



Prospects for relative and absolute child poverty in the UK

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(drawing on work by James Browne, Wenchao Jin and Robert Joyce)

Relevant work

- On-going analysis on impact of changes to personal taxes and benefits, now including national/regional analysis
 - <http://www.ifs.org.uk/projects/347>
 - <http://www.ifs.org.uk/publications/5369>
- JRF-funded project forecasting absolute and relative poverty to 2015, and 2020
 - Not yet finished: need to reflect Universal Credit
 - (<http://www.ifs.org.uk/projects/345>)
- Ad hoc analysis of Universal Credit
 - <http://www.ifs.org.uk/publications/5415>

Overview

- Key tax and welfare changes
- Forecasting poverty
 - Methods
 - Forecasts to 2013-14 under current policies
 - The impact on poverty of coalition Government reforms
- Impact of Universal Credit?
- Impact in Scotland?
- Conclusions

Key tax and welfare changes affecting poverty in this Parliament

- Income tax and NI changes
- Local Housing Allowance: set at 30th centile of rents and impose nationwide caps, reduce rate for singles <35; link to CPI from 2013
- Use CPI to uprate benefits and tax/NI thresholds
- Tax credits
 - Withdraw from higher-income families and scrap baby credit
 - Over-index child element, freeze various elements, cut childcare
 - Various other savings
- Localise and save money on Council Tax Benefit
- Child benefit: freeze, and remove from richer families
- ESA: time limit contributory ESA
- DLA: reform, and introduce objective medical test
- **Universal Credit**

Modelling poverty: outline of method

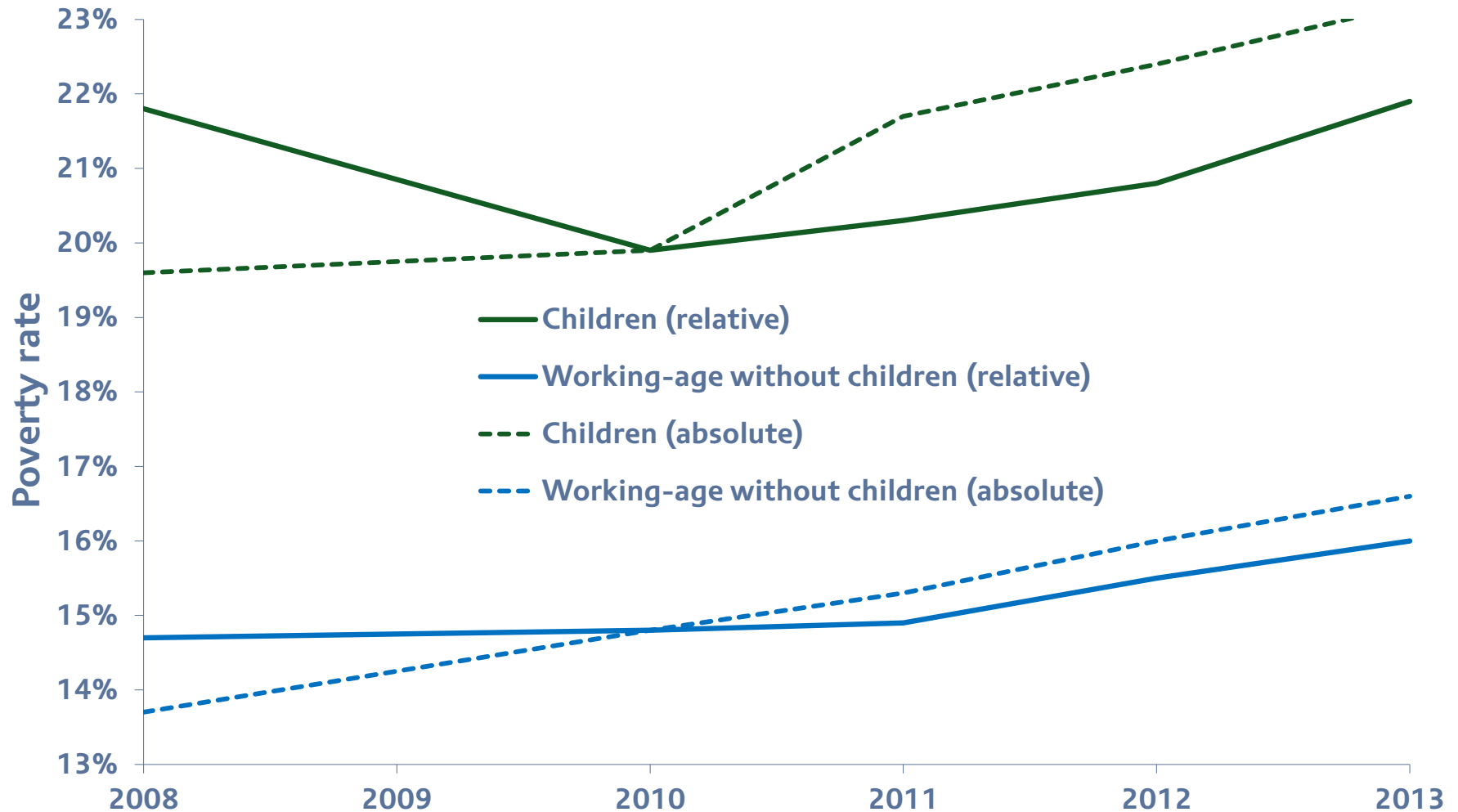
1. Start with 'base data' on distribution of private income and household characteristics: 2008/09 Family Resources Survey.
2. Up-rate financial variables to expected future levels (Office for Budget Responsibility).
3. Re-weight data to reflect expected socio-demographic change (Office for National Statistics).
 - Give relatively more weight to household types expected to become more common. NB: employment changes modelled in this way.
4. Simulate tax liabilities and benefit and tax credit entitlements, given expected future tax and benefit systems.
5. Adjust incomes to reflect non-take-up (and non-reporting) of means-tested benefits and tax credits.
 - This yields a simulated future distribution of household incomes, from which we obtain results.

