Key low earner statistics

Profile

- 7.2 million households
- 14.0 million adults
- 7.6 million women
- 6.4 million men
- 3.8 million children

Skills

- 3.3 million have no formal qualification
- 2.9 million have no qualification beyond GCSE/O Level
- 1.5 million have a vocational qualification

Work

- 9.4 million working-age
- 7.1 million in work
- 6.0 million employed
- 1.0 million self-employed
- 0.3 million unemployed

- 1.3 million work in elementary occupations
- 0.9 million work in administrative and secretarial occupations

- 6.7 million economically inactive
- 4.8 million retired
- 1.5 million informal carers

Income

- £15,800 average gross household income from employment (among working-age households)
- £22,000 average gross household income from all sources
- £18,600 average disposable household income(after direct taxes and NICs)

Financial health

- 1.7 million adults in acute financial ill-health

- Average weekly expenditure is equal to average weekly disposable income

- 51 per cent have less than £1,500 in savings/assets
- 50 per cent have less than one month's gross income in savings/assets

- 34 per cent have outstanding secured debts with average value of £88,800
- 54 per cent have outstanding unsecured debts with average value of £5,200
- 21 per cent spend more than one-quarter of their monthly income on debt repayments

Housing

- 5.1 million home owning households
- 1.2 million social renting households
- 0.8 million private renting households

- Up to 1.1 million households in negative equity
- 1.5 million households in arrears on mortgage/rent

Introduction

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve outcomes for low earners by delivering change in areas where this income group is currently disadvantaged. We do this by: undertaking research and economic analysis to understand the challenges facing low earners; developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

The UK operates as a mixed economy. Markets for some goods are purely private, often attracting regulation and consumer protection mechanisms but nevertheless largely free to develop according to market forces with prices set at levels that match supply with demand. Direct redistribution takes place via the tax-benefits system which helps to reduce the gap between the poorest and richest members of society. In addition, the state is involved in the provision and funding of social goods: those goods and services that have benefits for society as a whole and form part of a citizen's basic requirements but which may be unaffordable for some if left to private enterprises. In some instances, for example healthcare and education, the state provides universal access. In other instances, for example housing and social care, the state only provides support for those it assesses to be most in need. In all cases, private markets exist alongside the public provision to allow those with sufficient resources to choose to substitute or top-up their baseline entitlement.

The mixed economy approach combines the benefits associated with well-functioning private markets with targeted state intervention. However, it inevitably results in a group which operates at the margin, falling in the gap between private and public provision. This group – *low earners* – is not the most vulnerable in society, nor does the Foundation argue that it is the most deserving; simply that it faces often unique pressures.

In March 2009, we published the first ever *low earners audit*.[1] The report presented a statistical review of the experience of low earners in the mixed UK economy and concluded that low earners are:

- *Squeezed*: often too poor to benefit from the full range of opportunities provided by private markets but too rich to qualify for substantial state support;
- *Exposed*: living at the edge of their means and therefore vulnerable to changes in circumstances; and
- *Overlooked*: low earners are not well-defined as a group and the pressures they face are not well understood.

At its broadest, we define the group as including all those with below-median income (from all sources) who are not dependent on state support. For the purposes of analysis, precise definitions depend on the data source being used: details are provided in Appendix 3. However, as a proxy, we consider the low earning group to comprise those households in income deciles 3, 4 and 5: that is, with equivalised[2] gross annual income between £13,500 and £25,800. Around 7.2 million households fall into this category in the UK, accounting for around 14.0 million adults.[3] We define two other income groups in relation to low earners: households with above-median equivalised

[1] *Squeezed: the low earners audit*, March 2009
[2] Equivalised for household size and composition using the McClements Equivalence Scale.
[3] ONS, E*ffects of taxes and benefits on household income 2007/08*, Tables 14 & 15

incomes (income deciles 6-10) are considered *higher earners*, while those with below £13,500 income (deciles 1 and 2) are considered *benefit-dependent*.

Significant numbers of people move in and out of the group at different life-stages. Analysis of the British Household Panel Survey in 2006 found that around 50 per cent of identified low earners were not in the group a decade earlier. Young people in particular, many of whom are students or just starting out in their careers, will move out of the group as their income rises. In addition, the reduced earnings faced by most people at retirement means that many of those considered low earners during their working lives will fall into the benefit-dependent group in retirement, while some higher earners will drop into the low earner group. The Foundation uses a static definition of low earner income throughout the life cycle because our concern is with the position of households relative to thresholds of private markets and qualification for public support rather than relative to peers in their age group.

Low earners form a highly diverse constituency. Within the overall group, the number and composition of households that are squeezed in different policy areas depend on the nature of the good or service, the cost and accessibility of private solutions and the volume and value of available state support. For example, the affordability of homeownership is likely to be most relevant to younger low earners, while long-term care is likely to be most relevant to older low earners

By looking at the low earner group as a whole, the audit attempts to present a broad description of some of the pressures faced by those who are disadvantaged by the mixed economy. By contrast, the Foundation's major projects[4] look in more detail at the particular members of the low earner group who are affected by each policy circumstance.

The recent recession has heightened the exposure experienced by low earners. In relation to those who are already largely dependent on state benefits, low earners have been more at risk of employment-related drops in incomes and more likely to have outstanding credit commitments. In relation to those who live in households with above-median income, low earners have been less likely to be able to draw on a safety net of savings and insurance and less likely to be in a position to return rapidly to employment following redundancy.

Updates of the audit are published on a regular basis. Each edition is designed to replace the previous one, providing the latest data in relation to the position of low earners and key economic variables affecting them. In addition, each update includes an *in focus* section which provides detailed analysis of a specific area of low earners' lives.

In this update, the next section considers low earners' household finances during an economic downturn. Economic indicators are set out in Appendix 1 and a range of low earner data is presented in Appendix 2. Appendix 3 sets out the various technical definitions of low earners used in this report and Appendix 4 provides details of a low earner focus group we commissioned in June 2009.

[4] Projects to date include low earners' access to financial advice and long-term care.

In focus: *low earners' finances*

This section brings together the tables, charts and analysis spread throughout this update relating to low earner finances. It sets out the profile of low earner household finances prior to the start of the 2008 recession, along with some consideration of subsequent changes in savings, debts and access to credit across the group.

While the data produced here highlights a number of ways in which low earner households find themselves squeezed by the workings of the mixed economy, pressures and coping strategies inevitably differ from household to household. Therefore, alongside this audit, the Foundation is publishing findings from qualitative work undertaken with 12 low earner households which illustrates the complexity and diversity of their money management.[5]

In addition, later this year the Foundation will publish its first ever Financial Health Index, which aims to measure changes in the financial health of the nation over time – and of low earners in particular – across a range of indicators.

UK household finances in the recession

The UK enjoyed a long period of relatively stable growth following recovery from the recession of 1990, characterised by low interest rates and low inflation. However, much of the growth was fuelled by the household borrowing that cheap credit facilitated. Problems in the global credit markets in 2007 undermined these foundations and spread to the real economy, with the UK entering recession in Q2 2008.

These underlying conditions and causes meant that the UK economy at the start of the recession differed in a number of ways from earlier periods of downturn, with significant implications for subsequent economic performance. While other post-war recessions have been preceded by an inflationary boom, the recent downturn resembled the financial and commodity boom-driven contractions which took place before the First World War. Four distinct differences can be observed:

- *Household indebtedness:* Lending to individuals rose from 25 per cent of GDP at the start of the 1980 recession, to 60 per cent at the start of the 1990 recession and 101 per cent of GDP in Q2 2008.

- *Interest rates:* The official Bank Rate in mid-2008 was 5.3 per cent, significantly lower than in 1980 (17.0 per cent) and 1990 (14.8 per cent).

- *Inflation:* Annual RPI inflation stood at 18.4 per cent prior to the 1980 downturn and at 9.8 per cent at the start of the 1990 recession. By contrast, RPI inflation was just 4.2 per cent in Q2 2008.

- *Financial system:* The credit crunch exposed the fundamental structural weaknesses of many banks' balance sheets. Despite significant government support for the funding position of major UK banks, the outlook in mid-2008 was highly uncertain.

[5] Resolution Foundation, *Behind the balance sheet*, February 2010

One consequence of these conditions is that UK households have retrenched. Chart A1 shows that consumer spending has fallen substantially since the start of the recession: total household consumption in Q4 2009 was 3.6 per cent lower than in Q1 2008.

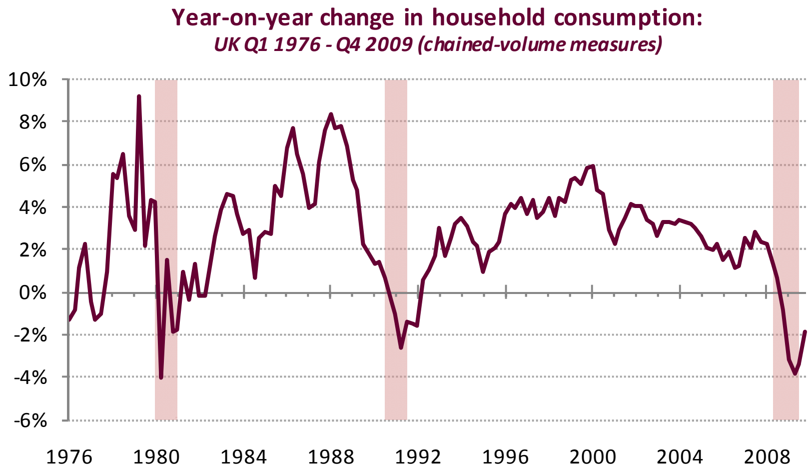


Chart A1: Household consumption: UK 1976-2009
Source: ONS Time Series ABJR & NMRY

Falls in employment and nominal wage growth have reduced nominal labour income, although this has been more than offset by higher government benefit payments and reduced taxes. Therefore, while falling income is likely to have reduced spending in some households, the aggregate fall is primarily associated with an increase in the savings ratio, as shown in Chart A2: the increase of 7.7 percentage points between Q3 2008 and Q3 2009 is the biggest four-quarter rise since records began in 1955.

