

NEWS RELEASE

For immediate release: WEDNESDAY 11 NOVEMBER 2009

LOW EARNERS PUSHED CLOSER TO CRISIS BY RECESSION

The recession risks driving the UK's 14.3 million low earners¹ closer to crisis as the downturn compounds their already vulnerable position. This is particularly true for the 7.2 million working low earners who will continue to be exposed to job loss long after the recession is technically over.² If low earners are not supported to maintain their position in work or helped back into work quickly they are at risk of falling over the cliff edge and into dependency on the state.

The average low earners household income is £15,800. They are 'too rich' to qualify for state support yet often 'too poor' to access the benefits of private markets. They are left *squeezed* in the mixed economy and are often overlooked by policy makers. A snapshot of their position highlights this – they have:

- very little or no safety net of savings (51% have savings under £1500)
- high loan to value and negative equity is prevalent for the 28% of low earners who have mortgages (over 1 in 8 has LTV of 75-100%, 3.6% are in negative equity compared to 2.4% higher earners)
- high debt commitments (24% spend more than a quarter of their monthly income on debt in 2008 compared to 12% in 2005).

The Resolution Foundation today publishes *Closer to crisis? How low earners are coping in the recession*³, which analyses how current economic circumstances are affecting low earners and considers what more can be done to enable low earners to stay in work, in their homes and to maintain their fragile economic independence as the recession plays out.

We argue that despite a swift response by government, further action is necessary and feasible. Key recommendations include:

- 1. We must keep people as close as possible to the labour market.** We propose that the formal skills assessment be brought forward from 26 weeks to 13 weeks of unemployment and that it should be easier for people to combine real jobs with useful training, for example through allowing training to count in the eligibility criteria for Working Tax Credit. We argue for a change in Jobcentre Plus targets to encourage greater skills participation and a focus on getting people into sustainable employment.
- 2. We must plug gaps in the safety net.** This will require a greater focus on smoothing transitions for low earners. For example, we suggest the introduction of low-cost out-of-court remedies to ensure those low earners who do have to move out of home ownership are not blighted by this decision in the long-term.

- 3. People need help before they miss their first payment** and before they get in to a spiral of debt. High street banks have a greater role to play here in identifying people at risk. In addition, we argue that Money Guidance should be rolled out nationally as soon as possible.

Sue Regan, Chief Executive of the Foundation said:

“Low earners are being hit hard by the recession. This report shows that low earners will continue to lose jobs, homes and get into financial trouble unless further support is available. Without this action, low earners will slide from coping to crisis.”

Clive Cowdery, Chairman of the Resolution Foundation said:

“The impact the recession is having on low earners will continue for the next 12 months and beyond. The Foundation is now examining how to ensure low earners participate fully in the recovery and do not bear the brunt of the coming spending squeeze.”

Many of the effects low earners are feeling now are not simply the product of today’s economic downturn. They are also the result of much longer-term trends towards a stratification of the labour market and a growing gap between those people with assets such as houses and pensions, and those who lack them. The report argues that today’s decisions must not reinforce existing patterns of polarisation that can be traced back long before the recession took hold. Among other things this would require a fundamental review of the nature of in-work support and a renewed focus on wealth inequality and in-work poverty. We argue that actions taken now must be governed by the principles of fairness – to ensure certain groups do not bear the brunt of the downturn – and foresight, to ensure that what is done now does not have unintended consequences for the future.

Further background on low earners:

Where do low earners work?

Low earning employees are likely to be particularly highly concentrated in vulnerable industries:

- 35% of employees within the *wholesale and retail* sector live in low earner households, about 2.4 million people.
- Low earners are less well represented in manufacturing, where just 25% live in low earner households, although this is still around 0.8 million people.
- Just 26% of construction employees live in low earner households, representing 0.6 million people. However, it is likely that a sizeable number of low earners work in this sector on a self-employed basis.
- The nature of the downturn could see the high street experiencing a longer period of decline than other sectors of the economy. People’s attempts to curb spending and credit constraint is likely to ensure that UK consumer spending remains depressed for some time.

What’s the position of a low earner in employment?

Low earners are in a squeezed position in employment - in work but on the bottom rungs of the income ladder, with many barriers which prevent them progressing in the Labour market:

- *Lower levels of skills*; 50% of low earner household members have no qualification above GCSE, compared with 30% of members of high earner households.
- *Lower levels of job security*; low earners are considered more dispensable than high earners that companies will have difficulty replacing.
- *Higher concentration in small- and medium-sized enterprises (SMEs)*; such organisations are likely to be less resilient than larger firms and more likely to face closure during a period of reduced demand.