Uncertainties and limitations

- The official macroeconomic forecasts we use are highly uncertain (as the OBR itself makes clear).
- Behavioural change can not be fully accounted for.
- The income distribution is dense around the poverty line.
- Survey data is always subject to sampling error. This is true of our 'base data' and the future HBAI data that we are forecasting.
- All these limitations are generic to static micro-simulation modelling.

- With some planned tax and benefit reforms, data is insufficient to identify precise distribution of losses and gains across households.
- Judgement required about which reforms can be modelled precisely enough...

Poverty forecasts under current policies



Notes: 2008 figures are actual. 2009 figures are linear interpolations between 2008 and 2010. Years refer to financial years. Incomes measured before housing costs have been deducted.

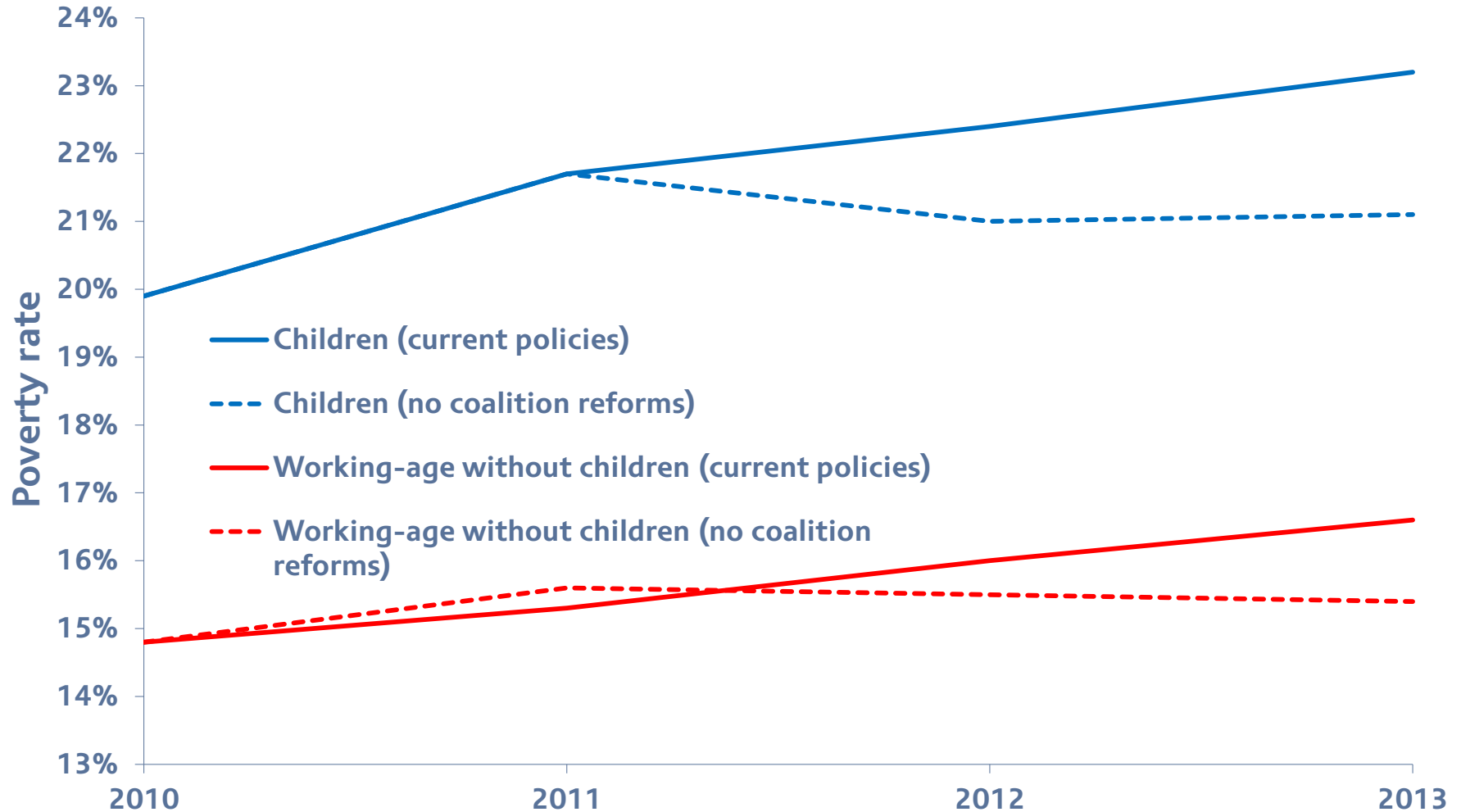
Summary: forecasts under current policies