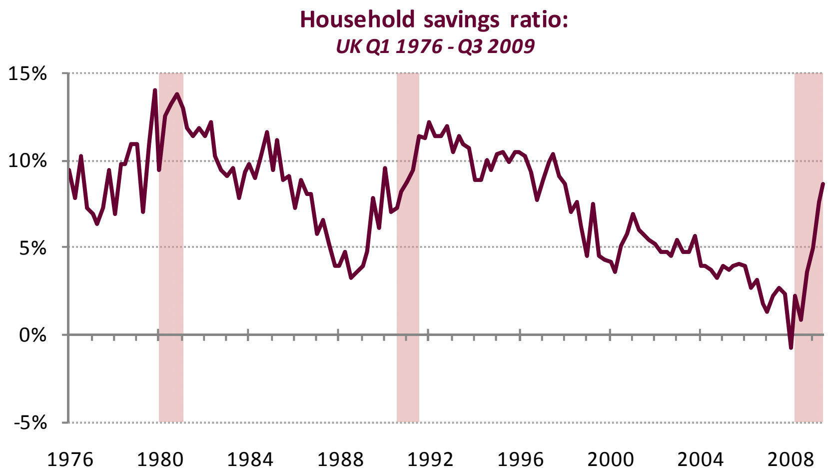


Chart A2: Household savings ratio: UK 1976-2009
Source: ONS Time Series NRJS

There are likely to be a number of factors behind this shift from spending to saving. For example, the recession and the prospect of fiscal consolidation may have produced a reduction in households' expectations of future income and an increase in precautionary savings. Similarly, a 10 per cent drop in net financial wealth in the year to Q2 2009 may have made households more cautious, although the connection between shifts in wealth and spending is uncertain.[6]

Chart A3 shows that there has also been a significant slowing in the rate of household borrowing. Both secured and unsecured lending conditions have been weak since the onset of the credit crunch, with banks increasing their capital ratios in response to concerns over increased defaults, lower asset prices and associated losses. As such, access to credit, even for credit-worthy consumers, has been restricted. However, there is some evidence that subdued unsecured lending may not just be due to a lack of supply but may also reflect reduced demand.[7]

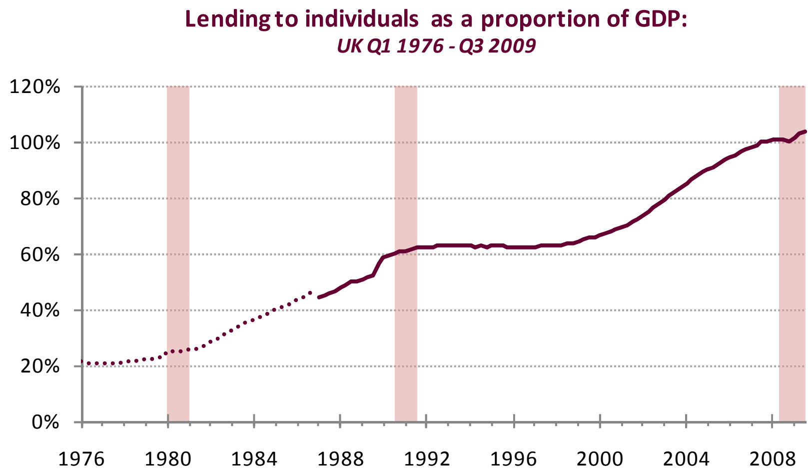
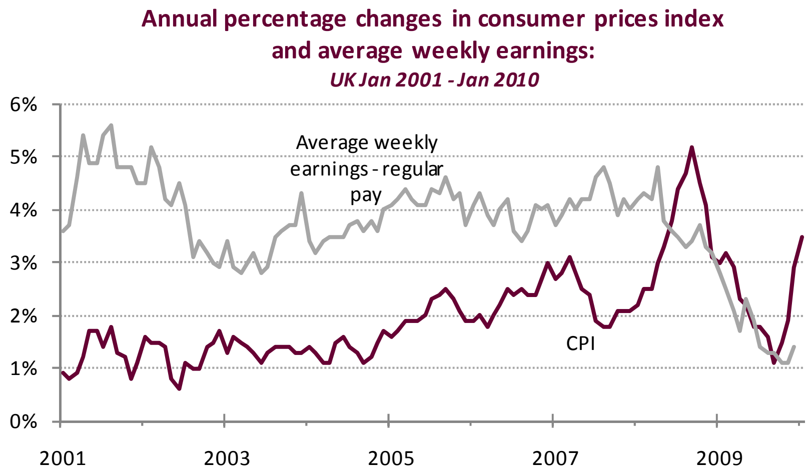


Chart A3: Household borrowing: UK 1976-2009

Note: Lending to household data prior to 1987 is based on bank lending only, including securitised loans.

Source: Bank of England, *Financial Stability Report*, October 2008, Issue No. 24, Chart 1.2;

The effects of economic slowdown experienced during 2008 were made worse for many by rises in the cost of living. Chart A4 shows that, following a decade in which the annual increase in the CPI remained primarily below 3.0 per cent, the level peaked at 5.2 per cent in September 2008, despite the fall in demand associated with a recession. Prices therefore rose more rapidly than earnings, driven in large part by increases in the costs of essential products such as food and fuel.



[6] Bank of England, *Inflation Report* , November 2009, p26

[7] Bank of England, *Inflation Report*, November 2009, p17

Chart A4: Consumer prices index: UK 1998-2010
Source: ONS Time Series D7G7

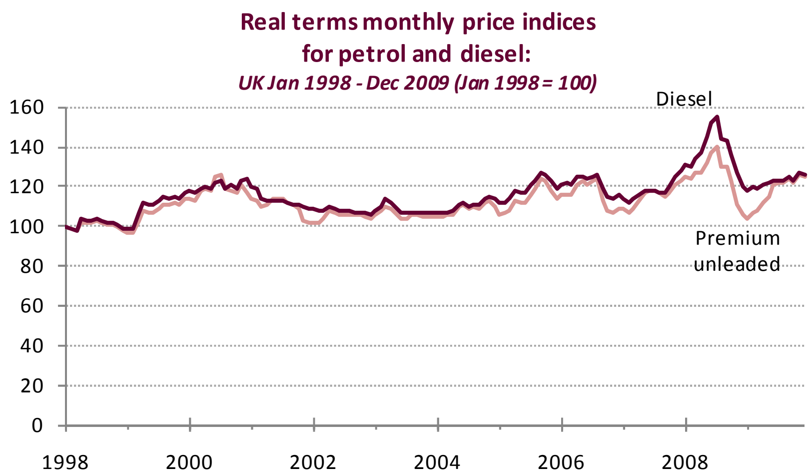
Increases in the global price of oil pushed domestic fuel costs to a peak in the latter part of 2008. Table A1 shows that typical domestic gas bills for Q4 2008 – Q3 2009 were around 10 per cent up on the previous year in real terms and typical electricity bills increased by around 22 per cent over the same period. Although fuel prices fell slightly during 2009, they remain high by historical standards. The Government estimates that increases in fuel prices produced a doubling in the number of households in the UK living in fuel poverty[8] from 2 million in 2004 to around 4 million in 2007 and that subsequent price increases will have pushed numbers higher still in 2008 and 2009.[9]

Table A1: Average annual domestic gas and electricity bills: *1999-2009*

£	Gas[1] (Great Britain)			Electricity[2] (UK)		
2009 prices	Standard credit	Direct debit	Prepayment	Standard credit	Direct debit	Prepayment
1999	387	340	404	335	321	357
2000	370	331	390	322	307	344
2005	427	390	443	315	297	336
2006	510	456	536	363	337	386
2007	577	519	616	400	365	419
2008	579	533	627	411	382	430
2009	717	648	746	461	421	466
1999-2009	+85%	+91%	+85%	+37%	+31%	+31%
2008-2009	+24%	+22%	+19%	+12%	+10%	+8%

Notes: [1] Based on annual consumption of 18,000kWh.
[2] Based on annual consumption of 3,300kWh.
Figures are inclusive of VAT.
Source: DECC, *Quarterly Energy Prices*, Tables 2.2.1 & 2.3.1

Oil price fluctuations have had similar effects on the cost of transport fuels. Between February 2007 and July 2008, diesel prices increased by 38 per cent in real terms and petrol prices rose by 30 per cent. Chart A5 shows that, as with domestic gas and electricity, prices subsequently fell as world oil prices decreased, with a particularly sharp decline in December 2008. However, prices have again increased in the period from January 2009.



