Child and working-age poverty to 2013-14

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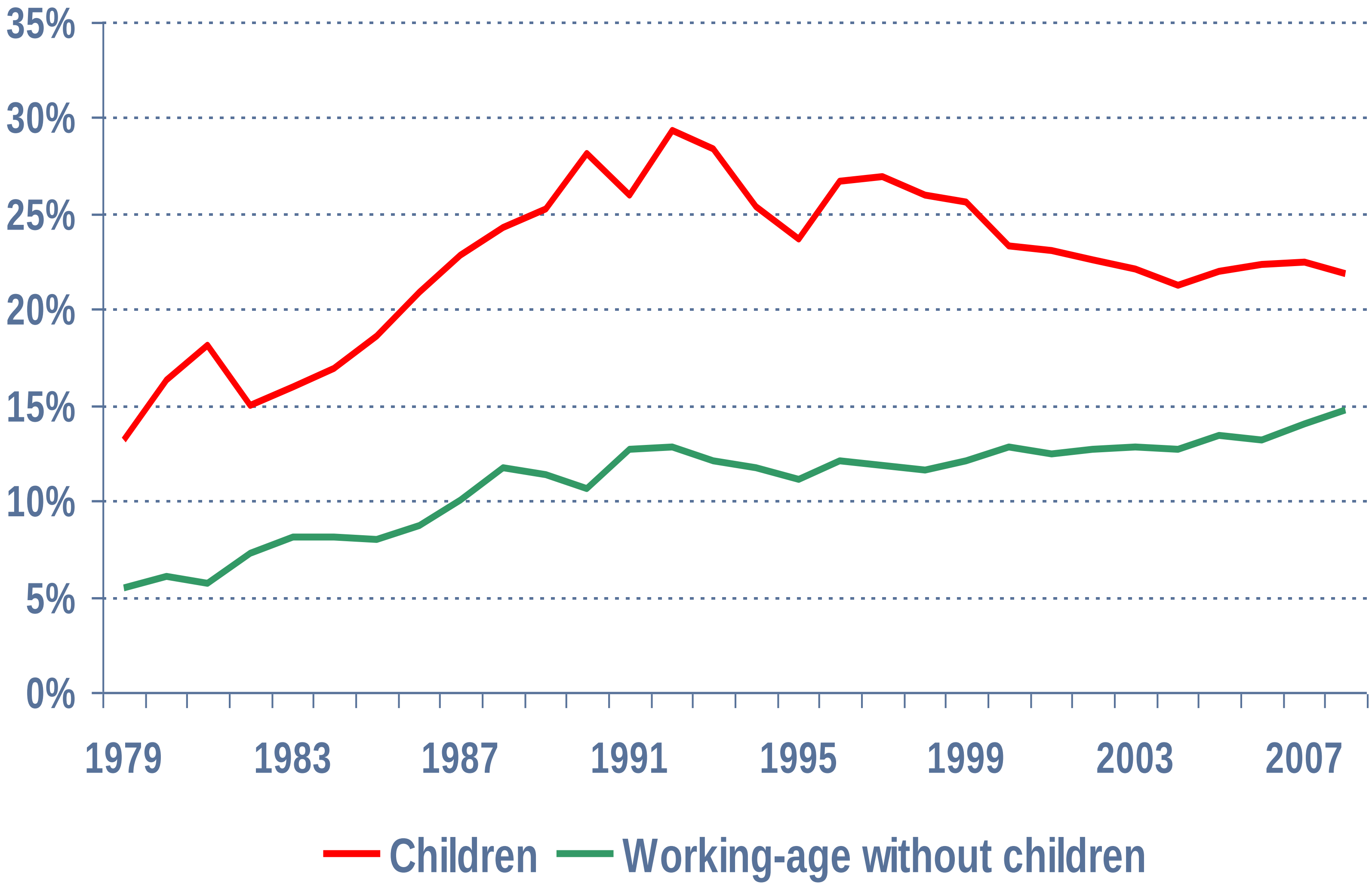
Introduction

- Two definitions of poverty, both in Child Poverty Act:
  1. Absolute income poverty: in poverty if household income is less than 60% of 2010-11 median (in real terms).
  2. Relative income poverty: in poverty if household income is less than 60% of median in that year.
- Incomes are equivalised and measured net of taxes and benefits.