- Between 2008-09 (latest year of data) and 2010-11:
 - Median income, and hence relative poverty line, to fall in real terms.
 - Absolute child poverty stable, relative child poverty to fall by about 200,000 (to approx. 2.6 million, or 20%).
 - Among those of working age without children, absolute/relative poverty to rise by about 400,000/100,000.
- Between 2010-11 and 2012-13:
 - Fall (~2%) in real median income.
 - Relative child poverty up 100,000, absolute child poverty up 300,000.
 - Among working-age adults without children, absolute/relative poverty up by about 400,000/300,000.
- Between 2012-13 and 2013-14:
 - Absolute/relative poverty up by about 100,000/200,000 children and 200,000/200,000 working-age adults without children.

The impact on poverty of coalition reforms

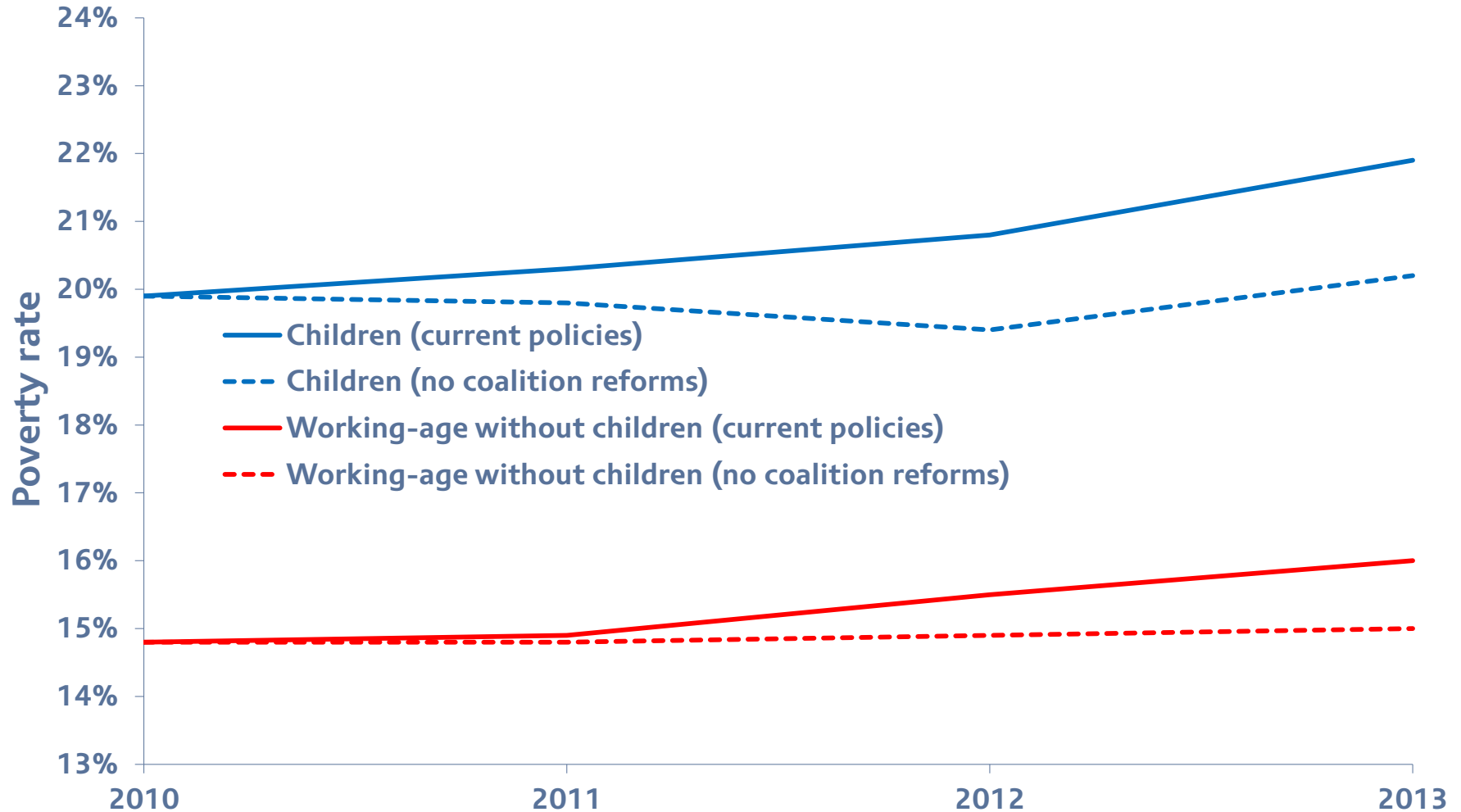
- What if Government had simply implemented plans for the tax and benefit system that it inherited?
 - In SR 2010, Government claimed “no measurable impact” from modelled reforms on child poverty to 2012-13, based on Treasury analysis
 - Budget 2011 claimed reforms might have reduced CP by 50,000
- Caveats (applying equally to our analysis and HM Treasury’s) :
 - Plans the Government inherited are not necessarily what would have happened under a Labour Government.
 - Expected macroeconomic environment is taken as given. In reality, it may have been different without Government’s reforms.

