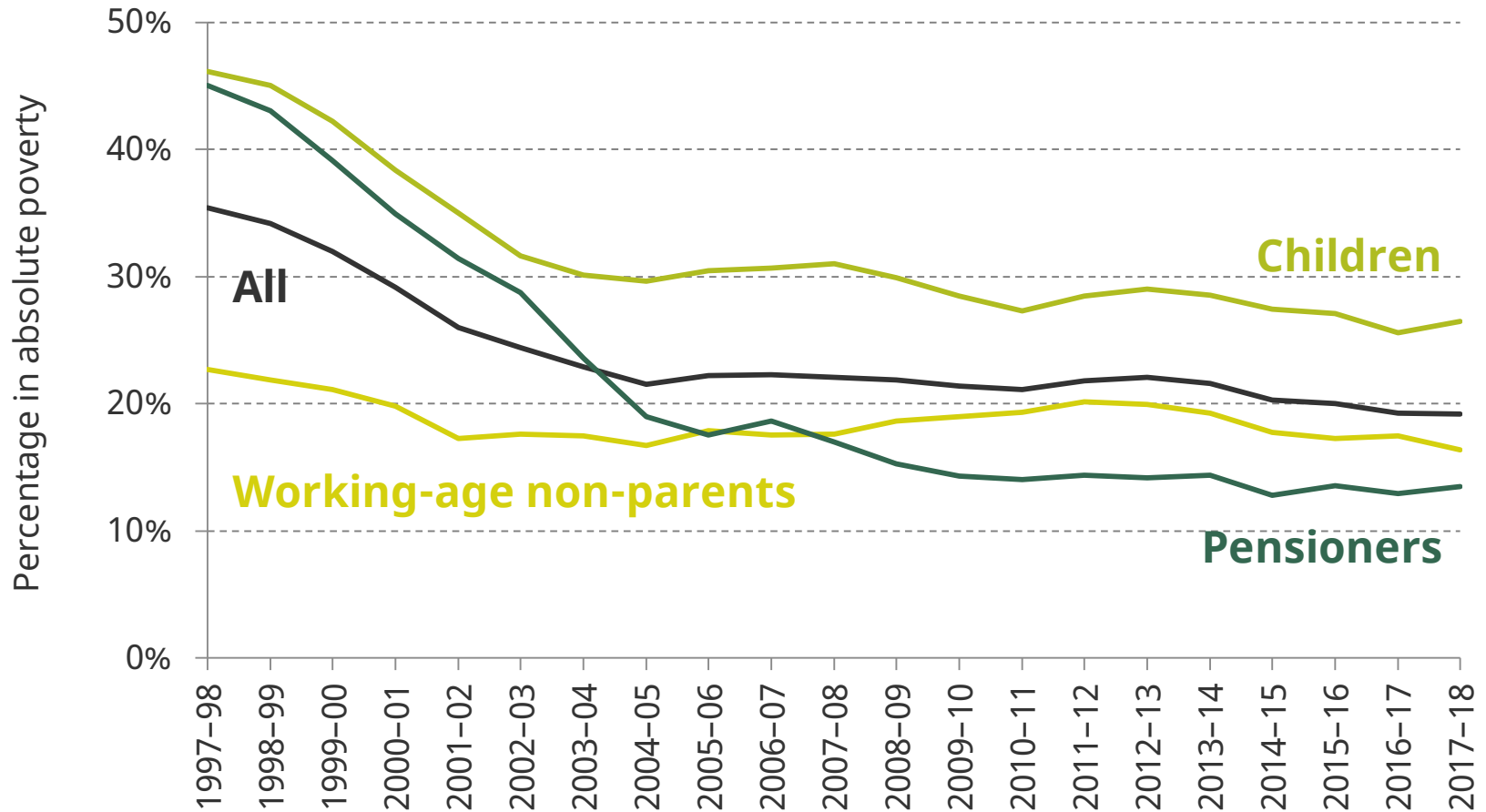
Relative poverty

- 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?

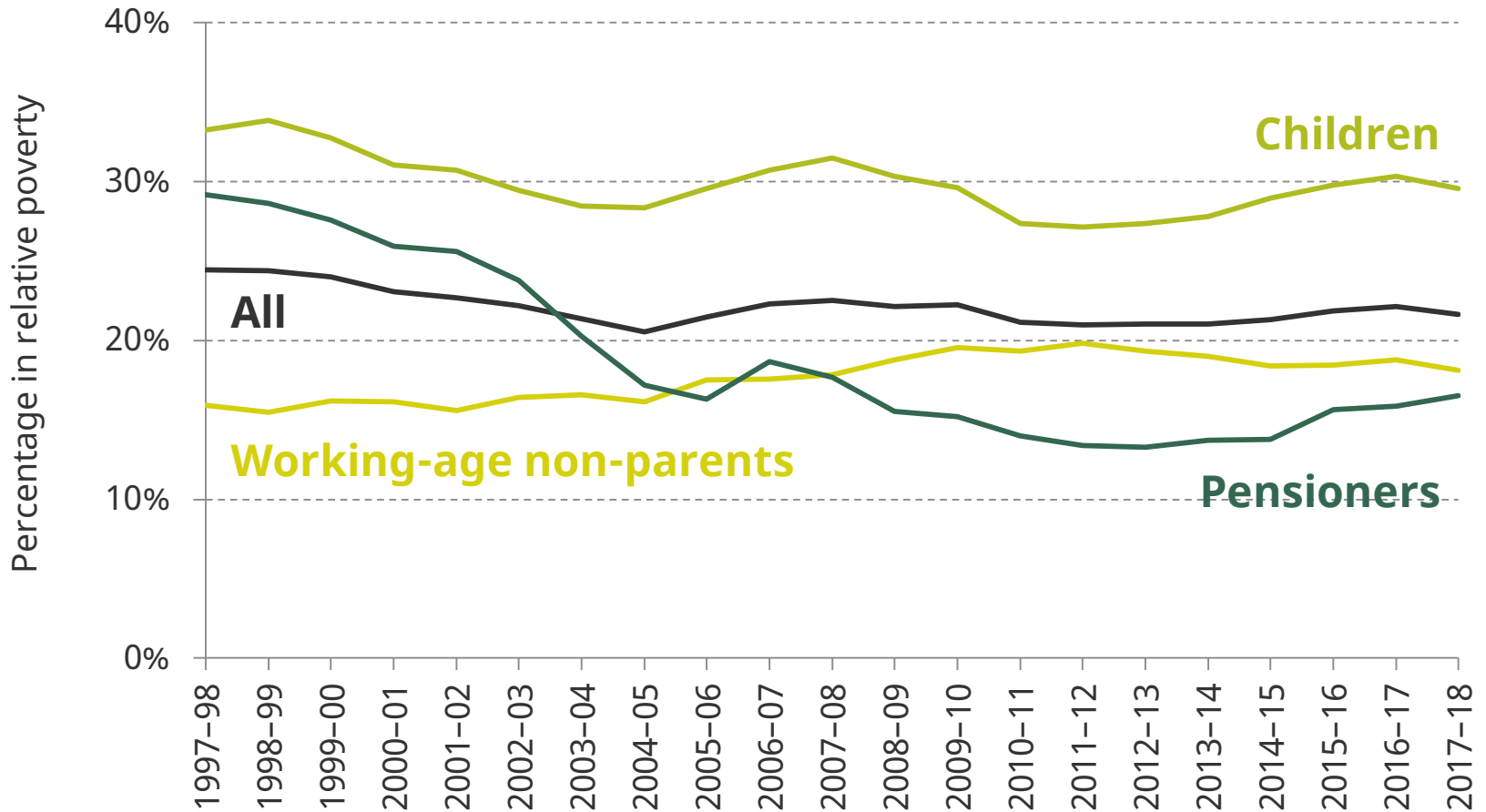
Fall in benefit income for low-income households with children

- 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

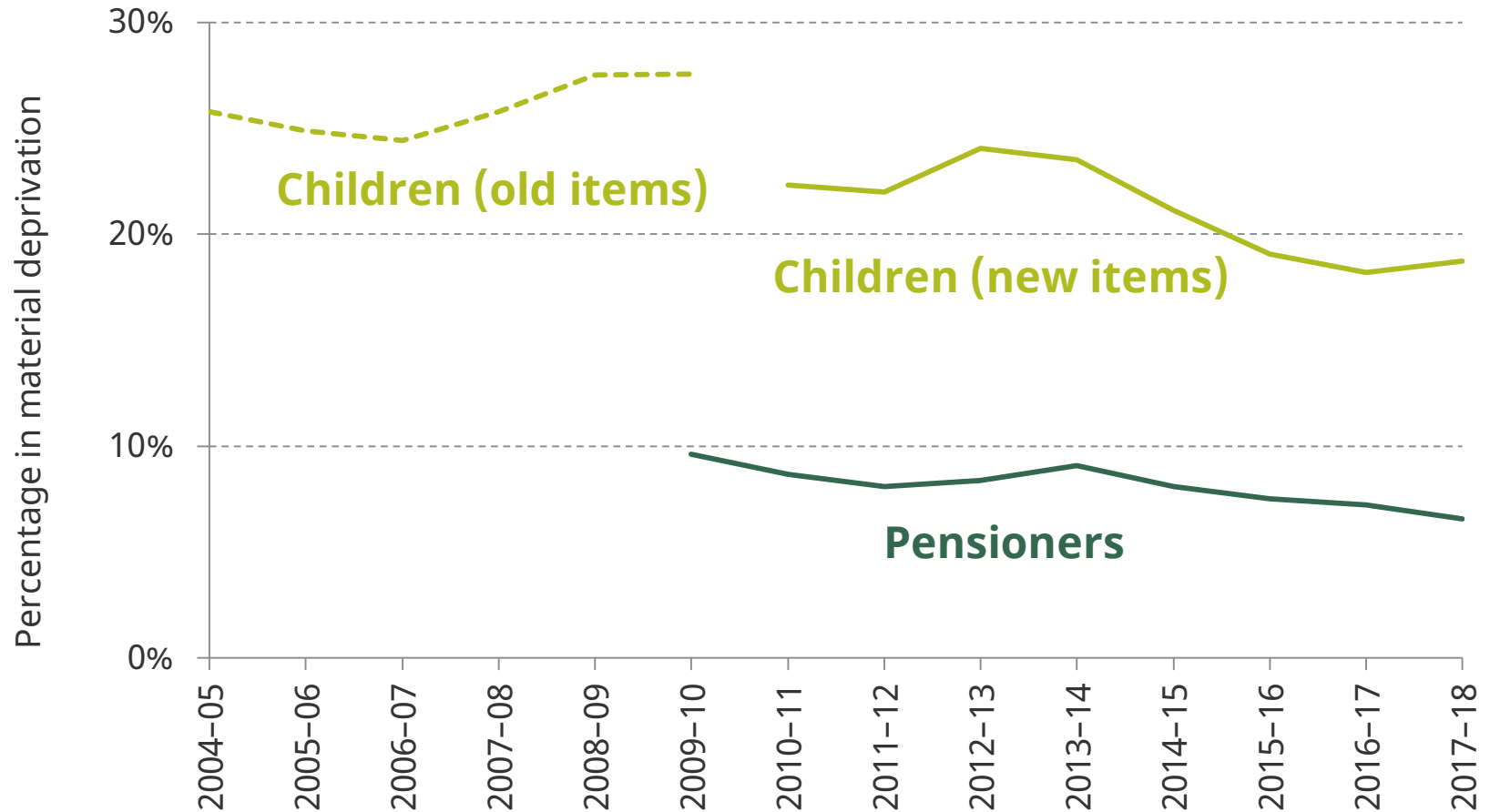
- Sharp rise in inflation reduced value of working-age benefits – most frozen in cash terms
- ‘Two-child limit’ introduced
- ‘Family element’ in Child Tax Credit abolished
- More families affected by removal of family premium in HB (May 2016)

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*

This presentation

How has poverty changed in recent years?

- Differences by demographic group
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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

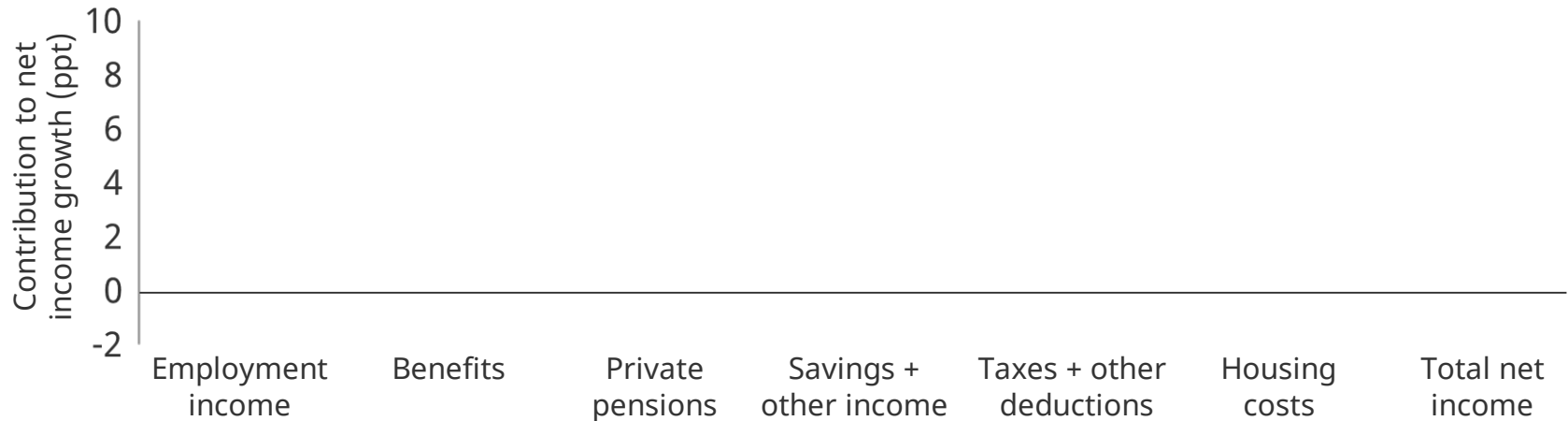
1. 2005-06 to 2011-12: relative pensioner poverty falling
2. 2011-12 to 2017-18: relative pensioner poverty stagnant or rising

Focus on low-income pensioners

- Bottom quarter of pensioners' household incomes

How have incomes of low-income pensioners changed?

2005-06 to 2011-12

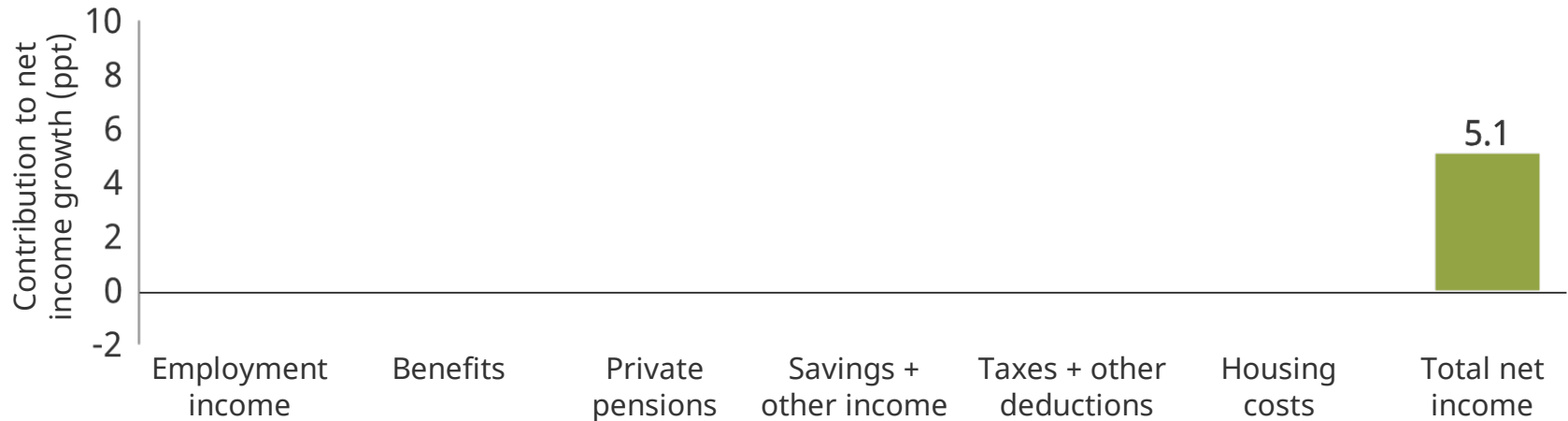


2011-12 to 2017-18



How have incomes of low-income pensioners changed?