[8] Households that need to spend more than 10 per cent of their income on fuel.
[9] DECC, *Annual report on fuel poverty statistics 2009*, Table 1 & Chart 42

Chart A5: Petrol and diesel price indices: UK 1998-2009
Source: DECC, *Quarterly Energy Prices*, Table 4.1.1

In the next few years, oil prices are expected to settle at a level significantly higher than experienced during the preceding decade. Given the need for additional investment in power supply and carbon reduction, Ofgem has warned that domestic energy prices in the UK will continue to rise with an increasing number of consumers unable to afford adequate levels of gas and electricity.[10]

Overall inflation jumped somewhat in December 2009 and January 2010, due to a series of 'base effects' associated with changes in the rate of VAT and fuel prices. However, the Bank expects CPI inflation to return to below its target rate of 2.0 per cent later in the year, due to the persistence of spare capacity in the economy. Low underlying inflation is likely to ensure that interest rates remain below historic averages. The Bank has forecast that the official Bank Rate will slowly increase from its current level of 0.5 per cent from early 2010, reaching 2 per cent at the start of 2011 and 4 per cent by the end of 2012.

Low interest rates have reduced the financial burden of repayments faced by households and businesses, and thereby helped keep default rates during the recession lower than had been expected. Variation from the Bank's forecast trajectory will therefore have significant implications for those businesses and households with outstanding debts. Individual insolvencies have been forecast to peak in 2010: in part because of their association with unemployment, in part because of the likely increase in debt-servicing costs and in part because of reduced forbearance on the part of banks.

Low earners' finances

Average incomes and state support

Table A2 shows that average unadjusted (i.e. non-equivalised) gross household income (from all sources) among low earners in 2007/08 was £22,000, rising to £29,100 among non-retired households. Table A3 shows that, among low earner households with working-age heads, average income from employment only was £15,780: this compares with averages of £1,560 among benefit-dependent and £43,870 among higher earner households.

Table A2 also shows that average cash benefit receipt among low earner households in 2007-08 was £6,800. Each household received an average of 2.8 benefits. However, this average obscures significant differences across low earner households: while some will receive several different types of benefit (a pensioner couple is likely to be in receipt of two state pensions and one winter fuel payment for example), others will not receive any.

By definition, low earner households receive very few income-related benefits, but they are much more likely than either benefit-dependent or higher earner households to be in receipt of tax credits. Overall, 23 per cent of low earner benefit units[11] received tax credits in 2007-08, compared with 15 per cent of benefit-dependent units and 14 per cent of higher earner ones. Among those low earner benefit units in receipt of tax credits, the average award was £76.76 per week.

[10] Ofgem press release, "Action needed to ensure Britain's energy supplies remain secure", 3 February 2010
[11] 'Benefit unit' is a term that relates to a single adult or couple living as married and any dependent children. Multiple benefit units may live in a single household. See Table 11 for more details.

Table A2: Average incomes, taxes and benefits by income group of household: *UK 2007/08*

	Average per household (£ per year)	All households			Non-retired households		
		Benefit-dependent	Low earners	Higher earners	Benefit-dependent	Low earners	Higher earners
	Original income	4,700	15,200	49,800	7,500	25,000	58,200
+	*plus cash benefits*	6,500	6,800	2,900	6,000	4,200	1,700
=	Gross income	11,100	22,000	52,700	13,500	29,100	59,900
-	*less direct taxes & employees' NIC*	1,200	3,400	12,300	1,600	5,500	14,400
=	Disposable income	9,900	18,600	40,400	11,900	23,600	45,400
-	*less indirect taxes*	3,100	3,900	6,300	3,700	5,000	6,800
=	Post-tax income	6,800	14,700	34,200	8,300	18,700	38,700
+	*plus benefits in kind*	7,500	6,600	5,000	8,300	6,900	4,800
=	Final income	14,300	21,400	39,200	16,600	25,600	43,500

Note: Income groups based on *ONS definition* : see Appendix 3.

Source: ONS, *The effects of taxes and benefits on household income, 2007/08* , 29 July 2009, Tables 14 & 16

Table A3: Average annual gross income from employment by income group of household and age of household reference person: *UK 2007-08*

£	Benefit-dependent	Low earners	Higher earners	All households
All working age	1,560	15,780	43,870	27,130
16-29	1,290	15,120	39,510	21,760
30-54	1,940	17,340	47,900	31,390
55-64	1,000	8,910	33,730	18,750
65-79	100	820	6,710	2,060
80+	40	340	1,970	490
All ages	970	8,470	38,750	20,070

Note: Income groups based on *FRS definition - households* : see Appendix 3.

Source: DWP, *Family Resources Survey 2007-08*

Income stability

A study by the Centre for Analysis of Social Exclusion published in March 2006 measured the income stability over the course of 12 months among low- to middle-income households in receipt of working tax credits.[12] Families taking part in the research had average net income of £17,000 per year, with most falling in the bracket £12,000-£22,000. Therefore, while the study excluded retired households and those without children, it provided a good description of the income volatility experienced by many low earner households.

The research described the income of one-third of families as being 'stable with blips': that is, with income in at least ten of the 13 four-week periods within 15 per cent of their annual mean but varying by 25 per cent or more from it in other periods. A further one-quarter had income described as 'erratic' or 'highly erratic': that is, having income in at least four of the 13 periods that was more than 15 per cent outside of their annual mean.

[12] Centre for Analysis of Social Exclusion, *Tracking Income: How working families' incomes vary through the year*, March 2006

When interviewed, participants who reported their income as being unpredictable said that they just had to deal with whatever income turned out to be. Overall, most respondents described themselves as organised in managing their finances – sometimes on a daily basis. However, over one-half said that their income just covered their outgoings in the previous six months, with nothing left over for savings, while a further one-quarter said that their outgoings had exceeded their income. The study concluded that the group managed by tailoring spending to match variable incomes, "often with little margin for error".[13]

The recession is likely to have increased the instability of income within many low earner households, particularly those in which labour market pressures have resulted in members losing their jobs, working fewer hours or entering into non-standard (for example, zero-hours) contracts. Many low earners moving in and out of work in this period will have encountered transitional difficulties associated with delays in processing certain benefit payments such as Housing Benefit and Council Tax Benefit.

Spending

As this study suggested, a large number of low earner households live at or beyond their means each week. Table A4compares total spending in the group with total disposable income and shows that, on average, low earner households spend all of their disposable income each week.

Table A4: Average weekly household expenditure as proportion of weekly disposable household income by income group of household: *UK 2008*[1]

Averages	Benefit-dependent	Low earners	Higher earners
Housing(net),[2] fuel & power	22%	15%	8%
Food & non-alcoholic drinks	20%	14%	8%
Recreation & culture	13%	13%	11%
Transport	11%	12%	12%
Miscellaneous goods & services	8%	7%	6%
Restaurants & hotels	8%	7%	7%
Household goods & services	9%	6%	5%
Clothing & footwear	6%	4%	4%
Communication	4%	3%	2%
Alcoholic drinks, tobacco & narcotics	4%	3%	2%
Health	1%	1%	1%
Education	1%	1%	1%
All expenditure groups	107%	86%	67%
Other expenditure items[3]	11%	14%	17%
Total expenditure	118%	100%	84%

Notes: [1] Based on weighted data and including children's expenditure.
[2] Excluding mortgage interest payments, council tax and Northern Ireland rates.
[3] Including mortgage interest payments and council tax.
Income groups based on *ONS definition* : see Appendix 3.
Average expenditure is derived by dividing gross spending for the appropriate income deciles by the relevant numbers of households. Average disposable household income is derived by dividing gross disposable income for the appropriate income deciles and dividing by the relevant numbers of households.

Sources: ONS, *Family Spending: A report on the 2008 Living Costs and Food Survey* , 14 January 2010, Table 3.2E
ONS, *The effects of taxes and benefits on household income, 2007/08* , 29 July 2009, Table 14

[13] Ibid. p7

Spending on the relatively essential categories of *housing, fuel & power*, *food & non-alcoholic drinks* and *transport*, on which households are likely to have little room for manoeuvre, accounts for around 41 per cent of low earner disposable household income on average, compared with 27 per cent among high earner households.

Access to financial advice

Low earners' financial advice needs are typically not met by the financial services industry which packages up advice with product sales or offers it at commercial rates via independent financial advisers. As they are not reliant on benefits, low earners are also unlikely to be catered for by services perceived to be targeted at the poorest and most vulnerable, such as Citizens Advice. This lack of accessible advice has been exacerbated over the years by the withdrawal of the industry from providing community style services as it has sought to improve its competitiveness.

Previous Foundation research found that 60 per cent of low earners would be interested in having access to a national financial advice resource, with 40 per cent saying they would use the resource at least once a year. It also showed that greater access to financial advice could leave younger low earners £60,000 better off by the time they reach 60 years old, deliver welfare savings of £100 million within 10 years and provide long term benefits to the financial services industry.[14]

The Financial Services Bill currently in Parliament will establish the Consumer Financial Education Body which will be responsible for a new national Money Guidance Service providing free generic financial advice across the country. The service will be funded in part by government and in part by the industry and will help to meet the advice needs of low earners.

Financial health

In general, low earners are not financially excluded. For example:

- 92 per cent of low earner households hold a current account, compared with 77 per cent of benefit-dependent ones;
- 82 per cent of low earner benefit units have contents insurance cover, compared with just 55 per cent of benefit-dependent ones;
- Just 21 per cent of low earner households have perceived or actual credit constraint, compared with 30 per cent of benefit-dependent ones; and
- Fewer than 0.5 per cent of low earner households report having a social fund loan, compared with 7 per cent of benefit-dependent ones.

However, while members of low earner households tend to engage in the same financial service markets as higher earners, access varies across the group and the spending and income stability pressures described above, combined with a lack of access to financial advice, have pushed many low earners into financial difficulties. Chart A6 details the results of analysis carried out on our behalf in 2004 by McKinsey & Company. It shows that nearly four-fifths of low earners were in some form of poor financial health, with problems including inadequate levels of savings, debt repayment difficulties and budgeting problems. It is likely that the credit crunch and recession have increased numbers further.