Absolute poverty: the impact of coalition reforms



Notes: Years refer to financial years. Incomes measured before housing costs have been deducted.

Relative poverty: the impact of coalition reforms



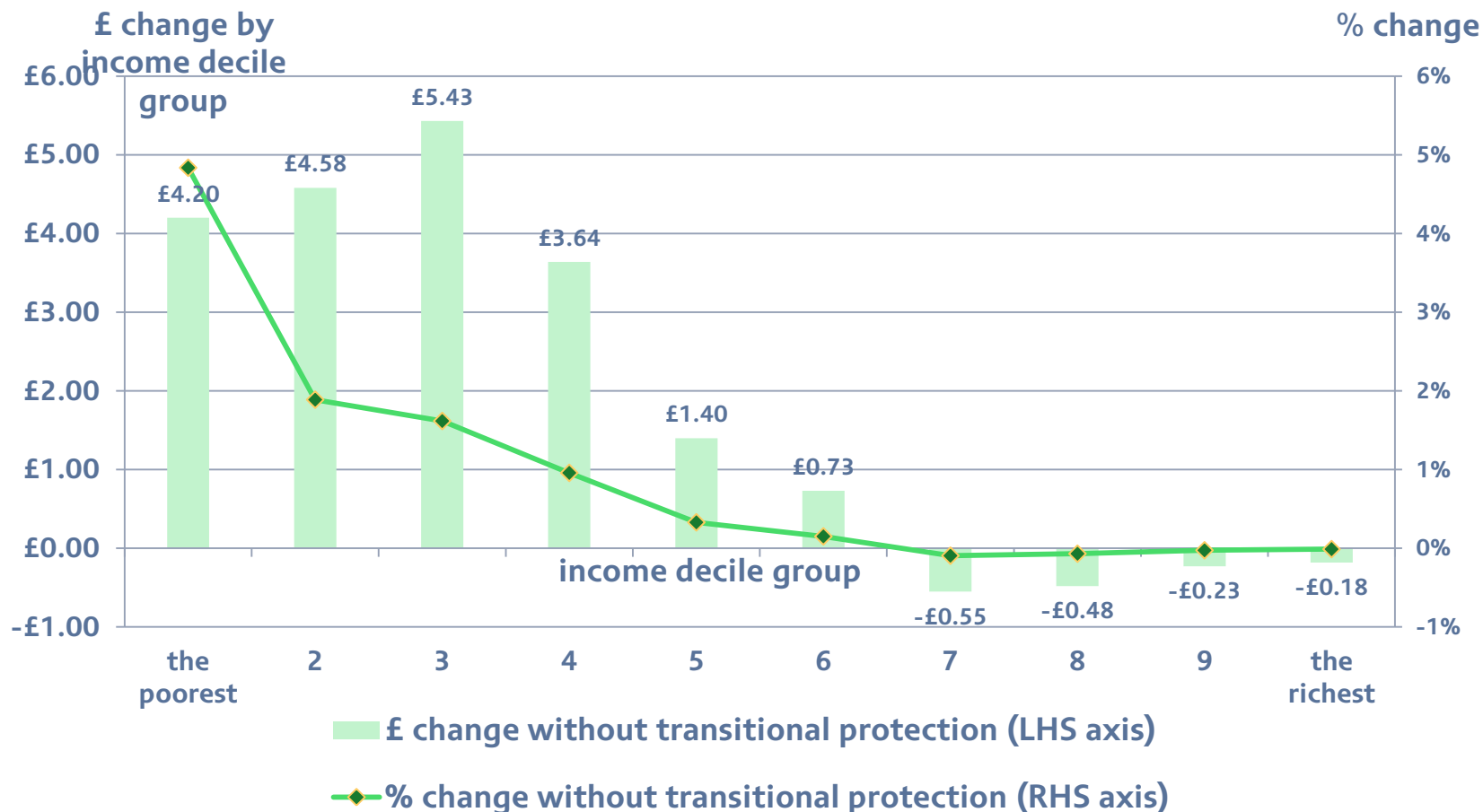
Notes: Years refer to financial years. Incomes measured before housing costs have been deducted.