- In this presentation, will focus on:
  - poverty among dependent children and working-age individuals without dependent children (NB: not pensioners).
  - poverty with incomes measured before housing costs have been deducted.

(Relative) poverty from 1979/80 to 2008/09



Source: Households Below Average Income series

Overview

- Methodology
- Poverty forecasts to 2013-14 under current policies
- The impact on poverty of coalition Government reforms
- Conclusions

Outline of methodology

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.

Aligning simulated poverty with HBAI-measured poverty

- Can apply these methods to the past (2008-09), and compare our simulated incomes with officially measured incomes.
- In practice, micro-simulation output will not perfectly replicate survey data on which it is based.
- Why?
  - We simulate tax liabilities, rather than using self-reported tax payments.
  - We simulate means-tested benefit/tax credit entitlements, rather than using self-reported receipts (our adjustment for non take-up lessens, but does not eliminate, this problem).
- How do we account for this?
  - For each household, calculate difference between simulated income and HBAI-measured income in 2008-09.
  - Assume this difference remains same (in real terms) in future years, i.e. add the difference back on to our simulated incomes in future years.

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.

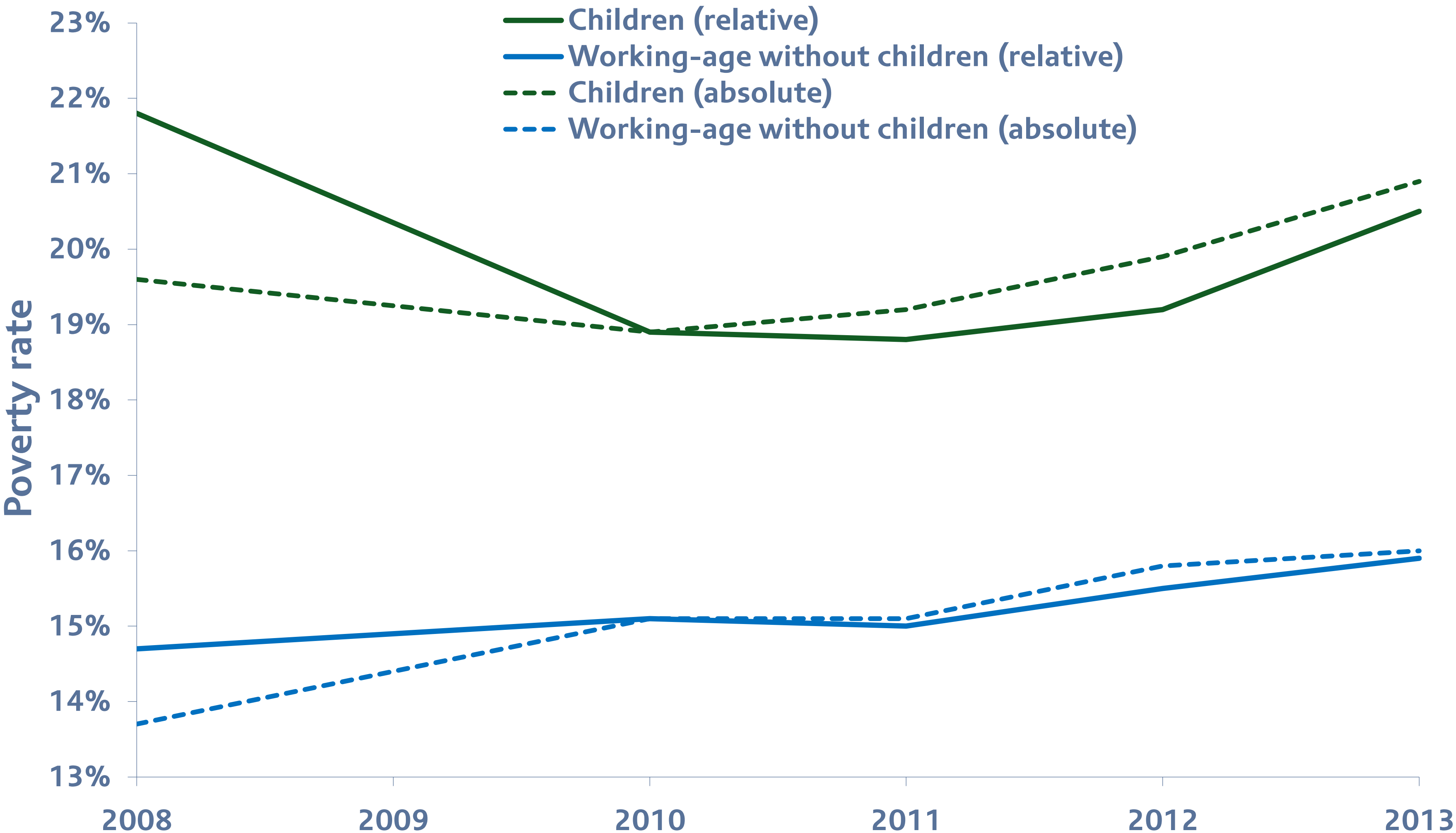
- With some planned tax and benefit reforms, data is insufficient to identify precise distribution of losses and gains across households.
- Judgement required about which reforms can be modelled precisely enough…

