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A mid-life less ordinary?

Characteristics and incomes of low-to-middle income households age 50 to State Pension age

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The content of the report and any errors contained within remain the sole responsibility of the authors.

Summary

Politicians have made regular appeals in recent years to differently-labelled but similarly defined groups of voters. From Theresa May's focus on 'Ordinary Working Families, to Ed Miliband's 'Squeezed Middle' and Nick Clegg's 'Alarm Clock Britain', attention has focused on working households struggling to get by. It is a group characterised by the Resolution Foundation as 'low to middle income' (LMI).

Yet this is also a large and heterogeneous group. Often, attention falls on younger parts of the population – the families with children most affected by the ongoing welfare cuts set to build to over £12 billion by 2020. And when expressing concerns about intergenerational fairness it is wealthy baby boomers who tend to be contrasted with younger cohorts who face new challenges to living standards.

In this report we choose to shine a spotlight on a different, often overlooked part of the LMI population: those aged 50 to State Pension age. This report aims to better understand the specific characteristics of this group of older LMIs and the challenges its member's face.

We define low to middle income households (LMIs) as comprising those in the bottom half of the income distribution with income above the bottom ten per cent and receiving less than one-fifth of their income from means-tested benefits. This covers around six million working-age households and ten million adults. Older LMIs, the focus here, are those where the head of the household is aged 50 to State Pension age. In total they consist of 1.8m households, almost a third of all LMIs.

The 50-plus UK population has changed considerably in its size and composition over the last two decades. People over 50 are now expected to live for longer, and are more likely to work to older ages, live alone and own their own home. These changes are in part due to cohorts having different life experiences – baby boomer women, for example, were more likely to work before and after having children – but also due to wider shifts in the UK economy that affect all households.

Compared to younger LMIs these households are far less likely to have children living at home – 73 per cent have no dependent children, the presence of which is often seen as a driver of higher living costs. But the composition of older LMI households brings with it different cost pressures. The proportion of single households has increased by 70 per cent since 1995-96 – five times faster than across all working-age households – driven by high divorce and separation rates. This trend impacts on living standards, it is more expensive to live as a single than as a couple.

As with the LMI population as a whole, the typical incomes of older LMIs dropped after the financial crisis, only returning to pre-crisis levels by 2014-15. To the extent that incomes have recovered, they have been driven by recent strong employment growth – 74 per cent of older LMIs are currently in work, up from 70 per cent in 2010-11. The employment rate has improved considerably over the longer term too, increasing from 58 per cent in 1997-98 due to rising full-time employment. In the last three years that remained true for men, but growth among women has come mainly from part-time work.

Higher employment among women reflects the trend in the wider population where, compared to other age groups the employment rates of women aged 50 to 64 have increased the most in the last decade. Growth has been particularly strong among those approaching State Pension age: employment rates rose dramatically from around 44 per cent in 2002-05 to 63 per cent in 2012-15 for LMI women aged 58 to 60.

Despite recent gains in earned income due to working more, typical household incomes from all sources for older LMIs in 2014-15 stand at a level no higher than eight years ago (in 2006-07). Indeed their total earnings are, in real terms, no higher than four years ago. They face a struggle to maintain living standards at a time of life when many save for retirement.

Their LMI status above the age of 50 in part indicates poor earnings over the lifetime, although some may be reducing their hours of employment as they anticipate retirement or due to circumstances such poor health or caring responsibilities. Over two-thirds (68 per cent) of older LMI male earners take home less than the gross typical wage of £21,000 a year for all working-age individuals. For women the picture is starker still – nine-in-ten (91 per cent) earn less than the median. Boosting pay at such a late career stage is likely to prove tough, but represents a key strategy to boost incomes and savings for retirement.

An additional cost pressure stems from a long term increase in the cost of housing. Spending more on housing leaves less resource to spend on other goods and services, to save or boost non-housing assets. Housing costs as a share of income have risen by 43 per cent in the last ten years, and once they are taken into account, leaves typical disposable incomes at 2003-04 levels. While this is twice the rate of housing cost increase than that for younger cohorts, housing represents a relatively small share of disposable income (18 per cent) for older LMIs. Four-fifths of older LMIs own their homes; under-35s are twice as likely to rent privately (56 per cent) as own their home (26 per cent).

But the key challenge for older LMIs is to balance preparing for retirement with maintaining their income. Finding resources to save is tough for a group with less than typical income. The new State Pension will be more generous for those with a lifetime of low earnings but is unlikely to provide an adequate retirement income on its own. Additional private savings will be needed.

However, typical levels of total wealth (£245,000), including housing, are under a third of those held by higher income households of the same age (£825,000), and lower than for higher income households below the age of 50. Increased private saving via auto-enrolment may come too late for this group.

Addressing the living standards challenges faced by LMIs is a tricky balance between near and short term measures. Fixing problems for younger generations now by boosting private saving and reducing housing cost pressures is an important but long term solution. Dealing with the issues facing today's older LMIs requires a focus on boosting employment and earnings while tackling a higher cost of living at a time of rising inflation.

This important group of older 'ordinary working families' are often overlooked, with public and political debate characterising baby boomers as wealthier and more successful than generations that come before and after them. Yet there remains a group of working-age families aged 50 to State Pension age, with less than typical income, who work more, vote more, but with incomes at similar levels to a decade ago. The pressures on older LMIs' living standards may differ to younger households but addressing those challenges are just as pressing, for both current and future generations.

Introduction

The Resolution Foundations work focuses on low to middle income households – those working-age families who are primarily in work but who all too frequently face difficulties getting by.

Of the total population of 5.8 million low to middle income working-age households (LMIs), 3 million have children. This sub-group can often dominate the living standards debate – chiming with the 'Ordinary Working Family', those who are 'Just About Managing' and the 'Squeezed Middle' groups identified by different political parties.

This attention has perhaps been even more focused in recent years due to their position at the frontline of ongoing welfare cuts, and the growing sense of new and changing challenges facing younger cohorts relative to their predecessors. From access to housing to the changing nature of work, the living standards debate often presents a contrast between the difficulties facing 'millennials' and the relative comfort of the 'baby boomer' generation.[1]

In practice there are inequalities within the baby boomer generation. The Centre for Ageing Better's work focuses on bringing about change for people in later life, today and for future generations. In its report Later Life in 2015, a social research project exploring people's wellbeing in later life, it identified a segment referred to as 'the Squeezed Middle Aged' – typically in their 50s, in good health and still in work. However, the caring demands of children and ageing parents leaves them with little time for themselves and financially squeezed because of high outgoings.[2] They have relatively low levels of subjective wellbeing and later life is not something they feel able to prepare for.

This study looks at a similar group. It finds that close to one third of the 5.8m low-to-middle-income households are headed by someone aged 50 to State Pension age (see Box 1 for more detail on the definition). It is this subgroup of the LMI population that this report focuses on.

i Box 1: Defining older low to middle income households

This note details the characteristics, incomes and cost pressures on low to middle income households where the head of household is aged 50 to State Pension age: older LMIs. This group is a subset of the LMI group that form 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.