Summary: impact on poverty of coalition reforms

- ***In 2011-12:***
 - Negligible impact on child and working-age adult poverty
- ***In 2012-13:***
 - Increase absolute & relative child poverty by about 200,000
 - Do not quite agree with Government's claim about child poverty in 2012-13.
 - Important reason for discrepancy is that we model Local Housing Allowance reforms, whereas Treasury did not.
 - Increase absolute/relative poverty among working-age adults without children by about 100,000/200,000.
- ***In 2013-14:***
 - Increase absolute/relative poverty by about 300,000/200,000 children and 300,000/200,000 working-age adults without children.

What about Universal Credit?

Change in income by income decile group



Notes: Income decile groups are based on equivalised family income using the McClements equivalence scale.
 Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on uprated data from the 2008–09 Family Resources Survey.

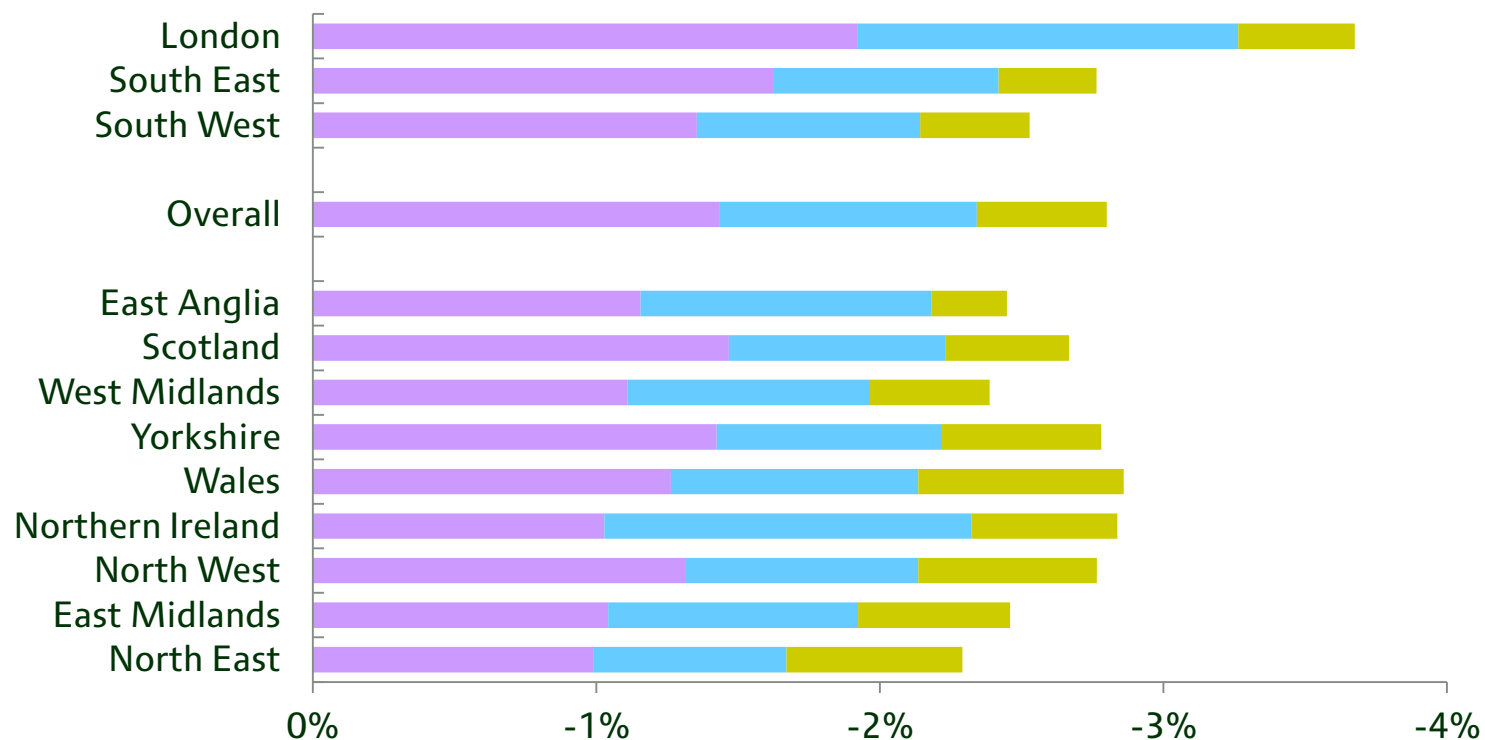
Prospects for 2020-21 child poverty targets

