Resolution Foundation

Squeezed Britain

The annual audit of low-to-middle income households

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Charts & tables

1. An introduction to Squeezed Britain

There are 10.1 million working-age adults with low-to-middle incomes in the UK, living in 5.8 million households. These households are primarily working, and therefore largely independent of means-tested state support. They are located in deciles 2-5 of the working-age income distribution.

1.1. The faltering living standards of low-to-middle income Britain

The UK has come through a deep recession and is in the middle of a long and slow recovery. Prices have been rising more quickly than earnings since the start of 2010 and are projected to continue to do so into 2013. But, while a return to sustainable growth is quite rightly the policy priority at the moment, it is becoming increasingly clear that growth alone is not sufficient. Evidence from recent decades suggests that living standards were faltering for millions of households long before the start of the downturn in 2008.

The causes of this squeeze are many and varied, as are the implications. In 2011, the Resolution Foundation launched the Commission on Living Standards which will publish its final report later this year. The Commission is an independent and wide ranging investigation into the pressures facing people on low-to-middle incomes (LMIs) in modern Britain. Its work is focused on the long-term economic trends that are transforming the reality of life for members of the group, from changes in the jobs market and tax-benefit system, to new pressures from the cost of living and modern working patterns.

Low-to-middle income households are typically in work and largely independent of state support

Alongside this work, the Foundation continues to focus on the more immediate challenges faced by LMI households. Such households are typically in work and largely independent of state support. They are rarely in crisis; but can more accurately be described as being squeezed, exposed and overlooked. *Squeezed* because they face limited options: too poor, for example, to easily access home ownership, but not considered priorities for social housing. *Exposed* because they live towards the edge of their means: unable to build up sufficient savings to maintain their lifestyles in the face of a drop in income. *Overlooked* because their needs are not adequately understood: considered to be 'doing fine', despite enjoying a fragile economic independence.

Can be considered squeezed, exposed and overlooked

Our annual *Audit* provides a snapshot of the group. In this report, original analyses of a number of large-scale surveys are supplemented with qualitative research and literature reviews to produce a detailed consideration of the condition and experiences of LMIs across the themes of incomes, work, budgets and housing.

1.2. Navigating the *Audit*

The annual *Audit* is designed to be a reference for a large number of LMI facts and figures. The pamphlet version of the report (available on the Resolution Foundation website and in hard copy) provides a summary of the key data, while this full version contains a wealth of additional and more detailed information.

In this chapter and the next we provide background for the remainder of the report. **Chapter 1** sets out details of **how we define the LMI group**, and should be of most interest to researchers who wish to understand more about our methodology. We also present some **top level data for 2009-10**, in order to paint a clearer picture of the profile of the LMI group.

Chapter 2 provides **historical context** by exploring how earnings and income distributions have changed over the past 30 years, highlighting a **decline for the LMI group that has shifted from the *relative* to the *absolute***. We also look briefly at trends in a range of economic indicators over a similar period, with particular attention on the performance of the economy in recent years and projections for the next few.

Building on this background, Chapters 3-5 set out details of LMI experiences across three themes. **Chapter 3** looks at **work and skills**. It sets out the **sectors** in which LMIs work, and at what **occupational level**, highlighting the vulnerability of the group to economic downturns.

Chapter 4 analyses **household finances**. It sets LMI incomes alongside their spending patterns and debt and savings profiles, making clear their **stretched circumstances** and **exposure to increases in the cost of living**.

Chapter 5 considers **housing**. It looks at the **satisfaction** of LMIs with their housing experience and analyses changes in the tenure mix of the group, in particular the **shift from home ownership to private renting**. It delves into the **sustainability** of owning among those already on the ladder, and asks **whether home ownership remains the ultimate goal** for those not in this position.

While the report is therefore largely backward looking, **Chapter 6** points to some **future challenges** by detailing **projections for LMI earnings and incomes** during the long economic recovery and beyond. It considers two scenarios once steady growth returns: one in which LMI earnings and incomes rise alongside GDP (as they did in the 1990s) and one in which they stagnate (as occurred in the 2000s).

Finally, **Chapter 7** looks more closely at the **technical LMI definitions** associated with the various sources used in the *Audit*. It also presents findings from a **longitudinal study** that identifies **which LMI households are 'stuck' in the group over time** and which pass through it.

1.3. The LMI definition

Moving from the conceptual definition of LMIs set out above to one that allows statistical analysis is not without its difficulties, and our ultimate definition is unavoidably imperfect. In addition, because our statistical analysis is based on large-scale survey data,[1] we are only able to report on the group with a time-lag. We have attempted, however, to adopt an approach that ensures that we get as close as possible to capturing the experiences of largely independent working-age households living on low-to-middle incomes.

The analysis in the *Audit* focuses on LMI *households*. We do this in an effort to remove the distortions associated with capturing a large number of students and non-working members of high income families when adopting an individual approach. The cost of this is that, in relation to households in which income and expenditure is not equally shared, we are likely to miss some individuals who fit the LMI profile. However, in making the assumption that income is usually shared, we are consistent with the approach used by the DWP in its *Households Below Average Income* study.

A three-stage process

The precise definition of the group varies from source to source but, as far as possible, we aim to follow the same three-stage process, whereby we filter on the basis of age, income and benefit receipt.

Age

Focus on working-age households

We first remove retired households from the overall population. The reduced earnings faced by most people at retirement means that many of those considered LMIs during their working lives will fall into the benefit-reliant group in retirement, while some with higher incomes will drop into the LMI group. However, because such households are also likely to face reduced spending commitments, the pressures they face should be less intense than those experienced by working-age households in corresponding income bands. More generally, the issues faced by households at retirement are substantively different in policy terms and are therefore not considered in this report.

Income

In income deciles 2-5

Among the remaining population of working-age households, we *equivalise* gross incomes to weight for differing household sizes and compositions.[2] This matters because LMIs are in part defined by the fact that their living standards are squeezed and, for any given level of income, a household of five adults is likely to achieve a lower standard of living than a single-person household. The equivalisation process takes account of such differences by inflating the incomes of smaller households and deflating the incomes of larger ones.

[1] Details in Chapter 7.

[2] That is, we apply a weight to every household's income to reflect the number of people living there.

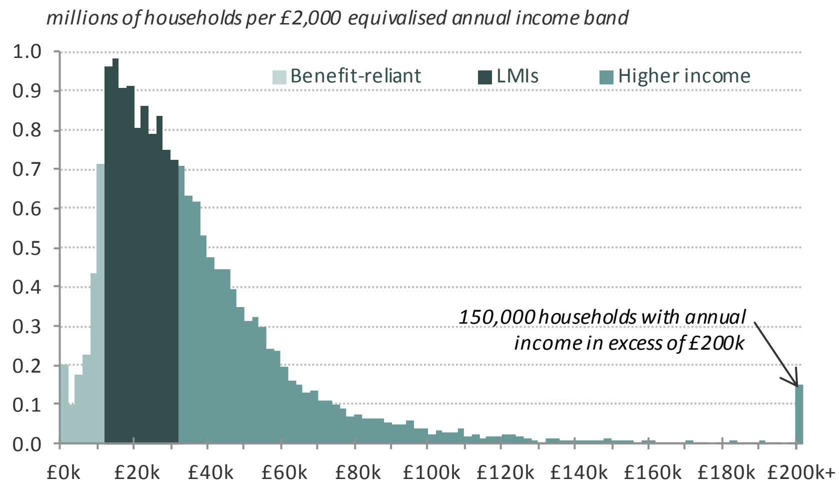
Incomes before housing costs (BHC) are used. While an after housing costs (AHC) approach might better capture the living standards of those households that pay more for housing than is warranted by the quality of their accommodation (some households in London for example), it would also understate the living standards of those living in property of a higher quality than is suggested by their costs. In addition, the BHC approach is consistent with the government's child poverty target and allows better read across of the LMI group to other surveys in which housing costs are not captured.

We next rank the working-age households on the basis of their equivalised incomes and separate them into ten equally sized deciles (where decile 1 has the lowest income). Given that we are concerned with those on low-to-middle incomes, we use median income – the boundary between deciles 5 and 6 – as the upper threshold of the group. At the lower end we create a threshold at the boundary between deciles 1 and 2 – that is, we exclude the 10 per cent of households at the bottom of the distribution. We do this in part because it represents the approximate level of earnings associated with working full-time at the minimum wage, and in part because decile 1 often produces unusual results due to the large number of households within it that have temporarily low incomes or incomes that come neither from employment nor the state.

Household income range £12,000 - £29,000

Therefore, at this stage, the LMI group comprises all of those working-age households with equivalised gross incomes in deciles 2-5 of the income distribution (£12,000 - £29,000 for a couple with no children). For simplicity, we refer to those households with above median incomes as *higher income*, while those households with the lowest incomes are classified as being *benefit-reliant*. Figure 1.1 shows the relative position of the LMI group after stage two.

Figure 1.1: Position of low-to-middle income households in working-age income distribution: *UK 2009-10*



Note: Income groups based on first two stages of FRS definition: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Benefit receipt

And less than one-fifth of income from means-tested benefits

Our third stage filters out all those households that receive more than one-fifth of their household income from income-related benefits,[3] moving them to the benefit-reliant group. The specification of *income-related* means those in receipt of universal benefits such as Child Benefit are not excluded from the group. We omit tax credit receipts from our calculation of income-related benefits because these payments were designed specifically for LMI households, meaning that it would be counterintuitive to exclude households from the group on the basis of their receipt.

Where relevant data sources do not provide sufficient detail to undertake this three-stage process, we adopt simpler approaches. For example, in some instances we are unable to identify the sources of households' incomes and therefore cannot apply the third filter described above. Each data output in the *Audit* includes a brief description of the definitions underpinning the income group division, and further details are provided in Chapter 7.

Drilling further into the income groups

Can further divide the group into 'lower' and 'higher' LMIs

Splitting the working-age population into three income groups as described above allows for a relatively straightforward comparison between households with low, low-to-middle and high incomes. However, the groups are large and cover fairly diverse populations: for example, the higher income group represents half of all working age households and contains a spread of annual household incomes from £29,000 at the bottom end to around £1 million at the top.

We therefore split both the LMI and the higher income groups into two sub-categories. 'Lower LMIs' incorporate those LMI households in deciles 2 and 3, while 'higher LMIs' include just those in deciles 4 and 5. The split is not 50-50 because a larger proportion of households in deciles 2 and 3 have already been removed to the benefit-reliant group. Instead, lower LMIs represent 40 per cent of the full LMI group.

We break the higher income group into 'lower HIs and 'higher HIs', with the former group covering those higher income households in income deciles 6-9 and the latter comprised of those in the very top decile only. Although a few households in deciles 6-10 are removed to the benefit-reliant group on the basis of benefit receipt, the numbers involved are very small. As such, our split of the higher income group is roughly 80-20.

[3] Includes Council Tax Benefit, Housing Benefit, Pension Credit, Income Support, Lone Parent Benefit Run On, Job Grant, Income Based Job Seekers Allowance, Income Related Employment and Support Allowance, Maternity Grant, Funeral Grant, Community Care Grant, Return to Work Credit, Work-related Activity Premium and Child Maintenance Bonus

Capture data at the level of the household, family and individual

Households, families and adults

As discussed above, the *Audit* uses the household as the basis of measurement of LMIs. However, in accordance with the level of analysis provided in the DWP's *Family Resources Survey*, we also present data at benefit unit (or family) and individual adult levels.

Households are defined as 'a single person or group of people living at the same address who either share one meal a day or share the living accommodation'.

Benefit unit is a term that relates to the tighter family definition of 'a single adult or couple living as married and any dependent children'. So, for example, a man and woman living with their young children and an elderly parent would be one household but two benefit units. Benefit units are allocated to the same income group as the household in which they live unless they are based in *non-conventional* households comprising of unrelated sharers. In this instance, we allocate benefit units to one of the three income groups on the basis of their place within the *benefit unit* (rather than household) income distribution. Throughout the report we use the term benefit unit interchangeably with families and family units.[4]

As with benefit units, *adults* are primarily allocated to income groups based on the status of their household. Once again though, those living in non-conventional households are categorised in relation to their place within the *individual* working-age income distribution. An additional filter is introduced, namely that all who describe themselves as being in full-time education are removed from the analysis entirely.

Capturing changes over time

Significant numbers of people move in and out of the three income groups we define at different life-stages: young people in particular, many of whom are just starting out in their careers, will move out of the LMI group as their incomes rise.

Therefore, while analyses of changes over time are provided in some parts of the *Audit*, in most instances this represents no more than a comparison of snapshots of the LMI group in different years and will therefore be affected by changes in the composition of the group.

In addition, it should be remembered that LMIs are defined on a relative basis. That is, as economic conditions and household incomes change, so the boundaries of the LMI group move in line. As such, the proportion of the population covered by the group should not alter much over time on the basis of the first two stages of our definition process, though it may change as a

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[4] The DWP also uses the terms interchangeably in its *Households Below Average Income* publication.

result of the third. For example, during times of high unemployment we might expect the LMI group to shrink slightly as increasing numbers of households in income deciles 2-5 become reliant on unemployment benefits and income support.

But longitudinal approach helps identify persistent LMIs

The time series remain useful, as they describe the changing picture of what it means to live on a low-to-middle income in Britain. Particular care should be taken when comparing the conditions of the group pre- and post-introduction of tax credits however. Our separation of tax credits from income-related benefits means that the relative size and composition of the group changed somewhat in 2000-01 because a large number of families were no longer screened out on the basis of benefit receipt.[5]

In Chapter 7 we include the results of a longitudinal study of the group, using the British Household Panel Survey. It looks back over 18 years of data to track movements into and out of the LMI group, allowing us to identify 'core' LMI households and offering comparisons with those which move up (into the higher income bracket) or down (into benefit-reliance).

1.4. LMIs in 2009-10: *an overview*

Population numbers

5.8 million households and 10.1 million adults

Just under one-third of working-age population

Table 1.1 shows that the definitions described above captured a total of 5.8 million LMI households in the UK in 2009-10, representing just under one-third of the UK working-age total.

The group comprised of 10.1 million adults (31 per cent of the working-age total[6]) and 5.2 million children (40 per cent of the total).

The 7.4 million LMI benefit units included 2.2 million couples with children and 0.7 million lone parents, along with 3 million single adults and 1.5 million couples without children.

[5] Though this is really only an issue in relation to our FRS definition (see Chapter 7), because other sources do not allow for such a detailed breakdown of benefits.

[6] The total numbers of working-age adults and children set out in Table 1.1do not equate to the overall working-age population because of the additional filters we apply (such as removing students and discounting anyone living in a household headed by someone over retirement age).

Table 1.1: Summary data for households, individuals and families by income group: *UK 2009-10*

000s	Benefit-reliant	LMIs	Higher income	All households
Working-age households				
Total	3,600	5,800	9,400	18,800
With children	1,600	2,900	3,100	7,600
Without children	2,000	2,800	6,400	11,100
Individuals within working-age households				
Total adults	5,000	10,100	17,700	32,900
Men	2,500	5,100	9,400	17,100
Women	2,600	5,000	8,200	15,800
Total children	2,900	5,200	4,800	12,900
Benefit (family) units in working-age households				
Total	4,400	7,400	11,700	23,600
Couple with children	700	2,200	2,800	5,700
Single male	1,500	1,700	2,700	5,900
Couple without children	500	1,500	4,200	6,200
Single female	900	1,300	1,800	3,900
Lone parent	900	700	300	1,900

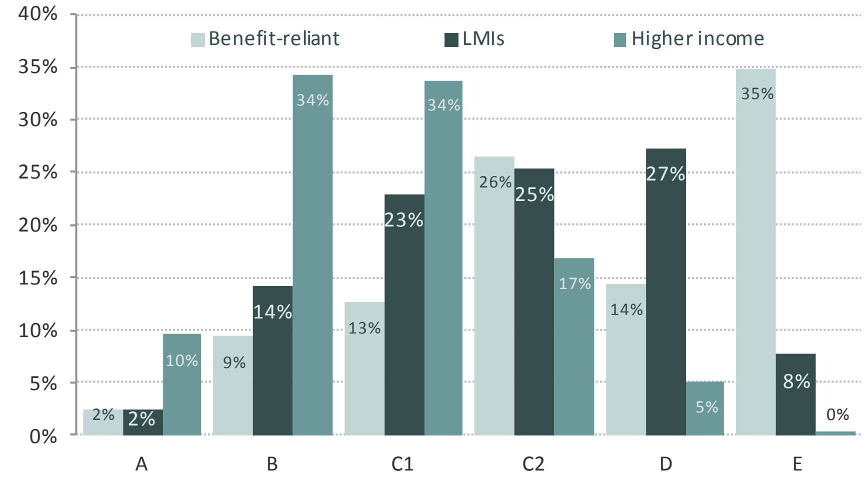
Notes: Income groups based on FRS definitions: see Chapter 7
Numbers may not sum due to rounding.
Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Social class

Three-quarters of households in social classes C and D

As might be expected given their position on low-to-middle incomes, LMIs are largely grouped in middle-to-lower social classes. Figure 1.2 shows that, in 2009-10, around one-quarter of heads of LMI households were in each of class C1 (23 per cent), C2 (25 per cent) and D (27 per cent). There were very few LMIs in the extremes of A and E.

Figure 1.2: Social class of household heads by income group: *GB 2011*



Note: Weighted base = 921. Income groups based on NMG definition: see Chapter 7.
Source: RF analysis of Bank of England, *2011 NMG survey*, Sep 2011

Regional distribution

Highest proportion in the North East

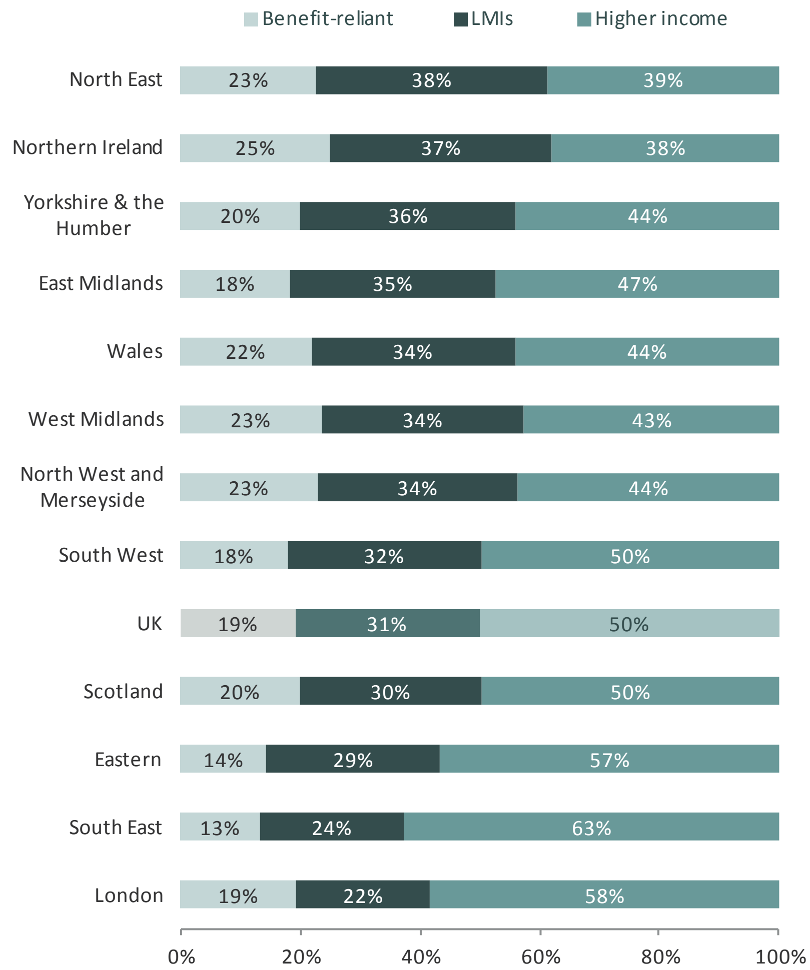
Figure 1.3 details the regional distribution of households by income group. Overall, 31 per cent of UK adults lived in LMI households. The proportion was highest in the North East (38 per cent), Northern Ireland (37 per cent), and

Lowest in London

Yorkshire & the Humber (36 per cent). The proportion was lowest in London (22 per cent), the South East (24 per cent) and the Eastern region (29 per cent).

This geographical split reflects two factors. First, average earnings differ across the country, meaning that households in London and the South East are more likely to appear in the top half of any national-level income distribution (i.e. be classified as higher income). Secondly, the proportion of households receiving means-tested benefits (and therefore classed as benefit-reliant) vary across regions in line with levels of economic activity and (in relation to Housing Benefit) average rents.

Figure 1.3: Regional distribution of households by income group: *UK 2009-10*



Note: Income groups based on FRS definition: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Household and family compositions

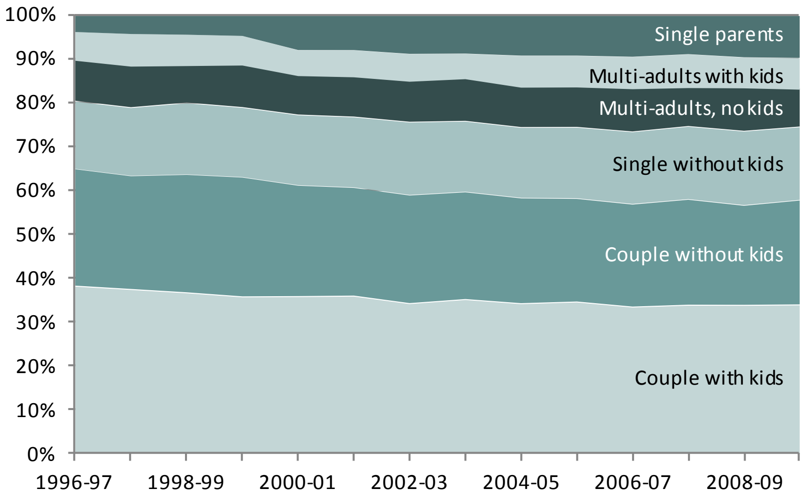
In common with society as a whole, the composition of households and families within the LMI group has changed over time. In addition to reflecting these wider trends, alterations within the LMI group may point towards changes in the likelihood of certain family types forming part of low-to-middle income Britain. As noted above though, the introduction of tax credits in 2000-

01 is likely to have resulted in a specific shift in composition for purely definitional reasons.

Decline in the proportion of LMIs living in couple households

Figure 1.4 sets out changes in household composition within the group between 1996-97 and 2009-10. It shows that the proportion of couples, both with and without children, fell over the period, with almost all their share transferring to single parents. Most of the shift took place in 2000-01 and is therefore likely to be a result of the introduction of tax credits. However, the trend continued beyond this date, albeit at a much slower pace. In addition, the proportion of multi-adult households also increased slowly in this later period.

Figure 1.4: LMI household composition: *UK 1996-97 to 2009-10*



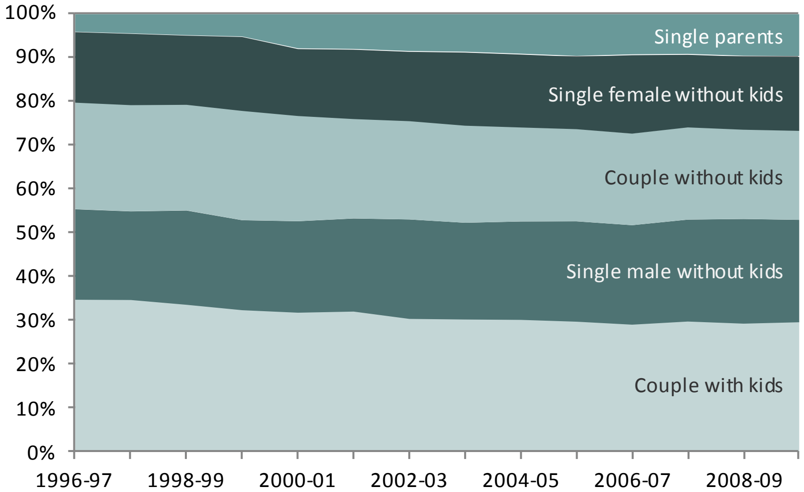
Notes: Income groups based on FRS definition: see Chapter 7.
Sizeable composition shifts in the late-1990s/early-2000s reflect the introduction of tax credits. These compositional changes should be borne in mind when interpreting any income group time series presented in this report that rely on our FRS definition.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* and earlier

With offsetting increases in the proportion of single adult families and especially single parents

Figure 1.5 describes a similar picture at the family level. Namely, an increase in single parents which takes the form of a step-change in 2000-01 and a more gradual trend thereafter, and corresponding declines in the proportion of couples. The proportion of LMI family units consisting of single men and women also increased steadily across the entire period.

Figure 1.5: LMI family composition: *UK 1996-97 to 2009-10*



Notes: Income groups based on FRS definition: see Chapter 7. See notes to Figure 1.4.
Source: RF analysis of DWP, *Family Resources Survey 2009-10* and earlier

Average incomes

Average net household income of £20,500

Table 1.2 shows that average unadjusted (i.e. non-equivalised) net household income (from all sources) among LMIs in 2009-10 was £20,500. Average gross income from earnings (employment and self-employment) only was £19,100 (forming the bulk of the 'original income' figure in the table): this compares with averages of £2,000 among benefit-reliant and £60,400 among higher income households.

Table 1.2: Average annual income among households by income group: *UK 2009-10*

	£	Benefit-reliant	LMIs	Higher income	All households
	Original (non-benefit) income	2,200	20,400	64,400	39,000
+	Benefit income	8,700	2,300	1,200	2,900
+	Tax credits	1,600	1,700	200	900
+	Remaining income[1]	700	1,300	1,400	1,300
=	Gross household income	13,300	25,600	66,600	43,800
-	Direct taxes and other deductions[2]	1,300	5,100	20,300	12,000
=	Net household income	12,000	20,500	46,400	31,900

Notes: Income groups based on FRS definitions: see Chapter 7.
[1] Includes income derived from sub-tenants, odd-jobs, free school milk and/or meals, private benefits (such as personal health insurance, trade union strike pay and government training allowances), student/school grants, royalties, allowances from friends, relatives or an organisation and allowances from local authorities for foster and adopted children.
[2] Income is net of: income tax payments; NICs; domestic rates/council tax; contributions to occupational pension schemes; maintenance and child support payments; parental contributions to students living away from home; and student loan repayments.
Sources: RF analysis of DWP, *Family Resources Survey 2009-10;*
RF analysis of DWP, *Households Below Average Income 2009-10*

Work and economic activity

Three-quarters of LMI adults in work

Table 1.3 sets out economic activity among adults in each income group. Four-fifths (83 per cent) of LMI adults were economically active in 2009-10, comprising 5.7 million in full-time work, 2.2 million in part-time work and 0.6 million unemployed.

Table 1.3: Economic activity among adults by income group: *UK 2009-10*

000s	Benefit-reliant	LMIs	Higher income	All households
Economically active	2,200	8,400	16,600	27,200
In work	1,200	7,900	16,300	25,400
Full-time employee	*400*	*4,800*	*12,800*	*18,000*
Full-time self-employed	*200*	*900*	*1,100*	*2,300*
Part-time employee	*500*	*2,000*	*2,100*	*4,500*
Part-time self-employed	*100*	*200*	*300*	*600*
Unemployed	1,000	600	200	1,800
Economically inactive	2,800	1,700	1,100	5,600
Looking after family/home	700	600	400	1,700
Permanently sick/disabled	1,400	500	200	2,200
Retired	100	200	200	600
Student	0	100	0	100
Temporarily sick/disabled	100	0	0	200
Other inactive	400	200	200	900

Note: Income groups based on FRS definitions: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

1.4 million work in retail, 1.1 million in health & social work and 0.9 million in manufacturing

Table 1.4 shows the distribution of LMI jobs in 2009-10 across industrial sectors. Of the 8.2 million LMI jobs recorded (each worker can have more than one job), 1.4 million were in *retail*, 1.1 million were in *health and social work* and 0.9 million were in *manufacturing*.

Table 1.4: Jobs held by LMI adults by industry: *UK 2009-10*

	Number (000s)	Proportion of all LMI jobs	Proportion of all jobs in industry
Retail, wholesale & repair of motor vehicles	1,390	17%	41%
Health & social work	1,080	13%	32%
Manufacturing	920	11%	33%
Construction	730	9%	34%
Education	700	9%	26%
Admin. & support services (e.g. cleaners, maintenance)	470	6%	41%
Hotels & restuarants	470	6%	44%
Transportation & storage	450	6%	35%
Public admin, defence & compulsory social security	440	5%	22%
Professional, scientific & technical (e.g. lawyers, marketing)	320	4%	19%
Other service activities (e.g. hairdressers)	310	4%	36%
Financial & insurance activities	210	3%	20%
Arts, entertainment and recreation	190	2%	33%
Information and communication	170	2%	18%
Agriculture, forestry and fishing	90	1%	41%
Real estate activities	80	1%	35%
All other industries	140	2%	27%
All jobs	8,170	100%	31%

Notes: LMIs based on FRS definitions: see Chapter 7. Industries correspond to the SIC 207 categories established by the ONS. Respondents to previous FRS surveys were allocated to industries within the SIC 92 classification system, making comparisons of the figures in this table with earlier years unreliable.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Within sectors, LMIs were over-represented in *hotels and restaurants* (44 per cent of all jobs were held by LMIs), *administration and support services* (41 per cent) and *retail* (41 per cent). They were under-represented in *information and communications* (18 per cent), *professional, scientific & technical activities* (19 per cent) and *financial and insurance activities* (20 per cent).

1.4 million work in elementary occupations, 1.1 million in skilled trades and 1 million in personal service occupations

Table 1.5 sets out the occupational distribution of LMI employees in 2009-10. Of the 8.4 million LMI occupations recorded (each worker can have more than one occupation), 1.4 million were categorised as *elementary*, 1.1 million were *skilled trades* and 1.0 million were *personal service* occupations.

Table 1.5: LMI employees by occupational category: *UK 2009-10*

	Number (000s)	Proportion of all LMI employees	Proportion of all employees in occupation
Elementary occupations	1,440	17%	50%
Skilled trades occupations	1,140	14%	39%
Personal service occupations	1,040	12%	45%
Administrative and secretarial occupations	950	11%	32%
Associate professional and technical occupations	950	11%	22%
Process, plant and machinery operatives	840	10%	44%
Sales and customer service occupations	820	10%	48%
Managers and senior officials	730	9%	17%
Professional occupations	490	6%	14%
Total employees[1]	8,390	100%	31%

Notes: LMIs based on FRS definitions: see Chapter 7.
[1] Only includes employees allocated to one of the occupational categories above.
Source: RF analysis of DWP, *Family Resources Survey 2009-10*

LMIs were over-represented in *elementary* (50 per cent of all employees in this category), *sales and customer service* (48 per cent) and *personal service* (45 per cent) occupations. They were under-represented in *professional* (14 per cent), *managers and senior officials* (17 per cent) and *associate professional and technical* (22 per cent) occupations

Housing tenure

3.6 million home owners, 1.2 million in private rented sector and 0.9 million in social housing

Table 1.6 details the distribution in 2009-10 of households in each income group across tenure types. Of the 5.8 million total LMI households, 2.5 million were buying a home with a mortgage, 1.2 million owned outright, 0.9 million were in social housing and 1.2 million were in the private rented sector.

Table 1.6: Housing tenure among households by income group: *UK 2009-10*

000s	Benefit-reliant	LMIs	Higher income	All households
Owners	900	3,600	7,800	12,300
Owned with mortgage	*500*	*2,500*	*5,800*	*8,800*
Owned outright	*400*	*1,200*	*2,000*	*3,500*
Social housing tenants	1,700	900	300	2,900
Rented from housing association	*900*	*500*	*200*	*1,500*
Rented from council	*900*	*400*	*100*	*1,400*
Private renters	1,000	1,200	1,300	3,500
Rented privately - unfurnished	*800*	*900*	*1,000*	*2,600*
Rented privately - furnished	*200*	*300*	*400*	*900*

Note: Income groups based on FRS definitions: see Chapter 7. Figures don't sum due to rounding.
Source: RF analysis of DWP, *Family Resources Survey 2009-10*

2. Origins of the living standards squeeze

The squeeze on the living standards of low-to-middle income households that we highlight in this report pre-dates the recent recession. While the economic downturn has undoubtedly compounded the situation, the wages and incomes of LMI households had in truth been flat for a number of years. Even before the recession, many ordinary working households were not sharing in the gains associated with the UK's relatively strong economic growth.

*Earnings inequality has been increasing for several decades, meaning that LMI workers have been falling further and further behind higher earners in **relative** terms for some time. More recently, however, ordinary workers have faced an **absolute** decline, even as the economy appeared to be performing well.*

Unsurprisingly, these changes fed through into patterns of income growth in LMI and higher income households, though LMI incomes held up to some extent because of a combination of growth in the earnings of women in LMI households over this period, alongside large increases in government transfers, most especially tax credits.

Recession and recovery have implications for LMIs

But also affected by more long-term trends

The recession of 2008-09 and the subsequent sluggish recovery have weighed heavily on outcomes for many UK households. Those with low-to-middle incomes have been particularly exposed: more likely to be vulnerable to labour market weaknesses and more acutely affected by the consequences of inflation than those in higher income households, while at the same time having further to fall and being more likely to lose out in any targeting of government transfers than those living in benefit-reliant households. However, the position of LMIs relative to other members of society has also been affected by a number of longer-term trends.

In this chapter we describe some of those trends, from earnings distributions and the shifting split between labour rewards and profits, to changes in transfer payments and the introduction of tax credits. More detailed considerations of the recent experiences of LMIs, including the specific impacts of the recession, are included in Chapters 3-5. We revisit some of these longer term trends in our consideration of the future challenges facing LMIs, in Chapter 6.

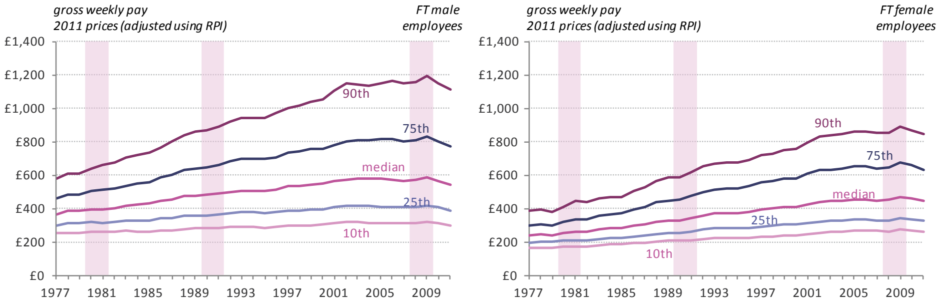
2.1. Earnings among individuals: *relative decline and absolute stagnation*

Labour income – earnings from employment and self-employment – forms the bulk of gross income in most working-age households. The story of the squeeze on living standards in low-to-middle income households is primarily rooted in a growing disparity in the distribution of earnings in recent decades (a relative squeeze) and a more recent stagnation in pay for many ordinary workers (an absolute squeeze).

Pay trends across the distribution

Figure 2.1 shows trends in gross weekly pay among full-time employees in the period 1977 to 2011. It highlights the fanning out of the earnings distribution among both men and women. For example, while male full-time earnings at the 90th percentile increased from £618 a week in 1977 to £1,116 a week in 2011, wages at the 10th percentile grew from just £262 to £297 over the same period.

Figure 2.1: Trends in gross weekly earnings at different points in the earnings distribution: *GB 1977 – 2011*



Notes: There are two methodological breaks in the series, in 2004 and in 2006, but the changes have little bearing on the results shown here. 2011 data is provisional. Figures have been deflated using the RPI.

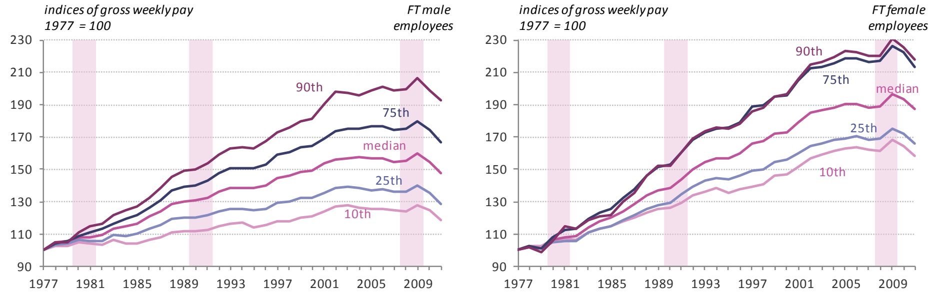
Source: ONS, *Annual Survey of Hours and Earnings (ASHE)* and *New Earnings Survey*

Growing wage inequality over past three decades

Figure 2.2 makes this trend clearer by setting out earnings at each point in the form of an index. It shows that rates of pay increases grew more quickly at the top of the distribution than at the median and below. Among men the trend is consistent across the distribution, with each percentile growing more quickly than the one below it. Among women, however, growth rates were similar at the 90th and 75th percentiles, before slowing at lower points in the distribution.

It is worth noting that pay increased more rapidly among women than among men at all points of the distribution, reflecting a narrowing of the gender pay gap.

Figure 2.2: Indices of gross weekly earnings at different points in the earnings distribution: *GB 1977 – 2011*



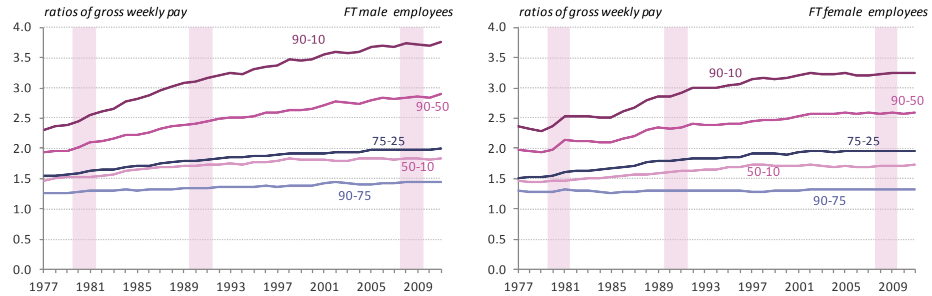
Notes: See notes to Figure 2.1.

Source: ONS, *ASHE* and *New Earnings Survey*

More recently, inequality has flattened out in the bottom half of the distribution while continuing to grow in the top half

Figure 2.3 presents these earnings trends in the form of ratios between different parts of the distribution. It shows, for example, that male earnings at the 90th percentile grew from being 2.3 times bigger than those at the 10th percentile in 1977, to being 3.8 times larger in 2011. There is also evidence of a growing divide between the 90th and 50th (or median) percentiles and between the 75th and 25th. In contrast, both the 50-10 and the 90-75 ratios grew less quickly. The 50-10 trends among both men and women flattened from the mid-1990s onwards, highlighting the fact that gaps between earnings in the bottom half of the distribution did not grow during this period, even as dispersion continued to widen in the top half.

Figure 2.3: Earnings ratios: *GB 1977 – 2011*



Notes: See notes to Figure 2.1.

Source: ONS, *ASHE* and *New Earnings Survey*

Disconnection from economic growth

In our 2011 report *Missing Out*[7] we took this analysis further, and considered the extent to which different parts of the earnings distribution had shared in the proceeds of economic growth over the same period. To do this, we deconstructed GDP[8] into its three basic constituent parts:

- the capital share (comprising of business profits);
- non-wage employee compensation (primarily made up of employer National Insurance payments and pension contributions); and

[7] Whittaker M and Savage L, *Missing Out*, Resolution Foundation, 2011

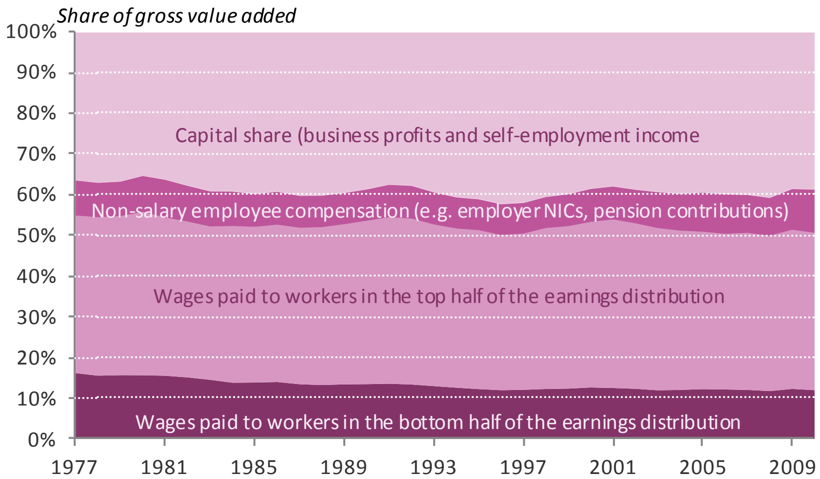
[8] Or, more accurately gross value added or GVA.

- wages.

Share of GDP flowing to workers in the bottom half of the distribution fallen by one-quarter over 40 years

We split this final element still further, by considering the proportion of earnings flowing to workers at different parts of the wage distribution. Figure 2.4 details this breakdown of value, and shows that workers in the bottom half of the earnings distribution accounted for a declining share of GDP over the period. Their share fell from 16 per cent in 1977, to 12 per cent in 2010. In other words, for every £100 of value created by the UK economy, £12 ended up as pay in the pockets of the bottom half of earners, compared to £16 in 1977.

Figure 2.4: The distribution of value generated in the UK economy: *GB/UK 1977 - 2010*



Notes: Capital share is 'one minus' labour share. Wage period used to determine earnings distribution is weekly and covers all employees – i.e. full-time and part-time. It is based on earnings data taken from *ASHE*, covering Great Britain pre-1997 and the UK thereafter.

Sources: OECD, Stat; RF analysis of ONS, *ASHE*

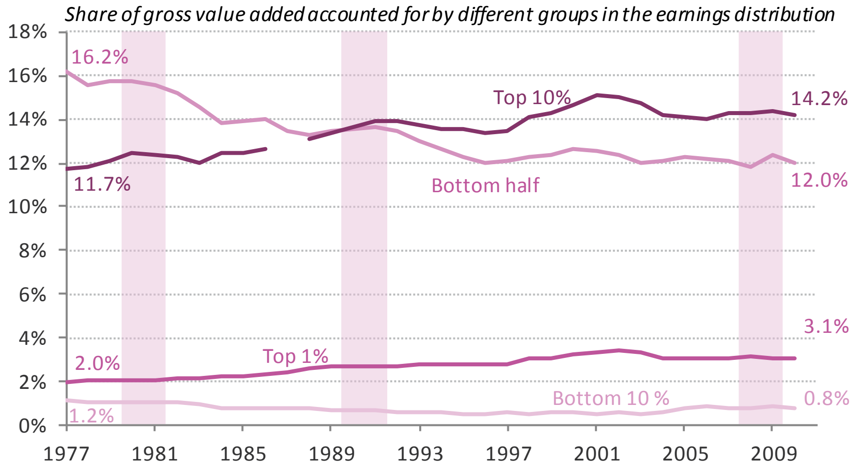
Driven in part by a shift from wages to profits and by an increase in employer costs

In the same period, there was a (rounded) 2 percentage point increase in the share of value that accrued to capital, from 36.4 per cent to 38.6 per cent, along with a 2 percentage point increase in the share of non-salary employee compensation from 9 per cent to 11 per cent.

Those in the top half of the wage distribution increased their share of the declining pot of wages, and thereby maintained a broadly constant overall share of GDP of 39 per cent.

Figure 2.5 drills down to focus on the share of GDP that flowed to employees across the earnings distribution. While the top 1 per cent of earners steadily increased their share from 2 per cent to 3.1 per cent, the bottom 10 per cent's share fell to less than 1 per cent.

Figure 2.5: Wages paid to different groups in the earnings distribution as a proportion of all value generated in the UK economy: *GB/UK 1977 - 2010*

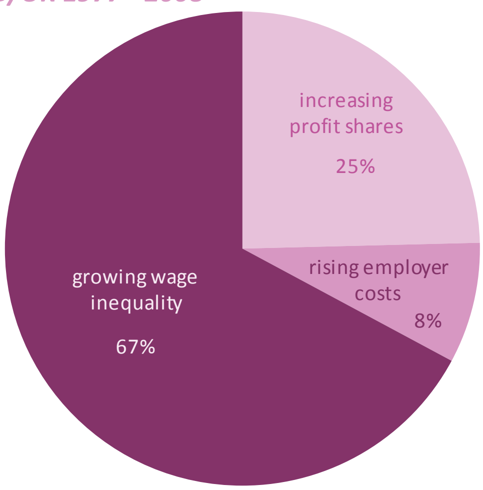


Note: Based on weekly wages among all employees.

Sources: OECD, Stat; RF analysis of ONS, *ASHE*

At the start of the period, the top 10 per cent of earners accounted for a smaller share of GDP than the bottom 50 per cent of workers (11.7 per cent and 16.2 per cent respectively). By 1990 this situation reversed, and by 2010 the top 10 per cent of earners accounted for 14.2 per cent of GVA while, as we have seen, workers in the bottom half accounted for just 12 per cent.

Figure 2.6: Contribution to decline in the share of GDP flowing to workers in the bottom half of the earnings distribution: *GB/UK 1977 - 2008*



Notes: 'Wage inequality' effect is based on weekly wages among all employees – i.e. full-time and part-time.

Sources: OECD, Stat; RF analysis of ONS, *ASHE*

But two-thirds of the decline is due to growth in wage inequality

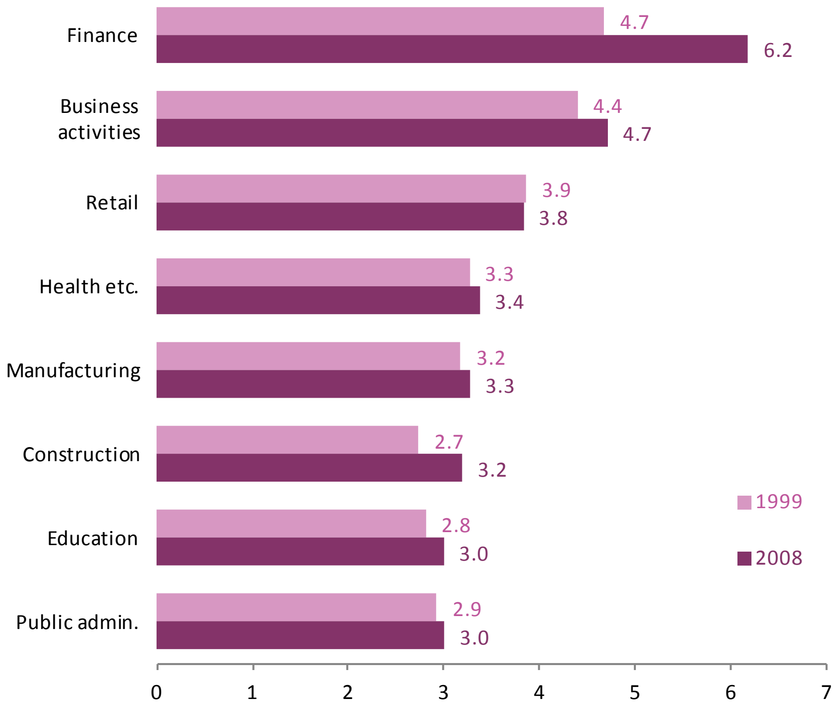
In attempting to explain which of the three drivers detailed above had driven this decline, we undertook a decomposition analysis. As Figure 2.6 shows, one-third of the decline can be explained by an overall reduction in the size of wage pie associated with the shift from wages to profits and with increases in employer costs. However, growing wage inequality has been much more influential, accounting for 67 per cent of the fall in the share of GDP held by workers in the bottom half in the period to 2008.[9]

Which has occurred in all sectors of the economy

This inequality in pay has in turn been driven primarily by growing wage dispersion within all sectors of the economy – rather than shifts in the industrial structure. As Figure 2.7 shows though, the trend in inequality in recent years has been particularly pronounced in the finance sector.

