

NEWS RELEASE**For immediate use: TUESDAY 21 APRIL 2009****GOVERNMENT MUST ENSURE LOW EARNERS ARE NOT OVERLOOKED IN BUDGET AND BEYOND**

The Resolution Foundation calls on the Chancellor not to overlook the UK's 13.4 million low earners (people who live on annual household incomes of between £12,000 and £27,000) in tomorrow's budget.¹

Many of the Government's existing economic stimulus measures, such as the mortgage support scheme and skills and training investment, are likely to benefit low earners but are not the full answer. Low earners are particularly exposed in the current economic context:

- Low earners work in sectors likely to be hit hard in the recession (such as retail and services) and have lower skills than higher earners, making it more difficult for them to return quickly to work
- Low earners tend to be in poor financial health with high personal debts and low savings

The Chancellor must use tomorrow's budget to provide further support to low earners and ensure they are not the long-term victims of the recession and beyond. As the economy adjusts, the impact of spending cuts on low earners must also be carefully considered.

A poll conducted for the Resolution Foundation earlier this month also found that low earners' situation is deteriorating. 78% of low earners were in bad financial health prior to the recession² and the poll showed that this situation is likely to be worsening with:

- 71% of low earners saying they have stopped managing their finances correctly, making cut backs on paying off credit cards or saving in pensions.
- 40% of low earners saying they were not confident or not sure about their job security.
- 85% of low earners saying they had made cut backs on their household spending such as on heating, food and clothes.

It also found that the confidence of low earners is getting worse with:

- nearly 3 million low earners now worrying 'all the time' about their personal finances. This is double the number in 2007 (the same poll was carried out for the Foundation in 2007).
- In 2007, only 1 in 10 low earners worried 'all the time', compared to nearly 1 in 5 today.
- The poll also found that, today, nearly 90 per cent of low earners worry at least 'sometimes' about their personal finances.³

Sue Regan, CEO of the Resolution Foundation said:

"Low earners are highly exposed and must not be overlooked during the economic adjustment. The Foundation calls on the Government to recognise fully the plight of low

earners and to ensure economic recovery plans fully consider the impact on low earners.”

The Resolution Foundation is launching a new programme of work ‘Through the adjustment’, which is examining the plight of low earners through the recession and beyond, next month.

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All the Foundation’s research, reports, briefings, seminar notes are available on our website www.resolutionfoundation.org

Background - Squeezed: the low earners audit

‘Low earners’ is the term the Foundation uses for the group of people who are ‘too rich’ to qualify for state support yet often ‘too poor’ to access the benefits of private markets. Low earners are ‘squeezed’ in the mixed economy and are a group whose needs, until now, have been overlooked.

The Low Earners’ Audit which was published at the end of March seeks to rectify this by putting low earners’ precarious position under the spotlight. The recession gives further impetus to why their highly vulnerable situation must be understood to prevent them joining the ranks of the long-term unemployed, and becoming reliant on state benefits.

The Low Earners Audit illustrates the critical role that public policy plays in improving the well-being of low earners who are on the threshold of state support. The introduction of tax credits and an increase in investment in public services since 1997 has benefitted the group. Key findings from the Audit:

1. The position of low earners has improved over the last decade:

- Between 1997 and 2007 the income gap between low earners and higher earners closed slightly, after decades of the gap growing.
- For every £1 of tax that low earners contribute they are now receiving more back in benefits and the use of public services.

2. But low earners are still ‘squeezed’ and ‘overlooked’. For example:

- Low earners are ‘squeezed’ out of being able to access financial advice with most third sector services focusing on the poorest or those in high debt, and IFAs focusing on those with higher incomes
- Low earners are ‘overlooked’ and invisible to policy makers. They are not a well-defined group and the pressures they face are not well understood as the 10p tax issue highlighted.

3. This combination leaves low earners more ‘exposed’ than other members of society. For example:

- Low earners are more ‘exposed’ by their vulnerable employment prospects. They rely more heavily on earned income than members of both the benefit-dependent group, who receive most of their income from the state, and members of the high earner group, who have access to accumulated wealth and savings. By contrast, 64% of low earners said they have no safety net if they lose their job.⁴ Low earners are also disadvantaged compared with higher

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earners in a weak labour market because of their lower skills levels and lack of access to training.

4. The future poses further threats for low earners:

- The improvements experienced by low earners' in the last decade are at risk of being reversed during the recession and beyond and some members of the group could take a long time to recover their economic independence.
- Low earners face increasing exposure as future public spending cuts are put in place.
- The effect of public policy on low earners through the economic adjustment has to be recognised and understood to prevent low earners being squeezed further.

The Foundations' two development projects focus on areas where low earners are exposed and overlooked:

- **Long-term care:** older low earners are typically income-poor and asset-rich. Therefore, while the majority are disqualified from state support due to the value of their assets, they find it difficult to pay for care privately or release the funds they need from their housing wealth.
- **Financial advice:** the financial services industry typically packages up advice with product sales or offers it at commercial rates via independent advisers, while government or third sector schemes are aimed at socially excluded and the most vulnerable groups in society. Low earners' advice needs are therefore largely unmet.

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.
 - Around 7.6 million households fall into this category in the UK, equivalent to around 13.4 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. Analysis of the BHPS and FSA baseline survey in *Squeezed: The Low Earners' Audit*
 3. The YouGov Poll was carried out from the 20-23 March 2009 with a sample size of 2,049. To ascertain the low earner statistics we use the income brackets of gross annual income in a household between £13,000 - £23,999. This does exclude some low earners but does include the core of our group. Higher earners are those in the top two income brackets earning between £32,000 and over a year. Another key stat from the poll:
 - Two-thirds or 60% of low earners are not confident or not sure that they have the skills and training to get another job quickly
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In 2007 8% of low earners polled said that they worried about their personal finances 'all the time' compared to 20% today. The 2007 poll was also carried out by YouGov. The sample size for the survey was 2,010 adults. Fieldwork was undertaken from 25-27 July 2007. The survey was carried out online. The results have been weighted and are representative of all GB adults (aged 18+).

19% of Low Earners polled said that they worried 'all the time' about their personal finances. The YouGov Poll was carried out from the 20-23 March 2009 with a sample size of 2,049. To ascertain the low earner statistics we use the income brackets of gross annual income in a household between £13,000 - £23,999. This does exclude some low earners but does include the core of our group. Higher earners are those in the top two income brackets earning between £32,000 and over a year.

86% of Low Earners polled said that they worried, 'all the time', 'often' or 'sometimes' about their personal finances.

4. The Audit was published at the Foundation's Annual Conference, 31 March 2009, in Westminster. Hard copies of the executive summary are available and the full report is on the website as a pdf.
5. 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).
 - Research updates will be given at the Conference working towards improvements that can be made imminently.
6. 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.