- Child Poverty Act sets targets for absolute and relative child poverty in 2020-21:
 - 5% absolute; 10% relative.
- Under current policies, in 2013-14 we are forecasting:
 - 23.2% absolute; 21.9% relative.
- So the required reductions in 7 years after 2013-14 would be:
 - 18.2 percentage points absolute; 10.9 ppts relative.
- Relative child poverty has not fallen by 10.9 ppts over *any* period since at least 1961 (when series began).

Impact in Scotland?

- Not yet got sub-UK forecasts of poverty, but have analysed impact of 2010 Budget and SR measures at national/regional level

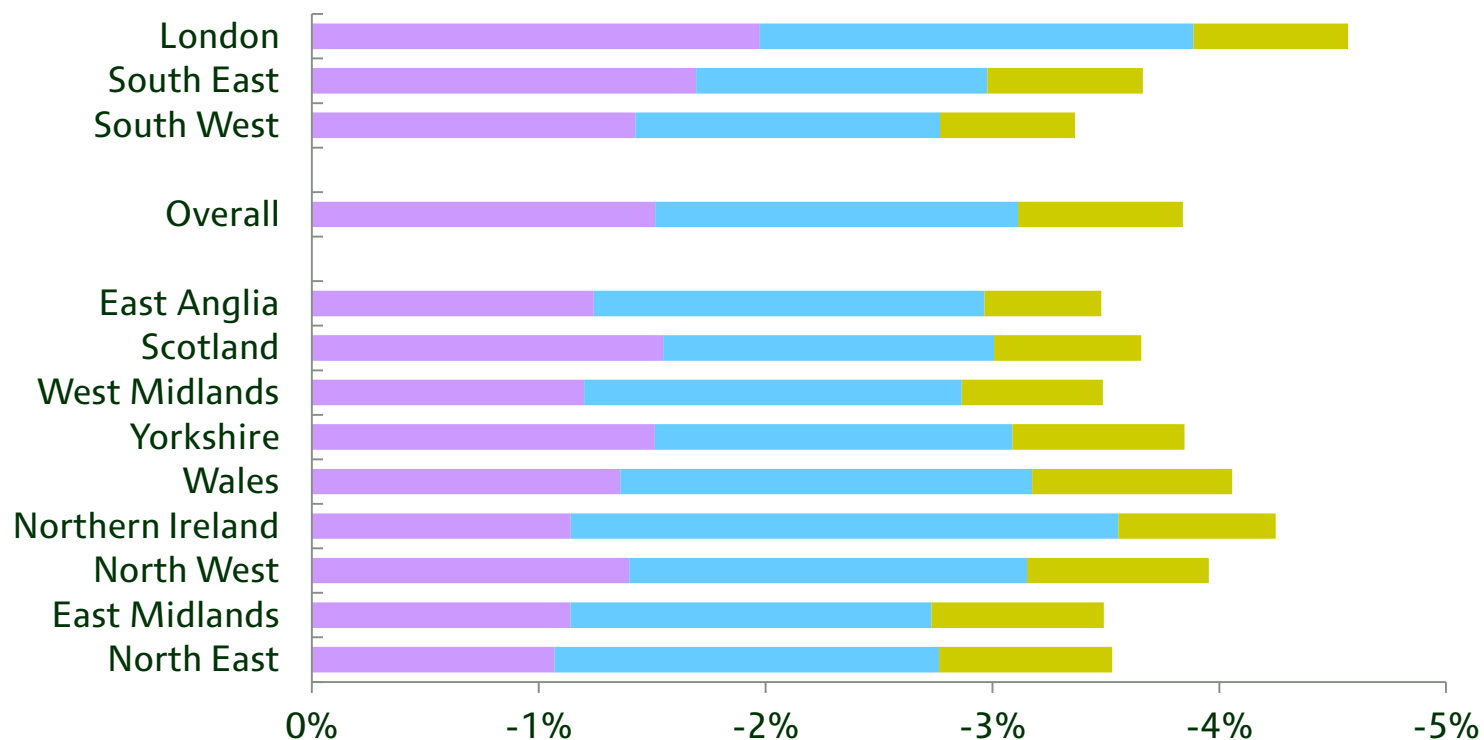
Average loss by region from reforms to be in place by 2012–13 (ranked richest to poorest)



