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Hanging on

The stresses and strains of Britain's 'just managing' families

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Summary

New governments have no record on which to be judged, meaning that a great deal of emphasis is placed on what they say. Our new Prime Minister has made it clear that her government will focus its attention on working families with relatively low earnings – those who are 'just managing'. That approach has been broadly welcomed, speaking to the air of economic frustration that has developed across much of the country in recent years. But identifying the policy interventions that can support this group and elevate them into a more comfortable position requires a deep understanding of precisely who constitutes the 'just managing' and the barriers to improved living standards they face.

By way of informing this agenda, this note provides an overview of the 'low to middle income' group. Members of this group are the focus of the Resolution Foundation's work and are characterised by the extent to which, despite being in work and largely outside the system of means-tested benefits, they live on the edge, vulnerable to even modest changes in circumstances. In this sense, they can stake a strong claim for sitting squarely within the 'just managing' group.

We define low to middle income households as comprising those in the bottom half of the income distribution who are above the bottom ten per cent and who receive less than one-fifth of their income from means-tested benefits. This covers around six million working households and ten million adults. Despite five-in-six of these families having at least one member in full time work, nearly four-fifths of these individuals earn less than £21,000 (the median gross wage).

Two-fifths are at a stage of life that brings with it significant cost pressures – having children. Indeed, children are twice as likely to live in low to middle income families as in higher income working households. The extent to which the additional cost pressures associated with children can bite is reflected in the fact that a minority of workers in low to middle income households have salaries as high as £50,000 – yet still find life a struggle.

Low to middle income families are spread across the UK, though they contribute the most to populations in the North East, East Midlands and Wales. Taking the share of children from working families with tax credits as a proxy – reflecting the extent to which low to middle income families relay on in-work support to help them get by – the highest concentration can be found in as diverse a spread of local authorities as Sandwell, Blackburn and North Devon.

In keeping with workers in higher income households, they have experienced a seven year squeeze on wages. But this squeeze came on top of a sharp slowdown in wage growth that preceded the financial crisis of 2008. And they have been further hit by cuts in the generosity of tax credits in recent years. Despite income tax cuts and rising employment, typical incomes in the group have only just returned to pre-financial crisis levels and have only just surpassed their 2004-05 level.

Low to middle income households are particularly exposed to pressures associated with housing. In 1995, younger LMIs were twice as likely to own their home than to rent it privately; today that situation is entirely reversed. Homeownership looks increasingly out of reach, with the typical low to middle income household needing to save for 22 years to build the required deposit for a first time buyer home, up from just three years in the mid-1990s.

The combination of rising housing costs across all tenures and the increasing concentration of low to middle income households in the relatively more expensive private rented sector mean that the proportion of income spent on housing within the group has increased sharply over the same period - equivalent to an extra 14p on the basic rate of income tax for an LMI couple with children. Roughly 25p of every £1 of income within the group is now diverted into accommodation costs on average, with some households facing much higher ratios. Taking these housing costs into account, we find that typical incomes in the group are at a 13 year low.

Low to middle income households face other cost pressures too. When all of their expenditure is accounted for, they are left with no disposable income each week. This means it is hard to save, with

68 per cent having less than one month's salary put by and 40 per cent saying they are concerned by the level of debt they hold.

Of course many people move between income groups over their lifetime, but two-in-five of today's low to middle income households have been in the group for at least 15 years, highlighting the persistence of this position for too many. Progression opportunities are in part made worse by the fact that individuals in the group are half as likely to hold degrees than those in higher income households, a key determinant of an individual's ability to raise their earnings over time.

Working-age incomes have started to pick up in recent years, but the outlook for low to middle income households remains uncertain. For example, the fall in the value of the pound is expected to feed through into higher inflation in the coming months, meaning that continuing the planned four-year cash freeze in working-age benefits will bite harder. Even after accounting for the introduction of the National Living Wage and scheduled income tax cuts, income growth is currently set to be lower (and possibly negative) in the bottom half of the distribution than it is in the top.

But there is also opportunity for a government focused on supporting those who are 'just managing' to tackle the coming living standards challenge. Ultimately, judgement of Theresa May's government will rest not on rhetoric but on delivery. That's something that should begin this weekend in Birmingham.

Key characteristics of low to middle income households

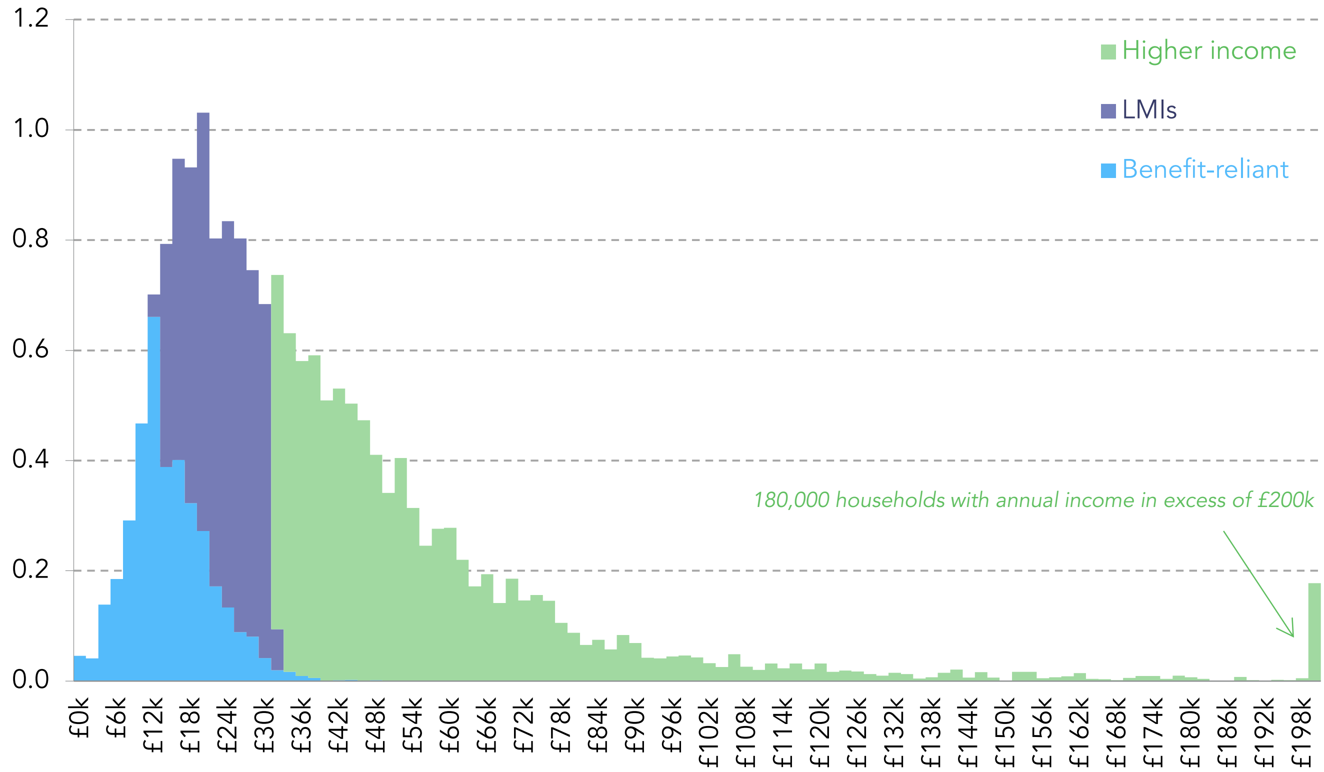
The 5.8 million working age households (containing 10.4 million adults) with low-to-middle income receive the majority of their income through employment but are counted among the poorest half of households. Figure 1 sets out their position in the net equivalised household income distribution,[1] shown here in £2,000 bands with low to middle income families (LMIs)[2] having net income of between £12,000 and £34,000. Those families with lower incomes – the 'benefit reliant' – are predominantly the 10 per cent on lowest incomes (although as a group their income extends beyond the bottom decile) and mostly consist of people who are out-of-work. Those sitting in the top half of the income distribution are classed as 'higher income' families (relative to other groups).

