

The Resolution Foundation breakfast launch:  
*Low earners through recession and recovery*  
 30 June 2009

**Attendees**

John	Andrews	Low Incomes Tax Reform Group
Helen	Aynsley	Resolution Foundation
Kay	Boycott	Shelter
Cara	Brown	Resolution Foundation
Anna	Burgess	Consumer Credit Counselling Service
Stephen	Burke	Counsel & Care
Adam	Clark	Transact
Sam	Cook	Equality and Human Rights Commission
Katy	Cornish	Low Pay Commission
Clive	Cowdery	Resolution Foundation
Chris	Curry	Pensions Policy Institute
Alison	Davies	Net Credit Union Development Agency
Jayne	Desmond	Resolution Foundation
Patrick	Diamond	10 Downing Street
Paul	Dornan	Child Poverty Action Group
Jessie	Evans	Low Pay Commission
Jamie	Ewing	Chartered Institute of Housing
David	Freud	Shadow Minister for Welfare Reform
Damon	Gibbons	Centre for Economic & Social Inclusion
Baroness	Greengross	House of Lords
Cath	Hamp	Department for Work and Pensions
Mark	Hanson	Independent Consultant
Guy	Mason	Asda
Nick	Hurman	Resolution Foundation
Athina	Ioannidis	Resolution Foundation
Carole	King	Provident Financial
Nick	Kirwan	Association of British Insurers
John	Lawrence	Cabinet Office
Mark	Lyonette	Association of British Credit Unions
Will	McDonald	Department of Work and Pensions
Shareen	Meehan	Resolution Foundation
Bernie	Morgan	Community Development Finance Association
Patrick	Nolan	Reform

Brigid	Shea	Working Links
Sophia	Parker	Resolution Foundation
Anne	Power	London School of Economics
Faisal	Rahman	Fair Finance
Richard	Reeves	Demos
Sue	Regan	Resolution Foundation
James	Sassoon	Independent Consultant
Lee	Savage	Resolution Foundation
Paul	Sellers	Trades Union Congress
Andrew	Selous MP	House of Commons
Nicola	Smith	Trades Union Congress
Doug	Taylor	Which?
Liz	Thorne	End Child Poverty
Catherine	Webb	HM Treasury
Matthew	Wells	A4E
Sam	White	HM Treasury
Alan	Whitehead MP	House of Commons
Matthew	Whittaker	Resolution Foundation

## Welcome and introduction

David Freud, chair for the seminar, welcomed the audience and thanked everyone for attending. He introduced the panel and described the structure of the event:

- Clive Cowdery, Chairman of the Resolution Foundation, would provide an overview
- Matthew Whittaker, Senior Economist of the Foundation would present *Squeezed; the low earners audit*
- Sue Regan, Chief Executive of the Foundation, would talk about the new work programme at the Foundation, *Low earners through recession & recovery*.

There would then be a discussion with the audience and the panel.

David Freud began by emphasising the importance of the Foundation's work. He commented on the fluid dividing line between being in work and being reliant on benefits. He highlighted the vulnerable position of low earners, with the group facing an increased chance of being forced into state dependency during the recession. He stressed the importance of recognising this fluidity and how systems of support need to straddle those who are state dependent and low earners.

## **Low earners and the Resolution Foundation – Clive Cowdery**

The full presentation is available online.

Clive reiterated David's point about the fluidity of the position between those who are state dependent and low earners. He explained this was why the Foundation was set up - to examine and champion the needs of low earners who are *squeezed* between reliance on the state and being able to operate confidently in the mixed economy. For example, it is assumed that because low earners are not on benefits they can easily access private solutions, but this is often beyond their financial means. Low earners are also *exposed*: they are vulnerable to falling back into state dependency even when the economy is stable - the risk of this has obviously heightened in the current recession. Low earners make up a significant part of the population - 13.4 million people (17.7 million including children). Many low earners' needs have gone unmet by public policy as governments have tended to address the polarities of those poorer and those better off.

Clive recapped on the Foundation's earlier work on money guidance, which will come to fruition through the national roll out of the MoneyMadeClear service in 2010, and the current work on long term care, which aims to improve outcomes for low earners at a life stage of heightened vulnerability. He concluded by introducing the new project, where the Foundation will focus on low earners and how they fare in the current recession and future recovery.

### ***Squeezed: the low earners audit* – Matthew Whittaker**

Matthew explained that the new programme of work will build on the recently published low earners audit.

Matthew said the aim of the audit was to build on the Foundation's existing knowledge of low earners in specific policy areas to provide a fuller picture of their position in the mixed economy.

Matthew defined low earners as those who earn below median income but are not dependent on state support. Based on the broadest interpretation of this definition, there are 7.6 million low earner households in the UK, covering 13.4 million adults and 4.3 million children. Among low earner household heads, 60 per cent are in social classes C1 and C2. Matthew highlighted that not all low earners are affected by all of the issues raised by the audit: different areas of public policy affect different subgroups.