More formally we define low to middle income households as comprising those in the bottom half of the working-age equivalised household income distribution who are above the bottom ten per cent and who receive less than one-fifth of their income from means-tested benefits (excluding tax credit income). Further detail on precise definitions and how these fit across data sources are set out in Annex A. More detailed analysis of the group as a whole can be found in A Corlett and S Clarke (2017) Living Standards 2017: The past present and possible future of UK incomes and D Finch (2016) Hanging on: The stresses and strains of Britain's 'Just Managing' families, September 2016.

[1] Baby boomers are defined as those born between 1946 and 1965, millennials those born between 1981 and 2000

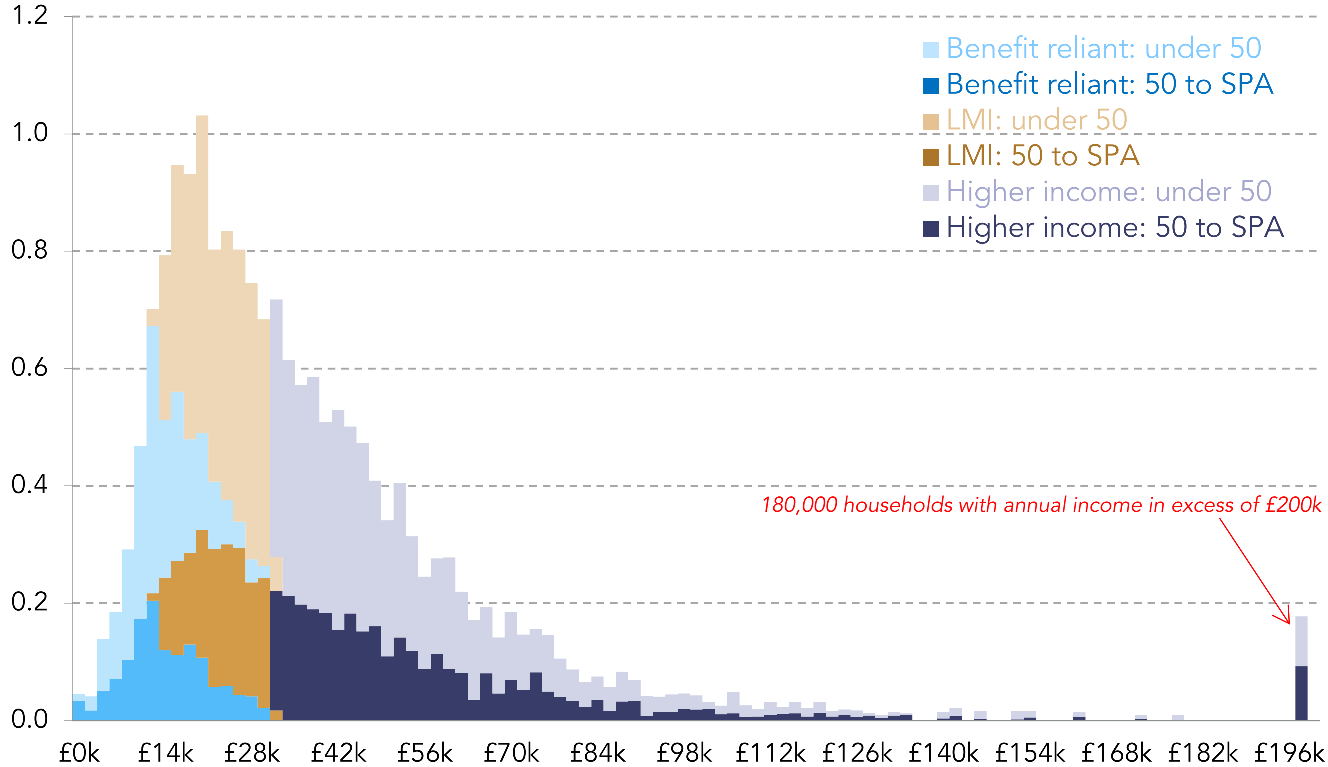
[2] Centre for Ageing Better, *Later life in 2015: An analysis of the views and experiences of people aged 50 and over*, December 2015

The composition of older low to middle income households

Figure 1 sets out their position in the working-age household income distribution, shown here in £2,000 bands net of tax and benefit income. Across the working-age population as a whole, 30 per cent are classified as LMI, 50 per cent as higher income and 20 per cent as benefit reliant. Within the older population those proportions change to 28 per cent LMI, 52 per cent as higher income and 21 per cent benefit reliant. The implication being that older households are marginally more likely to be in the higher group – but by and large the distribution is very similar to the younger, aged under 50, population.

Figure 1: The position of low to middle income households in the working-age income distribution, UK: 2014-15

Number of working-age households by net equivalised household income



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

The income in Figure 1 is 'equivalised' that is, it is adjusted to account for household size on the basis that a given income will provide different living standard outcomes for households of different sizes). On this equivalised measure the equivalent boundaries of gross income that identify LMIs were £13,800, to £32,250 a year. But it is revealing to consider what this equates to in non-adjusted terms (as non-equivalised gross income). The boundaries range from £9,250 to £21,600 for a single person with no children, rising to between £13,800 and £32,250 for a couple with no children. An approximate £3,000 or £6,000 can be added to the lower and top end of the boundary respectively for every additional child (see Annex B for a full breakdown by household type).