[1] This measure is net of tax and benefit income and takes into account how far resources will stretch in different sized households. For instance a couple with one child with a net income of £20,000 are unlikely to enjoy the same standard of living as a single person with the same income.

[2] Throughout this report the definition of household type to define higher income, LMI and benefit-reliant households is consistent with that set out in Box 1.

Figure 1: Position of low to middle income households in working-age income distribution: UK 2014-15

(Millions of households)



Source: RF analysis of DWP, *Family Resources Survey*

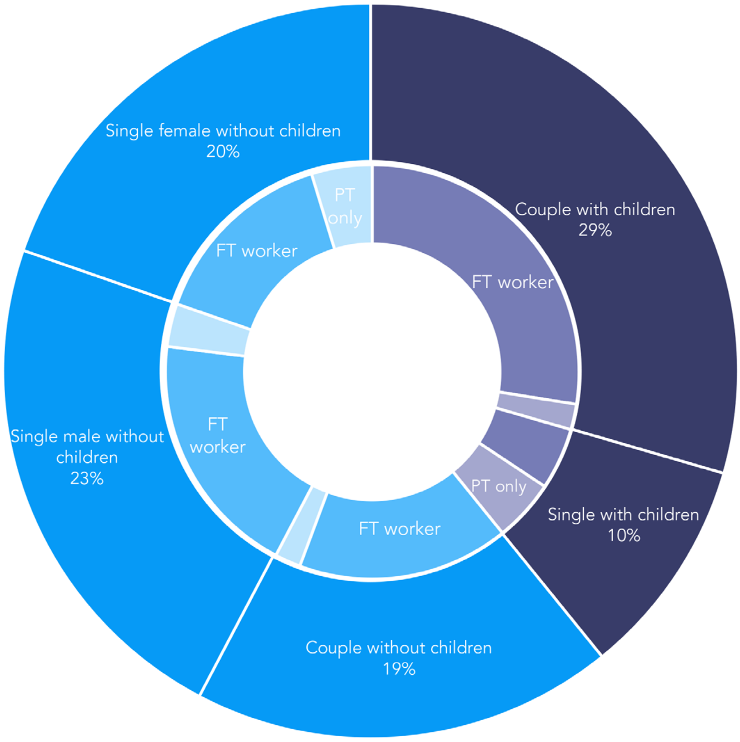
i Box 1: Just managing? Low to middle income households

The Prime Minister has signalled a focus on families who are in work with low earnings and struggling to get by. To help inform this agenda the analysis in this notes details the characteristics, incomes and cost pressures on low to middle income households. This group are the focus of Resolution Foundation's work and are characterised by the extent to which, despite being in work and largely outside the system of means-tested benefits, they live on the edge, vulnerable to even modest changes in circumstances. In this sense, their characteristics and experiences closely align with those who are 'just managing'.

More formally we define low to middle income households as comprising those in the bottom half of the income distribution who are above the bottom ten per cent and who receive less than one-fifth of their income from means-tested benefits (but not including tax credit income). Further detail on precise definitions and how these fit across data sources is set out in A Corlett, D Finch and M Whittaker (2016) Living Standards 2015: The experiences of low to middle income households in downturn and recovery, February 2016. Analysis of the Bank of England/ NMG survey 2015 uses a measure of gross household income for the relevant deciles but benefit income cannot be identified.

Providing further detail on the characteristics of LMI families, Figure 2 sets out the family type and employment status of the LMI population. Two-fifths (39 per cent) of all LMI households have children living in them, accounting for half of all children in working households and making it almost twice as likely that a child lives in an LMI family rather than a higher income one.

Figure 2: Low to middle income households by family type and employment status



Source: RF analysis of DWP, *Family Resources Survey*

By definition all LMIs are working families, and only one-in-six do not work full –time. Those most likely to have only a part-time worker are single parents or single females without children.

LMIs are also widely dispersed across the country taking up the greatest share of the population in the North East, East Midlands and Wales. We can also zoom in at a more granular level by taking the share of children from working families with tax credits as a proxy – 67 per cent of all working families in receipt of tax credit are in the LMI group. The highest concentration can be found in as diverse a spread of local authorities as Sandwell, Blackburn and North Devon, detailed results are set out in Annex A.

LMIs in the labour market

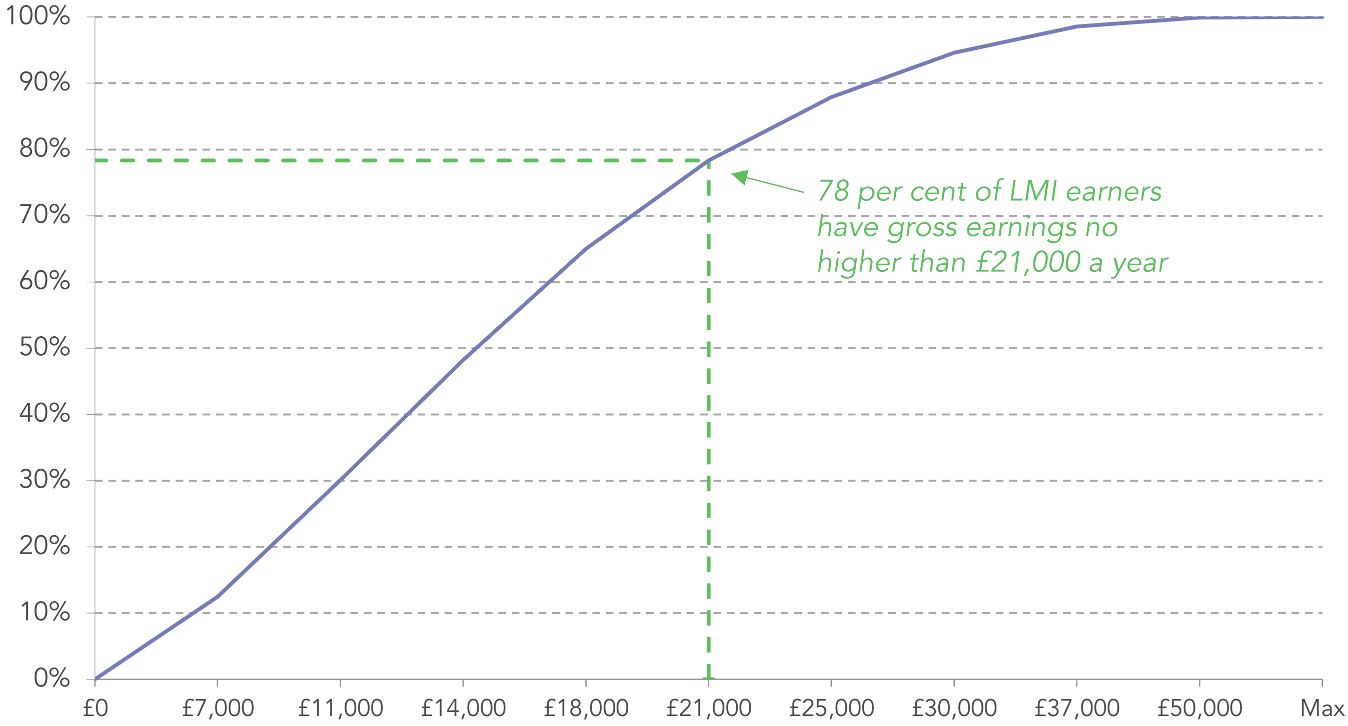
Representing almost a third of all working-age individuals (30 per cent), we have already seen that LMIs are far from a homogenous group. By defining LMIs through their net equivalised household income (see Figure 1) we take account first of the payment of income tax and National Insurance (net income) as well as household size (equivalisation). While this helps to make a better relative comparison of resources across households, intuitively it can be difficult to equate this measure to what people earn.