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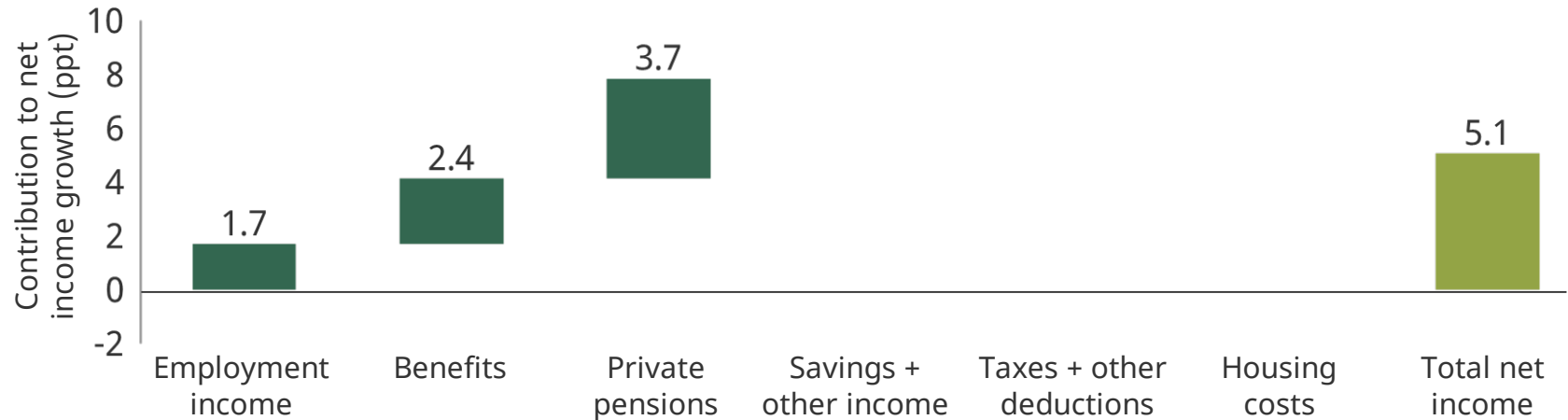


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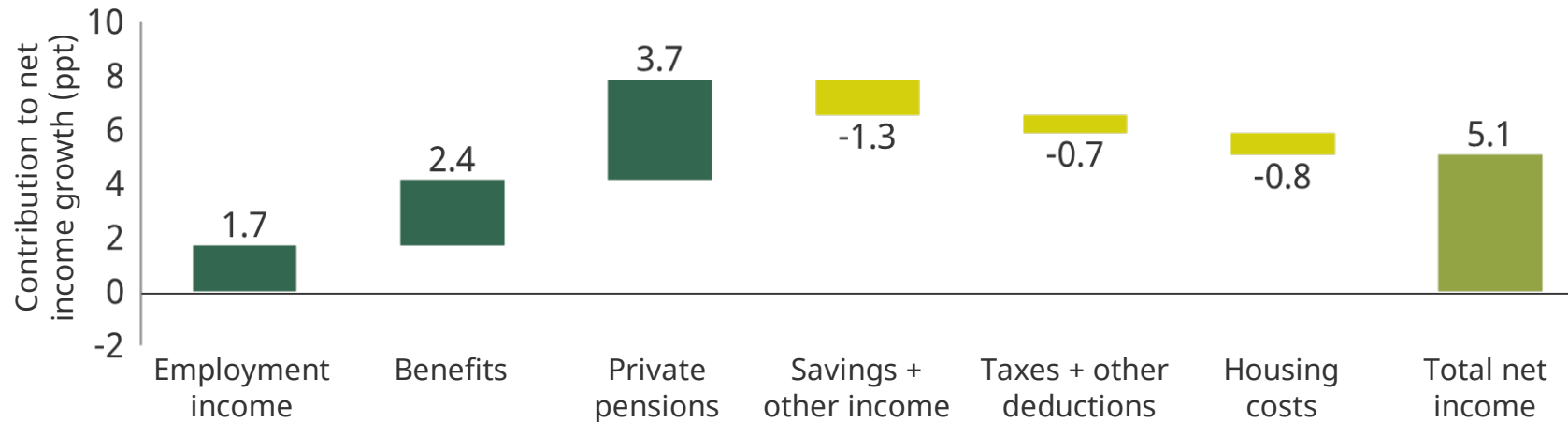


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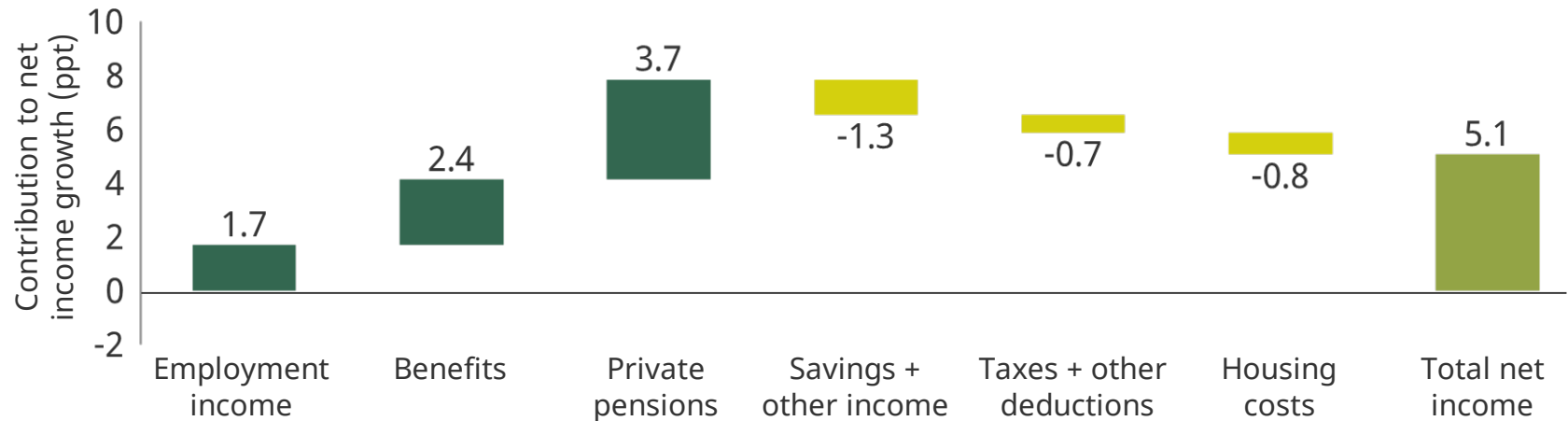


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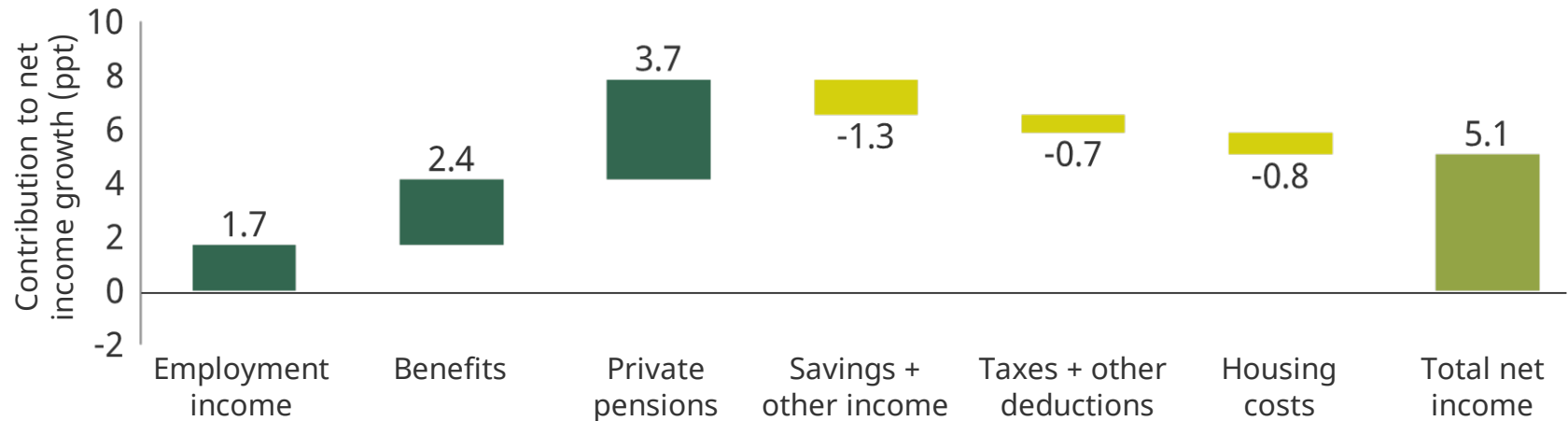


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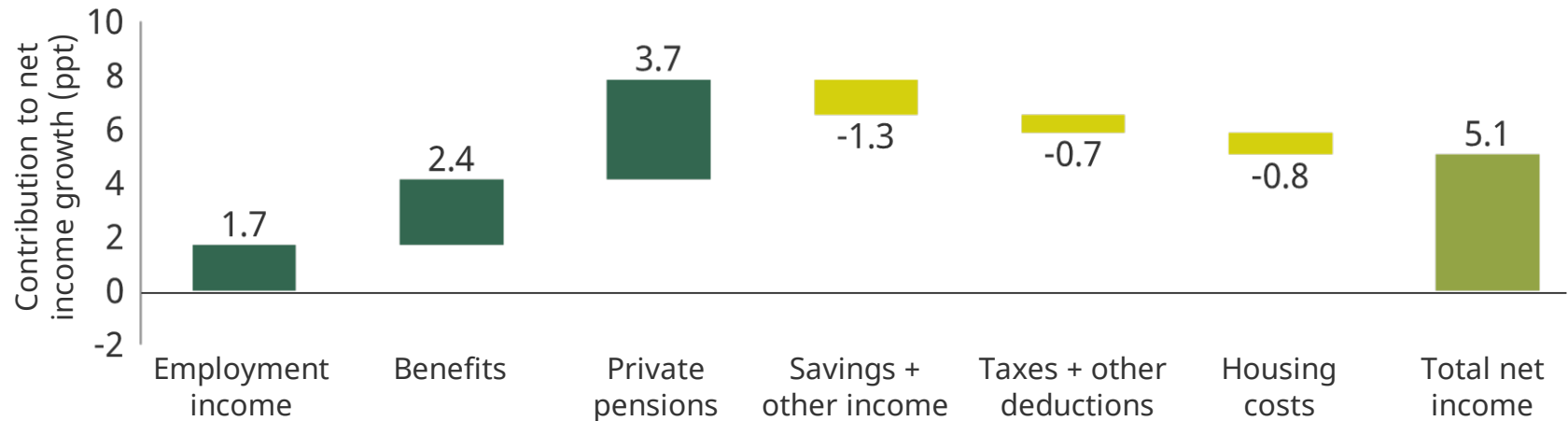


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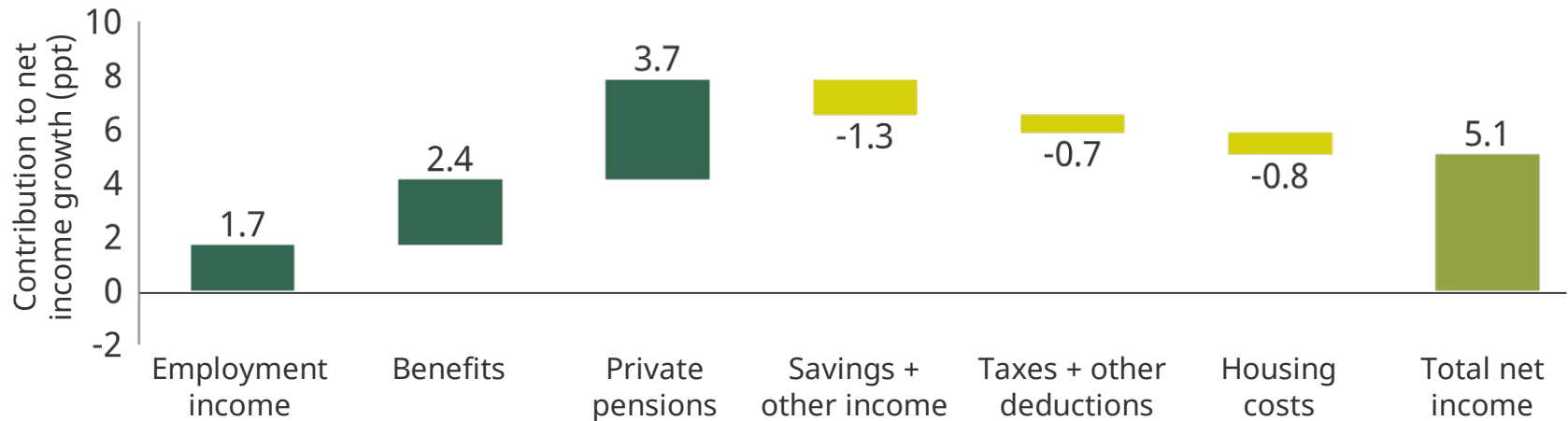


2011-12 to 2017-18

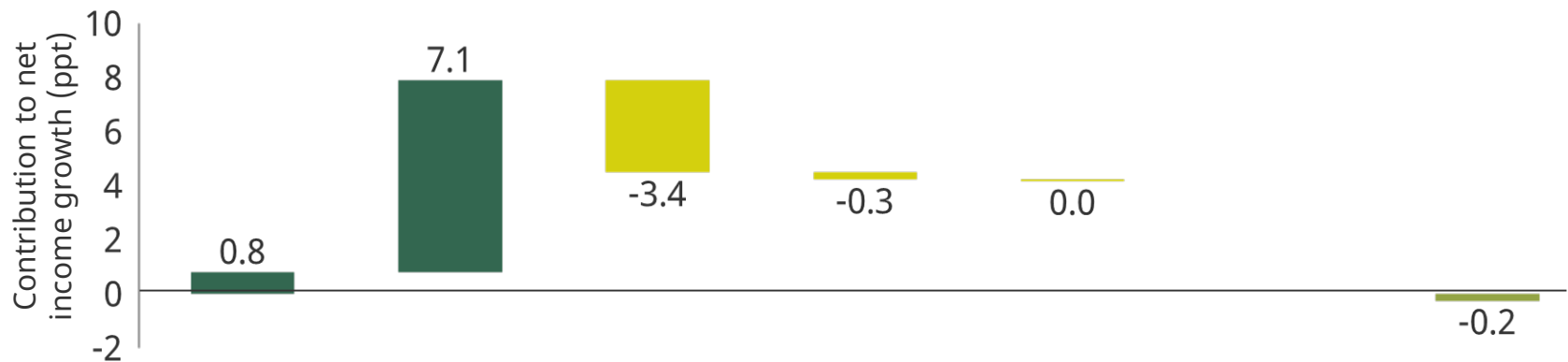


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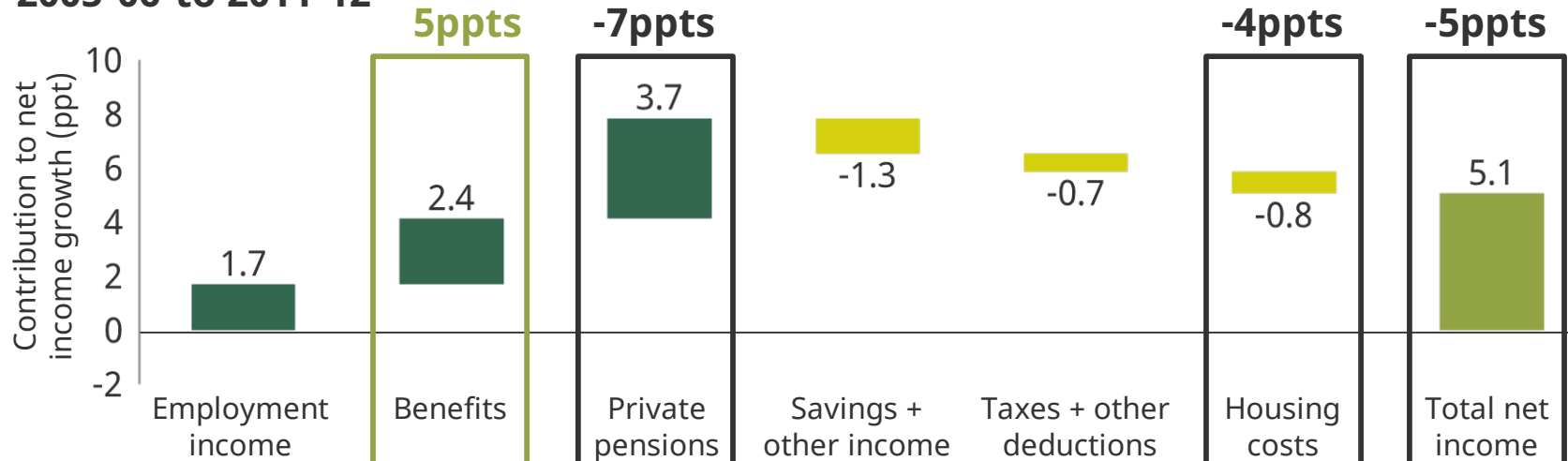


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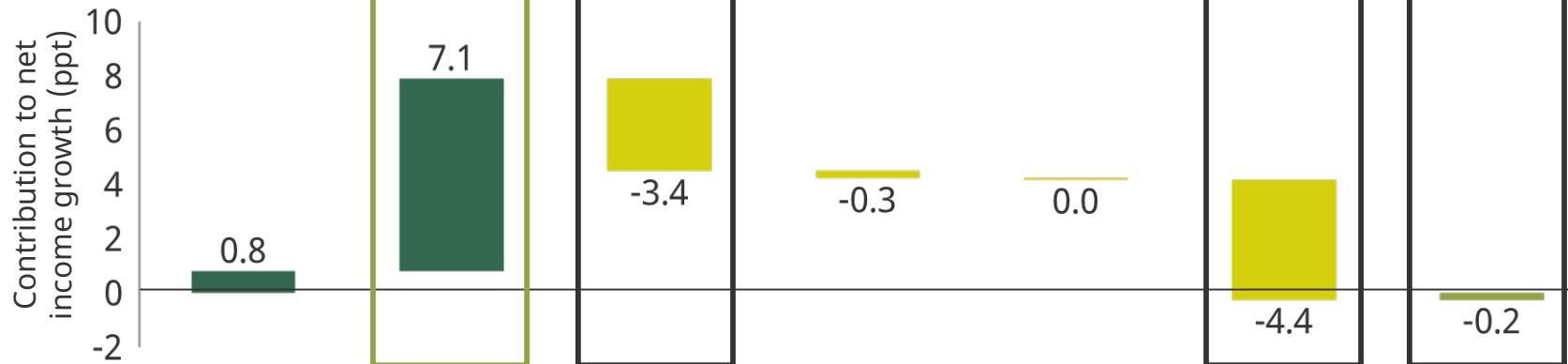