Figure 2.7: 90-10 pay ratios by economic sector: *UK 1999 & 2008*

Ratio of 90th percentile of annual pay (including bonuses) to 10th percentile



Notes: Ratios relate to annual earnings among full-time employees only. Sectors refer to SIC 2003 groupings.

Source: RF analysis of ONS, *ASHE*

2.2. Earnings at the household level: *an ever growing divide*

We can see then, that pay has become significantly less evenly distributed in the UK over the past 30 years. The top has moved consistently away from the middle and the middle has moved away from the bottom (albeit with some reversal of this trend more recently). We must therefore now ask how these movements have played out at the household level.

Income shares and compositions

Table 1.2 showed average incomes across the three income groups in 2009-10 and detailed the composition of these averages. The ONS release *The effects of taxes and benefits on household incomes* provides similarly detailed data for income deciles over time. It adds two additional layers of income: first, it

[9] We chose to calculate the figure based on 1977 to 2008 rather than 2010 in order to avoid the temporary effects of the recession.

includes a line on indirect taxes paid; secondly, it presents an estimate of the income obtained from benefits-in-kind – that is, public services consumed. However, given that the ONS acknowledges that it is not possible to 'reasonably allocate' around half of all government spending on the basis of household income, this second detail provides only a partial representation of the true picture.

Figure 2.8 sets out the relationship between each stage of income covered in the ONS release. It shows that a household's *final income* represents its *original income* plus cash benefits and benefits-in-kind, minus any taxes paid and deductions made. Changes in government policy can therefore have a significant impact on how final incomes compare to original incomes.

Figure 2.8: Composition of household income

	Original income	*returns from employment, investments, occupational pensions and other non-state sources*
+ cash benefits	**Gross income**	*income from all sources, before any deductions*
- direct tax	**Disposable income**	*income available for spending and saving*
- indirect tax	**Post-tax income**	*income after all taxes/deductions are paid*
+ benefits-in-kind	**Final income**	*income after all state intervention including value of public services consumed*

The nature of the ONS dataset is such that we are unable to filter households on the basis of benefit receipt and must instead define our three groups on the basis of age and place in the income distribution only. In the following charts and tables, the LMI group is therefore taken to include those working-age households in income deciles 2-5 (where income is distributed on an equivalised disposable basis).

Table 2.1 uses this measure to detail income compositions across the three income groups we define. The differences in approach mean that the figures are not directly comparable with those in Table 1.2. On this basis, average gross LMI household income in 2009/10 was £25,400 and average disposable income was £21,500.

Table 2.1: Average household incomes, taxes and benefits by income group: *UK 2009/10*

	£ per year	Benefit-reliant	LMIs	Higher income	All households
	Original income	5,200	19,600	61,200	38,900
+	*plus cash benefits*	5,000	5,800	2,100	3,900
=	Gross income	10,200	25,400	63,200	42,800
-	*less direct taxes & employees' NICs*	1,200	3,900	14,800	9,100
=	Disposable income	9,000	21,500	48,400	33,700
-	*less indirect taxes*	3,300	4,300	6,700	5,400
=	Post-tax income	5,700	17,100	41,800	28,300
+	*plus benefits in kind*	8,800	8,100	5,700	7,000
=	Final income	14,400	25,200	47,500	35,300

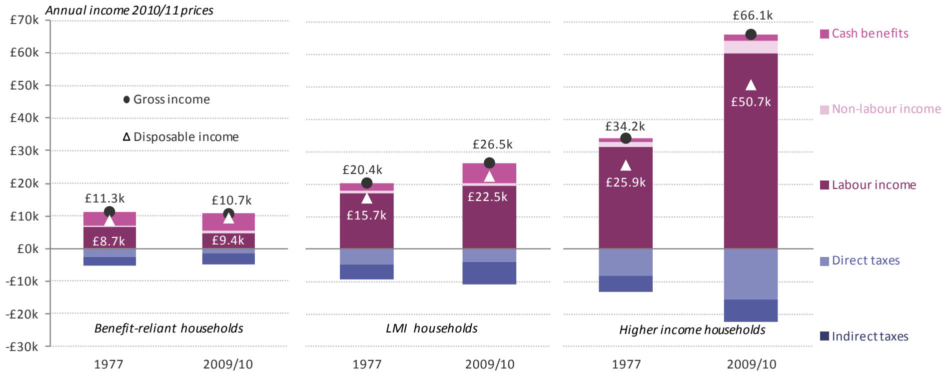
Note: Income groups based on ONS definition: see Chapter 7.

Source: RF analysis of ONS, *The effects of taxes and benefits on household income, 2009/10* , Table 16

At the household level, earnings continue to be biggest single source of LMI income

Figure 2.9 details these compositions in 1977 and in 2009/10 across the three household income groups.[10] It shows that the biggest single source of income among LMI households is *labour income* – that is, income from wages and salaries plus imputed income from benefits-in-kind provided by employers and self-employment income. In 2009/10, such income accounted for three-quarters (73 per cent) of average gross income among LMI households.

Figure 2.9: Breakdown of average household incomes across income groups: *UK 1977 & 2009/10*



Notes: Income groups based on ONS definition: see Chapter 7. Figures are deflated using the RPI.

Source: RF analysis of ONS, *The effects of taxes and benefits on household income 2009/10* (and earlier)

But proportion has declined over time

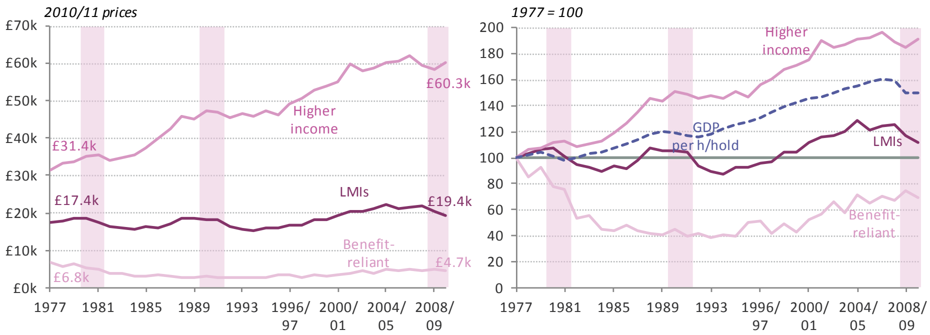
However, this is significantly lower than in 1977, when this source represented 85 per cent of average low-to-middle income household gross income.

Figure 2.10 compares real-terms changes in average labour income in households across the three income groups. It shows that within the LMI group, average labour income fluctuated with economic conditions – dropping during and after periods of recession in the early-1980s and early-1990s and recovering during periods of GDP growth – such that it was broadly in line with

[10] The figures are in 2010/11 prices and therefore differ from those set out in Table 2.1, which are in 2009/10 terms.

its 1977 level by 1998/99. The household average subsequently climbed during the sustained period of economic growth in the 2000s, although it flattened prior to the 2008/09 recession and dropped off following the onset of this downturn.

Figure 2.10: Average annual labour income by household income group: *UK 1977 – 2009/10*



Notes: Income groups based on ONS definition: see Chapter 7. Figures are deflated using the RPI.

Source: RF analysis of ONS, *The effects of taxes and benefits on household income 2009/10* (and earlier)

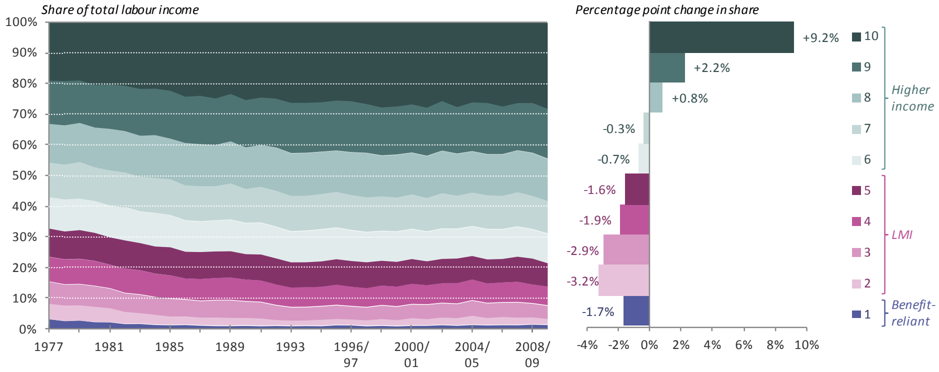
With average LMI labour income falling from more than half of the level recorded in higher income households to less than one-third

Average labour income among higher income households similarly tracked GDP, with the key difference being that it increased much more quickly during the years of economic growth that took place over the period. As a result, average labour income in LMI households fell from just over half (55 per cent) of the higher income level in 1977, to under one-third (32 per cent) in 2009/10.

The relationship between GDP and household labour incomes in the benefit-reliant group is less obvious. Instead average labour incomes followed a U-shape, falling in real-terms in the period 1977-1985, remaining flat to 1999/00 and subsequently increasing steadily to 2009/10. It remained below its 1977 level at the end of the period however. Average labour income in benefit-reliant households therefore fell from around two-fifths (39 per cent) of the LMI household total in 1977, to one-quarter (24 per cent) in 2009/10.

Figure 2.11 provides a more detailed breakdown, showing how the distribution of total labour income altered over the period 1977-2009/10 across each household income decile. It highlights the dominance of households at the top of the distribution – the richest ten per cent of households alone accounted for more than one-quarter (28 per cent) of all labour income in 2009/10, while the bottom ten per cent took just 0.5 per cent of the total.

Figure 2.11: Share of total UK working-age household labour income by household income decile: *UK 1977 – 2009/10*



Notes: The pink bands cover LMI households (deciles 2-5); the green bands relate to higher income households (deciles 6-10); and the blue band covers benefit-reliant households (decile 1). Income groups based on ONS definition: see Chapter 7. Shares relate to total labour income reported among working-age households.

Source: RF analysis of ONS, *The effects of taxes and benefits on household income 2009/10* (and earlier)

Fall in share of labour income most pronounced in LMI group

Similarly, while the two-fifths of households situated in the LMI group (deciles 2-5) together accounted for just one-fifth (20 per cent) of all labour income, the share of the top two-fifths of the distribution (deciles 7-10) amounted to more than two-thirds (69 per cent).

Gains biggest at the very top of the income distribution

Figure 2.11 also shows that it is households at the top of the distribution that gained share over the period (+9.2 percentage points among members of the richest 10 per cent of households), while those in the bottom 70 per cent experienced a decline. The reduction is most marked among households at the lower end of the LMI group, with falls of 3.2 percentage points and 2.9 percentage points in income deciles 2 and 3.

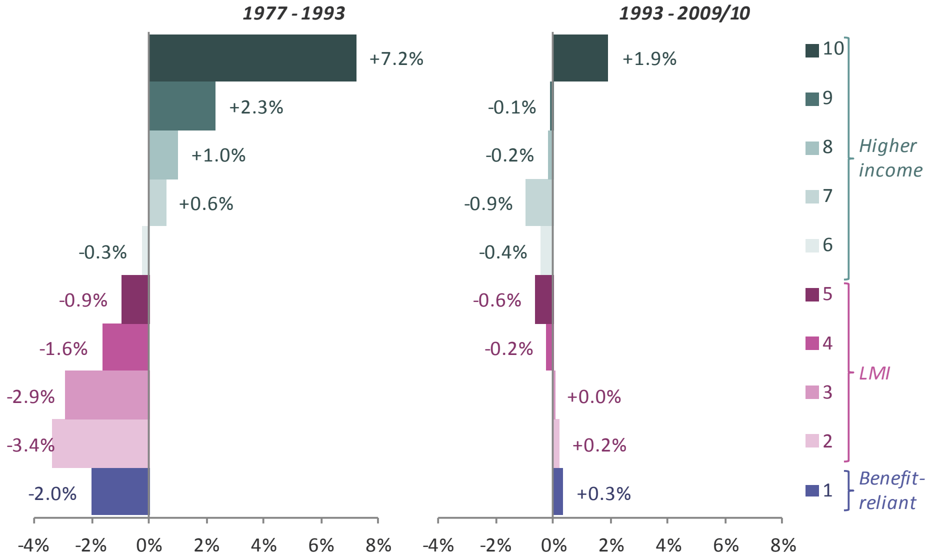
The changing shape of earnings inequality within households

Much of the analysis above points to a division of the 30 year timeframe considered into two distinct periods:

- *1977-1993* when LMI households experienced a steady decline in their share of labour income; and
- *1993-2009/10* when labour income shares were broadly flat.

Figure 2.12 splits the overall change in labour income shown in Figure 2.11 into these two periods and confirms that there *is* a distinction to be made.

Figure 2.12: Percentage point change in labour income share by household income decile: *UK 1977 – 2009/10*



Notes: The pink bands cover LMI households (deciles 2-5); the green bands relate to higher income households (deciles 6-10); and the blue band covers benefit-reliant households (decile 1). Income groups based on ONS definition: see Chapter 7. Shares relate to total labour income reported among working-age households.

Source: RF analysis of ONS, *The effects of taxes and benefits on household income 2009/10* (and earlier)

LMIs' share of total labour income declined most significantly in 1970s and 1980s

The pattern in the earlier years largely reflects that observed for the overall period, namely that those households towards the top of the distribution made the largest gains in share, while those in deciles 2 and 3 experienced the biggest drops.

In the latter period however, across the bottom 90 per cent of households, there was relatively little change in labour income shares, with some evidence of a slight *decline* in inequality as the bottom three deciles made small gains while deciles 4-9 experienced small losses in shares.

1990s and 2000s characterised by concentration of labour income at the top

Given that earnings inequality is often measured in terms of the 90-10 ratio – which compares earnings at the 90th percentile with those at the 10th – we might expect this finding to provoke the conclusion that earnings inequality narrowed over the period. However, this masks the fact that the top ten per cent of households experienced a significantly larger (positive) movement in share than any other decile group.

Looking again at the two halves of our 30 year timeframe we can reach a new conclusion:

- *1977 – 1993* was characterised by growing earnings inequality that benefited most households in the top half of the income distribution, while hitting low-to-middle income households the hardest; but

- *1993 – 2009/10* was characterised by growing earnings inequality at the very top of the income distribution, combined with a slight narrowing of divisions among the majority of households.

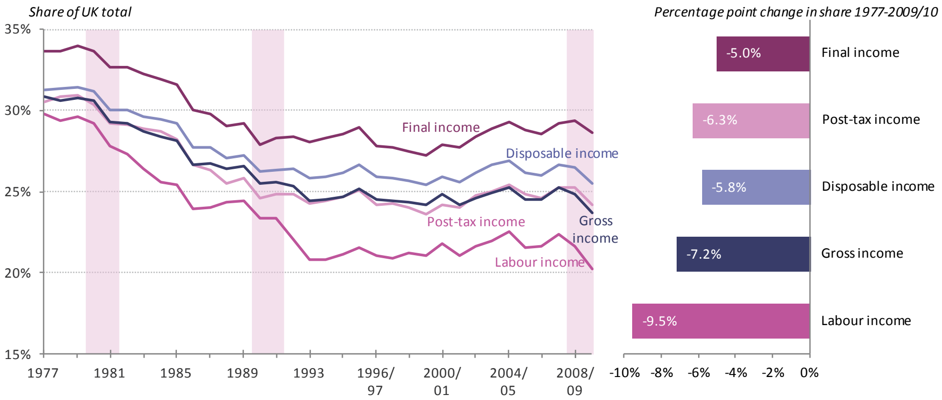
2.3. Incomes at the household level: *the redistributive role of the tax and benefit system*

Taxes and benefits have countered the trend, but income distribution has still become more unequal

As discussed above, while labour income continues to account for an average of three-quarters of LMI household income, its share has declined over recent decades. Instead, a growing proportion of the total has arrived in the form of cash benefits – increasingly in the form of tax credits.

Yet, while progressive tax and benefit policies have gone some way to mitigating the effects of growing inequality in original incomes, the LMI group has fallen further behind the higher income group on *all* of the income measures outlined above, as set out in Figure 2.13.[11]

Figure 2.13: Share of total working-age household income accounted for by LMI households: *UK 1977 – 2009-10*



Notes: Income groups based on ONS definition: see Chapter 7.

Source: RF analysis of ONS, *The effects of taxes and benefits on household income 2009/10* (and earlier)

As we might expect given the broadly progressive nature of the tax and benefit system, the LMI share of the total is consistently higher in relation to final income than labour income. Taking each step in turn:

- the group's share of *gross income* is higher than its *labour income* share because LMI households receive more in tax credits and other benefits than higher income households;

- their *disposable income* share is higher still because they pay less in direct taxes than higher income households;

[11] Non-labour income is omitted from the chart because it forms a relatively small part of overall original (i.e. pre-tax and benefits) income. The share of such income accounted for by low-to-middle income households over the period followed a similar pattern to the other forms of income shown in Figure 2.13, though at a lower level.

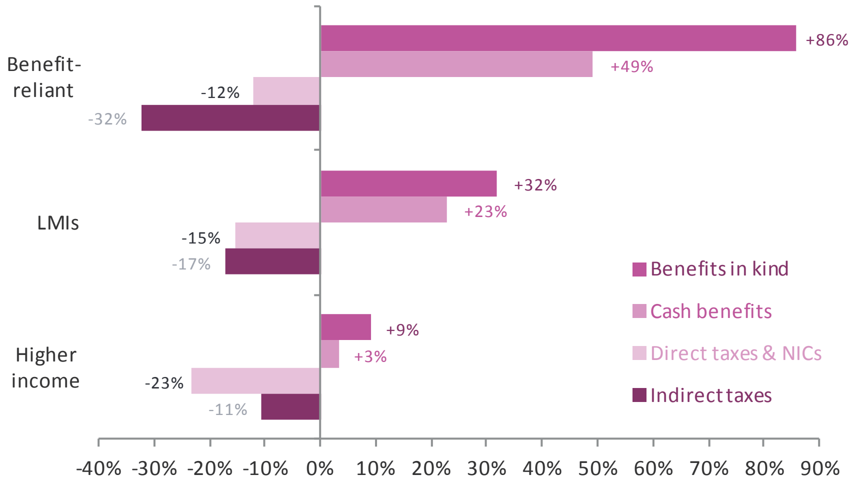
- the regressive nature of indirect taxes such as VAT means that the group has a slightly lower share of *post-tax income*; but

- higher consumption of public services among LMI households means that their *final income* share is significantly higher.

The gap between labour and final income shares increased over the period (reflected in the fact that LMI households' share of labour income fell by 9.5 percentage points, while their share of final income declined by 5.0 percentage points). This helps to explain why an increasing proportion of all LMI household income has been sourced from the state, and points to the fact that redistributive tax and benefit policies have served to mitigate some – though not all – of the impact on LMI households of falling labour income share.

An ONS study into the redistributive effects of the UK tax and benefits system noted that, in the period 1977-2006/07, cash benefits had the largest effect on income inequality, with progressive direct taxes tending to cancel out regressive indirect taxes. Figure 2.14 supports this finding, with direct taxes in 2009/10 accounting for the largest share of gross incomes among the higher income group, and indirect taxes accounting for the largest share among benefit-reliant households. The distribution of cash benefits and benefits-in-kind was, however, strongly progressive.

Figure 2.14: Household taxes and benefits as proportion of gross income by income group: *UK 2009/10*



Notes: Income groups based on ONS definition: see Chapter 7. Tax credits included as cash benefits.

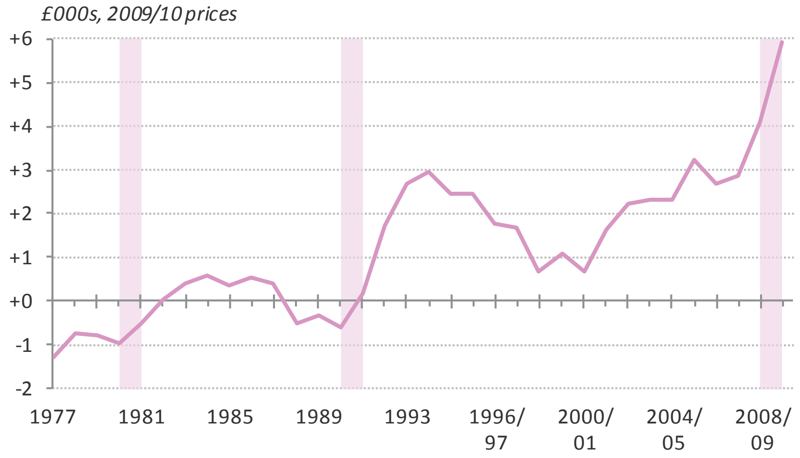
Source: RF analysis of ONS, *The effects of taxes and benefits on household incomes 2009/10*

The ONS study found no evidence of any major change in the magnitude of redistribution caused by cash benefits over the period but some increase in the redistribution effect of taxation from the mid-1990s onwards. However, the report concluded that any improved equalising effect of taxation in this period was limited by the large increase in inequality in original income.[12]

LMI tax-benefit balance has improved in last decade

Among LMIs, the tax-benefit balance (that is, the extent to which they have received more in terms of benefits than they have paid in taxes) has improved in recent years, as shown in Figure 2.15. The chart compares the value of all benefits received (in cash) and consumed (in-kind) by LMI households, with the value of all direct and indirect taxes paid. Over the period, the balance has tended to improve during – and for some time after – periods of economic downturn. This is likely to reflect increased unemployment, which reduces the value of taxes paid and increases benefit receipts.

Figure 2.15: Average tax (-) and benefit (+) balance among LMI households: *UK 1977 – 2009/10*



Note: LMIs based on ONS definition: see Chapter 7. Figures deflated using RPI.
Source: RF analysis of ONS, *The effects of taxes and benefits on household incomes 2009/10* (and earlier)

Primarily due to investment in public services

However, the balance also improved for LMIs during the years of sustained economic growth years from 2000/01. In part this was driven by the development of tax credits. Housing Benefit receipts are also likely to have increased in line with rising rents.[13] However, as Figure 2.16 shows, the primary cause was the substantial growth in public sector spending and associated consumption of benefits-in-kind.

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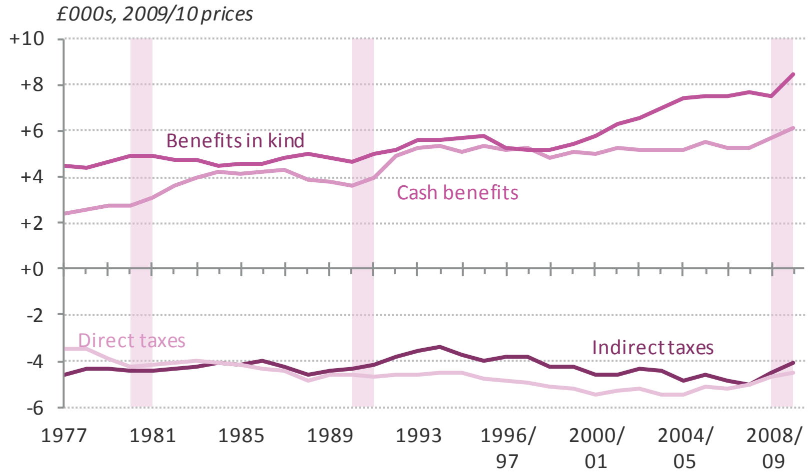
[12] ONS, "The redistribution of household income 1977 to 2006/07", *Economic and Labour Market Review*, Vol 3 No 1, January 2009

[13] Housing Benefit is likely to be a more important source of income for LMIs in relation to this survey than it is in others because, as discussed, in this instance we are unable to remove households in receipt of means-tested benefits from the LMI group.

Figure 2.16: Average taxes (-) and benefits (+) among LMI households: *UK 1977 – 2009/10*



Note: LMIs based on ONS definition: see Chapter 7. Figures deflated using RPI.

Source: RF analysis of ONS, *The effects of taxes and benefits on household incomes 2009/10* (and earlier)

Likely to be reversed in period of fiscal tightening

While the LMI balance has again grown during the most recent recession, planned spending cuts and reductions in the generosity of tax credits are likely to push this trend into reverse in the coming years. As such, the LMI balance could head back towards neutrality.[14]

2.4. Recession and recovery: *the triple crunch*

Many LMIs caught in 'triple crunch' of flat wages, rising prices and cuts in government support

Following significant volatility in the 1970s and 1980s, the period from 1992 to 2007 was characterised in the UK by low interest rates, low inflation and steady GDP growth. However, the speed with which problems in global credit markets in 2007 and 2008 spread to real economies around the world, exposed the fact that some of the preceding decade's economic growth had been built on unstable foundations. Growth in the UK was particularly fuelled by increased household borrowing and a prolonged housing boom. The international credit crisis thus helped push the UK into recession in Q2 2008.

The period since has been characterised for many LMIs by a 'triple crunch'. An *earnings crunch* driven by unemployment and cuts in working hours in both the public and private sectors has been compounded by a *cost of living crunch* that has been pushed by permanent global pressures on the cost of essential items such as food and fuel and by an increase in VAT. A determination to reduce the government's budget deficit has produced a third element – a *tax-benefit crunch* – driven by withdrawal of various forms of financial support for working families, particularly tax credits.

Table 2.2 details the impact of this triple crunch on three typical LMI families in 2011-12, along with projections for the following two years. Over the period as a whole, elements one (*earnings*) and two (*cost of living*) are set to reduce the

[14] See Chapter 6 for some projections of LMI tax credit receipts.

gross earnings of each family in real terms. While previous and planned increases in the income tax personal allowance will mitigate this effect to some extent, each family will still lose out.

The impacts of the third element of the crunch (*taxes and benefits*) vary from family to family, and the examples shown here are based on stylised situations, but they highlight the potentially significant consequences on household incomes. Sizeable reductions in child and working tax credits, alongside real-terms cuts in Child Benefit and the removal of Education Maintenance Allowance are projected to lower the incomes of the families shown here by between £2,800 and £4,000 a year in 2013-14 compared with a baseline of 2010-11. Taken together, the three elements will reduce the household incomes of the families by between 8 per cent and 13 per cent over the period.

Table 2.2: Impact of the 'triple crunch' on three stylised LMI families: *UK 2010-11 to 2013-14*

2011-12 prices (£)	2010-11	2011-12	2012-13	2013-14	Change from 2010-11 *in 2012-13*	*in 2013-14*
Aaron & Sophie						
Three children, aged 3, 5 and 7; single-earner working 35 hours a week						
Gross earnings	47,350	45,202	44,901	45,215	-2,449	-2,134
Post-tax earnings	34,576	32,826	32,656	32,799	-1,921	-1,778
Child Tax Credit	573	0	0	0	-573	-573
Child Benefit	2,577	2,449	1,593	0	-984	-2,577
Total household income	37,727	35,275	34,249	32,799	-3,478	-4,928
of which: resulting from change in post tax earnings					*-1,921*	*-1,778*
of which: resulting from changes in benefits and tax credits					*-1,558*	*-3,151*
Proportionate change in total income					*-9.2%*	*-13.1%*
Ben & Mandie						
Two children, aged under-1 and 4; dual-earners working 42 hours a week in total						
Gross earnings	41,037	39,175	38,914	39,187	-2,123	-1,850
Post-tax earnings	32,365	31,364	31,402	31,631	-962	-733
Working Tax Credit	4,602	2,150	1,813	1,647	-2,789	-2,956
Child Tax Credit	5,987	5,655	5,780	5,810	-207	-177
Child Benefit	1,844	1,752	1,710	1,674	-134	-169
Total household income	44,798	40,922	40,705	40,762	-4,092	-4,036
of which: resulting from change in post tax earnings					*-962*	*-733*
of which: resulting from changes in benefits and tax credits					*-3,130*	*-3,303*
Proportionate change in total income					*-9.1%*	*-9.0%*
Nikki						
Two children, aged 3 & 17 (still in education); single-parent working 32.5 hours a week						
Gross earnings	29,462	28,126	27,938	28,134	-1,524	-1,328
Post-tax earnings	22,354	21,488	21,468	21,623	-885	-730
Working Tax Credit	3,645	2,131	1,874	1,721	-1,770	-1,924
Child Tax Credit	5,414	5,655	5,780	5,810	+367	+396
Child Benefit	1,844	1,752	1,710	1,674	-134	-169
Education Maintentance Allowance	410	70	0	0	-410	-410
Total household income	33,666	31,096	30,833	30,828	-2,833	-2,838
of which: resulting from change in post tax earnings					*-885*	*-730*
of which: resulting from changes in benefits and tax credits					*-1,948*	*-2,108*
Proportionate change in total income					*-8.4%*	*-8.4%*

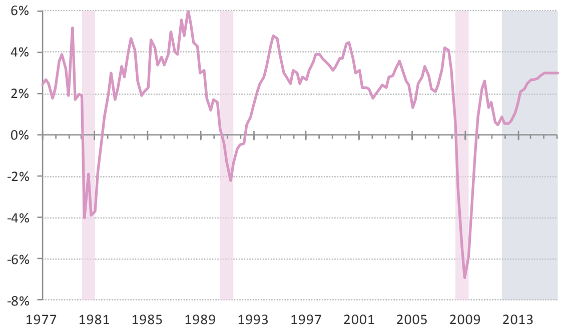
Notes: All increases in rates and thresholds and earnings based on information in Budget 2011 and Autumn Statement 2011. Budget measures specified here include shift to CPI indexation of direct taxation and above inflation increase in income tax personal allowance in 2012-13. Autumn Statement measures relate to removal of the above-indexation increase in the child element of the CTC and the freezing of the couple and single parent elements of the WTC. Fuel duty changes are absorbed in the underlying inflation forecasts.

Source: RF calculations based on stylised families

Economic outlook

Although the UK came out of recession in 2009, a variety of economic indicators remain some way below pre-crisis trends. Projections from the OBR and others suggest that the country remains several years away from a return to 'normal'.

Figure 2.17: Year-on-year change in GDP: *UK 1977 - 2016*

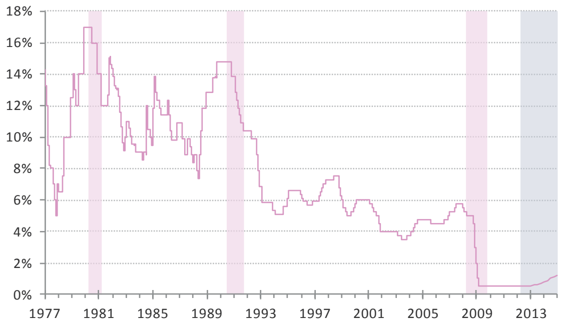


Note: Projections are central OBR forecast.

Sources: Outturn: ONS Time Series, IHYR;
Projection: OBR, *Economic and fiscal outlook*, November 2011, Chart 3.12 & Table C2

Figure 2.19 shows that annual GDP growth, which stood at 0.5 per cent in Q3 2011, is forecast to remain low throughout 2012 reflecting expectations of ongoing sovereign debt difficulties in the euro area and weak underlying productivity growth in the UK. It is projected to rise to 2.5 per cent in late-2013, before edging higher still over the remainder of the period, reaching 3.0 per cent by 2015 and 2016.

Figure 2.18: Base rate: *UK 1977 - 2014*

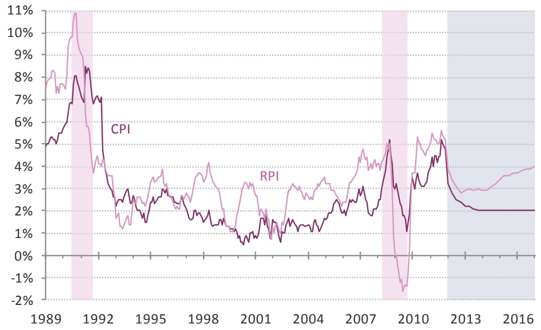


Note: Projections based on forward market interest rates.

Sources: Outturn: Bank of England;
Projection: Bank of England, *Inflation Report*, November 2011, p45

Having fallen to a historic low of 0.5 per cent in 2009, the Bank of England base rate is projected to remain below 1 per cent for the next few years, as shown in Figure 2.18. It is forecast to stand at just 1.2 per cent at the end of the period.

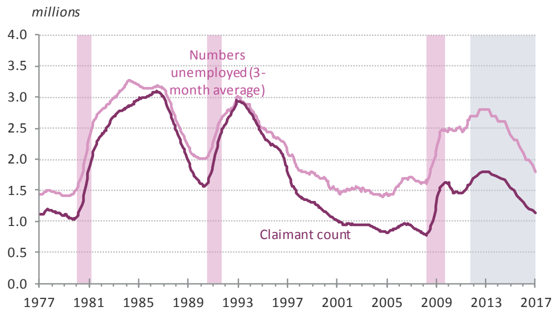
Figure 2.19: CPI and RPI inflation: *UK 1989 - 2017*



Note: Projections are central OBR forecast.
Sources: Outturn: ONS Time Series, *D7G7* & *CZBH*; Projection: OBR, *Economic and fiscal outlook*, November 2011, Chart 3.27; OBR, *Economic and fiscal outlook: supplementary economic tables*, November 2011, Table 1.5

Figure 2.19 details CPI and RPI inflation. It shows that price levels rose more quickly than previously forecast during 2011 due to higher than expected increases in utility prices. While these pressures are set to persist, the OBR expects inflation to fall sharply during 2012 as past VAT rises and the upward pressure from higher energy and commodity prices fall out of the annual comparison, and as spare capacity in the economy subdues inflationary pressures.

Figure 2.20: Unemployment trends: *UK 1977 - 2017*



Note: Projections represent central OBR forecast.
Source: Outturn: ONS Labour Market Datasets *MGSC* & *BCJD*;
Projection: OBR, *Economic and fiscal outlook*, November 2011, Chart 3.30

Figure 2.20 charts unemployment in the UK in the period from January 1977. It records both a three-month average of the numbers of people considered unemployed on the ILO definition and monthly numbers claiming Job Seekers Allowance.

On the ILO measure, unemployment increased from 1.6 million in the three months centred on April 2008, to 2.6 million in the three months centred on September 2011. Under the OBR's central case projection, numbers are expected to peak at 2.8 million in 2012 and 2013. Even by the end of the forecast period, ILO unemployment is projected to remain above the pre-recession level (at 1.8 million). The claimant count has followed a similar path, doubling from 0.8 million in April 2008 to 1.6 million in September 2011. A peak of 1.8 million is expected in Q1 2013.

Economic outlook is highly uncertain, but recovery looks set to be sluggish at best

These economic forecasts are based on central case projections. In truth, the unknown interaction discussed above between those factors that will support economic recovery and those that will hinder it, means that both the OBR and Bank of England emphasise high degrees of uncertainty in their projections.

3. Work and skills

Three-quarters of low-to-middle income adults were in work in 2009-10, with one-half of the group located in the four sectors of retail, health and social work, manufacturing and construction. While males in the group were more likely to be in work than females, the gap has narrowed significantly over the past decade, and particularly so since the start of the recession.

Both unemployment and underemployment have increased sharply since the start of the downturn, with typical LMI sectors such as manufacturing, construction and retail being the worst affected. Within sectors, it is individuals in the lower level occupations typical of LMIs that have been most likely to suffer. In addition, once out of work, lower-skilled workers have taken longer than higher-skilled ones to find employment again.

3.1. Economic activity: *LMI experiences of work before and during the downturn*

Unemployment grew by less than expected during the recession

Despite the sharp increases in unemployment set out in Figure 2.19 and Figure 2.20, numbers rose by less during the recession than many would have expected, given the size of the fall in output and evidence from previous downturns. There are a number of potential explanations for this surprising resilience, not least the business support measures (such as the Enterprise Finance Guarantee and Working Capital) and active labour market policies (for example, the Job Guarantee Fund) introduced by the previous government which helped to both contain the number of firms going bust and get those losing their jobs back into work.

However, within the labour market itself, there appear to have been three main factors at play, which have persisted during the recovery.

Due to retention of skilled staff

First, businesses retained staff in anticipation of recovery. This appears to have been particularly true in relation to the highest skilled members of the labour force who are harder and more expensive to hire and lay off and who firms are more likely to have invested time and money in. The increase in skill levels within the UK economy compared to earlier periods of downturn means that this response was likely to have been more common this time around.

Pay restraint

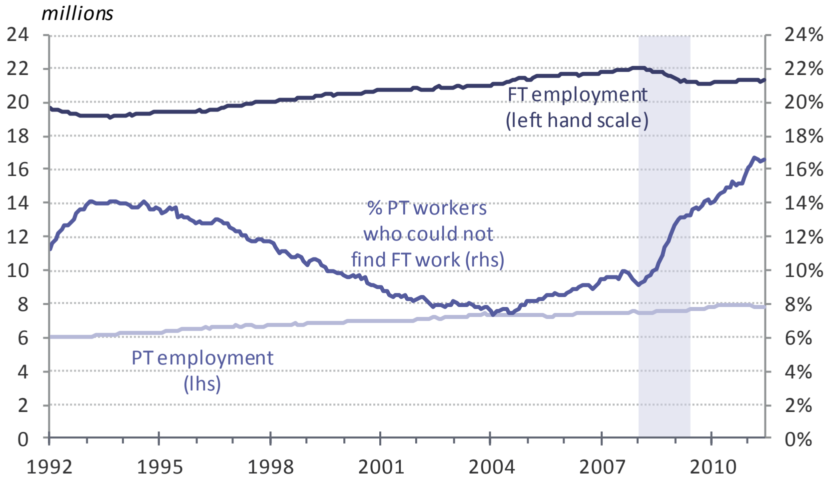
Secondly, wages were more flexible than in previous recessions. Having averaged 4.0 per cent in the period 2001-2007, annual increases in average weekly earnings averaged 2.2 per cent between the start of the recession and November 2011, falling as low as 1.0 per cent at the end of 2009.

And growth in under-employment

Thirdly, unemployment was mitigated to some extent by an increase in *under*employment. ONS analysis of Labour Force Survey statistics shows that the number of individuals who wanted to work more hours than are currently available to them increased by 594,000 in the year to Q3 2009, to stand at 2.8 million. The underemployment rate[15] increased by 2.2 percentage points – from 7.7 per cent to 9.9 per cent – compared with an increase of 2.0 percentage points in the unemployment rate.[16]

Figure 3.1 shows how falling full-time employment during the recession was compensated in part by rising part-time employment, but that this coincided with a sharp increase in the proportion of part-time workers who were in this position because they were unable to find full-time work.

Figure 3.1: Full-time and part-time workers: *UK 1992 - 2011*



Source: ONS Labour Market Datasets *YCBE*, *YCBH*, *YCDA* & *YCCC*

56 per cent of LMIs working full-time and 22 per cent part-time

It is against this backdrop that we consider the working status of LMI adults, with a lag in the *Family Resources Survey* data meaning that the latest direct measure we can take for the group is from 2009-10. Table 3.1 compares economic activity among adults in each of the income groups we define. It shows that LMIs (83 per cent) were only slightly less likely than higher income adults (94 per cent) to be economically active in 2009-10, and almost twice as likely as members of the benefit-reliant (44 per cent) group.

5 per cent unemployed

Compared to members of the higher income group however, LMIs were considerably less likely to be in full-time employment (56 per cent and 79 per cent), much more likely to be in part-time employment (22 per cent and 14 per cent) and five times more likely to be unemployed (5 per cent and 1 per cent). LMIs (11 per cent) were also marginally more likely than members of the other two income groups (7 per cent and 8 per cent) to be self-employed.

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[15] Numbers underemployed measured as a proportion of all in employment.

[16] ONS, "Underemployment in the UK labour market", *ELMR*, Vol. 4, No. 2, February 2010

Table 3.1: Economic activity among adults by income group: *UK 2009-10*

	Number (000s)				Proportion in each income group				Proportion by activity category			
	Benefit-reliant	LMIs	Higher income	All households	Benefit-reliant	LMIs	Higher income	All households	Benefit-reliant	LMIs	Higher income	All households
Economically active	2,200	8,400	16,600	27,200	44%	83%	94%	83%	8%	31%	61%	100%
Full time work	700	5,700	13,900	20,300	13%	56%	79%	62%	3%	28%	69%	100%
Part time work	600	2,200	2,400	5,200	11%	22%	14%	16%	11%	42%	47%	100%
Full-time employee	*400*	*4,800*	*12,800*	*18,000*	*8%*	*47%*	*72%*	*55%*	*2%*	*27%*	*71%*	*100%*
Full-time self-employed	*200*	*900*	*1,100*	*2,300*	*5%*	*9%*	*6%*	*7%*	*11%*	*39%*	*51%*	*100%*
Part-time employee	*500*	*2,000*	*2,100*	*4,500*	*9%*	*19%*	*12%*	*14%*	*10%*	*43%*	*46%*	*100%*
Part-time self-employed	*100*	*200*	*300*	*600*	*2%*	*2%*	*2%*	*2%*	*14%*	*36%*	*50%*	*100%*
Unemployed	1,000	600	200	1,800	20%	5%	1%	5%	55%	31%	14%	100%
Economically inactive	2,800	1,700	1,100	5,600	56%	17%	6%	17%	50%	31%	19%	100%
Looking after family/home	700	600	400	1,700	14%	6%	2%	5%	42%	37%	22%	100%
Permanently sick/disabled	1,400	500	200	2,200	28%	5%	1%	7%	65%	25%	10%	100%
Retired	100	200	200	600	3%	2%	1%	2%	22%	39%	39%	100%
Student	0	100	0	100	1%	1%	0%	0%	32%	42%	26%	100%
Temporarily sick/disabled	100	0	0	200	3%	0%	0%	1%	67%	25%	8%	100%
Other	400	200	200	900	9%	2%	1%	3%	48%	27%	24%	100%
All adults	5,000	10,100	17,700	32,900	100%	100%	100%	100%	15%	31%	54%	100%

Note: Income groups based on FRS definitions: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Activity rates have tended to be more volatile in the LMI group over time

Figure 3.2 compares economic activity trends among LMIs with higher income adults in the period 2000-01 to 2009-10. It is important to remember that the data represent a series of snapshots rather than a picture of what happens to members of each income group over time. For example, a significant proportion of those who were LMIs in 2008-09 who subsequently lost their jobs will have dropped out of the group altogether in 2009-10. Nevertheless, the charts help describe changes in the profile of the two income groups over time.

With economic downturn having particular impact

What is instantly clear is the higher rates of volatility in economic activity in the LMI group. For example, while the proportion of higher income adults in work varied little over the period (from 91 per cent in 2002-03 to 93 per cent in 2007-08), there was much more movement in the LMI group (from 75 per cent in 2000-01, to 79 per cent in 2005-06 and back down to 77 per cent in 2008-09).

It is also apparent that, during the recession, those most affected by the labour market trends discussed above were situated in the LMI group.

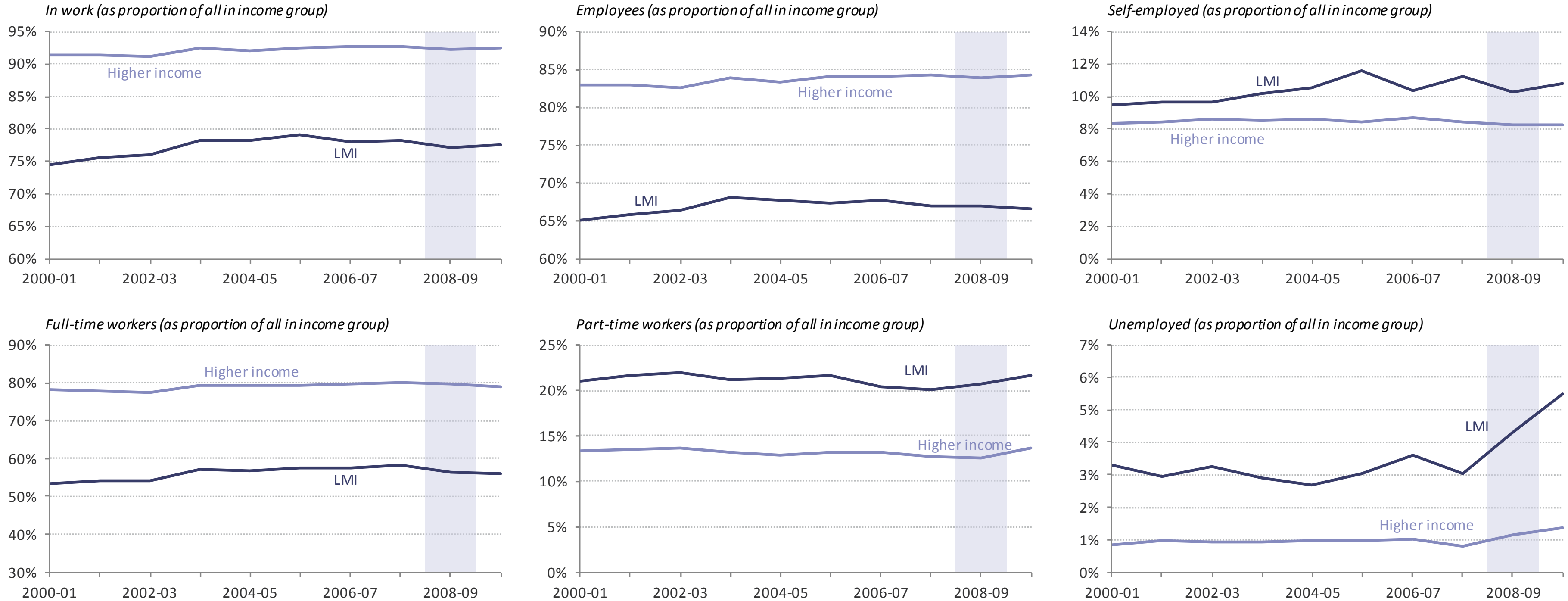
For example, the proportion of LMIs who were unemployed rose from 3.6 per cent in 2006-07 to 5.5 per cent in 2009-10 (a 62 per cent increase), while the proportion of higher income adults who were unemployed increased from 1.0 per cent to just 1.4 per cent over the same period (a 45 per cent rise).

Similarly, the proportion of LMIs working full-time fell from 57.7 per cent to 55.9 per cent (a 3 per cent drop) and the proportion working part-time increased from 20.4 per cent to 21.6 per cent (a 6 per cent jump) over the three years. In contrast, the proportions in the higher income group moved from 79.5 per cent to 78.9 per cent (a 0.9 per cent decline) and from 13.2 per cent to 13.6 per cent (a 3.6 per cent increase).

As discussed above, it is likely that the increase in part-time work in the LMI group reflected in part an unwanted reduction in hours for previously full-time working LMI and higher income adults (whose reduced incomes pushed them into the LMI group in 2009-10). It could also be a product of some previously non-working LMI adults moving into work as a means of replacing lost incomes from elsewhere in the household.

This second possibility is supported by consideration of the gender split in activity, which shows increases in female employment (full-time and part-time) over the course of the recession, in contrast with falls in male employment.