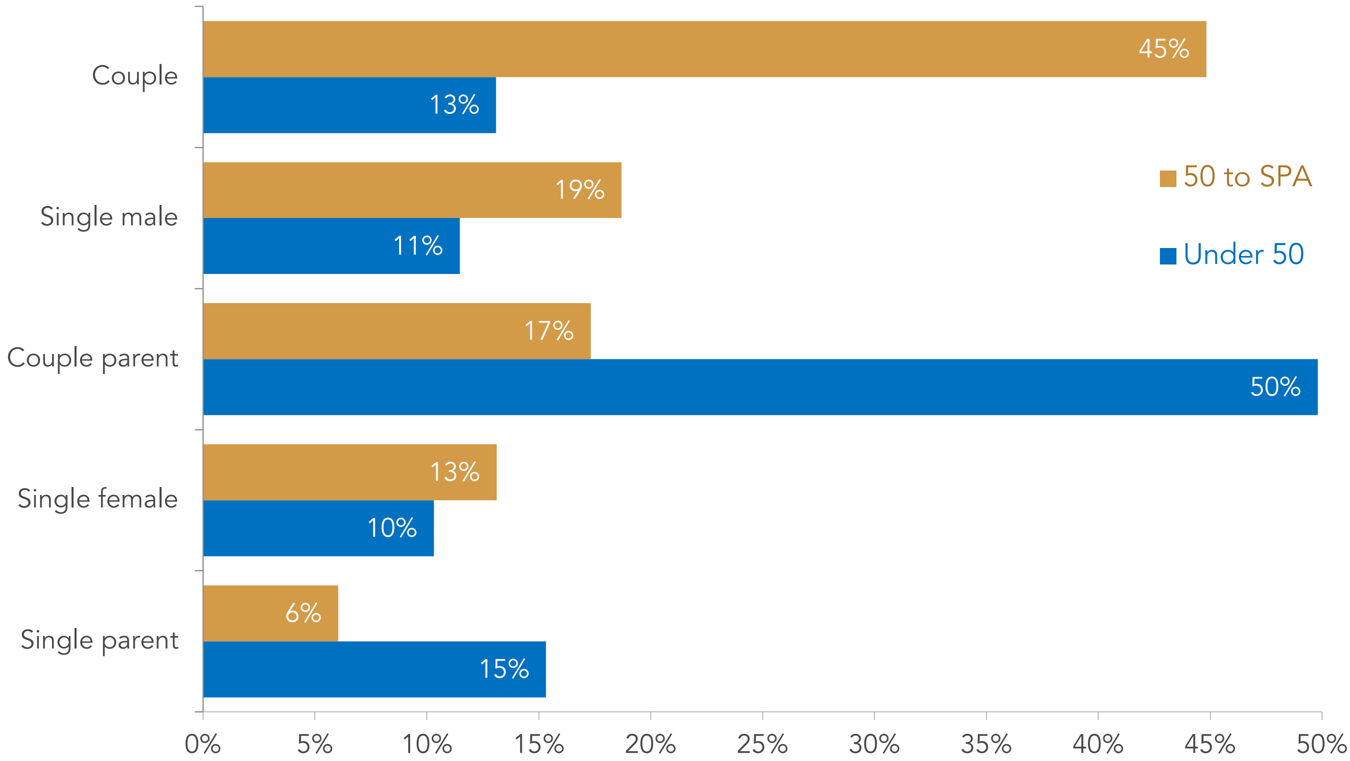
While the proportion of older households in the LMI group is broadly in line with the younger population, the composition of the group appears somewhat different. Unsurprisingly, older LMIs are less likely than those aged under 50 to have dependent children living in their household

– though of course their children may now be adults who live away from home, with 80 per cent of women in this age group giving birth to at least one child.[3]

As Figure 2 shows instead nearly half (45 per cent) of older LMIs households are couples without dependent children at home. They are also more likely to be singletons (32 per cent): men or women living on their own. Less than a quarter (23 per cent) have dependent children – compared to two-thirds (65 per cent) of younger LMIs.

Figure 2: Low to middle income households by age and family type, UK: 2014-15

Proportion of families



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

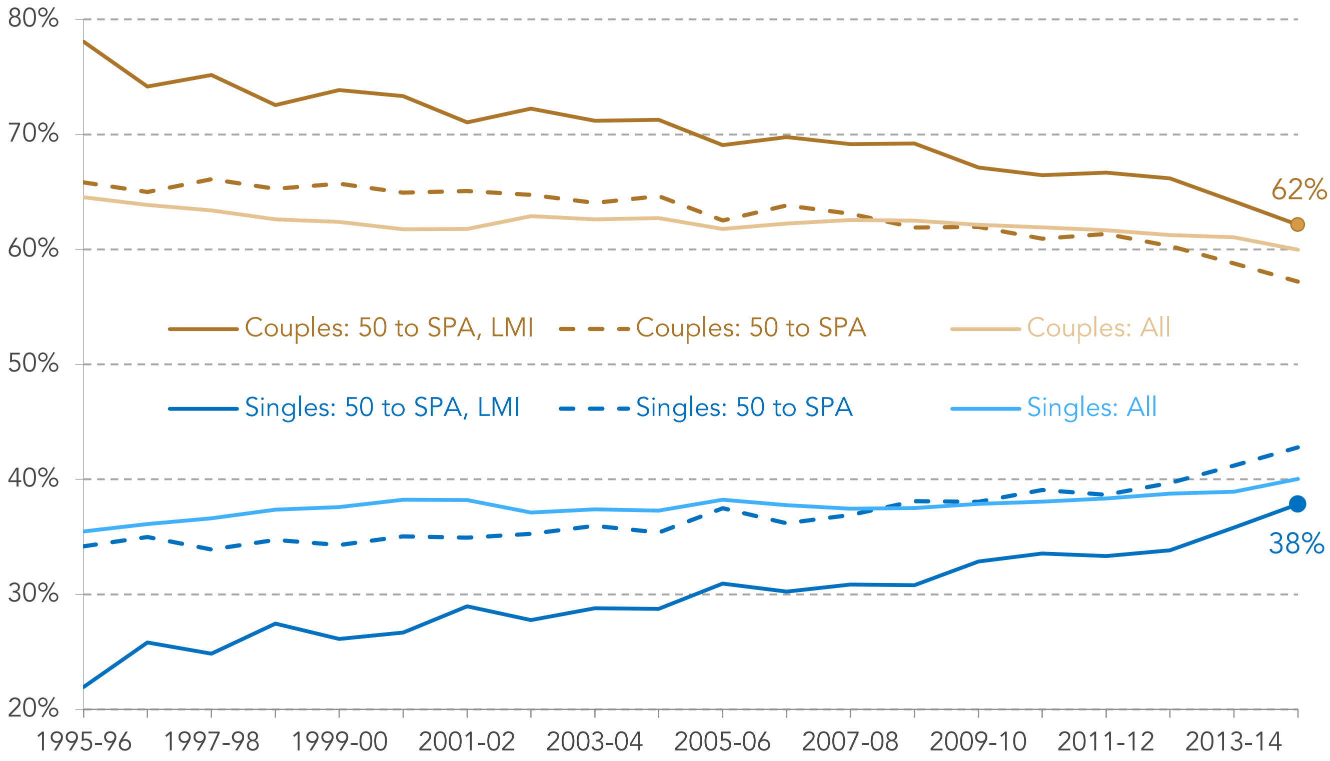
Looking back over the last two decades there has been a significant shift in the composition of older households towards more single person households and fewer living together as couples. This change is far more rapid among older LMIs than among all older households or the overall working-age population, suggesting that the growth in singles in the total population is driven more by the dissolution of couple households than by younger people delaying family formation.

Figure 3 shows that the proportion of older LMI households that are single has risen by 70 per cent from just over a fifth (22 per cent) in 1995-96 to just under two-fifths (38 per cent) in 2014-15. That is five times the rate of growth among the working-age population as a whole over the same period: the share of singles in all working-age households has increased from 35 per cent in 1995-96 to 40 per cent in 2014-15. It is also three times the rate of growth across all older households. This trend towards living as singles has important implications for living standards, given the additional strain placed on resources when living as a single compared to as a couple.