The transition from a person's position in the income distribution to where they sit in the income distribution is affected by a partner's earnings and the presence of children. This means that some low paid people live in higher income households and some higher paid people live in LMI households.

However, as Figure 3 shows the clear majority of earners from LMI families are in the bottom half of the earnings distribution (78 per cent) but they are not the lowest earners. LMIs can also be earning up to £50,000 a year. This range of earnings in part reflects the higher cost of living for larger families who will need a greater level of earnings to maintain the same standard of living than a smaller family. However, it is also clear that a significant share of LMI workers earn between a full-time job on the wage floor (the majority of workers from LMIs households are earning between the wage floor (£13,100 a year if full-time) and the typical full-time wage (£26,800).

Figure 3: Low to middle income households by their position in the earnings distribution: UK 2014-15

Cumulative proportion of LMIs by earnings distribution decile



Source: RF analysis of DWP, *Family Resources Survey*

Reflecting their pattern of generally lower earnings, LMIs are half as likely to be graduates with only a fifth holding a degree compared to two-fifths of individuals from higher income households. LMIs are overrepresented in lower skilled occupations and underrepresented in higher level occupations – only 20 per cent of those in professional occupations are LMIs compared to 74 per cent from higher income households.

Previous Resolution Foundation research has shown that three quarters of people in low pay fail to permanently progress to a higher level of earnings within ten years.[3] Non-graduate mothers also face particular barriers to pay progression.[4] When looking specifically at LMIs 42 per cent of households have remained in the group for 15 years.[5]

[3] C D'Arcy and A Hurrell (2014) *Escape plan: Understanding who progresses from low pay and who gets stuck*, Resolution Foundation, November 2014

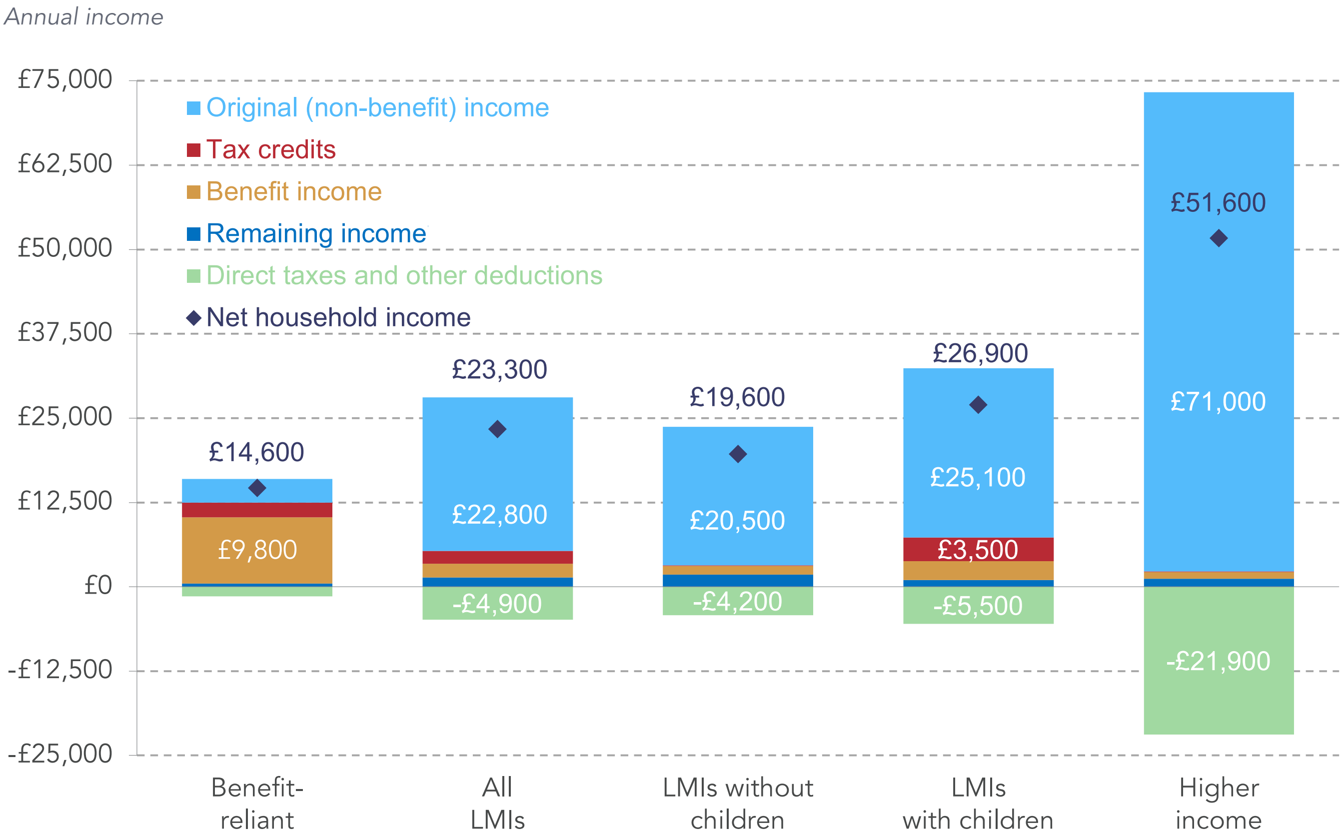
[4] C D'Arcy & D Finch (2016) *Finding your routes: Non-graduate pathways in the UK's labour market*, Resolution Foundation, May 2016

[5] J Plunkett, A Hurrell & M Whittaker (2014) *The state of Living Standards*, Resolution Foundation, February 2014

Sources of income

By definition, LMIs receive the bulk of their income from earnings. Figure 4 sets out average disposable income by source for different working age household groups including LMIs with and without children. It also provides a comparison with benefit reliant and higher income families. LMIs without children had a disposable average income of £19,600 in 2014-15, with earnings accounting for the vast majority of their income.

Figure 4: Average annual household income by component and household type: UK 2014-15



Source: RF analysis of DWP, *Family Resources Survey*

A similar picture emerges for LMIs with children, with an average disposable income of £26,900, the exception being that on average they also receive £3,500 in tax credit income. This reflects that two-thirds of working families with children reporting to be in receipt of tax credits are LMIs. Support from tax credits represents an important element of their total income at a life stage when families are more likely to have young children and have one parent working part-time (or in couples potentially one not working).

A final key comparison to make is between LMIs, benefit reliant and higher income families. The sources of income of LMIs most closely match those of higher income families with the main source being earnings. However, when considering total income levels that of LMIs is far closer in absolute terms to that of the benefit reliant group.