Average loss as a percentage of net income

- Announced by previous government
- Budget June 2010
- Spending Review

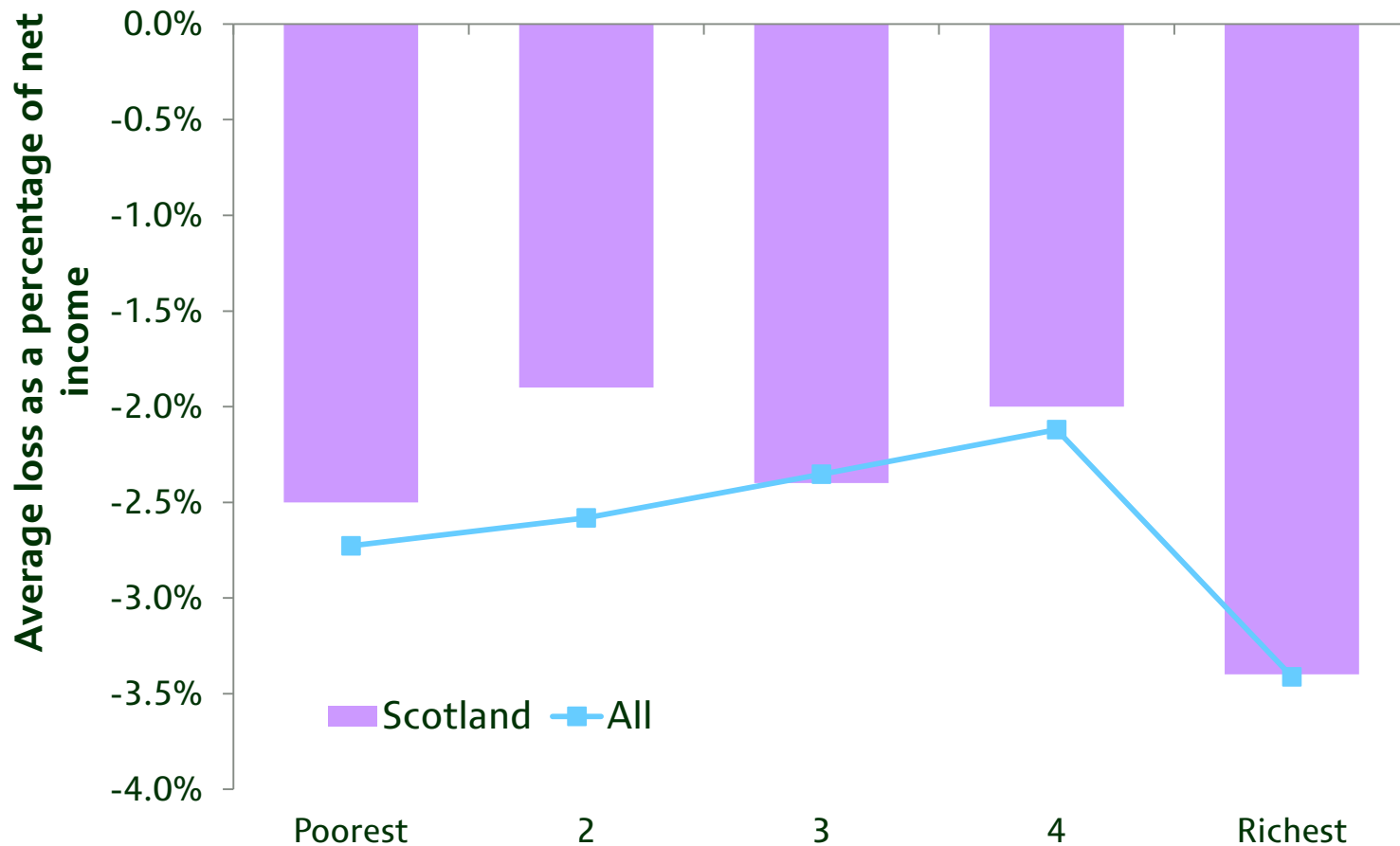
Average loss by region from reforms to be in place by 2014–15 (ranked richest to poorest)



