Resolution Foundation

Life on a low income

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About the Author

Katherine is responsible for the Foundation's external communications, its partnerships with others and the strategic direction of the organisation. Prior to joining the team, Katherine was at HM Treasury for 10 years, working on a range of issues including financial services, productivity and adult skills and was responsible for co-ordinating the annual Pre-Budget and Budget reports from 2005-2007. She most recently led the team responsible for delivering tax policies to support businesses through the recession.

Katherine studied Economics and Philosophy at the University of Bristol, where she also started her career as an economics researcher at its Centre for Market and Public Organisation.

Introduction

In April 2011 Resolution Foundation started following 7 low to middle income families across England to track their financial and economic position and how their lives changed over the course of 12 months. This report summarises their experiences over the year and the key challenges faced by the families. You can also watch a video of some of the families here.

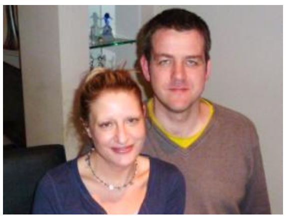
About the families

Bev is 48 and works full time as a Chef. She lives in Housing Association accommodation in East London with her 11 year old son, Liam. Her total household income is around £19,000.

Emma and Darren are in their mid thirties and live in Sutton Coldfield with their 3 year old twins, Jessica and Sienna. Darren works as a railway conductor. They used to rent privately but now live with Darren's parents. Emma is currently looking after the twins but would like to find part time work. Their total household income is roughly £35,000.

Karen and Darren are in their late thirties and live in private rented accommodation with their 4 children aged 2, 8, 12 and 15. Karen works in a children's centre as a family support worker and Darren is a computer programmer. Their household income is approximately £44,000.

Val is 57 and lives in Woking with her two adult sons Ricky (28) and Kevin (30). She works as a property manager, Ricky works as a builder and Kevin as a painter and decorator. Their total household income is roughly £40,000.



Andrea and Daniel live in Guildford and are in their late thirties. They have three young children; Oliver and Daisy are at primary school and Lucy is in pre-school. Daniel works full time as a sales director at a local print firm, and Andrea is a stay at home mother. The household has an income of £48,000 a year.

Sharon and Wayne live with their four children – Connor (12), Scott (8) and three year old twins, Holly and Jensen. Wayne works full-time at a tyre manufacturers and Sharon works 1 ½ hours a day as a cleaner earning the minimum wage as well as looking after the children. They have a household income of £24,000.

Marie is in her early 40s and lives in Oldham with her two young children. Marie works full time as an internal auditor for an accountancy firm. Her total household income is roughly £35,000.

Summary

The families represented the broad range of household incomes covered by the Resolution Foundation's definition of low to middle income - but it was striking that their experiences and challenges bore many similarities. Benchmarks for what was seen as a 'good' standard of a living were in tune: all aspire to own their own homes although 3 of the 7 currently do not; all aspire to be in work and not reliant on the state; and all aspire to get to a point where they not living hand to mouth financially, and are able to save for their future and their children.

In the main the families exhibited a relatively high degree of awareness about their finances and managed them relatively closely - budgeting on a weekly or monthly basis. Several had accumulated debts in the past when credit was more freely and cheaply available and had since implemented new methods of managing their finances, learning from their experiences.

As the year progressed, all were finding it increasingly difficult to afford day to day living costs as prices went up and incomes went down. In response to rising pressures, most of the families were deploying new coping mechanisms and these developed over the year. These ranged from the more radical - switching to interest only mortgages and turning off the heating, to the more minor - using price comparison websites, buying value brands and using the car less. All were finding it hard to save and many did not have financial plans in place for provision in later life.

Detailed exercises with the families brought out five areas that were most prominent in terms of compromising their current or future standard of living. The rest of this report focuses on their experiences of each of these areas in more detail:

- Housing (page 5)
- Childcare (page 6)
- Work and Skills (page 7)
- Budgeting, finances and the cost of living (page 8)
- Debt (page 10)

Housing

All of the families either already had a mortgage or aspired to eventually own their own home – although 3 of the 7 were currently in rented accommodation. The four families with mortgages in the main felt lucky they had been able to buy and a key concern was that the next generation would be stuck in renting. During the year, three of the fours owners switched to interest only payments, as the only way to reduce radically their monthly outgoings. But none had a clear plan to pay off the capital. They also worried about potential future interest rises and were unclear how they would cope with that eventuality.