Figure 3.2: Economic activity among adults by income group: ***UK 2000-01 to 2009-10***



Note: Income groups based on FRS *definition*: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

Table 3.2 details activity rates among males and females in each of the income groups in 2009-10. In all groups, males were more likely to be active than females, more likely to be working full-time and be self-employed, but less likely to be working part-time.

Three-quarters of LMI men work full-time

Two-fifths of women

Among LMIs, three-quarters (72 per cent) of men were working full-time, compared with two-fifths (40 per cent) of women. In contrast, just 9 per cent of men were working part-time, compared with 35 per cent of women. LMI men (7 per cent) were almost twice as likely as women (4 per cent) to be unemployed, though women (21 per cent) were much more likely than men (13 per cent) to be inactive.

Table 3.2: Economic activity among adults by income group and sex: *UK 2009-10*

	Benefit-reliant		LMIs		Higher income		All adults	
	Male	Female	Male	Female	Male	Female	Male	Female
Economically active	52%	36%	87%	79%	96%	91%	87%	78%
Full time work	18%	9%	72%	40%	90%	66%	74%	48%
Part time work	7%	15%	9%	35%	5%	24%	6%	26%
Full-time employee	*10%*	*7%*	*58%*	*36%*	*81%*	*63%*	*64%*	*45%*
Full-time self-employed	*8%*	*1%*	*14%*	*3%*	*10%*	*3%*	*11%*	*3%*
Part-time employee	*5%*	*13%*	*7%*	*32%*	*3%*	*22%*	*5%*	*24%*
Part-time self-employed	*2%*	*2%*	*2%*	*3%*	*1%*	*2%*	*1%*	*2%*
Unemployed	27%	12%	7%	4%	2%	1%	7%	4%
Economically inactive	48%	64%	13%	21%	4%	9%	13%	22%
Looking after family/home	2%	25%	0%	12%	0%	4%	1%	10%
Permanently sick/disabled	31%	25%	6%	5%	1%	2%	7%	7%
Retired	4%	1%	3%	1%	2%	1%	3%	1%
Student	1%	1%	0%	1%	0%	0%	0%	0%
Temporarily sick/disabled	3%	2%	1%	0%	0%	0%	1%	1%
Other	*8%*	*9%*	*2%*	*3%*	*1%*	*2%*	*2%*	*3%*
All adults	100%	100%	100%	100%	100%	100%	100%	100%

Note: Income groups based on FRS definitions: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Gap has narrowed over time

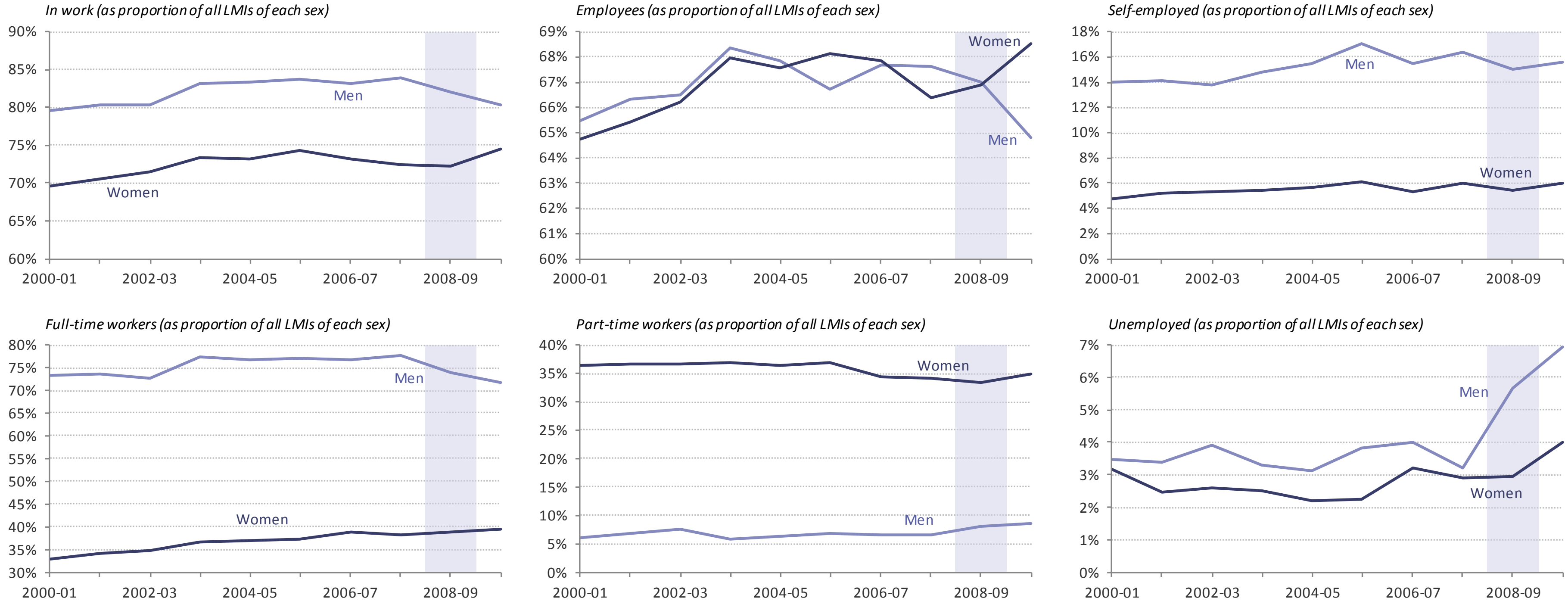
Particularly over the early part of the economic downturn

Figure 3.3 compares changes in male and female activity rates over the period 2000-01 to 2009-10 in the LMI group. It highlights a narrowing of the gaps between the sexes in terms of the proportions in work and in terms of the full- and part-time shares, particularly over the course of the recession.

For example, the proportion of LMI men in work increased from 79.5 per cent in 2000-01 to 84.0 per cent in 2007-08, before declining to 80.4 per cent in 2009-10. Over the period as a whole it therefore rose by 1 per cent. In contrast, the proportion of LMI women in work increased steadily over the entire period, continuing to increase during the recession. It therefore jumped 7 per cent, from 69.5 per cent in 2000-01 to 74.5 per cent in 2009-10.

Similarly, while the proportion of LMI women working part-time *fell* by 4 per cent (from 36.5 per cent in 2000-01 to 35.0 per cent in 2009-10), the proportion of LMI men in this position *increased* from 6.1 per cent to 8.5 per cent (a 40 per cent rise). Once again this trend, which was already in train, was accelerated during the recession.

Figure 3.3: Economic activity among LMI adults by sex: *UK 2000-01 to 2009-10*



Note: LMIs based on FRS *definition*: see Chapter 7.

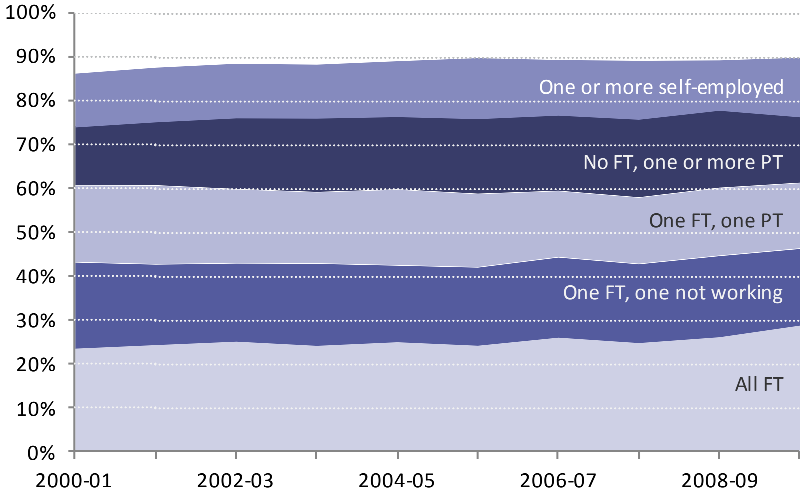
Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

Resulting in growth of LMI families in which all adults work full-time

The charts also show that unemployment rose much more markedly among male LMIs than among females, reflecting the sectors most affected during the first two years of the downturn. It is worth noting, however, that more recent cuts in public sector jobs are likely to have reversed this trend somewhat.

Figure 3.4 shows how these shifts in LMI employment trends have played out at the family level over the period. It highlights a sizeable increase in the proportion of LMI families in which all adults are working full-time, with much (though not all) of the increase taking place during the recession. This shift, along with smaller increases in dual part-time and self-employed families, was offset by falls in the proportions of LMI households with either a single earner or one full-time and one part-time worker.

Figure 3.4: Employment status of LMI families: *UK 2000-01 to 2009-10*



Note: LMIs based on FRS *definition*: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

While reliance on the data in the *Family Resources Survey* precludes analysis of more recent experiences of LMIs, particularly during the deterioration of labour market conditions that took place in 2011, we are able to draw some general conclusions based on the sectors LMIs work in and their typical skill and occupational profiles.

3.2. Industrial sectors: *where do LMIs work?*

Half of all LMI jobs located in four sectors of retail, health & social work, manufacturing and construction

Table 3.3 details the number of workforce jobs held by LMIs in 2009-10. It shows that four sectors accounted for half of all LMI jobs: 1.4 million in *retail* (17 per cent of all LMI jobs), 1.1 million in *health and social work* (13 per cent), 0.9 million in *manufacturing* (11 per cent) and 0.7 million in *construction* (9 per cent).

Table 3.3: Workforce jobs by income group of adult: *UK 2009-10*

	Number (000s)				Proportion in each income group				Proportion in each sector			
	Benefit-reliant	LMIs	Higher income	All adults	Benefit-reliant	LMIs	Higher income	All adults	Benefit-reliant	LMIs	Higher income	All adults
Retail, wholesale & repair of motor vehicles	330	1,390	1,710	3,430	19%	17%	11%	13%	10%	41%	50%	100%
Health & social work	170	1,080	2,090	3,330	9%	13%	13%	13%	5%	32%	63%	100%
Manufacturing	180	920	1,660	2,770	10%	11%	10%	11%	7%	33%	60%	100%
Construction	230	730	1,210	2,170	13%	9%	8%	8%	10%	34%	56%	100%
Education	120	700	1,830	2,650	7%	9%	11%	10%	5%	26%	69%	100%
Admin. & support services (e.g. cleaners, maintenance)	120	470	570	1,160	7%	6%	4%	4%	10%	41%	49%	100%
Hotels & restuarants	180	470	400	1,050	10%	6%	3%	4%	17%	44%	38%	100%
Transportation & storage	110	450	730	1,290	6%	6%	5%	5%	8%	35%	57%	100%
Public admin, defence & compulsory social security	30	440	1,580	2,050	2%	5%	10%	8%	1%	22%	77%	100%
Professional, scientific & technical (e.g. lawyers, marketing)	90	320	1,290	1,700	5%	4%	8%	7%	5%	19%	76%	100%
Other service activities (e.g. hairdressers)	60	310	500	880	4%	4%	3%	3%	7%	36%	57%	100%
Financial & insurance activities	20	210	840	1,070	1%	3%	5%	4%	2%	20%	78%	100%
Arts, entertainment and recreation	50	190	330	560	3%	2%	2%	2%	9%	33%	58%	100%
Information and communication	30	170	730	930	2%	2%	5%	4%	3%	18%	79%	100%
Agriculture, forestry and fishing	20	90	120	230	1%	1%	1%	1%	8%	41%	51%	100%
Real estate activities	10	80	150	240	0%	1%	1%	1%	3%	35%	63%	100%
All other industries	30	140	340	500	1%	2%	2%	2%	5%	27%	68%	100%
All jobs	1,760	8,170	16,060	25,990	100%	100%	100%	100%	7%	31%	62%	100%

Notes: LMIs based on FRS definitions: see Chapter 7. Industries correspond to the SIC 207 categories established by the ONS. Respondents to previous FRS surveys were allocated to industries within the SIC 92 classification system, making comparisons of the figures in this table with earlier years unreliable.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Over-represented in hotels & restaurants and administration & support services

LMIs accounted for 31 per cent of all jobs. They were over-represented in *hotels and restaurants* (44 per cent of all jobs in the sector), *administration and support services* (41 per cent) and *retail* (41 per cent).By contrast, they were under-represented in the *information and communication* (18 per cent), *professional, scientific and technical* (19 per cent) and *financial and insurance* (20 per cent) sectors.

Consideration of the output and employment performances of these various sectors since the start of the recession suggests that it is many of the most important LMI industries which have been worst affected during the downturn. For example, Table 3.4 shows that some of the largest falls in job numbers between Q1 2008 and Q3 2011 occurred in the *manufacturing* (down 13.4 per cent), *construction* (-10.5 per cent) and *retail* (-5.2 per cent) sectors.

Table 3.4: Number of workforce jobs by industry: *UK 2008 - 2011*

	000s	Change					
	Q3	*since Q1 2008*		*y-on-y*		*q-on-q*	
(seasonally adjusted)	2011	000s	%	000s	%	000s	%
Retail, wholesale & repair of motor vehicles	4,777	-264	-5.2%	+18	+0.4%	+25	+0.5%
Health & social work	4,040	+346	+9.4%	-20	-0.5%	-37	-0.9%
Manufacturing	2,511	-390	-13.4%	-24	-0.9%	-14	-0.5%
Construction	2,071	-243	-10.5%	-66	-3.0%	-18	-0.9%
Education	2,620	+39	+1.5%	-95	-3.5%	-25	-0.9%
Admin. & support services (e.g. cleaners, maintenance)	2,395	-78	-3.2%	+73	+3.2%	+65	+2.7%
Hotels & restuarants	1,982	+4	+0.2%	+55	+2.8%	+44	+2.3%
Transportation & storage	1,474	-48	-3.2%	+2	+0.1%	-7	-0.5%
Public admin, defence & compulsory social security	1,632	-124	-7.1%	-103	-5.9%	-26	-1.5%
Professional, scientific & technical (e.g. lawyers, marketing)	2,446	+200	+8.9%	+96	+4.2%	+52	+2.1%
Other service activities (e.g. hairdressers)	872	-4	-0.5%	+81	+9.7%	+46	+5.5%
Financial & insurance activities	1,124	-27	-2.3%	-11	-1.0%	-11	-1.0%
Arts, entertainment and recreation	879	+7	+0.8%	+11	+1.3%	+7	+0.8%
Information and communication	1,193	+11	+0.9%	+69	+6.0%	+12	+1.1%
Agriculture, forestry and fishing	459	+53	+13.1%	-1	-0.3%	+22	+5.1%
Real estate activities	417	-7	-1.7%	-26	-5.9%	+1	+0.2%
All other industries	377	+64	+20.4%	+30	+9.8%	+11	+3.1%
All jobs	31,271	-459	-1.4%	+89	+0.3%	+150	+0.5%

Source: ONS labour market datasets

These same sectors tended to be worst hit since start of downturn

In comparison to a year ago, however, there is some evidence of a small rebound (or at least a slowdown in the rate of decline) in a number of LMI sectors. The number of jobs in *retail* increased by 0.4 per cent between Q3 2010 and Q3 2011, while employment in *hotels and restaurants* grew by 2.8 per cent and job numbers in *administration and support services* jumped by 3.2 per cent. Instead, the largest falls in job numbers in this period took place in the *public administration* sector (-5.9 per cent), in which LMIs are under-represented.

Clearly, however, jobs losses and gains within sectors need not necessarily be evenly distributed across all employees. As discussed above, part of the resilience of the labour market during the recession has been credited to the hoarding of skilled staff by employers. To get a fuller picture of the experiences of LMIs during the downturn we must therefore next consider their occupational profile, and the recent employment outcomes associated with this.

3.3. Occupational categories: *what sorts of jobs do LMIs do?*

LMIs typically in lower-level occupations

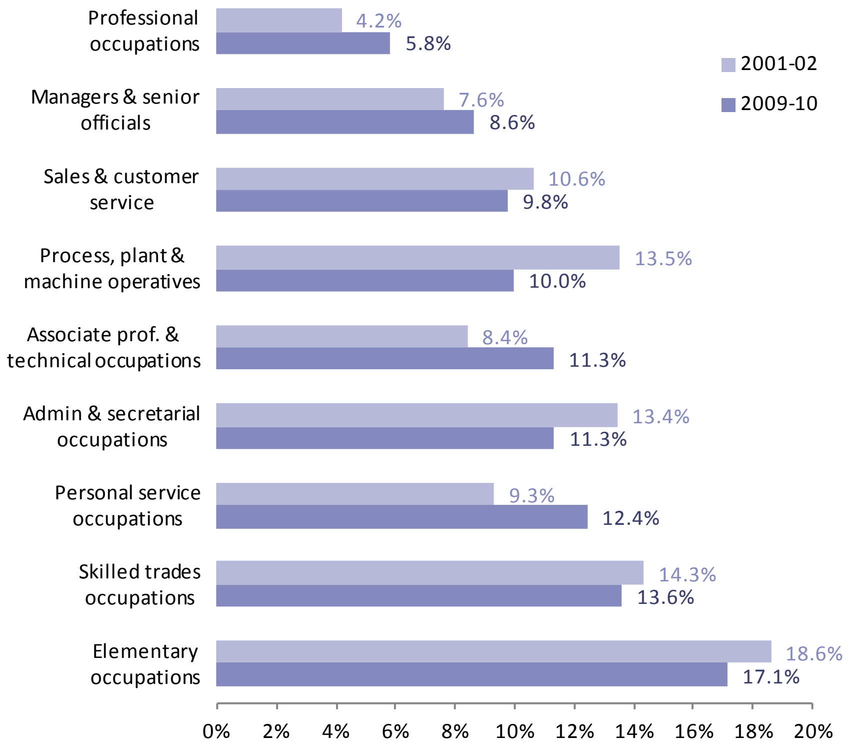
Within each of the sectors in which they work, LMIs are most likely to be employed in lower level jobs. Table 3.5 shows 17 per cent of working LMIs were engaged in *elementary* occupations in 2009-10 and 14 per cent were in *skilled trades*, while just 9 per cent were *managers and senior officials* and 6 per cent worked in *professional* occupations.

Over-represented in elementary, sales & customer service and personal service occupations

LMIs accounted for 32 per cent of all employees. Within each category, they were over-represented in *elementary* (50 per cent of all employees), *sales and customer services* (48 per cent) and *personal service* (45 per cent) occupations. In contrast, they were under-represented among *professionals* (14 per cent of all employees in this category), *managers and senior officials* (17 per cent) and those in *associate professional and technical* (22 per cent) occupations.

Figure 3.5 sets out changes in the distribution of occupations across LMI workers between 2001-02 and 2009-10. It highlights the growing proportions of LMI employees categorised as *professionals* and as *managers and senior officials*, along with the corresponding decline in the share accounted for by *elementary* occupations.

Figure 3.5: LMI employees by occupation category: *UK 2001-02 & 2009-10*



Notes: LMIs based on FRS definition: see Chapter 7. Does not include employees not allocated to one of the occupational categories above.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* and *2001-02*

Table 3.5: Employees by occupation category and income group: *UK 2009-10*

	Number (000s)				Proportion in each income group				Proportion in each occupation			
	Benefit-reliant	LMIs	Higher income	All households	Benefit-reliant	LMIs	Higher income	All households	Benefit-reliant	LMIs	Higher income	All households
Elementary occupations	450	1,440	980	2,870	25%	17%	6%	11%	16%	50%	34%	100%
Skilled trades occupations	290	1,140	1,510	2,930	16%	14%	9%	11%	10%	39%	51%	100%
Personal service occupations	170	1,040	1,120	2,340	10%	12%	7%	9%	7%	45%	48%	100%
Administrative and secretarial occupations	150	950	1,850	2,960	9%	11%	11%	11%	5%	32%	63%	100%
Associate professional and technical occupations	140	950	3,190	4,280	8%	11%	19%	16%	3%	22%	75%	100%
Process, plant and machinery operatives	190	840	900	1,920	10%	10%	5%	7%	10%	44%	47%	100%
Sales and customer service occupations	190	820	710	1,720	10%	10%	4%	6%	11%	48%	41%	100%
Managers and senior officials	160	730	3,300	4,190	9%	9%	20%	16%	4%	17%	79%	100%
Professional occupations	70	490	2,990	3,540	4%	6%	18%	13%	2%	14%	84%	100%
Total employees[1]	1,810	8,390	16,550	26,760	100%	100%	100%	100%	7%	31%	62%	100%

Notes: LMIs based on FRS definitions: see Chapter 7.

[1] Does not include employees not allocated to one of the occupational categories above.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Though some increase in the number of managers and professionals over the decade

These changes may in part reflect genuine up-skilling within the LMI group. However, they are also likely to be the product of economy-wide shifts in occupational structures.

One theory is that the development of technology in recent years has helped to boost the productivity of, and therefore demand for, high-skilled workers while at the same time replacing many of the jobs previously undertaken by lower-skilled employees.[17] It is also likely, however, that they form part of the wider trend of job-title inflation.[18] This trend has resulted in a growing number of managers and supervisors across the economy generally which has not necessarily fed through into wage growth. That is, job titles which were once strong indicators of top pay have increasingly extended down the earnings distribution.[19]

Table 3.6 provides more detail of the types of jobs which LMIs occupy by cross-referencing the occupational distribution in 2009-10 with the industry split. The numbers in the dark boxes detail the share of LMIs in each occupation by industry and sum *downwards* to 100 per cent. The numbers in pale boxes break down the proportion of LMIs in each industry by occupational category and sum to 100 per cent *across* the table.

Many of whom are located in the relatively low-paying retail and education sectors

It shows, for example, that 42 per cent of LMIs in *administration and support services* and 56 per cent of those working in *hotels and restaurants* were classified as working in *elementary* occupations. More tellingly, 46 per cent of those working in the relatively high paying *financial and insurance* sector were in relatively low-skill *administrative and secretarial occupations*.

Focusing on those LMIs in relatively high-skilled roles, the table shows that one-quarter (27 per cent) of those working as *managers and senior officials* were located in the *retail* industry, while one-third of *professional* LMIs worked in *education*. We might expect that the first group of workers were largely employed as relatively low-paid shift managers and supervisors in high street stores, while those in the second groupcomprised a sizeable number of relatively low-paid teaching assistants.

The picture set out in Table 3.6 is therefore one in which LMIs in higher paying sectors in 2009-10 were concentrated in lower-skilled and therefore lower-paying roles, while those with higher-skilled job titles were concentrated in lower-paying industries.

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[17] Goos M and Manning A, "Lousy jobs and lovely jobs: the rising polarization of work in Britain", *The Review of Economics and Statistics*, 89(1): 118-133, 2007

[18] See for example, "Too many chiefs", *The Economist*, 24 June 2010

[19] Holmes C and Mayhew K, *The changing shape of the UK job market and its implications for the bottom half of earners*, report for the Resolution Foundation's Commission on Living Standards, forthcoming

Table 3.6: Distribution of LMI jobs by industry and occupation: *UK 2009-10*

Jobs as a proportion of all LMIs in occupation (i.e. read down) — first column under each occupation

Jobs as a proportion of all LMIs in industry (i.e. read across) — second column under each occupation

	Elementary occupations		Skilled trades occupations		Personal service occupations		Administrative and secretarial occupations		Associate professional and technical occupations		Process, plant and machinery operatives		Sales and customer service occupations		Managers and senior officials		Professional occupations		All jobs (000s)
Retail, wholesale & repair of motor vehicles	16%	16%	11%	9%	0%	0%	12%	8%	8%	5%	13%	8%	71%	40%	27%	14%	3%	1%	1,390
Health & social work	6%	8%	2%	2%	48%	45%	14%	12%	25%	21%	1%	1%	2%	1%	7%	4%	12%	5%	1,080
Manufacturing	10%	15%	21%	26%	0%	0%	7%	7%	7%	7%	35%	31%	2%	2%	10%	8%	8%	4%	920
Construction	6%	13%	36%	55%	0%	0%	5%	6%	4%	5%	9%	10%	1%	1%	7%	6%	6%	4%	700
Education	6%	13%	1%	2%	27%	39%	5%	7%	7%	9%	2%	3%	0%	0%	3%	3%	35%	24%	700
Admin. & support services (e.g. cleaners, maintenance)	14%	42%	6%	15%	3%	6%	5%	9%	4%	8%	3%	5%	5%	8%	4%	5%	2%	2%	470
Hotels & restuarants	18%	56%	5%	13%	2%	4%	2%	4%	1%	1%	2%	3%	3%	5%	9%	14%	0%	0%	470
Transportation & storage	9%	30%	1%	3%	2%	4%	3%	6%	1%	2%	24%	44%	2%	3%	5%	7%	0%	0%	450
Public admin, defence & compulsory social security	2%	8%	2%	5%	2%	5%	18%	37%	13%	26%	1%	2%	2%	3%	5%	7%	6%	7%	440
Professional, scientific & technical (e.g. lawyers, marketing)	1%	5%	2%	7%	1%	3%	7%	21%	10%	29%	1%	4%	2%	5%	5%	12%	11%	17%	320
Other service activities (e.g. hairdressers)	2%	10%	2%	8%	12%	38%	4%	11%	3%	10%	1%	4%	1%	1%	5%	11%	4%	7%	310
Financial & insurance activities	0%	3%	0%	1%	0%	0%	10%	46%	4%	16%	0%	0%	5%	19%	3%	9%	3%	6%	210
Arts, entertainment and recreation	2%	13%	2%	12%	2%	9%	3%	15%	6%	31%	0%	2%	1%	4%	3%	10%	2%	4%	190
Information and communication	0%	4%	1%	9%	0%	0%	1%	8%	5%	27%	1%	3%	3%	14%	4%	18%	6%	18%	170
Agriculture, forestry and fishing	2%	33%	4%	42%	0%	1%	1%	9%	0%	0%	1%	4%	0%	0%	1%	11%	0%	0%	90
Real estate activities	1%	9%	1%	10%	0%	4%	1%	16%	3%	34%	0%	2%	0%	3%	2%	19%	1%	3%	80
All other industries	2%	23%	2%	17%	1%	10%	1%	10%	1%	5%	4%	24%	0%	2%	1%	4%	1%	4%	140
All jobs (000s)	1,410		1,120		1,010		930		920		820		780		700		480		8,170

Notes: LMIs based on FRS definitions: see Chapter 7.
Totals relate to jobs rather than employees.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

LMI occupations experienced biggest absolute increases in unemployment

As with our analysis of LMI industries, consideration of more recent data at the occupational level suggests that LMI employees have been worst hit since the beginning of the economic downturn.

Table 3.7 sets out the number of Job Seekers Allowance claimants in the UK by the 'usual occupation' reported by claimants in the period from Q1 2008. In Q4 2011, JSA numbers were highest in typical LMI occupational categories such as *elementary* (446,000), *sales and customer service* (372,000) and *administrative and secretarial activities* (153,000).

Table 3.7: Number of JSA claimants by 'usual occupation' of claimant: *UK 2008 - 2011*

	000s	Change *(%)*						Long-term
	Q4	*since Q1 2008*		*y-on-y*		*q-on-q*		unemployed[1]
	2011	000s	%	000s	%	000s	%	Q4 2011 (000s)
Elementary occupations	446	+153	+52%	+32	+8%	+1	+0%	208
Skilled trades occupations	149	+57	+62%	-12	-8%	+1	+1%	60
Personal service occupations	102	+60	+147%	+16	+19%	+0	+0%	38
Administrative and secretarial occupations	153	+70	+85%	+17	+13%	-4	-3%	57
Associate professional and technical occupations	91	+45	+99%	+5	+6%	-1	-1%	30
Process, plant and machine operatives	128	+38	+42%	-7	-5%	-2	-1%	58
Sales and customer service occupations	372	+232	+167%	+90	+32%	+5	+1%	140
Managers and senior officials	53	+22	+73%	-3	-5%	-2	-3%	18
Professional occupations	47	+25	+120%	+1	+2%	-2	-4%	14
Occupation unknown	17	+16	+989%	+5	+37%	-1	-7%	2
All	1,557	+719	+86%	+144	+10%	-4	-0%	624

Notes: [1] Unemployed for over 26 weeks.
Source: NOMIS database, 16 December 2011

And biggest proportional increases in past year

While claimants among *managers and senior officials* and among *professionals* increased significantly in proportional terms over the same period, in the year to Q4 2011 the biggest increases occurred among *sales and customer service* (+32 per cent), *personal service* (+19 per cent) and *administrative and secretarial* (+13 per cent) workers.

Also form bulk of long-term unemployed

Moreover, long-term unemployment in Q4 2011 was much more prevalent among people saying their usual occupation was *elementary* (208,000) than any other category: the next highest was *sales and customer service* (140,000) occupations. Just 14,000 long-term unemployed came from *professional* occupations.

3.4. Qualifications: *the skills profile of LMIs*

LMIs have low-to-mid level skills profile

There is no definitive hierarchy to the occupational levels set out in Table 3.7: while it is clear that *elementary* occupations are less skilled than *professional* ones, it is not obvious how *skilled trades* compared with *sales and customer service* occupations. Moreover, job titles vary across companies, so there is likely to be some inconsistency in the categories recorded for each worker.

Nationally recognised qualifications therefore give a much better sense of the skills profile of workers. On this measure, LMIs can be seen to be concentrated in the low-to-mid level of the range. That is, members of LMI households tend to have lower levels of qualifications than those in higher income households and higher levels than those in benefit-reliant ones.

Table 3.8 shows that 42 per cent of LMI adults had no qualification beyond GCSE/O-level in 2009-10, compared with 52 per cent among those from the benefit-reliant group and 25 per cent of higher income adults. By contrast, just 18 per cent of LMIs had some form of university qualification, compared with 11 per cent of benefit-reliant adults and 40 per cent of higher income ones.

Table 3.8: Highest level of educational qualification of adults by income group: *UK 2009-10*

	Benefit-reliant	LMIs	Higher income	All individuals
No formal qualifications	5%	3%	1%	2%
GCSE grade D-G or CSE grade 2-5 or Standard Grade level 4-6	12%	8%	3%	6%
O/GCSE equiv. (A-C) or O/CSE equiv (1) or Std. Grade lev 1-3	34%	31%	21%	25%
ONC / National Level BTEC	7%	8%	7%	7%
A-Levels or Highers	8%	10%	11%	10%
Higher educational qualification below degree level	7%	9%	10%	10%
Other quals. (including foreign quals. below degree level)	15%	13%	7%	10%
Degree level qualification (or equivalent)	11%	18%	40%	30%

Note: Income groups based on FRS definitions: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Typical of those hardest hit by economic downturn

Table 3.9 and Figure 3.6 detail trends in economic activity among adults with varying skills levels since the start of the recession. They show that, in the period between Q1 2008 and Q3 2011, negative changes in activity, employment and unemployment rates were biggest among those with lower levels of qualifications.

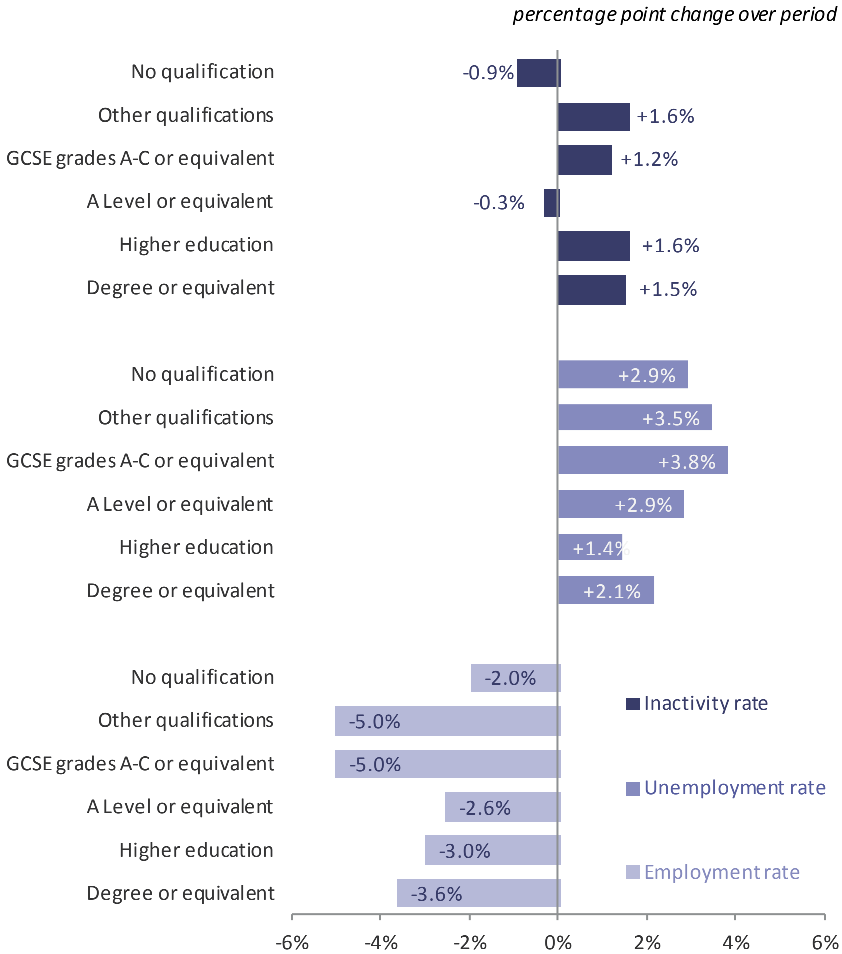
Interestingly, however, it is those with GCSEs – rather than those with no qualifications – who faced the biggest changes, perhaps reflecting the already high levels of economic inactivity among the latter group. It is therefore those with the low-to-mid level qualifications profiles of LMIs who appear to have suffered the biggest employment effects of the downturn.

Table 3.9: Economic activity among working-age adults by highest qualification held: *UK 2008 - 2011*

	Employment rate		Unemployment rate		Inactivity rate	
	Q1 2008	Q3 2011	Q1 2008	Q3 2011	Q1 2008	Q3 2011
Degree or equivalent	85%	81%	2%	4%	13%	14%
Higher education (diploma & below degree)	78%	75%	2%	3%	20%	22%
A Level or equivalent	74%	72%	3%	6%	23%	22%
GCSE grades A-C or equivalent	70%	65%	5%	9%	25%	26%
Other qualifications	66%	61%	5%	8%	29%	30%
No qualification	38%	36%	4%	7%	58%	57%

Source: ONS, *Labour Force Survey*

Figure 3.6: Percentage point changes in economic activity rates since start of recession by highest levels of qualification held: *UK 2008 - 2011*



Source: ONS, Labour Force Survey

3.5. Getting on in work: *training and barriers to progression for LMIs*

More likely than higher income adults to have difficulties getting on in work

Research has shown that, even before the recent recession, LMIs were more likely than higher income adults – both outside and within the same firms – to experience difficulties with job retention and career progression.

For example, a 2009 IPPR study noted that just 74 per cent of employees who were low-paid (and therefore likely to form part of our LMI group)[20] in 2000 were in employment in 2005, compared with 83 per cent of higher earners. Workers recorded as low-paid in 2000 were twice as likely as higher earners to be unemployed and three times as likely to be economically inactive in 2005. On progression, over half of low-paid workers experienced no significant improvement in income from 2002 to 2005: moves out of low pay were found

[20] Earning less than 60 per cent of median full-time earnings and more than £3 per hour.

to be particularly infrequent among workers who start out in skilled trades, customer service, semi-skilled manual occupations and in entry-level jobs.[21]

Face time pressures, job insecurity and a lack of opportunities to change course

The report cited findings from previous studies that showed that low pay was little better than unemployment in helping people move into higher paid work, even where other factors such as age, gender and qualification were discounted. Explanations for this effect included the 'signal' low pay experience sends to prospective employers and the detrimental effect low pay may have on workers' motivation and self-confidence.[22]

A National Consumer Council (NCC) qualitative study of a sub-set of workers we might consider to be part of the LMI group[23] identified a number of labour market concerns and barriers to progression.[24] Almost all participants in the review felt their jobs were insecure. This was a particular problem in areas with a weak local job market or an abundance of cheap labour, because respondents said they were restricted in their ability to travel or relocate for work by their lack of resources.

Members of the focus groups also said that they typically worked long hours, with some doing so because they were pressured to take shifts by their employers. They also had little access to flexible working opportunities and had difficulties booking annual leave at short notice. The NCC concluded that the group was exposed because of a lack of information and understanding about employment rights, variations in those rights and differences in enforcement.

Often excluded from in-work training because of skills profile

Some of the younger participants involved in the study said that they wanted to change occupation in order to secure better working hours and improved prospects but they found their lack of experience to be a barrier. Financial realities meant that these individuals could not consider retraining in their spare time, particularly because of the irregular and limited nature of their time off.

Training helps with job retention and progression both through the direct effect of increasing skills levels and via the more indirect impact on employee confidence.[25] It is likely to be of particular importance in the current climate in which opportunities associated with economic recovery remain limited.

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[21] IPPR, *Nice Work If You Can Get It: achieving a sustainable solution to low pay and in-work poverty*, January 2009, Tables 2.2 & 2.3

[22] *Ibid*.

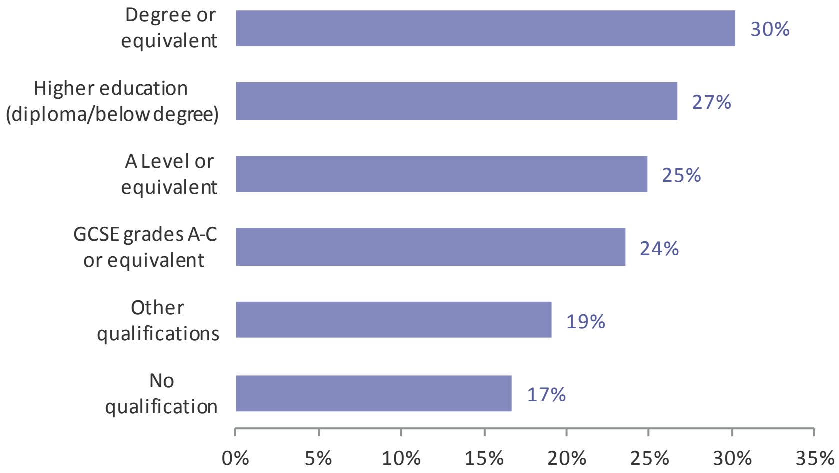
[23] Low-income workers (single people earning between £10,000 and £18,500; couples earning under £29,000 with neither of them earning above £18,500 individually) not living with dependent children and/or claiming welfare benefits including tax credits.

[24] NCC (2008), *More snakes than ladders? an insight into the lives of the forgotten working poor*,

[25] See for example JRF, *Better off working? Work, poverty and benefit cycling*, 2010.

However, employers tend to focus training on the higher skilled members of their workforces. Figure 3.7 presents *Labour Force Survey* data showing that 30 per cent of employees in Q3 2011 that were educated to degree level had been offered training by their employer in the previous three months, compared with 24 per cent of those with GCSE qualifications.

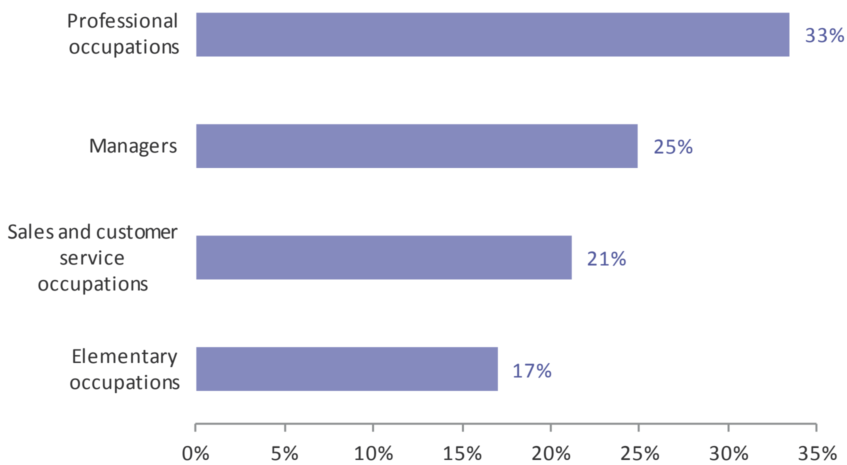
Figure 3.7: Employer provision of training (in last three months) by qualification of employee: *UK Q3 2011*



Source: ONS, Labour Force Survey

Similarly, Figure 3.8 reveals that employees in higher level occupations were more likely to have been offered skills training than those with lower skills in the same period. It shows that 33 per cent of *professionals* had access to training in the three months to Q3 2011, compared with just 17 per cent of those in *elementary* occupations.

Figure 3.8: Employer provision of training (in last three months) by occupation of employee: *UK Q3 2011*



Source: ONS, Labour Force Survey

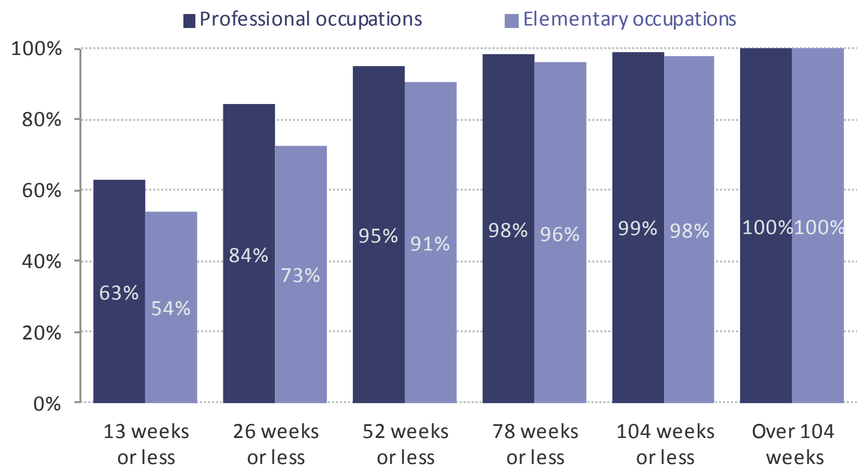
3.6. Resilience: *the unemployment experiences of LMIs*

Unemployed LMIs take longer than higher income adults to leave claimant count

In addition to being more likely than higher-skilled, higher-earning members of the workforce to lose their jobs, LMIs are also more likely to take longer to return to work.

Figure 3.9 details JSA off-flows in November 2011 by length of time on the benefit for both *elementary* workers (where LMIs predominate) and *professionals* (where they don't). Of those exiting JSA in November 2011, 84 per cent of *professionals* had been on the count for 26 weeks or less, compared with 73 per cent of those who work in *elementary* occupations.

Figure 3.9: Cumulative proportion of JSA claimants exiting the benefit within specified timeframe by 'usual occupation': ***UK Nov 2011***



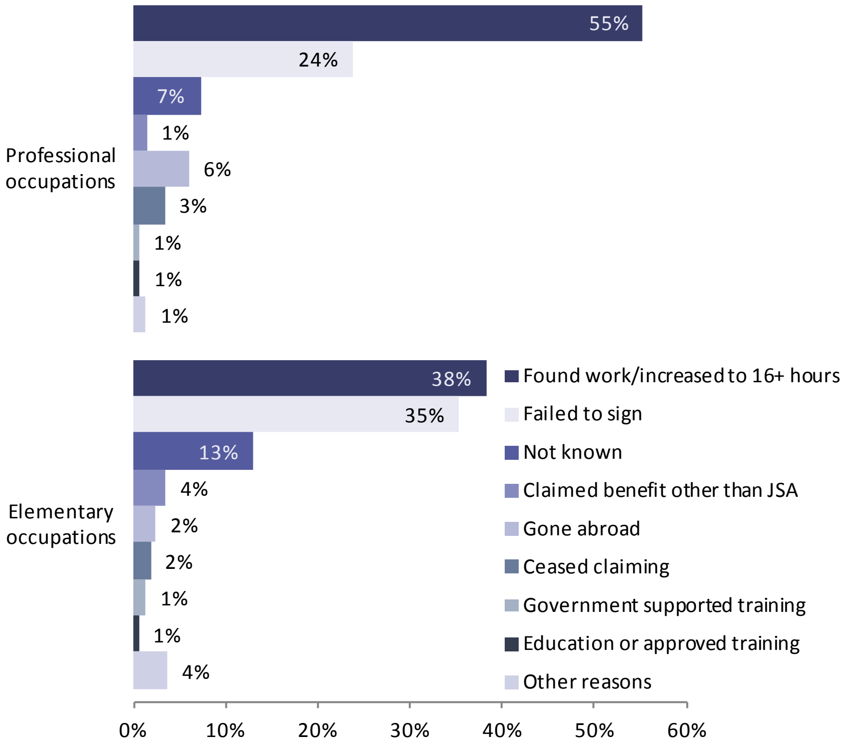
Source: ONS, NOMIS database

And less likely to leave unemployment to return to work or training

Not only are those from *elementary* occupations likely to be on JSA for longer than *professionals*, they are also less likely when they do exit the benefit to be doing so because of a return to work. Figure 3.10 shows that, in November 2011, 35 per cent of those from *elementary* occupations who left the count had simply failed to sign on, compared with 24 per cent of *professionals*. DWP research suggests that people who leave the count in this way frequently return in the medium-term.

In contrast, just 38 per cent of those in *elementary* occupations found employment of at least 16 hours a week, compared with 55 cent of *professionals*. Including those who exited onto training schemes or into education, *professionals* (57 per cent) remained more likely to leave for job-related activity than those from *elementary* occupations (40 per cent).

Figure 3.10: Reasons for leaving JSA by 'usual occupation': *UK Nov 2011*



Source: ONS, NOMIS database

3.7. Caring: *LMI responsibilities for others*

One-in-ten LMIs have informal caring responsibilities

LMI employment prospects may be further hindered by caring responsibilities. Table 3.10 shows the proportion of adults in each income group who undertook such activity in 2009-10. The difference between LMIs (10 per cent of all adults) and higher income adults (8 per cent) was small but important. Moreover, LMIs were more likely to be caring for 20 hours a week or longer.

Table 3.10: Proportion of adults who are informal carers by income group: *UK 2009-10*

	Benefit-reliant	LMIs	Higher income	All adults
All adults	13%	10%	8%	9%
Under 20 hours a week	5%	7%	7%	6%
20-34 hours a week	2%	1%	0%	1%
35 hours or more a week	6%	2%	1%	2%
All women	16%	13%	10%	12%
Under 20 hours a week	6%	8%	8%	8%
20-34 hours a week	2%	1%	1%	1%
35 hours or more a week	7%	3%	1%	3%
All men	10%	7%	6%	7%
Under 20 hours a week	5%	5%	5%	5%
20-34 hours a week	1%	1%	0%	1%
35 hours or more a week	4%	2%	1%	1%

Note: Income groups based on FRS definitions: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

4. Household finances

Average net income in low-to-middle income households was £20,500 in 2009-10. The real-terms year-on-year drop of 2.3 per cent was sharper than that recorded in other income groups, reflecting the labour market pressures faced by LMIs. At the end of 2011, two-fifths of LMI households said they were less sure about what would happen to their income in 2012 than they had been in the previous year: just one-in-ten were more certain.

LMIs have been more acutely affected than higher income households by price increases driven by fuel and food costs, because they spend more of their disposable income on these commodities. Two-thirds of the group had some difficulty keeping up with household bills in 2009-10, and one-quarter had no strategy in place for dealing with these problems.

Their ability to cope with the economic downturn has been undermined by a lack of financial safety nets and by the credit crunch. Two-thirds had less than one month's net income in savings in 2009-10 and two-fifths said they couldn't afford to save £10 a month. Two-thirds didn't save in a private pension, while over one-third had difficulty accessing credit.