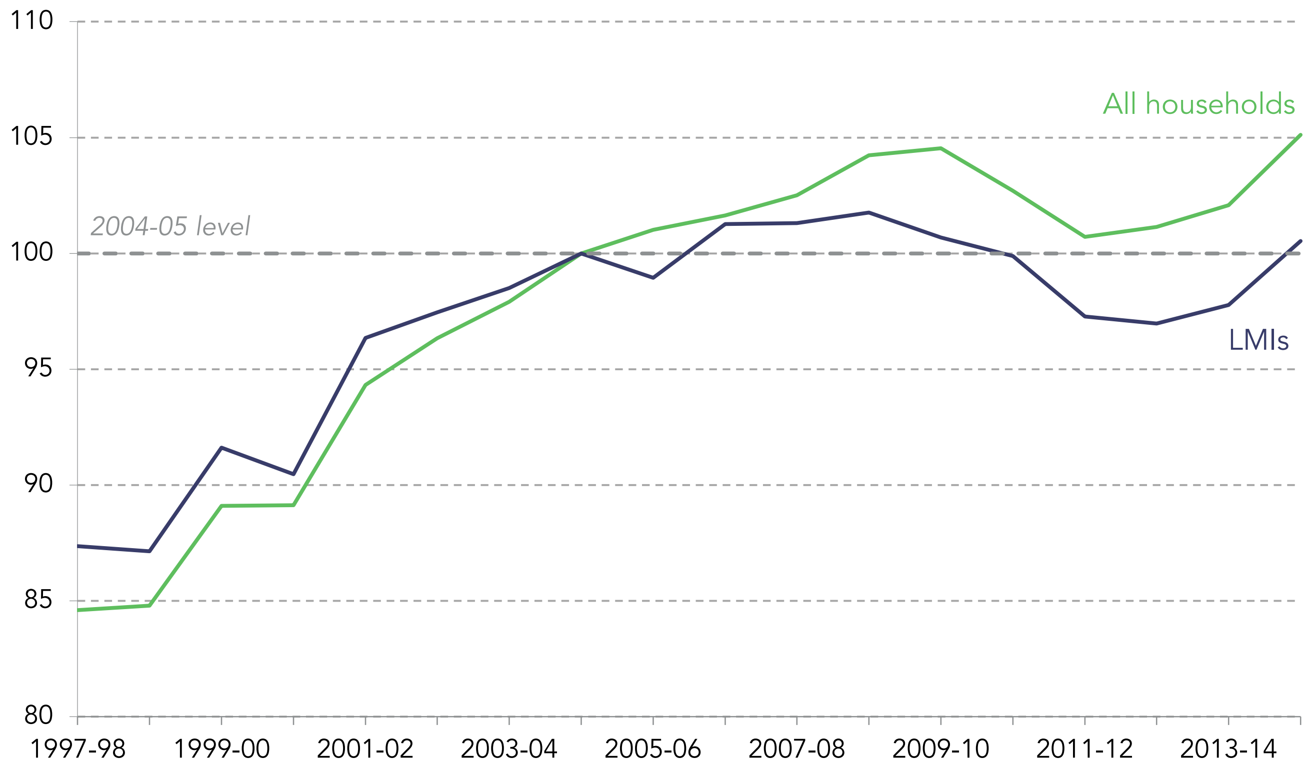
Long term trends

Over the last decade there has been little improvement in the net income of households defined as being within the LMI group. Figure 5 shows how typical incomes for LMIs and all households have grown since 1997 taking 2004-05 as an index point. The LMI group have experienced a fall in income since 2008-09 and are yet to see typical income return to that level. This performance represents a lost decade of growth with typical income for the group in 2014-15 only just surpassing the level in 2004-05.

While LMIs have been particularly squeezed, it is worth noting that income growth across *all* households has been relatively weak in recent years. Net incomes for all households have now returned to their previous 2009-10 peak but this is only 5 per cent higher than in 2004-05.

Figure 5: Median income trends: Low-to-middle income and all households, before housing costs, UK 1997-98 to 2014-15

Indices of median net equivalised weekly household income, 2004-05=100 (CPI(BHC)-adjusted)



Source: RF analysis of DWP, *Family Resources Survey*

Four key trends underpin these changes in household incomes:

- An almost 15 year period of low real earnings growth since 2002-03, exacerbated by a seven year real earning squeeze since 2008, that only ended in 2015-16 (outside the period shown in Figure 5).
- Remarkable employment growth in the period since 2010 helping to boost household incomes.
- Successive increases in the personal tax allowance – which was increased from £6,475 in 2010 to £10,000 in 2014-15 – providing a boost of up to £705 a week for workers.[6] However, gains from cuts to the personal allowance overwhelmingly benefit the richest half of households.[7]

[6] Not taking into account a baseline of annual increases in line with inflation which would reduce these gains.

[7] M Whittaker (2016) *Budget 2016 response*, Resolution Foundation, March 2016

» Cuts to the generosity of support for working age families primarily driven by a switch to uprating by CPI inflation from April 2011, followed by a three year cap of 1 per cent from April 2013. For pensioners the value of State Pensions was boosted through the introduction of the triple lock which increased basic State Pension by the higher of CPI inflation, earnings or 2.5 per cent.

The effect of these various changes on the net incomes and their component parts of households in the low to middle income group are illustrated through hypothetical case studies in Table 1:

» A single person without children who works full-time earning at the minimum wage saw their overall net income rise by £840, equivalent to a 7.1 per cent rise – or a historically low average of 1.3 per cent a year over the period. A combination of a rising wage floor (including the large increase from the National Living Wage in April 2016) and income tax cuts provided a boost to income of £1,730, which was offset by over half due to a reduction in the value of working tax credit entitlement of £890.

» A single parent with one child and working full-time in low pay will have seen their overall annul income fall by £140. Their higher post-tax income (+£920) is offset by the fall in real wages (-£350) and falling generosity of tax credits and child benefit (-£720).

» A single earner couple with a baby and one parent working full-time in low pay will have seen their overall income fall by £760. Their higher post-tax income helps to offset a fall in real wages (a net +£570) but they also see the generosity of tax credits and child benefit fall (-£1,330).

» A dual earning couple with two children with one parent working full-time earning the median wage, and their partner working part-time in low pay will have seen their overall income fall by £530. Their higher post-tax income is almost entirely offset by the fall in real wages (a net +£40) and reduced generosity of tax credits and child benefit (-£620).

Table 1: Changing income for a selection of low-to-middle income households, 2010-11 to 2016-17 (constant 2016 RPIJ-terms)

	Gross earnings	Net earnings	Benefit income	Total net income	Percentage change
Single, aged 25, no children, works full-time at the wage floor					
2010	£12,800	£11,010	£890	£11,900	
2016	£14,080	£12,740	£0	£12,740	
Change	£1,270	£1,730	-£890	£840	+7.1%
Single parent, aged 30, with one child, single earner working full-time in low pay					
2010	£18,210	£14,740	£4,150	£18,900	
2016	£17,860	£15,320	£3,430	£18,750	
Change	-£350	£570	-£720	-£140	-0.8%
Couple, both aged 28, with a baby, single earner working full-time in low pay					
2010	£18,210	£14,740	£4,770	£19,510	
2016	£17,860	£15,320	£3,430	£18,750	
Change	-£350	£570	-£1,330	-£760	-3.9%
Couple, both aged 35, with two children, dual earners working full-time at median wage & part-time in low pay					
2010	£35,040	£28,520	£650	£21,980	
2016	£33,970	£28,560	£30	£21,450	
Change	-£1,070	£40	-£620	-£530	-2.4%

Source: RF analysis

Notes: Those working in 'low pay' are assumed to earn at the 20th centile of full-time gross hourly pay, equivalent to £8.25 in 2010 (£9.32 in 2016 RPIJ terms) and a projected £9.14 in 2016, the equivalent median was £12.57 in 2010 (£14.19 in 2016 RPIJ terms) projected to be £13.72 in 2016. The minimum wage in April 2010 was £5.80 (£6.55 in 2016 RPIJ terms) compared to a National Living Wage of £7.20 in April 2016. Full-time work is assumed to be 37.5 hours of work a week and the part-time second earner works for 15 hours a week.