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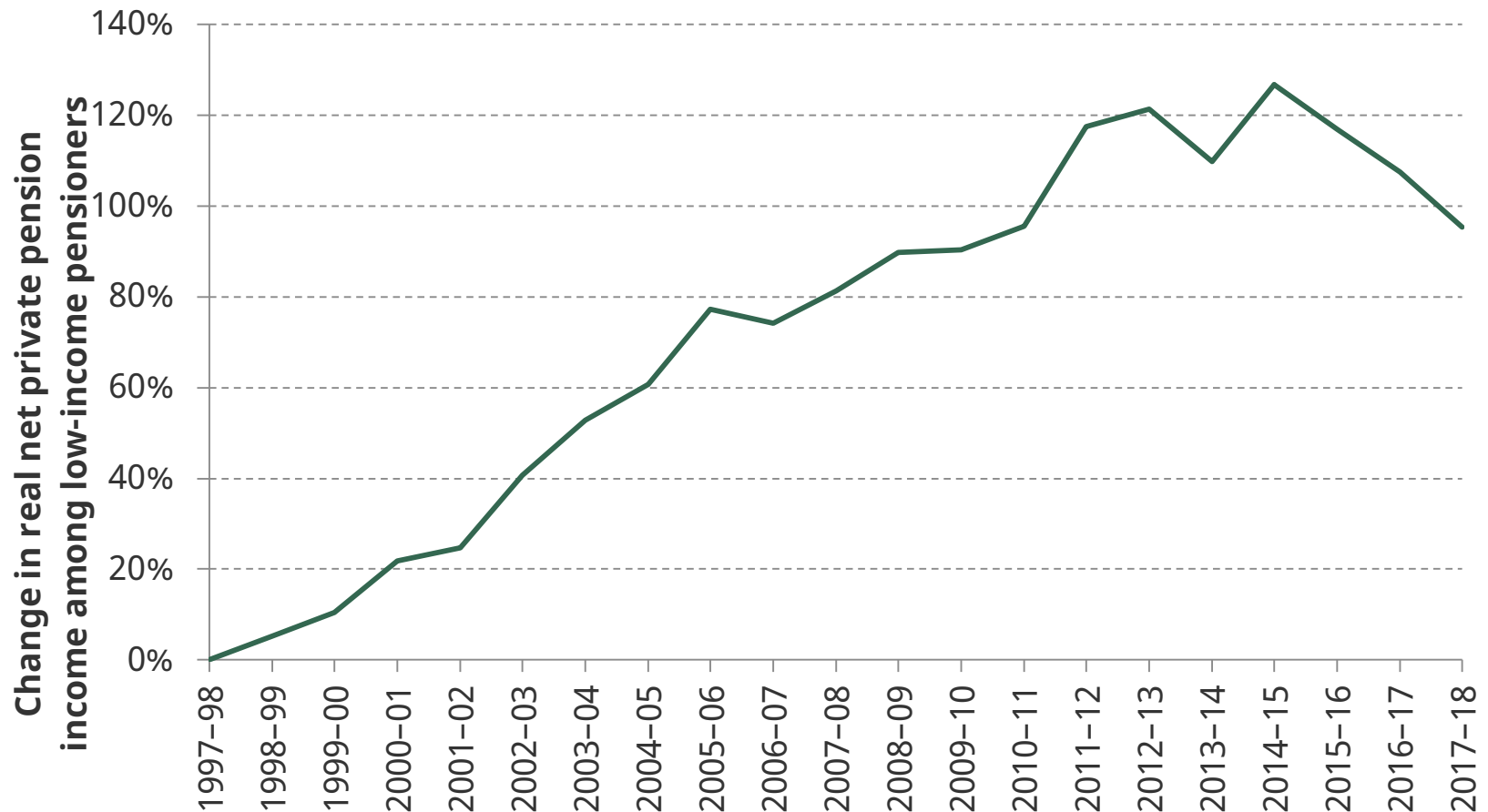
2005-06 to 2011-12



2011-12 to 2017-18

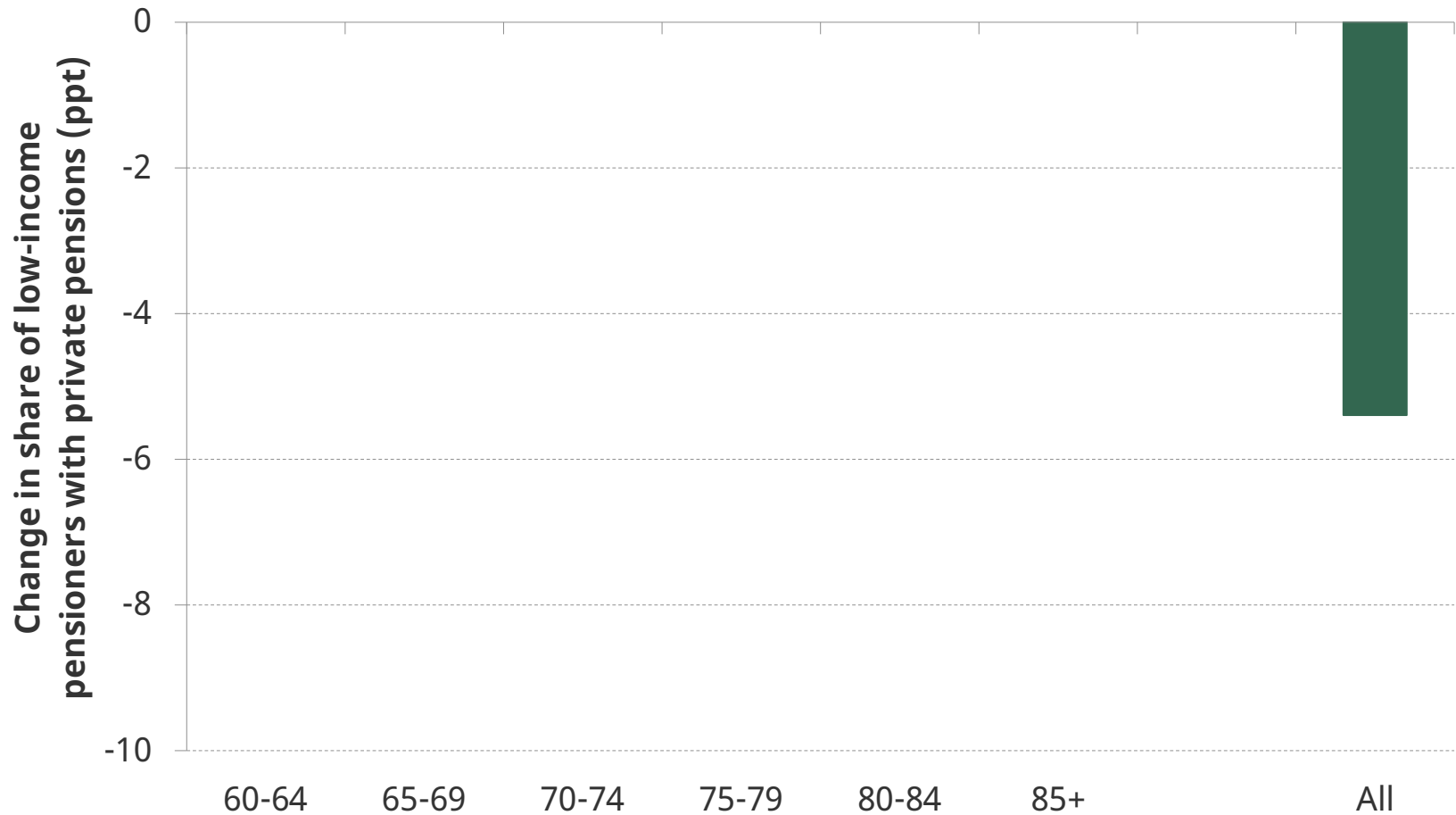


Average private pension income among low-income households have fallen since 2014-15...



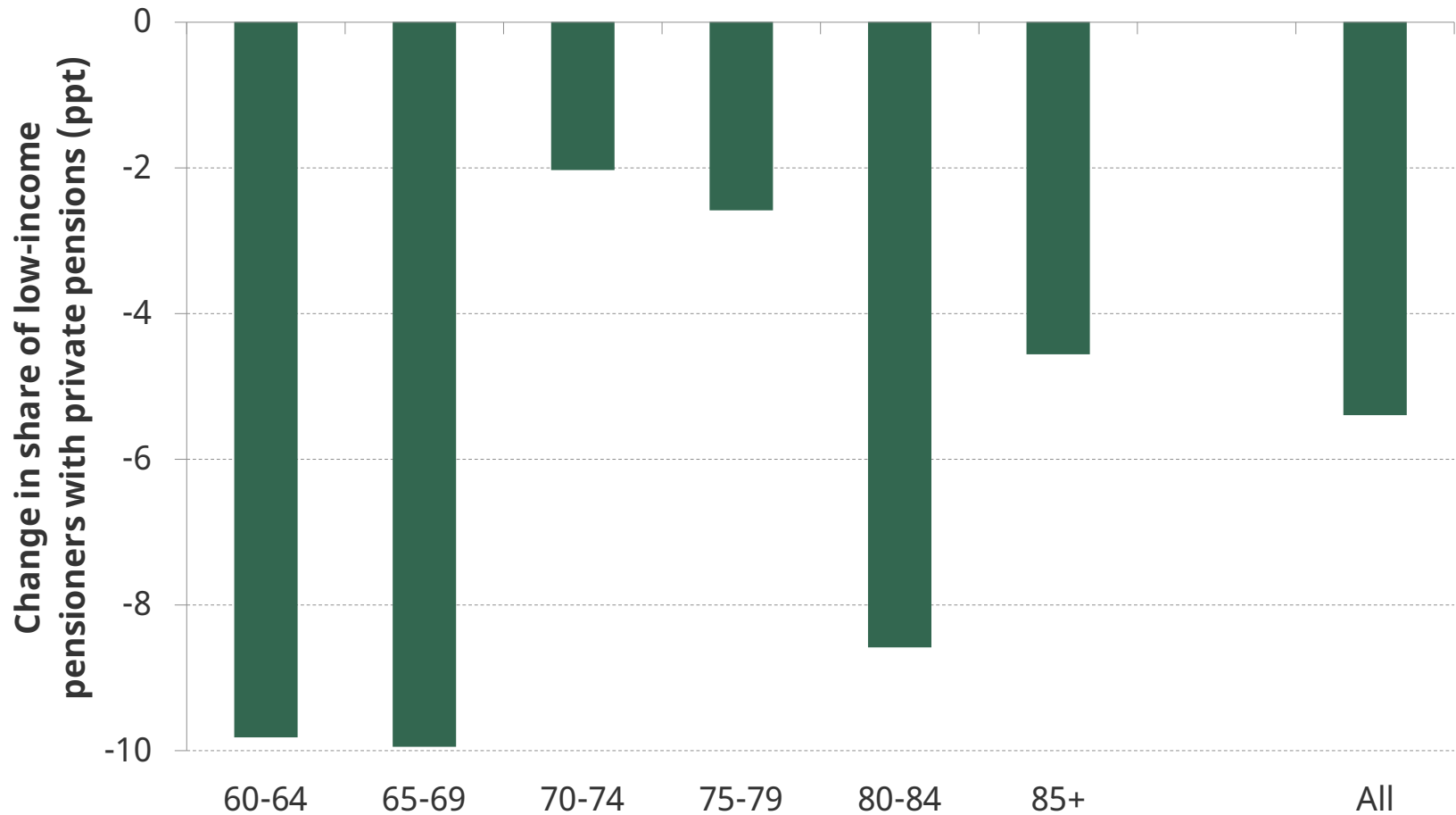
Source: Figure 3.10 of *Living Standards, Poverty and Inequality in the UK: 2019*

...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

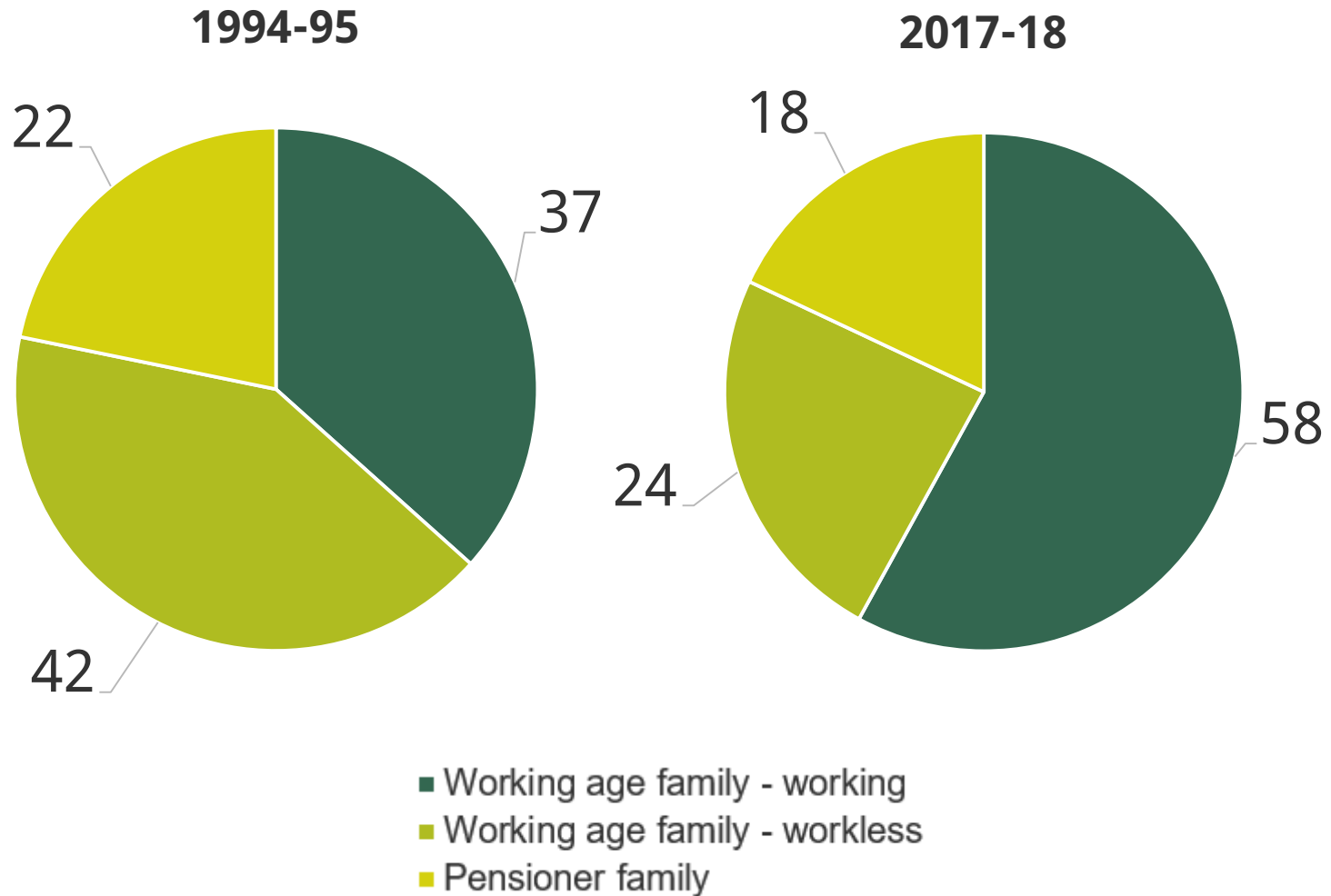
- Both being an employee and self-employment count

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



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



Just
under
1/3 of
increase

Why has % of those in poverty who are in working households increased?