4.1. Incomes: *the level, composition and stability of LMI household budgets*

After benefits and taxes, average LME household income is £20,500

Table 4.1 details average[26] (mean) household incomes in the UK in 2009-10, by income group, along with a breakdown of sources of income.[27] On average, gross LMI household income in 2009-10 was £25,600 and net household income was £20,500. These figures compare with overall UK average figures of £43,800 and £31,900.

LMI households received £20,400 from non-benefit sources, with £19,100 coming from employment. In contrast, non-benefit income among benefit-reliant households was just £2,200 on average, with £2,000 coming from employment.

[26] And non-equivalised.

[27] Note, the income figures in this chapter are primarily derived from the *Family Resources Survey*. They are therefore not directly comparable with those set out in Chapter 2, which are drawn from the ONS release *The effect of taxes and benefits on household incomes* and which do not allow for the application of any benefit filter when defining LMIs.

Table 4.1: Average annual income among households by income group: *UK 2009-10*

£	Benefit-reliant	LMIs	Higher income	All households
Original (non-benefit) income	2,200	20,400	64,400	39,000
Gross earnings	2,000	19,100	60,400	36,600
Gross income from employment	*1,600*	*17,000*	*53,200*	*32,300*
Gross self-employment earnings	*300*	*2,100*	*7,100*	*4,300*
Investment income	100	400	2,400	1,400
Non-state pension income	100	800	1,600	1,100
+ Benefit income	8,700	2,300	1,200	2,900
State pension, income support + pension credit	100	300	300	300
Disability benefits	800	300	200	300
Other benefits	7,800	1,700	700	2,400
Non-income-related benefit income	2,800	2,000	1,100	1,700
Income-related benefit income	5,900	300	100	1,300
+ Tax credits	1,600	1,700	200	900
+ Remaining income[1]	700	1,300	1,400	1,300
= Gross household income	13,300	25,600	66,600	43,800
- Direct taxes and other deductions[2]	1,300	5,100	20,300	12,000
= Net household income	12,000	20,500	46,400	31,900
Real-terms change from 2008-09	*+4.0%*	*-2.3%*	*-0.5%*	*-0.9%*

Notes: Income groups based on FRS definitions: see Chapter 7.
[1] Includes income derived from sub-tenants, odd-jobs, free school milk and/or meals, private benefits (such as personal health insurance, trade union strike pay and government training allowances), student/school grants, royalties, allowances from friends, relatives or an organisation and allowances from local authorities for foster and adopted children.
[2] Income is net of: income tax payments; NICs; domestic rates/council tax; contributions to occupational pension schemes; maintenance and child support payments; parental contributions to students living away from home; and student loan repayments.

Sources: RF analysis of DWP, *Family Resources Survey 2009-10 & 2008-09;*
RF analysis of DWP, *Households Below Average Income 2009-10 & 2008-09*

Benefits were worth £2,300 on average to LMI households, compared with £8,700 to benefit-reliant households. LMI households were, however, the biggest recipients of tax credits. They received an annual average of £1,700, compared with £1,600 among benefit-reliant households and £200 among higher income households.

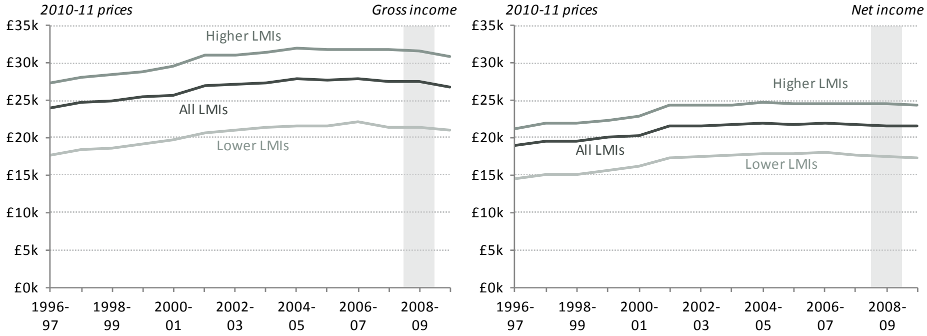
2.3 per cent lower than last year, representing a sharper fall than experienced by other income groups

The exposure of LMI households to the economic downturn is highlighted by the fact that net average household income in the group fell by 2.3 per cent on the previous year, compared to a drop of just 0.5 per cent among higher income households and an *increase* of 4 per cent in the benefit-reliant group.

Figure 4.1 presents real-terms average gross and net incomes among LMI households over a longer period. It also splits the overall LMI group into ‘lower’ and ‘higher’ LMIs. As detailed in Chapter 1, the lower LMI group covers the 40 per cent of LMI households located in income deciles 2 and 3, while the higher LMI group incorporates the 60 per cent of LMIs in income deciles 4 and 5.

It confirms the finding from Chapter 2 that LMI household incomes flat-lined *before* the recession of 2008-09. It shows, however, that the stagnation was most apparent among higher LMIs than among lower LMIs.

Figure 4.1: Household income trends among LMI households: *UK 1996-97 to 2009-10*



Notes: Income groups based on FRS definition: see Chapter 7. Change in categorisation of benefits and tax credits in 2000-01 means that the composition of the LMI group changed somewhat in that year, making comparisons with earlier dates problematic. Figures deflated using RPI.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

Average income was flat even before the recession

Average gross income among higher LMIs increased from £27,300 in 1996-97 to a peak of £32,000 in 2004-05. It was subsequently flat, before falling during the recession to stand at £30,800 in 2009-10. Average gross income among lower LMIs followed a similar pattern but, while there was a slowdown in the rate of growth in the pre-recession period, the average continued to rise through to 2006-07. It increased from £17,600 in 1996-97 to a peak of £22,000, before declining to £20,900 at the end of the period.

Particularly among higher LMIs

Measured on a net basis, average LMI incomes appear to have been broadly flat for longer, with higher and lower LMIs equally affected. Among higher LMIs, average net income increased from £21,300 in 1996-97 to £24,400 in 2002-03. It was subsequently largely unchanged over the remainder of the period, reaching £24,300 in 2009-10. Lower LMIs experienced slightly stronger growth in average net income during the pre-recession period, but also a sharper reversal during the downturn. The average increased from £14,500 in 1996-97 to a peak of £18,100 in 2006-07, before falling to £17,400 in 2009-10.

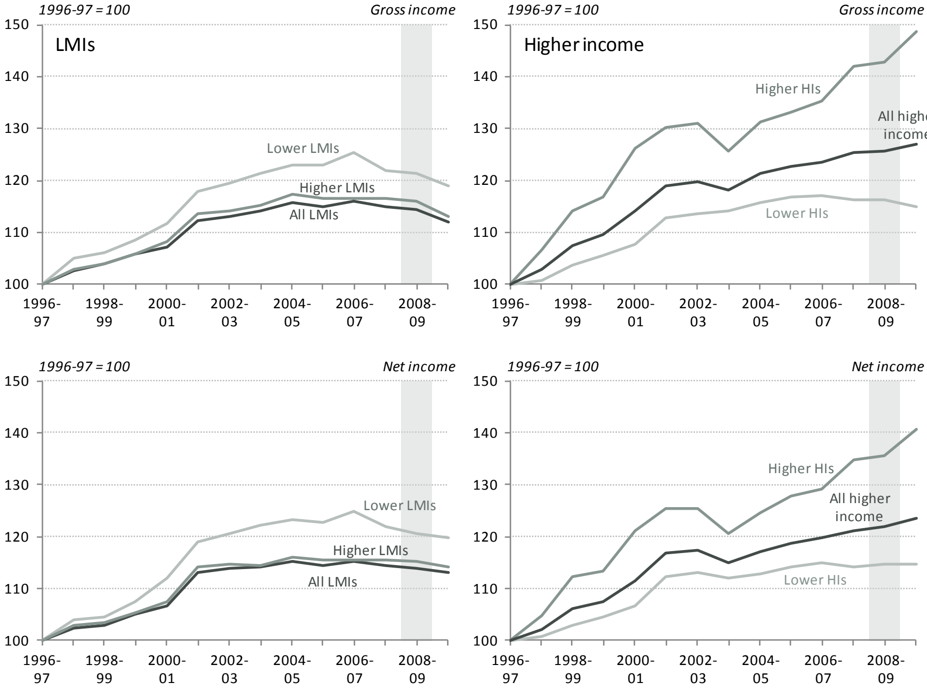
Figure 4.2 sets out these changes in the form of indices and compares trends among LMIs with higher income households. Again we split the income group, with 'lower HIs' covering the 80 per cent of higher income households in income deciles 6-9 and 'higher HIs' incorporating just the 20 per cent in the very top decile.[28]

In contrast, averages in higher income households continued to grow

In both broad income groups, average incomes rose more quickly during the late-1990s than they did in the mid-2000s. However, the pre-recession flat-lining that is apparent in the LMI group manifests itself simply as a slowdown in the higher income group.

[28] See Chapter 1 and Chapter 7 for full explanations of these income groups.

Figure 4.2: Indices of average household income by income group: *UK 1996-97 to 2009-10*



Notes: Income groups based on FRS definition: see Chapter 7. Change in categorisation of benefits and tax credits in 2000-01 means that the composition of the LMI group changed somewhat in that year, making comparisons with earlier dates problematic. Figures deflated using RPI (2010-11 prices).

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

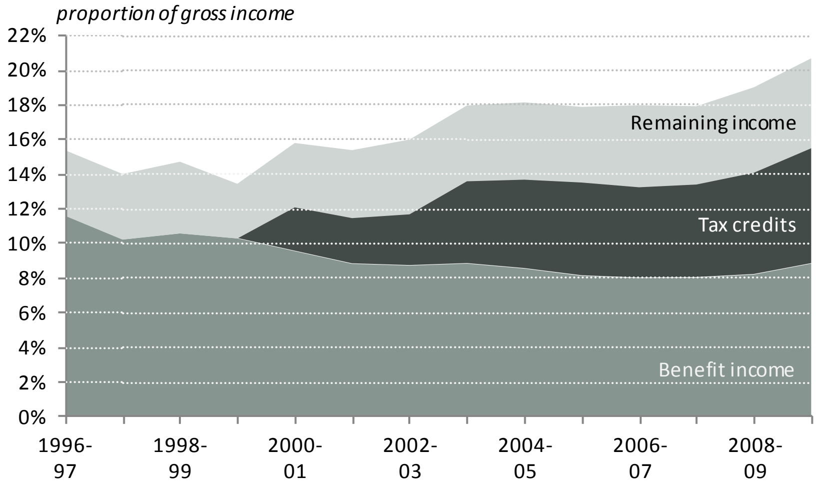
Though this was driven primarily by the performance of incomes at the very top of the group

Looking *within* the income groups, the charts highlight the stronger performance of lower LMIs compared with higher LMIs, as discussed above. In the higher income group, the experience of lower HIs looks fairly similar to that of LMIs, although incomes never quite stopped growing in the pre-recession period. In terms of overall income growth over the period, lower HIs did little better than higher LMIs and slightly less well than lower LMIs, although their net incomes held up better during the downturn.

In contrast, average gross and net incomes in higher HI households performed extremely well throughout the period (outside of a sharp dip in 2003-04), including during the downturn. Net income in the higher HI group increased by 41 per cent over the entire period, compared with growth of 20 per cent among lower LMI households and increases of 15 per cent among lower HIs and 14 per cent among higher LMIs.

As noted in Chapter 2, earnings have formed a declining share of total LMI household income over recent decades. Figure 4.3 charts the growth of average ‘non-original’ (i.e. non-labour and non-investment) income in the group, along with a breakdown of the changing composition of this income.

Figure 4.3: Composition of non-original part of average LMI gross household income: *UK 1996-97 to 2009-10*



Notes: Income groups based on FRS definition: see Chapter 7. Change in categorisation of benefits and tax credits in 2000-01 means that the composition of the LMI group changed somewhat in that year, making comparisons with earlier dates problematic.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

Non-labour income has come to form a larger share of overall LMI household income

It shows that the share of average LMI gross household income accounted for by non-original sources increased from 15 per cent in 1996-97 to 18 per cent immediately prior to the recession of 2008-09. It subsequently rose to 21 per cent in 2009-10 as earnings in the LMI group fell during the downturn.[29]

Particularly tax credits

This growth in share was driven primarily by an increase in support from the government, with the development of tax credits playing a particularly strong role. In part they represented a transfer of income previously received in the form of benefits, as indicated by the fall in the share of LMI income coming from this source that coincided with growth in tax credit income. However, tax credit receipts in the group quickly came to more than outweigh the decline in benefits. As a result, tax credit and benefit income together accounted for 16 per cent of average LMI gross household income in 2009-10, up from 12 per cent in 1996-97, with tax credits alone forming 7 per cent of the total.

With two-in-five LMI families in receipt of an award

LMIs have been the main beneficiaries of the development of tax credits. Table 4.2 shows that 38 per cent of LMI families[30] received credits in 2009-10, compared with 33 per cent of benefit-reliant families and 12 per cent of higher income ones. Levels of receipt were particularly high among lower LMI families, 44 per cent of which received some form of award. Families with children were

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[29] In Figure 2.9 we showed that earnings accounted for 73 per cent of gross income in the LMI group, implying that non-labour income accounted for 27 per cent. As noted above, the source underpinning this calculation does not allow for the application of a benefit receipt filter to the LMI group, explaining the difference from the figures presented in this chapter.

[30] i.e. benefit units

most likely to receive tax credits, particularly single parents: 90 per cent of lower LMIs in this position claimed an award.

Table 4.2: Tax credit receipt among families by income group and age of unit head: *UK 2009-10*

	Benefit-reliant	Lower LMIs	Higher LMIs	All LMIs	Lower HIs	All higher income	All family units
Proportion in receipt of tax credits							
Single parent	79%	90%	86%	88%	68%	62%	80%
Couple with children	68%	76%	68%	71%	43%	36%	54%
Single without children	10%	23%	16%	19%	6%	5%	10%
Couple without children	5%	7%	5%	5%	1%	1%	2%
All family units	33%	44%	34%	38%	15%	12%	24%
Average tax credit award per week among all family units							
Single parent	£68	£110	£93	£101	£51	£47	£78
Couple with children	£66	£69	£33	£48	£10	£9	£31
Single without children	£9	£19	£8	£13	£2	£1	£7
Couple without children	£2	£3	£2	£2	£0	£0	£1
All family units	£30	£42	£21	£30	£4	£4	£17
Average tax credit award per week among all family units in receipt of tax credits							
Single parent	£85	£122	£108	£115	£75	£76	£97
Couple with children	£98	£91	£49	£67	£24	£25	£58
Single without children	£90	£83	£53	£68	£28	£28	£65
Couple without children	£50	£50	£42	£46	£33	£33	£44
All family units	£90	£96	£62	£78	£30	£31	£69

Note: Income groups based on FRS definitions: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

36 per cent eligible for CTC and 17 per cent in receipt of WTC

Tax credits were worth an average of £30 a week to LMI families in 2009-10, rising to £78 (or £4,030 a year) among just those actually in receipt. While benefit-reliant families received larger awards (£90 a week), the average was highest among lower LMIs (£96). Once again, those with children achieved the largest payments, with single parents in the lower LMI group averaging £122 a week for example.

While Child Tax Credit (CTC) is paid to all families with children that have incomes below a qualifying threshold, Working Tax Credit (WTC) is restricted to working households. LMIs' position as the main beneficiaries of tax credits is therefore driven by their qualification for WTC. Table 4.3 shows that eligibility for CTC (either on its own or in combination with WTC) in 2009-10 was similar among LMI (36 per cent) and benefit-reliant (32 per cent) families, but that LMIs (17 per cent) were much more likely than members of the benefit-reliant group (6 per cent) to be in receipt of WTC.

Table 4.3: Tax credit receipt among families by income group: *UK 2009-10*

	Benefit-reliant	Lower LMIs	Higher LMIs	All LMIs	Lower HIs	All higher income	All family units
CTC only							
Single parent	70%	23%	26%	25%	39%	36%	48%
Couple with children	52%	44%	57%	52%	41%	34%	43%
Single without children	7%	8%	8%	8%	4%	3%	6%
Couple without children	1%	0%	1%	1%	0%	0%	0%
All family units	27%	19%	22%	21%	12%	10%	17%
WTC only							
Single parent	0%	1%	0%	1%	0%	0%	0%
Couple with children	0%	0%	0%	0%	0%	0%	0%
Single without children	1%	7%	3%	4%	2%	1%	2%
Couple without children	4%	6%	3%	4%	1%	1%	2%
All family units	1%	4%	2%	3%	1%	1%	1%
Both WTC & CTC							
Single parent	9%	66%	60%	62%	29%	26%	32%
Couple with children	16%	32%	11%	19%	2%	2%	10%
Single without children	2%	9%	5%	6%	0%	0%	3%
Couple without children	0%	0%	0%	0%	0%	0%	0%
All family units	5%	21%	10%	14%	1%	1%	6%

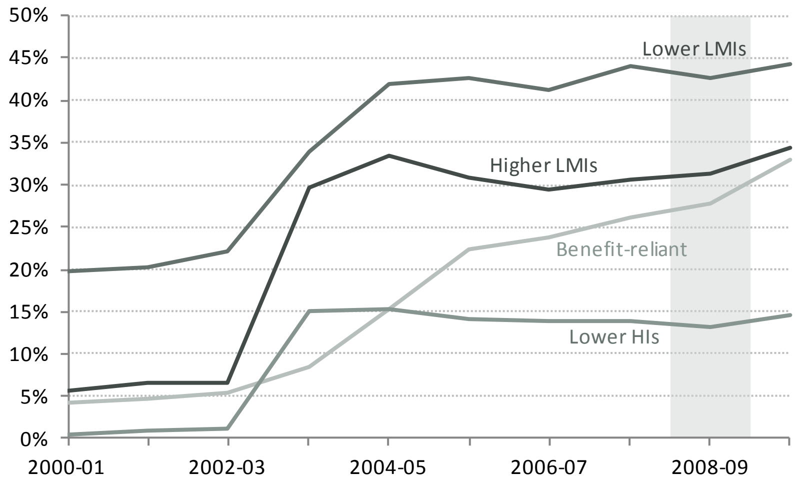
Notes: Income groups based on FRS definitions: see Chapter 7. It is not clear why some families without children report receipt of CTC, though it may reflect in-year changes in family structures.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Focus of credits has shifted towards lower income families over time

Figure 4.4 charts trends in receipts across the three income groups between their introduction in 2000-01 and 2009-10. It shows that LMIs – both higher and lower – were consistently the most likely to qualify for an award. However, it also shows that the gap between lower and higher LMIs increased towards the end of the period, while the proportion of benefit-reliant families in receipt approached the LMI level.

Figure 4.4: Proportion of families in receipt of tax credits by income group: *UK 2000-01 to 2009-10*



Notes: Income groups based on FRS definition: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

LMIs often have erratic incomes requiring careful budget management

A study by the Centre for Analysis of Social Exclusion published in March 2006 measured the income stability over the course of 12 months among LMI households in receipt of Working Tax Credits.[31] Families taking part in the research had average net income of £17,000 a year, with most falling in the bracket £12,000-£22,000. Therefore, while the study excluded households without children, it provided a good description of the income volatility experienced by many LMI households.

The research described the income of one-third of families as being 'stable with blips': that is, with income in at least ten of the 13 four-week periods considered within 15 per cent of their annual mean, but varying by 25 per cent or more from it in other periods. A further one-quarter had income described as 'erratic' or 'highly erratic': that is, having income in at least four of the 13 periods that was more than 15 per cent outside of their annual mean.

When interviewed, participants who reported their income as being unpredictable said that they just had to deal with whatever their income turned out to be. Overall, most respondents described themselves as organised in managing their finances – sometimes on a daily basis. However, over one-half said that their income just covered their outgoings in the previous six months, with nothing left over for savings, while a further one-quarter said that their outgoings had exceeded their income. The study concluded that the group managed by tailoring spending to match variable incomes, "often with little margin for error".[32]

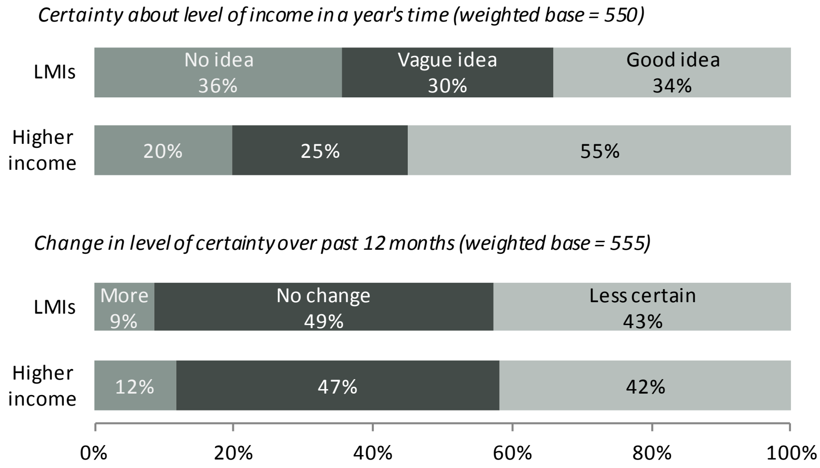
Made worse by downturn

The recession is likely to have increased the instability of income within many LMI households, particularly those in which labour market pressures have resulted in members losing their jobs, working fewer hours or entering into non-standard (for example, zero-hours) contracts. Many LMIs moving in and out of work in this period will have encountered transitional difficulties associated with delays in processing certain benefit payments such as Housing Benefit and Council Tax Benefit. However, others may actually have benefited – from reduced mortgage payments or the temporary cut in VAT for example.

Figure 4.5 shows that, when asked towards the end of 2011, one-third (36 per cent) of LMIs said they had 'no idea' what their income would be like in one year's time, compared to one-fifth (20 per cent) of higher income households. Two-fifths (43 per cent) of LMIs said that their position was 'less certain' than it had been at the end of 2010.

[31] Centre for Analysis of Social Exclusion, *Tracking Income: How working families' incomes vary through the year*, March 2006
[32] Ibid. p7

Figure 4.5: Security of household income by income band: *GB Sep 2011*

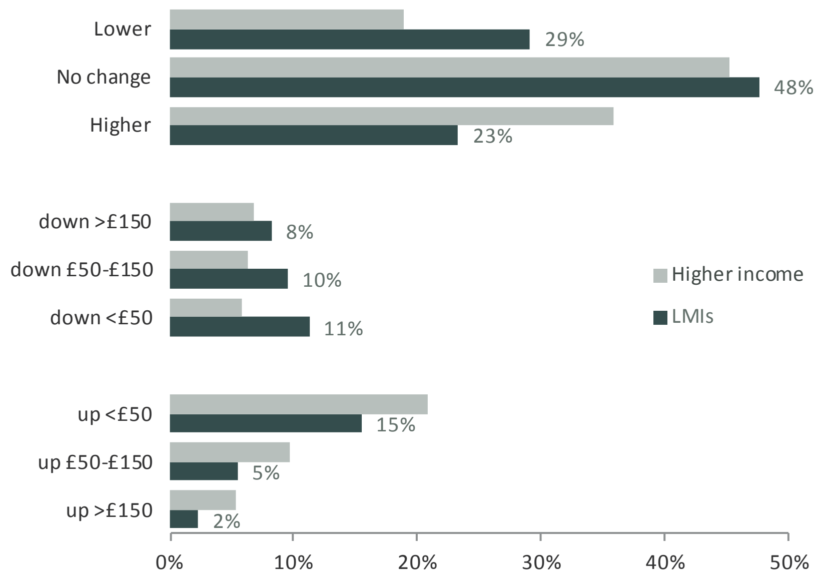


Note: Income groups based on NMG definition: see Chapter 7.
Source: RF analysis of Bank of England, *2011 NMG survey*, Sep 2011

With 29 per cent experiencing a fall in income

Figure 4.6 details findings from 2009-10. It shows that 29 per cent of families in the LMI group experienced a fall in weekly income compared with 12 months earlier, while 23 per cent experienced increases. By comparison, 19 per cent of higher income families experienced a fall and 36 per cent reported an increase.

Figure 4.6: Distribution of reported changes in weekly family unit income in past year by income group: *UK 2009-10*



Note: Income groups based on FRS definition: see Chapter 7.
Source: RF analysis of DWP, *Family Resources Survey 2009-10*

4.2. Expenditure: *LMI spending patterns and cost of living pressures*

Live close to the edge of their means

A large number of LMI households live at or beyond their means each week. Table 4.4 provides a breakdown of spending on different commodities within each of the income groups as proportions of both total consumption spending and disposable household income.

Table 4.4: Weekly household expenditure by income group: *UK 2009*[1]

	Benefit-reliant	Lower LMIs	Higher LMIs	All LMIs	Lower HIs	Higher HIs	All higher income
As proportion of average total consumption expenditure							
Housing (net),[2] fuel & power	21%	21%	15%	17%	13%	11%	12%
Food & non-alcoholic drinks	18%	14%	15%	14%	12%	9%	11%
Transport	12%	13%	15%	14%	18%	16%	17%
Recreation & culture	12%	12%	14%	13%	16%	18%	16%
Restaurants & hotels	7%	9%	9%	9%	11%	13%	12%
Miscellaneous goods & services	7%	7%	10%	9%	10%	10%	10%
Household goods & services	6%	6%	8%	7%	7%	8%	7%
Clothing & footwear	6%	6%	6%	6%	6%	6%	6%
Communication	4%	3%	3%	3%	3%	2%	3%
Alcoholic drinks, tobacco & narcotics	4%	3%	3%	3%	3%	2%	3%
Education	2%	5%	1%	3%	1%	3%	2%
Health	1%	1%	1%	1%	1%	1%	1%
All consumption expenditure[3]	100%	100%	100%	100%	100%	100%	100%
As proportion of average disposable household income							
Housing (net),[2] fuel & power	23%	22%	12%	15%	8%	7%	8%
Food & non-alcoholic drinks	20%	15%	12%	13%	8%	6%	7%
Transport	13%	14%	12%	13%	11%	10%	11%
Recreation & culture	13%	13%	11%	12%	10%	11%	10%
Restaurants & hotels	8%	9%	7%	8%	7%	8%	7%
Miscellaneous goods & services	8%	8%	8%	8%	6%	6%	6%
Household goods & services	7%	6%	6%	6%	4%	5%	5%
Clothing & footwear	6%	6%	4%	5%	4%	4%	4%
Communication	4%	3%	3%	3%	2%	1%	2%
Alcoholic drinks, tobacco & narcotics	5%	3%	3%	3%	2%	1%	2%
Education	2%	5%	1%	2%	1%	2%	1%
Health	1%	1%	1%	1%	1%	1%	1%
All consumption expenditure[3]	111%	105%	80%	87%	64%	63%	64%

Notes: [1] Based on weighted data and including children's expenditure.
[2] Excluding mortgage interest payments, capital repayment of mortgages, council tax, Northern Ireland rates, housing alterations and improvements and moving and purchase costs. Rent is net of rebates and benefits.
[3] Spending on consumption as defined under COICOP. Excludes spending on taxes, fines, money spent abroad, gifts, pension contributions, gambling receipts, savings and investments. Figures can be greater than 100 per cent of disposable income because of the use of savings and credit.
Income groups based on LCF definition: see Chapter 7.

Source: RF analysis of ONS, *2009 Living Costs and Food Survey*

With large numbers regularly spending more than their income

The figures relate to consumption spending only.[33] The table shows that, on average, LMI households spent 87 per cent of their disposable income on consumption each week in 2009, with higher LMIs averaging 80 per cent and lower LMIs recording spending 105 per cent of their income.[34]

[33] That is, the element of household expenditure that is allocated to consumption rather than interest payments, taxes, savings or investments, as defined under the internationally-agreed COICOP classification system.

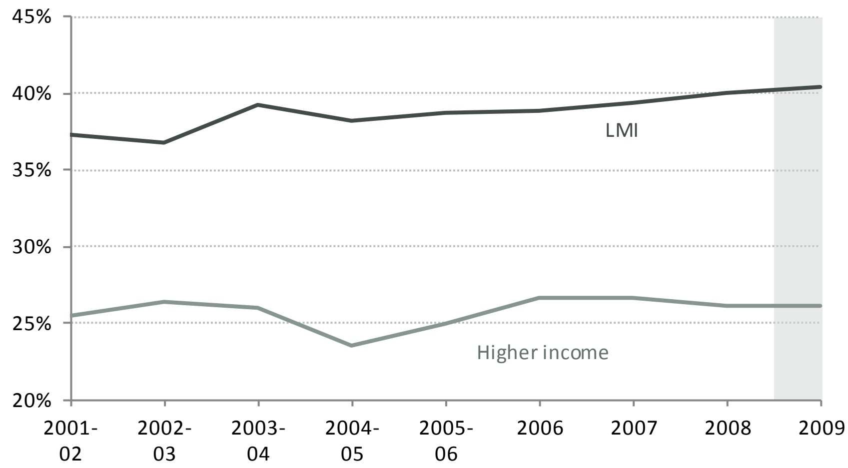
[34] Figures can be greater than 100 per cent of disposable income because of the use of savings and credit.

The table also shows that LMI households were particularly likely to spend more of their income than higher income ones on commodities that are difficult to cut back on. Taken together, spending on the three categories of *housing, fuel and power*, *transport* and *food and non-alcoholic drinks* accounted for around 40 per cent of LMI disposable income on average in 2009, compared with 26 per cent among higher income households.

Spend a large, and increasing, share of their income on transport, food, housing and fuel

Moreover, as Figure 4.7 shows, this group of 'relatively essential' spending categories accounted for an *increasing* share of LMI disposable income over the period 2001-02 to 2009. In contrast, the chart shows that the share of disposable income accounted for by essentials among higher income households remained relatively flat.

Figure 4.7: Spending on 'essentials' as proportion of average disposable household income by income group: *UK 2001-02 to 2009*



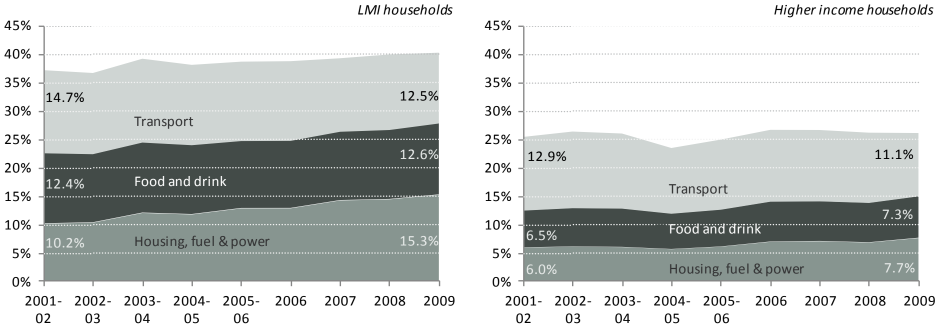
Notes: Income groups based on LCF definition: see Chapter 7. 'Essential' categories include housing (net), fuel & power, food & non-alcoholic drinks and transport. Figures based on weighted data and including children's expenditure.

Source: RF analysis of ONS, *2009 Living Costs and Food Survey* (and earlier)

Driven primarily by rising fuel costs

Figure 4.8 provides more detail of this increase among LMI households. It shows that most of the increase in spending on essentials was driven by expenditure on *housing, fuel and power*: Expenditure on this category increased from 10.2 per cent of disposable income in 2001-02 to 15.3 per cent in 2009. In contrast, the proportion of LMI households' disposable income spent on *food and drink* remained relatively flat while that accounted for by *transport* fell. Higher income households experienced a similar pattern of changes, but the order of increases in *housing, fuel and power* and *food and drink* expenditures were significantly smaller.

Figure 4.8: Spending on 'essentials' as proportion of average disposable household income: *UK 2001-02 to 2009*



Notes: Income groups based on LCF definition: see Chapter 7.

Source: RF analysis of ONS, *2009 Living Costs and Food Survey* (and earlier)

The LMI spending profile set out above means that LMIs have been disproportionately affected by many of the cost of living increases of recent years. Table 4.5 sets out annual changes in the various components of CPI in the period from November 2008 to November 2011.[35]

Throughout the period, overall inflation was driven by above-average increases in the same group of components. For example, by far the biggest year-on-year increases in prices in November 2008 occurred in the *electricity, gas and other fuels* (+38.1 per cent), *food* (+10.6 per cent) and *road transport* (+5.7 per cent) components. Similarly, in November 2011, *electricity, gas and other fuels* were up 20.9 per cent on the previous year, while transport *fuels and lubricants* were up 13.1 per cent.

Table 4.5: Annual percentage changes in components of consumer prices index: *UK 2008 - 2011*

	Nov-08	Nov-09	Nov-10	Nov-11
Housing, water & fuels	+14.8%	-1.2%	+0.7%	+9.2%
electricity, gas & other fuels	*+38.1%*	*-6.7%*	*-2.3%*	*+20.9%*
Food & non-alcoholic beverages	+10.6%	+1.3%	+5.5%	+4.0%
Transport	+1.3%	+6.9%	+5.1%	+7.2%
fuels & lubricants	*-3.6%*	*+10.8%*	*+10.1%*	*+13.1%*
passenger transport by railway	*+4.0%*	*+5.5%*	*+7.8%*	*+5.9%*
passenger transport by road	*+5.7%*	*+2.4%*	*+3.9%*	*+5.5%*
Recreation & culture	+0.0%	+2.0%	+1.1%	-0.5%
Hotels, cafes & restaurants	+4.1%	+1.6%	+3.2%	+4.6%
Miscellaneous goods & services	+3.3%	+1.0%	+2.9%	+2.8%
Furniture, household equipment & repair of the house	+3.0%	+3.5%	+3.5%	+5.0%
Clothing & footwear	-7.1%	-6.3%	+2.1%	+2.8%
Communication	-1.5%	+1.6%	+3.9%	+4.9%
Alcoholic beverages, tobacco & narcotics	+4.0%	+4.5%	+6.5%	+9.7%
Education	+8.6%	+5.2%	+5.3%	+5.1%
Health	+3.5%	+2.6%	+2.9%	+3.3%
All items	+4.1%	+1.9%	+3.3%	+4.8%

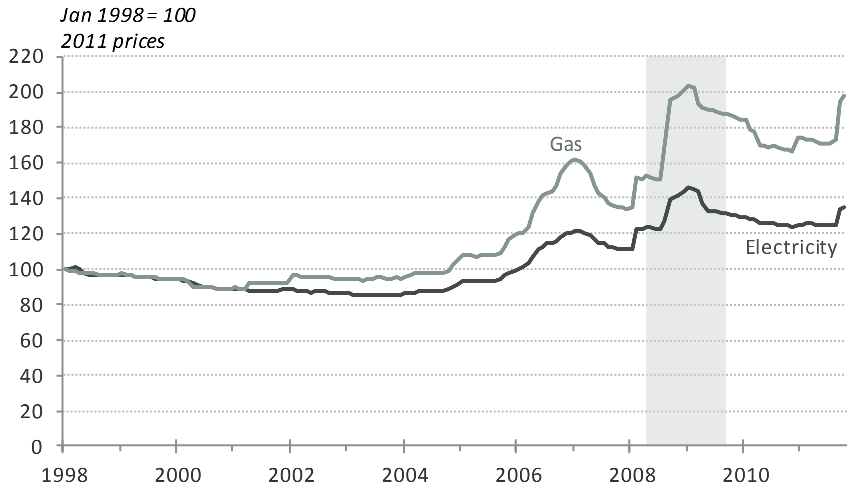
Source: ONS Time Series

[35] By looking at the CPI rather than the RPI, we avoid the volatility in the latter measure over the period associated with sharp interest rate cuts and therefore mortgage costs.

Figure 4.9 sets out changes in domestic costs over a longer period. Despite some decline from their peak at the start of 2009, it shows that electricity and gas prices remain high by historical standards, with particularly sharp rises towards the end of 2011.

Recent announcements of cuts in domestic energy prices by some of the UK largest' suppliers should help to reverse these increases to some extent in 2012.[36] However, the reductions relate only to gas prices and are small in comparison to the large increases experienced in recent years. Moreover, the nature of global demand for energy means that, although prices are set to be somewhat unstable in the coming years, the overall direction is likely to remain upwards.

Figure 4.9: Real-terms monthly price indices for domestic energy: *UK 1998 - 2011*



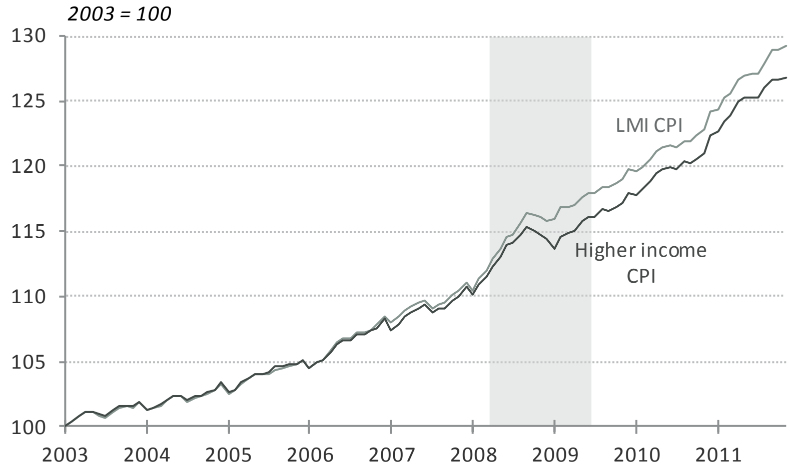
Note: Figures adjusted using RPI.
Sources: DECC, *Quarterly Energy Prices*, Tables 2.13

Therefore faced higher levels of inflation than higher income households

As noted above, because food and fuel make up a higher proportion of total expenditure among LMIs than among higher income households, the group has been more affected by these trends in prices. Figure 4.10 highlights this phenomenon by comparing CPI indices for LMI and higher income households between January 2003 and November 2011.

[36] See for example, *Financial Times*, "Gas suppliers follow EDF's 5 per cent price cut", 14 January 2012

Figure 4.10: LMI and higher income household consumer price indices: *UK 2003-2011*



Notes: LMI and higher income CPI weights based on proportion of total consumption expenditure spent on various CPI components in 2003-09. Income groups based on LCF definition: see Chapter 7.

Sources: ONS, detailed CPI statistics;
RF analysis of ONS, *2009 Living Costs and Food Survey* (and earlier)

The indices are weighted for the typical basket of goods bought each year by households within the two income groups (as recorded in the *Living Costs and Food Survey*), thereby offering a better indication of the actual levels of price rises faced by these households than the overall CPI rate does.

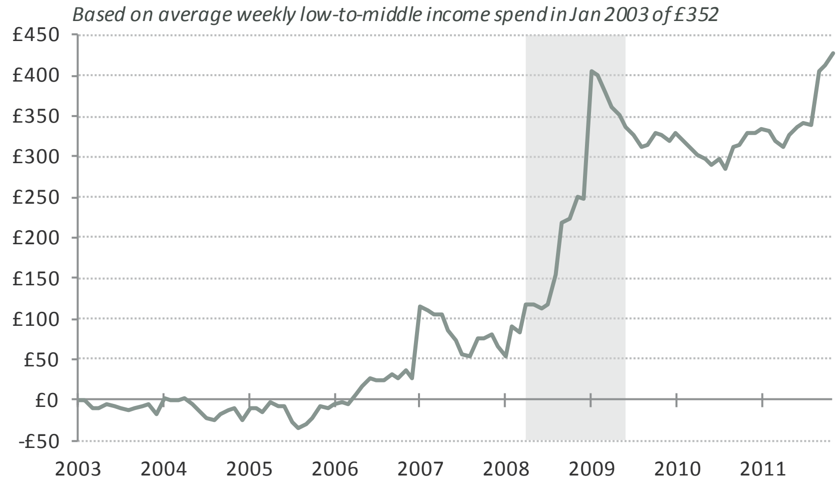
Relative to 2003, price rises were broadly in line across the two groups in the period to mid-2008 (indicated by the similarity of the two weighted-CPI lines) but a sizeable gap subsequently opened up and remained in place through to the end of the period.

Reducing their spending power by around £425 a year

Figure 4.11 calculates the impact of this diversion on LMI's purchasing power. In 2003, LMI households spent an average of £352 a week. If we apply the LMI and higher income CPIs to this figure we observe that by the end of the period LMI households would have needed to pay more than £8 a week (or £427 a year) more than higher income households to purchase the same basket of goods that they enjoyed in 2003.[37]

[37] In truth, households alter their spending behaviour in reaction to price changes. This calculation therefore relates to purchasing power rather than actual cash costs.

Figure 4.11: Annual cash difference in cost of LMI household 'basket' under different cumulative inflation scenarios: *UK 2003-2011*



Notes: LMI and higher income CPI weights based on proportion of total consumption expenditure spent on various CPI components in 2003-09. Income groups based on LCF definition: see Chapter 7.

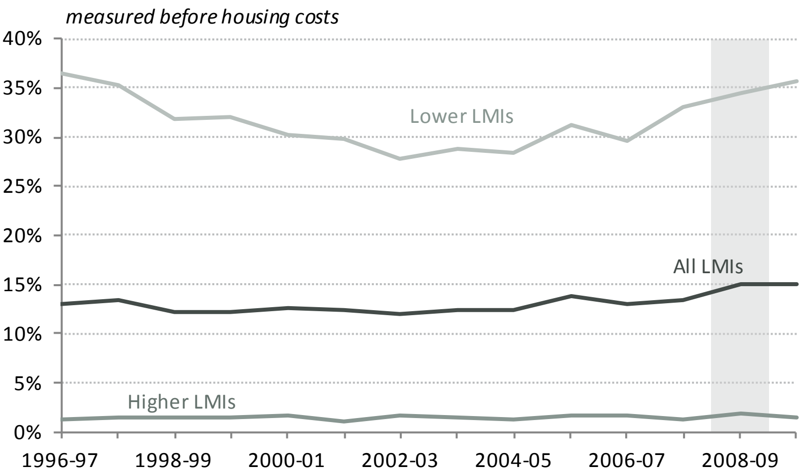
Sources: ONS, detailed CPI statistics;
RF analysis of ONS, *2009 Living Costs and Food Survey* (and earlier)

4.3. Spending power: *poverty and deprivation in LMI households*

Income and spending pressures mean some go without

As noted in the definitions set out in Chapter 1, LMI households are rarely in crisis. However, Figure 4.12 shows that 15 per cent were in relative poverty in 2009-10: that is, they had equivalised net incomes of less than 60 per cent of the national median. Not surprisingly, the majority of these households were located in the lower LMI group, meaning that 36 per cent of such households were in this position.

Figure 4.12: Proportion of households in relative poverty: *UK 1996-97 to 2009-10*



Note: Income groups based on FRS definition: see Chapter 7. Relative poverty measured as less than 60 per cent of median net income before housing costs across all (i.e. working-age and retired) households.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

15 per cent in relative poverty, up from 12 per cent in 2002-03

The chart also shows that the proportion in poverty increased from a low in the mid-2000s. While much of this increase took place following the start of recession, the trend appears to have already been in train before this point, reversing much of the progress made in the first part of the period shown.

A significant number of LMIs can also be described as 'materially deprived': that is, unable to afford or access a number of desired goods and services. Table 4.6 details the distribution of answers given to a series of questions posed in the *Family Resources Survey* by each of the income groups.

Table 4.6: Family responses to adult deprivation indicators by income group: *UK 2009-10*

would like, but cannot afford...	Benefit-reliant	Lower LMIs	Higher LMIs	All LMIs	Lower HIs	Higher HIs	All higher income
Holidays away from home at least one week a year	76%	55%	39%	45%	19%	6%	17%
Replace any worn out furniture	72%	50%	33%	40%	15%	3%	13%
Money to spend each week on self, not family	51%	35%	24%	28%	10%	2%	8%
Replace or repair broken electrical goods	62%	34%	21%	26%	8%	2%	7%
Friends/family around for a drink or meal at least once a month	44%	31%	20%	24%	7%	2%	6%
Hobby or leisure activity	37%	25%	16%	19%	6%	2%	5%
Enough money to keep home in decent state of decoration	44%	23%	15%	18%	6%	2%	5%
Two pairs of all weather shoes for each adult	24%	10%	6%	8%	2%	1%	1%

Note: Income groups based on FRS definitions: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

45 per cent of LMI families wanting to holiday away from home once a year cannot afford to do so

It shows, for example, that 45 per cent of LMI families who said they wanted to take a holiday away from home for at least one week a year did not do so because they could not afford it, compared with 17 per cent of higher income households. The proportion among lower LMIs rose to 55 per cent.

Similarly, 40 per cent of LMIs who wanted to replace worn-out furniture said they could not do so, while one-in-five (19 per cent) were unable to afford a desired hobby or leisure activity. Fewer LMI families complained that they could not afford more than two pairs of shoes per adult, but the number was not insignificant (8 per cent).

Table 4.7 sets out responses to similar questions on child deprivation.[38] Generally speaking, the proportion expressing inability to achieve desired outcomes was lower across all of the income groups in relation to the children questions than in relation to the adult questions.

[38] Responses given by parents in relation to their children.

Table 4.7: Family responses to child deprivation indicators by income group: *UK 2009-10*

would like, but cannot afford...	Benefit-reliant	Lower LMIs	Higher LMIs	All LMIs	Lower HIs	Higher HIs	All higher income
A holiday away from home at least one week a year with family	73%	50%	34%	41%	15%	4%	13%
Swimming at least once a month	36%	20%	10%	14%	4%	0%	3%
Enough bedrooms for every child over 10	29%	15%	10%	12%	5%	5%	5%
Go to a playgroup at least once a week	20%	14%	5%	9%	3%	0%	2%
Have friends round for tea/snack once a fortnight or more	28%	13%	5%	9%	2%	1%	2%
A hobby or leisure activity	22%	10%	5%	7%	2%	0%	1%
Go on a school trip at least once a term	17%	9%	5%	6%	1%	1%	1%
Leisure equipment such as sports equipment or a bicycle	20%	8%	5%	6%	1%	0%	1%
Celebrations on special occasions	10%	4%	1%	2%	1%	0%	1%
Outdoor space/facilities nearby where kids play in safety	22%	14%	10%	12%	5%	3%	5%

Note: Income groups based on

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

One-in-eight lack access to playing facilities for their children

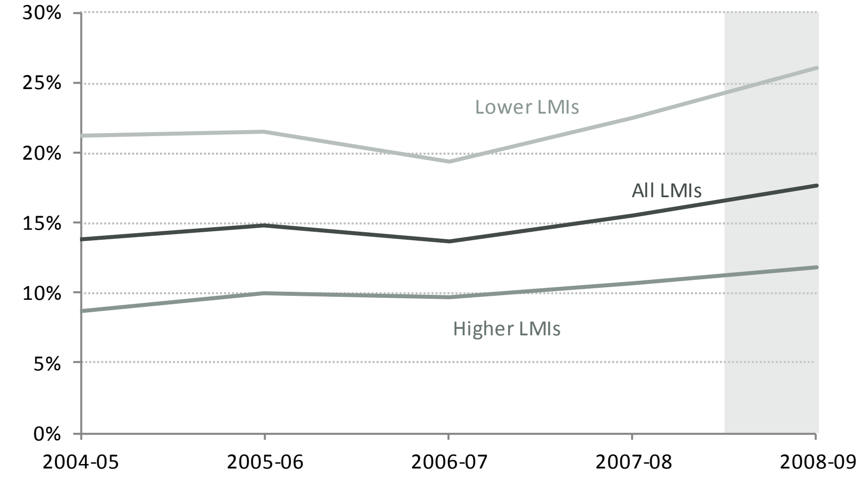
The table shows, however, that 14 per cent of LMI families who wanted to provide their children with the opportunity to swim at least once a month were unable to do so because of the cost. It also shows that 12 per cent did not have enough bedrooms to accommodate every child in their family over the age of ten, while 12 per cent cited a lack of access to a nearby outdoor space or facilities for their children to play in safety.