The ability of low earning families with children to boost their incomes by earning more is made far tougher due to the effective tax rate they experience. Paying income tax and National Insurance means that for every additional pound earned an individual will only keep 68p (with 20p paid in tax and 12p paid in National Insurance). However, when in receipt of tax credits (67 per cent of all working families with children in receipt of tax credits are LMIs) additional earnings reduce entitlement to such in-work support. Taking account of tax credits would mean that an individual keeps only an additional 27p of each additional pound earned – less if also in receipt of Housing Benefit). Although Universal Credit helps to cap the very highest of such 'Marginal Effective Tax Rates' the one paid by taxpayers is actually higher than under the current tax credit system leaving many with only 24p of an additional pound earned.[8]

These findings chime with analysis of the Bank of England's 2015 NMG survey which shows that more than one-third (37 per cent) of LMIs surveyed in Autumn 2015 say deficit cutting measures since 2010 have affected them negatively (with 18 per cent not knowing what the impact has been and just 4 per cent saying it has been positive for them). Of those negatively affected, close to half (47 per cent) point to lower benefits and a similar proportion (44 per cent) cite service cutbacks. Higher taxes (19 per cent), lower pre-tax income (15 per cent) and loss of job (10 per cent) also featured.[9]

Looking ahead the outlook for low to middle income households remains uncertain. While the Brexit vote means it is difficult to predict how the economy will fare the fall in the value of the pound is expected to feed through into higher inflation in the coming months, meaning that continuing the planned four-year cash freeze in working-age benefits will bite harder.[10] Taken in the round tax and benefit polices inherited by the new Prime Minister suggest that income growth in the bottom half of the distribution will be lower (and possibly negative) compared to the top half. And that is despite announced cuts in income tax and the introduction of the National Living Wage.[11]

LMIs and housing

Owning a home – once a norm and often associated with the time in life that people start a family – has become increasingly unattainable for LMIs. Figure 6 shows the significant shift in tenure for younger (aged under 35) low to middle income households. In 1995-96 this group were twice as likely to own their home as privately rent, a position that had reversed by 2014-15.

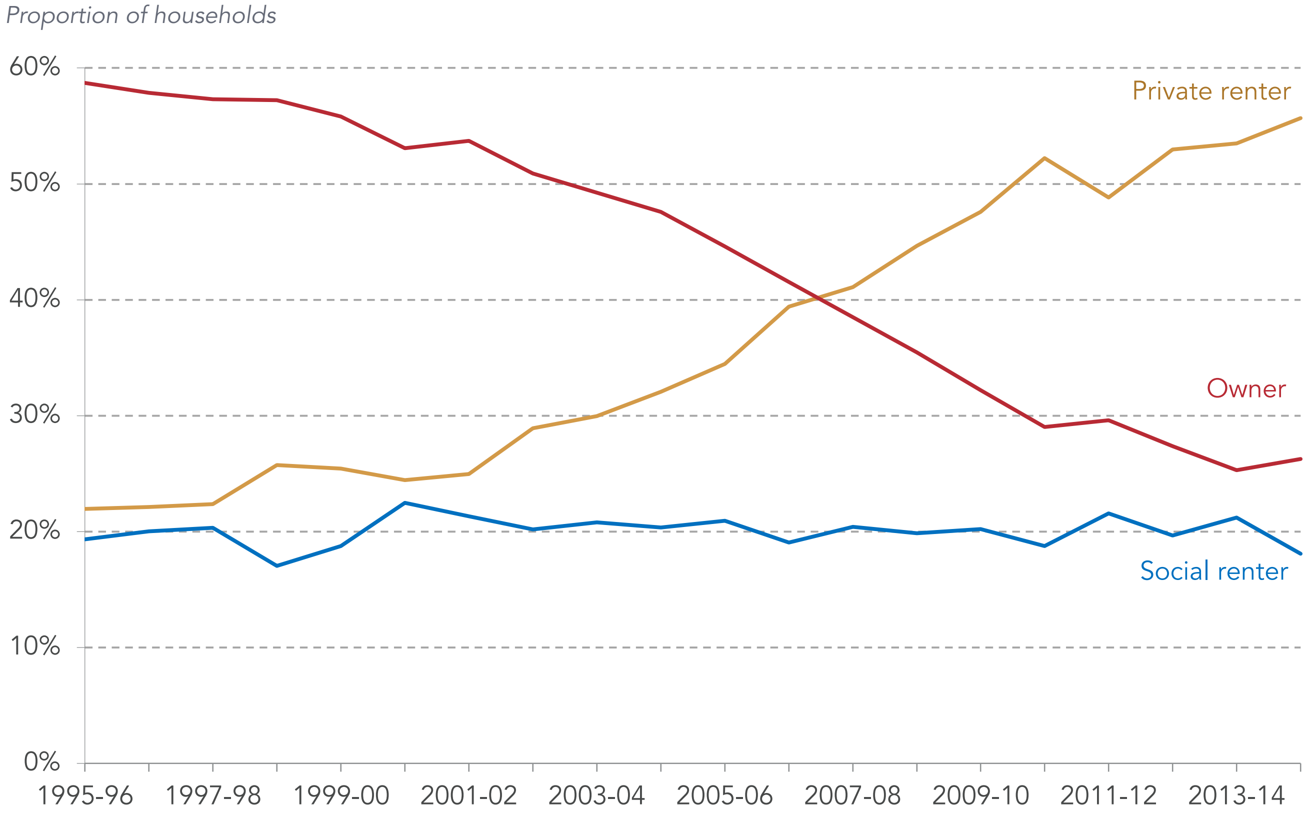
[8] D Finch (2016) *Universal Challenge: Making a success of Universal Credit*, May 2016

[9] RF analysis of *Bank of England/NMG household survey data 2015*

[10] L Gardiner (2016) *Stagnation Generation: The case for renewing the intergenerational contract*, Resolution Foundation, July 2016

[11] M Whittaker (2016) *Budget 2016 response*, Resolution Foundation, March 2016

Figure 6: Change in tenure among younger low to middle income households (head aged under 35)



Source: RF analysis of DWP, *Family Resources Survey*

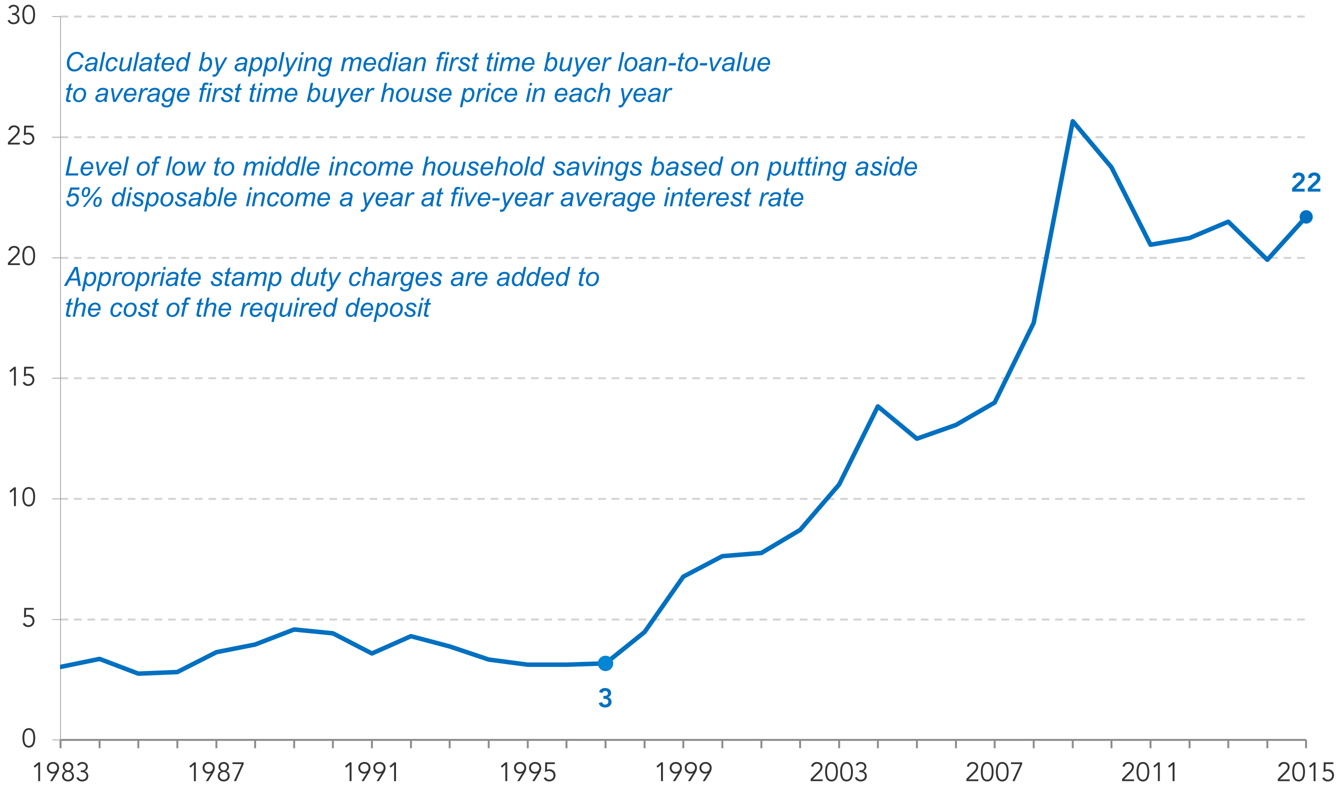
The average first time buyer home cost 3.9 times the average low to middle household income in 1999 and rose to 7.1 times just before the financial crisis in 2007. Despite some house price correction thereafter, it is projected to reach close to a multiple of 6 in 2016.