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4. Increase in poverty rate for working households



Just
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Around
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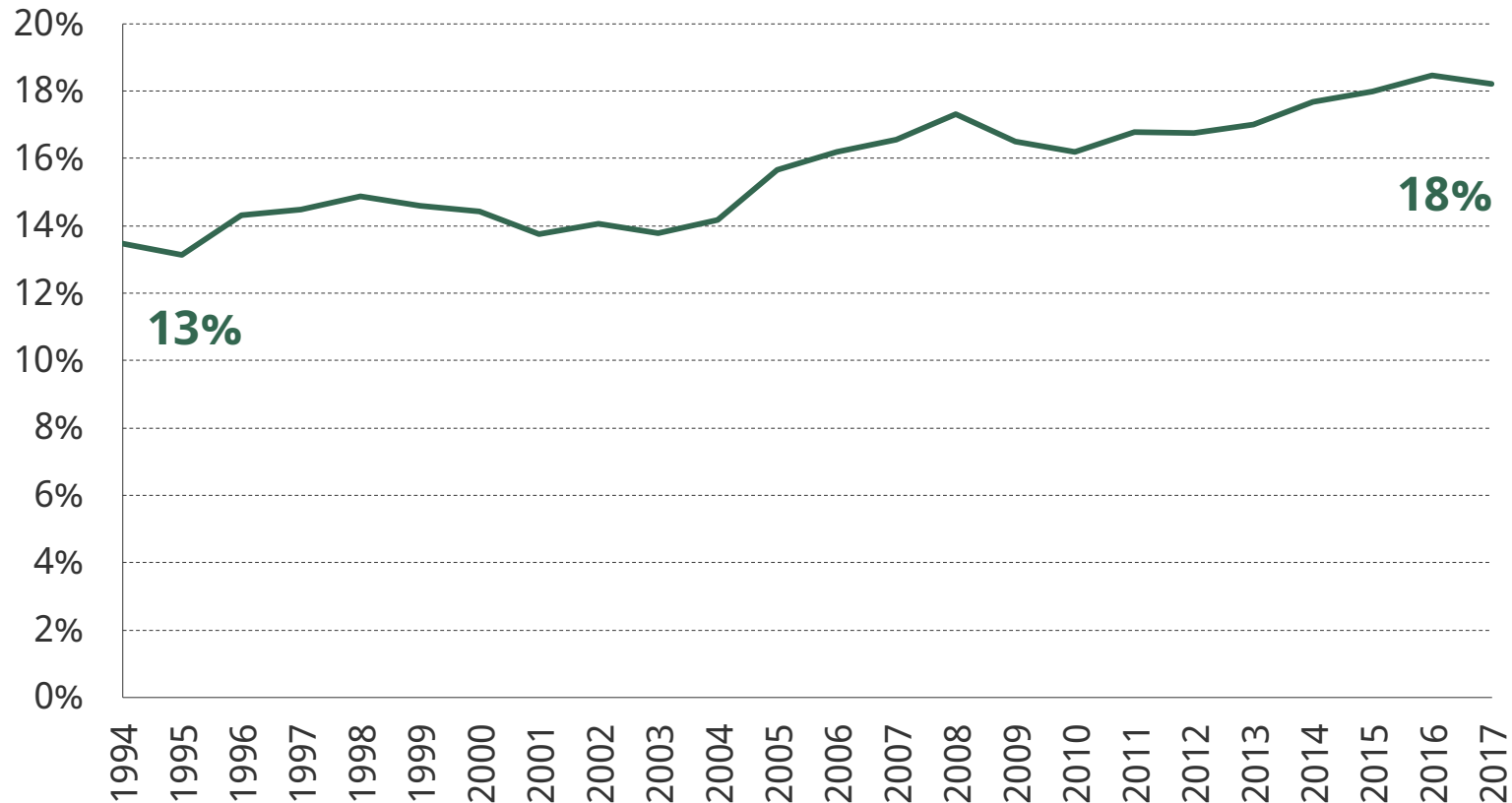


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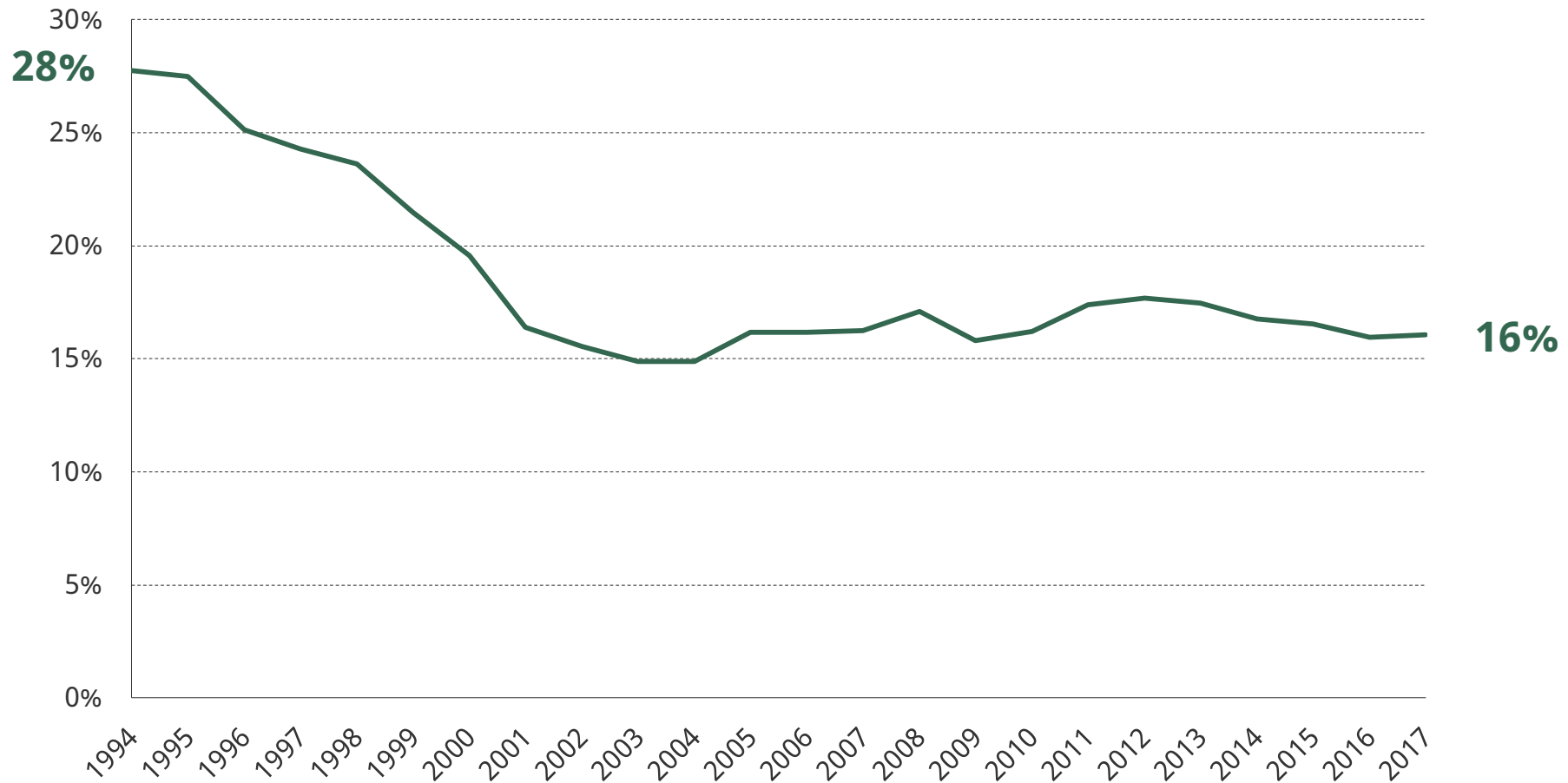
**Around
1/3 of
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Rise in the in-work poverty rate, 1994 to 2017



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:

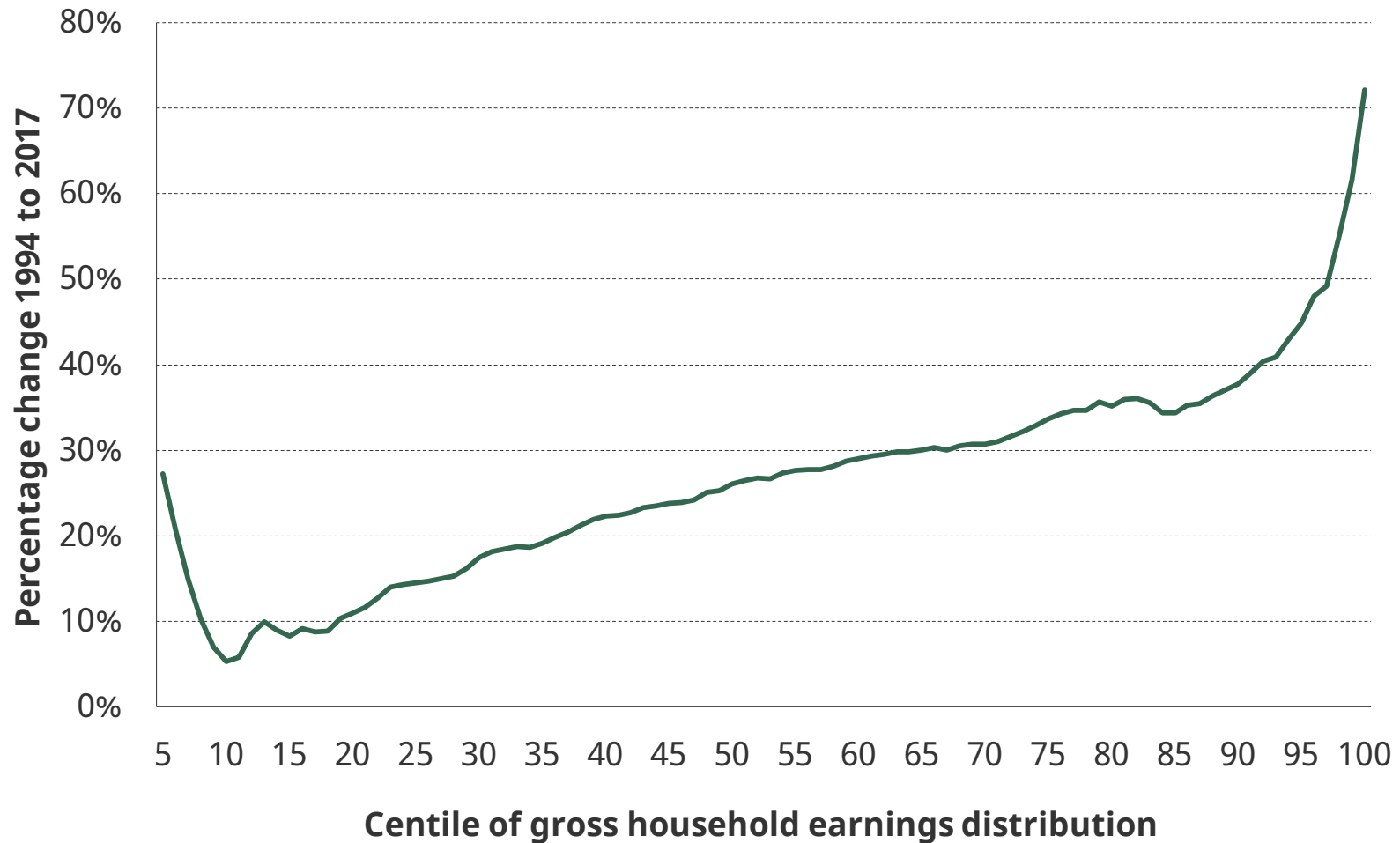
- 1) **“Catching up” of pensioners incomes pushes up median income and relative poverty line**
 - Stripping out this, in-work poverty would have risen by 3 ppt instead of 5 ppt
- 2) **Fall in worklessness brings low-earning households into work**
 - E.g. 30 percentage point fall in worklessness for lone parent HHs
- 3) **Increased inequality in household earnings for working HHs**

Why has the in-work poverty rate risen?

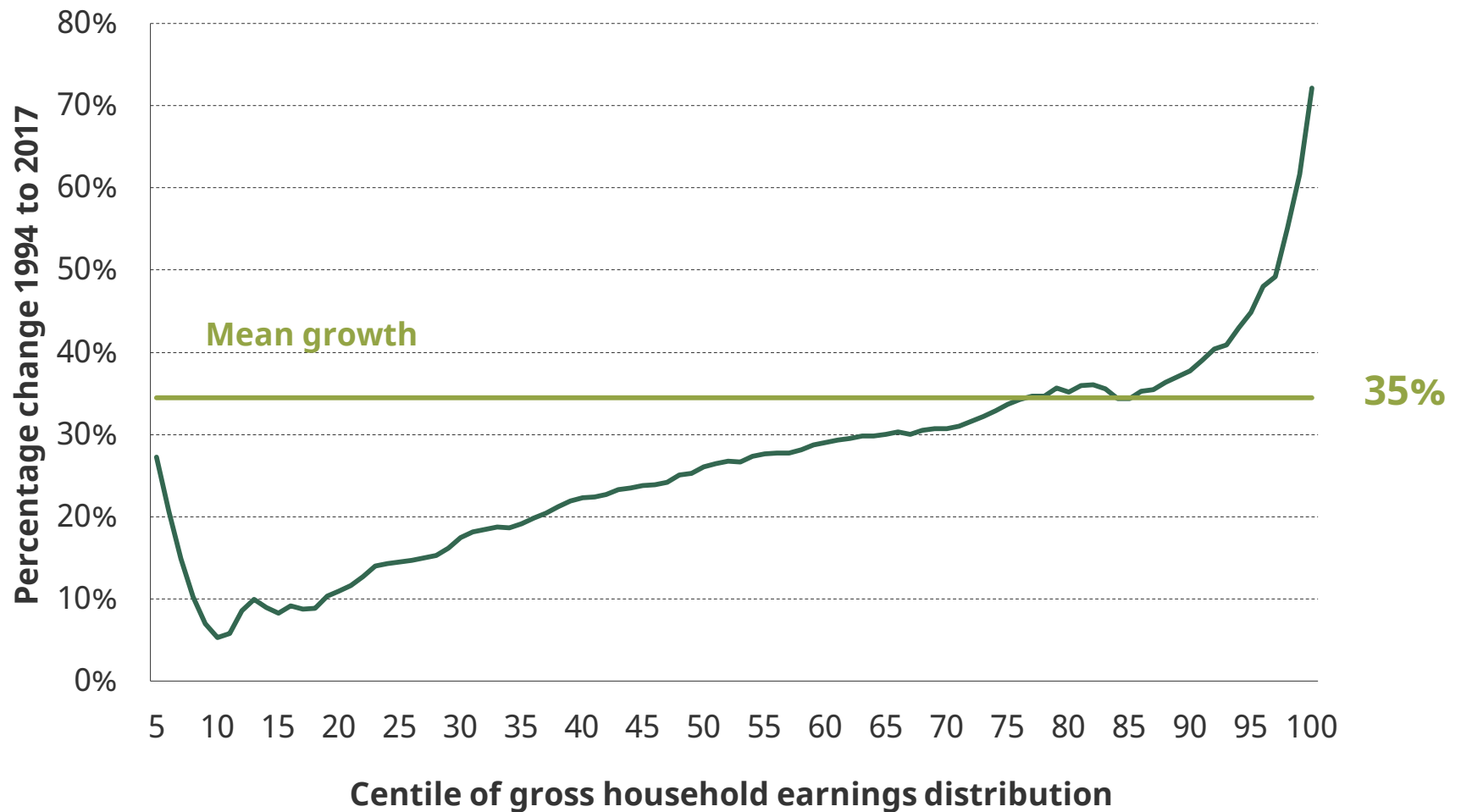
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Real growth in household earnings by centile group, working HHs only



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



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?

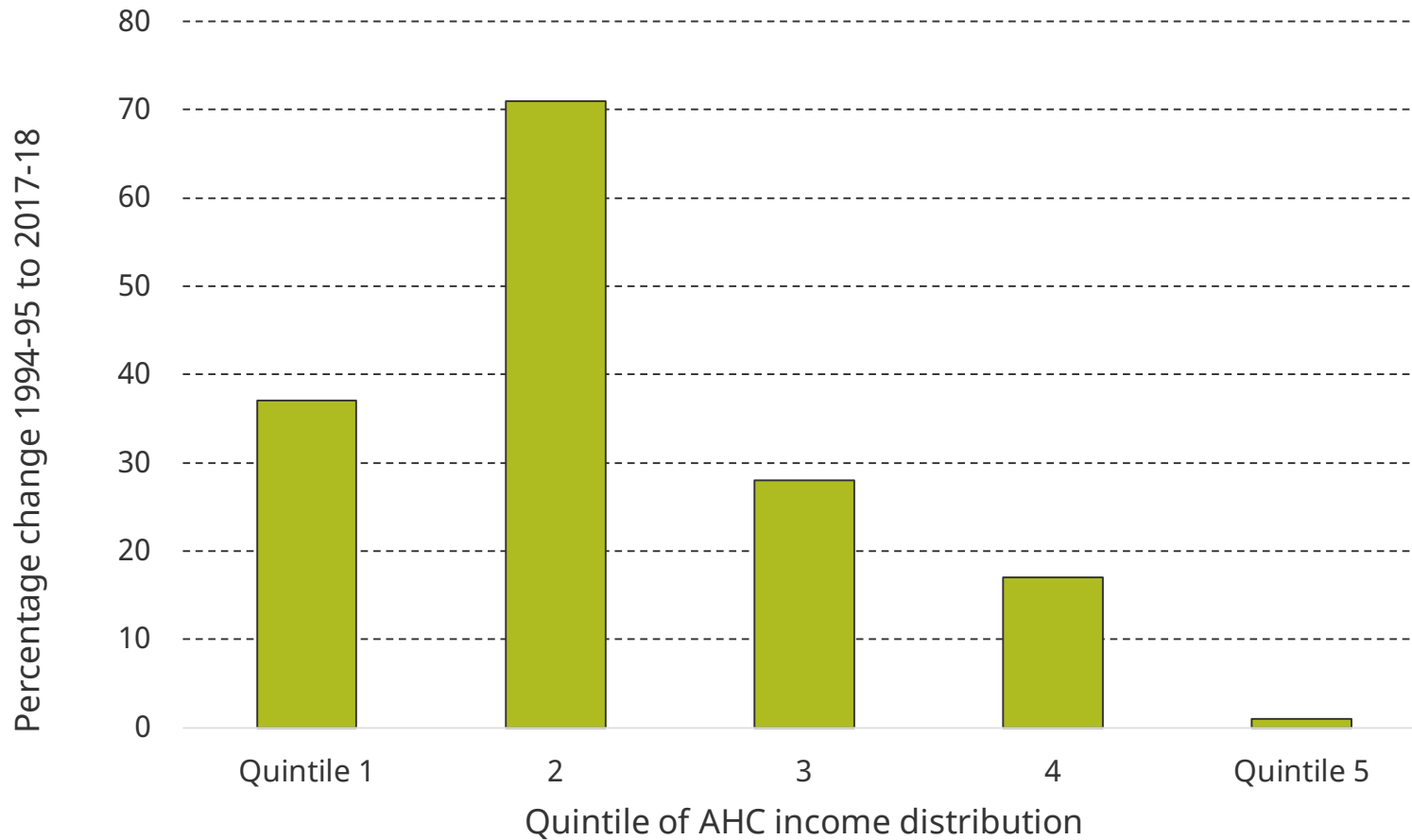
- Middle income households benefit too
- Households with low earnings get a large % of income from benefits
- For poorer families, higher earnings means lower benefits due to means testing