[3] D Finch, *Live long and prosper? Demographic trends and their implications for living standards*, Resolution Foundation, January 2017

Figure 3: Change in household type for older households by LMI status, UK

Proportion of households



Notes: Data relates to GB only in years prior to 2002-03, estimates in text and highlighted in chart are rounded to nearest one per cent.

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

With a general election on the horizon it is also interesting to note that, as age and household composition may suggest, this is a group of households more likely to vote. Previous Resolution Foundation research[4] for the Intergenerational Commission has shown that younger generations have been less likely to vote in recent elections compared to the baby boomers. That remains true among LMIs. Analysis of the British Election Study shows that two-thirds (68 per cent) of older LMIs voted in the last general election compared to half (52 per cent) under the age of 50.[5] Turnout at the next general election is hard to predict, given it comes hot on the heels of the 2015 election and 2016 referendum. But, as our analysis below highlights, older LMIs have good reason to take an interest in the country's political and economic future.

Older LMIs and the labour market

By definition the vast bulk of income for LMI households stems from employment, and that remains true for older LMIs. Figure 4 sets out employment rates by status for different household types showing that 77 per cent of men and 72 per cent of women in older LMI households are in employment. While these rates are close to or above the overall employment rate (73 per cent)[6]

[4] L Gardiner, *Votey McVoteface: Understanding the growing turnout gap between the generations*, Resolution Foundation, September 2016

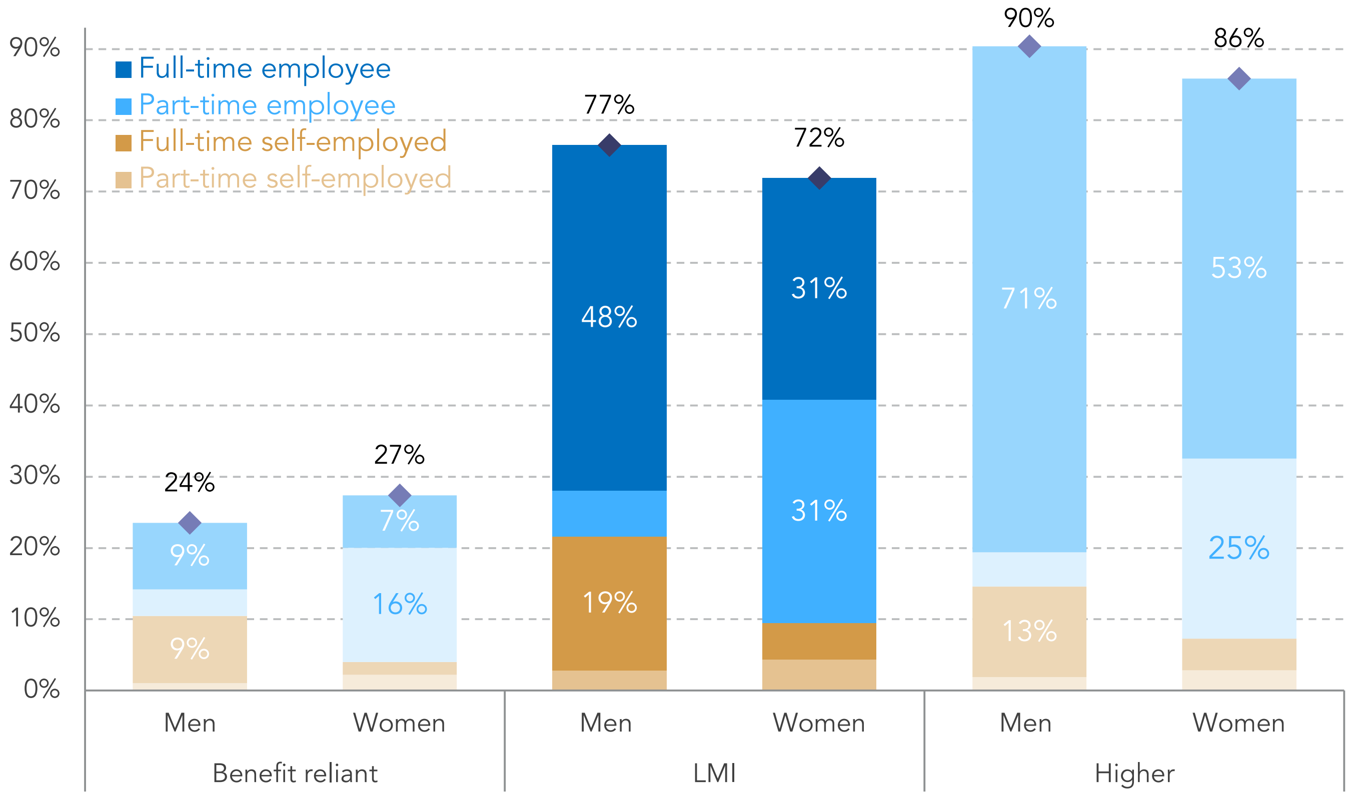
[5] See Annex A for full detail of LMI definition used.

[6] Employment rates in this paper are taken from the Family Resources Survey and so may differ to rates derived from the Labour Force Survey.

those for older higher income individuals are substantially higher at 90 and 86 per cent for men and women respectively, implying that employment gaps are one of the key points of distinction between individuals from LMI and higher income households.

Figure 4: Employment rate by gender and LMI status for individuals aged 50 to SPA: 2014-15, UK

Proportion in employment



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

The employment rate gap to the higher income group is, in percentage point terms, the same for both LMI men and women at 14 percentage points, but proportionately greater for older LMI women due to their lower employment rate. Other key differences between LMI and higher income groups include the higher proportion of men in self-employment (22 per cent against 15 per cent) and the greater likelihood of women being in part-time work (half of LMI workers and a third of higher income workers). It is not just the proportion in work, but the type of work undertaken that matters.