[14] Resolution Foundation, *Closing the advice gap: Providing financial advice to people on low incomes*, May 2006

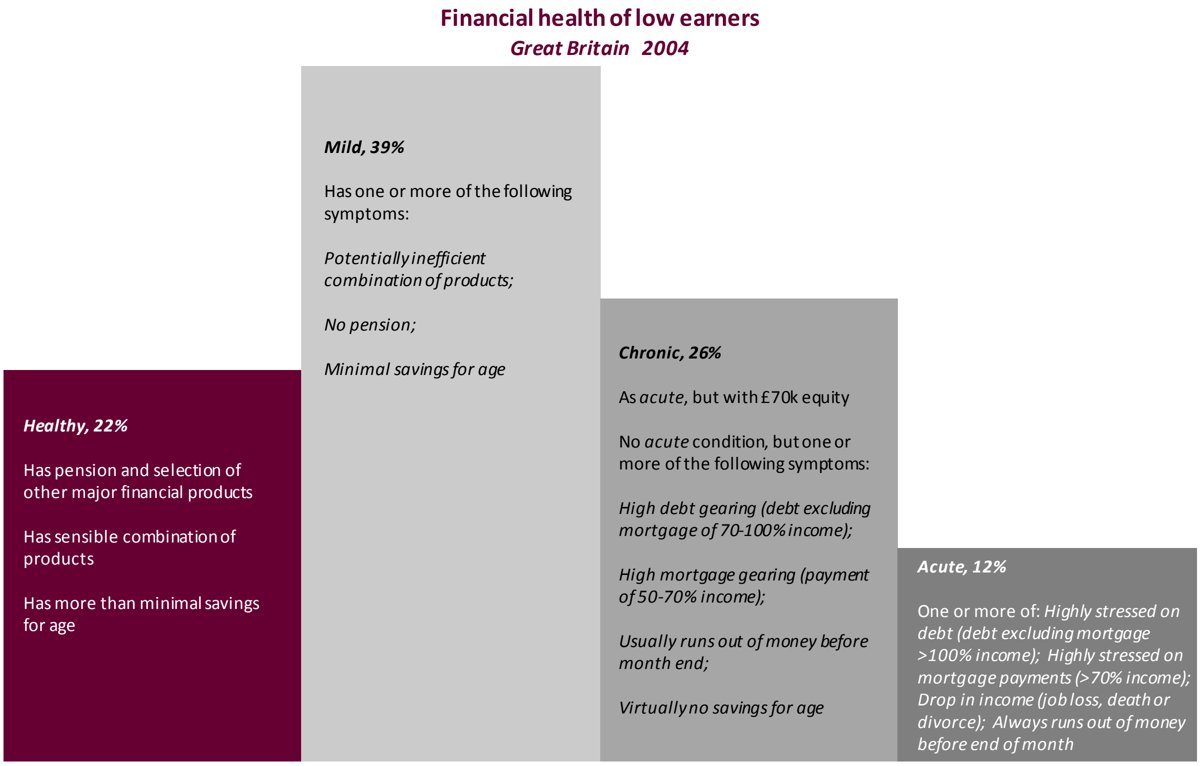


Chart A6: Financial health of low earners: GB 2004

Note: Low earners based on *BHPS definition*: see Appendix 3.

Sources: Analysis of BHPS by McKinsey & Company on behalf of the Resolution Foundation

Safety nets: savings, insurance and pensions

Table A5 shows that half of low earner benefit units recorded savings equivalent to less than one month's gross income in 2007-08, with this proportion rising to three-quarters among those benefit units whose heads were aged between 16 and 29. Table A6 sets out savings within each income group in absolute terms, and shows that half of low earner benefit units had total savings and assets of less than £1,500.

Table A5: Low earner benefit unit savings adequacy by age of head of benefit unit: *UK 2007-08*

	16-29	30-54	55-64	65+	All ages
Savings equivalent to					
less than one month's gross income	76%	70%	32%	22%	50%
more than one but less than two month's gross income	8%	8%	8%	7%	8%
more than two but less than six month's gross income	10%	9%	13%	16%	12%
more than six months' gross income	6%	13%	46%	55%	30%

Notes: Income groups based on *FRS definition* : see Appendix 3.
Savings/assets based on mid-point in range provided by respondent.

Source: DWP, *Family Resources Survey 2007-08*

Table A6: Value of savings/assets in benefit unit by income group of benefit unit: *UK 2007-08*

	Benefit-dependent	Low earners	Higher earners	All benefit units
< £1,500	70%	51%	32%	46%
£1,500 < £3,000	9%	9%	10%	10%
£3,000 < £8,000	9%	11%	13%	12%
£8,000 < £20,000	6%	10%	12%	10%
£20,000 < £25,000	1%	3%	5%	3%
£25,000 < £30,000	1%	2%	3%	2%
£30,000 < £35,000	1%	2%	2%	2%
£35,000 < £40,000	1%	2%	2%	2%
£40,000+	3%	9%	20%	13%

Note: Income groups based on *FRS definition - benefit units* : see Appendix 3.

Source: DWP, *Family Resources Survey 2007-08*

Given that weekly expenditure in low earner households equates to disposable income on average, it is not surprising that some members of the group lack savings. Table A7 shows that in 2007-08, around one-third of low earner benefit units said they would like to make regular savings (of at least £10 per week), but could not afford to do so. Those units with heads aged 30-54 were even more likely (44 per cent) to say they could not afford to save, perhaps reflecting the costs associated with raising a family. By contrast, just 15 per cent of higher earner benefit units that wanted to save were unable to do so.

As discussed above, UK households have, in aggregate, reduced consumption and increased saving since the start of recession. Asked in late-2009, 23 per cent of low earner households said they were planning, or had already started, to save more. However, Table A8 shows that just 4 per cent intended a "significant increase", and 33 per cent of the group said that they would "definitely not" be increasing saving.

Among those low earners saying they would be, or were, saving more, 31 per cent cited fear of redundancy as the primary reason. Table A9 shows that, across all households answering this question, low earners were most likely to select this reason. They were also most likely to say that they were driven by having less guaranteed monthly income, highlighting the employment and income vulnerability felt by some members of the group. Other significant factors for low earners included having access to extra cash because of a fall in bills and the need to compensate for the falling value of existing investments.

Table A7: Benefit units' attitudes to making savings of £10 a month or more by income group of benefit unit and age of head of benefit unit: *UK 2007-08*

	Benefit-dependent	Low earners	Higher earners	All benefit units
Age 16-29				
BU does this	26%	53%	70%	51%
BU would like to do this but cannot afford	62%	33%	19%	37%
BU does not want/need this	11%	14%	11%	12%
Age 30-54				
BU does this	23%	50%	78%	62%
BU would like to do this but cannot afford	72%	44%	17%	33%
BU does not want/need this	4%	5%	6%	5%
Age 55-64				
BU does this	33%	57%	82%	64%
BU would like to do this but cannot afford	57%	30%	10%	27%
BU does not want/need this	10%	13%	8%	9%
Age 65-79				
BU does this	45%	57%	71%	57%
BU would like to do this but cannot afford	39%	24%	9%	25%
BU does not want/need this	16%	18%	20%	18%
Age 80+				
BU does this	54%	60%	73%	60%
BU would like to do this but cannot afford	23%	16%	5%	17%
BU does not want/need this	23%	23%	22%	23%
All ages				
BU does this	34%	54%	76%	59%
BU would like to do this but cannot afford	55%	32%	15%	30%
BU does not want/need this	11%	13%	9%	11%

Note: Income groups based on *FRS definition - beneit units* : see Appendix 3.

Source: DWP, *Family Resources Survey 2007-08*

Table A8: Proportion of households planning to/already started saving more by income group of household: *GB Sep/Oct 2009*

	Benefit-dependent	Low earners	Higher earners	All households
Yes	15%	23%	36%	24%
Significiantly increase	*2%*	*4%*	*8%*	*5%*
Slightly increase	*13%*	*19%*	*28%*	*19%*
No	85%	77%	64%	76%
Not particularly	*37%*	*44%*	*41%*	*41%*
Definitely not	*48%*	*33%*	*23%*	*35%*

Notes: Base = 1,202.
Income groups based on *ONS definition* : see Appendix 3.

Source: Bank of England, *2009 NMG survey* , Sep/Oct 2009

Table A9: Main reason for saving more among those households doing so/planning to do so by income group of household: ***GB Sep/Oct 2009***

	Benefit-dependent	Low earners	Higher earners	All households
Fear of redundancy/job insecurity	23%	31%	27%	27%
Extra cash from fall in other bills	9%	11%	9%	10%
Value of existing investments fallen	20%	11%	8%	11%
Less guaranteed monthly income	3%	9%	4%	5%
Trying to reduce debts	14%	6%	11%	11%
Saving for deposit on house/flat	8%	6%	4%	6%
Extra cash from decrease in mortgage payments	5%	6%	8%	7%
Additional personal commitments	5%	3%	15%	10%
Worried about future tax increases	3%	0%	1%	1%
Other	9%	17%	13%	13%

Notes: Base = 271.
Income groups based on *ONS definition* : see Appendix 3.

Source: Bank of England, *2009 NMG survey* , Sep/Oct 2009

These findings highlight differences within the low earner group. While some members want to and are able to put money aside, many do not or cannot. Similarly, Table A10 shows that, although 82 per cent of low earner benefit units reported having contents insurance in 2007-08, a sizeable minority of 10 per cent said that they could not afford it. Ownership was lower among younger units, with just 47 per cent of those with heads aged 16-29 having a policy and 25 per cent saying they wanted, but could not afford, one. By contrast, just 3 per cent of higher earner benefit units said that they were unable to get cover: even among the youngest higher earner group, just 8 per cent were unable to afford it.