Another way to consider the ability to purchase a home is to look at how long it takes to save towards the purchase costs associated with a typical first time buyer home. Figure 7 accounts for shifts in LMI income, first time buyer house prices, stamp duty costs, typical loans-to-value and savings rates.

Taking this approach – which helps to highlight the difficulty facing would be homeowners rather than actual patterns of behaviour – we estimate that LMIs would take 22 years to save the typical deposit paid on a first time buyer home today. Although having fallen slightly from a peak of 26 years in 2009 this is an increase from just 3 years in the mid-1990s.

Figure 7: Number of years required for low to middle income households to save typical first time buyer deposit: UK 1983 -2017

Estimated number of years required to save for a first time buyer deposit among low to middle income households: UK



Source: Analysis of ONS, *The effects of taxes and benefits on household income*; Lloyds Banking Group, *Halifax House Price Index*; OBR, *Economic and fiscal outlook*, November 2015; CML, Table ML2

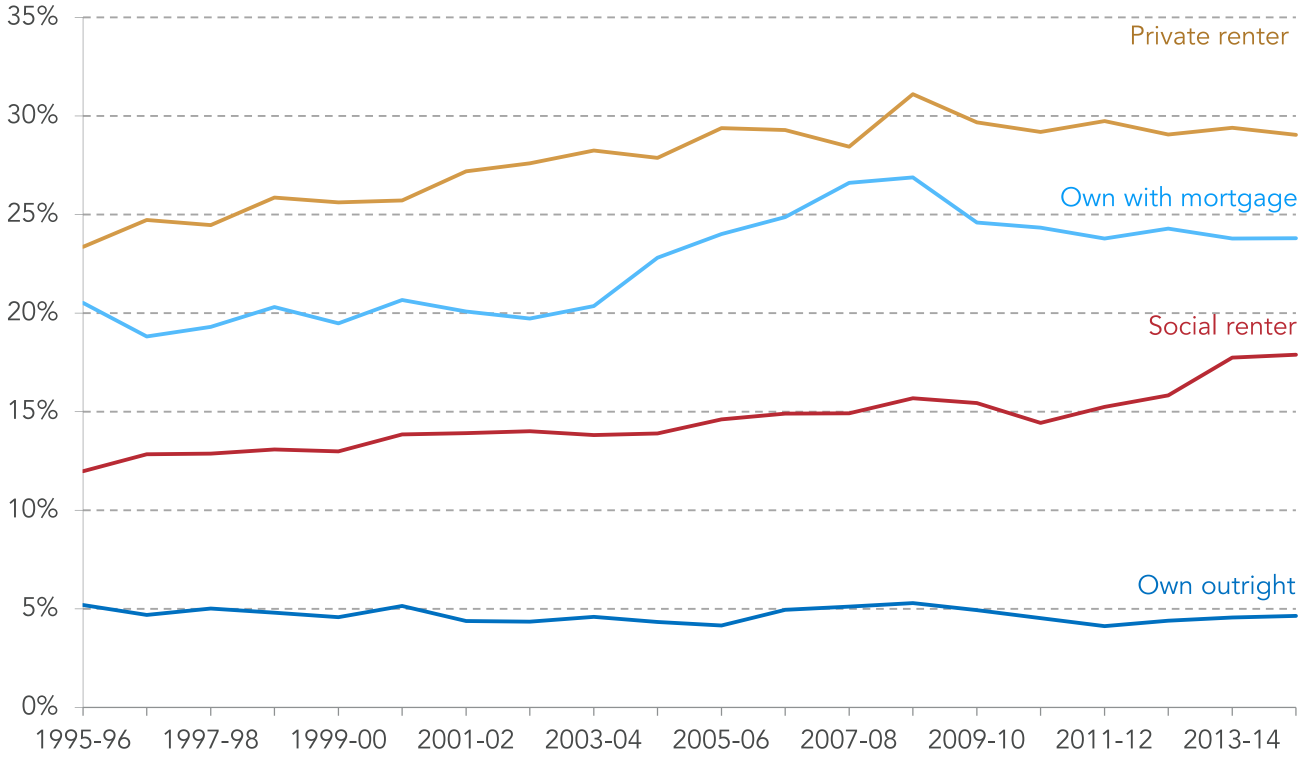
Notes: Average LMI income based on FRS definition: see Annex 2. Deposit costs are calculated by applying median first-time buyer LTVs recorded in each year to mix-adjusted average (mean) first-time buyer house prices. An appropriate stamp duty charge is then added to the deposit requirement. Savings are assumed to be equivalent to 5 per cent of average annual LMI disposable incomes. These savings receive a rate of return equivalent to 90 per cent of the base rate (taken as a five-year average), in line with the relationship between average time deposits and the base rate between 2004 and 2008.

This shift in tenue matters not just because of the frustrations associated with being locked out of home ownership, it is also a key part of the reason why LMIs have faced such sharp increases in housing costs.

We measure the scale of housing costs though a 'housing cost to income ratio' which compares the cost of housing to disposable income. Figure 8 shows the long term trend of increasing housing costs relative to incomes across tenures (other than outright homeowners whose costs could be expected to remain reasonably stable). It also, importantly, highlights how the cost ratio for private renters is greater than for other tenures. With more LMIs privately renting their housing costs are rising.