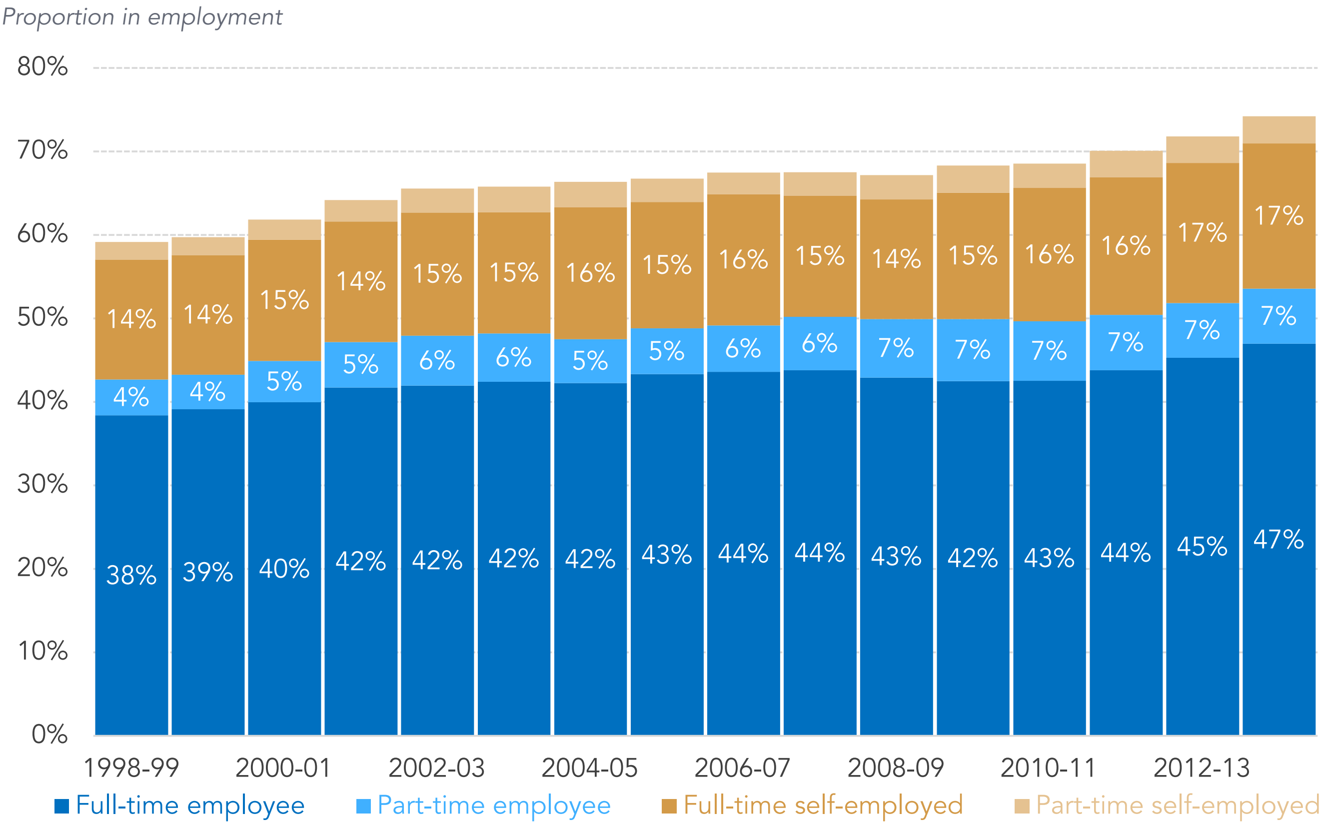
Levels of employment for people aged 50 plus have increased in general, accounting for two-thirds of overall growth in employment since 2010, and evident across both LMI and higher income groups. However, with a lower starting point rates have risen by more among LMIs. This in turn has led to a greater effect for this group reinforcing the progressive nature of employment gains in the last two decades.

The employment rate for older LMIs has increased significantly faster than for the population as a whole over the last 20 years. While total employment has increased by around 5 percentage points over the period, for older LMIs the rate now stands at a high of 74 per cent in 2014-15, up from 58 per cent in 1997-98. But similar to employment patterns in the wider population, for older LMI men and women growth has taken rather different paths over the last two decades.

For older LMI men the employment rate has grown by 27 per cent, from 60 to 77 per cent in the period 1997-98 to 2014-15 – outperforming all men aged 50 to 64 where employment increased from 67 to 75 per cent. The bulk of this growth came in two periods, between 1997-98 and 2002-03, and again in the years since 2008-09, dipping slightly in 2008-09. Figure 5 demonstrates this trend (presented in centred three year averages) and shifts in the type of employment for older LMI men:

- The proportion of full-time employees increased from 38 to 47 per cent between 1997-00 and 2012-15, an increase of almost a quarter (24 per cent) over the entire period.
- The proportion of older LMI men in full-time self-employment has risen to 17 per cent by 2012-15, up from around 15 per cent in the years prior to 2008-09.
- Since 1997-98, of those in work, the proportion in some form of full-time employment has slightly fallen from 89 to 87 per cent.

Figure 5: Change in employment rate by type of employment for older LMI males: UK



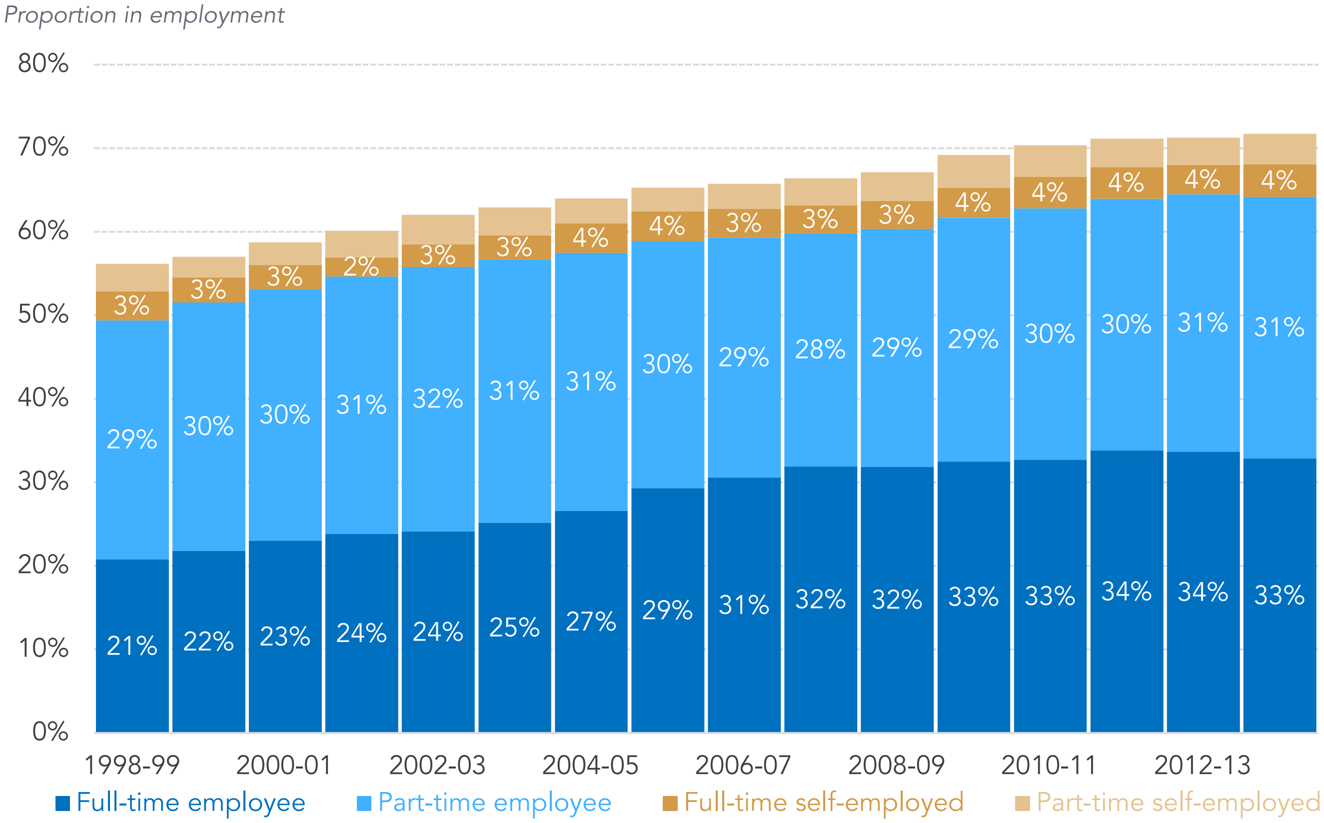
Notes: Data relates to GB only in years prior to 2002-03, estimates in text and highlighted in chart are rounded to nearest one per cent, estimates take rolling 3 year averages centred in the named year.