Why low earners are likely to become long-term unemployed:

Low earners whose jobs are under threat are likely to find it more difficult than high earners to find alternative employment:

- Low earners have lower starting level of skills and qualifications and reduced access to on- and off-the-job training. They are often too lowly skilled to be considered a worthwhile investment by employers, yet too highly skilled to be eligible for Government assistance which focuses on those without the most basic skills.
- Low earners are less likely than high earners to receive sizeable redundancy payments to help soften their fall in income
- Their opportunities are likely to be squeezed by unemployed skilled workers taking jobs at lower salaries as a way of returning to the labour market.

/Ends

Interviews & case studies

- Sue Regan our CEO, Clive Cowdery our Chair and Sophia Parker, director of Policy & Research and author of the report are available for comment or interview.

For further information please contact Cara Brown on 020 7731 9143 / 07957 536758 or Mark Hanson on 07973 697947.

The full report, *Closer to crisis? How low earners are coping in the recession* is available on our website www.resolutionfoundation.org

All the Foundation's research, reports, briefings, seminar notes are also available on our website.

Notes to editor:

1. At its broadest, we define the low earner group as including all those with below-median income (from all sources) who are not dependent on state support. For the purposes of analysis there are a number of different ways of capturing this group and this note uses a variety of methods, depending on the data available in the underlying sources.

- At its simplest, we consider the group to be made up of households in income deciles 3, 4 and 5: that is, with gross annual income between £11,650 and £27,150.
- At its most detailed, we measure the group as including all those households whose equivalised incomes (adjusted for size and composition) fall within income deciles 3-5, unless they obtain more than 20 per cent of their income from income-related benefits, in which case they are considered members of the benefit-dependent group.
- Around 7.2 million households fall into this category in the UK, equivalent to around 14.3 million adults.
- We define two other income groups in relation to low earners: households with above-median incomes (income deciles 6-10) are considered *high earners*, while those with below £11,650 income (deciles 1 and 2) are considered *benefit-dependent*.
- This definition inevitably excludes some low earners (those in income deciles 1 & 2 who are not benefit-dependent and those living in high earner households who are individual low earners) and includes some benefit-dependent individuals. However, it provides a reasonable picture of the position faced by the majority of low earners.

2. ONS figures and low earners

The most recent ONS figures showed that the recession is far from over for low earners with larger declines in overall growth in key low earner industries compared with the previous quarter.

1. There has been a steep drop in output in key low earner industries. *Distribution, hotels & restaurants* decreased by 1% compared with a decrease of 0.4% in the previous quarter. 2.4 million low earners work in these industries.

2. There has been a much smaller decline in white collar industries. Business services and finance decreased 0.1% compared with 0.7% in the previous quarter.

3. Overall since the recession began there has been a bigger hit to the 'real economy' where low earners work. 5.3% in *distribution, hotels & restaurants* and 13% in *construction* (which employs 600,000 low earners and many more self-employed low earners) compared to 4.5% in *business services and finance* since quarter 3, 2008.

3. *Closer to crisis? How low earners are coping in the recession* is published on Wednesday 11 November 2009. The Resolution Foundation has been consulting experts in the areas of work & skills, housing and finance over the summer as well as undertaking in-house research. All the write ups of these seminars are available on our website.

4. The Foundation's work on long-term care includes:

- 'Lost: low earners and the elderly care market', February 2008. An investigation into low earners' experiences and perceptions of the care market, based on a combination of literature reviews and new polling, focus group and interview data.
- 'A to Z: mapping long-term care markets', May 2008. An analysis of the long term care system to produce an holistic "market map", identifying weaknesses in the market which can be modelled to take into account future demographic and policy trends.
- A series of policy development projects using a range of quantitative and qualitative studies, stakeholder workshops and desk research investigating solutions to the weaknesses of the long term care market on Navigating care, Innovation and Efficiency in Long-Term Care, Local Market Shaping, and Funding.
- 'Navigating the way: the future care and well-being of older people', December 2008. A vision and architecture of a future care system, based on the findings from the four policy development projects (above).

5. The Foundation's first project in 2005 was on low earners and their financial health. Discovering an 'advice gap' for 12 million low earners of working age and a further 3 million low earners in retirement, the Foundation developed proposals for a national generic financial advice service. This proposed service was aimed at low earners in the 'advice gap' – people who are not currently attractive to commercial providers of advice, nor receiving support from existing voluntary sector provision. This work fed into the Thoresen Review which recommended in March this year that a Money Guidance service be set up. This is now at Pathfinder stage backed by £12 million from the Treasury and the FSA. Relevant Resolution Foundation reports can be downloaded from the Foundation's website: www.resolutionfoundation.org- A national dividend: The economic impact of financial advice and The advice gain: The impact of generic financial advice on the financial services industry.