Figure 8: Average housing cost to income ratio among working-age households by tenure type

Average housing cost to net income ratio

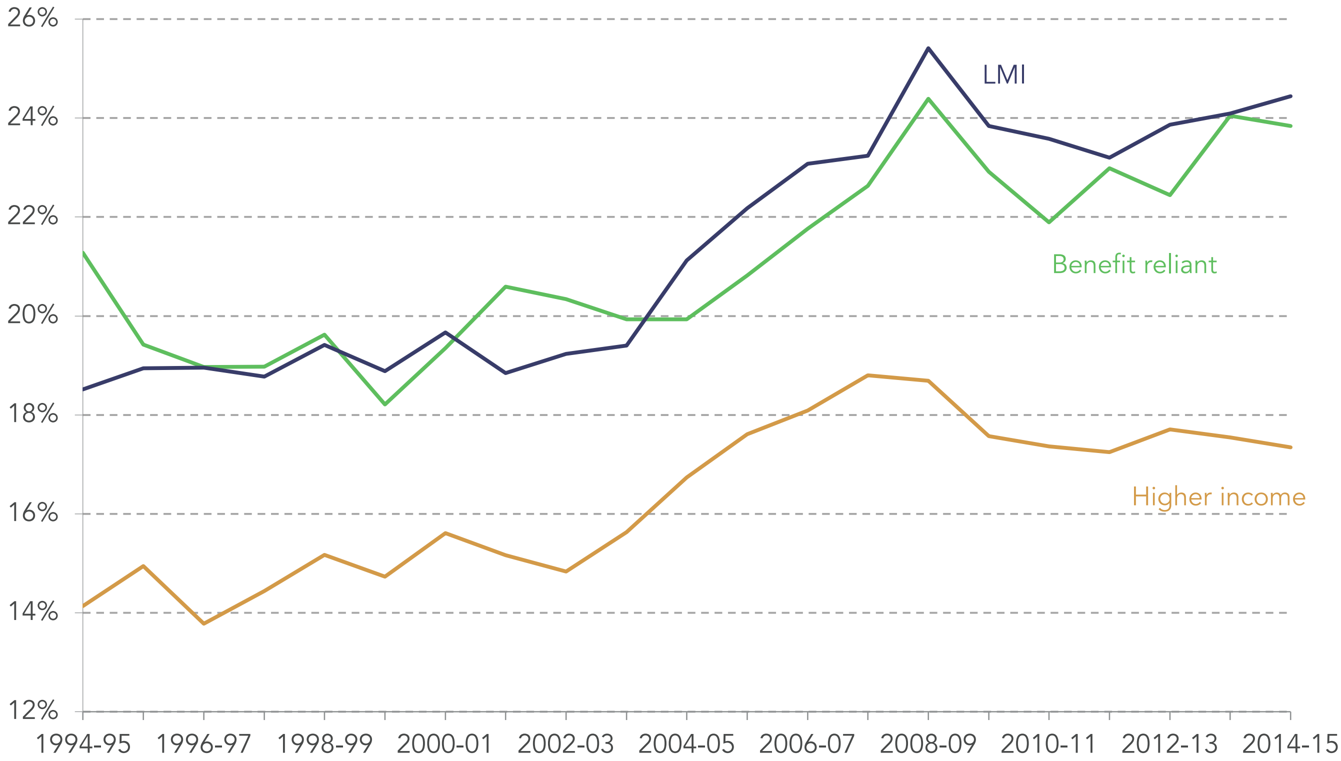


Source: RF analysis of DWP, *Family Resources Survey*

Figure 9 brings these trends together, isolating the impact on the overall housing cost to income ratio by household type. With a significant move towards the private renting sector the ratio for LMIs has increased from just over 18 per cent in 1995 to over 24 per cent in 2014-15. This rise in costs since the late-1990s is equivalent to an extra 14p on the basic rate of income tax for a dual earning LMI couple with children. Higher income households have also seen a rise in their housing cost to income ratio but one that is proportionally smaller and at a lower absolute share of net income.

Figure 9: Average housing cost to income ratio among working-age households by income group: UK

Average housing cost to net income ratio

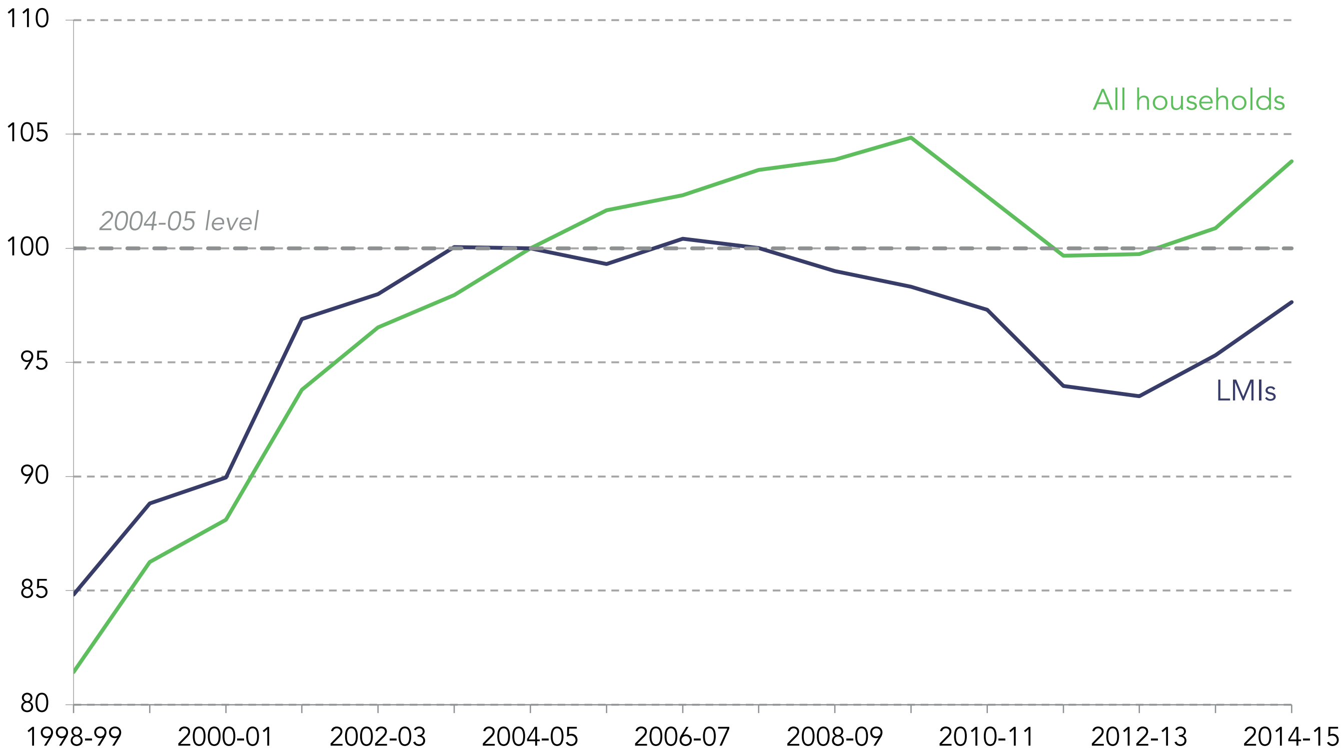


Source: RF analysis of DWP, *Family Resources Survey*

Figure 10 revisits how typical incomes have grown in the last two decades (from Figure 5) but adjusts the lines to take account of housing costs. The picture for all households looks broadly similar, but there is a clear shift downwards in the LMI line. Taking account of the cost of housing, income for households in the LMI group was last lower in 2000-01 – 13 years ago. Incomes have gradually moved back towards their pre-crisis levels but still have a way to go.

Figure 10: Median income trends: Low-to-middle income and all households, after housing costs, UK 1997-98 to 2014-15

Indices of median net equivalised weekly household income, 2004-05=100 (CPI(AHC)-adjusted)



Source: RF analysis of DWP, *Family Resources Survey*

Broadening the basket: spending on essentials beyond housing

It is not just housing costs that take up a greater share of LMI income than for higher income families. Table 2 shows the proportion of total disposable income spent on different categories of expenditure for different household types.