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.

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.

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Summary: forecasts under current policies

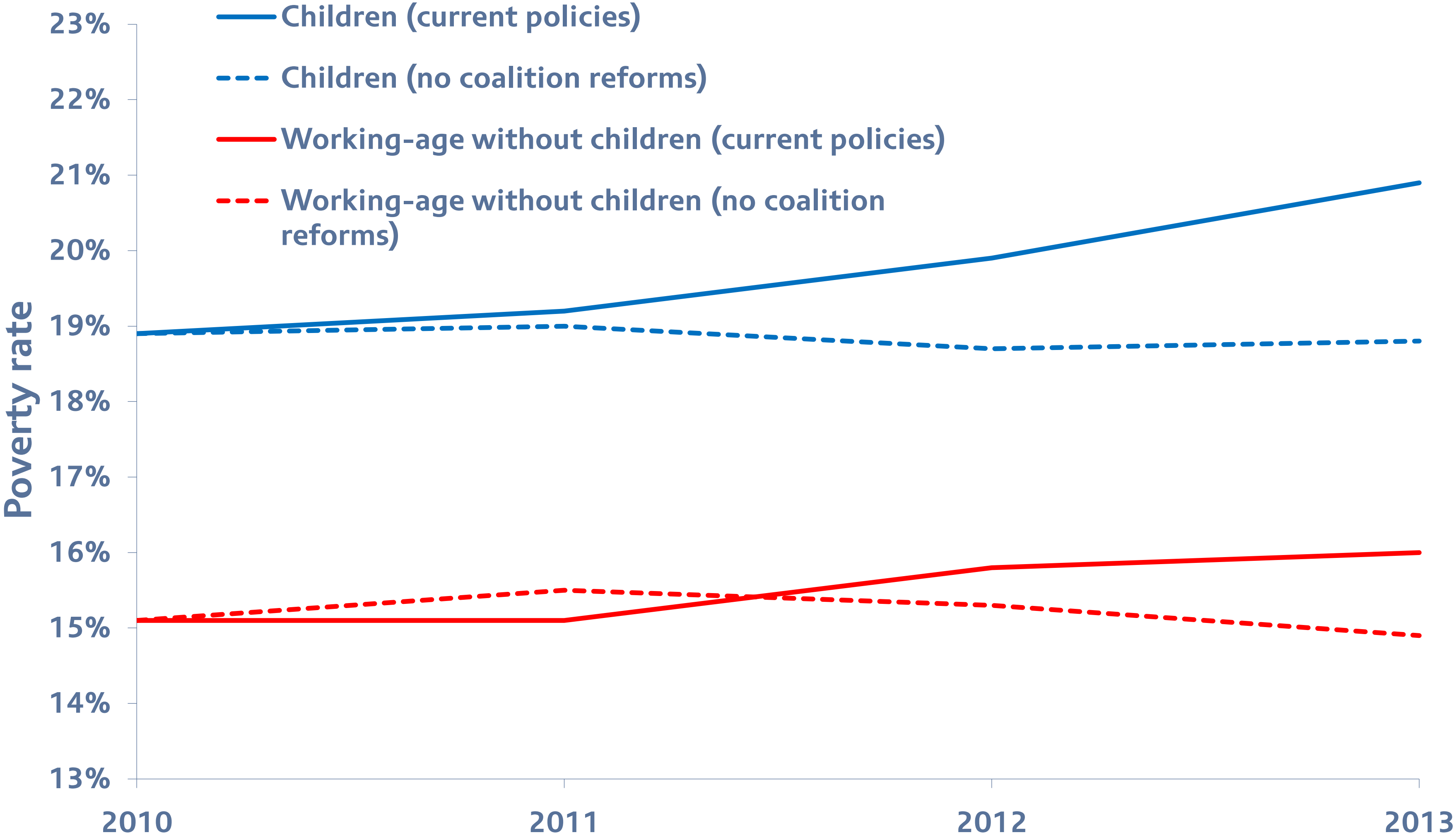
- Between 2008-09 (latest year of data) and 2010-11:
  - Median income, and hence relative poverty line, to fall in real terms.
  - Absolute child poverty stable, relative child poverty to fall by about 300,000 (to approx. 2.5 million, or 19%).
  - Among those of working age without children, absolute/relative poverty to rise by about 400,000/100,000.
- Between 2010-11 and 2012-13:
  - Small fall (~1%) in real median income.
  - Relative child poverty unchanged, absolute child poverty up 100,000.
  - Among working-age adults without children, absolute/relative poverty up by about 300,000/200,000.
- Between 2012-13 and 2013-14:
  - Absolute/relative poverty up by about 100,000/200,000 children and 100,000/200,000 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?
  - Interesting in its own right.
  - Government has claimed "no measurable impact" from modelled reforms on child poverty to 2012-13, based on Treasury analysis.

