Living standards

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Stagnation in incomes and earnings

Average (mean) annual gross earnings and household disposable income, current prices

Source: ONS AWE, ONS RHDI, OBR EFO
Notes: Historical series deflated using CPIH. Forecasts deflated using CPI. AWE before 2000 not seasonally adjusted.
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Tax and benefit changes

Increase in UC work allowance (£500/year), reduction in taper rate (63% to 55%)

- Cost £2.8bn in 2025-26
Example: changes to UC work allowance and taper rate for lone parent with 1 child

![Graph showing changes to UC entitlement based on annual pre-tax earnings. The graph illustrates that full-time on minimum wage results in £1,170 extra UC.](image)

Notes: Assumes rent of £150 per week.
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1.25% Health and social care levy
- Raise £13bn in 2025-26
- Earnings over £9,880 next year
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PA and HRT frozen
- 10% real cut by 2025-26 (previously forecast 7%)
- Raise £11bn in 2025-26 (previously forecast £7bn)
Gains at bottom of income distribution and falls at top

Change in net income from 2021-22 to 2022-23

Note: Assumes full take-up of means-tested benefits.
Gains at bottom of income distribution and falls at top

Change in net income from 2021-22 and 2015-16 to 2022-23

More than offsets changes since 2015 for working HHs on benefits

Note: See appendix slides for policies modelled
What does this mean for real incomes over the coming year?

Notes: We use the OBR forecasts for earnings growth and inflation between 2021Q4 and 2022Q4. “Full-time” is defined as 35 hours per week. Earnings, direct tax liability and universal credit entitlement all interact with each other, so the order in which they are modelled affects the apportionment: effects are modelled in the order listed on right hand side. The minimum wage worker on UC is assumed to be a renter and to be on the UC taper both before and after reforms.
No respite for workless households

- ~4 million workless families on UC
- Just lost temporary £1,000/year Universal Credit uplift
- On top of that, rising inflation eroding value of benefits
  - This means they lose additional 1% in real terms by April 2022 compared to a year earlier
  - Another 3% by March 2023 (before benefits catch up in April)

- Continued shift towards in-work households
- Benefits for out-of-work adults without children has not increased in real terms since 1975
Summary

- Continued stagnation in incomes and earnings
- High inflation means many households will see living standards fall
- Households on low incomes, low pay will see modest gains
- Workless households will struggle in coming years
Policies modelled

2021-22 vs. 2022-23

- 1.25% increase in employee and self-employed NICs, including for those over State Pension Age
- Freeze in the personal allowance and higher rate threshold
- Freeze to fuel and alcohol duty
- Increase in tobacco duty via the tobacco duty escalator
- Freeze in Local Housing Allowance
- Further rollout of the "two child limit" and removal of the family premium
- Reduction in the Universal Credit taper to 55% from 63%
- Increase in Universal Credit work allowances of £500 per year (for those already with a work allowance)
Policies modelled

2015-16 vs. 2022-23

- 1.25% increase in employee and self-employed NICs, including for those over State Pension Age
- Increases to the personal allowance and higher rate threshold
- Various reforms to fuel, alcohol, and tobacco duties
- Real terms increases to council tax rates
- Four year freeze in most working-age benefits
- Increase in Local Housing Allowance rates to 30th percentile of local rents, followed by a freeze
- Introduction of the "two child limit" and removal of the family premium
- Introduction of Universal Credit
- Reduction in the Universal Credit taper to 55% from 65%
- Various changes to Universal Credit work allowances
- Increases to Pension Credit
- Reduction in the benefit cap