The questions set out in the two tables above have been included in the *Family Resources Survey* since 2004-05. In previous years (though not 2009-10) the DWP has produced a weighted measure of overall material deprivation, and Figure 4.13 presents the results for LMI households over the period.

Altogether, around one-in-five LMI families are considered 'materially deprived'

It shows that 18 per cent of LMIs were considered to be materially deprived in 2008-09. By comparison, just 2 per cent of higher income households were in this position. The chart also shows that the proportion increased over the period of questioning, with particularly sharp rises for lower LMIs: the proportion considered materially deprived among this group rose from a low of 19 per cent in 2006-07 to a peak of 26 per cent in 2008-09.

Figure 4.13: Proportion of households suffering from material deprivation: *UK 2004-05 to 2008-09*

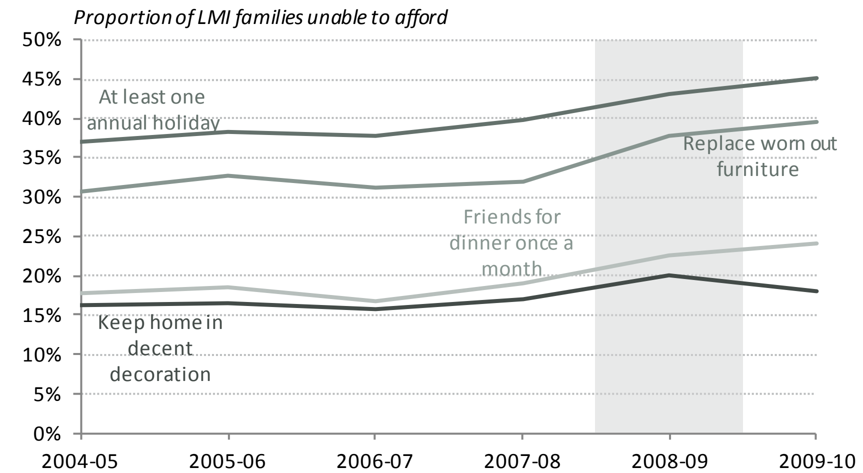


Note: Income groups based on FRS definition: see Chapter 7. Material deprivation is assessed against a composite measure of a family's ability to access a range of goods, services and outcomes. Assessment is made by the DWP. Overall scores were not recorded in 2009-10, though individual measures were still taken.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

While the composite measure is not presented for the latest year, the individual measures are. Figure 4.14 sets out trends among LMI families in relation to a selection of the adult deprivation questions.

Figure 4.14: Selected material deprivation measures among LMI families: *UK 2004-05 to 2009-10*



Note: Income groups based on FRS definition: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

It shows that the proportion of LMIs unable to afford a variety of material possessions continued to increase in 2009-10, suggesting that the composite measure would similarly have risen had it been calculated.

With numbers increasing over the past five years

The chart also highlights differences in trends across the various measures. For example, while the proportion stating that they could not afford to have friends round for dinner at least once a month increased steadily from 2007-08 onwards, ending the period 36 per cent higher than it started, the proportion saying they did not have the funds to decorate their home as they wished was relatively flat – declining in 2009-10 and ending the period just 11 per cent higher than in 2004-05. Despite these variations, rates of deprivation among LMIs rose across all questions posed.

4.4. Safety nets: *LMI use of savings, assets and insurance*

Low levels of savings

Income and price pressures mean that LMIs frequently fail to build up any savings, leaving them vulnerable to the changes in circumstances and volatility in income that we have already noted many of them face.

Table 4.8 sets out cash savings within each income group in 2009-10, and shows that around two-thirds (66 per cent) of LMI families had total savings and assets of less than £1,500, compared with around one-third (37 per cent) of higher income households.

Table 4.8: Value of savings/assets in families by income group: *UK 2009-10*

	Benefit-reliant	LMIs	Higher income	All family units
< £1,500	84%	66%	37%	54%
£1,500 < £3,000	5%	10%	11%	10%
£3,000 < £8,000	4%	9%	14%	10%
£8,000 < £20,000	2%	6%	13%	9%
£20,000 < £25,000	0%	2%	4%	3%
£25,000 < £30,000	0%	1%	3%	2%
£30,000 < £35,000	0%	1%	2%	1%
£35,000 < £40,000	0%	0%	2%	1%
£40,000+	2%	5%	15%	9%

Note: Income groups based on FRS definitions: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Two-thirds have less than one month's net income in savings

Table 4.9 provides context by comparing average savings within families in each income group with their average monthly net incomes. It shows that two-thirds (67 per cent) of LMI units recorded savings equivalent to less than one month's net income in 2009-10, a higher proportion than recorded in either the higher income (50 per cent) or benefit-reliant (59 per cent) groups.

The higher level of savings adequacy among the benefit-reliant group is likely to reflect the fact that monthly incomes in the latter group are so much smaller, meaning that relatively low levels of savings are sufficient to provide cover.

Table 4.9: Number of months' net income held by families in savings by income group: *UK 2009-10*

	Benefit-reliant	LMIs	Higher income	All family units
Savings equivalent to				
<1 month	59%	67%	50%	57%
1<2 months	22%	9%	12%	13%
2<6 months	9%	10%	20%	15%
6+ months	11%	14%	19%	16%

Notes: Income groups based on FRS definitions: see Chapter 7.
Value of savings/assets based on mid-point in range provided by respondent.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Figure 4.15 looks at trends in these relative savings rates in the LMI group over time. There is a break in the series in 2004-05 owing to a change in the way the results were captured in the *Family Resources Survey*, which means that rates at the start and the end of the period are not directly comparable.

Figure 4.15: Number of months' income held in savings by LMI households: *UK 1996-97 to 2009-10*

Note: Income groups based on FRS definition: see Chapter 7. Value of savings based on mid-point in range. The ranges – and therefore the mid-points – used are unchanged each year (other than in 2004-05 when additional buckets were introduced, creating a break in the series). By contrast, incomes are captured directly and therefore tend to increase over time. Part of the apparent fall in savings adequacy may therefore simply be the result of this measurement issue.

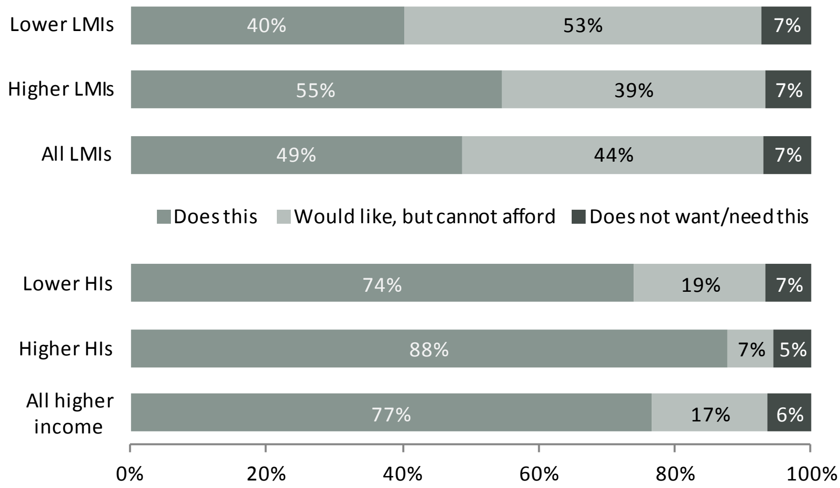
Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

With savings inadequacy increasing in recent years

However, the chart shows that the proportion of LMI families holding less than one month's income in savings was relatively flat in the early part of the 2000s, before increasing over the second half of the decade. In this period, it rose from 63 per cent in 2005-06 to a high of 68 per cent in 2008-09.

Figure 4.16 focuses on the regularity of saving within the LMI group, by comparing the experiences reported among lower and higher LMI families in relation to saving at least £10 a month with those recorded in the lower and higher HI groups.

Figure 4.16: Families' attitudes to saving at least £10 a month: *UK 2009-10*

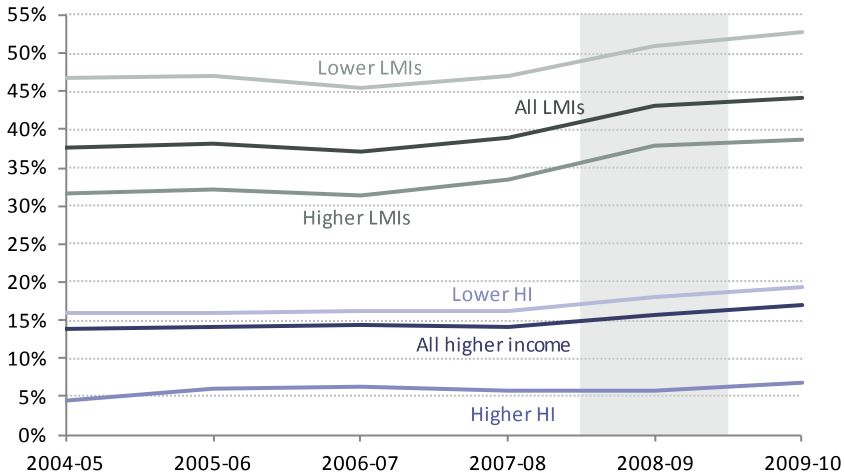


Note: Income groups based on FRS definition: see Chapter 7.
Source: RF analysis of DWP, *Family Resources Survey 2009-10*

More than two-fifths unable save £10 a month

It shows that most families across all income groups would like to be able to save at least £10, with just 7 per cent of LMIs and 6 per cent of higher income families declaring that they did not want or need to do so. Just 17 per cent of higher income families (falling to 7 per cent among higher HIs) said that they could not afford to make this level of saving. By contrast, more than two-fifths (44 per cent) of LMIs said they could not afford it, rising to more than half (53 per cent) among lower LMI families.

Figure 4.17: Proportion of families who would like to save at least £10 a month but say they can't afford it: *UK 2004-05 to 2009-10*



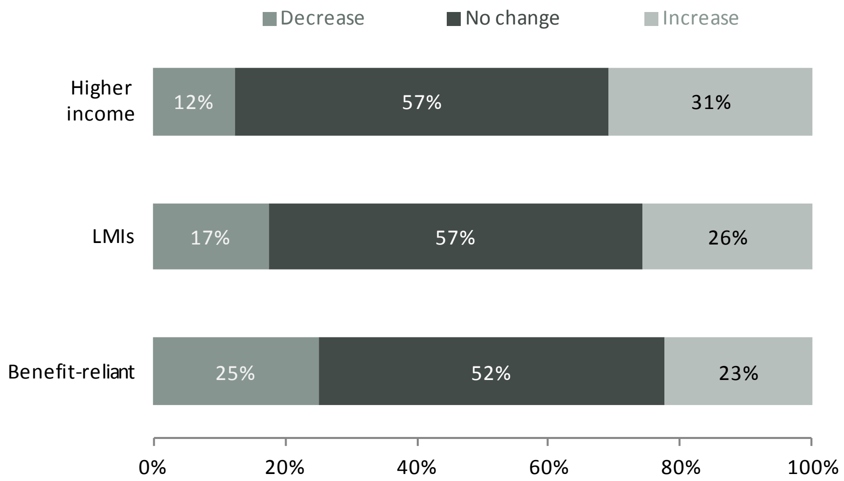
Note: Income groups based on FRS definition: see Chapter 7.
Source: RF analysis of DWP, *Family Resources Survey 2009-10*

With this proportion rising sharply during recession

Figure 4.17 tracks the proportions of families in this position from 2004-05 onwards. It shows that rates within the LMI group were relatively flat in the period to 2006-07, but that there were sharp increases in the numbers saying they could not afford to save £10 a month immediately prior to the recession and throughout the subsequent downturn. The proportion of higher income families in this position also increased but, compared with the LMI experiences, the rises were delayed by a year and were much more modest.

In response to the economic downturn, large numbers of UK households sought to deleverage – paying down debts and increasing savings. The national savings ratio[39] increased accordingly from 0.9 per cent in Q1 2008 to a high of 9.4 per cent in Q2 2009 and, despite some subsequent reversal, stood at 6.6 per cent in Q3 2011.[40] Figure 4.18 looks at plans for household saving in 2012 across the income groups.

Figure 4.18: Proportion of households planning to change their saving behaviour in the next 12 months: *GB Sep 2011*



Note: Weighted base = 812. Income groups based on NMG definition: see Chapter 7.
Source: RF analysis of Bank of England, *2011 NMG survey*, Sep 2011

Around one-quarter plan to save more in 2012

It shows that one-quarter (26 per cent) of LMI households plan on increasing their savings in 2012, while less than one-fifth (17 per cent) anticipate a reduction. The proportions do not vary much by income group,.

Table 4.10 sets out the reasons given for planned changes in savings behaviour by those respondents saying they expected to increase or decrease their levels in 2012.

[39] That is, the percentage of UK household disposable income that is being saved.
[40] ONS dataset *NRJS*

Table 4.10: Reasons for planned changes to saving behaviour over the next 12 months: *GB Sep 2011*

	Benefit-reliant	LMIs	Higher income	All households
*Among those planning a **decrease** in saving (weighted base = 115)*				
Unable to save as much because of the higher cost of essentials like food & bills	37%	43%	57%	47%
Unable to save as much because of lower income	35%	34%	41%	37%
I now have enough in saving accounts and other assets	6%	27%	11%	16%
I have bought the item I was saving for	7%	14%	9%	11%
Low level of interest rates	25%	6%	21%	16%
Other	5%	1%	4%	3%
*Among those planning an **increase** in saving (weighted base = 222)*				
Save for personal commitments e.g. marriage, kids' education, long term care	30%	31%	29%	30%
Try to reduce my debts	24%	29%	21%	24%
Save for retirement	17%	25%	31%	28%
Save for a big item, e.g. car, holiday, home improvements, etc	16%	22%	24%	23%
Worried about future tax increases	14%	20%	9%	13%
Worried about redundancy/losing my, or my partner's, job	7%	19%	16%	16%
Have extra cash from increased income/second job/lower bills	6%	17%	15%	15%
Worried about future interest rate increases	12%	14%	18%	16%
Save for a deposit on house or flat	19%	12%	9%	11%
Less guaranteed monthly income, e.g. overtime, self employed work	9%	9%	10%	9%
Have extra cash from a decrease in mortgage repayments	0%	2%	5%	4%
Make up for the fact that the value of my house/investments has fallen	0%	1%	3%	2%

Notes: Income groups based on NMG definition: see Chapter 7.

Source: RF analysis of Bank of England, *2011 NMG survey*, Sep 2011

Driven by specific events such as marriage, but also by fear of redundancy and tax increases

Among LMIs planning to cut their savings, two-fifths (43 per cent) cited the impact of rising bills, while one-third (34 per cent) pointed to a drop in income. A sizeable minority said that they had either saved enough already (27 per cent) or had bought the item they were saving for (14 per cent), highlighting the often specific and relatively short-term saving undertaken by LMIs. Interestingly, just 6 per cent of this sub-group of LMIs considered the low level of interest rates to have driven their decision to cut their saving, compared with 21 per cent of corresponding higher income households and 25 per cent of benefit-reliant ones.[41]

The most popular reason given (31 per cent) by those LMIs planning to increase their savings was the need to meet personal commitments such as marriage or children's education, but a similar number (29 per cent) cited a desire to reduce their debts. One-in-five (20 per cent) of the LMI households wanting to save more said they wanted to prepare for future tax increases, compared to one-in-ten (9 per cent) of higher income households in this position.

One of the key drivers of the decline in the household savings ratio and the boom in consumption in the years leading up to the recession was the strong performance of the housing market and the sizeable levels of equity held by many households – including those with relatively modest incomes. Table 4.11 details the distribution of housing equity across the various income groups in 2009-10.

[41] Note, however, the relatively small sample sizes.

It shows that half (53 per cent) of all LMI households recorded positive equity levels, compared with three-quarters (75 per cent) of all higher income households.

Table 4.11: Housing equity held by household income group: *England 2009-10*

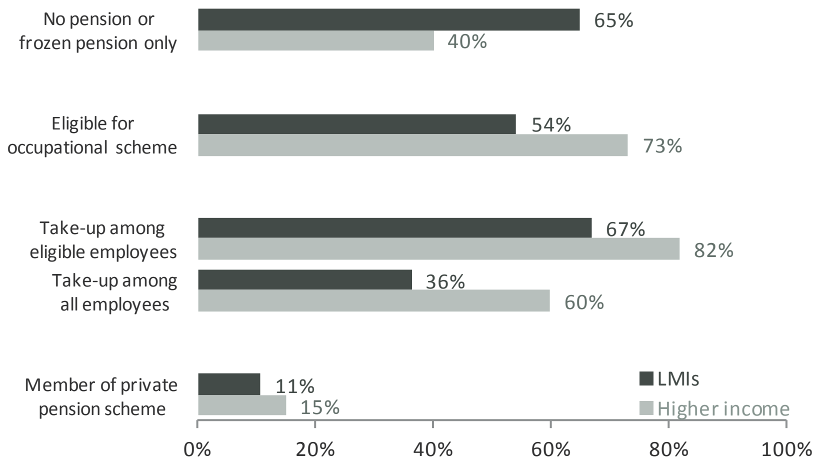
Head of household aged under-45	Benefit-reliant	Lower LMIs	Higher LMIs	All LMIs	Lower HIs	Higher HIs	All higher income
Among homeowners							
Negative equity	5%	5%	6%	5%	6%	6%	6%
Less than £50k	27%	30%	30%	30%	32%	20%	30%
£50k < £100k	27%	26%	28%	27%	24%	20%	23%
£100k < £150k	13%	17%	16%	16%	14%	11%	13%
£150k < £200k	12%	12%	10%	11%	9%	14%	10%
£200k < £250k	6%	5%	4%	5%	4%	9%	6%
£250k+	8%	5%	5%	5%	8%	18%	10%
Among all households							
Negative equity	1%	2%	3%	2%	4%	4%	4%
Less than £50k	4%	10%	14%	12%	19%	14%	18%
£50k < £100k	4%	9%	13%	11%	14%	14%	14%
£100k < £150k	2%	6%	7%	7%	8%	8%	8%
£150k < £200k	2%	4%	5%	4%	5%	10%	6%
£200k < £250k	1%	2%	2%	2%	3%	7%	3%
£250k+	1%	2%	2%	2%	5%	13%	6%

Note: Income groups based on EHS definition. See Chapter 7.
Source RF analysis of CLG, *English Housing Survey 2009-10*

Half have housing equity, leaving some asset rich but income poor

The distribution of equity level among homeowners appears relatively similar across all income groups, with the exception that higher income households (and in particular higher HIs) were more likely to hold more than £250,000. Nevertheless, a sizeable minority of LMIs (7 per cent) reported equity at this level, pointing to the presence of a group of relatively income-poor but asset-rich households within the group.

Figure 4.19: Ownership of private and occupational pensions among working-age adults by income group: *UK 2009-10*



Note: Income groups based on FRS definition: see Chapter 7.
Sources: RF analysis of DWP, *Family Resources Survey 2009-10*

But, just one-third actively contribute to a pension

During the prolonged housing boom, many have come to view equity as a supplement to any pension savings, despite its illiquid nature. Figure 4.19 highlights the low level of actual pension provision within the LMI group. It shows that two-thirds (65 per cent) of LMI adults were not contributing to any form of personal pension in 2009-10, compared with 40 per cent of higher income adults.

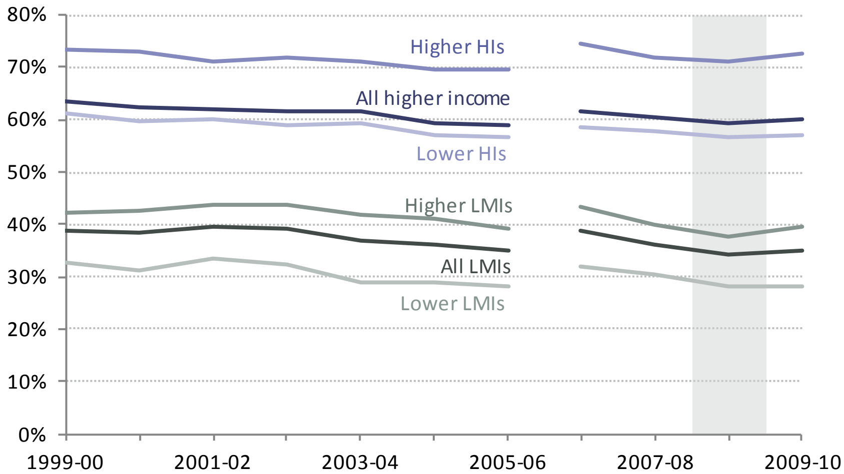
Just 36 per cent of the group were members of occupational schemes, compared with 60 per cent of higher income adults. This difference is in part due to lower levels of availability, with just 54 per cent of LMI employees being eligible for a workplace scheme, compared with 73 per cent of those with higher incomes. However, the difference is also in part due to lower levels of take-up, with just 67 per cent of those LMI employees who *were* eligible for a scheme being members, compared with 82 per cent of eligible higher income employees.

With this proportion falling in recent years

Despite lower levels of occupational coverage, LMIs were also less likely to contribute to a private pension, with just 11 per cent reporting membership in 2009-10, compared with 15 per cent of higher incomes.

As Figure 4.20 shows, pension coverage fell over the course of the last decade. There is a break in the series in 2006-07 which means the figures before and after this point are not directly comparable. However, it shows that coverage fell across all income groups between 1999-00 and 2005-06 and between 2007-08 and 2009-10, although there was a slight improvement at the very end of the period.

Figure 4.20: Proportion of adults actively contributing to an occupational or personal pension: ***UK 1999-00 to 2009-10***



Note: Income groups based on FRS definition: see Chapter 7. Break in series in 2006-07 due to change in questions asked. From this date, FRS interviewers specifically check if respondent has a pension. Prior to this, figures were based on responses to series of questions about ownership of different types of pensions.

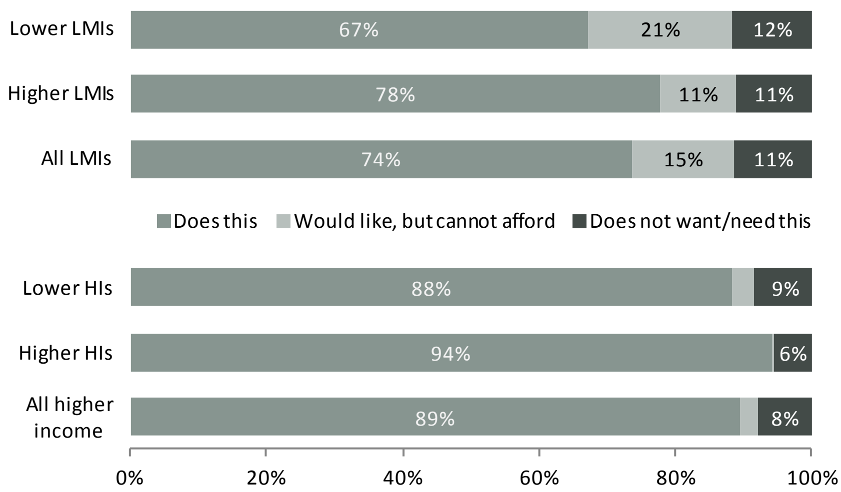
Sources: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

The chart highlights that coverage has been consistently lower among LMIs than among higher income adults, with just 28 per cent of lower LMIs contributing to a pension in 2009-10. Declines have also been more marked among LMI adults, with coverage falling by 9 per cent between 2006-07 and 2009-10, compared with a drop of just 3 per cent in the higher income group.

And one-in-seven cannot afford contents insurance

In addition to having lower levels of savings and pension coverage than members of the higher income group, LMIs are also less likely to hold insurance. Figure 4.21 shows that, although three-quarters (74 per cent) of LMI families reported having contents insurance in 2009-10, a sizeable minority (15 per cent) said that they could not afford it. In contrast, just 3 per cent of higher income families said that they were unable to get cover.

Figure 4.21: Families' attitudes to having contents insurance by income group and age of unit head: ***UK 2009-10***



Note: Income groups based on FRS definition: see Chapter 7.
Source: RF analysis of DWP, *Family Resources Survey 2009-10*

4.5. Credit and arrears: *LMI experiences of bills, borrowing and debt*

LMI credit and debt profiles largely commensurate to income levels

The proportion of LMI households with outstanding secured and unsecured debts[42] is similar to the overall profile of the UK population.

Table 4.12 shows that, in late-2011, two-thirds (69 per cent) of LMI households reported having an outstanding debt: 38 per cent had secured[43] and 65 per cent had unsecured debts. Total debts among all LMI households averaged £18,840, rising to £32,680 if those without any debts are excluded.

[42] Secured loans are those which rely on the provision by the borrower of some form of collateral, which can be seized in the event of the borrower defaulting; mortgages for example. Unsecured loans are made without; credit cards for example.
[43] This figure is smaller than the number recorded in Table 5.1 as buying their home with a mortgage (43 per cent). The difference is due to the different samples and definitions used.

Table 4.12: Debt position of households by income group: *GB Sep 2011*

	Benefit-reliant	LMIs	Higher income	All households
Secured debt				
Proportion with outstanding debts *(weighted base = 919)*	26%	38%	66%	51%
Mean outstanding debt among all answering question *(w. base = 836)*	£12,900	£24,650	£73,470	£47,570
Mean outstanding debt among all with secured debt *(w.base = 383)*	£66,120	£74,920	£118,110	£103,940
Unsecured debt				
Proportion with outstanding debts *(w.base = 883)*	58%	65%	70%	66%
Mean outstanding debt among all answering question *(w. base = 883)*	£2,690	£2,810	£5,100	£3,970
Mean outstanding debt among all with unsecured debt *(w. base = 551)*	£4,950	£4,510	£7,830	£6,330
Total debt				
Proportion with outstanding debts *(w. base = 878)*	63%	69%	76%	71%
Mean outstanding debt among all answering question *(w. base = 878)*	£12,900	£18,840	£52,350	£35,130
Mean outstanding debt among all with debt *(w. base = 519)*	£24,420	£32,680	£84,730	£59,440

Note: Income groups based on NMG definition: see Chapter 7.

Source: RF analysis of Bank of England, *2011 NMG survey* , Sep 2011

Holding an average 1.2 lines of predominantly mainstream unsecured credit on average

Table 4.13 sets out the unsecured debt instruments held by LMI households in late-2011. It shows that LMI households were more likely than benefit-reliant ones to hold credit cards, overdrafts and personal loans, but less likely to have the typically more expensive hire purchase and mail order agreements. LMIs' credit card ownership rate was lower than that recorded among higher income households, but the levels of overdraft and personal loan use in the two groups were similar.

Table 4.13: Unsecured debt instrument ownership in households by income group: *GB Sep 2011*

	Benefit-reliant	LMIs	Higher income	All households
Distribution of number of unsecured debt instruments held				
0	42%	35%	30%	34%
1	39%	36%	37%	37%
2	12%	13%	17%	15%
3	2%	10%	9%	9%
4	3%	5%	5%	5%
5+	1%	1%	2%	1%
Average number	0.9	1.2	1.3	1.2
Average number (those with at least one)	1.5	1.8	1.9	1.8
Proportion with different types of credit/loan agreements [1]				
Credit card	14%	30%	44%	35%
Overdraft	12%	22%	19%	19%
Personal loan	13%	18%	24%	20%
Hire purchase	14%	10%	12%	12%
Mail order purchase	13%	10%	5%	8%
Store card	2%	8%	10%	8%
Student loan	4%	8%	15%	11%
DSS social fund loan	12%	5%	0%	4%
Something else	5%	4%	1%	3%

Notes: Weighted base = 880.

[1] Figures do not sum to 100% because respondents can own any number of debt instruments.

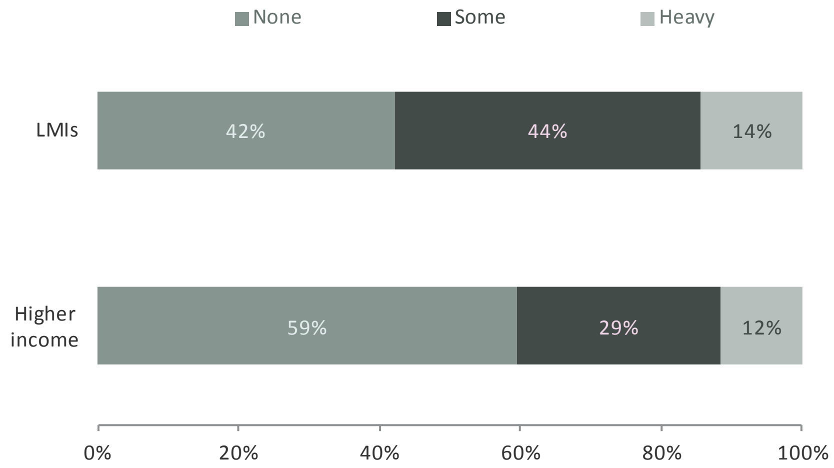
Income groups based on NMG definition: see Chapter 7.

Source: RF analysis of Bank of England, *2011 NMG survey* , Sep 2011

But repayments are often a 'heavy' burden to bear

Although the profile set out above suggests that LMIs' use of credit is broadly in line with the overall population, Figure 4.22 shows that more than half (58 per cent) of LMI households who had an outstanding unsecured debt in late-2011 reported that repayments represented a financial burden to them: 14 per cent of the group described this burden as 'heavy'.

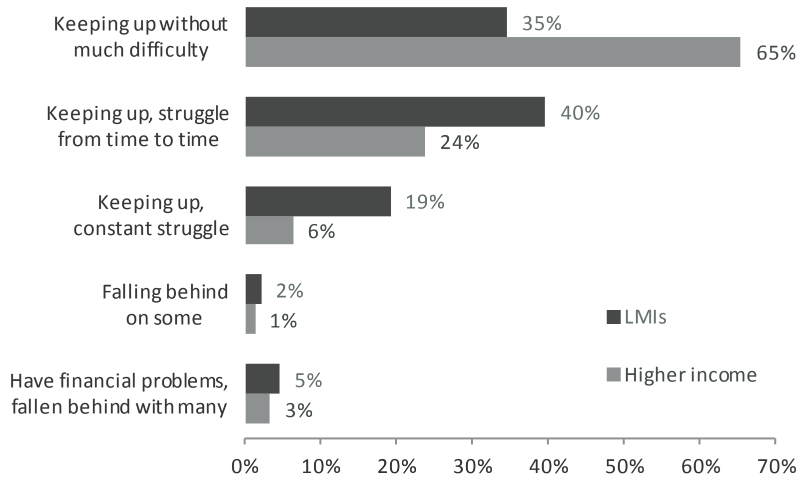
Figure 4.22: Reported burden of repayment of unsecured loans among households with outstanding credit: *GB Sep 2011*



Notes: Weighted base = 583. Income bands based on NMG definition: see Chapter 7.
Source: RF analysis of Bank of England, *2011 NMG survey*, Sep 2010

Figure 4.23 provides further evidence of the apparent financial difficulty felt by some LMI households, by comparing the reported positions of LMI and higher income households in relation to household bills and credit commitments in late-2011.

Figure 4.23: Reported position of households in relation to bills and/or credit commitments by income group: *GB Sep 2011*



Notes: Weighted base = 877. Income groups based on NMG definition: see Chapter 7.
Source: RF analysis of Bank of England, *2011 NMG survey*, Sep 2010

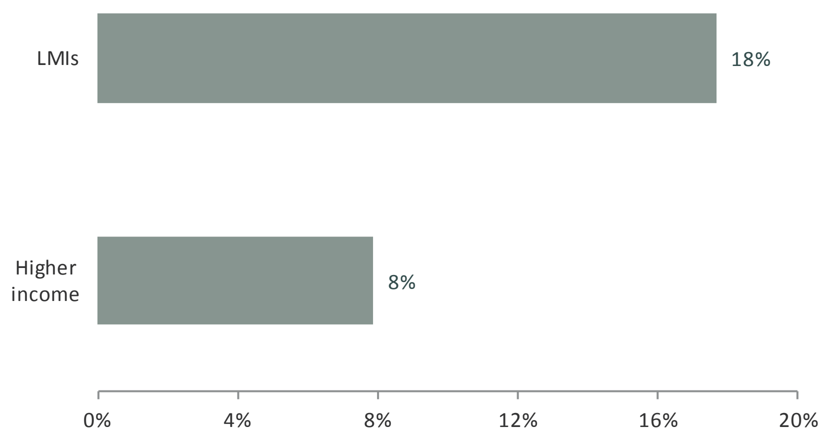
Two-thirds struggle to meet household bills and credit commitments

Two-thirds (65 per cent) of LMI households reported some form of problem keeping up with payments, compared with just one-third (35 per cent) of higher income households. For 19 per cent of LMI households, keeping up represented a "constant struggle", and 7 per cent said they were behind with payments. In contrast, just 6 per cent of higher income households spoke of a constant struggle and 5 per cent were behind.

With one-in-five having difficulty paying for their accommodation

Figure 4.24 looks more specifically at housing payments, finding that nearly one-in-five (18 per cent) of LMI households reported having some difficulty paying for their accommodation in 2011, compared with fewer than one-in-ten (8 per cent) of higher income households.

Figure 4.24: Proportion of households reporting having difficulty paying for their accommodation in the past 12 months: *GB Sep 2011*



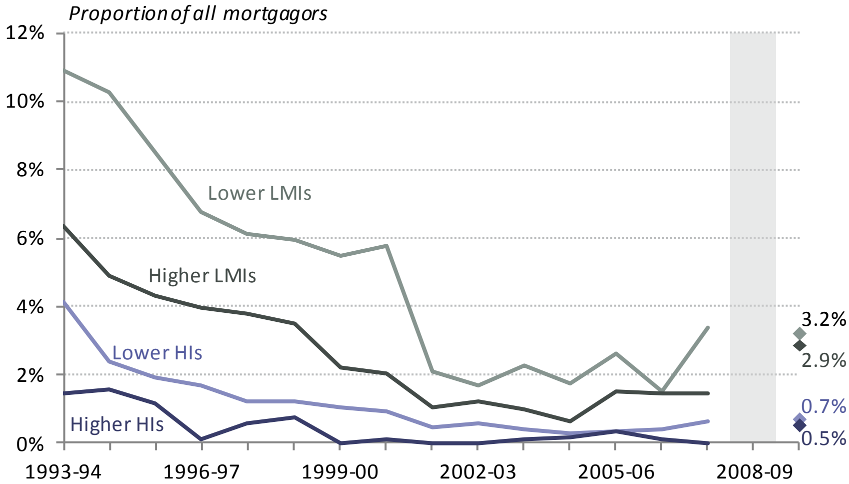
Notes: Weighted base = 905. Income groups based on NMG definition: see Chapter 7.
Source: RF analysis of Bank of England, *2010 NMG survey*, Sep 2011

Despite these difficulties, very few LMI households are in arrears on their mortgages. Figure 4.25 shows that just 3.2 per cent of lower LMI mortgagors and 2.9 per cent of higher LMI mortgagors were in this position in 2009-10.

And increasing numbers behind with mortgage payments

However, while these rates are significantly lower than those recorded in the mid-1990s (when high unemployment was matched by high interest rates), they are some way above the averages occurring during the period 2001-02 to 2007-08. They are also considerably bigger than the proportions recorded among lower HI and higher HI mortgagors, with the gaps between those in arrears in the LMI and higher income groups stretching over the course of the economic downturn.

Figure 4.25: Proportion of mortgagors reporting being behind with payments: *England 1993-94 to 2009-10*



Note: Income groups based on EHS definition: see Chapter 7. Data is not available for 2008-09 because question was not asked.

Source: RF analysis of CLG, *English Housing Survey 2009-10* (and earlier)

More likely to be behind on utility bills

In relation to other household bills, LMIs are much more likely than members of the higher income group to be behind with payments. Table 4.14 shows that in 2009-10, 5.1 per cent of LMI families reported being behind on council tax payments, 4.1 per cent were behind on their electricity bills, 4.1 per cent with gas and 3.6 per cent with water. In contrast, no more than 1.1 per cent of higher income families were behind on any of these bills.

Table 4.14: Families behind with household bills by income group: *UK 2009-10*

	Benefit-reliant	LMIs	Higher income	All family units
Council tax	8.1%	5.1%	0.8%	3.6%
Gas bill	10.6%	4.1%	0.9%	3.8%
Electricity bill	11.2%	4.1%	1.1%	4.0%
Water rates/Rates (NI)	13.3%	3.6%	0.7%	4.0%
Telephone bill	6.0%	2.0%	0.4%	2.0%
Other HP payments	3.3%	1.1%	0.3%	1.1%
Television/video rental or HP	3.0%	0.5%	0.1%	0.8%
Other fuel bills	0.6%	0.2%	0.1%	0.2%
Insurance policies	0.5%	0.2%	0.1%	0.2%

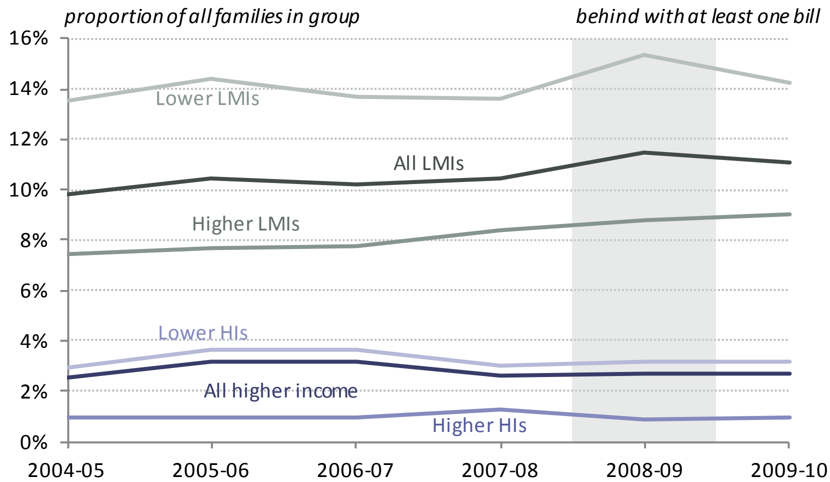
Note: Income groups based on FRS definitions: see Chapter 7

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

With energy bills becoming increasingly problematic in recent years

Moreover, there is some evidence of deterioration in the LMI group. Figure 4.26 shows that the proportion of LMI families behind with at least one household bill increased from 9.9 per cent in 2004-05 to 11.1 per cent in 2009-10. The increase was sharpest following the onset of recession, but a clear upward trend was already discernible.

Figure 4.26: Families behind with at least one household bill by income band: *UK 2004-05 to 2009-10*



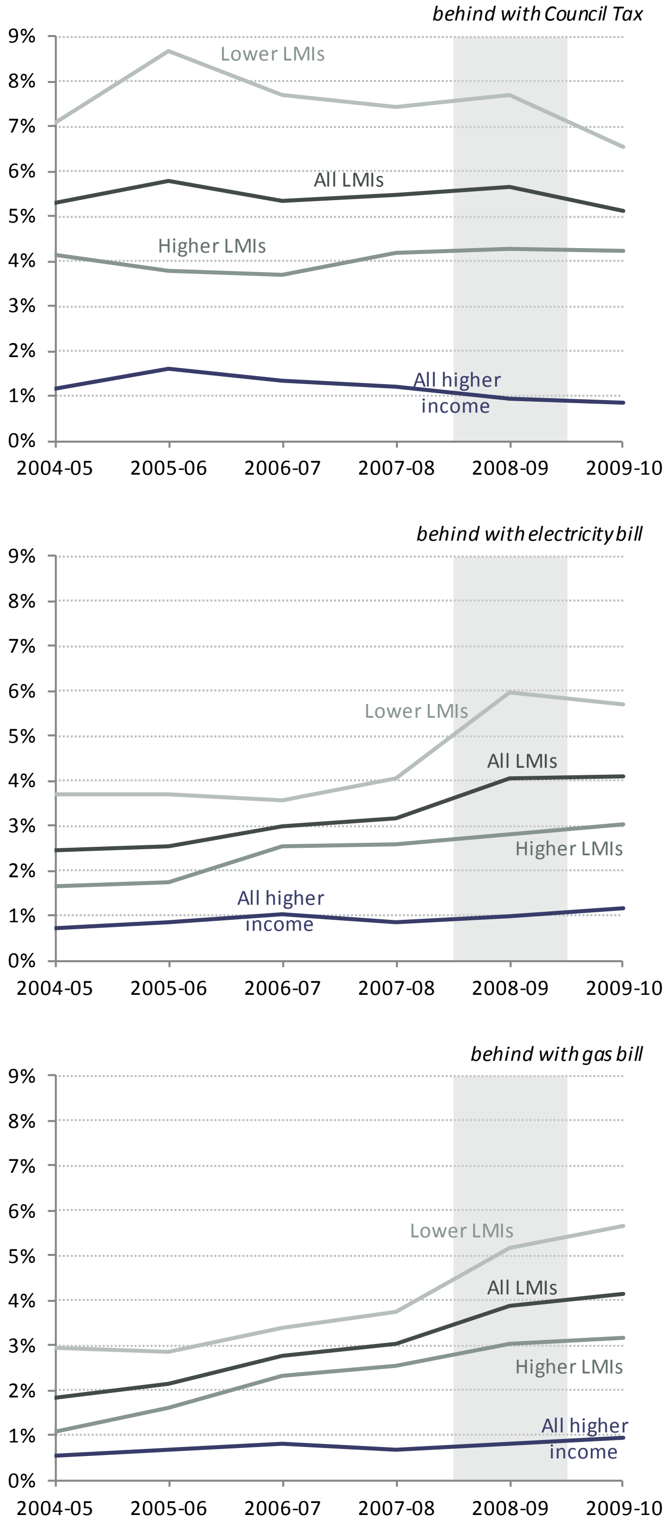
Note: LMIs groups based on FRS definition: see Chapter 7.
Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

Figure 4.27 shows that the proportion of LMIs behind with energy bills increased most significantly. For example, while the proportion of LMIs behind with Council Tax was relatively flat over the period, the number behind with electricity payments increased from 2.5 per cent to 4.1 per cent. In contrast, the proportion of higher income households behind on electricity increased much more modestly, from 0.7 per cent to 1.1 per cent.

Similarly, the proportion of LMIs behind with gas payments increased from 1.8 per cent to 4.1 per cent, while the proportion of higher income households behind rose from 0.6 per cent to just 0.9 per cent.

In each instance, lower LMIs were more likely to be behind than higher LMIs, though the gap closed somewhat over the period in relation to Council Tax.

Figure 4.27: Families behind with selected household bills by income band: UK 2004-05 to 2009-10



Note: LMIs groups based on FRS definition: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

But one-quarter have no coping strategy in place

Nearly half of those LMIs stating in late-2011 that they had difficulties with bills and credit commitments said that they were considering making cutbacks. Table 4.15 sets out the range of proposed actions across each of the income groups. The overall pattern of responses among LMIs was similar to that displayed in both benefit-reliant and higher income households, although LMIs (11 per cent) were significantly less likely than higher income households (22 per cent) to use cash from savings and assets.

Perhaps most tellingly, one-quarter (26 per cent) of the LMI group said that they would not follow any of the courses offered (including the 'other' choice), suggesting that a sizeable proportion had no coping strategy in place.

Table 4.15: Actions considered by those reporting having had difficulty repaying debts by income group: *GB Sep 2011*

	Benefit-reliant	LMIs	Higher income	All households
Cutbacks	58%	48%	67%	57%
Working longer hours/second job/better paid job	10%	22%	26%	21%
Financial help from family	17%	15%	11%	14%
Use cash in savings/other assets	9%	11%	22%	15%
Enter into another debt solution e.g. Debt Management Plan	2%	4%	5%	4%
Taking out another loan	4%	4%	4%	4%
Sell house	6%	4%	1%	3%
Taking out another mortgage	0%	1%	2%	1%
Insolvency	1%	1%	1%	1%
Other	2%	1%	0%	1%
None of these	24%	26%	22%	24%

Notes: Weighted base = 441. Figures do not sum to 100% because respondents can give more than one answer. Income groups based on NMG definition: see Chapter 7.

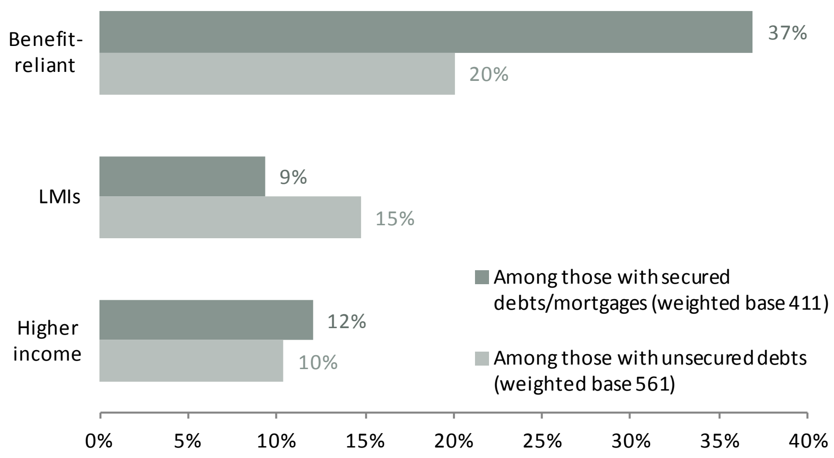
Source: RF analysis of Bank of England, *2011 NMG survey*, Sep 2011

The true number facing difficulties may be masked by high levels of creditor forbearance

The number of UK households reporting arrears on payments did not increase as much as was expected during the recession, in part thanks to a deliberate policy of increased forbearance among creditors. Figure 4.28 details the proportion of households in each income group benefiting from such measures in late-2011.

Among those LMIs with secured debts or mortgages, 9 per cent were in this position; among those with unsecured debts the proportion rose to 15 per cent. While forbearance provided important support for families suffering during the downturn, it is a time-limited policy and creditors are likely to come under increasing pressure to withdraw such support during 2012, meaning there is a risk that some of these LMI families will face new difficulties in the coming months.

Figure 4.28: Proportion of households benefiting from forbearance: *GB Sep 2011*



Notes: Income groups based on NMG definition: see Chapter 7. The data covers a variety of measures including temporary or permanent transfers of all or part of a mortgage onto interest only terms, extensions in the terms of loans in order to reduce monthly repayments and reductions in payments or payment holidays which do not result in arrears.

Source: RF analysis of Bank of England, *2010 NMG survey*, Sep 2011

A minority of LMIs can be considered to be in 'debt crisis'. That is, they have high debt-income ratios and are several months in arrears. Table 4.16 compares the profile of such households (defined as those who sought assistance from the Consumer Credit Counselling Service (CCCS)[44] in 2010) with the overall LMI population and with all working-age households.

LMIs in 'debt crisis' are a little poorer than other LMIs and more likely to live in the private rented sector

It shows that, while LMI households comprised 31 per cent of all households, they accounted for 45 per cent of the overall debt crisis population. The average net household income among LMIs in debt crisis (£16,555) was lower than the average in the wider LMI population (£20,500), and they were much more likely (40 per cent compared with 19 per cent) to live in private rented accommodation.