Val *bought the private rented home she was living in ten years ago when her landlord put it up for sale. Since buying the house she has remortgaged on seven occasions, to enable her to make home improvements and pay out a previous partner. In this sense it has been an asset that she can draw on in times of need. Val has recently gone onto an interest only mortgage to cope with rising bills. This has reduced her mortgage payments from £1000 per month down to £600 but will mean that she will be paying it back well into her retirement. She relies heavily on her children to help make her mortgage payments.*

Families still in the rental sector had largely negative views and had faced some shocks over the year that they saw as typical of their experience. Although ongoing rental costs were a challenge, insecurity of tenure and the cost of renewing tenure were the biggest factors cited as challenging their living standards – feeling constantly on the edge and threatened with the potential and actual upheaval and costs associated with moving. This was heightened by the fact the families now had children so the threat of moving also had other implications most notably with regard to nurseries or schools.

Karen and Darren *have lived in private rented accommodation with their four children for the last six years. They moved rental properties in summer 2011 but their landlord put the house on the market only a few months later, leaving them unsure how long they would be able to stay. They are very concerned about the upheaval of having to move their children again and the impact on their schooling, as well as the challenge of finding a property suitable for a large family at a price that they can afford.*
The delay in getting the deposit back on their previous home because £75 was being disputed by the landlord meant they had to take out a loan with a doorstep lender to cover the cost of the new deposit. They would love to own their own home in the future but can't see themselves being able to save the deposit needed to secure a mortgage and are concerned about keeping up with repairs – one of the few perks of renting.

Emma and Darren *bought a house with a 100% mortgage in their twenties. Due to a combination of rising interest rates and Emma losing her job, they became unable to afford the repayments and lost the house as they were declared bankrupt. When we first met them they were renting privately, costing £700 a month – around 30% of their income. They have been unhappy with the insecurity involved, the short tenure offered and necessary repairs to the house not being carried out. The final straw came after Christmas when their contract came up for renewal and the letting agency charged £125 just to renew for a further 6 months, alongside a rent rise. At this point they decided to accept an offer to move in with Darren's parents as the only way to try and save for a home of their own. They are finding the lack of space and privacy challenging but are managing to save around £300 a month that they hope will eventually go towards a deposit for a home of their own. They may also have a greater chance of securing social housing in the meantime, as they are now considered higher priority.*

Childcare

Childcare was a very strong theme for the families. For couples, getting both partners into work was seen as the key to unlocking future potential increase in living standards, and the cost and availability of childcare were seen as the biggest single barrier to doing so. All of the families had weighed up the costs of paying for childcare and whether it made financial sense to work, traded off against spending more time with the children. As a result, some of the mothers with young children and a partner in work had chosen actively to look after the children for the pre-nursery/school years. Changes during the year to reduce tax credits available for childcare made the financial equation for some even more finely balanced - some were considering reducing work hours or giving up work altogether.

The availability of childcare was also critical. Again, particularly for those with young children, finding a job that fitted around free or available childcare hours - or vice versa – was very hard. They felt stuck in the trap of not being able to 'afford to work' until at least the children were at school.

*As a chef, **Bev** works non-standard hours leaving work at 5.30am to start her 6.30am-2.30pm shift. A family friend comes round to the house every morning from 5.30am-8.30am to look after her son Liam before he starts school, and from 4.30am every other Saturday. She pays her friend £50 per week. It would be impossible for Bev to find formal childcare that covers the hours she works at an affordable price. Because the childminder is not registered she cannot claim tax credits and if he is sick Bev has to take time off work to look after Liam.*

