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## **NEWS RELEASE**

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### **LOW EARNERS EXPOSED IN RECESSION & RECOVERY**

The Resolution Foundation today launches a new programme of work to raise the profile of the UK's 13.4 million 'low earners'<sup>1</sup> and to address their plight in the recession and recovery.

Low earners are an invisible group of people living on less than average incomes but independent of state support. Low earners face significant challenges during the recession and recovery period. They are:

- squeezed in the mixed economy – often too poor to access the full benefits of private markets, yet receiving little state support
- an overlooked group – they include the working poor but also a large number of people above this who struggle to live month-by-month on their earned incomes
- vulnerable to loss of work and with few or no savings - low earners are highly exposed in the recession and at risk of paying the price when public spending is constrained.

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.

#### **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 highly exposed:**

- Low earners are 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.<sup>2</sup> Low earners are also disadvantaged compared with higher earners in a weak labour market because of their lower skills levels and lack of access to training.
- Low earners are also exposed as public spending is constrained in the future. The effect of public policy on low earners has to be recognised and understood to prevent low earners bearing the cost of the economic adjustment.

### 3. Low earners remain ‘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 commercial advisers 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.

The Foundation’s new work programme *Low earners through recession and recovery* will seek to raise low earners’ profile so that the increased challenges they face are understood during a period of very difficult policy choices.

#### **Clive Cowdery, Chair of the Resolution Foundation, said:**

*“The recovery period presents particular risks for low earners as public spending is constrained. All parties must consider how to prevent low earners bearing the brunt of the adjustment pain.”*

#### ***/Ends***

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All the Foundation’s research, reports, briefings, seminar notes are available on our website [www.resolutionfoundation.org](http://www.resolutionfoundation.org)

#### **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. The launch of the new programme of work *Low earners through recession and recovery* was held at a breakfast seminar at the Commonwealth Club on Tuesday 30<sup>th</sup> June. David Freud, Shadow Minister for Welfare Reform was chair.
3. The Resolution Foundation has been working on a project-by-project basis to improve outcomes for low earners since 2005. The first Audit was published in March to

demonstrate their vulnerable position in this recession and to ensure that their needs are articulated and recognised.

The Foundation's 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. 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 a "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).

**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.

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](http://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.