Almost by definition, their debt profile is somewhat different from the overall LMI population. For example, the average debt-income ratio among LMIs in debt crisis in 2010 was 4, compared with 1.6 in among those with debts in the wider group. Similarly, LMIs in crisis spent an average of two-thirds (66 per cent) of their monthly income on debt repayments, compared with an average of less than one-fifth (18 per cent) among all LMI debtors.

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[44] CCCS is a debt advice charity, providing counselling to around 200,000 people a year and accounting for around one-quarter of all debt advice contacts made by consumers in 2010. Its client base is believed to be largely representative of the national population of consumers in financial difficulty. We are grateful to CCCS for providing us with access to their database for this analysis.

Table 4.16: Profile of LMI households in 'debt crisis': *UK 2010*

	All households	All LMI households	LMI households in debt crisis
Proportion of all households	100%	31%	45%
Average net income	£31,900	£20,500	£16,555
Tenure			
Homeowners	66%	63%	41%
Social housing tenants	16%	16%	19%
Private renters	19%	21%	40%
Ratio of annual income to outstanding debt (those with debt)			
Unsecured	0.2	0.2	1.3
Secured	1.9	2.1	2.8
Total	1.4	1.6	4.0
Proportion of monthly income spent on debt repayments (those with debt)			
Unsecured	5%	7%	50%
Secured	11%	14%	16%
Total	12%	18%	66%
Unsecured credit lines (those with debt)			
Number held	1.8	1.8	7.0
% w/credit cards	35%	30%	80%
% w/personal loans	19%	22%	72%
% w/overdrafts	20%	18%	73%
% w/catalogue	8%	10%	29%
% w/store card	8%	8%	21%

Source: RF analysis of Bank of England, *2011 NMG survey*, Sep 2011
RF analysis of DWP, *Family Resources Survey 2009-10*
RF analysis of CCCS client database

The crisis group were also more likely to hold multiple lines of credit, with an average number of unsecured products of 7, compared with 1.8 among all LMIs with outstanding debts. The distribution of unsecured credit products was similar to the wider group however, with the majority holding products such as credit cards and loans rather than typically more expensive lines such as mail order and store cards.

But they appear typical in other ways, primarily engaging with the mainstream credit market for instance

The picture which starts to develop of the debt crisis group is therefore one in which relatively typical households who have engaged in the mainstream credit market have been pushed into difficulties by some combination of over-commitment, drop in income or a change in circumstances. Table 4.17 sheds more light by describing the distribution of reasons given for needing to seek help among those households approaching the CCCS in 2010, split by income group.

Table 4.17: Primary self-reported reason for being in debt crisis among CCCS clients: *UK 2010*

	Benefit-reliant households	LMI households	Higher income households
Change in income/spending	64%	53%	45%
Reduced income	*14%*	*27%*	*26%*
Unemployment/redundancy	*46%*	*19%*	*10%*
Increased priority expenditure	*1%*	*3%*	*4%*
Failed business	*1%*	*2%*	*3%*
Change in employment	*0%*	*1%*	*1%*
Reduced benefits	*1%*	*1%*	*0%*
Change in circumstances	20%	22%	22%
Separation/divorce	*6%*	*11%*	*15%*
Injury/illness	*11%*	*8%*	*5%*
Pregnancy/childbirth	*1%*	*2%*	*1%*
Budgeting issues	12%	20%	26%
Overcommitted on credit	*5%*	*9%*	*13%*
Lack of budgeting	*3%*	*5%*	*6%*
Irregular income	*2%*	*3%*	*3%*
Used credit for living expenses	*2%*	*3%*	*4%*
Other	4%	5%	6%
Total	100%	100%	100%

Source: RF analysis of CCCS client database

The reasons given can be grouped into three loose categories: changes in incomes and expenditures; changes in personal circumstances; and budgeting issues.

Half blame changes in incomes and spending;

One-in-five cite changes in personal circumstances; and

One-in-five point to budgeting issues

The table shows that half (53 per cent) of the LMI household in debt crisis were in this position primarily because of changes in their income or spending. Around one-in-four (27 per cent) cited reduced income, while one-in-five (19 per cent) pointed specifically to unemployment or redundancy. A further one-in-five (22 per cent) noted changes in circumstances, with divorce or separation being the main cause for one-in-ten (11 per cent) of those in crisis. A not insignificant number (20 per cent) blamed budgeting issues, with one-in-ten (9 per cent) simply referencing over-commitment on credit and 5 per cent admitting to a lack of budgeting.

The distribution of reasons appears similar across each income group, though falling incomes and unemployment were unsurprisingly more likely to be cited by those in the benefit-reliant group given that this is the most likely destination for households experiencing such changes.

LMI households facing difficulties with bills and debts have been restricted in their room for manoeuvre somewhat by the credit crunch, which has reduced availability of credit across the economy.

One-in-three LMI households suffer from restricted access to credit

Table 4.18 shows that one-third (36 per cent) of LMI households reported actual or perceived credit constraint in late-2011, with 30 per cent suffering from perceived (discouraged from applying for credit) constraint and 10 per cent experiencing actual (prevented from borrowing either by the unavailability of credit or its high price) constraint. Unsurprisingly given its relationship to income, constraint was higher among LMIs than among higher incomes, but lower than among members of the benefit-reliant group.

Table 4.18: Credit constraint reported by households by income group: *GB Sep 2011*

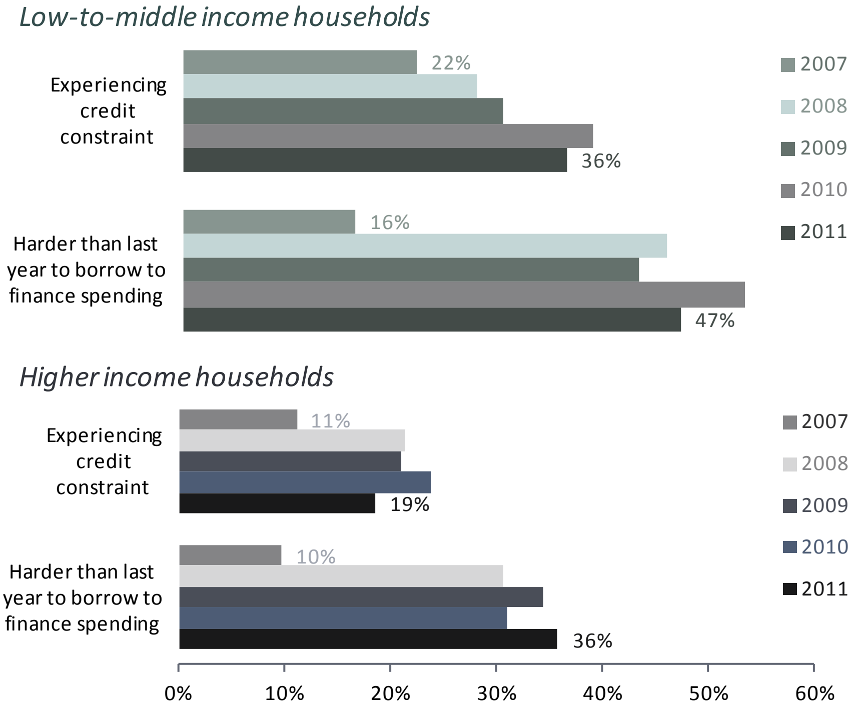
	Benefit-reliant	LMIs	Higher income	All households
Put off spending because concerned would not be able to get credit when needed (weighted base = 892)	33%	30%	16%	23%
Would like to borrow more but find it too expensive or difficult to do so (weighted base = 887)	17%	10%	6%	9%
Actual or perceived credit constraint (weighted base = 886)	37%	36%	19%	27%
Finding it harder than last year to borrow to finance spending *(w. base = 426)*	69%	47%	36%	46%

Note: Income groups based on NMG definition: see Chapter 7.
Source: RF analysis of Bank of England, *2011 NMG survey* , Sep 2011

Up from one-in-five in 2007

Nearly half (47 per cent) of LMI households said they found it harder to borrow to finance spending in 2011 than they had in 2010. Nevertheless, Figure 4.29 shows that reported levels of constraint were down from their 2010 peak, although they remained higher than in 2009 and significantly more so than in 2007.

Figure 4.29: Change in credit conditions experienced by LMI households: *GB 2007-2011*



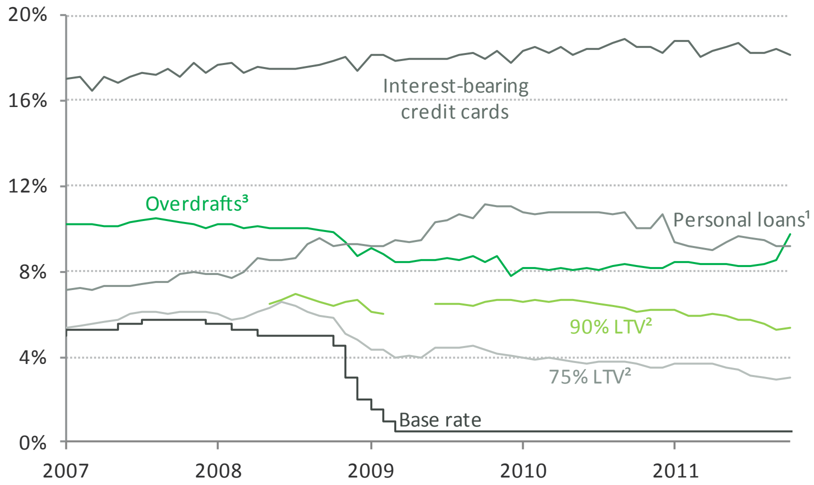
Notes: Weighted bases range from 145 to 302 across the years and questions asked. Income bands based on NMG definition: see Chapter 7.
Source: RF analysis of Bank of England, 2011 *NMG survey* (and earlier)

Potentially pushing some towards more expensive mainstream and non-mainstream products

As noted, levels of constraint were consistently tighter among LMIs than among higher income households. It is worth noting also that the implications of finding it harder to borrow are likely to be more severe for LMI households, because of their lower levels of savings, lower weekly buffers between incomes and spending and less certain incomes. Ongoing credit constraint is therefore likely to be pushing some LMIs towards more expensive credit products.

While for some this might mean sub-prime borrowing, for others it may represent simply a movement towards more expensive mainstream products. Figure 4.30 shows that, while average rates of interest on 75 per cent loan-to-value mortgages and on overdrafts fell with the Bank of England base rate between 2008 and October 2011, the spreads between the products and the base widened over the period. Average rates on other products have actually *increased* over the same period, with the spread between personal loans and the base rate becoming particularly stretched.

Figure 4.30: Average quoted interest rates on selected household loans: *UK 2007 - 2011*



Note: ¹ Interest rate on £10,000 personal loans.
² Two-year fixed rate mortgages.
³ The increase in the October 2011 rate reflects changes due to system improvements and reporting practices by one institution.

Source: Bank of England, *Trends in Lending*, October 2011, Chart 2.5 & Effective interest rates update;
Bank of England, *Inflation Report*, November 2011, Chart 1.11

5. Housing

A long-term decline in home ownership among low-to-middle income households has been exacerbated by the credit crunch. Prior to the crash, one-in-five LMI first time buyers relied on 100 per cent mortgages. Increased deposit requirements pose major difficulties for LMIs because of their low level of saving. Under current circumstances, the typical LMI household would need to save for 22 years to build a deposit for a first house, up from just three years in the mid-1990s.

Because they had to stretch themselves to get on the housing ladder, those LMIs who do *own are more likely than their higher income counterparts to be experiencing problems sustaining their position. One-in-five say they have difficulty meeting repayments and 29 per cent spend more than one-quarter of their income on their mortgage, even though the base rate has fallen to a historic low.*

Reduced access to both home ownership (because of affordability) and social housing (because of supply) has pushed growing numbers of LMIs into the private rented sector in the last decade. One-in-five LMI households are now in this tenure and it has become the most common form of housing within the younger LMI group. Despite this, one-quarter of LMIs in the private rented sector do not consider it to be 'good' and just 6 per cent of all LMI households think they will live in such accommodation in the longer term.

Home ownership remains the ultimate aspiration. Among those LMIs saying they will never buy, four-fifths cite cost issues and just one-in-ten say they are making a positive choice because of their preference for the flexibility of renting.

5.1. Tenure: *where do LMIs live?*

LMIs have similar tenure profile to national average

Table 5.1 shows that LMI housing tenure largely reflects national averages, with two-thirds (63 per cent) of LMI households living in properties they owned in 2009-10, 16 per cent living in social housing and 21 per cent in private rented properties.

Table 5.1: Household housing tenure by income group: *UK 2009-10*

	Benefit-reliant	LMIs	Higher income	All households
Owners	25%	63%	83%	66%
Owned with mortgage	*14%*	*43%*	*62%*	*47%*
Owned outright	*11%*	*20%*	*21%*	*19%*
Social housing tenants	48%	16%	3%	16%
Rented from housing association	*24%*	*8%*	*2%*	*8%*
Rented from council	*24%*	*8%*	*1%*	*8%*
Rented privately	27%	21%	14%	19%
Rented privately - unfurnished	*21%*	*15%*	*10%*	*14%*
Rented privately - furnished	*6%*	*6%*	*4%*	*5%*
All households	100%	100%	100%	100%

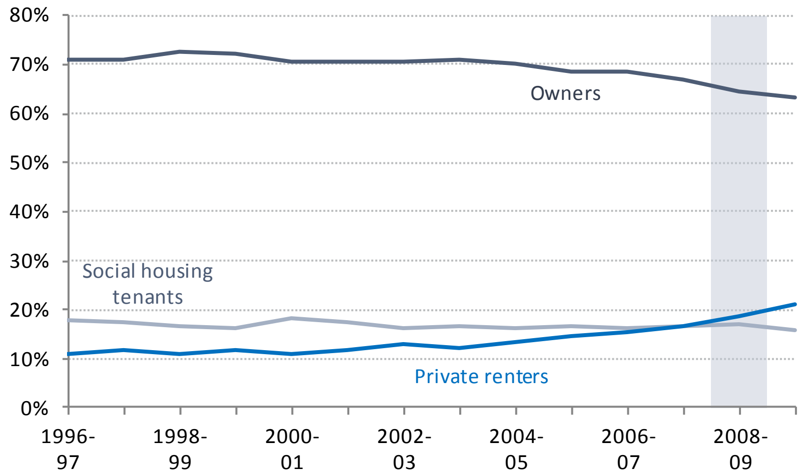
Note: Income groups based on FRS definitions: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Experienced significant shift from ownership to private rented accommodation in past decade

These shares have changed considerably in recent years. Figure 5.1 details tenure among LMI households in the period between 1996-97 and 2009-10. It highlights a clear decline in the proportion of owners from the early-2000s, along with a more consistent, but muted, fall in the proportion living in social housing. The share of LMIs in the private rented sector increased across the period, with a particularly sharp upturn from 2004-05.

Figure 5.1: Change in tenure among LMI households: *UK 1996-97 to 2009-10*



Note: LMI households based on FRS definition: see Chapter 7. Change in categorisation of benefits and tax credits in 2000-01 means that the composition of the LMI group changed somewhat in that year, making comparisons with earlier dates problematic.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

Perhaps unsurprisingly, there is considerable variation in tenure in the LMI group by age. Table 5.2 shows that ownership levels in 2009-10 increased from 12 per cent among households with a head aged 16 to 24, to 86 per cent among those with a 60 to 64 year-old head. In contrast, proportions living in both social housing and the private rented sector declined with age.

Table 5.2: Housing tenure among LMI households by age of head of household: *UK 2009-10*

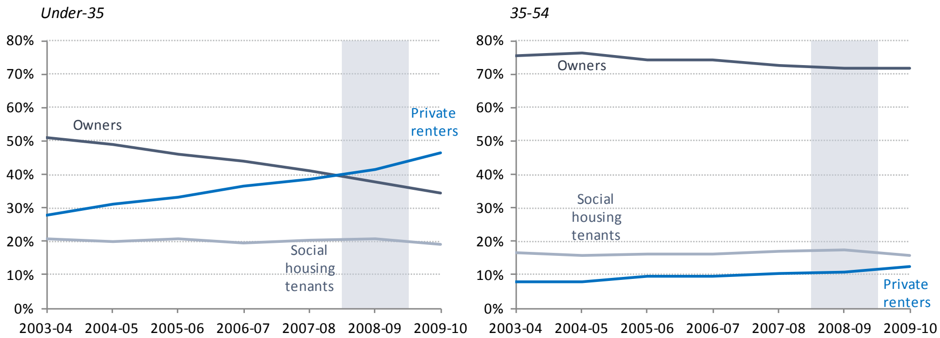
	16 to 24	25 to 34	35 to 44	45 to 54	55 to 59	60 to 64	All ages
Owners	12%	44%	68%	76%	81%	86%	63%
Owned with mortgage	*11%*	*40%*	*58%*	*51%*	*32%*	*20%*	*43%*
Owned outright	*1%*	*4%*	*10%*	*24%*	*49%*	*67%*	*20%*
Social housing tenants	17%	20%	16%	15%	12%	9%	16%
Rented from housing association	*11%*	*10%*	*8%*	*8%*	*7%*	*5%*	*8%*
Rented from council	*6%*	*10%*	*9%*	*7%*	*6%*	*4%*	*8%*
Rented privately	71%	36%	15%	9%	7%	5%	21%
Rented privately - unfurnished	*36%*	*27%*	*13%*	*8%*	*6%*	*5%*	*15%*
Rented privately - furnished	*36%*	*9%*	*3%*	*1%*	*1%*	*0%*	*6%*
All households	100%	100%	100%	100%	100%	100%	100%

Note: Income groups based on FRS definitions: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Clearly this finding reflects life-cycle effects, with households tending to move onto the housing ladder as they age and build savings and family structures. However, as Figure 5.2 shows, shifts from ownership to private renting have occurred in both younger and middle-age LMI households.

Figure 5.2: Change in tenure among LMI households by age of household head: *UK 2003-04 to 2009-10*



Note: LMI households based on FRS definition: see Chapter 7.

Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

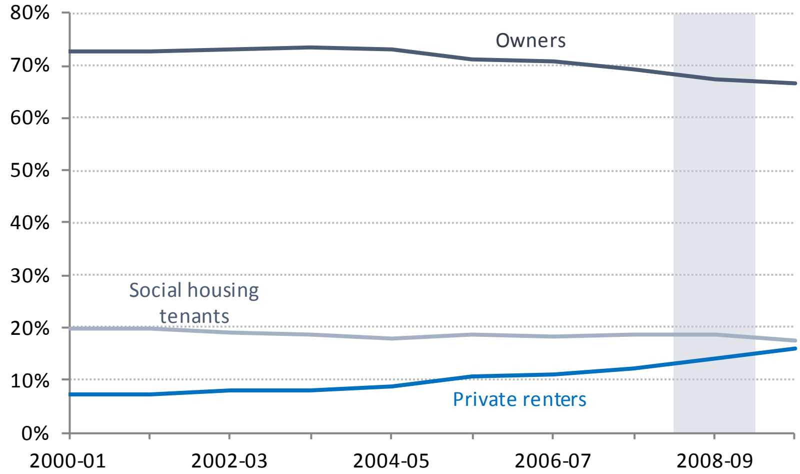
Such that half of younger LMI households now live in the private rented sector

Among those LMI households headed by someone aged under-35, private renting overtook ownership as the most common tenure type over the course of six years. The proportion living in this type of accommodation increased from just over one-quarter (28 per cent) to just under half (47 per cent) between 2003-04 and 2009-10. While the trend was understandably less marked in households headed by someone aged between 35 and 54, there was still an unmistakable increase in private renting at the expense of home ownership.

As do one-in-six LMI households with children

These trends could in part be due to delayed family formation, with average marriage and child-rearing ages increasing in recent years. However, Figure 5.3 identifies the same pattern among LMI households with children. The private rented sector (16 per cent) remained the least popular form of housing for such households in 2009-10, but the gap between it and social housing (17 per cent) and home ownership (67 per cent) narrowed significantly over the period.

Figure 5.3: Change in tenure among LMI households with children: UK 2000-01 to 2009-10



Note: LMI households based on FRS definition: see Chapter 7.
Source: RF analysis of DWP, *Family Resources Survey 2009-10* (and earlier)

In terms of the types of properties LMI households live in, Table 5.3 shows that one-third (34 per cent) lived in semi-detached houses in 2009-10 and a further one-third (33 per cent) lived in terraced properties. Just 14 per cent lived in detached houses, while 18 per cent lived in a flat.

Table 5.3: Type of accommodation by household income group: *England 2009-10*

	Benefit-reliant	Lower LMIs	Higher LMIs	All LMIs	Lower HIs	Higher HIs	All higher income
Semi-detached	25%	34%	35%	34%	31%	23%	30%
Terrace/end of terrace	36%	35%	31%	33%	27%	21%	26%
Detached house or bungalow	7%	12%	16%	14%	26%	38%	29%
Purpose built flat/masionette	25%	15%	12%	14%	11%	12%	11%
Flat conversion/rooms	6%	4%	6%	5%	4%	6%	4%
Caravan or boat	0%	0%	0%	0%	0%	0%	0%
Other	0%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%

Note: Income groups based on EHS: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

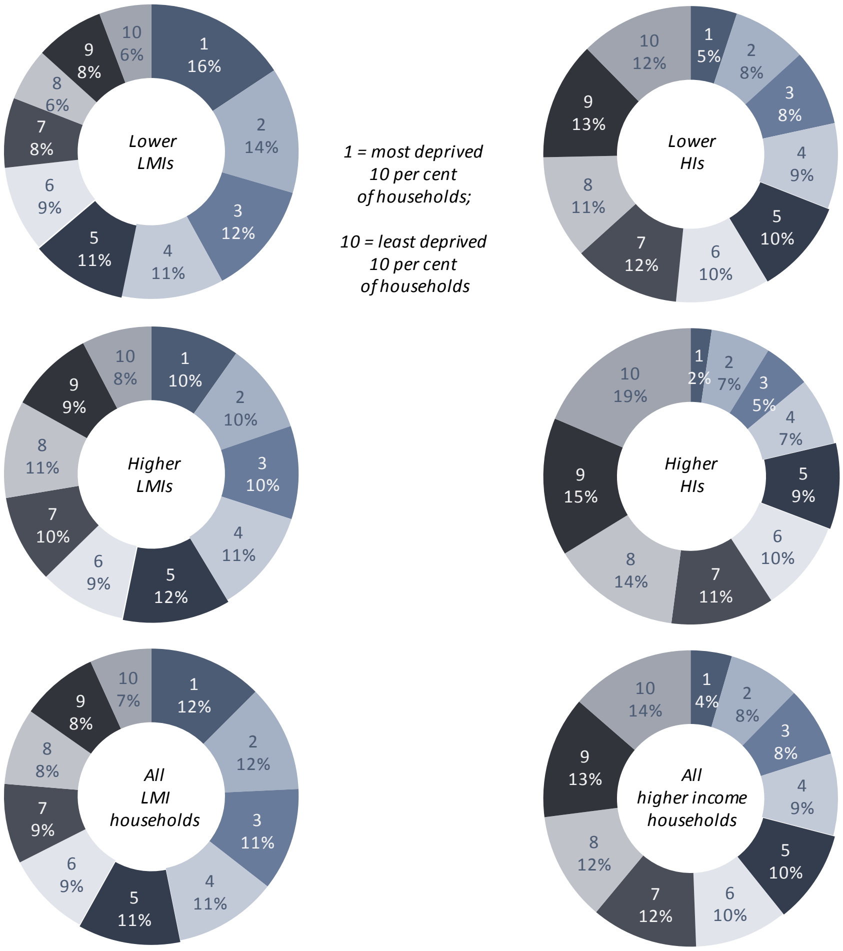
The pattern was similar in other income groups, although benefit-reliant households were much more to be living in purpose built flats and higher income households were more frequently located in detached properties.

16 per cent of lower LMIs live in the 10 per cent of most deprived areas

LMI households are more likely than members of the higher income group to live in relatively deprived areas. Figure 5.4 details the distribution of households across the ten Index of Multiple Deprivation[45] deciles in 2009-10 in both income groups. It shows the LMIs were over-represented at the lower end (with 12 per cent living in areas in the most deprived decile) and under-represented at the top (with 7 per cent living within the least deprived decile).

[45] The Index of Multiple Deprivation is calculated at sub-ward level by CLG and is a weighted measure combining 38 separate deprivation indicators.

Figure 5.4: Distribution of households by Index of Multiple Deprivation 2007 decile: *England 2009-10*



Note: LMI households based on EHS definition: see Chapter 7.

Source: RF analysis of CLG, *English Housing Survey 2009-10*

Reflecting their concentration in urban areas

This bias was even more marked among lower LMIs, half (53 per cent) of whom were located in the four most deprived deciles. In contrast, half (48 per cent) of higher HIs lived in the top three deciles.

LMI households are predominantly located in urban areas. Table 5.4 shows that 93 per cent lived in towns and cities in 2009-10, compared with 89 per cent of higher income households. In contrast, just 7 per cent of LMIs lived in villages and more isolated locations, compared with 11 per cent of the higher income group.

Table 5.4: Distribution of household income groups by size of settlement: *England 2009-10*

	Benefit-reliant	LMIs	Higher income	All households
Hamlets and isolated dwellings	1%	2%	4%	3%
Village	3%	5%	7%	6%
Town and fringe	5%	10%	10%	9%
Urban > 10k	91%	83%	79%	82%
Total	100%	100%	100%	100%

Note: Income groups based on EHS: see Chapter 7.

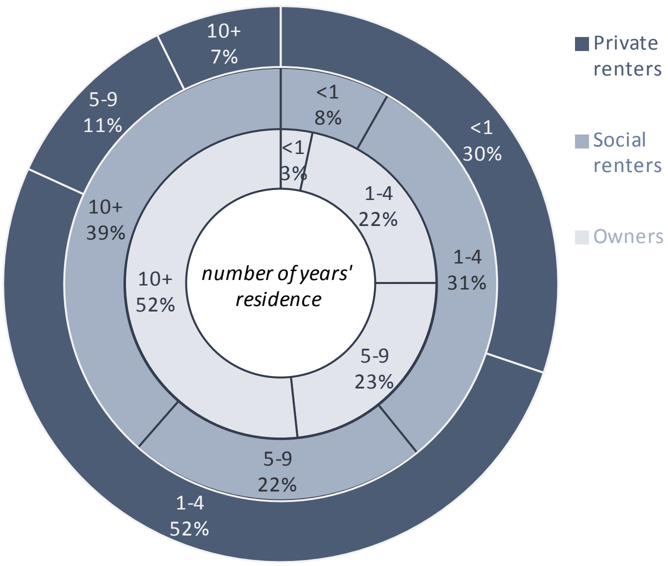
Source: RF analysis of CLG, *English Housing Survey 2009-10*

LMIs in the private rented sector much more likely to have moved in last few years

The shift in the LMI group in recent years from home ownership to private renting is likely to have reduced the stability of their housing situation. This is because households tend to move more frequently in the private rented sector. Figure 5.5 sets out the distribution of residence length in the LMI group in 2009-10 by type of tenure.

It confirms that, while just 3 per cent of home owners and 8 per cent of those in social housing had moved in the previous 12 months, one-in-three (30 per cent) LMI households in the private rented sector had been resident for less than a year. Altogether, four-fifths (82 per cent) of those in the private rented sector had been in the property for four years or less, compared with one-quarter (25 per cent) of owners and two-fifths (39 per cent) of social housing tenants.

Figure 5.5: Length of residence by tenure among LMI households: *England 2009-10*

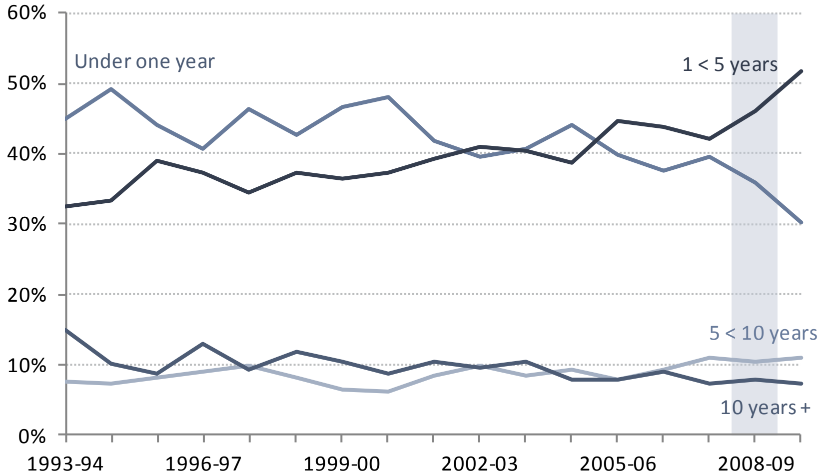


Note: LMI households based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

But some evidence of an increase in stability over time as it has become the default option

However, there is some evidence to suggest that the tenure has become a little more stable in recent years as growing numbers of LMIs have turned to it as a long-term alternative to owning. Figure 5.6 tracks the length of residence among LMI tenants in the private rented sector between 1993-94 and 2009-10. It shows that the proportion resident for less than one year declined from 49 per cent at its recent peak in 1994-95 to 30 per cent at the end of the period.

Figure 5.6: Length of residence among LMI households in the private rented sector: *England 1993-94 to 2009-10*



Note: LMI households based on EHS definition: see Chapter 7.

Source: RF analysis of CLG, *English Housing Survey 2009-10*

As yet, the proportion remaining in place for more than five years has not altered, with a surge instead in the numbers in situ between one and five years, but this may feed through in time.

Tend to move for positive reasons

Table 5.5 details the reasons given for moving by those households that did so in 2009-10. In the main, LMIs moved for apparently positive reasons: one-fifth (18 per cent) said they had moved to a better area, 15 per cent said they had secured a larger or better home and 12 per cent wanted to live independently.

But also more likely than higher income households to move for negative ones

Fewer households cited negative reasons, although proportions were higher among LMIs than among higher income households. For example, 4 per cent of LMIs moved because they could not afford their previous housing costs, compared with 1 per cent of households in the higher income group. Similarly, 3 per cent of LMI households said they had been required to move by their previous landlord, compared with 1 per cent in the higher income group.

Table 5.5: Reasons given for moving by households doing so in past 12 months by income group: *England 2009-10*

	Benefit-reliant	LMIs	Higher income	All households
To a better area	20%	18%	20%	19%
To a larger/better home	16%	15%	18%	17%
To live independently	10%	12%	8%	10%
Other family/personal reasons	7%	10%	6%	8%
Previous accommodation in poor condition	8%	7%	2%	5%
Wanted to buy	1%	5%	14%	9%
Previous accommodation unsuitable	8%	5%	2%	4%
Wanted a cheaper house/flat	3%	4%	1%	2%
Job related reasons	3%	4%	8%	6%
Marriage/cohabitation	2%	4%	9%	6%
Could not afford previous housing costs	1%	4%	1%	2%
To a smaller/cheaper home	1%	3%	1%	2%
Landlord asked me to leave/gave me notice	1%	3%	1%	2%
To get children into a better school	1%	2%	1%	1%
Divorce/separation	2%	1%	3%	2%
Didn't get on with the landlord	2%	0%	0%	0%
Some other reason	12%	3%	4%	5%
Total	100%	100%	100%	100%

Note: Income groups based on EHS: see Chapter 7.

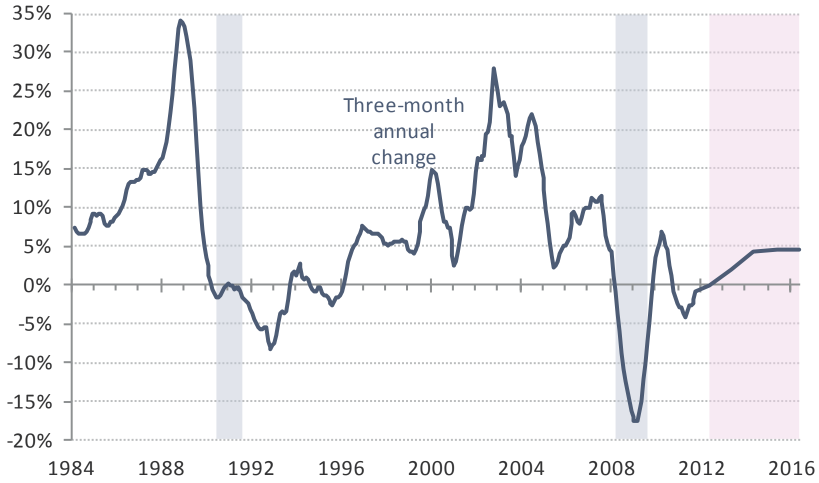
Source: RF analysis of CLG, *English Housing Survey 2009-10*

5.2. Home buying: *LMI access to home ownership*

Decline in home ownership over past decade driven in large part by rapid increases in house prices

As noted above, home ownership rates within the LMI group declined over the course of the 2000s. A number of factors are likely to have contributed to this trend, including increases in student debt, labour mobility requirements and development of the private rented sector. However, the biggest driver appears to have been the rapid increase in prices over the period described in Figure 5.7, which affected all would-be buyers.

Figure 5.7: Annual change in house prices: *UK 1984 - 2016*



Note: Projections represent central OBR forecast.

Sources: Outturn: Lloyds Banking Group, *Halifax House Price Index*
Projection: OBR, *Budget forecast*, November 2011, Table 3.6

Despite a significant readjustment over the course of the economic downturn, with a 23 per cent drop from peak (in mid-2007) to trough (mid-2009), prices remain high by historical standards. Figure 5.7 also sets out the OBR's central case projection for price increases in the period to 2016. It points to a slow return to growth in the market, with annual increases heading towards the long-term average rate of earnings growth by mid-2014.

Correction in prices during recession not big enough to significantly improve affordability

Table 5.6 shows that the ratio of median house prices to median annual earnings in England increased from 3.5 in 1997 to 7.2 in 2007. That is, median house prices were more than seven times bigger than median annual earnings. The ratio fell slightly in 2008 and 2009, but rebounded in 2010 to end the period close to its peak at 7. The ratio is even bigger in some regions, with the median house price in London amounting to 8.4 times median earnings in 2010.

Table 5.6: Ratio of median house prices to median earnings: *England 1997 - 2010*

	1997	2007	2008	2009	2010
London	4.0	8.2	8.3	7.6	8.4
South East	4.1	8.5	8.4	7.3	8.2
South West	3.8	8.3	8.1	7.2	7.9
East	3.6	7.9	7.8	6.8	7.5
West Midlands	3.4	6.5	6.1	5.7	5.9
East Midlands	3.1	6.5	6.0	5.5	5.6
Yorkshire & the Humber	3.1	6.0	5.7	5.2	5.5
North West	3.0	5.8	5.5	5.2	5.2
North East	2.9	5.7	5.5	5.1	5.2
England	3.5	7.2	6.9	6.3	7.0

Source: CLG, *Live Table 577*

With LMIs more acutely affected than higher income households

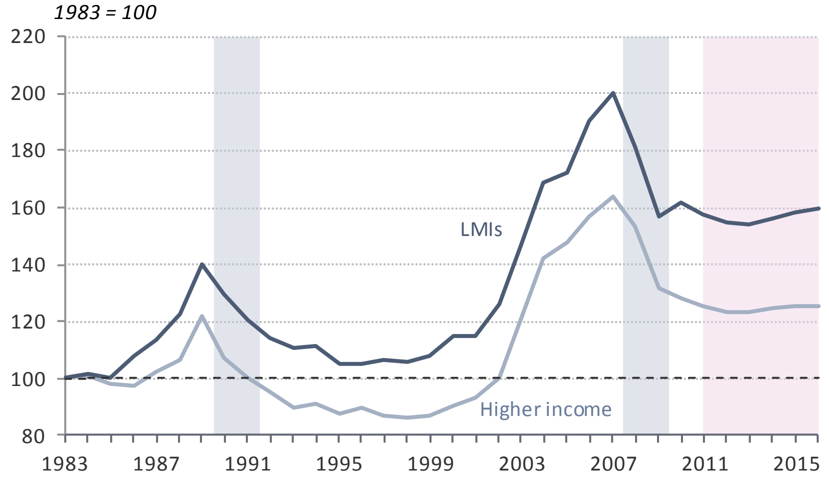
Figure 5.8 considers how these trends have played out for LMIs and higher income households by setting out indices of average first time buyer house prices to average incomes in both groups. It shows that housing became *more* affordable for higher income households between 1983 and 2000, and only marginally less affordable for LMIs. However, prices subsequently increased much more rapidly than incomes in both groups, though LMIs were again more acutely affected.

More recently, access has been restricted by a lack of mortgage funding

At the peak in 2007, the LMI ratio had doubled relative to 1983. That is, median first time buyer house prices had grown twice as fast as median LMI incomes. Affordability subsequently improved following the onset of recession, but remains high by historic standards in both groups and is not expected to drop any further in coming years.

Moreover, the slight recent improvement in housing affordability described above coincided with an acceleration of the trend away from home ownership among LMIs. Even as prices were falling, access to home ownership was hit by a significant tightening in the credit market.

Figure 5.8: Indices of average first time buyer house price to average disposable household income by income group: *UK 1983 -2016*



Note: Income groups based on ONS definition: see Chapter 7. For details of income projections, see Chart 5.12.

Sources: RF analysis of ONS, *The effects of taxes and benefits on household income*, Table 14; Lloyds Banking Group, *Halifax House Price Index*, Historical data; OBR, *Economic and fiscal outlook*, November 2011

This credit tightening primarily took the form of higher deposit requirements from lenders. Table 5.7 describes the fall in the availability of high loan-to-value, high income-multiple and non-standard mortgage advances since the start of the credit crunch.

Mortgages at 90 per cent loan-to-value (LTV) and above accounted for 13.3 per cent of all loans for house purchase in Q4 of 2007; by Q3 2011 this proportion had fallen to 1.7 per cent (having been as low as 1.5 per cent in Q4 2009). Conversely, the share of mortgages at less than 75 per cent LTV increased from half (49.5 per cent) to more than two-thirds (69.6 per cent). Similarly, the proportion of mortgages awarded to borrowers with impaired credit histories fell from 3.2 per cent in Q4 2007 to 0.4 per cent in Q3 2011.

Table 5.7: Residential loans to adults by type: *UK 2007 - 2010*

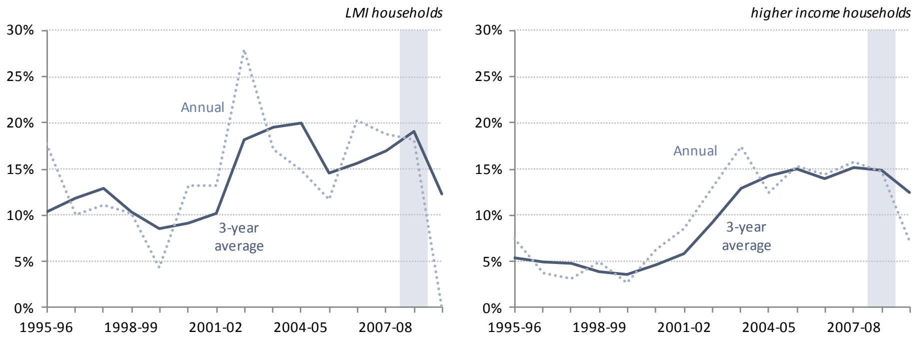
As a proportion of value of gross advances	2007 Q4	2008 Q4	2009 Q4	2010 Q4	2011 Q3
Loan to value bracket					
≤ 75%	49.5%	65.2%	72.0%	70.4%	69.6%
75 ≤ 90%	37.1%	28.9%	26.5%	27.4%	28.7%
90 ≤ 95%	7.8%	4.6%	0.9%	1.6%	1.4%
Over 95%	5.5%	1.3%	0.6%	0.6%	0.4%
Income multiple bracket					
Single:					
< 2.5	8.5%	11.2%	11.1%	10.6%	10.5%
2.5 < 3.0	5.3%	5.8%	5.5%	5.3%	5.1%
3.0 < 3.5	7.2%	6.9%	6.7%	6.3%	6.0%
3.5 < 4.0	7.1%	6.6%	6.8%	6.1%	5.8%
4.0 or over	9.6%	8.3%	10.0%	10.0%	9.9%
Other	12.4%	8.6%	6.2%	8.3%	10.0%
Total on single income	50.1%	47.5%	46.3%	46.6%	47.3%
of which not evidenced	*19.1%*	*16.5%*	*12.1%*	*8.3%*	*8.2%*
Joint:					
< 2.00	8.5%	11.2%	10.3%	10.1%	10.3%
2.00 < 2.50	6.8%	8.6%	8.1%	7.9%	7.8%
2.50 < 2.75	4.5%	5.1%	4.9%	4.8%	4.7%
2.75 < 3.00	5.0%	5.1%	5.4%	5.4%	4.9%
3.00 or over	22.5%	21.3%	23.9%	24.0%	24.0%
Other	2.6%	1.2%	1.3%	1.2%	1.2%
Total on joint income	49.9%	52.5%	53.7%	53.4%	52.7%
of which not evidenced	*19.6%*	*20.0%*	*14.0%*	*9.1%*	*11.1%*
Credit history status					
Loans with impaired credit history	3.2%	0.9%	0.3%	0.3%	0.4%
Loans without impaired credit history	96.8%	99.1%	99.7%	99.7%	99.6%

Note: Figures cover regulated and non-regulated loans.
Source: FSA, *Statistics on Mortgage Lending* , MLAR Tables 1.31 & 1.32,December 2011

Hitting would-be LMI buyers particularly hard, with one-in-five relying on 100 per cent mortgages prior to the credit crunch

This restriction in mortgage access is likely to prove particularly problematic for would-be LMI home buyers. In the period prior to the credit crunch, first time buyers in the group were more likely than their higher income counterparts to have relied on 100 per cent mortgages. Figure 5.9 shows that one-in-ten (10 per cent) of LMI first time buyers used this option in the three years to 1995-96, rising to one-in-five (20 per cent) in the three years to 2004-05. Over the same period, the proportion of higher income first time buyers relying on this source of funding increased from 5 per cent to 15 per cent.

Figure 5.9: Proportion of first time buyers using 100% mortgages: *England 1995-96 to 2009-10*



Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10* (and earlier)

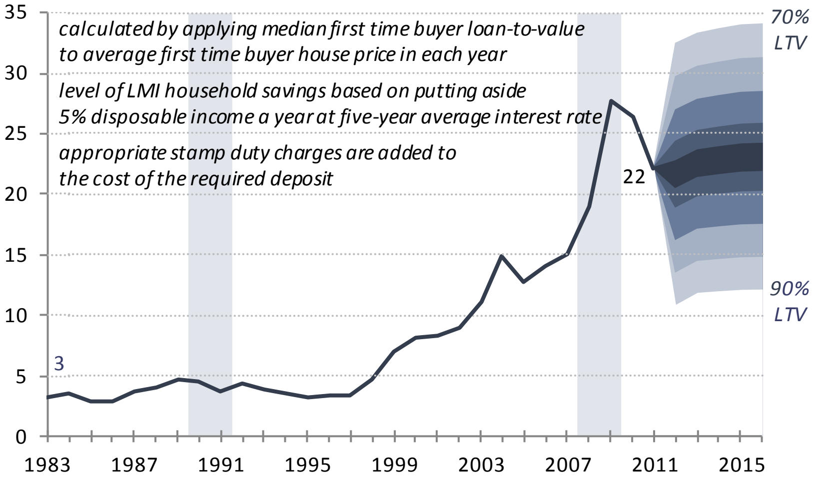
Rates among members of both income groups fell dramatically following the onset of the credit crunch, with the proportion of LMI first time buyers using a 100 per cent mortgage dropping from 18 per cent in 2008-09 to zero in 2009-10.

Time taken for LMIs to save deposit for typical first time buyer home increased from three years in late-1990s to 22 years in 2011

The average LTV advanced to first time buyers in 2011 was 80 per cent. Applying this ratio to the average value of properties bought by first time buyers in the year suggests that would-be buyers needed to raise a deposit of around £25,000. Based on projections of their income in 2011, this would require the average LMI to save 5 per cent of their net household income for 22 years.

Figure 5.10 details a sharp increase in this figure over the course of the 2000s. Having varied between three and five years between 1983 and 1997, the number of years' saving required rose steadily to reach a peak of 28 in 2009.

Figure 5.10: Number of years required for LMI households to save typical first time buyer deposit: *UK 1983 - 2015*



Notes: In each year, deposit costs are calculated by applying median first-time buyer LTVs to mix-adjusted average (mean) first-time buyer house prices. An appropriate stamp duty charge is then added to the deposit requirement. Savings are assumed to be equivalent to 5 per cent of average annual LMI disposable incomes. These savings receive a rate of return equivalent to three-quarters of the base rate (taken as a five-year average). The line shows the number of years' saving required to meet deposit and stamp duty requirements. The bands to the right of the chart show projections on the basis of future LTVs in the range 70%-90%. Average low-to-middle income household disposable income is based on ONS definition: see Chapter 7. House price projections for 2011-2015 are based on projections from the OBR. LMI income projections follow the same methodology as those presented in Figure 6.4. Future deposit rates are based on Bank of England projections for the base rate.

Sources: RF analysis of ONS, *The effect of taxes and benefits on household incomes*; Lloyds Banking Group, *Halifax House Price Index*, Historical data FTB (ANN); CML, *Table ML2*; OBR, *Economic and fiscal outlook*, November 2011; Bank of England, *Inflation Report*, November 2011

Future savings requirements will depend on extent to which credit continues to ease

Although the figure subsequently dropped to 22 years as credit availability eased slightly, the likely forward path will depend on the extent to which this loosening continues. The chart show a range of possibilities, calculated by applying our projections for LMI household income (set out in Figure 6.4) to OBR projections for house prices, before considering a number of LTV options.

If typical LTVs were to increase to 90 per cent, we would expect the number of years' saving required to fall to 12; but if LTVs fell back to 70 per cent then LMIs would need to put money aside for 34 years. A continuation of the current level of 80 per cent would result in a slight increase in time, to 23 years because incomes are projected to rise more slowly than house prices.

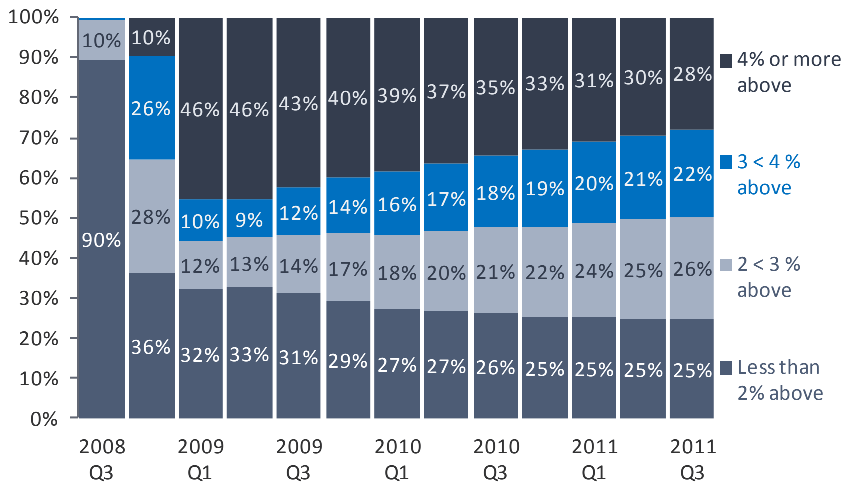
5.3. Staying on the ladder: *sustaining home ownership among LMIs*

Many owners have benefited from falling mortgage rates, though not to full extent of base rate cuts

While the credit crunch has amplified the difficulties faced by some in accessing home ownership, the crash – and, more generally, the impact of the economic downturn on household incomes – has had implications for those who *did* enter the housing market in the past decade.

