

## **NEWS RELEASE**

**For immediate use: 9 FEBRUARY 2010**

### **Response to the Joseph Rowntree Foundation's reports**

The Resolution Foundation today welcomes the Joseph Rowntree Foundation's reports on cycles of poverty, unemployment and low pay.

The Resolution Foundation works to improve outcomes for low earners: those just above the poverty line yet struggling on low incomes and vulnerable to falling into poverty.

The Foundation echoes many of the findings by JRF such as work cannot offer a sustainable route out of poverty if job security, low pay and lack of progression are not also addressed.

In *Closer to Crisis*, and *Behind the Balance Sheet: low earners' financial health* (due to be published next month), the Foundation has found the cycle between low-pay and no-pay one which is hard to escape.

**Sophia Parker, Acting Director of the Resolution Foundation said:**

"The Joseph Rowntree Foundation's reports are an invaluable contribution to the debate on the relationship between low paid work and poverty. Our research similarly found that low earners in work struggle with uncertain employment conditions and lack access to skills and training to progress. This often leaves them exposed in economic downturns and unable to break the cycle of low-pay, no-pay."

"The Foundation would like to see more focus on transitional points between work and periods of unemployment so that more low earners are enabled to stay in work or training and maintain their fragile economic independence. This is particularly relevant given the public spending squeeze ahead which they must not bear the brunt of."

***Behind the Balance Sheet: low earners' financial health*** will be published in March.

***Low earners***

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).

***Closer to crisis? How low earners are coping in the recession***<sup>3</sup>, analysed 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 argued 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.

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.

***/Ends***

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Sophia Parker is available for further comment or interviews.

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

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**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. *Closer to crisis? How low earners are coping in the recession* was 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.