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

For older LMI women the employment picture is quite different. Their employment rate has grown faster than for men, by almost a third (30 per cent), from 55 to 72 per cent in the period 1997-98 to 2014-15. Similar to men this outperforms all women across the age group where employment grew from 60 to 72 per cent over the period. And while growth was faster in the late-1990s, it has continued despite the downturn. Figure 6 shows this trend (presented in centred three year averages) but also highlights the make-up of employment for older LMI women:

- Women were more likely to work part-time than full time in 1997-00 with 32 per cent of older LMI women working part-time (mostly as employees) and 24 per cent working full-time. By 2012-15, following faster growth in full-time work a more even share had been achieved with 37 per cent working full-time and 35 per cent working part-time.
- The bulk of the rise in employment for older LMI women has stemmed from full-time employees with the share who are full-time employees rising gradually from 21 per cent in 1997-00 to 33 per cent in 2012-15, a sizable increase of 57 per cent.
- Growth in the share of full-time employees has stalled since 2007-10 with the majority of gains after this period coming from an increasing share in part time work employment (35 to 38 per cent).

Figure 6: Change in employment rate by type of employment for older LMI females: UK



Notes: Data relates to GB only in years prior to 2002-03, estimates in text and highlighted in chart are rounded to nearest one per cent, estimates take rolling 3 year averages centred in the named year.

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

Employment gains for both older men and women over this time period reflect two important trends related to the current cohort of LMIs. The first is that female employment rates for this generation have been higher at younger ages than for the generation preceding them, and women have been more likely to return or stay in work after having children.[7]

[7] L Gardiner, *Stagnation Generation: the case for renewing the intergenerational contract*, Resolution Foundation, July 2016

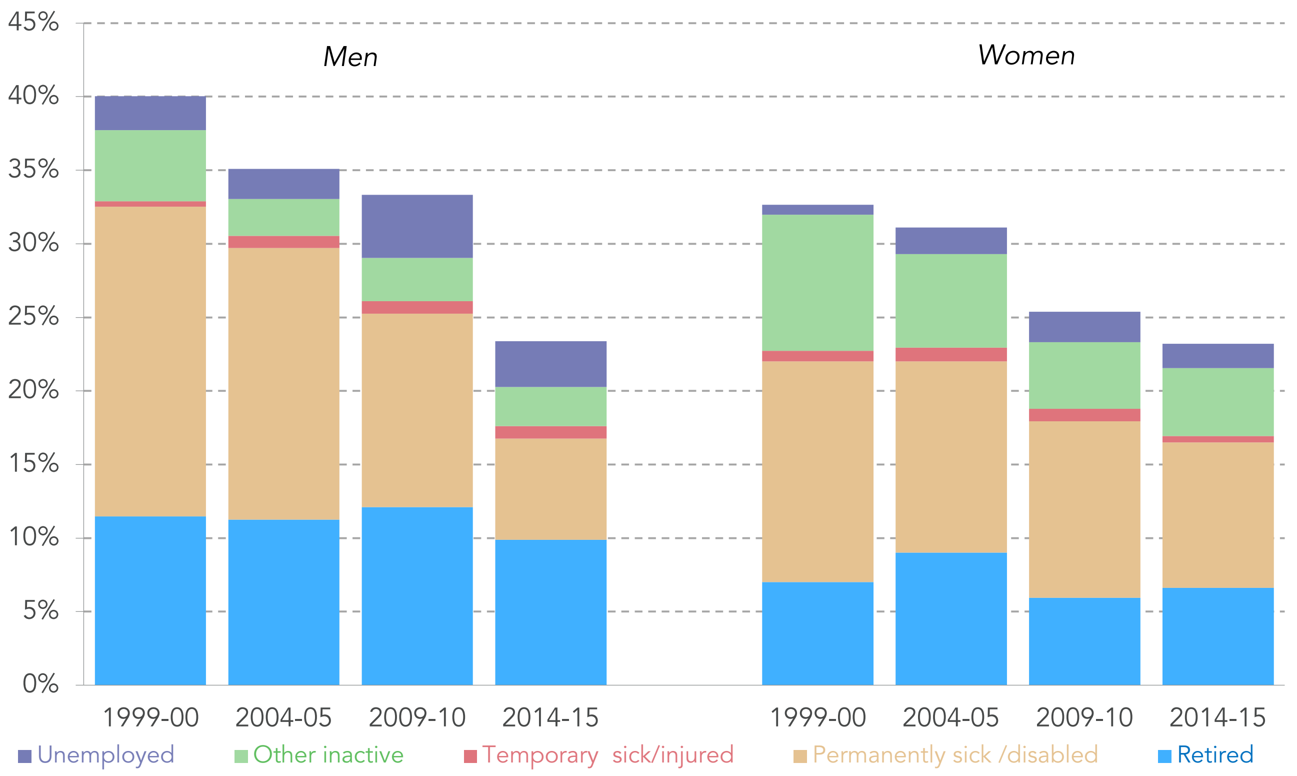
People are also living longer, which combined with rises in State Pension age, is leading to greater rates of employment at older ages – a trend that may continue as State Pension age rises to 66 by 2020. Employment rates have increased dramatically for LMI women aged 58 to 60 in the last decade, from around 44 per cent in 2002-05 to 63 per cent in 2012-15.[8]

The flipside of employment is to consider those who are either unemployed or not currently economically active and the reasons behind this. Figure 7 shows that, as expected given a growing employment rate, the proportion who are economically inactive has fallen over the past fifteen years:

- The economic inactivity of older LMI men in particular has reduced dramatically since the turn of the century, from 40 to 23 per cent by 2014-15. The share in unemployment rose during the downturn period but has since fallen. Perhaps most significantly of all is the large fall in the share reporting that they are inactive because they are permanently sick or disabled. In large part this is a cohort effect with the large group of inactive men aged 50 plus in 1999-00 – following the high inactivity rates of the previous decade – becoming pensioners.
- While the decrease in inactivity and unemployment for older LMI women has been less pronounced the share not in work has fallen by a third since 1999-00, from 42 to 28 per cent. Three key factors play a role: the fall in the share with long term sickness or disability by a third; and those reporting as 'other' or looking after family or home falling by a third.