Many home owners benefited from the sharp fall in the Bank of England's official base rate from mid-2007. However, average rates paid by mortgagors only fell following a lag of around a year and reductions have still not fully reflected the extent of the cut in the base rate. Figure 5.11 shows that, in Q3 2008, 90 per cent of mortgages were within 2 percentage points of the base rate and just 0.4 per cent were more than 4 percentage points higher; the corresponding figures in Q3 2011 were 25 per cent and 28 per cent.

Figure 5.11: Outstanding mortgages distance above Bank Base Rate by value of balances: *UK 2008 - 2011*



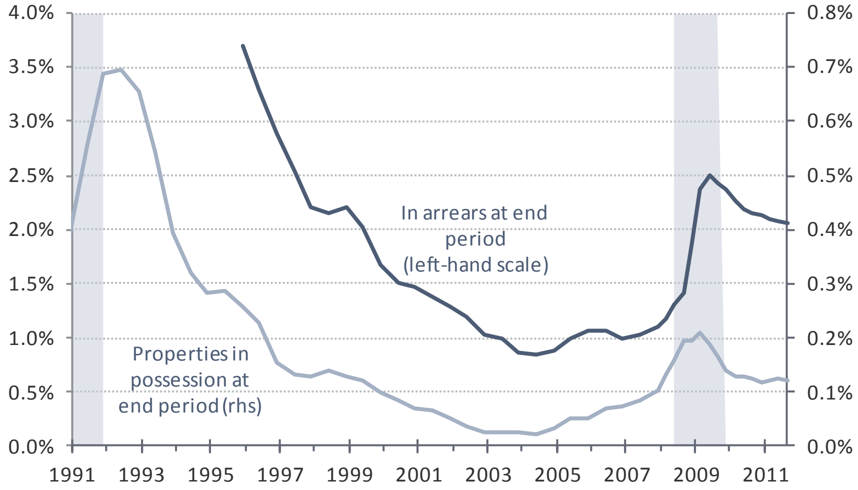
Source: FSA, *Statistics on Mortgage Lending*, MLAR Table 1.22

Notwithstanding these cuts in mortgage rates, a significant number of households have experienced difficulties with mortgage payments during the downturn.

And significant numbers have experienced repayment difficulties

Figure 5.12 highlights the fact that trends in both arrears and possessions showed signs of increasing in the period prior to the start of the downturn, from lows in 2004. Following the onset of the credit crunch, rates increased steeply. The proportion of mortgaged properties in arrears grew from 1.0 per cent in the first half of 2007 to 2.5 per cent in Q2 2009. The proportion of mortgaged properties in possession grew from 0.08 per cent at the end of the first half of 2007, to 0.21 per cent at the end of Q1 2009.

Figure 5.12: Properties in arrears and taken into possession as proportion of all mortgages: *UK 1991 - 2011*



Source: CML, *Tables AP1 & AP4*

Although significant, the increases were lower than many experts had predicted given the size of the GDP correction.[46] And, as with unemployment, rates also fell sooner than occurred following the 1991 recession. Low interest rates undoubtedly contributed to the better than expected performance, while the relative resilience of the labour market, lender forbearance and government support policies also helped. In Q3 2011, the proportion of mortgaged properties in arrears stood at 2.1 per cent and the proportion in possession was 0.12 per cent.

However, despite these reversals in 2010 and 2011, a significant minority of households remained in formal difficulty, while a larger group were struggling with payments without having officially fallen into arrears. LMIs have been particularly affected because of their general exposure to the labour market and income effects of recession and because, as discussed above, they are more likely than higher income home owners to have stretched themselves in order to get on the housing ladder in the first place.

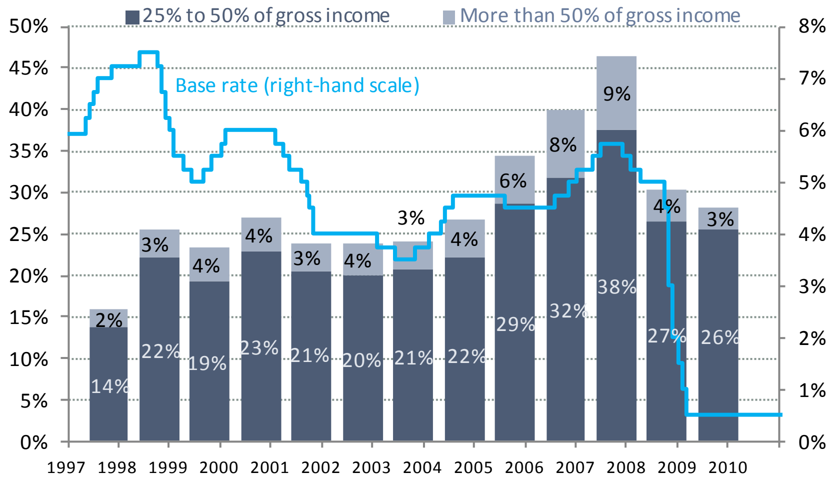
Three-in-ten LMI mortgagors spend more than one-quarter of their income on repayments

Figure 5.13 compares trends in the proportion of LMI mortgagors spending more than one-quarter of their gross income on repayments with movements in the base rate. It shows that the proportion in this position fell from a peak of

[46] See for example, CML, *Market commentary*, 12 November 2009.

46 per cent in 2007-08 to 28 per cent in 2009-10. However, this proportion is still higher than the average recorded during the late-1990s and early-2000s, despite the fact that the base rate reached an historic low in this period, several percentage points below its pre-credit crunch levels.

Figure 5.13: Mortgage payments as proportion of gross household income among LMI mortgagors: *England 1997-98 to 2009-10*



Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10* (and earlier)

In addition to a failure on the part of lenders to pass on cuts in the base rates to their mortgage customers, mortgagors may not have fully benefited from the falling base rate in the immediate post-crunch period because of the type of mortgage deal they held. Some will have been tied into fixed rate deals that were set prior to the monetary loosening.

It is likely that most households have since responded to the changed circumstances, with some fixing at lower rates and others taking advantage of particularly low variable and tracker deals. Table 5.8 shows that one-third (37 per cent) of LMI mortgagors were on fixed rate deals in 2009-10 and two-fifths (41 per cent) held a variable rate, with their distribution across the various options looking very similar to the higher income mortgagor one.

Table 5.8: Type of mortgage held by households with mortgages by income group: *England 2009-10*

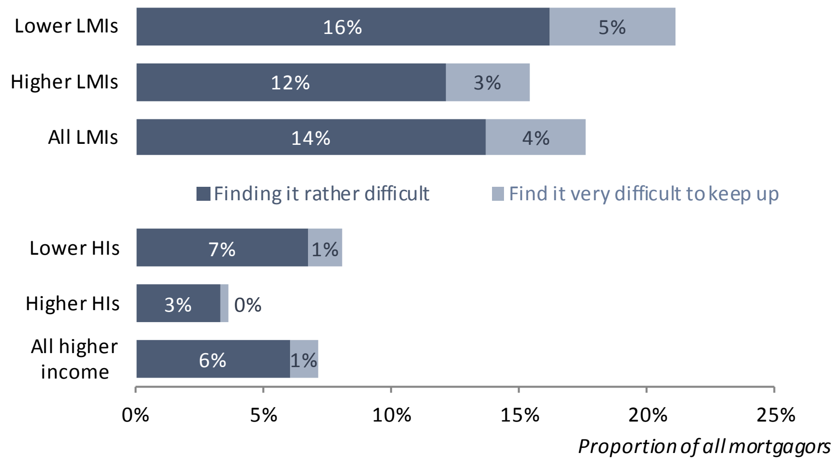
	Benefit-reliant	LMIs	Higher income	All households	Average interest rate: *UK 2010*
Fixed	36%	37%	38%	38%	4.45%
Five year or less	*27%*	*31%*	*33%*	*32%*	*:*
More than five years	*8%*	*7%*	*5%*	*6%*	*:*
Variable	47%	41%	36%	38%	3.39%
Tracker	10%	15%	20%	18%	2.90%
Capped variable	6%	5%	4%	4%	3.14%
Discounted variable	1%	2%	2%	2%	3.16%
All mortgagors	100%	100%	100%	100%	3.75%

Notes: Income groups based on EHS definition: see Chapter 7.
Sources: RF analysis of CLG, *English Housing Survey 2009-10*
CML, *Table ML5*

And one-in-five find it difficult to keep up with repayments

Despite holding this apparently sensible position in relation to mortgage rates, nearly one-in-five (18 per cent) of LMI mortgagors said they were finding it difficult to keep up with their mortgage payments in 2009-10, with 4 per cent finding it 'very' difficult. Figure 5.14 shows that the proportion struggling increased to 21 per cent among lower LMI mortgagors. By contrast, just 7 per cent of higher income households were in this position.

Figure 5.14: Proportion of mortgagors having difficulty keeping up with payments by income band: *England 2009-10*

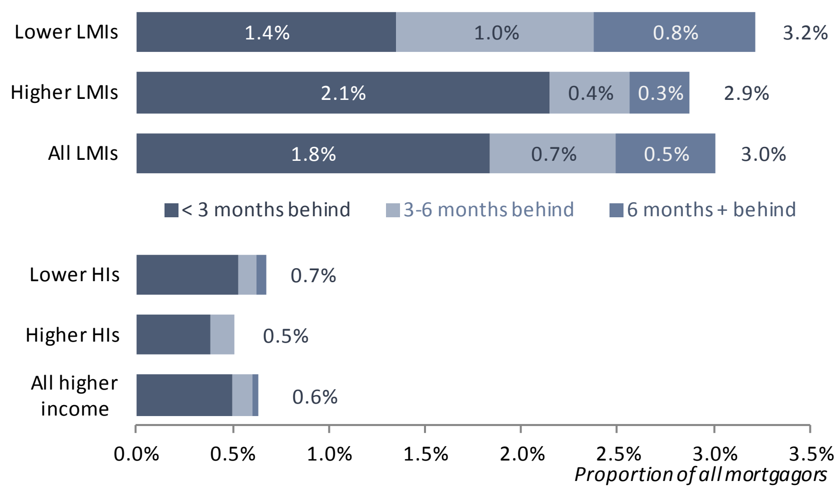


Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

Five times more likely than higher income mortgagors to be in arrears

As we detailed in Figure 4.25, despite these difficulties relatively few households reported actually being behind with repayments. However, the proportion is much larger among LMIs than among higher income mortgagors, with Figure 5.15 showing that LMIs were five times more likely to be in arrears in 2009-10 than their higher income counterparts, with this ratio increasing to 12 if only those behind by six months or longer are considered.

Figure 5.15: Proportion of mortgagors falling behind with payments by income band: *England 2009-10*



Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

5.4. Renting: *LMIs as social and private sector tenants*

Over one-third of LMIs live in rented accommodation; rising to two-thirds among younger households

As noted in section 5, over one-third (37 per cent) of LMI households lived in the rented sector in 2009-10, with the reduced access to home ownership discussed above helping to increase this proportion in recent years. Among those living in households headed by someone aged under-35, two-thirds (65 per cent) were in rented accommodation in 2009-10.

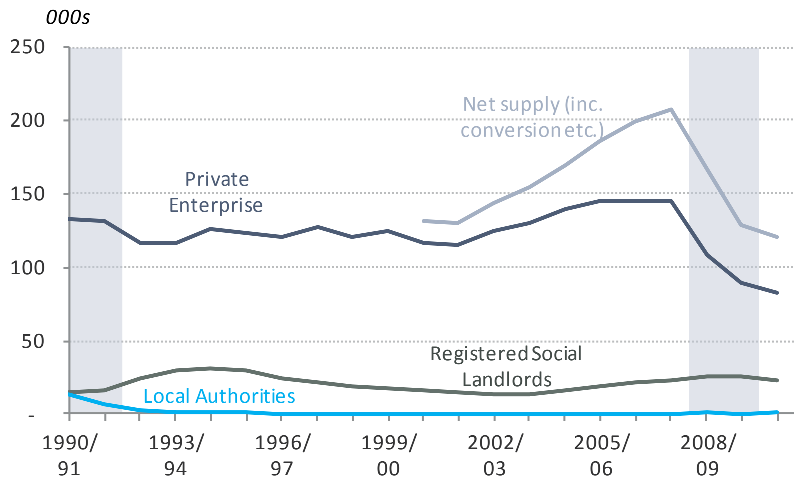
While the split between the social and private rented sectors is roughly 50-50, all of the growth over the past ten years has occurred in the private sphere. In part this is likely to reflect a positive choice, with a growth in the supply of private rented properties associated with the development of the buy-to-let market in particular, helping to attract new tenants.

With restricted housing supply meaning the private rented sector is increasingly becoming the only option for many

However, a significant number of LMIs have simply been squeezed out of other forms of tenure: too poor to access home ownership but not considered vulnerable enough to be given priority for social housing, the stock of which has declined in most regions over the past two decades.

Inadequate housing supply more generally lies behind many of the housing pressures faced by LMIs. Despite a prolonged housing boom, building supply flat-lined during the decade prior to the credit crunch. Figure 5.16 shows that a surge in private enterprise dwelling completions between 2001 and 2006 was abruptly reversed from 2007/08. Completions by Registered Social Landlords altered little over the period, while local authority house building ground to a halt.

Figure 5.16: Permanent dwelling completed each year by tenure and net supply added: *England 1990/91 – 2010/11*



Sources: CLG, *Live Table 209*;
CLG, *Net supply of housing 2010-11*, England, Table 1a

Spending cuts risk further undermining supply in coming years

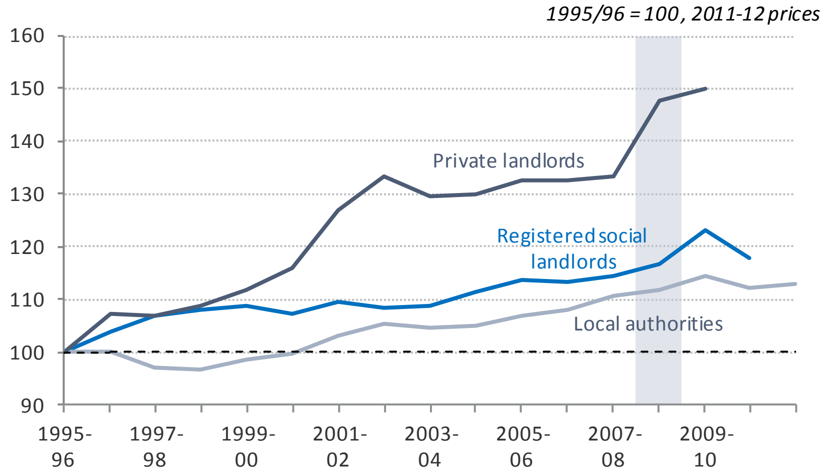
The previous government set an overall target in England for 240,000 new homes a year up to 2016. However the chart shows that this level has not been reached in any single subsequent year. In 2010-11, net supply[47] totalled just 121,200, a 42 per cent decrease from the peak year of 2007-08 and the lowest annual level since the series began in 2000/01.

There is little prospect of any medium-term improvement in this position, with government investment in the sector set to fall during the current Spending Review period from £6.8 billion in 2010-11 to £2 billion in 2014-15, a cut of 74 percent.

Rents in private sector increased much more rapidly than social housing rents

As with home ownership, growing demand from tenants has kept private sector rents high. Figure 5.17 shows that mean private sector rents increased by half (50 per cent) in real terms between 1995-96 and 2009-10, compared with increases of 23 per cent in registered social landlord rents and 15 per cent in local authority rents over the same period.

Figure 5.17: Real-term indices of mean rents, by landlord: *England 1995-96 to 2011-12*



Notes: All rents are measured excluding the cost of services. A methodological change in the collection of mean rents in the English Housing Survey means that the private rented series is not strictly comparable before and after 2008-09. However, an adjustment has been made to the data to compensate for this change, in line with the figures set out in Appendix B of the *EHS Technical Advice* notes.

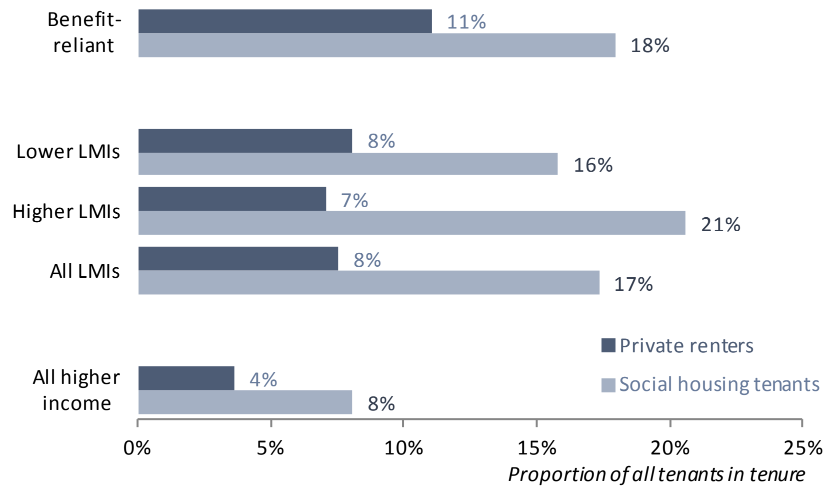
Source: CLG, *Live Tables 701*, *703* & *731*; CLG, *English Housing Survey Headline Report*, 2008-09 & 2009-10

[47] Net additions measure the absolute increase in stock between one year and the next, including other losses and gains (such as conversions, changes of use and demolitions).

One-in-six LMIs in social housing and one-in-twelve in private rented accommodation behind with rents

Households are much more likely to be in arrears on their rent payments than on their mortgages (see Figure 5.15), with those in social housing being particularly likely to be behind. Figure 5.18 shows that one-in-six (17 per cent) LMI households in this tenure were behind with payments in 2009-10, rising to one-in-five (21 per cent) among higher LMIs. Among those LMIs in the private rented sector, 8 per cent were behind.

Figure 5.18: Proportion of households behind with their rent payments: *England 2009-10*



Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

Sizeable deposit requirements have cash flow implications for LMI renters

Table 5.9 looks at deposit requirements among renters in each income group. The distribution is similar across the groups, but it highlights the potential cash flow issues confronting those living in rented accommodation, with half (54 per cent) of LMIs in this tenure being required to pay four weeks or one month's rent as a deposit prior to moving in, and one-third (34 per cent) being asked to find even more.

Table 5.9: Deposit paid for tenancy as proportion of rent: *England 2009-10*

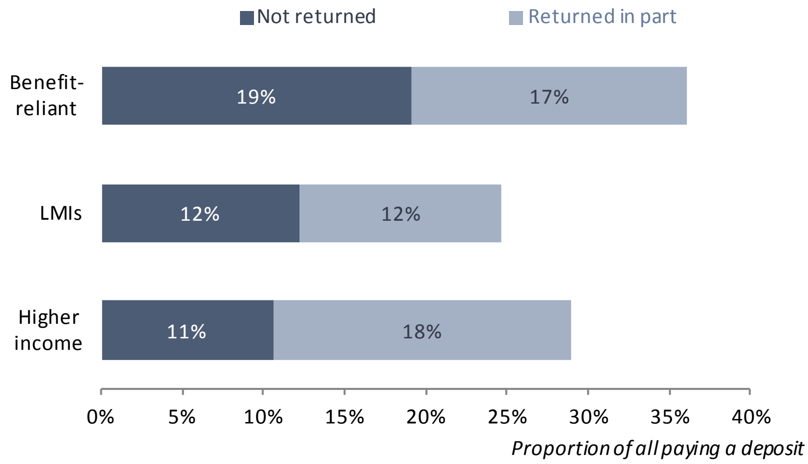
	Benefit-reliant	LMIs	Higher income	All households
Less than one week's rent	2%	2%	1%	1%
Less than two week's rent	4%	3%	2%	3%
Less than three week's rent	7%	5%	1%	3%
Less than four weeks/one month's rent	12%	3%	1%	4%
Four weeks/one calendar month's rent	48%	54%	53%	52%
More than four week's rent	28%	34%	41%	36%
All paying a deposit	100%	100%	100%	100%

Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

One-quarter had some part of their deposit withheld at the end of their last tenancy

A connected issue, which has implications for tenants looking to move on – be it to another rented property or into ownership – is whether or not the deposit is returned at the end of the tenancy. Figure 5.19 shows that three-quarters (76 per cent) of LMIs whose last accommodation was rented reported receiving all of their deposit back at the end of their agreement, more than the rates recorded among higher income (71 per cent) and benefit-reliant (64 per cent) households. Nevertheless, one-quarter of LMIs faced the challenges associated with having part or all of their deposit withheld.

Figure 5.19: Whether or not deposit returned at end of tenancy: *England 2009-10*

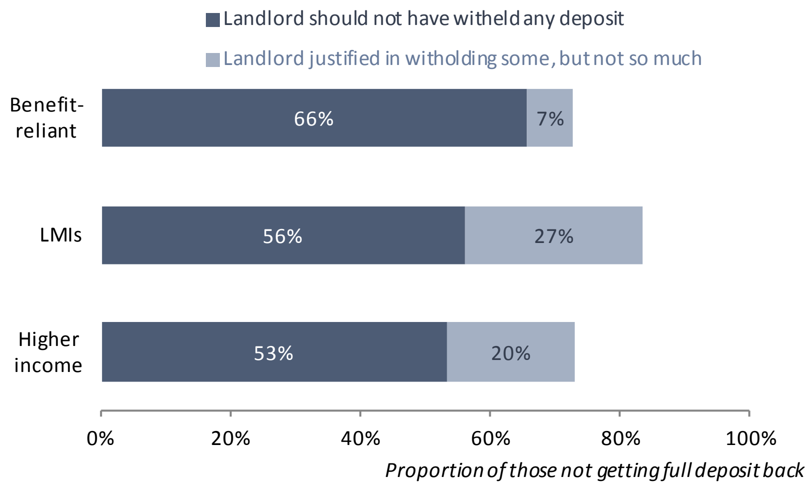


Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

With four-fifths feeling they were unfairly treated

Figure 5.20 looks at how tenants in each of the income groups reacted to not receiving all of their deposit back. It shows that, despite being less likely to have had their deposits withheld, LMI households were more likely than either benefit-reliant or higher income ones to feel hard done by. A total of 83 per cent of those LMIs affected argued that the landlord was not justified, with 56 per cent saying no part of the money should have been withheld and 27 per cent claiming that less of the deposit should have been kept.

Figure 5.20: Reaction to withholding of deposit: *England 2009-10*



Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

In order to better understand the specific experiences of LMI households in the private rented sector, we conducted qualitative interviews with 40 LMI tenants in 2010. Respondents were drawn from a range of locations in England

and household compositions, with a mix of Housing Benefit recipients and households not in receipt of support.

The research painted a mixed picture. Generally speaking, the positive characteristics of private renting – flexibility, choice and independence – were more likely to be highlighted by those who were genuinely using it as a stepping stone to something else – largely younger, childless LMIs. In contrast, tenants living more long-term in the sector frequently complained about choice, churn, costs and conditions compared to other tenures.

Difficult to find appropriate private rented accommodation in some areas

In relation to *choice*, this was constrained where LMIs were living in areas of poor supply of suitable accommodation – that is, accommodation at the right cost, in the right location, with the right conditions and of the right type – with families experiencing particular difficulties.

The issue of *churn* is clearly a double-edged sword. While the flexibility of the tenure is welcomed by many tenants – particularly younger households and those who wish to move for job-related reasons – the insecurity associated with short notice periods and limited rights is a concern for some. Families in particular told us about the upheaval of moving and the disruption it causes to their children.

Considered an insecure tenure, with costs and pressures associated with frequent moves

While only a few of the tenants we spoke to had actually been asked to leave their properties by a previous landlord or been at the receiving end of a landlord repossession, the perceived threat of this or a rent increase created anxiety among many more, particularly when there was little other suitable accommodation in the area. Some of these tenants felt they would have benefited from a longer-term contract. Even for those who *want* to move, entry costs (deposit and agency fees), act as a barrier, particularly where previous deposits have not been returned in full.

In relation to affordability, *costs* are generally lower than for home ownership, with rents for 2/3 bedroom accommodation in 2007 representing around two-thirds of the value of mortgage payments for equivalent properties.[48] However, as noted in Figure 5.17 private renters have faced more rapidly rising costs than social housing tenants in the last decade and a 2008 survey of low income working households found that one-quarter of those in the private rented sector spent more than half their net household income on rent, compared with 15 per cent of those in social housing.[49]

Conditions in the private rented sector are poorer than in social housing. As measured by the *English Housing Survey*, 'decent homes' must meet four criteria: a statutory minimum standard for housing; a reasonable state of

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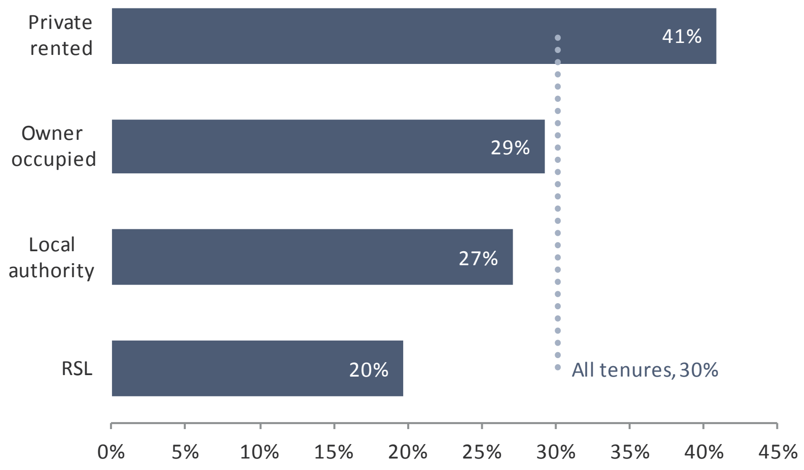
[48] Hometrack, *Can't Buy Can't Rent: the affordability of housing in Great Britain*, 2007
[49] Shelter, *Breaking Point: how unaffordable housing is pushing us to the limit*, 2008

repair; reasonably modern facilities and services; and a reasonable degree of thermal comfort.

Figure 5.21: Non-decent homes by tenure: *England 2009*



Source: CLG, *English Housing Survey: Headline Report 2009-10*, Table 16

Two-fifths of private rented properties are 'non-decent'

Figure 5.21 shows that, in 2009, 41 per cent of privately rented accommodation in England was considered non-decent, compared with 20 per cent of the registered social landlord (RSL) stock and 27 per cent of the local authority stock.

This is likely to be in part due to the difficulties in regulating a cottage industry – two-thirds of landlords are individuals or couples – but it also reflects a lack of priority. The 2010 Communities and Local Government Select Committee review into housing standards noted that, while a significant amount of political will and finance had gone into improving conditions in social housing, the private sector programmes and target had been 'quietly downgraded'.[50]

5.5. Satisfaction: *LMI assessments of their housing experiences*

Overall, one-in-twelve LMIs dissatisfied with their accommodation

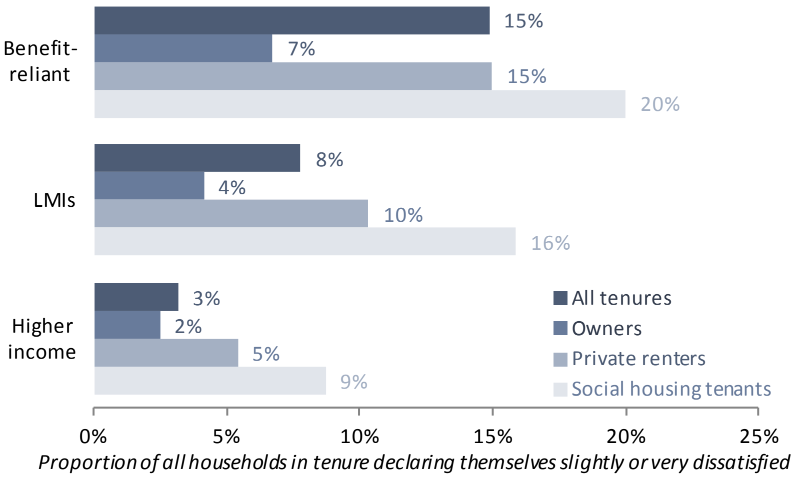
Several of the complaints raised in the qualitative study set out above chime with the findings of larger-scale survey data on housing satisfaction, with home owners tending to be more satisfied with their accommodation than renters, though rates vary depending on the specific element of housing condition being assessed .

Figure 5.22 considers levels of overall dissatisfaction across tenures and across income groups in 2009-10. It shows that dissatisfaction across all tenures was lowest among higher income (3 per cent) households and highest among benefit-reliant (15 per cent) ones. One-in-twelve (8 per cent) LMI households declared themselves dissatisfied. However, rates were significantly higher among private and, more noticeably, social renters. Within the LMI group, 10

[50] Communities and Local Government Select Committee, *Beyond Decent Homes: Decent housing standards post-2010*, HC 60-I, March 2010, p3

per cent of private renters were dissatisfied, as were 16 per cent of those in social housing.

Figure 5.22: Dissatisfaction with accommodation among LMI households by tenure: *England 2009-10*

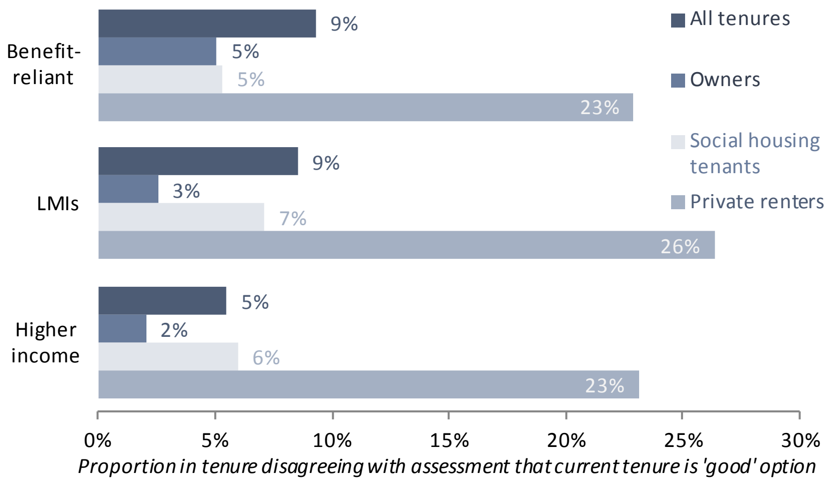


Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

And one-quarter of private renters do not consider their tenure to be 'good'

Despite overall levels of dissatisfaction being highest in social housing, most tenants in such accommodation believe that their current tenure represents a 'good' option. Significantly fewer private sector tenants agree with this assessment. Figure 5.23 shows that one-quarter (26 per cent) of LMI private rented households did not consider their tenure to be 'good' in 2009-10, compared with 7 per cent of social housing tenants and 3 per cent of home owners.

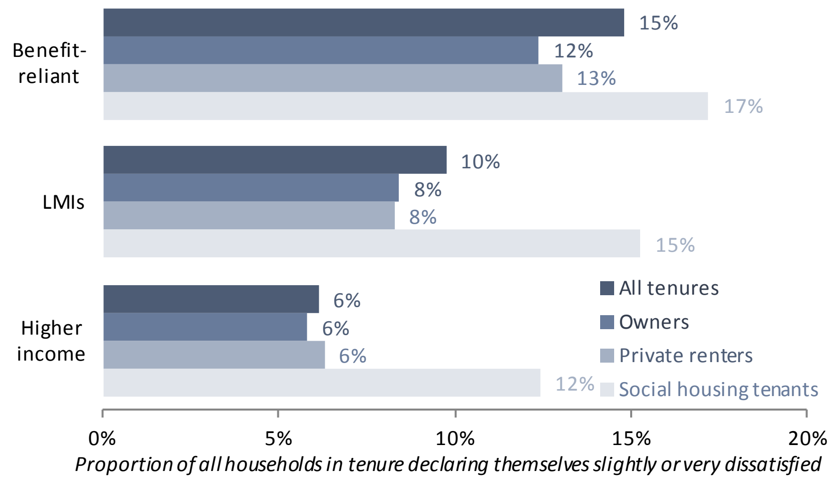
Figure 5.23: Disagreement with statement that existing accommodation represents a 'good' form of tenure: *England 2009-10*



Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

Another important element of a household's satisfaction with their living situation is their assessment of their area. Figure 5.24 shows the proportion in each tenure and each income group dissatisfied in 2009-10 with the area they lived in.

Figure 5.24: Dissatisfaction with area of current accommodation by tenure: *England 2009-10*



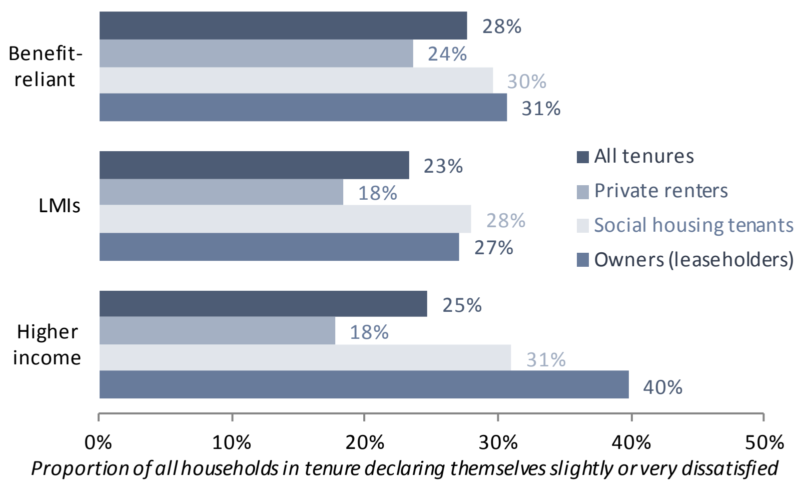
Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

But vast majority in private housing (owned and rented) are happy with their location

As with the overall measure set out in Figure 5.22, those in social housing were once again most likely to be dissatisfied, with 15 per cent of LMIs in this tenure taking this position, compared with 8 per cent among both LMI home owners and LMI private renters. Therefore, despite some of the failings discussed in this chapter, it would appear that the private rented sector at least provides LMIs with a similar level of choice in terms of *location* as home ownership.

A final measure of satisfaction is set out in Figure 5.25, which provides details across tenures and income groups of the proportion of households dissatisfied with the repairs and maintenance of their accommodation.

Figure 5.25: Dissatisfaction with repairs/maintenance of current accommodation by tenure: *England 2009-10*



Note: Income groups based on EHS definition: see Chapter 7.
Source: RF analysis of CLG, *English Housing Survey 2009-10*

Whereas across all tenures, around one-quarter are dissatisfied with the maintenance of their property

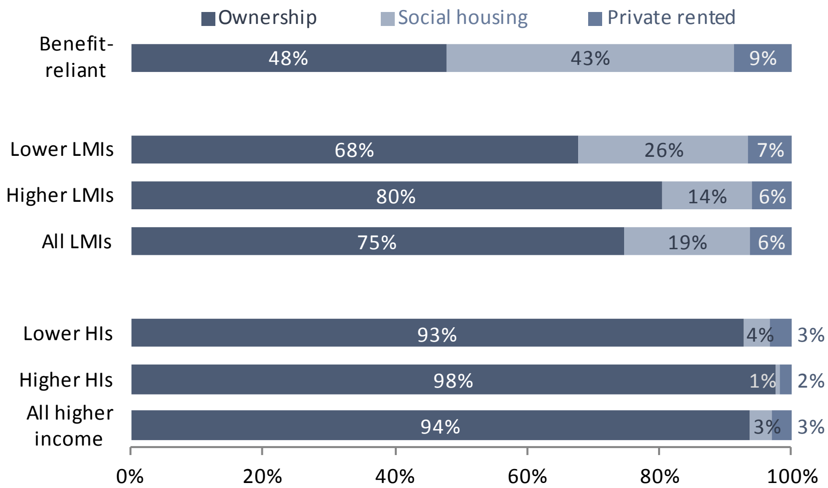
Compared to the measures discussed above, rates of dissatisfaction appear relatively high across all forms of housing, though in this instance those living in the private rented sector are least likely to be in this position. Overall, one-quarter (23 per cent) of those households in the LMI group living in rented or leasehold properties were dissatisfied with maintenance, including 27 per cent of leaseholders, 28 per cent of social housing tenants and 18 per cent of private renters.

5.6. Housing aspirations: *the continuing shift from owning to renting*

Despite the general shift from buying to private renting that has taken place in the past decade, and that has been particularly marked within the LMI group, home ownership remains an aspiration for many of those locked out of the market. And it is a goal that has the implicit or explicit backing of all mainstream political parties.

However, for many households the financial reality is undeniable. Figure 5.26 sets out the tenure that households in each income group said they *expected* to hold in the long-term, when asked in 2009-10.

Figure 5.26: Tenure expected to live hold in long-term: *England 2009-10*



Note: Income groups based on EHS definition: see Chapter 7.

Source: RF analysis of CLG, *English Housing Survey 2009-10*

Three-quarters expect to own in the long-term

Among LMIs, three-quarters (75 per cent) said they expected to own their own home. One-in-five (19 per cent) named social housing, while just 6 per cent thought they would be in privately rented accommodation in the long-term.

Just 6 per cent think they will be in private rented accommodation

While the proportion thinking they would own was significantly lower among households in the lower LMI group (68 per cent) than among those in the higher LMI group (80 per cent), the difference was almost entirely accounted for by the higher proportion expecting to live in social housing: there was very little increase in the proportion of lower LMIs foreseeing a future in private rented property.

Affordability issues are central to a majority of those LMIs planning never to buy a home. Table 5.10 sets out the distribution across income groups of reasons given by those stating in 2009-10 that they do not expect to ever buy.

Table 5.10: Why will never buy or share home in UK: *England 2009-10*

	Benefit-reliant	LMIs	Higher income	All households
All possible reasons				
Unlikely to afford it	85%	82%	58%	80%
Wouldn't want to be in debt	17%	18%	16%	17%
Don't have secure job	21%	14%	8%	16%
Wouldn't want the commitment	12%	14%	11%	13%
Like it where I am	10%	12%	11%	11%
Repairs and maintentance too costly	12%	11%	9%	11%
Prefer flexibility of renting	6%	10%	14%	9%
Other reason	6%	7%	27%	9%
Main reason				
Unlikely to afford it	74%	67%	59%	69%
Wouldn't want to be in debt	5%	8%	9%	7%
Don't have secure job	8%	6%	2%	6%
Wouldn't want the commitment	4%	5%	7%	5%
Like it where I am	5%	4%	7%	5%
Prefer flexibility of renting	1%	4%	8%	3%
Repairs and maintentance too costly	2%	3%	3%	3%
Other reason	2%	2%	5%	2%

Note: Income groups based on EHS definition: see Chapter 7.

Source: RF analysis of CLG, *English Housing Survey 2009-10*

Four-fifths of those LMIs saying they will never buy cite affordability issues

It shows that LMI households (82 per cent) in this position in 2009-10 were about as likely as benefit-reliant households (85 per cent) and much more likely than higher income households (58 per cent) to say that the primary reason was that they did not believe they would ever be able to afford it.

Just one-in-ten say it is because they prefer the flexibility of renting

Just 12 per cent of LMIs said that their happiness with their current home was their primary motivation for not buying, and just 10 per cent cited the flexibility of renting.

6. Prospects for 2012 and beyond

Having come through a deep recession, we are now in the middle of a long and slow recovery, with earnings and incomes expected to remain relatively flat for a number of years for much of society. Once GDP growth returns to trend, improvements in the living standards of low-to-middle income households will depend on the extent to which economic gains feed through into the wages of workers at different parts of the earnings distribution.

Even under a scenario in which earnings grow in line with their (strong) 1997-2003 trends, the wages of full-time male employees at the 25th percentile would be no higher in real terms in 2020 than at their peak in 2003. If earnings instead grow at their (weak) 2003-2008 rates, then 2020 pay at the 25th percentile would be 11 per cent lower in real-terms than in 2003.

At the household level, 2012 will bring new challenges for LMIs because of large planned cuts to tax credit expenditure. Projecting forward, the incomes of LMIs would be no higher in 2020 than at their peak in 2007 even if wages grew at their 1997-2003 rates. If LMI wage growth instead returned to the 2003-2008 rates then real household incomes in the group would be 8 per cent lower in 2020 than in 2007. Under both scenarios, the gap between LMIs and higher income households is set to continue to grow.

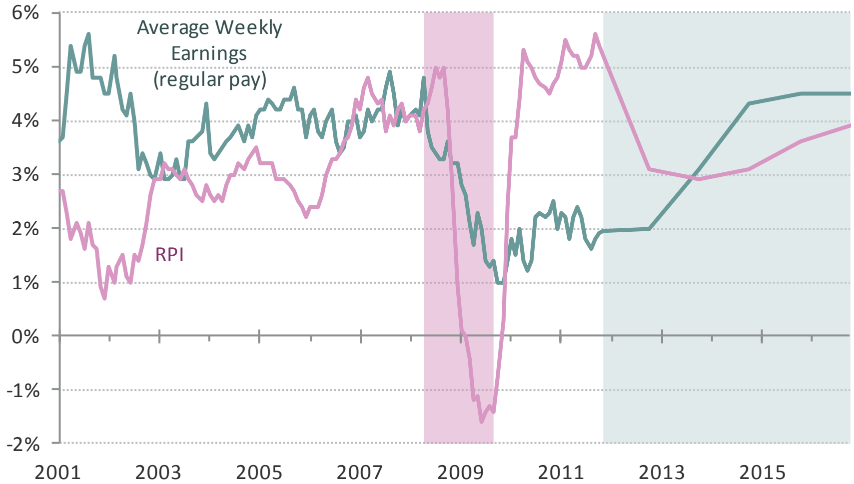
6.1. The squeeze continues: *earnings projections to 2020*

Earnings squeeze experienced by large part of population in recent years is set to continue to 2013

As noted elsewhere in this report, recent trends in earnings and prices have meant that large numbers of households have faced a squeeze on their living standards since the start of the economic downturn. And this squeeze is set to continue for some time. Figure 6.1 compares movements in average weekly earnings with annual price inflation in the period from 2001.

At the start of the period, increases in earnings easily outstripped living costs. However, this trend reversed from 2010, with a large gap developing between RPI and average earnings growth rates. According to OBR projections, this scenario will persist into 2013 and, even though wage growth should then overtake inflation, the two measures will remain sufficiently close to mean that real-terms losses encountered during the current phase will take considerable time to repair.

Figure 6.1: Annual change in average earnings and prices: *UK 2001 - 2016*



Notes: Projections represent central OBR forecast.
Sources: Outturn: ONS Time Series, *KA18*
Projection: OBR, *Economic and fiscal outlook*, November 2011, Table 1.1

But, trend is more established among workers at the lower end of the wages distribution

These average trends, however, mask significant differences across the earnings distribution. As discussed in Chapter 2, workers at the lower end of the wage distribution have fallen further behind those at the top over recent decades, producing a long-term relative decline which transformed into an absolute decline for some even before the onset of recession in 2008.

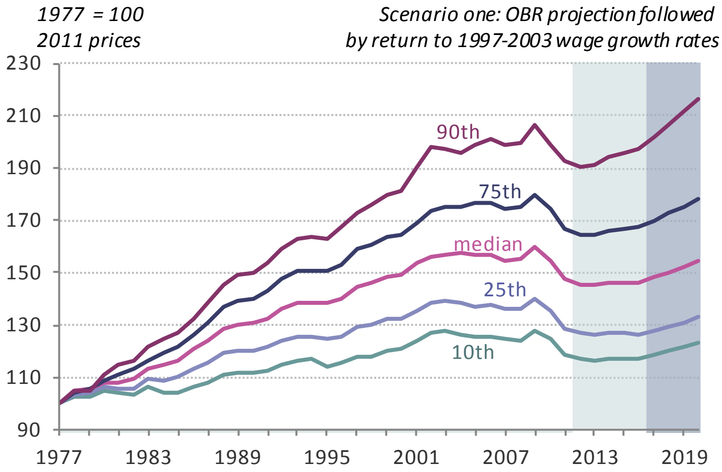
Figure 6.2 re-presents these trends (for full-time male employees only) and adds projections for growth at each point in the distribution up to 2020. During the medium-term, growth rates are calculated with reference to OBR projections for average earnings. For each point in the distribution, we calculate growth by applying a ratio to the OBR figure which reflects the extent to which earnings for that particular group have traditionally tracked trends in the average.

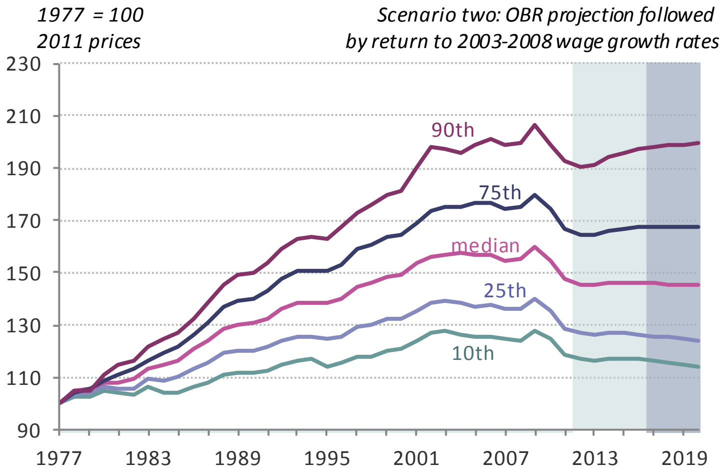
During the longer-term, at which point we assume GDP growth has returned to trend, we set out projections based on two scenarios.

- Under scenario one, we apply the growth rates that were in effect at each point of the distribution during the period 1997-2003. In this period, growth of both GDP and earnings was steady and we refer to this scenario as ‘strong wage growth’.

- Under scenario two we instead apply the earnings growth rates recorded in the period 2003-2008. Over this timeframe, strong GDP growth continued, but wage growth outside of the top of the distribution flat-lined, causing us to label this scenario ‘stagnant wage growth’.

Figure 6.2: Projections for earnings among full-time male employees under two scenarios: *UK 1977 - 2020*





Notes: Trends from 1977-2011 are the same as those shown in Figure 2.1 and are based on analysis of ASHE data. Projections for the period 2012-2016 are the same under both scenarios. Projections for each point in the earnings distribution are calculated by applying a ratio to the OBR's projections for average earnings growth. Ratios are calculated for each point in the earnings distribution and reflect the ratio of average annual growth in male full-time wages at that point in the distribution to average annual growth of mean wages among all full-time workers in the period 1997-2008. All figures to this point are adjusted using RPI inflation. Projections for the period 2017-2020 vary under the two scenarios. Under scenario one ('strong wage growth'), real wages at each point in the distribution are assumed to grow in line with the appropriate rates of growth recorded in the period 1997-2003. Under scenario two ('stagnant wage growth'), real wages at each point in the distribution are assumed to grow in line with the appropriate rates of growth recorded in the period 2003-2008.