Average loss as a percentage of net income

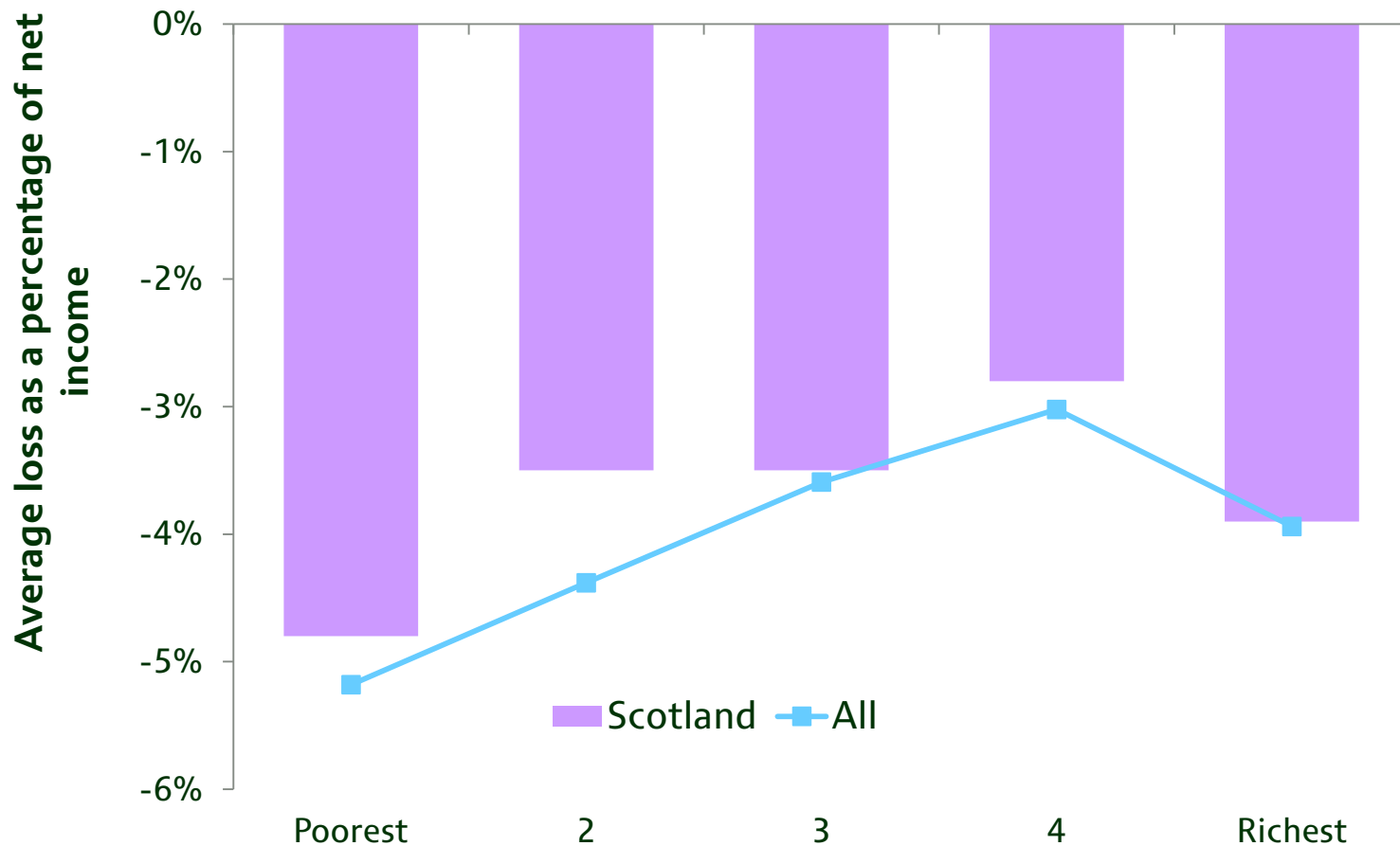
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Average loss as a percentage of income by UK income quintile, reforms to 2012–13



NB does not include impact of Budget 2011

Average loss as a percentage of income by UK income quintile, reforms to 2014–15



NB does not include impact of Budget 2011

Conclusions

- Under current policies, we expect absolute and relative poverty to rise in next 3 years, particularly in 2013-14
- We estimate that coalition Government's reforms act to increase poverty slightly in 2012-13, and more clearly in 2013-14
- Universal Credit will help, but meeting absolute and relative child poverty targets in 2020-21 looks extremely difficult
- Await child poverty strategy, and new targets?

Tax and benefit reforms that we do not model

- Some tax credit reforms: changes to way in which tax credit payments respond to within-year changes in circumstances (estimated saving of ~£1.2bn in 2013/14).
- Localisation of Council Tax Benefit (an aggregate cut of 10%) in April 2013 (estimated saving of ~£0.5bn in 2013/14).
- Migration of Incapacity Benefit claimants onto Employment and Support Allowance.
- Reduction in age of youngest child at which lone parents can claim Income Support.

- Why don't we model them?
 - Not enough information about distribution of losses and gains.
 - Note important differences between distributional analysis by decile group and poverty modelling.

- NB: In 2012-13, the set of reforms we model is close to the set the Treasury have modelled. Difference is that we model Local Housing Allowance reforms.