A similar pattern was recorded in 2004 in relation to a range of insurance products. Chart A7 shows that low earners were less likely than higher earners to own life, critical illness, income protection and payment protection policies.

However, the figures in Table A11 show that, when surveyed in 2007-08, low earner households with a mortgage appeared to be more likely than higher earner households to hold mortgage payment protection (MPP) policies. Overall, 58 per cent of low earner mortgagors held some form of MPP, compared with 55 per cent higher earners. Among low earner mortgagors, 41 per cent held a sickness/accident MPP, 36 per cent held a loss of employment policy and 46 per cent had death cover.

While such rates of ownership suggest that low earners are as likely as higher earners to have a safety net in place in relation to home ownership, they may simply reflect lower levels of financial confidence within the group, with questions existing over the appropriateness of some MPPs. Critics argue that some policies are expensive and unnecessary and simply provide lenders with a means of subsidising their main mortgage products. OFT and FSA investigations into the overall payment protection insurance market have uncovered a number of concerns relating to mis-selling. Low earners in non-standard work environments are particularly likely to experience difficulties with making claims on MPPs, because most policies cover people only if they have been 'actively working' in full employment for at least 16 hours a week for about six months when they take out the cover. In addition, many policies exclude self-employed and short-term contract workers.

Table A10: Benefit units' attitudes to having contents insurance by income group of benefit unit and age of head of benefit unit: *UK 2007-08*

	Benefit-dependent	Low earners	Higher earners	All benefit units
Age 16-29				
BU does this	23%	47%	73%	52%
BU would like to do this but cannot afford	52%	25%	8%	25%
BU does not want/need this	25%	28%	20%	23%
Age 30-54				
BU does this	41%	77%	91%	79%
BU would like to do this but cannot afford	47%	16%	3%	14%
BU does not want/need this	12%	7%	5%	7%
Age 55-64				
BU does this	62%	90%	96%	85%
BU would like to do this but cannot afford	27%	5%	1%	9%
BU does not want/need this	11%	4%	3%	5%
Age 65-79				
BU does this	74%	91%	97%	87%
BU would like to do this but cannot afford	14%	3%	1%	6%
BU does not want/need this	12%	5%	2%	7%
Age 80+				
BU does this	78%	92%	95%	86%
BU would like to do this but cannot afford	8%	2%	0%	4%
BU does not want/need this	14%	7%	4%	9%
All ages				
BU does this	55%	82%	91%	79%
BU would like to do this but cannot afford	31%	10%	3%	12%
BU does not want/need this	14%	8%	6%	9%

Note: Income groups based on *FRS definition - benefit units*: see Appendix 3.

Source: DWP, *Family Resources Survey 2007-08*

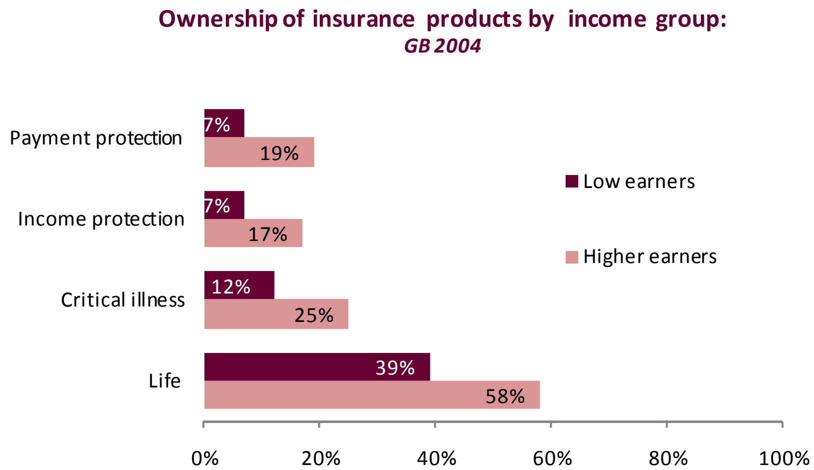


Chart A7: Ownership of insurance products by income group: GB 2004

Note: Income groups based on *BHPS definition*: see Appendix 3.

Source: Future Foundation analysis of FSA Baseline Survey on behalf of the Resolution Foundation

Table A11: Ownership of mortgage payment protection policies among households with mortgages by income group of household: *UK 2007-08*

	Benefit-dependent	Low earners	Higher earners	All benefit units
Sickness/accident	26%	41%	40%	39%
Loss of employment	20%	36%	33%	32%
Death	32%	46%	42%	42%
Any	42%	58%	55%	54%

Note: Income groups based on *FRS definition - households* : see Appendix 3.

Source: DWP, *Family Resources Survey 2007-08*

Chart A8 shows that, among low earners aged over-40, nearly half said they worried "a lot" about not having enough income in retirement in 2004, compared with around one-third of higher earners in this age group. This is likely to reflect lower levels of private pension ownership among low earners: 32 per cent of all adults in the group reported being members of a superannuation scheme and 17 per cent said they had personal pensions, compared with 67 per cent and 27 per cent of higher earners.

These lower levels are in part due to availability (60 per cent of low earners were in jobs with superannuation schemes in 2004, compared with 83 per cent of higher earners) and in part due to take-up (where available, just 51 per cent of low earners joined superannuation schemes, compared with 81 per cent of higher earners).

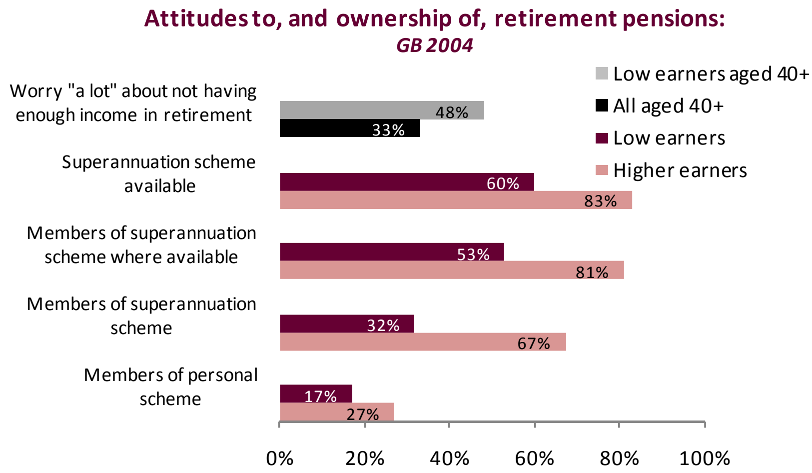


Chart A8: Attitudes to, and ownership of, retirement pensions: GB 2004

Note: Income groups based on *BHPS definition*: see Appendix 3.

Sources: Future Foundation analysis of FSA Baseline Survey on behalf of the Resolution Foundation

The Association of British Insurers' *Savings and Protection Survey* found that, in September 2009, 40 per cent of low earners[15] were not saving for a pension and 13 per cent were under-saving; by contrast, just 17 per cent of higher earners were not saving and a further 17 per cent were under-saving.[16]

[15] Low earners defined as having gross annual personal income between £7,500 and £19,999. Higher earners defined as having incomes of £20,000 and above. No household equivalisation or consideration of the proportion of income sourced from benefits entered into.

[16] ABI, *Savings and Protection Survey*, Q3 2009. We are grateful to ABI for further analysis of the findings by income group.

The recession, with associated falling equity and asset prices and low interest rates is likely to have put more pressure on those pensioners reliant on income from savings and investments. Falling equity and asset prices, along with low annuity rates are likely to have posed greater difficulty to low earners than to either higher earners or members of benefit-dependent households: higher earners are likely to have larger pots and more diverse selections of products, while benefit-dependent pensioners are more likely to have faced unchanged circumstances because of their primary reliance on the state pension.

Changes in budgets

As discussed above, falling wealth, rising unemployment, pay restraint, credit constraint and high levels of debt have all served to reduce UK consumer spending since the start of the recession. However, within this overall trend, households have fared differently. While some will have experienced difficulties, others may actually have benefitted – from reduced mortgage payments or the temporary cut in VAT example.

Chart A9 details findings from late-2009. It shows that 56 per cent of households in the low earner group reported having experienced a fall in left-over (after paying tax, housing costs, bills and loan repayments) monthly income compared with 12 months earlier and 11 per cent said their left-over monthly incomes had risen. By contrast, 36 per cent of higher earners reported a fall and 24 per cent detailed a rise.

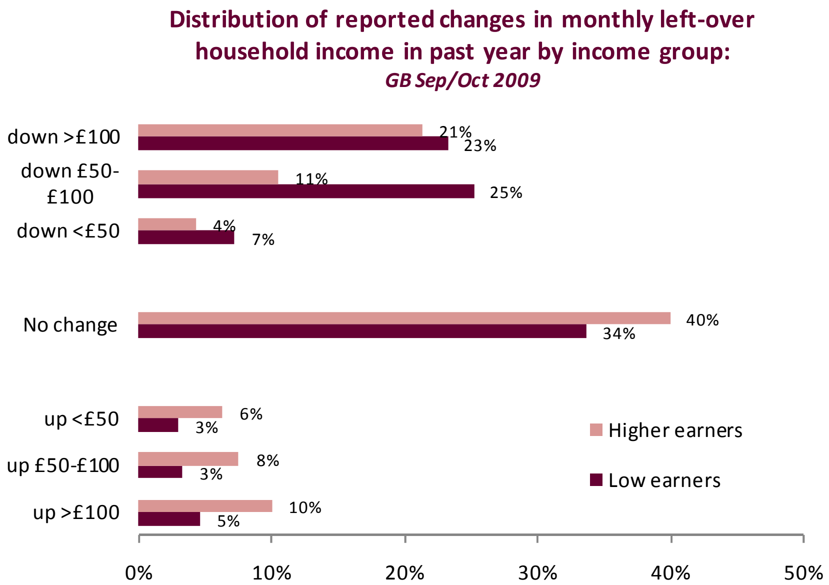


Chart A9: Changes in income by income group: GB 2009

Note: Left-over income is income after paying tax, National Insurance, housing costs, bills and loan repayments. Income groups based on *ONS definition*: see Appendix 3.