Two key patterns stand out. First, that LMIs spend a similar proportion of their income on what we might consider to be 'essentials' such as housing, transport and food, as benefit reliant households. Second, LMIs are spending slightly more than their total income (101%) leaving them with no surplus income (on average) placing them at risk of failing to build sufficient levels of savings for the near or longer term and at risk of falling into debt to maintain their expenditure patterns.[12]

[12] Households may be able to spend more than their income by accessing savings, other assets or borrowing. Indeed current consumption can be seen as a better measure of current living standards and may also be less likely to be underreported in the way that income tends to be in household surveys. For further discussion see M Brewer & C O'Dea (2012) *Measuring living standards with income and consumption: evidence from the UK*, ISER, March 2012

Table 2: Weekly household expenditure by share of total income by household group, 2014[1]

	Benefit-reliant	LMIs	All higher income
As proportion of average disposable household income			
Housing (net),[2] fuel & power	21%	18%	9%
Transport	12%	13%	12%
Food & non-alcoholic drinks	18%	12%	7%
Recreation & culture	11%	10%	10%
Restaurants & hotels	7%	7%	7%
Miscellaneous goods & services	7%	7%	6%
Household goods & services	6%	6%	5%
Clothing & footwear	5%	5%	4%
Communication	4%	3%	2%
Alcoholic drinks, tobacco & narcotics	5%	2%	2%
Health	1%	1%	1%
Education	1%	1%	2%
All consumption expenditure[3]	98%	86%	67%
Non-consumption expenditure[4]	9%	15%	15%
All spending	108%	101%	82%

Source: RF analysis of ONS, 2014 Living Costs and Food Survey

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.

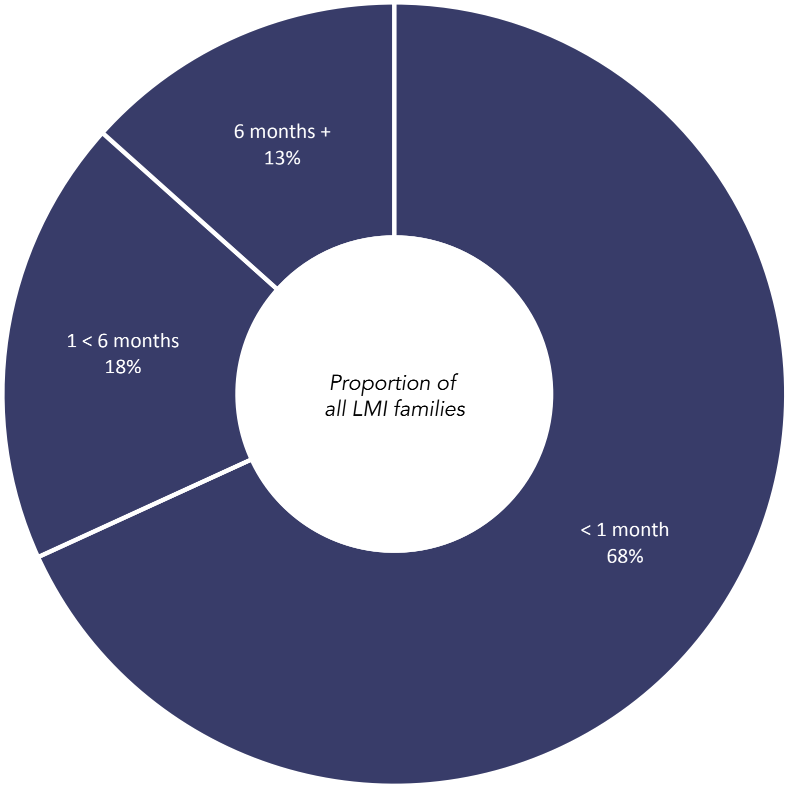
4 Including spending not included in net housing category, along with taxes, fines, money spent abroad, gifts, pension contributions, gambling receipts, savings and investments.

Financial resilience and savings

With a significant share of income being spent on housing costs and other essentials LMIs have little left over to spend on other goods and services but also little left to save. Overall 57 per cent of LMIs report having no savings or assets at all. Even 29 per cent of higher income families report having no savings or assets but have greater ongoing income to draw upon.[13] Figure 12 illustrates the number of months' net income held by LMIs in savings or financial assets. It shows that 68 per cent of LMIs have savings equivalent to less than one month's net income, and only 13 per cent have six months or more saved.

[13] A Corlett, D Finch and M Whittaker (2016) *Living Standards 2015: The experiences of low to middle income households in downturn and recovery*, February 2016

Figure 11: Number of months' net income held in savings/financial assets by low to middle income families



Source: RF analysis of DWP, *Family Resources Survey*

Notes: "Savings" cover all assets other than housing. Those with values between £1,500 and £20,000 are asked detailed questions and totals are taken at the end of the month (i.e. just before payday). Those reporting savings below £1,500 or above £20,000 have their total capital estimated from information about interest income.

With few having the necessary resources to save for contingencies, the living standards of LMIs are vulnerable to sudden changes in income. Coupled with almost a third (31 per cent) of LMIs reporting 'credit constraint'[14] when considering future spending and two-fifths (40 per cent) reporting concern with their current level of debt[15] suggests that LMIs have relatively low financial resilience.

Concern with current resources and a lack of savings to cope with short-term cost pressures mean that the ability of LMIs to save for the long term is even more limited. During the initial phase of auto-enrolment two thirds (67 per cent) of adults from LMI households who have ever worked reported no private (occupational or personal) pension provision in 2013-14.[16] Auto-enrolment will clearly help to improve the coverage of pensions – and perhaps represents one of the greatest government policy successes in recent years – but this still leaves the adequacy of private pension provision for LMIs a key challenge for the future.

[14] Credit constraint is defined as when the availability of credit affecting spending decisions.

[15] RF analysis of *Bank of England/NMG household survey data 2015*

[16] A Corlett, D Finch and M Whittaker (2016) *Living Standards 2015: The experiences of low to middle income households in downturn and recovery*, February 2016

Conclusion

Living standards have been in the foreground of British politics for a number of years, with the fallout from the financial crisis impacting across the income distribution. However, for those on low to middle income, the roots of the problem go deeper. A long term trend of wage stagnation since the early-2000s, was masked to some extent in the pre-crisis period by a more generous tax credit system and consumer borrowing.

The pace of recovery since the financial crisis has been brought into question by the EU referendum result, reflected in the gradual return of typical incomes to pre-crisis levels. But most projections suggest that overall incomes and wages will continue to head in the right direction – just not as strongly as previously thought. However, inherited plans to reduce the generosity of the working age benefit system – for both in- and out-of-work support – and tighter credit availability mean that the outlook for LMIs is less positive.

Given the uncertain outlook for this group of families it is right for the Prime Minister to place emphasis on those who are 'just managing'. It is only by understanding the barriers facing this group and future challenges to improving their living standards that we can hope to introduce effective policy change.

This note contributes to that understanding by setting out key characteristics, income and costs pressures for low to middle income households who are 'just managing'. We shall return to their future income prospects and recommendations to improve their outlook in forthcoming reports.

Annex A: The concentration of low-to-middle income households with children

Local authorities with highest concentration of children living in working families in receipt of tax credits

Local authority	% of children
Pendle	55.0%
West Somerset	53.7%
Blackburn with Darwen	53.5%
Leicester	51.6%
Boston	51.4%
Bradford	51.2%
Isles of Scilly	50.0%
Torridge	50.0%
Oldham	49.9%
Newham	49.8%
Hyndburn	49.7%
Luton	49.1%
Ceredigion	48.8%
North Devon	48.4%
Tower Hamlets	48.3%
North Norfolk	48.1%
Burnley	48.1%
Torbay	47.7%
Peterborough	47.3%
Rochdale	47.1%
Hackney	47.0%
Scarborough	47.0%
Kirklees	46.9%
Cornwall	46.9%
Sandwell	46.8%

Source: Resolution Foundation analysis of HMRC (2016) *Personal Tax Credits: finalised award statistics - small area data 2014 to 2015*

Notes: Child benefit population has been used as a proxy for total child population in each local authority, estimates exclude 'opt-out' cases

Resolution Foundation

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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