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



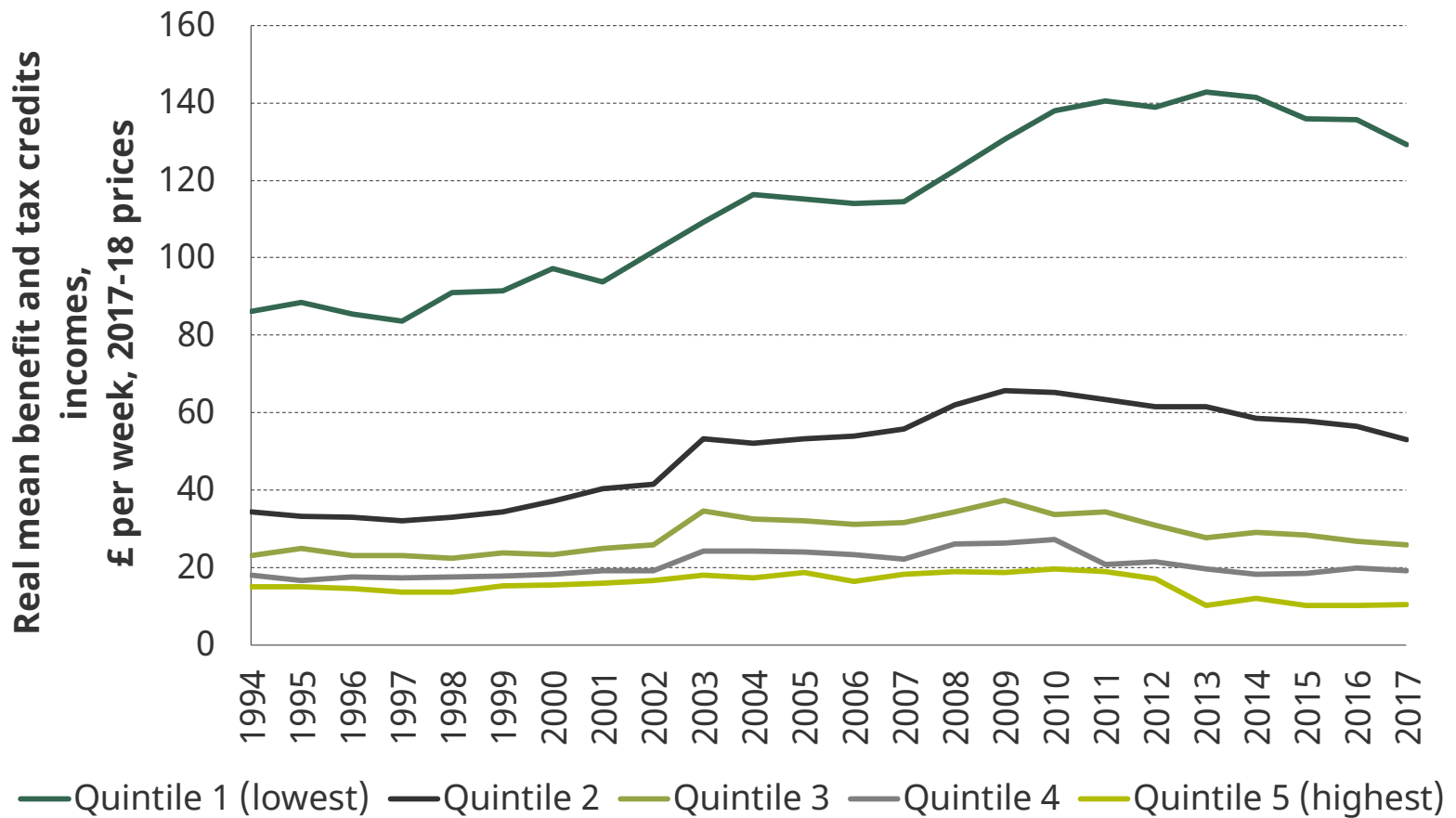
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 - 3) Increased inequality in household earnings for working HHs
 - 4) **Housing costs (net of HB) increased more for poorer working households**
- If housing costs growth the same across the income distribution:
 - In-work relative poverty be 2.4 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



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

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

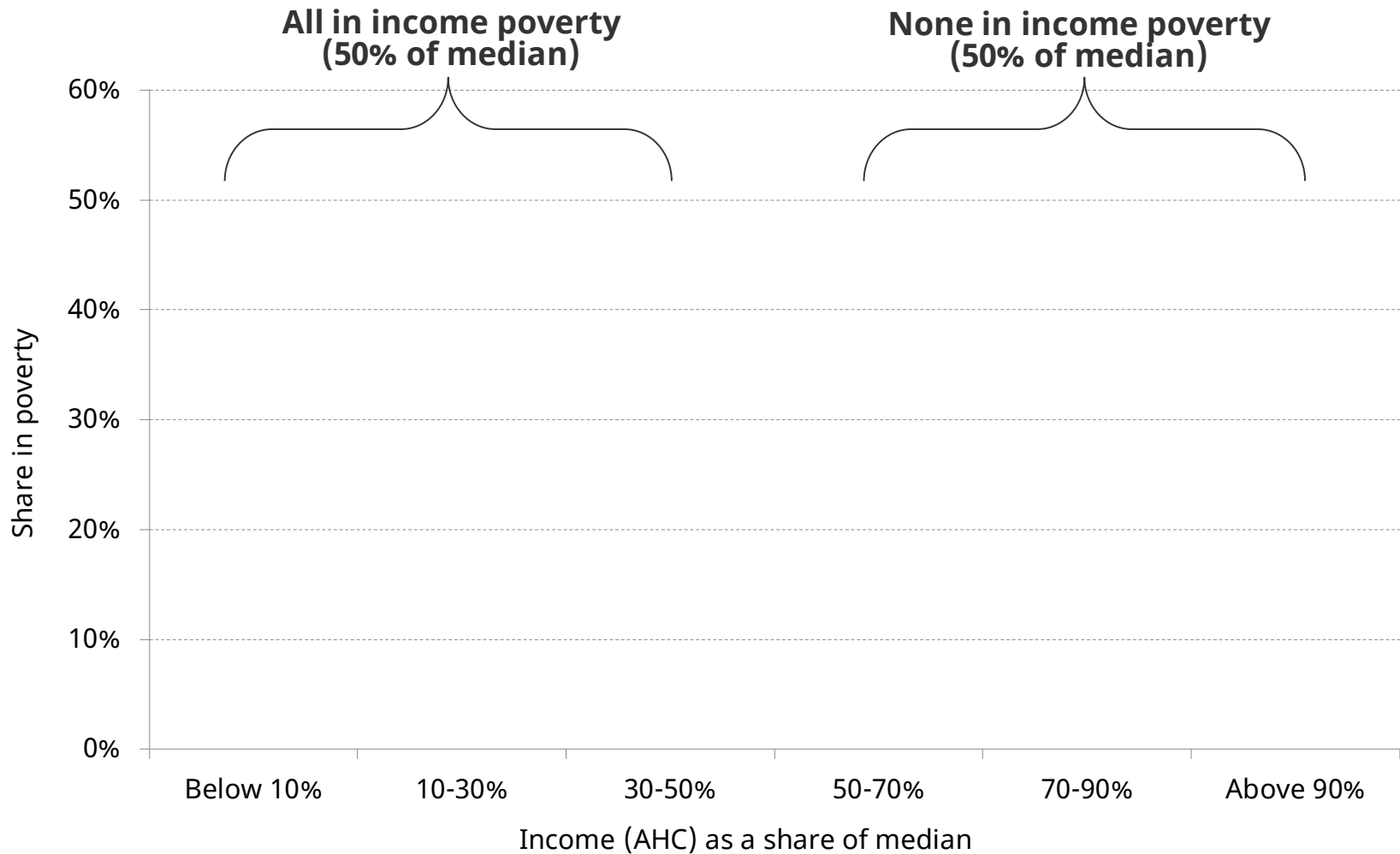
- Non-housing expenditure below 50%, 40% of median
- Closer to 'material living standards' than income
- Deals better with temporary low incomes and has less measurement error at the bottom
- But – sensitive to infrequent purchases of durable goods; still subject to some measurement error

Measuring severe poverty

Material deprivation

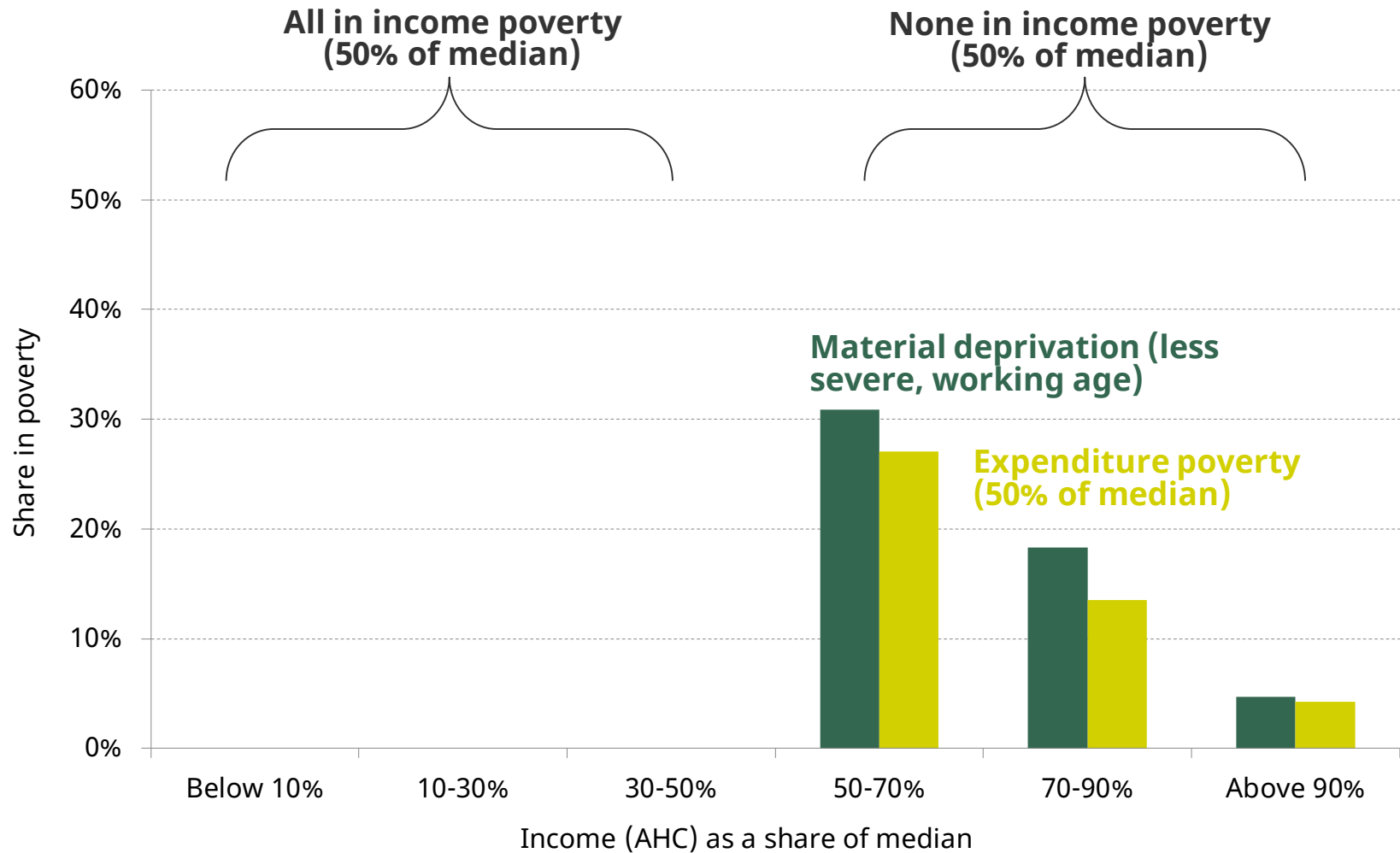
- Measures what basic items families report being unable to afford
 - e.g. keeping home warm, replacing broken electrical goods
- Directly measures perceptions of living standards
- But clearly subjective; list of items included somewhat arbitrary
- Cannot compare pensioner and working-age families – 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



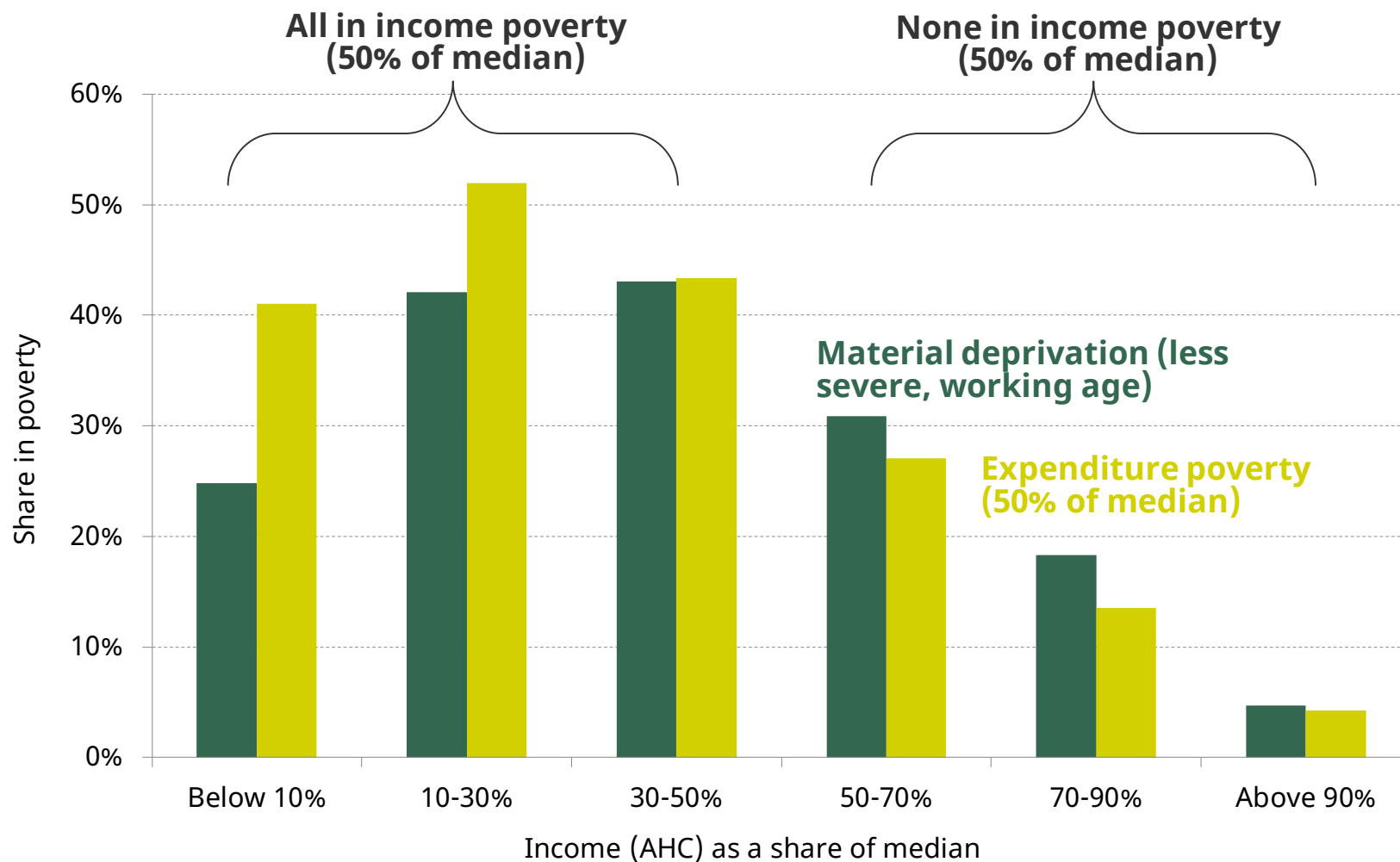
Source: Figure 4.1 of *Living Standards, Inequality and Poverty in the UK: 2019*