*Since **Emma and Darren** had their twins, now three, Emma has stayed at home to look after the them. She used to have a relatively well paid job and over the last year has started looking for part time work. Now the twins are three they are entitled to 15 hours of free childcare and Emma has just found them a nursery place – although the free hours are only available spread over weekday mornings. She feels stuck as she cannot find work that fits within these hours but she also cannot afford to pay for extra childcare. She hopes the nursery can soon spread the free 15 hours over 2 or 3 days, which should allow her to work. While she is happy to take a cut from her previous pay, right down to the minimum wage, she is conscious that she needs to find a job that is not only the right pattern of working hours to fit around childcare but that also pays enough to be worth it financially, taking into account travel time, parking and petrol. Otherwise she will have to wait until the twins start school.*

The role of a supportive employer that allowed some flexibility around working hours or patterns was also seen by the families (with children of all ages) as key to staying in work. Alongside the mismatch between regular school and work hours, periods such as illness or school holidays were seen as particular challenges where employers could make or break the family's ability to cope. Most of the families – even where all were in work - also relied on free or reduced cost childcare support from family members.

***Karen and Darren** used to use a childminder four days a week to look after their youngest daughter, Yvie, while they were at work. Cuts to their tax credits resulted in them losing £66 per week during the year, so they have had to reduce the amount of days of childcare they pay for. They have understanding employers so Darren is now able to work from home one day a week to also keep an eye on Yvie, while Darren's mum looks after Yvie on the second day. For the rest of the week the childminder will let them drop Yvie at her house at 7am if they need to although if she goes on holiday they still need to pay and have to find alternative arrangements. Karen describes her arrangements as piecemeal – she feels like the kids are being passed from pillar to post.*

*In order to afford her living costs, **Marie** works full time even though she has two young children. This means she needs to put them into both pre-school and afterschool clubs at a cost of £600 a month. Tax credits used to cover around two thirds of these costs, although the amount she gets has reduced during the year. Her employer is relatively flexible so if Marie needs to leave early or take a day off to look after the children, this is usually possible and she can make up the time elsewhere. Without this it is unclear how Marie could manage with a full time job. She is also helped by the fact her parents are sometimes available to look after the children at short notice. She has however recently calculated she would actually be better off working part time due to the reduced costs of after-school care for the children and the increased tax credits she would get, so she is considering reducing her hours.*

Work and skills

Wages were, unsurprisingly, the single biggest factor influencing families' incomes. Over the recent past most families had experienced pay freezes or real terms pay cuts and that did not change over the last year. Some were now working overtime to compensate although most cited the resulting trade off of spending less time with the family as a key challenge. Those in receipt of tax credits would in the main prefer be able to survive without them but saw them as necessary for topping up incomes.

***Wayne** works at a tyre manufacturer full-time, with overtime on Saturday until lunch time. While he is not at risk of losing his job, his company is in the process of restructuring and the management are trying to get him to take on more responsibility without an increase in pay. His pay has been frozen for the last 3 years. He has opportunities for more overtime but often chooses to see his children in the evening rather than earning extra money.*

*Despite a relatively high salary **Daniel** has taken two 5 per cent pay cuts in the last three years. His print firm has suffered during the recession and, having let some workers go, he finds himself working longer hours and with less time to spend with his family. He is hopeful that work will pick up in the coming years, allowing him to return to his previous salary level. The family were relieved to learn recently that they remain eligible for Child Benefit, which they were previously due to lose, with one higher-rate taxpayer.*

Most of the adult family members had left formal education with limited qualifications and had trained their way up to the positions they were now in. Taking time out to have children had been the biggest backwards career step for most. Retraining in later life was seen as a potential way of unlocking progress on incomes and living standards but those wanting to retrain were finding it hard to save to pay for this and unclear where to turn for advice.

