

NEWS RELEASE

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New reports show toll taken on low earning, hard-working households by the recession

- *Low earners hit harder than welfare dependents or higher earners*
- *£1.9billion of unsecured debt in 3.6m of the most economically fragile households*

Two new reports by the low earners think tank, The Resolution Foundation, will today show that low earners¹ have struggled more in the recession because of their exposed and overlooked position compared to both benefit dependent groups and higher earners. This leaves them more susceptible to falling into the benefit-dependent group in the spending squeeze to come.

The reports show that low earners have:

- 1. Been more likely to have experienced a drop in income than other groups** - this was most pronounced amongst the 25-34 age group where 66% reported a fall in income compared to 50% in the benefit dependent group and 33% amongst the higher earning group
- 2. seen a reduction in hours** - the proportion of low earners citing a loss of income due to reduced working hours as a factor in difficulty meeting payments doubled from 2008 (rose from 3% in 2008 to 7% in 2009). **Underemployment** is as much of a problem as unemployment for low earners
- 3. experienced higher levels of personal inflation than higher earners** - 41% of their income is spent on essential items (food, fuel, which have been the biggest drivers if price increases in recent years) versus only 27% among higher earners

The Resolution Foundation's reports *the Low earners audit update* and *Behind the Balance Sheet* published today highlight the vulnerable position low earners find themselves in but also the often skilful way they manage their money. Some low income households bridge the shortfall in their incomes by shopping around on the high street to always find the best deal, growing their own vegetables, bargaining at car boot sales, selling things on e-bay and through social networks of childcare arrangements etc.

The Resolution Foundation works to improve outcomes for low earners who are largely independent of state support yet often struggle to remain economically independent on relatively low incomes. There are 9.4 million low earners of working age - living on an average household wage of £15,800. Low earners are not the

poorest in society and are not in crisis - although many of them live close to the cliff edge, spending all their monthly income, leaving no room for savings or safety nets. Many of them were already in a fragile economic position prior to the recession and our findings point to their vulnerability now and in a future spending squeeze:

- 1.7 million low earners were in acute financial health prior to the recession²
- Low earners have little or no safety net - over half of low earners have less than a month's salary in savings
- Low earners are more glum than any other group about their personal economic fortunes, with their expectations falling almost 20 per cent since 2001

Behind the balance sheet offers a fuller and more accurate understanding of how low income households juggle their limited incomes and expenditure, and what factors drive their financial decisions. We found:

- Financial health is a complex juggling act for low earners
- small changes in income and circumstances can be deeply destabilising
- there is no such thing as a purely economic decision – low earners rely on a whole range of hidden assets or have hidden liabilities

Sophia Parker, Acting Director of the Resolution Foundation said:

“Too often it is assumed low income households find themselves struggling because of poor money management, bad character or over consumption. However, our research shows that low income households may in fact be better money managers than other income groups more adept at making less go further. We need the Government, financial services and third sector to recognise how hard many low income families work to stay financially independent and do more to prevent them from being squeezed in the mixed economy.”

“What is more, low earners make up nearly a third of the electorate – our polling shows that they are however less likely to vote than the general population and more likely to vote for a minority party. Politicians need to be talking to their needs if they want to secure their votes at the general election.”

Matthew Whittaker, Senior Economist at the Resolution Foundation said:

“Low earners can and must be enabled to help themselves live in a more economically sustainable position. The low earner group is fluid and diverse and anyone is susceptible to falling into it. We know from our statistical research that some low earners are in crisis, but the vast majority just live in an exposed state. We must enable low earners to remain financially independent in the spending squeeze to come and also facilitate them to start planning for the future. Too many low earners live day to day without adequate pension provision or safety nets for a rainy day.”

The Foundation concludes that there are three key areas that need further work and attention to help low earners remain financially independent:

1. *Building resilience* - renewed focus on low income households to help them become more financially stable now and in the future

2. *Building a system that works* - better alignment, tax, credits and benefits – need to reflect the reality of people’s lives in terms of responsiveness and complexity
3. *Building financial capability* – contrary to expectation low earners are often very good money managers but need help with better long-term financial planning through the roll out of a national money guidance service imminently

Some further stats

- £1.9bn unsecured low earner household debt
- 32% low earners have secured debt (average £89,000), 53% unsecured (average £5,200)
- 38% of low earners struggle to keep up with bills and credit commitments (28% from time to time, 10% constantly)
- 40% LEs not saving for a pension
- the number of low earner households saying that they have difficulty keeping up with bills because of a fall in income associated with a reduction in working hours has more than doubled, from 220,000 in 2008 (3 per cent of the total) to 470,000 (7 per cent of the total).

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Sophia Parker and Matthew Whittaker, the report’s authors, are available for further comment or interviews.

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

Notes to editor:

1. 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 equivalised¹ 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.² We define two other income groups in relation to low earners: households with above-median equivalised incomes (income deciles 6-10) are considered *higher earners*, while those with below £13,500 income (deciles 1 and 2) are considered *benefit-dependent*.
2. Compared to 3.6 million (26%) with chronic financial health and 5.5 million (39%) with mild financial health problems.
3. 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.

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).
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