## *Financial Health*

One of the main challenges that low earners face is coping with challenges to their financial health. Matthew described the four states – *healthy, mild, chronic* and *acute* - that low earners can be in with regards to financial health. He highlighted that a significant number were in a precarious position even before the economic downturn, with 12 per cent of low earners in an acute state. As they are often wholly reliant on their monthly income, low earners are often highly stressed about debt and mortgage payments and the impact that a drop in income would have. Their poor financial condition has been exacerbated by a lack of access to financial advice.

Matthew then highlighted the key characteristics of low earners' financial health:

- **Expenditure:** Data shows that low earners frequently live at the edge of their means: spending almost 100 per cent of their monthly income (a slightly higher proportion than among the benefit dependent group and a significantly higher proportion than higher earners). They also face higher levels of personal inflation than higher earners, because they spend a higher proportion of their money on essential goods and services such as food and fuel, which experienced significant price rises in 2007 and 2008.
- **Savings:** Because they live at the edge of their means, low earners have limited saving power. Data shows that almost one third of low earnings have no savings at all.
- **Debt repayment:** Prior to the credit crunch low earners had easy access to credit but were then left with proportionately high repayment charges – 24 per cent of low earner households spend over a quarter of their monthly income on debt repayments.

Matthew made reference to the Foundation's recent low earner workshop and highlighted the financial health challenges faced by one member of the group. Changes in this individual's personal circumstances had reduced his income without altering his spending needs. Despite taking on a second job, he was struggling to make ends meet and was therefore seeking a third.

## *Jobs and skills*

Matthew explained that low earner households are particularly squeezed in work. Their lack of a financial safety net means they are reliant on their monthly wage and the decreased likelihood of receiving a substantial redundancy payment makes them even more vulnerable when faced with unemployment. A significant number of low earners are concentrated in small and medium sized businesses or in self-employment, providing them with less protection from the consequences of recession. They also face

an increased likelihood of job loss given their concentration in the service industry which is likely to suffer from a prolonged period of reduced consumer demand.

While some media reports highlight the social benefits some employees have been able to gain from the implementation of reduced hours or enforced leave, low earners lack the financial freedom to enjoy such action. Some low earners complain that instead of taking advantage of flexible working, they are forced to work flexibly for the benefit of their employer.

The other key issue with regards to work and skills is the low levels of training low earners have and the limited opportunity they have to change this. Fifty per cent of low earners have no qualification past GCSE or O-level. Employers in larger organisations tend to train those who are already at a higher skill level, as they expect the rate of return on their investment to be higher. At the same time, however, low earners are often restricted in terms of access and funding for up-skilling or re-skilling because government schemes focus on the young and on those lacking the most basic skills.

Matthew then went through a second case study from the low earners workshop, describing the life of a low earner who was particularly struck by employment problems including recent job loss and no access to skills training. He concluded by noting that this low earner had in fact fallen out of the low earner category and become benefit-dependent; a position that, at age 56, she appeared unlikely to be able to change.

### *Housing*

The final component from the audit that Matthew discussed was housing. He explained that there exists a generational split within the issue, whereby young low earners tend to be in a rather different position to older low earners.

Older low earners are more likely to own their home outright and therefore be in a relatively secure position. By contrast, younger low earners have experienced greater difficulty entering the housing market. For some, homeownership has become unaffordable; for others it has only been possible by taking out high loan-to-value mortgages at high multiples of their income. At the same time, low earners' access to social housing has become increasingly restricted, meaning that they have little option but to rent privately.

The recession and the bursting of the housing bubble have created problems for many low earners. For example, those who have stretched themselves to buy property in recent years are more likely than benefit-dependent and high earner mortgagors to be in negative equity. At the same time, house prices have not fallen sufficiently for some low earners to buy property, particularly at a time of restricted credit. Low earners are less able than high earners to save a sizeable deposit and they are also less likely to be

able to get support from family members. Those who rent privately face issues such as the prospect of eviction as buy-to-let landlords struggle to maintain their portfolios.

With a final illustration from the workshop, Matthew described the situation of another individual whose housing needs were unmet. This low earner only began to rent privately when she was able to combine her income with a partner's; previously she was priced out of the private rental market but with grown up children she was not a priority for social housing. She was unhappy with her existing accommodation but was unable to move. She also felt at risk of eviction should her landlord decide to sell.

### *Public Policy*

Matthew explained that low earners in today's economy are poorer relative to other groups since 1977. Though there are examples of public policy developments that have helped low earners (such as tax credits and the introduction of the national minimum wage), the concern remains that unless this group is recognised more overtly in policy, the fiscal contraction due from 2010 will squeeze low earners still tighter.