Measuring severe poverty



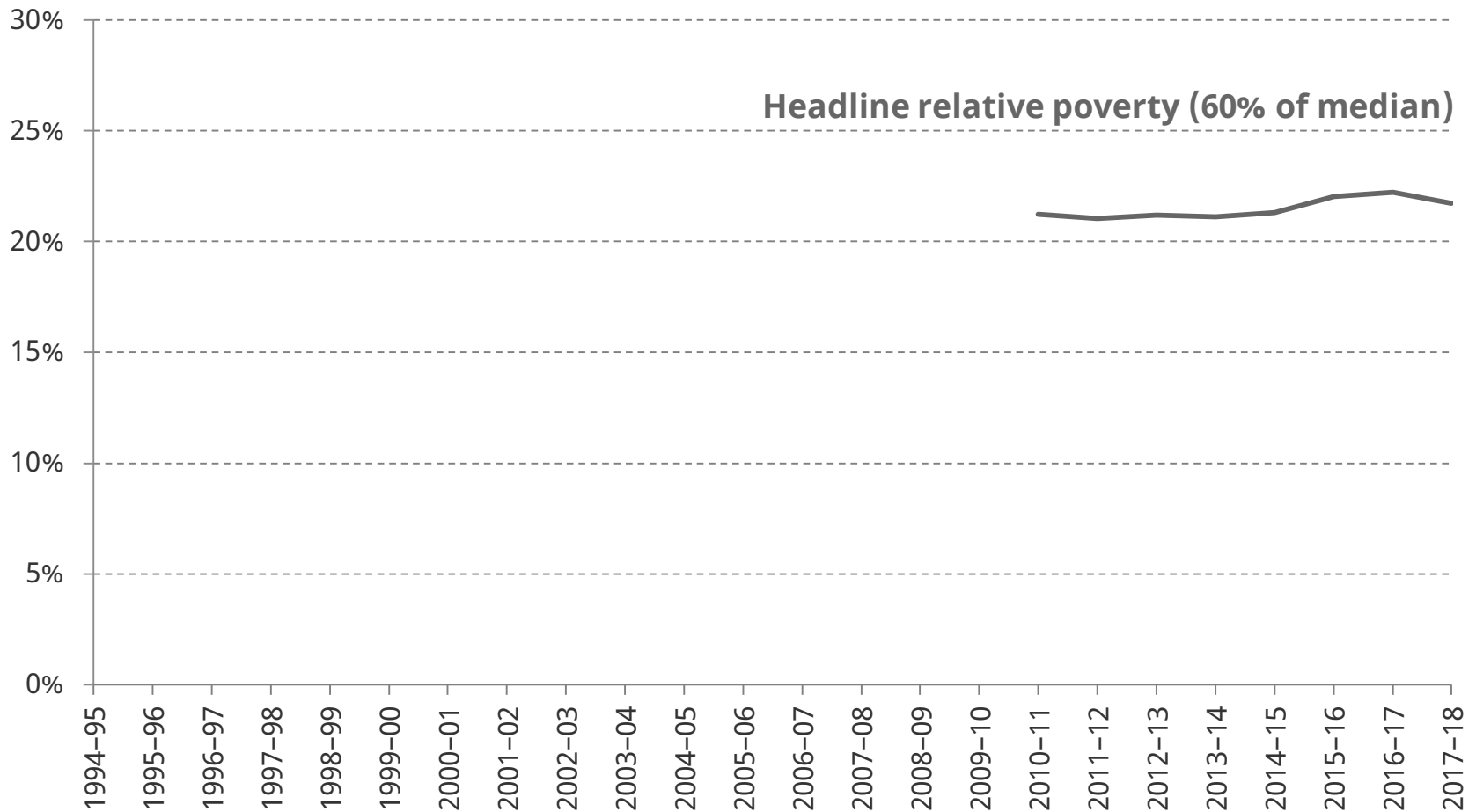
Source: Figure 4.1 of *Living Standards, Inequality and Poverty in the UK: 2019*

Measuring severe poverty



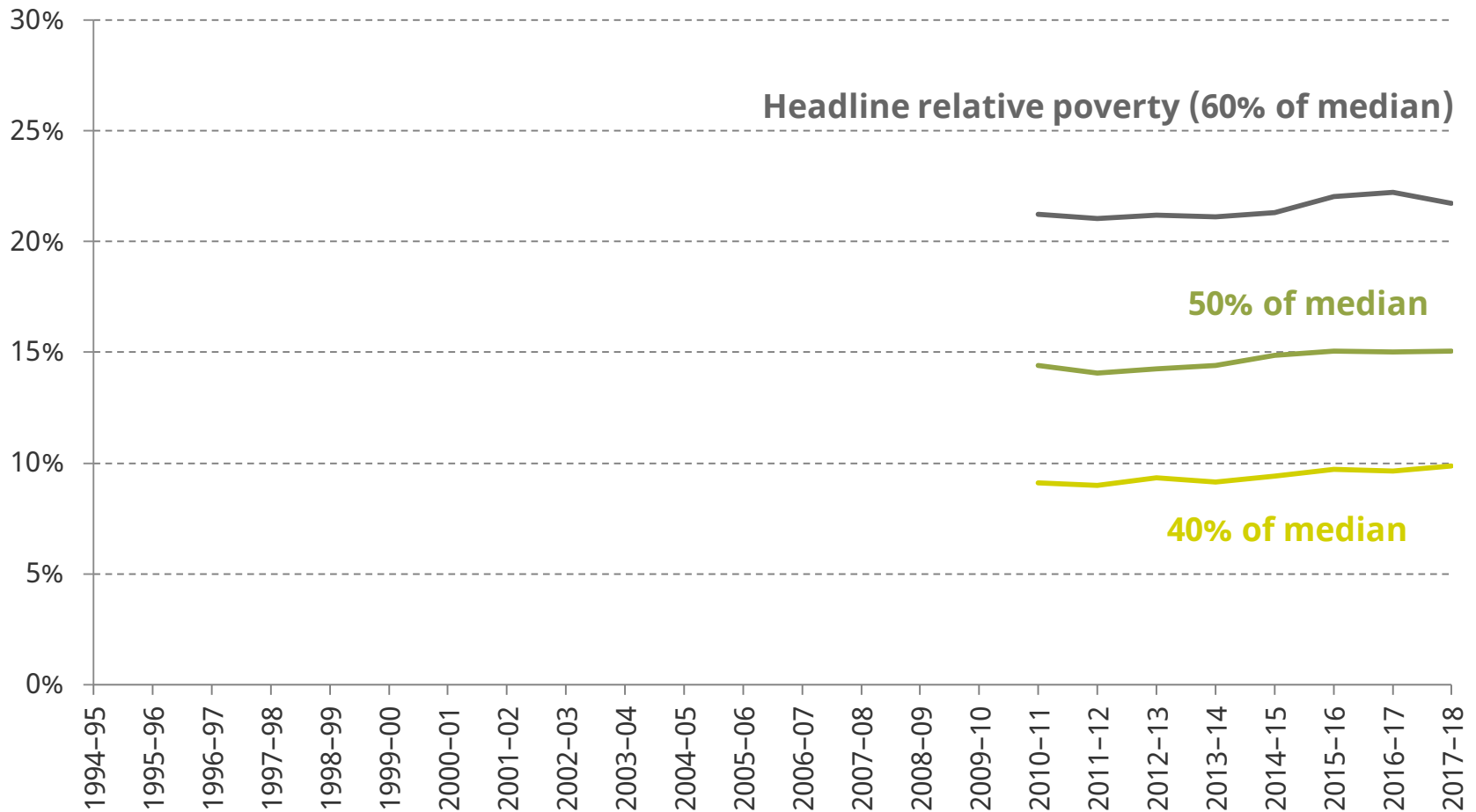
Source: Figure 4.1 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty – income



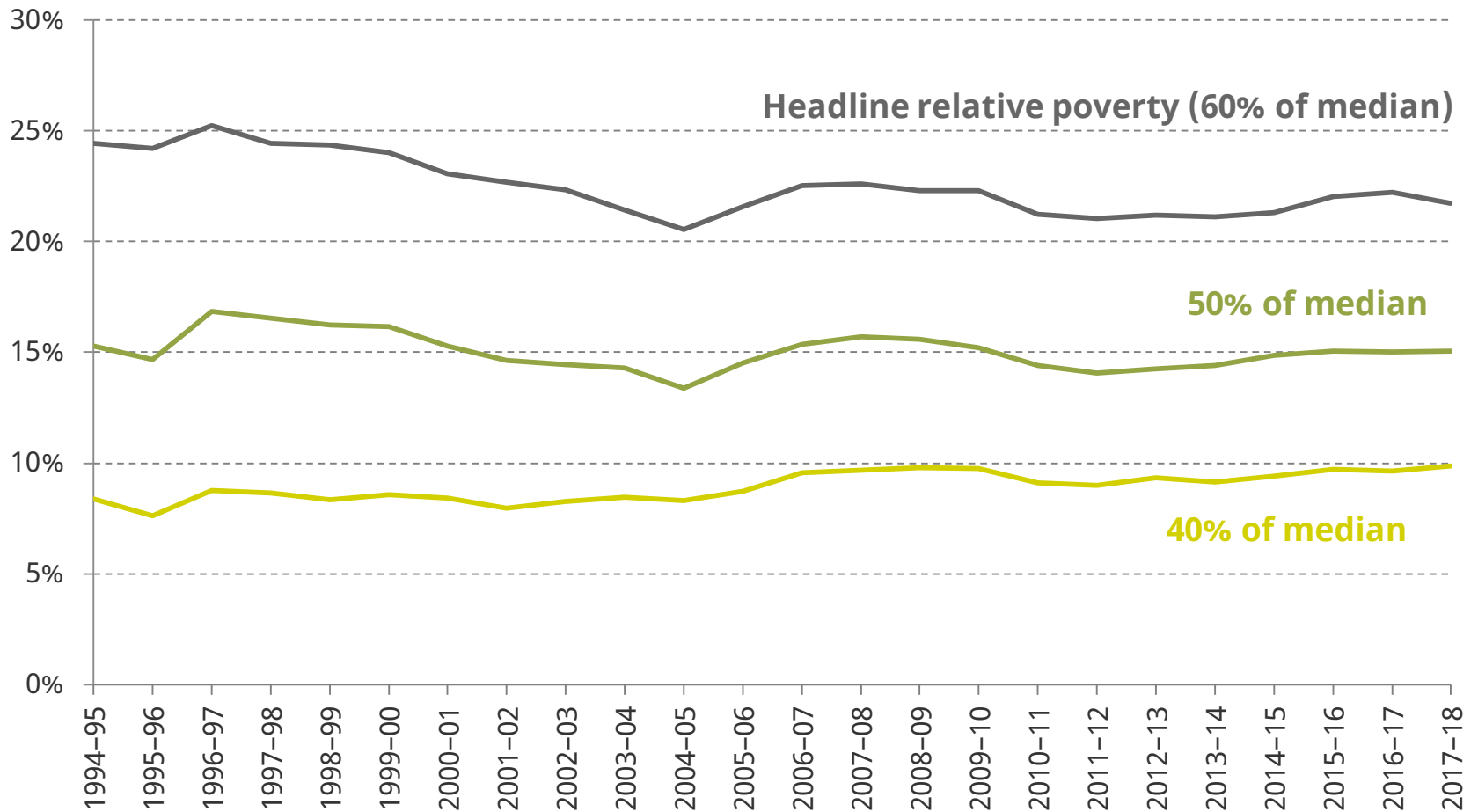
Source: Figure 4.3 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty – income



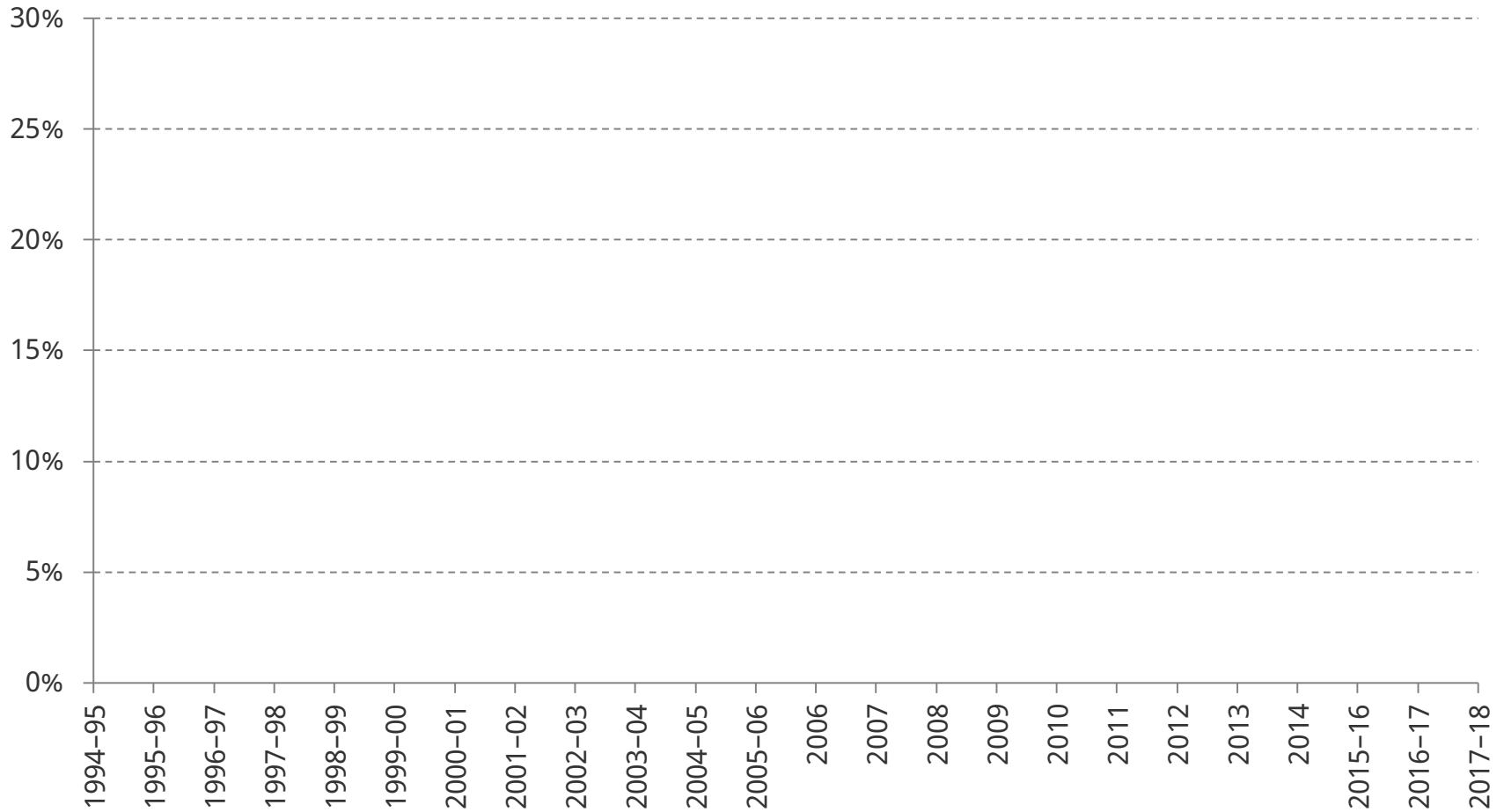
Source: Figure 4.3 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty - income



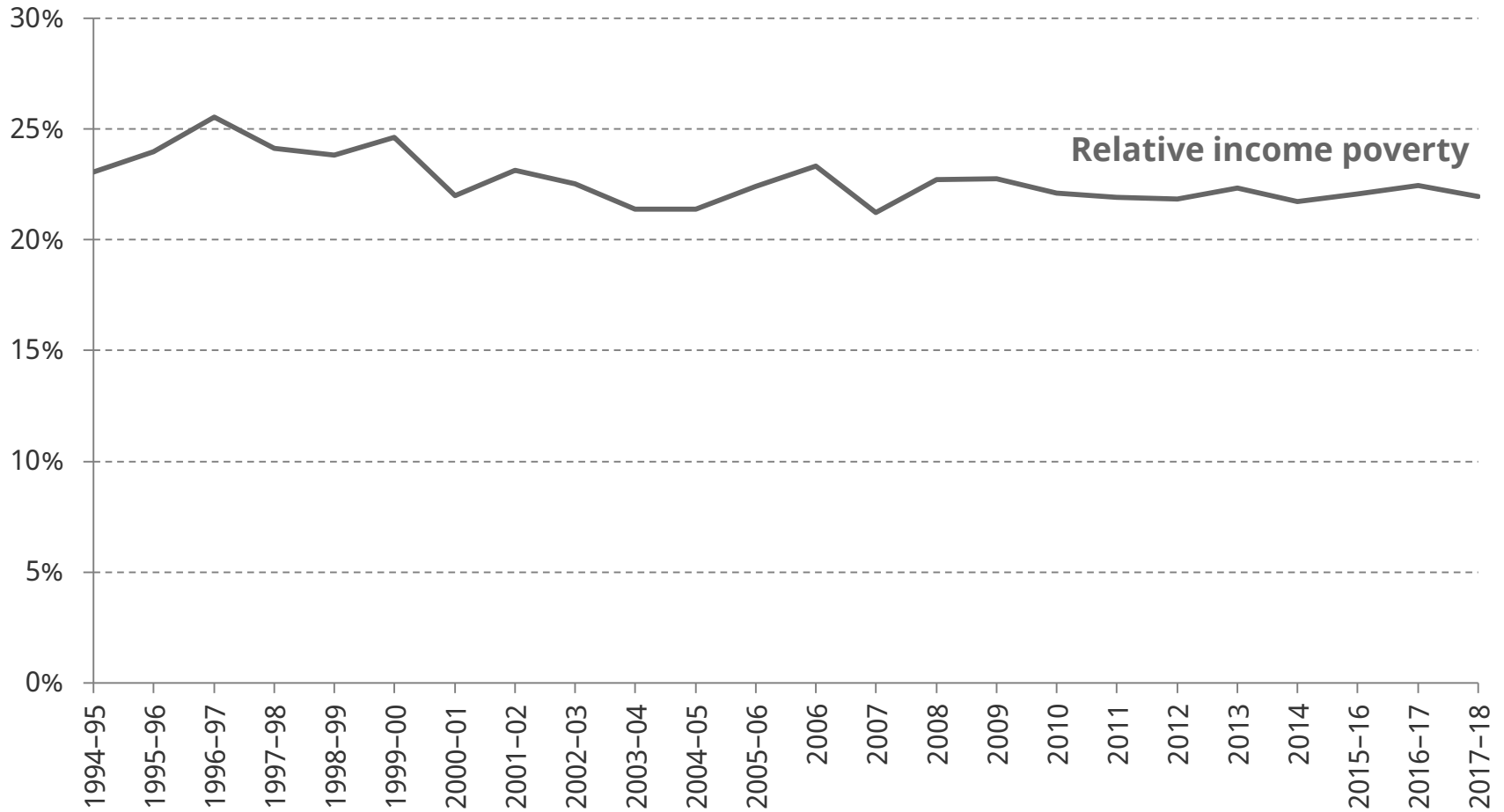
Source: Figure 4.3 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty - expenditure