Source: Bank of England, *2009 NMG survey*, Sep/Oct 2009

Low earner households were also slightly more likely to have experienced a fall in income than benefit-dependent ones. Table A12 shows that low earner households were particularly likely to experience falling left-over incomes in younger (18-34) age-groups. However, while the proportion of low earner households with heads aged over 65 that reported reduced incomes was lower, it was still higher than in either of the other two income groups. As suggested above, this is likely to reflect the greater exposure of retired low earner households to falling equity and asset prices.

It should be noted, however, that the response set out in Table A12 is a snapshot of members of the three income groups. It does not measure what has happened to last year's income groups: that is, some of the low earners reporting falls in income in 2009 may actually have been higher earners in 2008. What it does show however, is that, at any time, the low earner group includes significant numbers of households dealing with drops in available incomes.

Table A12: Reported changes in monthly left-over household income in past year by income group and age of respondent: ***GB Sep-Oct 2009***

	Benefit-dependent	Low earners	Higher earners	All households
Age 18-24 *(base = 81)*				
Down	50%	59%	41%	49%
No Change	43%	29%	50%	42%
Up	7%	12%	9%	9%
Age 25-34 *(base = 150)*				
Down	50%	66%	33%	48%
No Change	34%	23%	53%	38%
Up	16%	11%	14%	14%
Age 35-44 *(base = 231)*				
Down	67%	53%	32%	49%
No Change	26%	23%	32%	28%
Up	7%	23%	36%	23%
Age 45-54 *(base = 217)*				
Down	60%	63%	41%	53%
No Change	28%	27%	30%	29%
Up	12%	10%	29%	18%
Age 55-64 *(base = 208)*				
Down	58%	53%	44%	50%
No Change	38%	40%	37%	38%
Up	5%	7%	20%	12%
Age 65+ *(base = 266)*				
Down	47%	49%	25%	43%
No Change	43%	47%	58%	47%
Up	10%	4%	18%	10%
All ages *(base = 1,153)*				
Down	55%	56%	36%	49%
No Change	36%	34%	40%	37%
Up	10%	11%	24%	15%

Notes: Left-over income is income after paying tax, NI, housing costs, bills and loan repayments.
Income groups based on *ONS definition* : see Appendix 3.

Source: Bank of England, *2009 NMG survey* , Sep/Oct 2009

Debt and arrears

Table A13 shows that, in late-2009, 61 per cent of low earner households reported having an outstanding debt: 32 per cent had secured and 53 per cent had unsecured debts. Total debts among all low earner households averaged £29,300, rising to £48,000 if those without any debts are excluded.

Table A13: Debt position of household by income group of household: *GB Sep/Oct 2009*

	Benefit-dependent	Low earners	Higher earners	All households
Secured debt				
Proportion with outstanding debts *(base = 1,227)*	19%	32%	52%	34%
Mean outstanding debt among all answering question *(base = 1,204)*	£10,466	£25,484	£51,115	£27,965
Mean outstanding debt among all with secured debt *(base = 359)*	£63,333	£88,764	£103,828	£91,295
Unsecured debt				
Proportion with outstanding debts *(base = 1,182)*	50%	53%	58%	54%
Mean outstanding debt among all answering question *(base = 1,188)*	£1,907	£2,677	£4,297	£2,925
Mean outstanding debt among all with unsecured debt *(base = 592)*	£3,919	£5,200	£7,682	£5,638
Total debt				
Proportion with outstanding debts *(base = 1,103)*	54%	61%	72%	62%
Mean outstanding debt among all answering question *(base = 1,103)*	£12,363	£29,227	£54,956	£31,223
Mean outstanding debt among all with debt *(base = 683)*	£22,796	£48,004	£76,568	£50,423

Note: Income groups based on *ONS definition* : see Appendix 3.

Source: Bank of England, *2009 NMG survey* , Sep/Oct 2009

Table A14 charts debt repayments within the low earner group over time. Having risen significantly between 2005 and 2008, the proportion of low earner households spending more than one-quarter of their monthly incomes on debt repayments declined slightly in 2009. This is likely to primarily reflect falling interest rates on mortgages: while the proportion of households spending more than 25 per cent of their income on secured debt repayments has fallen, the proportion allocating more than one-quarter of their income to unsecured debt is unchanged.

Table A14: Distribution of ratio of last monthly debt payment to monthly income among low earner households: *GB 2005-2009*

	Sep 2005	Sep 2006	Sep 2007	Sep/Oct 2008	Sep/Oct 2008[1]	Sep/Oct 2009
Secured debt						
0	75%	74%	83%	71%	61%	72%
<0.25	19%	16%	10%	13%	24%	18%
>0.25	5%	10%	7%	16%	15%	11%
Unsecured debt						
0	65%	55%	55%	49%	48%	49%
<0.25	33%	41%	40%	44%	49%	48%
>0.25	2%	4%	5%	6%	3%	3%
Total debt						
0	51%	42%	49%	37%	34%	40%
<0.25	37%	42%	37%	40%	44%	38%
>0.25	12%	15%	13%	24%	22%	21%

Note: [1] To the right of the line, low earners defined on basis of *ONS definition* . To the left of the line, low earners defined on basis of *unadjusted FRS definition* : see Appendix 3. Therefore, figures not directly comparable over time.

Source: Bank of England, *NMG survey* , various

Table A15 sets out the unsecured debt instruments held by low earner households in late-2009. It shows that one-quarter reported having a credit card (a higher proportion than among benefit-dependent households) and around one-fifth had an overdraft (a higher proportion than among either benefit-dependent or higher earner households). By contrast, a smaller proportion of low earner households (14 per cent) had a personal loan.

Table A15: Unsecured debt instrument ownership in households by income group of household: *GB Sep/Oct 2009*

	Benefit-dependent	Low earners	Higher earners	All households
Distribution of number of unsecured debt instruments held				
0	50%	47%	42%	46%
1	30%	31%	26%	29%
2	13%	13%	17%	15%
3	3%	5%	8%	6%
4	2%	2%	5%	3%
5	1%	1%	1%	1%
6	0%	0%	0%	0%
7	0%	0%	0%	0%
Proportion with different types of credit/loan agreements [1]				
Credit card	15%	26%	37%	25%
Overdraft	10%	19%	18%	15%
Personal loan	15%	14%	22%	17%
Hire purchase	11%	12%	12%	12%
Store card	6%	7%	10%	7%
Student loan	5%	5%	8%	6%
Mail order purchase	11%	4%	3%	7%
DSS social fund loan	7%	0%	0%	3%
Something else	3%	0%	2%	2%

Notes: Base = 1,182.

Income groups based on *ONS definition* : see Appendix 3.

[1] Figures do not sum to 100% because respondents can own any number of debt instruments.

Source: Bank of England, *2009 NMG survey* , Sep/Oct 2009

Bank of England analysis of average quoted interest rates on selected loan instruments shows that rates for a number of unsecured vehicles have gone up in recent months, despite the historic fall in the official Bank Rate. Chart A10 shows that average rates on overdrafts and credit cards are higher than those on personal loans, suggesting that the distribution of instruments held by low earner households shown in Table A15 is potentially less efficient than the distribution in the higher earner group.

The proportion of low earner households saying that unsecured debt repayments represented a financial burden fell slightly in 2009, from 48 per cent to 46 per cent: 12 per cent of the group said that the burden was a “heavy” one, as shown in Chart A11.

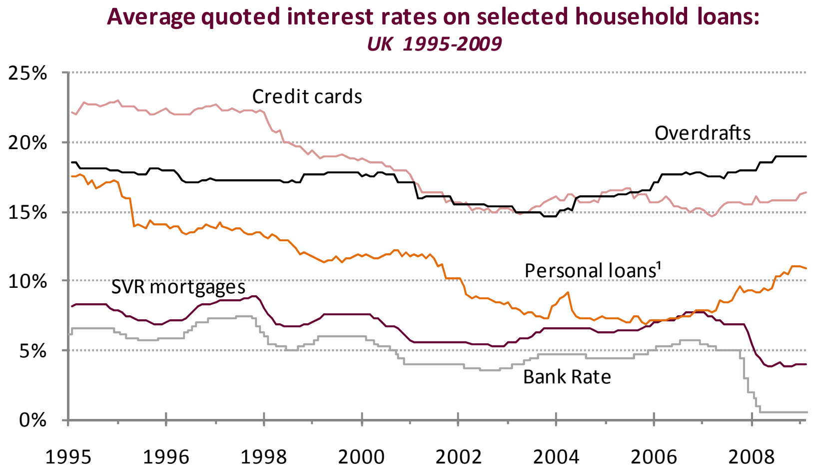


Chart A12: Average unsecured credit interest rates: UK 1995-2009

Note: [1] Interest rate on £10,000 personal loans.