- 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



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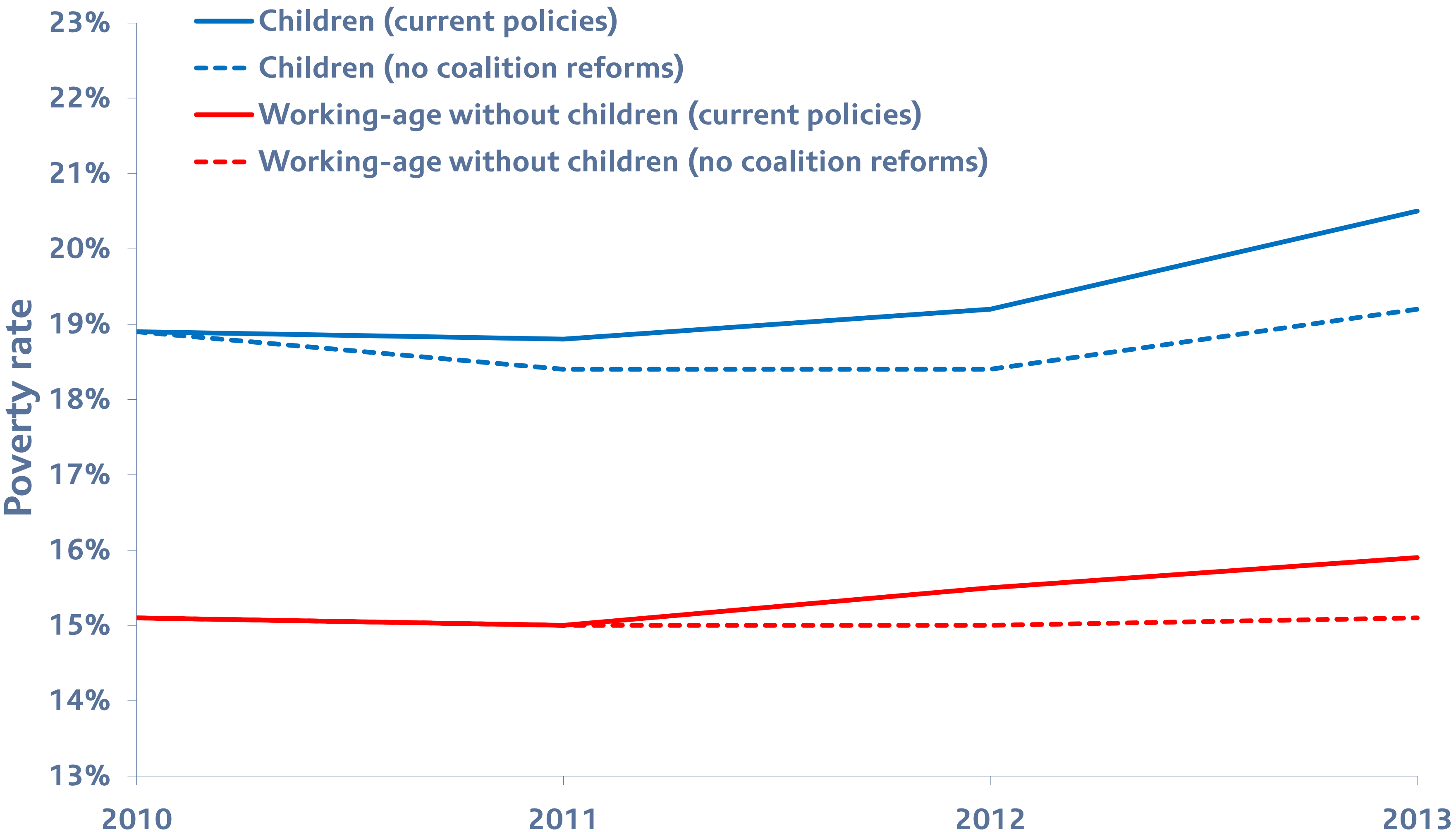
Relative poverty: the impact of coalition reforms



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

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Summary: impact on poverty of coalition reforms

- ***In 2011-12:***
  - Negligible impact on child poverty. Reduce slightly absolute poverty among working-age adults without children, by about 100,000.
- ***In 2012-13:***
  - Increase absolute/relative child poverty by about 200,000/100,000.
    - Do not quite agree with Government's claim about child poverty in 2012-13.
    - But increase of 100,000 is smallest that would be measured in official series.
    - Discrepancy accounted for by fact that we model Local Housing Allowance reforms, whereas Treasury did not.
  - Increase absolute and relative poverty among working-age adults without children by about 100,000.
- ***In 2013-14:***
  - Increase absolute/relative poverty by about 300,000/200,000 children and 300,000/200,000 working-age adults without children.

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:
  - 20.9% absolute; 20.5% relative.
- So the required reductions in 7 years after 2013-14 would be:
  - 15.9 percentage points absolute; 10.5 ppts relative.
- Relative child poverty has not fallen by 10.5 ppts over *any* period since at least 1961 (when series began).

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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.
- Meeting absolute and relative child poverty targets in 2020-21 looks extremely difficult.