*Despite not doing well at school, **Val** has been fortunate to have received some good training - she describes the secretarial course that her mum paid for her to go on as the 'best investment' possible. She went on to work for an employer who promoted her quickly, in turn providing her with improved secretarial and accountancy skills. Val took time out of work when she had her children and took a step down on return - cleaning in the day and stacking shelves in Tesco in the evening. She eventually drew on her secretarial skills to get a more secure job at the Ministry of Defence where colleagues showed her how to use computers and alongside this she started a free evening training course in the library. This enabled her to get the job she has now as a property manager, which pays £29,000 and includes a company car.*

***Sharon** left school without any qualifications. She worked before the twins were born and has now taken a cleaning job at the twin's play school, cleaning for 1 ½ hours a day. Although she is only £10 better off in work because they have lost tax credits, she prefers to work because the money is hers and she points out that the government can change its mind about tax credits at any point. The job works well for her because she is able to take the twins with her and does not need to use childcare. When the twins go to school, she would ideally like to work in childcare herself but cannot afford to pay for the course she needs. She feels that any money the family has should be put towards the children rather than her own career.*

***Marie** left school with just 2 'O' level qualifications but progressed to a relatively well paid and responsible job, while also bringing up children. She started on a Youth Training Scheme and benefited enormously from the in house accountancy training and qualifications made available by her first employer whom she was with for 20 years. Having a valuable skill set with industry recognised qualifications enabled her to go back to the same post after having children and to eventually move employer to progress her career. Recently however the pay she gets has 'topped out' and bonus payments that the firm used to make have been stopped.*

Budgeting, finances and the cost of living

All families found that their living costs went up over the past year – most commonly driven by increases in food and fuel costs. Alongside this, most families experienced falling incomes over the year, through freezes or real terms cuts to wages and cuts to tax credits. At the start of the year four of the seven families claimed some tax credits; by the end of the year only two were still eligible for any payment.

To manage their finances, most families budgeted on a weekly or monthly basis and kept to this – many learning from previous experiences that had left them with large debts. Most deployed further money saving techniques as the year went on - using the internet to search for special deals and tips; shopping online to avoid temptation and compare prices; switching to value brands and spending time going from shop to shop to find the best prices. More significantly, several switched to interest only mortgages to reduce payments and many turned off their heating or reduced the hours they used it for.

Most families had plans in place to save for additional Christmas spending but beyond that none of the families were able to make any significant savings during the course of the year, except when one couple moved in with their parents. Shocks such as emergency car or house repairs or a large gas bill posed the greatest short term financial challenges. Where they could families often turned to relatives to borrow (interest free) but some had used doorstep lending or bought on credit. Many had been warned off credit cards for life after past experience of racking up debts. In general families saw long term financial planning and/or saving for old age as a luxury rather than a necessity.

*Living on a weekly income of just over £300 and paying off significant debts means that **Bev** has to be a meticulous budgeter. She pays for everything on weekly payment cards at her local shop and has a pay as you go phone so that she can keep control of what is coming in and going out. She does a twice monthly shop and knows exactly what she needs and how much everything costs – rationing food and visiting several different shops to get the best deals. She saves for Christmas with a Morrison's saving scheme. She buys one off purchases using a catalogue so she can make weekly repayments, but this comes at a cost of a 38 per cent interest rate.*

***Sharon and Wayne** also manage on a low income by budgeting very carefully from week to week and with help from their family. Sharon knows the prices of everything, makes use of coupons and discounts and uses several supermarkets to get the best deals. The family takes one holiday a year in the summer which they book a year in advance in order to save money. They also make use of trips to Skegness to buy things in advance such as Christmas presents and party bags for the twins' birthday because the prices are low and they can make bulk purchases. They take food with them when they go to make sure they don't spend money. Sharon and Wayne have close family living nearby and money from family members helps with birthdays and Christmas – Sharon's dad paid for the food at Christmas. Sharon's mum died recently and left behind some money which might help them pay for their summer holiday this year as things are particularly tight.*

*Learning from their bankruptcy, **Emma and Darren** now live to a strict budget and keep track of their income and spending. When we first met them they had nothing extra left at the end of each month to save. In order to have any social life, they look for out special deals wherever available e.g. vouchers for half price meals and shop for food on the internet to get the best deals and not be tempted by additional items. But they also see that their cost of living – especially food and fuel bills - has gone up substantially over the last year. Their main financial ambition is to save for a deposit for a house. They recently decided to move in Darren's parents as they only realistic way to try and achieve this and are now saving £300 a month. However they have just heard they will lose all their Child Tax Credits from this April – around £500 a year - which will make saving even harder.*

Debt

Several of the families have accumulated large (non-mortgage) debts in the past, when credit was more freely and cheaply available. Debt repayments were now eating into monthly budgets. Some also felt trapped by the financial consequences of previous debt, for example not being able to now get an overdraft from the bank so being forced back into borrowing informally or at extortionate rates. Most had turned to debt management services in order to try and consolidate and minimise payments – with mixed experiences.