Source: Bank of England, *Inflation Report*, February 2010, Chart 1.20

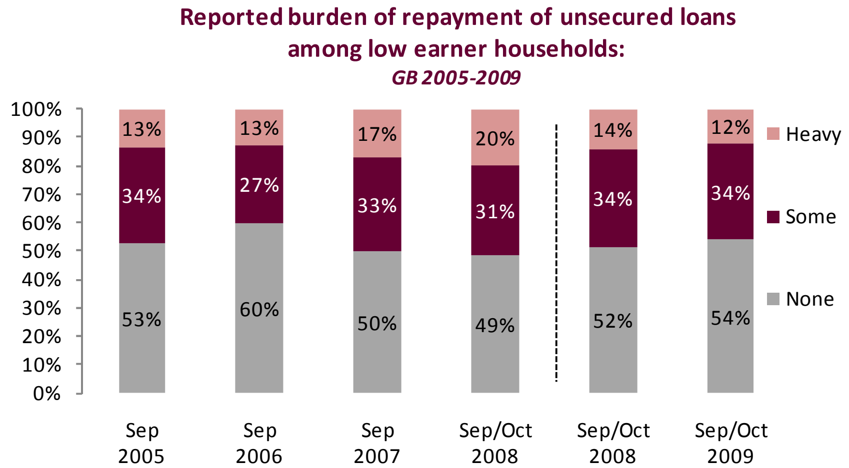


Chart A11: Financial burden of unsecured loan repayment among low earner households: GB 2005-2009

Note: To the right of the line, low earners defined on basis of *ONS definition*. To the left of the line, low earners defined on basis of *unadjusted FRS definition*: see Appendix 3. Therefore, figures not directly comparable over time.

Source: Bank of England, *NMG survey*, various

Table A16 shows that in 2007-08, 4 per cent of low earner benefit units reported being behind on council tax payments and 2 per cent said they were behind on each of electricity, water and gas bills. Chart A12 shows how low earner and higher earner households felt they were handling their bill and credit commitments in late-2009. While 61 per cent of low earner households reported keeping up with bills and credit commitments without much difficulty, the remaining 29 per cent were experiencing various problems. For 10 per cent of low earner households, keeping up represented a "constant struggle", and 2 per cent said they were behind with payments. By contrast, just 5 per cent of higher earners spoke of a constant struggle and 1 per cent were behind.

Table A16: Benefit units behind with household bills by income group: *UK 2007-08*

	Benefit-dependent	Low earners	Higher earners	All benefit units
Council tax	5.4%	4.1%	1.6%	3.3%
Electricity bill	5.5%	2.1%	1.0%	2.5%
Water rates/Rates (NI)	6.1%	1.9%	0.8%	2.6%
Gas bill	4.9%	1.8%	0.8%	2.2%
Telephone bill	3.4%	1.5%	0.5%	1.6%
Television/video rental or HP	1.2%	0.3%	0.1%	0.5%
Insurance policies	0.3%	0.1%	0.1%	0.1%
Other HP payments	1.9%	0.8%	0.4%	0.9%
Other fuel bills	0.5%	0.2%	0.1%	0.2%

Note: Income groups based on *FRS definition - benefit units* : see Appendix 3.

Source: DWP, *Family Resources Survey 2007-08*

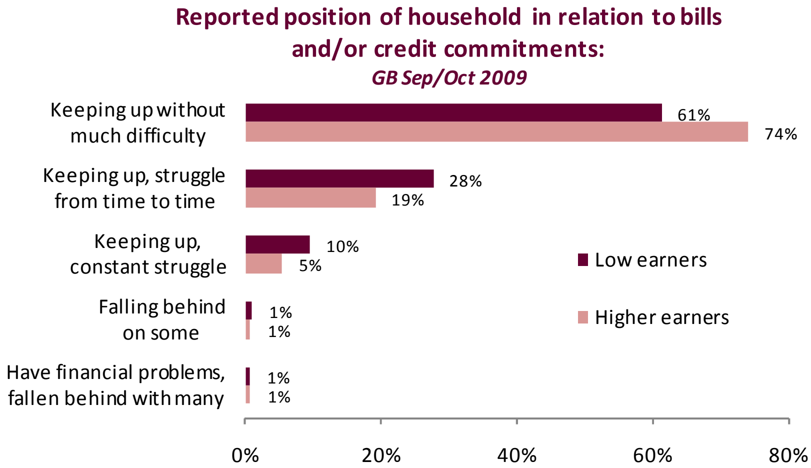


Chart A12: Reported position of household in relation to bills/and or credit commitments: GB 2009

Note: Base = 1,179.
Income groups based on *ONS definition*: see Appendix 3.

Source: Bank of England, 2009 *NMG survey*, Sep/Oct 2009

Among low earner households saying that they faced difficulties with keeping up in late-2009, 28 per cent said that unexpected bills was one cause and 27 per cent cited a lack of cash flow: Table A17 provides the full list of reasons advanced.

Table A18 shows how these reasons compare with those given by low earners in late-2008. Although the same two reasons were most frequently advanced by low earner households, the proportions mentioning them fell year-on-year. By contrast, the proportion of low earner households citing loss of income due to reduced working hours as a factor in their payment difficulties increased from 7 per cent in 2008 to 17 per cent in 2009.

Table A17: Reasons for difficulty in keeping up with bills and credit commitments by income group of household: *GB Sep/Oct 2009*

Proportion menitioning:	Benefit-dependent	Low earners	Higher earners	All households
Unexpected bills	25%	28%	17%	24%
Lack of cash flow	34%	27%	25%	30%
Loss of income through reduction/cessation of overtime	12%	17%	16%	14%
Overspending	10%	14%	21%	14%
Debt legacy from being a student	9%	14%	18%	13%
Credit cards too tempting	1%	5%	7%	3%
Unemployment	15%	3%	4%	9%
Higher than expected interest rates	7%	3%	4%	5%
Illness	3%	3%	1%	3%
Divorce	1%	1%	4%	2%
Had a child	2%	1%	3%	2%
Redundancy	4%	0%	2%	2%
School or university tuition fees	1%	0%	0%	0%
Other specified reason	4%	4%	7%	5%

Notes: Base = 461. Figures do not sum to 100% because respondents can give more than one answer.
Income groups based on *ONS definition* : see Appendix 3.

Source: Bank of England, *2009 NMG survey* , Sep/Oct 2009

Table A18: Reasons for debt problems experienced by low earner households: *GB 2008-2009*

	Sep/Oct 2008		Sep/Oct 2009	
	%	Rank	%	Rank
Unexpected bills	36%	1	28%	1
Lack of cash flow that has/will be resolved	31%	2	27%	2
Loss of income	7%	5	17%	3
Overspending	13%	3	14%	4
Debt legacy from being a student	0%	14	14%	4
Credit cards too tempting	2%	9	5%	6
Unemployment	7%	5	3%	8
Higher than expected interest rates	9%	4	3%	8
Illness	3%	8	3%	10
Divorce	2%	9	1%	11
Had a child	1%	11	1%	11
Redundancy	1%	11	0%	13
School or university tuition fees	1%	11	0%	13
Other specified reason	7%	5	4%	7
Base	*184*		*122*	

Note: Income groups based on *ONS definition* : see Appendix 3.

Source: Bank of England, *NMG survey* , various

When those households surveyed in late-2009 were asked what actions they were considering for dealing with their repayment difficulties in late-2009, low earners were significantly more likely to suggest cutbacks (56 per cent of the group) than any other course. Table A19 shows that the overall pattern of responses among low earners was similar to that displayed in both benefit-dependent and higher earner households. However, the proportion citing cutbacks in the low earner group was higher than in either of the other two groups. Low earners were less likely than higher earners to suggest unsecured borrowing as a solution, but more likely than either benefit-dependent or higher earner households to propose insolvency.

Table A19: Actions considered by those reporting having had difficulty repaying debts by income group of household: *GB Sep/Oct 2009*

	Benefit-dependent	Low earners	Higher earners	All households
Cutbacks	45%	56%	50%	49%
Use cash in savings/other assets	3%	7%	8%	5%
Borrowing unsecured	3%	5%	9%	5%
Sell house	3%	4%	4%	4%
Enter into another debt solution e.g. Debt Management Plan	5%	3%	6%	5%
Insolvency	2%	3%	0%	2%
Borrowing secured	1%	0%	1%	1%
Other	15%	18%	12%	15%
None of these	31%	18%	20%	25%

Notes: Base = 456. Figures do not sum to 100% because respondents can give more than one answer.
Income groups based on *ONS definition* : see Appendix 3.

Source: Bank of England, *2009 NMG survey* , Sep/Oct 2009

Access to credit

As discussed above, the credit crunch has reduced availability of credit across the economy. Table A20 shows that, among low earner households, 21 per cent reported actual or perceived credit constraint in late-2009: 16 per cent suffered from perceived (discouraged from applying for credit) constraint and 10 per cent experienced actual (prevented from borrowing either by the unavailability of credit or its high price) constraint.

The overall constraint figure represents a decline from 27 per cent in 2008, but while the proportion reporting perceived constraint fell, the proportion experiencing actual constraint increased. As shown in Chart A13, this is a reversal of the situation in 2008, when perceived constraint rose year-on-year but actual constraint declined.