Figure 7: Reason for economic inactivity by gender for older LMIs, UK: 1999-00 to 2014-15

Proportion of population



Notes: Data relates to GB only in years prior to 2002-03

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

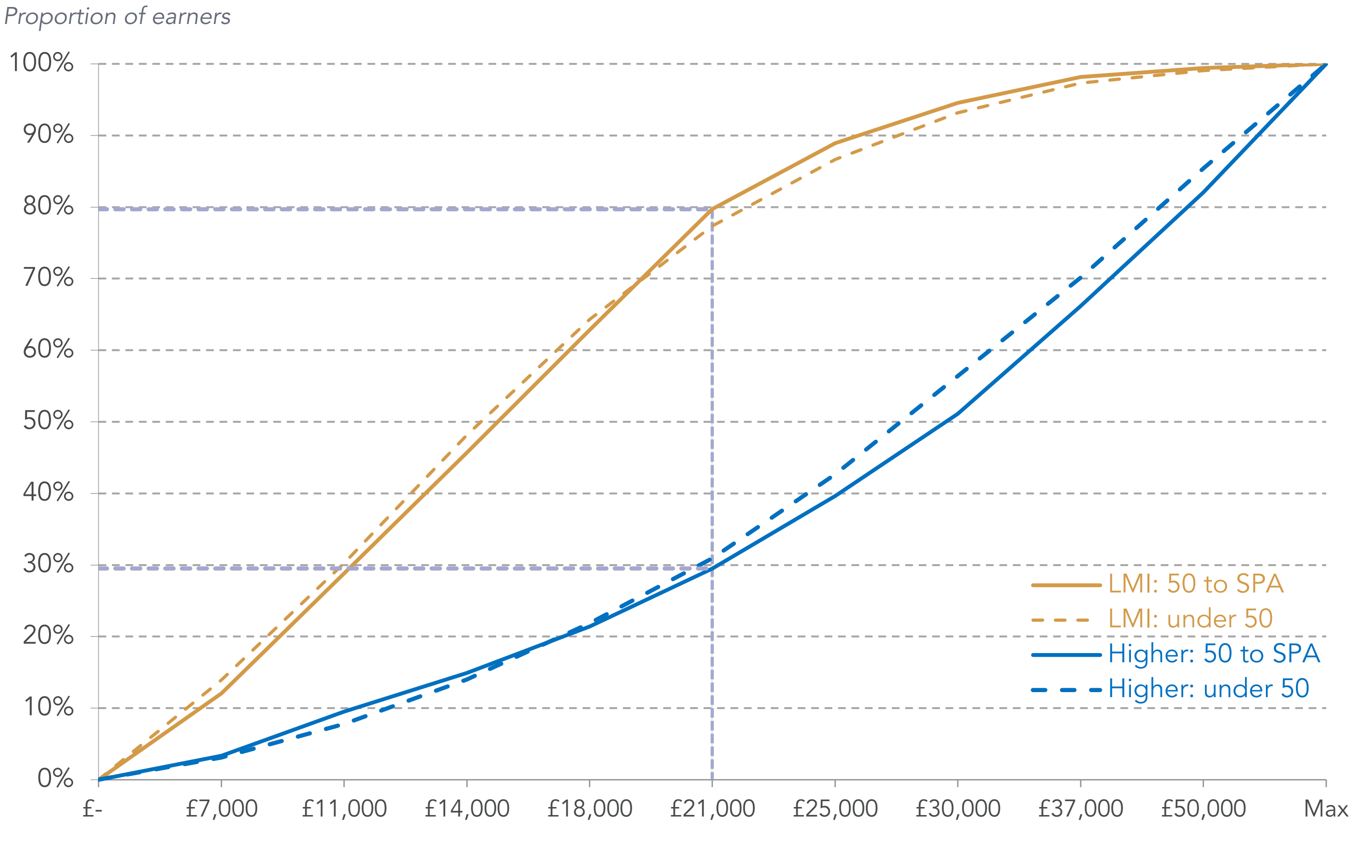
[8] Three year averages and age bands are used due to the small sample sizes of this group.

It is not just the employment patterns of older LMIs that are important to understand how incomes of this group have changed. Their earnings are important too. Earnings in the higher income group can be expected to be greater, but it is important to remember that household incomes depend on other factors (such as a spouse's earnings). That is why it is possible to find some low paid people living in higher income households and relatively higher paid people living in LMI households.

However, as Figure 8 shows, it remains the case that pay tends to be lower for individuals in LMI households, especially when considered on an annual rather than hourly basis. Estimates shown are for employee earnings only, some individuals may also have some income from self-employment.

Overall, earners from both older and younger LMI households have a similar spread of earnings with the vast majority (80 per cent) earning less than the median gross individual annual wage of £21,000. This compares to 30 per cent of the higher income group, regardless of age group, with earnings less than the median.

Figure 8: Distribution of gross earnings by LMI status and age, UK: 2014-15



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

This trend of low pay for older LMIs is potentially an outcome of a lifetime of low pay. Previous Resolution Foundation research has highlighted that three quarters of people in low pay fail to permanently progress to a higher level of earnings within ten years,[9] while 45 per cent of LMI

[9] C D'Arcy & A Hurrell, *Escape Plan: Understanding who progresses from low pay and who gets stuck*, Resolution Foundation, September 2014