Matthew went on to detail the position of low earners relative to other groups. Average low earner household final income (income adjusted for direct and indirect tax and for cash and non-cash benefits) fell in the period from 1977 relative to both benefit-dependent and high earner households. Since 1997 there have been small improvements with low earners receiving more back in benefits and the use of public services due to increased public spending and the introduction of tax credits. However, with impending fiscal constraint low earners are vulnerable to these gains being reversed.

### *Voting*

Though data on low earners and voting was not in the audit, due to the external climate Matthew offered a few insights on the issue. In the period since 1997, low earner support for the Labour Party appeared to improve initially relative to the overall population, before dropping to a significantly lower relative level in recent months. Low earners also appear to have become more frustrated with mainstream politics than members of the general population: they are more likely to vote for minority parties (such as UKIP) than other voters and more likely not to vote.

### *Conclusion*

Matthew recapitulated on the squeezed, exposed and overlooked position of low earners. He explained their heightened vulnerability in times of recession, and how they are less likely to return rapidly to employment. He concluded by informing the audience

that the audit would be updated quarterly, so the position of low earners would be monitored and tracked over time.

### **Low earners through recession and recovery – Sue Regan**

Sue set out the objectives of the project. These are a) to increase the visibility of low earners, addressing the fact they are overlooked, b) provide protection for low earners via policy measures and c) to prevent low earners from bearing the brunt of the economic adjustment.

Sue then detailed the structure of the project. She outlined stream one, which aims to highlight the needs of low earners during the recession and will include quarterly updates of the audit and qualitative work. There will be three elements to stream one - work and skills, housing and household finances. For each element, the Foundation will analyse the key problems, examine current policy and suggest ways forward based on the findings.

Stream two, which aims to prevent low earners from bearing the brunt of the recession, will explore the UK's fiscal balance and the Government's public spending choices. The stream will further the debate about what is feasible, and how quickly UK plc can balance its books. Stream two's methodology includes examining the budgets of key spending departments and exploring the distributional impact of the fiscal contraction. To conclude, Sue explained that the work is currently at the evidence building stage and the Foundation is exploring possible partners to work with.

### **Question and Answer Session**

A number of comments and questions were taken from the audience in response to the three speeches presented by Clive Cowdery, Matthew Whittaker and Sue Regan.

- The link between financial health and physical health was raised. It was asked whether the direction of causality was known and what could be done to address the problem.

Though the Foundation has no specific plans to work on the issue exclusively, the current long term care project does add a health-based dimension to the work, looking at those who do not receive sufficient amounts of care and how this deficiency could be alleviated.

- It was asked whether the Foundation had explored the links between family breakdowns and financial health. The question about direction of causality between the two was again asked, as well as what the effects might be in relation to related issues such as housing.

The panel responded by noting that the audit and the streams of work are still at the evidence building stage, but that issues such as this fell outside the remit and scope of the work. However, there may be some areas around housing and gender that the Foundation may be able to explore.

- The point was raised regarding the sensitivity of the group to interest rates and lending policies, and how the Financial Services needed to play a greater role in mitigating these.
- It was asked whether the panel thought the Government should instruct lenders to provide more access for low earners.

The panel responded by drawing attention to Clive Cowdery's letter to the Chancellor on the issue of the recapitalisation of the banks, which called for a social clause in the bank bail outs.

The panel agreed access to financial services is an important element of the Foundation's work. Customers should have help navigating their way through financial services to improve their financial health, especially when financial companies can often benefit from people's lack of awareness and inertia in terms of rates and charges.

- The importance of private sector competition in low earner markets to reduce commodity and transactional costs was brought up.

A key component of the Foundation's work lies in understanding the economic context that low earners operate within as they navigate the mixed economy. The successful operation of private markets is therefore crucial to the Foundation's work.

- The panel was asked for its thoughts on intergenerational issues within work, particularly in relation to longer working and youth unemployment.

It was agreed that the issue of youth unemployment is important as it can have significant negative effects on the economy and on future job prospects. However, the panel pointed out that youth unemployment is already an area of significant policy focus and that the Foundation may therefore concentrate instead on the needs of older members of the workforce.

- The issue of tax policies – the complexity and potential for redistribution – was raised. The role of tax credits was also linked to this and how they affected low earners.

The panel agreed that debates around tax and tax policy are highly relevant to the Foundation's work and have significant effects on low earners. There is potential to look into this field through the project.

- A question about the tone of the audit and the presentation was raised, and the position of low earners relative to other groups.

Due to the fact that the term "low earners" encompasses a large number of people and a diverse range, tonality and representation is a complex issue. Work to help low earners would not conflict with poverty goals.

### **Close – Clive Cowdery**

Clive summarised the issues raised, such as the vulnerability of low earners in the current economic climate and how the Foundation's work aims to address these challenges. He thanked the attendees for their time and helpful comments during the discussion section.