Table A20: Credit constraint reported by households by income group of household: *GB Sep/Oct 2009*

	Benefit-dependent	Low earners	Higher earners	All households
Put off spending because concerned would not be able to get credit when needed *(base = 1,193)*	25%	16%	16%	19%
Would like to borrow more but find it too expensive or difficult to do so *(base = 1,206)*	12%	10%	6%	9%
Actual or perceived credit constraint *(base = 1,188)*	30%	21%	19%	24%
Finding it harder than last year to borrow to finance spending *(base = 537)*	53%	36%	34%	42%

Note: Income groups based on *ONS definition* : see Appendix 3.

Source: Bank of England, *2009 NMG survey* , Sep/Oct 2009

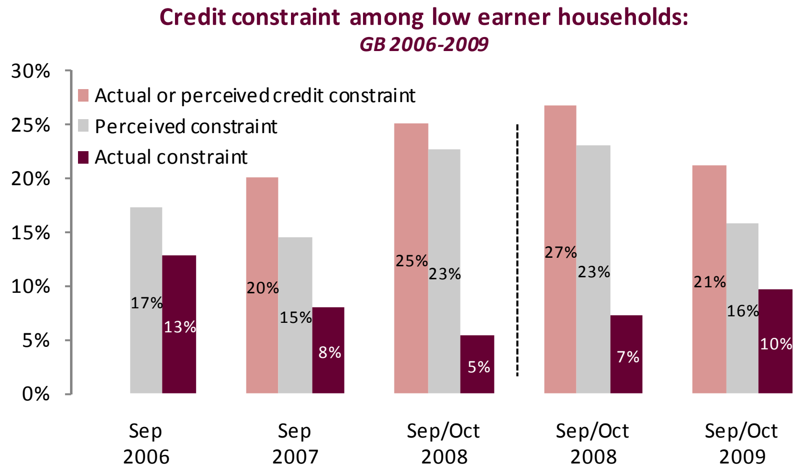


Chart A13: Credit constraint among low earner households: GB 2006-2009

Note: To the right of the line, low earners defined on basis of *ONS definition*. To the left of the line, low earners defined on basis of *unadjusted FRS definition*: see Appendix 3. Therefore, figures not directly comparable over time.

Source: Bank of England, *NMG survey*, various

When asked whether they found it easier or harder to borrow specifically to finance spending in 2009 compared with 2008, 36 per cent of low earner households said that it was harder and 8 per cent that it was easier. Chart A14 shows that the figures were similar to those recorded in 2008, suggesting that rather than simply remaining tight, credit availability has become even more restricted.

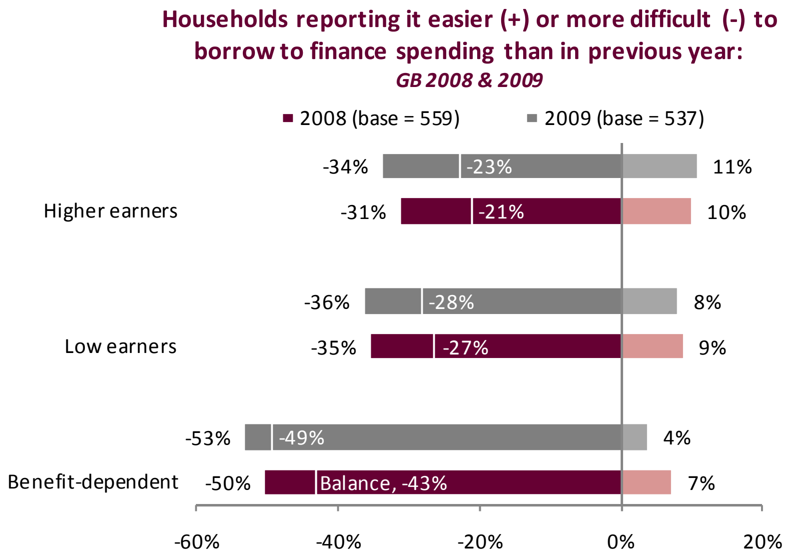


Chart A14: Changes in credit conditions: GB 2008-2009

Note: Income groups based on *ONS definition*: see Appendix 3.

Source: Bank of England, *NMG survey*, various

In both years, the figures for low earner households are similar (though slightly more negative) than those for higher earner households. This suggests that low earners' and higher earners' access to credit have been similarly affected by the credit crunch. However, the implications of finding it harder to borrow to finance spending are likely to be more severe for low earner households, because of their lower levels of savings, lower weekly buffers between incomes and spending and less certain incomes.

Ongoing credit constraint is therefore likely to be pushing some low earners towards non-mainstream, and more expensive, credit products.

Cost of living

Low earners have been disproportionately affected by many of the cost of living increases described above because those goods which have driven much of the overall increase – such as food and fuel – make up a higher proportion of total expenditure in the group than among higher earners. For example, food spending in 2007/08 accounted for 12 per cent of total low earner household disposable income, compared with 8 per cent in the higher earner group.

Similarly, Table A21 shows that in 2008 domestic fuel expenditure accounted for around 6 per cent of total disposable income in low earner households, compared with 3 per cent in the higher earner group.

However, despite being less able to cope with fuel price rises than higher earners, low earner households are unlikely to qualify for any form of financial assistance. Social tariffs provided by energy companies are targeted at the most vulnerable customers – those in fuel poverty, those on benefits and older people. To be considered in fuel poverty, a household must spend at least 10 per cent of its income on domestic fuel. Few low earners households are likely to meet this criterion. However, their nevertheless vulnerable position could be made worse by the fact that the costs associated with social tariffs are likely to be met by energy suppliers' remaining customers.

Table A21: Weekly household expenditure on fuel by income group of household: *UK 2008*[1]

	As proportion of total expenditure			As proportion of disposable household income		
	Benefit-dependent	Low earners	Higher earners	Benefit-dependent	Low earners	Higher earners
Household fuel	7.8%	4.5%	3.7%	9.2%	5.7%	3.2%
Transport fuel	2.7%	4.6%	4.6%	3.2%	5.8%	3.9%
Total	10.5%	9.1%	8.2%	12.5%	11.5%	7.1%

Notes: [1] Based on weighted data and including children's expenditure.
Average expenditure within each income group is derived by dividing gross spending for the appropriate income deciles by the relevant numbers of households. Average disposable household income in each income group is derived by dividing gross disposable income for the appropriate income deciles and dividing by the relevant numbers of households.
Disposable income by decile based on *unadjusted ONS definition* . Expenditure by decile based on unadj*usted FRS definition* : see Appendix 3.

Sources: ONS, *Family Spending: A report on the 2008 Living Costs and Food Survey* , 14 January 2010, Table A.8
ONS, *The effects of taxes and benefits on household income, 2007/08* , 29 July 2009, Table 24

In addition, low earners are less able than members of other income groups to invest in reducing their future domestic fuel consumption. While higher earners are better placed to improve the efficiency of their home from their own funds, benefit-dependent households are more likely to qualify for grants such as Warm Front and Warm Deal which are primarily available to benefit-recipients. A National Audit Office (NAO) review of Warm Front highlighted the lack of focus of this approach, concluding that:

> Applicants are assessed on a 'first come first served' basis, with eligibility based on receipt of benefits used as a proxy for those most likely to be in fuel poverty. Analysis of the English House Condition Survey 2006 indicates that 57 per cent of vulnerable households in fuel

poverty do not claim the relevant benefits to qualify for the Scheme. Yet nearly 75 per cent of households who would qualify were not necessarily in fuel poverty.[17]

Similarly, low earners have been disadvantaged by the rising cost of fuel because of the amounts they spend on transport. In 2008, expenditure on transport fuel accounted for 6 per cent of total low earner household disposable income, more than the figures of 4 per cent among higher earners and 3 per cent in the benefit-dependent group. This latter comparison is likely to reflect low earners' greater reliance on transport for travel to and from work.

These factors taken together mean that members of the low earner group have faced higher personal rates of inflation than higher earners. Chart A15 shows that, in the period 1988-2006, the differences in inflation experienced by low earners and higher earners were relatively small. However, low earners have subsequently faced significantly higher levels of inflation, particularly from the latter half of 2008.

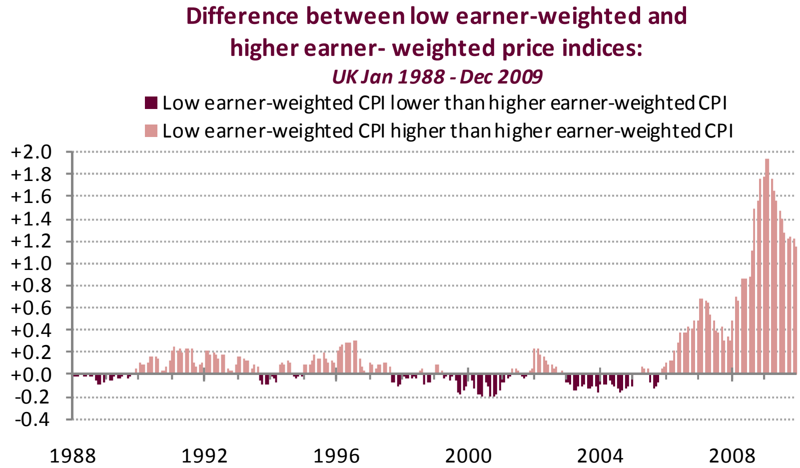


Chart A15: Low earner and higher earner inflation: UK 1998-2009

Note: Low and higher earner CPI weights based on proportion of total expenditure spent on CPI components in 2001-07. Income groups based on *ONS definition*: see Appendix 3.

Sources: ONS Time Series;
ONS, *Family Spending: A report on the 2008 Living Costs and Food Survey*, 14 January 2010 (and earlier), Table A.8

17 NAO, *The Warm Front Scheme*, 4 February 2009