Bev *is over £8,000 in debt. A big chunk of this is from over payments of Income Support from a period when she wasn't working, and underpayment of Council Tax but also includes the cost of a friend's funeral, catalogue debts and credit cards which she uses to pay for large one off costs like a laptop for her son. These debts have affected Bev's credit rating and she is not able to get access to any more credit. She pays out nearly £200 in debt repayments every month.*

Val *has £25,000 worth of debt which she accumulated from a period when she was out of work and some that she carried over from a previous relationship. She feels that the availability of credit made it easy for her to keep borrowing and is in a very different position from her parents who were keen savers. When we first met Val she had consolidated her debts and used to pay £350 a month in repayments, £50 of which going to the agency that paid her creditors. She has since taken out an Individual Voluntary Agreement (IVA) and now pays £270 a month and after five years her debts will expire, which is of huge relief. She will use the extra money to start paying off the capital on her mortgage.*

Karen and Darren *have around £50,000 worth of debt in credit cards and personal loans, accumulated at a time when it was easy to access credit. The majority of this was personal loans to pay for home improvements and from previous relationships. One of the loans was £600 from a doorstep lender to cover the cost of a deposit for their new private rented home. The interest on this loan means that they will pay back £1,000 in total. They are currently paying back about £350 per month to repay these debts and are using a free debt management service to help them to manage this.*

Conclusion

The Resolution Foundation defines households on low to middle incomes as those largely in work and therefore broadly independent of the state, but on below middle (median) incomes. 5.8 million households in the UK fall into this group. The seven families we tracked are obviously one very small sub-section, although they do reflect the full spectrum of incomes.

What has been most surprising is the degree of similarity with regard to the financial and economic challenges they face. These challenges of course manifest themselves in a range of ways, and families respond to them differently, depending on attitudes, aspirations and the degree of external support they have access to.

What has also been striking is the degree of independence from the state these families display. They are not the poorest nor the most marginalised in society, so don't necessarily interact with the state very often. So perhaps it should not be surprising that they don't automatically look to (national or local) government – or even charities or advice bodies – for help with financial problems. Most turned instead to family and friends. One of our key observations was that family networks were often the key to survival on a low to middle income – whether it be for borrowing money, offering free childcare or providing a temporary roof over heads.

That said, the issues raised in this study point to a few key areas where national or local policies could make a real difference for families in the low to middle income bracket. These are:

- **Greater security of tenure in the private rented sector,** accepting many families have no other option than to make private rented accommodation their long term home
- **A tenancy deposit scheme that returns deposits in time to transfer them to the next property** – so tenants do not have to save - or more likely, borrow - for a new deposit when they are simply waiting for their old one back
- **Regulation of letting agents to ensure transparent and fair fee structures** – estate agents are currently regulated – protecting those who can afford to buy; but letting agents are not
- **Free childcare that covers the full hours needed for a realistic part-time job** – the current offer of 15 hours free childcare for three year olds simply does not cover the hours needed to work and travel to most part time jobs; 25 hours would
- **Affordable, local authority run, holiday childcare schemes -** to support working parents during school holidays
- **Genuine employer flexibility around working hours that allow parents to work and bring up children** and help employers benefit from the skills of parents otherwise locked out of the jobs market, especially when their children are young
- **Better marketing and clear points of access for credible (and free) debt advice** – so those who want to be debt free know where to go - including the promotion of the availability of Individual Voluntary Agreements as an option

These ideas will be developed further by the Resolution Foundation in our ongoing work to improve the lives of families on low to middle income.

The Resolution Foundation

The Resolution Foundation is an independent research and policy organisation.
Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:
- undertaking research and economic analysis to understand the challenges facing people on a low to middle income;
- 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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