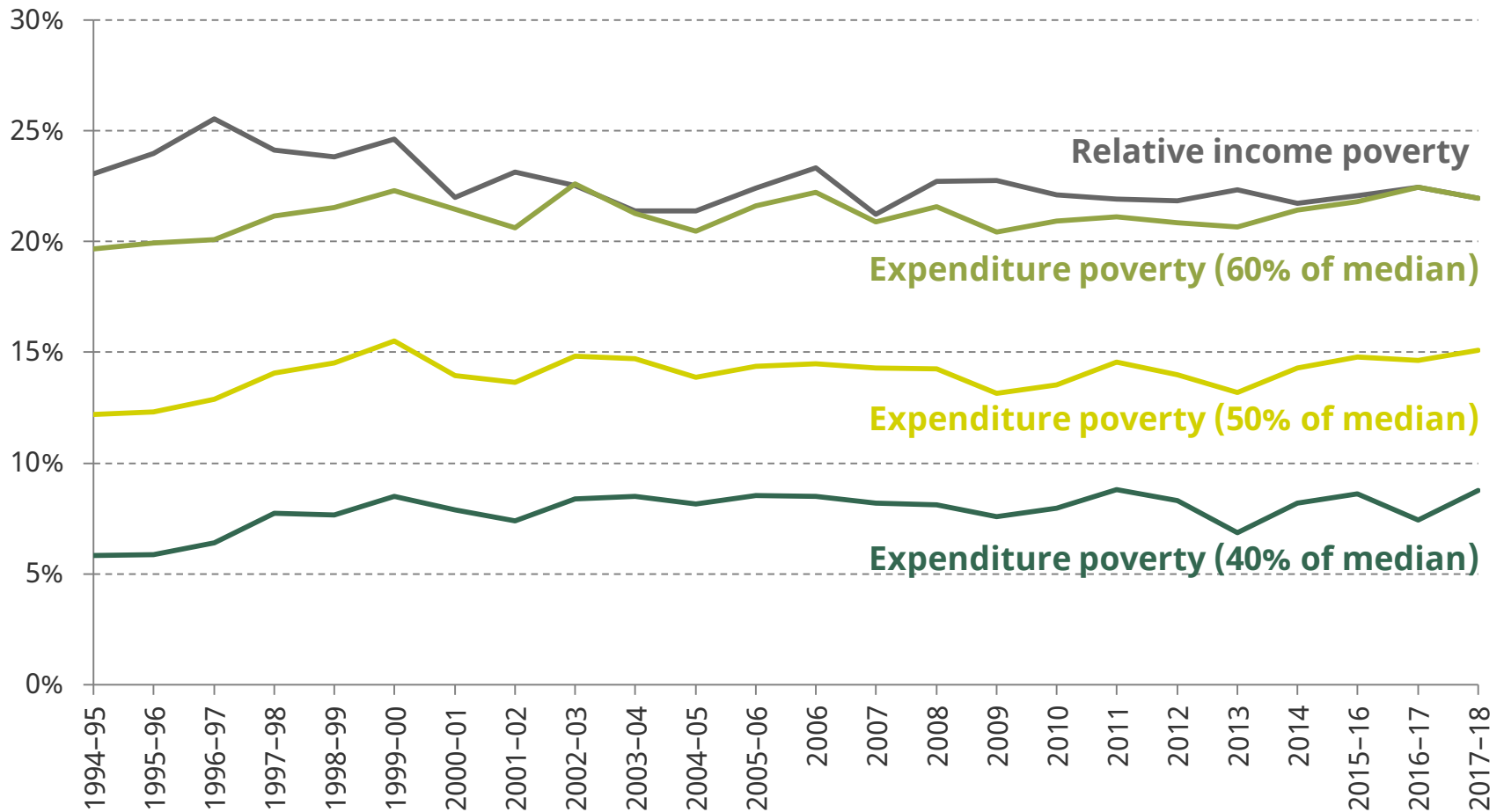
Source: Figure 4.4 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty - expenditure



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

Trends in severe poverty - expenditure



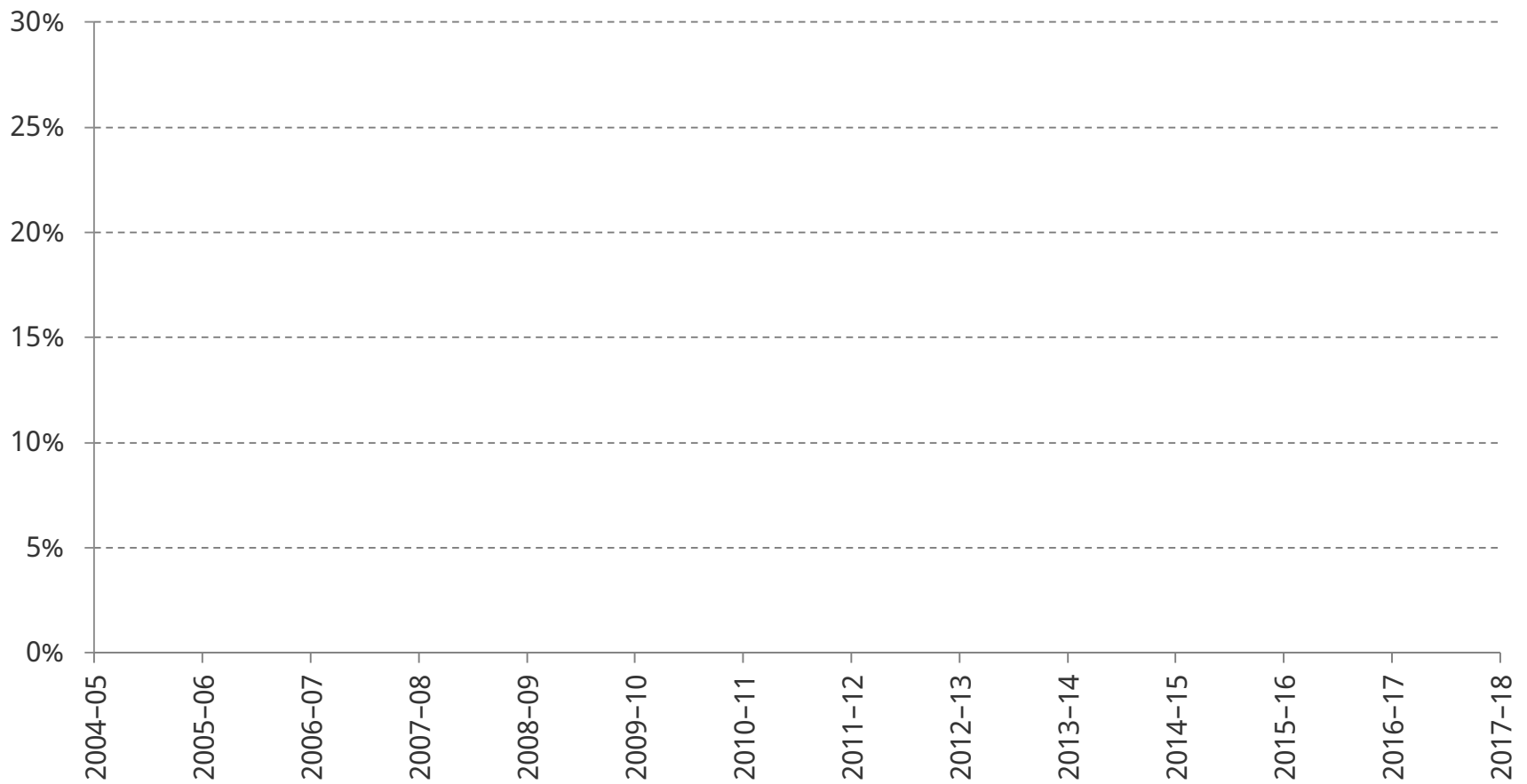
Source: Figure 4.4 of *Living Standards, Inequality and Poverty in the UK: 2019*

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

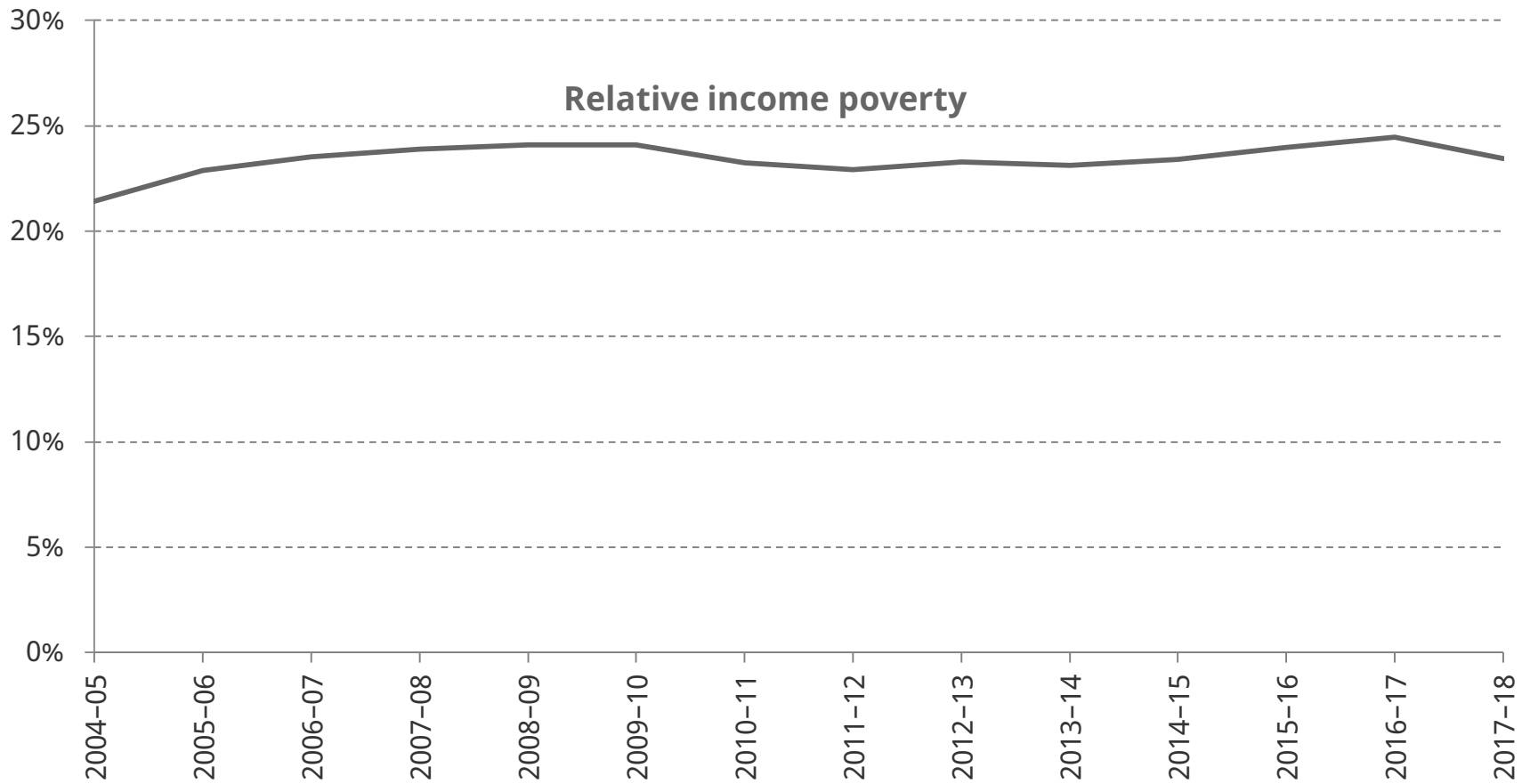
Working-age families only



Source: Figure 4.6 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty – material deprivation

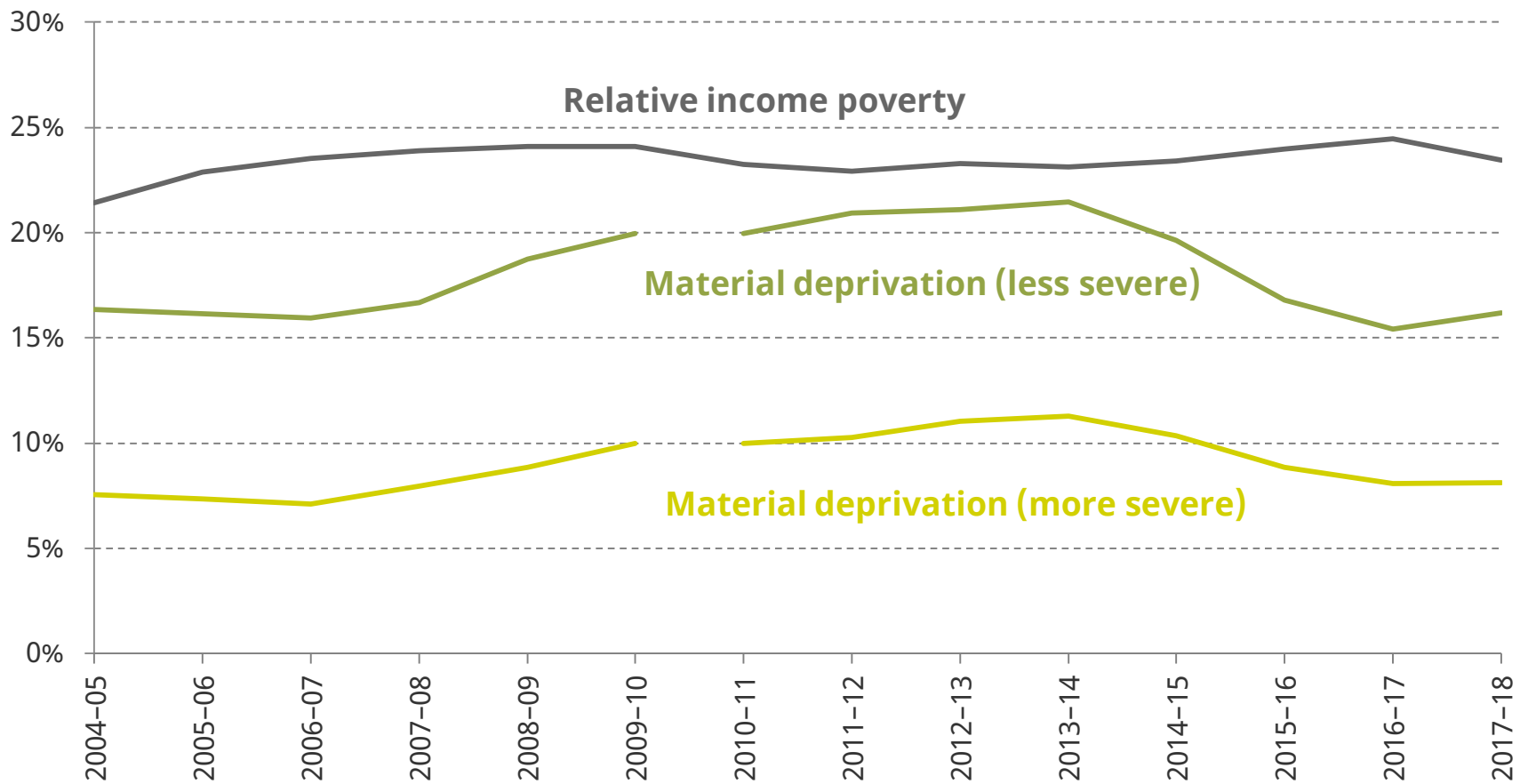
Working-age families only



Source: Figure 4.6 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty – material deprivation

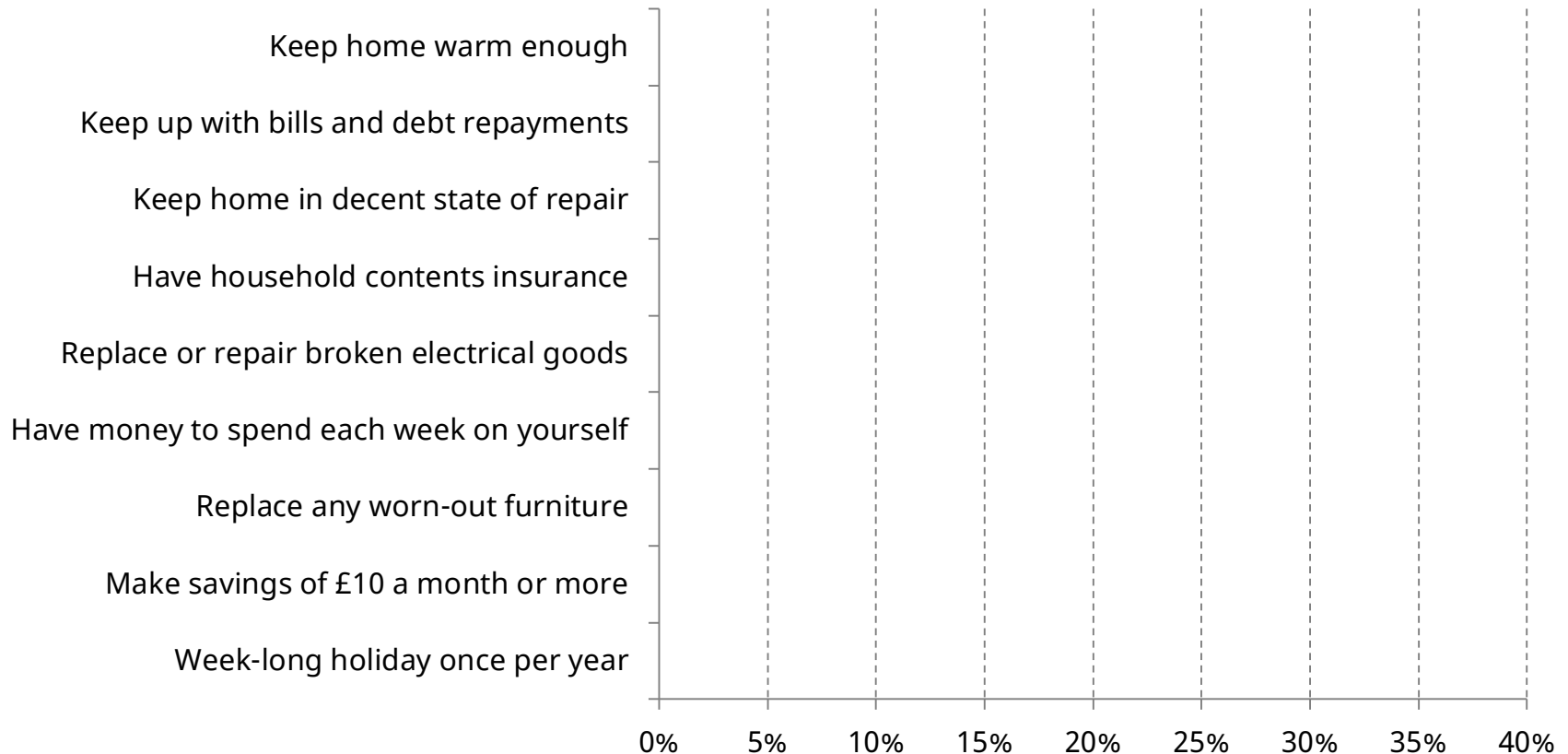
Working-age families only



Source: Figure 4.6 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty – material deprivation