Sources: RF calculations using ONS, *ASHE* and OBR, *Economic and fiscal outlook*, November 2011, Table 1.1

And will persist for longer, with wages expected to remain flat for these workers in the medium term

The medium-term picture is the same under both scenarios. It suggests that real-terms wages, which have fallen since 2009 at all points of the distribution, will be flat through 2012 before recovering slowly at the top of the earnings distribution while remaining flat at the median and below.

Even if wage growth returns in the longer term, those at the median and below will be no better off in 2020 than in the early-2000s

If a return to trend GDP growth over the longer-term produces the wage growth patterns that prevailed between 1997 and 2003 (scenario one), then wages will grow strongly at the top of the distribution, passing their 2009 peak in 2018. Lower down the distribution, however, improvements will be less rapid. At the median and below, wages at the end of the period will remain below their 2009 levels, corresponding instead to the rates that were evident at the start of the 2000s.

If we instead experience a repeat of the stagnation in wages that took place between 2003 and 2008 in this future period, then the situation will be worse still. Those at the top of the earnings distribution would experience some – albeit slow – growth in pay, but would not return to their 2009 levels by the end of the period. In contrast, those at the median and below would experience declines in real-terms pay, resulting in a return to the levels of pay last experienced in the mid- to late-1990s.

If the wage stagnation observed prior to recession returns, pay in 2020 will be drop significantly below its 2003 level

Figure 6.3 puts cash figures to these projections and includes an analysis for female workers as well. It shows that male full-time workers at the 25th percentile might expect a reduction in their real-terms earnings from £416 a week in 2003 to £397 in 2020 under scenario one, and to £372 a week under scenario two.

Put another way, this translates into a cut of £1,000 a year (or 4 per cent) under a strong wage growth scenario and a fall of £2,300 a year (or 11 per cent) under a stagnant wage scenario.

Figure 6.3: Projections of gross weekly pay among men and women at different points on the earnings distribution under two scenarios: *UK 2003 - 2020*

Notes: See notes to Figure 6.2. Figures for female employees calculated in the same way as for males.

Sources: RF analysis of ONS, *ASHE*; OBR, *Economic and fiscal outlook*, November 2011, Table 1.1

6.2. The wider picture: *income projections to 2020*

Future earnings trends will impact on household income prospects

We can use the earnings projections set out above in combination with assumptions about the value of future government support to develop projections of incomes at the household level over the same period.

Figure 6.4 sets out trends in real disposable income among LMIs and among higher income households in the period 1996-97 to 2009-10. Medium-term projections are added by splitting household disposable income into its various components (see Table 4.1) and applying appropriate growth rates to each element. In the LMI group, net earnings are assumed to grow in line with projected real gross weekly earnings (among men and women) at the 25th percentile. In the higher income group, we increase net earnings in line with projected real gross earnings at the 75th percentile. For both groups, benefit payments are projected to grow in line with the OBR's projection for real terms expenditure on aggregate non-income-related and non-contributory benefits, and tax credits are similarly assumed to grow in line with the OBR's projection for real terms expenditure in this area. All remaining income is expected to keep pace with RPI inflation.

Having dropped in recent years, LMI net incomes set to remain flat in coming years

Longer-term projections, following an assumed return to steady GDP growth, vary under two scenarios.

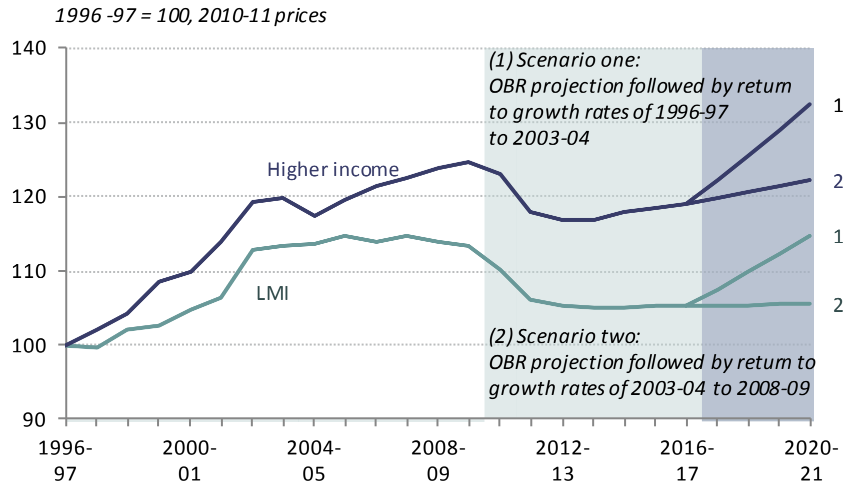
Recovery will depend on whether GDP growth feeds through to ordinary households

- Under scenario one, we again assume that the UK re-enters a period that looks like the one prevailing in 1996-97 to 2003-04, in which real-terms disposable incomes in LMI and higher income households grew strongly alongside GDP. We refer to this scenario as one of 'strong income growth'.
- Under scenario two, which we term 'stagnant income growth' we instead assume that incomes in the two groups fail to track GDP as closely and instead grow at the much more sluggish rates experienced in the period 2003-04 to 2008-09.

The chart shows that LMI incomes have fallen significantly in recent years and are expected to remain flat throughout the forecast period set out by the OBR. Beyond this period, a return to the growth rates recorded between 1996-97 and 2003-04 would result in a fairly strong recovery, although average disposable income in the group would only just have returned to its mid-2000s level by 2020.

In contrast, the higher income group would enjoy some growth in its average disposable household income even in the medium term, before experiencing a much more rapid recovery in the longer-term which would push it well above its pre-crisis level. The gap between higher income households and LMIs would thus increase somewhat over the projection period as a whole.

Figure 6.4: Real disposable household income indices by income band: *UK 1996-97 - 2020-21*



Notes: Trends from 1996-2010 are outturns deflated by the RPI. Projections for the period 2011-2016 are calculated by splitting disposable household income in both of the groups into its various components. In the LMI group, net earnings are assumed to grow in line with projected growth in real gross weekly earnings at the 25th percentile of the earnings distribution. In the higher income group, net earnings are increased in line with the projected growth in real gross weekly earnings at the 75th percentile. For both groups, benefits are projected to grow in line with the OBR's projection for real terms expenditure on aggregate non-income-related and non-contributory benefits, and tax credits are similarly assumed to grow in line with the OBR's projection for real terms expenditure in this area. All remaining income is expected to keep pace with RPI inflation. Projections for the later period are based on two scenarios. In the first, ('strong income growth'), real disposable incomes in both household income groups are assumed to grow in line with the appropriate rates of growth recorded in the period 1996-97 to 2003-04. Under scenario two ('stagnant income growth'), real incomes are assumed to grow in line with the appropriate rates of growth recorded in the period 2003-04 to 2008-09.

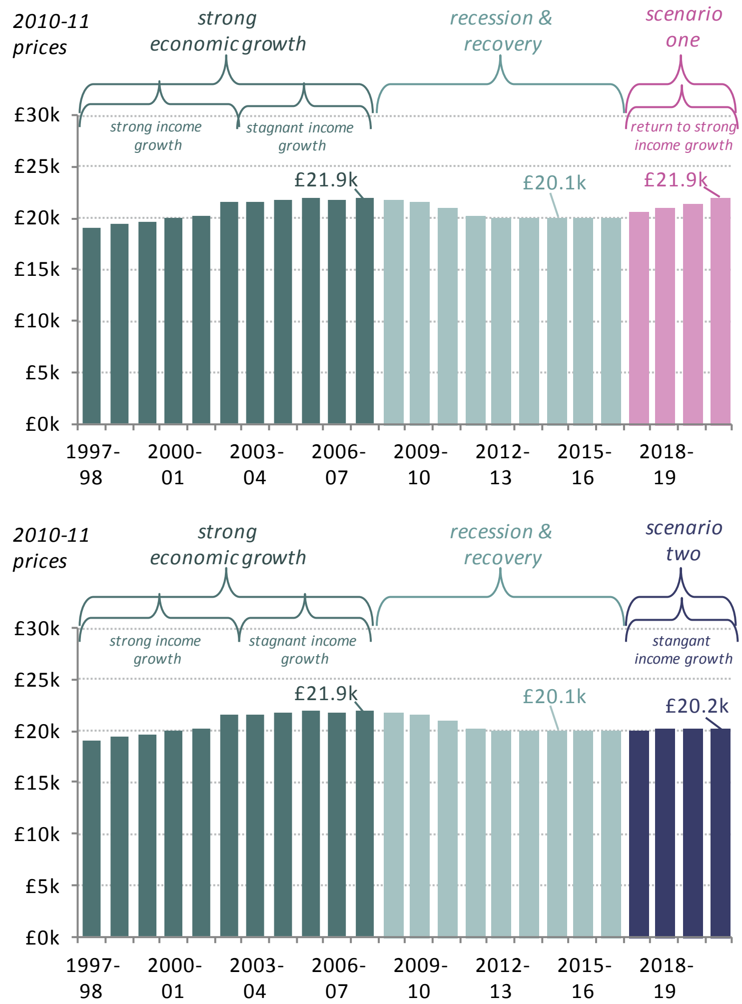
Sources: RF analysis of ONS, *ASHE*; RF analysis of DWP, *Family Resources Survey*; OBR, *Economic and fiscal outlook*, November 2011, Tables 1.1, 4.18 & 4.22; OBR, *Economic and fiscal outlook: supplementary fiscal tables*, November 2011, Table 2.12; DWP, *Benefit expenditure tables: medium term forecast*, December 2011

A return to pre-recession income trends would leave LMI incomes no higher in 2020 than in the early-2000s

Under scenario two, recovery in the higher income group would be slower, with average net income failing to return to its pre-crisis level by the end of the period. However, LMI households would again be more acutely affected. Average net income in this group would remain flat, meaning that it would be no higher than at the start of the 2000s.

Figure 6.5 puts cash values to the LMI projections. It shows that average disposable household income is projected to fall from £21,900 a year in 2007-08 to a low of £20,100 in 2014-15. Under scenario one, it is projected to return to its 2007-08 peak by 2020-21. However, under scenario two it will barely move, reaching just £20,200 in 2020-21, representing an 8 per cent drop from 2007-08 and putting it on a par with the level recorded in 2001-02.

Figure 6.5: Projections of average disposable incomes in LMI households under different growth scenarios: *UK 1997-98 to 2020-21*



Notes: See notes to Figure 6.4.

Sources: RF analysis of ONS, *ASHE*; RF analysis of DWP, *Family Resources Survey*; OBR, *Economic and fiscal outlook*, November 2011, Tables 1.1, 4.18 & 4.22; OBR, *Economic and fiscal outlook: supplementary fiscal tables*, November 2011, Table 2.12; DWP, *Benefit expenditure tables: medium term forecast*, December 2011

6.3. The immediate future: *LMI prospects in 2012*

The trends and projections set out above highlight the extent to which the current living standards squeeze experienced by millions of LMI households represents more than a temporary by-product of an economic downturn. Nevertheless, fallout from the recession remains of very real concern to members of the group.

In addition to ongoing weakness in the labour market and concerns about the implications of sovereign debt crises in the euro area, 2012-13 is set to be a particularly difficult year for many LMI households because of planned cuts to tax credits.

In coming year, LMIs will be particularly hard hit by cuts to tax credits

Many households have already been hit by the changes introduced in April 2011 – including the reduction in support for childcare costs through the Working Tax Credit (WTC), an ongoing three-year freeze in the basic and 30 hour elements of WTC and the faster withdrawal of tax credits as income rises – although these losses were offset for some households by a £180 above-inflation increase in the child element of the Child Tax Credit (CTC). Bigger cuts are planned for April 2012, however, including:

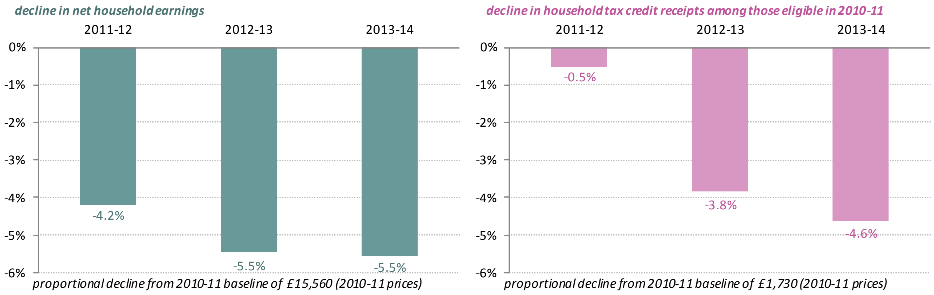
- the removal of the £545 family element of CTC from middle income families (saving £475 million in 2012-13);
- the reversal of the coalition's previous plan to increase the child element of CTC by £110 (saving £1.0 billion in 2012-13);
- an increase in the number of hours that couples with children are required to work in order to receive WTC from 16 to 24 hours (saving £515 million in 2012-13);
- the abolition of the 50 plus element of WTC (saving £45m in 2012-13);
- the reversal of the previous government's plans to introduce a supplement in CTC for children aged one and two (saving £180m in 2012-13); and
- a freeze in the value of the £1,950 couple and lone parent elements of WTC (saving £265m in 2012-13).

With spending on the group set to fall by £457 million

The savings set out above are against a hypothetical baseline in which expenditure had been increased in line with existing plans. If we instead look at the pure cash terms effect – that is, how much lower tax credit spending will be in 2012-13 compared to 2011-12 – then we can see that the amount allocated to LMI households is set to fall by £457 million, or £126 per eligible household.

Cuts to tax credits are thus growing in importance. Even as the wage squeeze continues, losses in this area will begin to mount. Figure 6.6 sets out projected cumulative falls from a 2010-11 baseline in both real net earnings and real tax credit receipts among those households eligible for tax credits at the start of the period.

Figure 6.6: Cumulative real-terms reductions from 2010-11 baseline in annual net earnings and tax credits among LMI households: *UK 2010-11 to 2013-14*



Notes: Net earnings projections calculated as per Figure 6.2. Tax credit projections calculated using IPPR tax benefit model to ascertain proportion of tax credit expenditure accounted for by LMI group under future tax credit parameters.

Sources: RF analysis of ONS, *ASHE*; RF analysis using IPPR tax-benefit model; OBR, *Economic and fiscal outlook*, November 2011, Table 1.1; OBR, *Economic and fiscal outlook: supplementary fiscal tables*, November 2011, Table 2.12

At the same time as real earnings continue to fall

It shows that cuts associated with employment and pay have already hit hard, with net earnings in LMI households expected to have fallen by 4.2 per cent on average in 2011-12. While things are projected to get worse still in 2012-13, resulting in a 5.5 per cent fall from the 2010-11 baseline, the situation is then expected to stabilise (and indeed improve in subsequent years).

By contrast, while the impacts of tax credit cuts have so far been modest they are expected to squeeze much harder in the next two years. Among those LMI households eligible for payments in 2010-11, the average cut faced in 2011-12 is expected to amount to just 0.5 per cent. However, the measures set out above mean that average awards in the LMI group are projected fall from the 2010-11 baseline by 3.8 per cent in 2012-13 and by 4.6 per cent in 2013-14.

Table 6.1 summarises a series of responses given by households in late-2011 relating to the government's broader fiscal consolidation plans for 2012. It shows that one-in-five (21 per cent) LMI households reported relying on the public sector for up to half their income, leaving them exposed to proposed job cuts and pay freezes in this sector.

One-third are concerned about tax rises and one-fifth worry about cuts to benefits or services

It shows also that two-fifths (38 per cent) of LMI households said they were concerned about potential tax increases, with one-third (31 per cent) worried about facing a reduction in their income. One-in-five mentioned the possibility of benefits cuts (22 per cent) or cuts to services (19 per cent). Just one-in-ten (11 per cent) said they did not think they would be heavily affected by fiscal consolidation, and one-in-ten (9 per cent) stated that they had not really given any thought to its impact.

Table 6.1: Household awareness of, and reaction to, fiscal consolidation measures: *GB Sep 2011*

	Benefit-reliant	LMIs	Higher income	All households
Does your household gain more than half of its income from work for the public sector (by this we mean working directly for the public sector or for industries or services that mainly depend on contracts with the government for their business activity)?				
Yes	9%	21%	27%	22%
No	91%	79%	73%	78%
Which of the government budget deficit cutting measures are you most concerned about for the future? (weighted base = 917)				
Higher taxes	25%	38%	43%	39%
Lower income	34%	31%	23%	27%
Losing my job or my partner's job	16%	30%	31%	29%
Loss/reduction of my income benefits	30%	22%	16%	20%
There might be a cut back on services which I use/have used	13%	19%	21%	19%
I do not think I will be heavily affected	8%	11%	15%	12%
I have not really thought about it	16%	9%	7%	9%
Other	0%	0%	0%	0%
Which, if any, of the following actions are you taking in response to those measures? (weighted base = 707)				
I have not taken any action	36%	34%	40%	37%
Looked for and/or found a new job	34%	32%	25%	29%
Worked longer hours / taken a second or better paid job	19%	31%	25%	26%
Saved more	26%	25%	29%	27%
Spent more	4%	2%	1%	2%
Other	1%	0%	0%	0%

Note: Income groups based on NMG definition: see Chapter 7.

Source: RF analysis of Bank of England, *2011 NMG survey*, Sep 2011

In terms of their responses to these concerns, one-in-three (34 per cent) LMI households said they had not taken any action, but one-third said they had looked for or found a new job (32 per cent), or worked longer hours (31 per cent). One-quarter (25 per cent) said that they were saving more in anticipation.

7. Technical annex

7.1. Defining the LMI group

Concept and the analysis
The Resolution Foundation is concerned with improving outcomes for low-to-middle income households (LMIs). From a conceptual perspective, we define this group as including those who are squeezed by the workings of the modern UK economy: too poor to be able to benefit from the full range of opportunities provided by private markets, but too rich to qualify for substantial state support.

From an analytical perspective, we consider the group to include those on below-average incomes who remain largely independent of state support. While median income is relatively straightforward to establish as an upper threshold, defining when people become independent of state support is more difficult, particularly as all income groups are entitled to some welfare payments.

Household level definition which varies from source to source

The statistical definition used has therefore evolved over time and has been dependent in part on limitations imposed by the data sources we have analysed. It remains unavoidably imperfect, but it is designed to ensure that as many as possible of those households that could be considered to sit within our conceptual definition are captured statistically.

The analysis in the *Audit* focuses on LMI *households*, in an effort to remove the distortions associated with capturing a large number of students and non-working members of high income families when adopting an individual approach. The cost of this is that, in relation to households in which income and expenditure is not equally shared, we are likely to miss some individuals who fit the LMI profile. However, in making the assumption that income is usually shared, we are consistent with the approach used by the DWP in its *Households Below Average Income* study.

The precise definition of the group varies from source to source. We therefore detail six different approaches below, corresponding to the six data sources underpinning most of our statistical analysis. We use:

- DWP's *Family Resources Survey* (supplemented with the associated *Households Below Average Income* dataset), which provides UK data at the household, family and individual level – latest data is 2009-10 **(see 'FRS definition')**;

- ONS's *Living Costs and Food Survey*, which provides UK data at the household and individual level – latest data is 2009 **(see 'LCF definition')**;

- NMG's *Financial situation of GB households* survey, which is produced annually for the Bank of England and provides GB data for households – latest data is Sep 2011 **(see 'NMG definition')**;

- CLG's *English Housing Survey*, which provides England data at the household and individual level – latest data is 2009-10 **(see 'EHS definition')**;

- The *British Household Panel Survey*, which is a longitudinal study of GB households and individuals covering 18 waves from 1991 to 2008 **(see 'BHPS definition')**;and

- ONS's *The effect of taxes and benefits on household incomes*, which is not a raw dataset but is instead derived from the *Living Costs and Food Survey*. It allows us to track incomes and compositions over a longer timeframe than is permitted by reference to the above sources **(see 'ONS definition')**.

FRS definition

A majority of the figures presented in the *Audit* are derived from an analysis of the DWP's *Family Resources Survey* (FRS) and the associated *Households Below Average Income* (HBAI) survey, using a three-stage process, whereby we filter on the basis of *age*, *gross income* and *benefit receipt*.

But typically based on three-stage approach which filters on the basis of age, income and benefit-receipt

Three-stage process

We first **remove retired households** from the overall population. The reduced earnings faced by most people at retirement means that many of those considered LMIs during their working lives will fall into the benefit-reliant group in retirement, while some higher income households will drop into the LMI group. However, because such households are also likely to face reduced spending commitments, the pressures they face should be less intense than those experienced by working-age households in corresponding income bands.

Among the remaining population of working-age households, we equivalise gross incomes to weight for differing household sizes and compositions, using the modified OECD scale. This matters because, for any given level of income, a household of five adults is likely to achieve a lower standard of living than a single-person household. The equivalisation process takes account of such differences by inflating the incomes of smaller households and deflating the incomes of larger ones.

Incomes before housing costs (BHC) are used. While an after housing costs (AHC) approach might better capture the living standards of those households that pay more for housing than is warranted by the quality of their accommodation (some households in London for example), it would also understate the living standards of those living in property of a higher quality than is suggested by their costs. In addition, the BHC approach is consistent with the government's child poverty target and allows better read across of the LMI group to other surveys in which housing costs are not captured.

Income thresholds depend on size of household

£8k to £20k for someone living on their own

Rising to £19k to £47k for a couple with three children

We next **rank the working-age households on the basis of their equivalised incomes** and separate them into ten equally-sized deciles (where decile 1 has the lowest income). Given that we are concerned with those on low-to-middle incomes, we use median income – the boundary between deciles 5 and 6 – as the upper threshold of the group. At the lower end we create a threshold at the boundary between deciles 1 and 2. We do this in part because it represents the approximate level of earnings associated with working full-time at the minimum wage, and in part because decile 1 often produces unusual results due to the large number of households within it that have temporarily low incomes or incomes that come neither from employment nor the state.

Therefore, at this stage, the LMI group comprises all of those working-age households with equivalised gross incomes in deciles 2-5 of the income distribution. 2009-10 boundaries for a selection of household compositions are detailed in Table 7.1.

Table 7.1: Upper and lower gross household income thresholds for 'low-to-middle income' households, by selected composition: ***UK 2009-10***

	Weekly income (£)		Annual income (£)	
	Lower	Higher	Lower	Higher
Single no children	150	380	8,050	19,650
Single with one child	200	490	10,450	25,500
Single with two children	250	600	12,850	31,400
Single with three children	290	720	15,250	37,250
Couple with no children	230	560	12,000	29,350
Couple with one child	280	680	14,400	35,200
Couple with two children	320	790	16,800	41,050
Couple with three children	370	900	19,200	46,950
Couple with four children	420	1,020	21,600	52,800
Three adults, no children	310	750	16,000	39,000
Four adults, no children	390	940	20,050	49,000
Equivalised income [1]	230	560	12,000	29,350

Note: [1] Equivalised incomes calcualted using modified-OECD scale.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

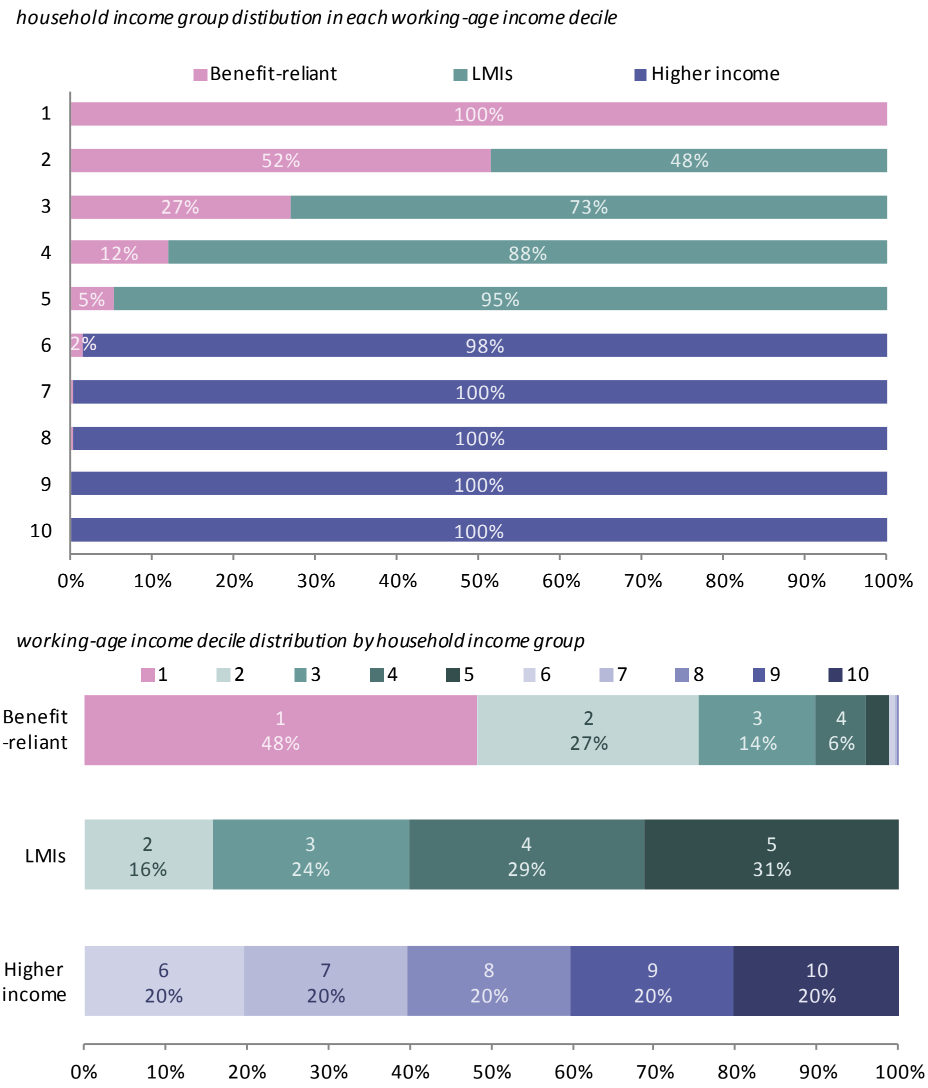
For simplicity, we refer to those households with above median incomes as *higher income*, while those households with the lowest incomes are classified as being *benefit-reliant*.

Our third stage reduces the size of both the higher income and, more particularly, the LMI groups by **filtering all those households that receive more than one-fifth of their household income from income-related benefits into the benefit-reliant group**. The specification of income-related benefits means those in receipt of universal benefits such as Child Benefit are not excluded from the group. We omit tax credit receipts from our calculation of income-related benefits because these payments were designed specifically for LMI households, meaning that it would be counter-intuitive to exclude households from the group on the basis of their receipt.

Two-fifths of LMI households located in deciles 2 and 3; three-fifths in deciles 4 and 5

Figure 7.1 shows how these three income groups are spread across working-age household income deciles at the end of this three-stage process. It shows, for example, that 52 per cent of households in income decile 2 end up in the benefit-reliant group, while 48 per cent are considered LMI. Within the LMI group, 16 per cent are drawn from decile 2, 24 per cent from decile 3, 29 per cent from decile 4 and 31 per cent from decile 5.

Figure 7.1: Household income groups by equivalised income decile: *UK 2009-10*



Note: Income groups based on FRS definition.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Sub-division of the income groups

Splitting the working-age population into three income groups as described above allows for a relatively straightforward comparison between households with low, low-to-middle and high incomes. However, the groups are large and cover fairly diverse populations: for example, the higher income group represents half of all working age households and contains a spread of annual household incomes from £29,000 at the bottom end to around £1 million at the top.

We therefore split both the LMI and the higher income groups into two sub-categories. *Lower LMIs* incorporate those LMI households in deciles 2 and 3, while *higher LMIs* include just those in deciles 4 and 5. The split is not 50-50 because, as we have seen, a larger proportion of households in deciles 2 and 3 have already been removed to the benefit-reliant group. Instead, lower LMIs represent 40 per cent of the full LMI group.

We break the higher income group into *lower HIs* and *higher HIs*, with the former group covering those higher income households in income deciles 6-9 and the latter comprised of those in the very top decile only. Although a few households in deciles 6-10 are removed to the benefit-reliant group on the basis of benefit receipt, the numbers involved are very small. As such, our split of the higher income group is roughly 80-20.

In all instances, sample data is weighted using the grossing factor provided in the survey to present nationally representative data.

Households, benefit units and adults

Analysis available at level of household, family and individual

As discussed above, the *Audit* uses the household as the basis of measurement of LMIs. However, in accordance with the level of analysis provided in the DWP's *Family Resources Survey*, we also present data at benefit unit (or family) and individual adult levels.

Households are defined as 'a single person or group of people living at the same address who either share one meal a day or share the living accommodation'.

Benefit unit is a term that relates to the tighter **family** definition of 'a single adult or couple living as married and any dependent children'. So, for example, a man and woman living with their young children and an elderly parent would be one household but two benefit units.

Those benefit units living in 'conventional' households (i.e. those containing relations) are assumed to share income and expenditure and are therefore allocated to the same income group as their overall household (although we exclude all families headed by someone above retirement age even if the head of the *household* is of working age). In relation to *non-conventional* households comprising unrelated sharers however, we allocate benefit units to one of the three income groups on the basis of their place within the *benefit unit* (rather than household) income distribution. Throughout the report we use the term benefit unit interchangeably with families and family units.[51]

As with benefit units, **adults** are primarily allocated to income groups based on the status of their household. Once again though, we exclude all individuals above retirement age, irrespective of the age of the household head, and those living in non-conventional households are categorised in relation to their place within the *individual* working-age income distribution. An additional filter is introduced, namely that all who describe themselves as being in full-time education are removed from the analysis entirely.

LCF definition

Household expenditure figures used in the *Audit* are sourced in the main from the ONS *Living Costs and Food Survey*. Again a three-stage process is used to define the three income groups.

First, **pensioner households and households in which the household reference person's (HRP) economic status is described as 'retired' are removed from the analysis**. 'Pensioner households' are those in which retirement pensions account for more than three-quarters of total income, while a retired HRP is one who is both above retirement age and economically inactive.

Secondly, the **population of households is split on the basis of equivalised gross income**, with LMIs covered by deciles 2-5. Equivalised incomes are recorded alongside actual incomes in the survey, and in this instance are based on the McClements equivalence scale (this scale provides a more detailed breakdown of weights for dependent children than the OECD scale and is the one used by the ONS in its *Family Spending* publication).

Thirdly, those **households reporting social security as their main source of income are placed into the benefit-reliant group**, in order to reflect the level of independence from state support.

This definition of the income bands means that the size of the three groups is slightly different from that captured by the FRS definition, with 6.0 million LMI households recorded in 2009, containing 12.0 million adults and 4.9 million children.

As with the FRS definition, the higher income and LMI groups are sub-divided into *lower* and *higher* groups on the basis of income decile, and the sample is weighted using the grossing factor provided to present nationally representative data.

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[51] The DWP also uses the terms interchangeably in its *Households Below Average Income* publication.

NMG definition
Several outputs are based on the annual *Financial situation of GB households* survey carried out for the Bank of England by NMG Financial Services Consulting. Due to the nature of the data source, the income bands are defined on the basis of a **two- rather than three-stage process**.

First, **records in which the respondent is above retirement age are removed from the analysis**. Secondly, the **population of households is split on the basis of equivalised gross income** (this time using a simplified version of the OECD scale to reflect the fact that there is insufficient detail provided about the ages of children in each household).

Because it is not possible to apply our usual third-stage filter on the basis of level of state support, we do not include the whole of decile 2 in the LMI group, but instead create a **lower boundary at the 15th percentile**. The equivalised income thresholds used in relation to the 2011 survey are therefore £9,400 and £27,100. Once again, the weighting factor provided is used as appropriate.

Because the NMG survey is significantly smaller than any of the others discussed here, any results derived from this source should be treated with more caution. To aid this, we include details of the weighted sample size each time we use it in the *Audit*.

EHS definition
Many of the housing statistics presented in the *Audit* are derived from the CLG *English Housing Survey* and the preceding *Survey of English Housing*, which include details of interviews with around 17,000 households each year. Once again, our analysis is based on a three-stage definitional process.

First, **households in which the HRP's economic status is either 'retired' or 'full time student' are removed** from consideration. Secondly, the **population of households is split on the basis of equivalised gross income**, using the same modified OECD scale as in relation to our *Family Resources Survey* analysis. Thirdly, those **households in receipt of *any* level of Income Support are filtered into the benefit-reliant group**. We do this because we do not have details of the *level* of support received.

Sample figures are grossed to national (England) level by using the weighting factor provided. Once again, *lower* and *higher* LMI and higher income groups are created by subdividing on the basis of income decile.

BHPS definition
In relation to the BHPS dataset we code each wave/year separately, thereby allowing households to be tracked as they move into and out of the LMI group over time. Again we use a three-stage process.

First, **single pensioner households and those with two or more pensioners and no dependent children are removed** from the analysis. Secondly, the **population of households is split on the basis of equivalised gross income**, using the same simplified version of OECD scale as in relation to our *NMG* analysis.

Thirdly, **those households obtaining more than half of their income from any form of government benefit are removed to the benefit-reliant group**. We use this threshold because there is no detail as to whether benefits are income-related or not. A repetition of this approach in relation to the *Family Resources Survey 2009-10* suggests that it transfers a very similar number of households to the benefit-reliant group as our standard *FRS* benefit filter.

Once again, we sub-divide the income categories to provide *lower* and *higher* version of the LMI and higher income groups.

When using the survey on a cross-sectional basis, we use the in-year household level weight to gross to the national level. However, when using the survey for longitudinal research, we use the cross-wave weight.

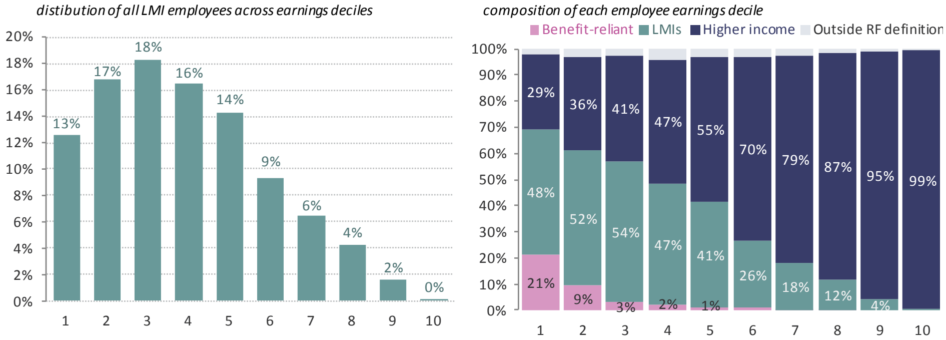
ONS definition
We use one other definition in the *Audit*, in relation to the ONS statistical release *The effect of taxes and benefits on household income*. The data is presented by the ONS by **equivalised disposable** (rather than gross which we use in relation to other sources) **working-age household income decile**. No information on the level of state support is provided and it is not possible to look within the decile data.

As such, our definition of LMIs is simply based on the data provided for **income deciles 2-5**. We simply multiply the average figures in each decile by the numbers in the sample and then average across the decile groups that we specify.

7.2. Moving from earnings to income: *wage distribution within LMI households*

At several points in the *Audit* we focus on the UK earnings distribution. Because this is an adult-based approach there is no way of directly mapping different points in the distribution to our household-based income group definitions. Instead, Figure 7.2 details the distribution of LMI employees across the earnings distribution in 2009-10, along with a breakdown of the household income groups represented in each earnings decile.

Figure 7.2: Mapping of income group members to the earnings distribution: *UK 2009-10*



Note: Income groups based on FRS definition. Those deemed 'outside RF definition' include members of pensioner households and full-time students who are working.

Source: RF analysis of DWP, *Family Resources Survey 2009-10*

Four-in-five LMI employees located in bottom half of earnings distribution

It shows that LMI workers were concentrated in the lower part of the earnings distribution, with four-fifths (78 per cent) of employees in the group situated in the bottom half of the earnings distribution. For this reason, we often use the lower half of earners as a reasonable proxy for the LMI group.

Looking at the distribution of the income groups across the deciles, the chart shows that members of LMI households comprised around half of all workers in the bottom two-fifths of the earnings distribution, with this proportion quickly dropping above the median earnings point.

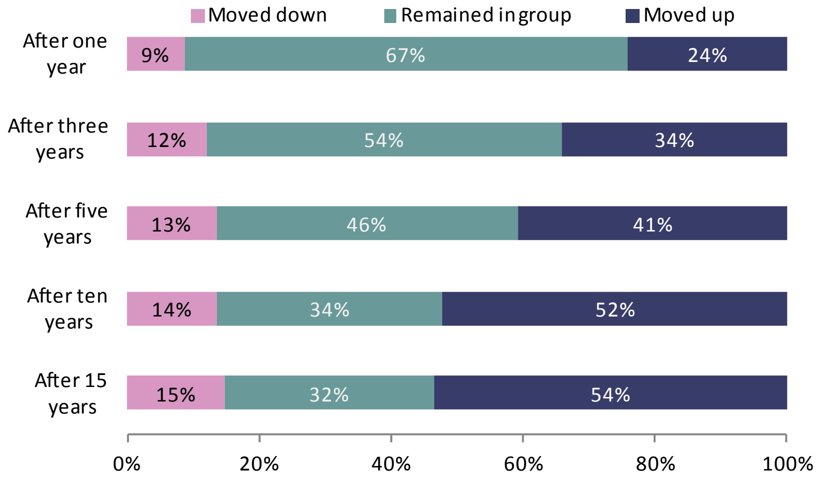
7.3. The persistence of LMI status: *which LMIs are 'stuck' in the group?*

Large number of households will 'pass through' the LMI group during the course of their lives

As noted in Chapter 1, the LMI time series set out in the *Audit* represent series of snapshots. That is, they look at the characteristics of a different group of LMIs in each year, rather than tracking the same households over time. While this approach gives us a good sense of the changing realities of life on a low-to-middle income in Britain, it does not allow us to look at movements into and out of the group. In this section we undertake that analysis by using the BHPS to identify just which LMIs appear to be 'stuck' in the group.

Figure 7.3 presents the results of a series of transition analyses. It shows the proportion of LMIs in year zero who find themselves in the benefit-reliant, LMI or higher income groups at the end of one year, three years, five years, ten years and 15 years. In each instance, the analysis is repeated for a number of years between 1991 and 2008, and averages of the results are calculated.

Figure 7.3: Final destination of those households that are defined as LMI in year zero: *UK 1991-2008*



Note: Income groups based on BHPS definition.

Source: RF analysis of 18 waves of *British Household Panel Survey* data

But one-in-three LMIs appear to be 'stuck' in the group over the longer term

It shows that around two-thirds (67 per cent) of LMIs remain in the group from one year to the next, with one-quarter (24 per cent) moving up and one-in-ten (9 per cent) moving down. The proportion staying in the group declines to half (54 per cent) after three years and drops again (46 per cent) after five years. This proportion appears to reach a plateau of around one-third (34 per cent) after around ten years however, suggesting that this is the 'hardcore' of the LMI group: or the 'stuck'.

By this stage, around half of previous LMIs have moved up to the higher income group, reflecting life-stage earnings effects. The proportion falling into the benefit-reliant group is largely unchanged over the period: LMIs are as likely to join this group next year as they are in ten years.

Despite being drawn from a large-scale survey, the sample sizes associated with LMI households tracked over ten and 15 years are relatively small. In order to provide a meaningful but robust comparison of the stuck LMI population with the wider group, we therefore look in more detail below at those who had remained in the group for at least three years between 2005 and 2008.

Table 7.2 details family composition in 2008 among those remaining in the group and those moving up or down. The first three columns of data compare compositions across each group (that is, they sum downwards), while the second set of columns show how each compositional category is distributed across the three final destinations (that is, they sum across).

Table 7.2: Family type among those recorded as LMIs in year zero by their classification three years later: *UK 2008*

	Composition of final income group			Distribution across final income groups		
	Moved down (benefit-reliant)	Stayed in LMI group	Moved up (higher income)	Moved down (benefit-reliant)	Stayed in LMI group	Moved up (higher income)
Couple, no kids	21%	39%	39%	5%	61%	34%
Couple, with children	20%	9%	34%	11%	30%	60%
Single parent	16%	6%	3%	25%	59%	16%
Single man, under 30	8%	3%	9%	15%	34%	51%
Single man, 30-54	9%	14%	2%	9%	84%	7%
Single man, 55-64	1%	7%	0%	3%	94%	3%
Single woman, under 40	9%	8%	6%	12%	63%	26%
Single woman, 40-59	4%	10%	6%	5%	72%	23%
Pensioner couple	7%	2%	1%	32%	56%	12%
Single pensioner	4%	2%	0%	29%	71%	0%
All families	100%	100%	100%	9%	58%	32%

Note: Income groups defined on BHPS basis: see Chapter 7.
Source: RF analysis of 18 waves of BHPS data

Younger men and couples with children most likely to move into higher income group over time

The easiest way of drawing conclusions from the table is to compare the distribution across all families in the second set of columns with the distribution of each individual compositional category. For example, 58 per cent of LMIs remained in the group over the three years, but just 30 per cent of couples with children did so, suggesting that there is some correlation between this status and the likelihood of being stuck.

Older families, single parents and single women most likely to be stuck or to drop down

Similarly, while just 9 per cent of all LMI families dropped down into the benefit-reliant group after three years, 25 per cent of single parents did so. In part these trend will reflect inherent challenges and opportunities provided by different family compositional status, but they will also capture the fact that many of the households will have changed status over the period, with the birth of a child increasing costs (and thereby reducing equivalised income) and potentially also reducing earning potential. That is, while we can observe a correlation, we cannot derive any conclusions about causality.

It is interesting to note that half (51 per cent) of young single men in the LMI group moved up over the course of the three years, compared with one-third (32 per cent) of the group as a whole. Clearly this reflects life-stage effects on earnings. However, just one-quarter (26 per cent) of young single women moved up, meaning that they were less likely to do so than the group as a whole (32 per cent): they are more likely to be 'stuck'.

Renters more likely to be stuck than home owners

Table 7.3 presents a similar analysis in relation to housing tenure. It shows that home owners followed a similar pattern to the overall LMI population, with 5 per cent moving down over three years, 59 per cent remaining in the LMI group and 37 per cent moving up. However, those in social housing were much more likely to have moved down (28 per cent) and much less likely to have moved up (19 per cent). Similarly, private renters were more likely to move down (19 per cent), but they were also much more likely to form part of the 'stuck' group, with two-thirds (68 per cent) remaining in the LMI group.

Table 7.3: Housing tenure among those recorded as LMIs in year zero by their classification three years later: *UK 2008*

	Composition of final income group			Distribution across final income groups		
	Moved down (benefit-reliant)	Stayed in LMI group	Moved up (higher income)	Moved down (benefit-reliant)	Stayed in LMI group	Moved up (higher income)
Owners	45%	76%	87%	5%	58%	37%
Owned with mortgage	*18%*	*44%*	*65%*	*4%*	*53%*	*43%*
Owned outright	*27%*	*32%*	*22%*	*9%*	*66%*	*25%*
Social housing tenants	36%	11%	7%	28%	54%	19%
Private renters	19%	13%	6%	16%	68%	17%
All tenures	100%	100%	100%	9%	59%	32%

Note: Income groups defined on BHPS basis: see Chapter 7.

Source: RF analysis of 18 waves of BHPS data

As are those with low or no qualifications

Again, these correlations provide no indication of causality. We cannot state whether it Is the case that LMIs in social housing in year zero were more likely to become benefit-reliant, or whether those who drop down were more likely to end up living in social housing.

Table 7.4 repeats the analysis by qualification level. Perhaps unsurprisingly it shows that those with higher degrees (51 per cent), first degrees (40 per cent) and A levels (42 per cent) were most likely to move from the LMI group to the higher income group over the course of the three years. Conversely, those with no qualification (70 per cent) and GCSE/O levels (70 per cent) were most likely to remain in the LMI category.

Table 7.4: Highest qualification held by those recorded as LMIs in year zero by their classification three years later: *UK 2008*

	Composition of final income group			Distribution across final income groups		
	Moved down (benefit-reliant)	Stayed in LMI group	Moved up (higher income)	Moved down (benefit-reliant)	Stayed in LMI group	Moved up (higher income)
Higher degree	2%	2%	5%	8%	42%	51%
First degree	6%	15%	20%	4%	56%	40%
GCE A Levels	14%	10%	17%	11%	47%	42%
GCE O Levels or equivalent	10%	16%	10%	7%	70%	23%
All other qualifications	51%	45%	44%	11%	59%	31%
No qualification	16%	11%	5%	16%	70%	15%
All qualifications	100%	100%	100%	9%	59%	32%

Note: Income groups defined on BHPS basis: see Chapter 7.

Source: RF analysis of 18 waves of BHPS data

And those in lower-skilled occupations

Finally, Table 7.5 considers the social class associated with the occupations of members of each final destination group. It shows that those who ended up in the higher income group were over-represented in *professional occupations* (46 per cent) and *managerial and technical occupations* (44 per cent), while those remaining in the LMI group were over-represented in *unskilled occupations* (81 per cent) and *skilled manual* positions (66 per cent).

Table 7.5: Social class among those recorded as LMIs in year zero by their classification three years later: *UK 2008*

	Composition of final income group			Distribution across final income groups		
	Moved down (benefit-reliant)	Stayed in LMI group	Moved up (higher income)	Moved down (benefit-reliant)	Stayed in LMI group	Moved up (higher income)
Managerial & technical occupations	22%	33%	45%	3%	53%	44%
Partly skilled occupations	39%	18%	14%	11%	60%	29%
Professional occupations	2%	4%	5%	2%	52%	46%
Skilled manual	13%	20%	14%	4%	66%	30%
Skilled non-manual	22%	21%	20%	5%	61%	34%
Unskilled occupations	3%	4%	1%	4%	81%	15%
All classes	100%	100%	100%	5%	59%	36%

Note: Income groups defined on BHPS basis: see Chapter 7.
Source: RF analysis of 18 waves of BHPS data

These results represent a first look at the position of LMIs over time. During 2012 we hope to undertake more detailed longitudinal analysis to build up a fuller picture of the characteristics associated with being stuck in the LMI group.

7.4. Data bibliography and acknowledgements

We are grateful to members of the *2011 Audit Steering Group* for comments and advice on the analysis contained in this report. Thanks are also due to members of the DWP's *Households Below Average Income* team, for their comments on our definitional approach. Any remaining errors are our own.

As noted in this chapter, most of the analysis in the report is based on a number of large-scale surveys. The bibliographic details are set out below:

- ESRC UK Longitudinal Studies Centre and University of Essex and Institute for Social and Economic Research, *British Household Panel Survey: Waves 1-18, 1991-2009*. Colchester, Essex: UK Data Archive [distributor]

- Department for Communities and Local Government, *English Housing Survey, 2008-2009: Household Data [computer file]*. Colchester, Essex: UK Data Archive [distributor]

- Office for National Statistics and Department for Environment, Food and Rural Affairs, *Expenditure and Food Survey, 2001-2009*. Colchester, Essex: UK Data Archive [distributor]

- Department for Work and Pensions, National Centre for Social Research and Office for National Statistics. Social and Vital Statistics Division, *Family Resources Survey, 1993-2009*. Colchester, Essex: UK Data Archive [distributor]

- Department for Work and Pensions, *Households Below Average Income, 1994-2008*. Colchester, Essex: UK Data Archive [distributor]

- National Centre for Social Research and Department for Communities and Local Government, *Survey of English Housing, [computer file] 1993-2007*. Colchester, Essex: UK Data Archive [distributor]

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- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

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