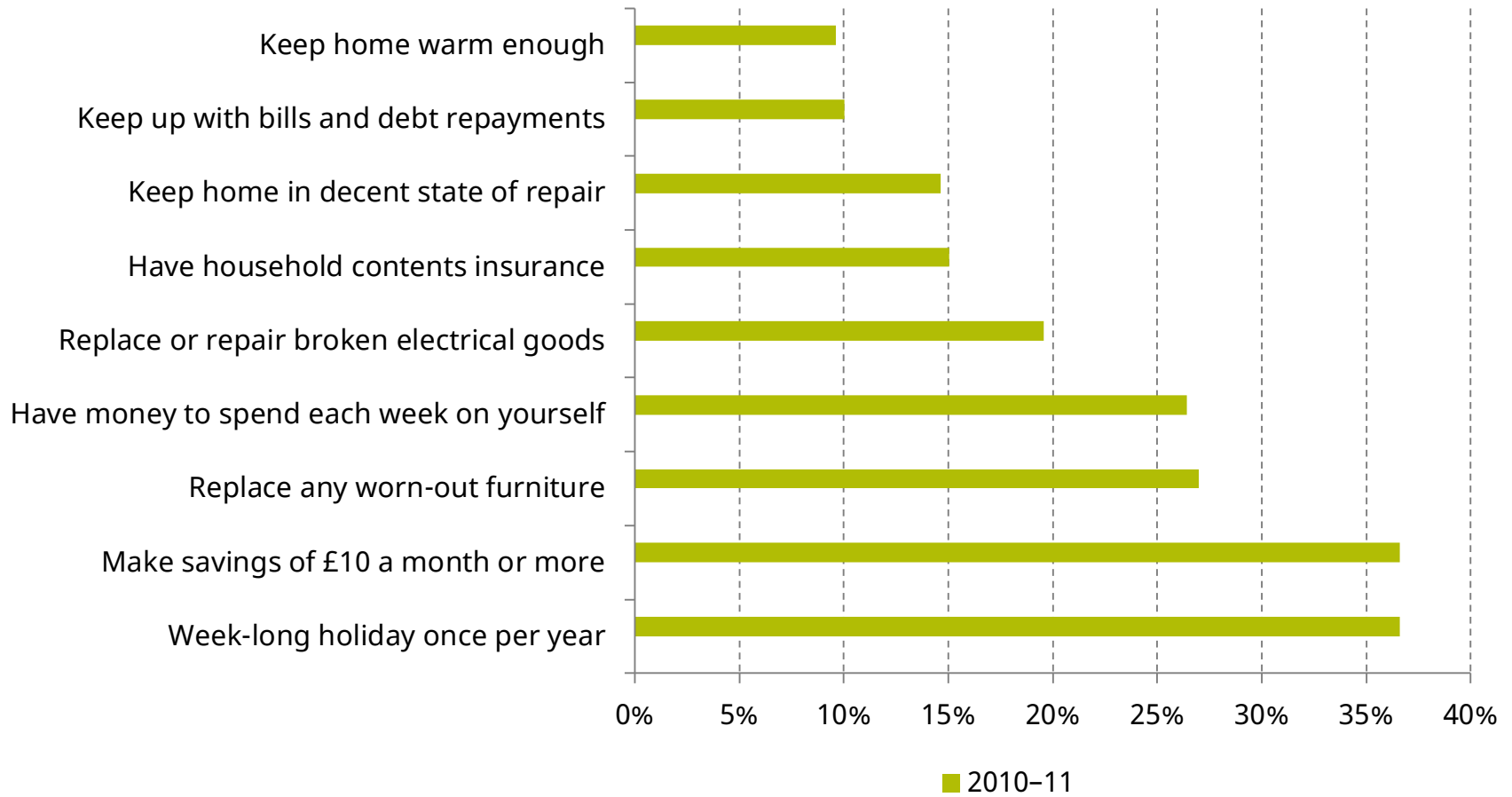
Share of those in working-age families unable to afford various items



Source: Figure 4.7 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty – material deprivation

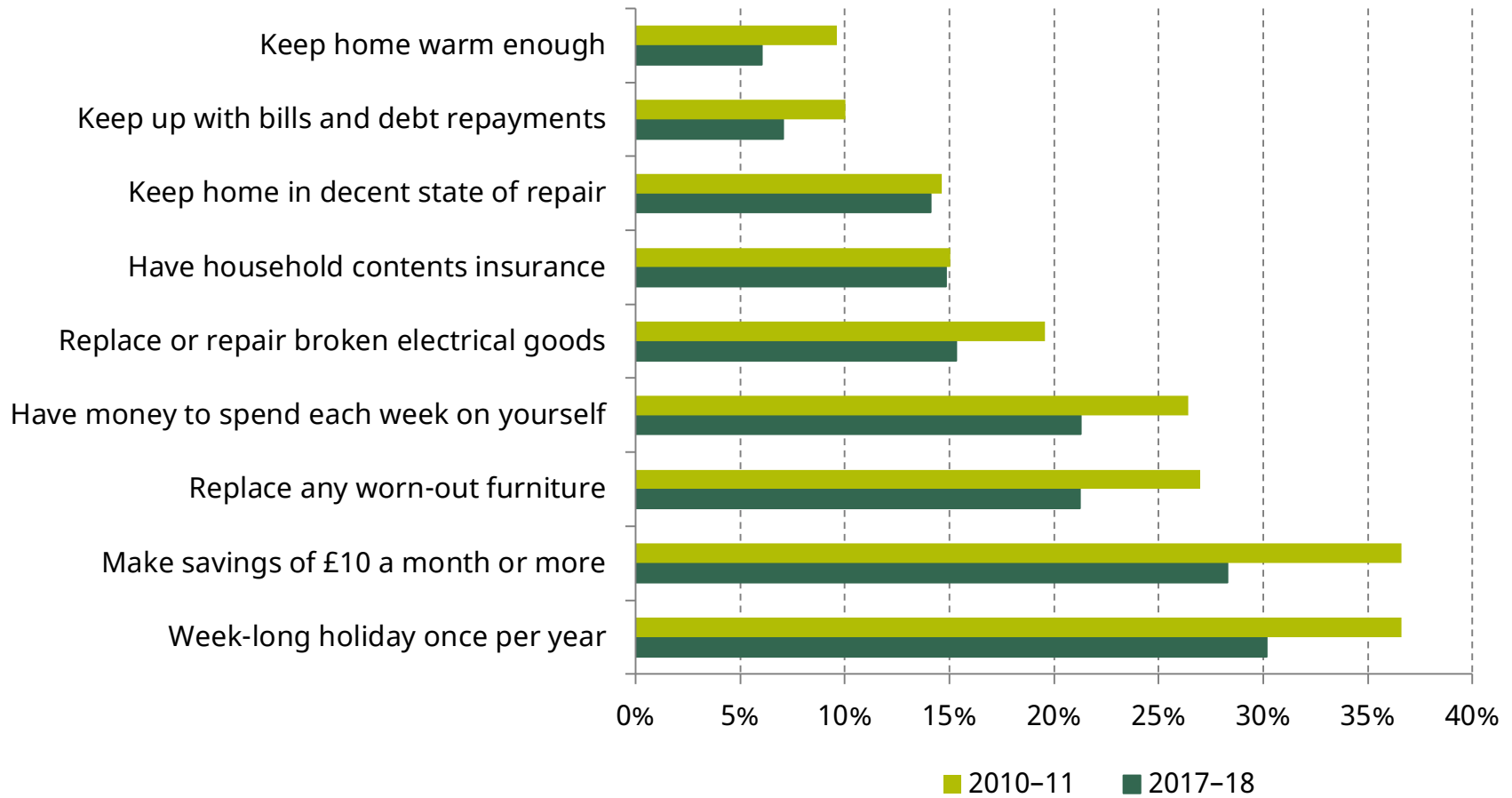
Share of those in working-age families unable to afford various items



Source: Figure 4.7 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty – material deprivation

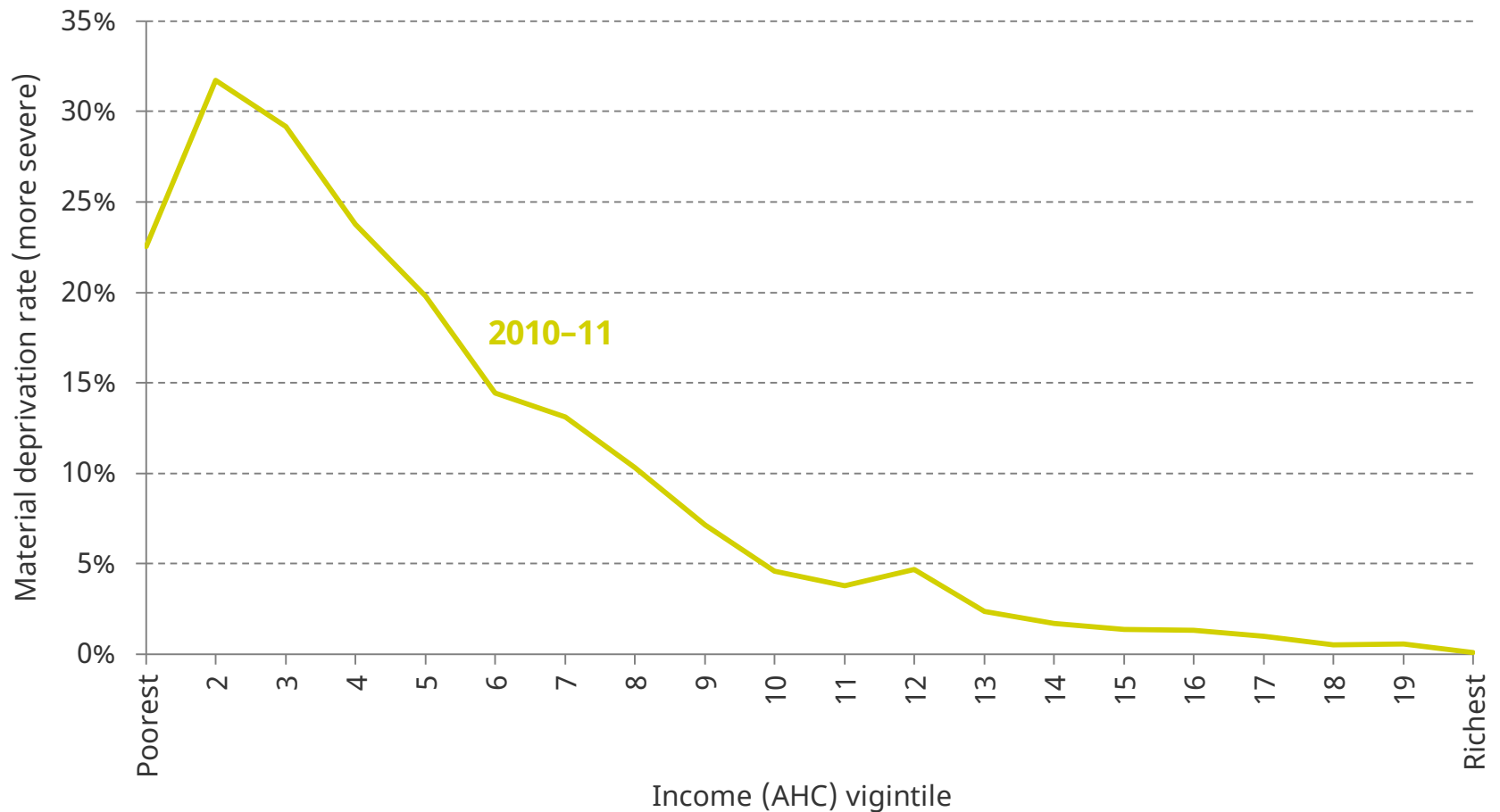
Share of those in working-age families unable to afford various items



Source: Figure 4.7 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty – material deprivation

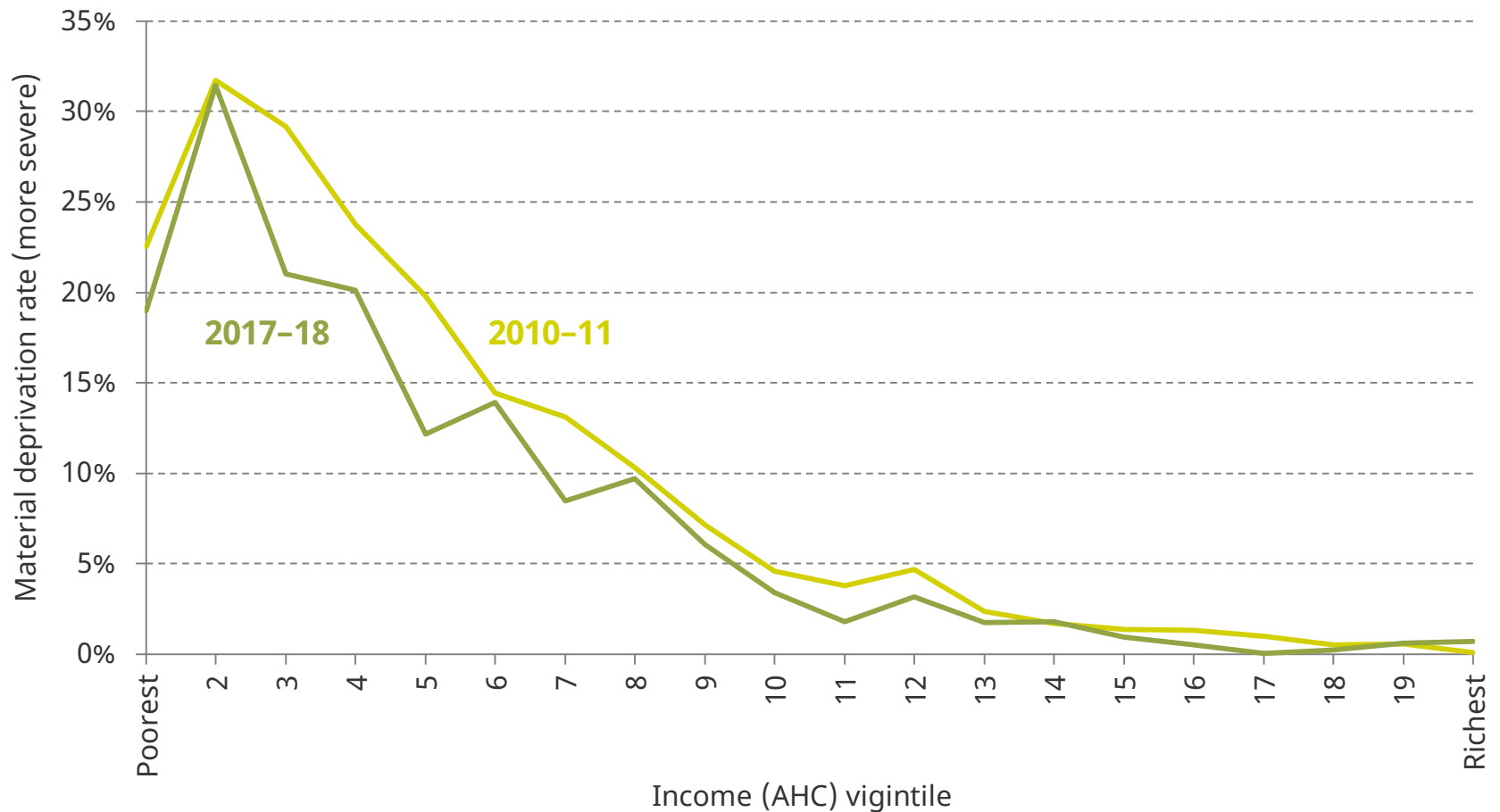
Working-age families only (more severe measure)



Source: Figure 4.6 of *Living Standards, Inequality and Poverty in the UK: 2019*

Trends in severe poverty – material deprivation

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

19 June 2019

<https://www.ifs.org.uk>



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