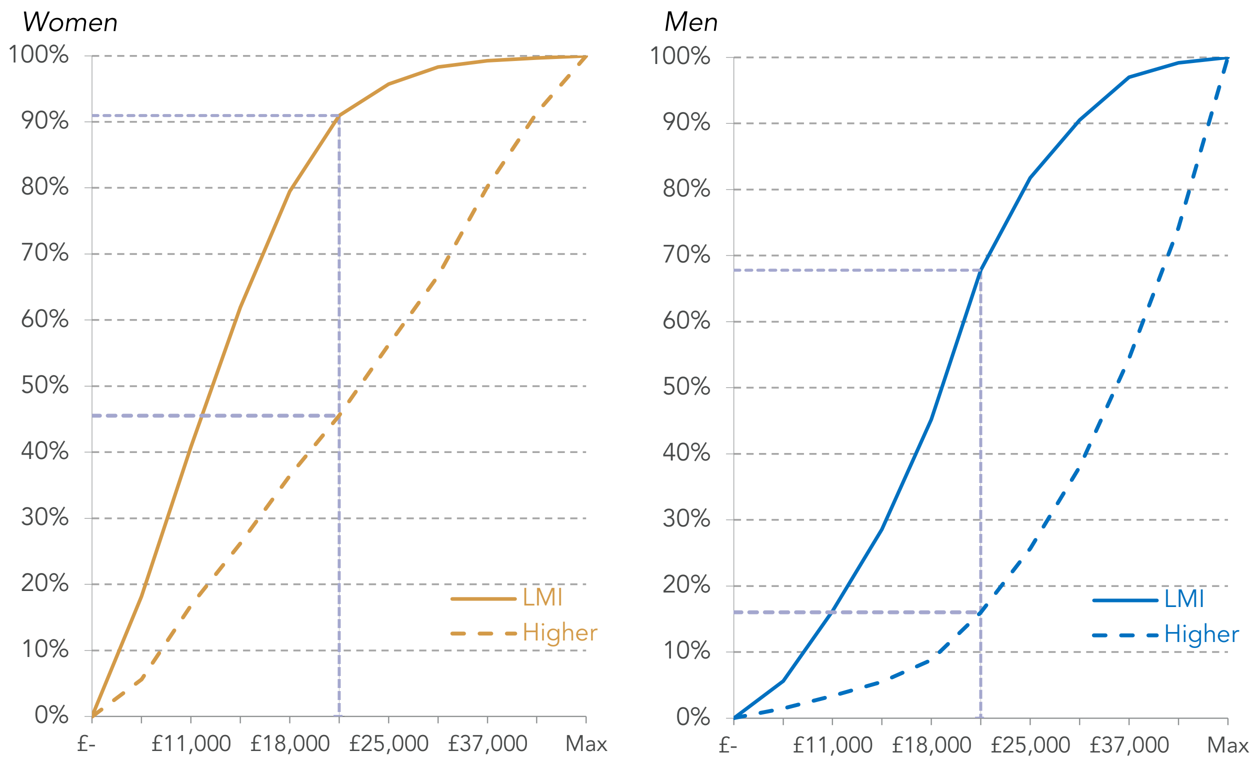
households were LMIs 15 years later.[10] As these older LMI individuals approach the end of their working lives, the chance for them to boost earning potential and contribute significantly to pension savings becomes increasingly difficult.

Among the 50-plus population and across income groups those differences in earnings levels are greater between men than among women, however women earn much less on average. Figure 9 highlights that:

- Over two-thirds of older LMI men earn less than £21,000 a year, whereas over four-fifths of older men from higher income households earn above that amount.
- For women earnings levels are lower than for men regardless of income group, but older LMI women still earn significantly less than older higher income women – 91 per cent of older LMI women earn below the overall median of £21,000 a year, compared to just under half of older higher income women.

Figure 9: Distribution of gross earnings for older men and women by LMI status, UK: 2014-15

Proportion of earners



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

Older LMIs are half as likely to be graduates as their higher income equivalents, with just a quarter of LMIs holding a Level 4 or higher qualification compared to half of the higher income group, a likely key factor in the observed difference in earnings levels. Coupled with this, women who have taken time out of the labour market to have children may have seen a substantial pay penalty, in part due to a lack of quality part-time or flexible job roles available. These factors contribute to lower earnings for older women compared to men regardless of household income, but those in LMI households have lower earnings levels overall.

[10] M Whittaker, *Squeezed Britain*, Resolution Foundation, 2013

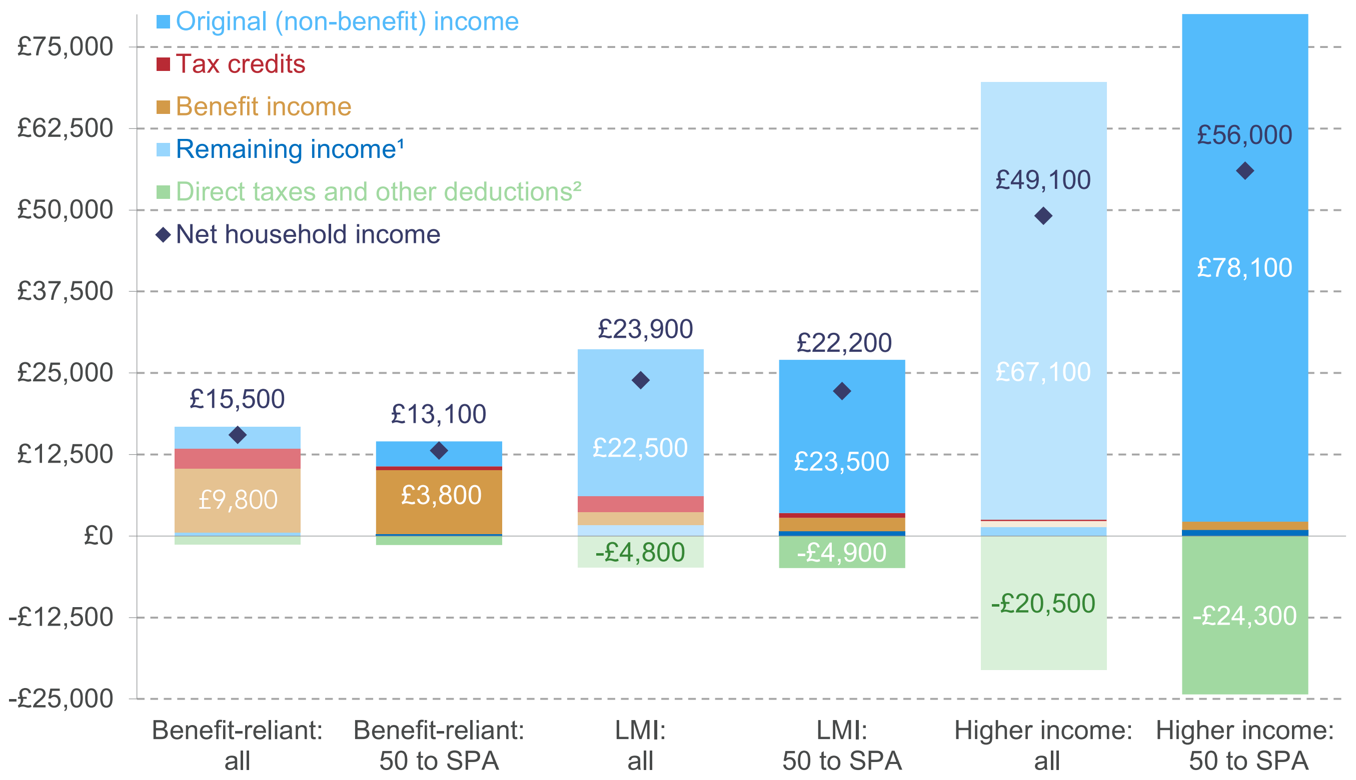
Composition of household income and long term trends

Figure 10 breaks down the composition of average household income across all income groups and by age to shed light on how income levels and sources vary. Similar to higher income households, LMIs receive the bulk of their income from earnings, but have income levels closer to benefit reliant households.

Although earnings are a greater source of income for older LMIs than across all LMIs, once wider income sources are factored into the picture – particularly income from welfare (including tax credit income) – older LMIs have lower overall average income: £22,200 compared to £23,900 respectively. The opposite is the case for higher income households where older households have higher annual income than across all households.

Figure 10: Average annual household income by component and household type, UK: 2014-15

Annual income



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

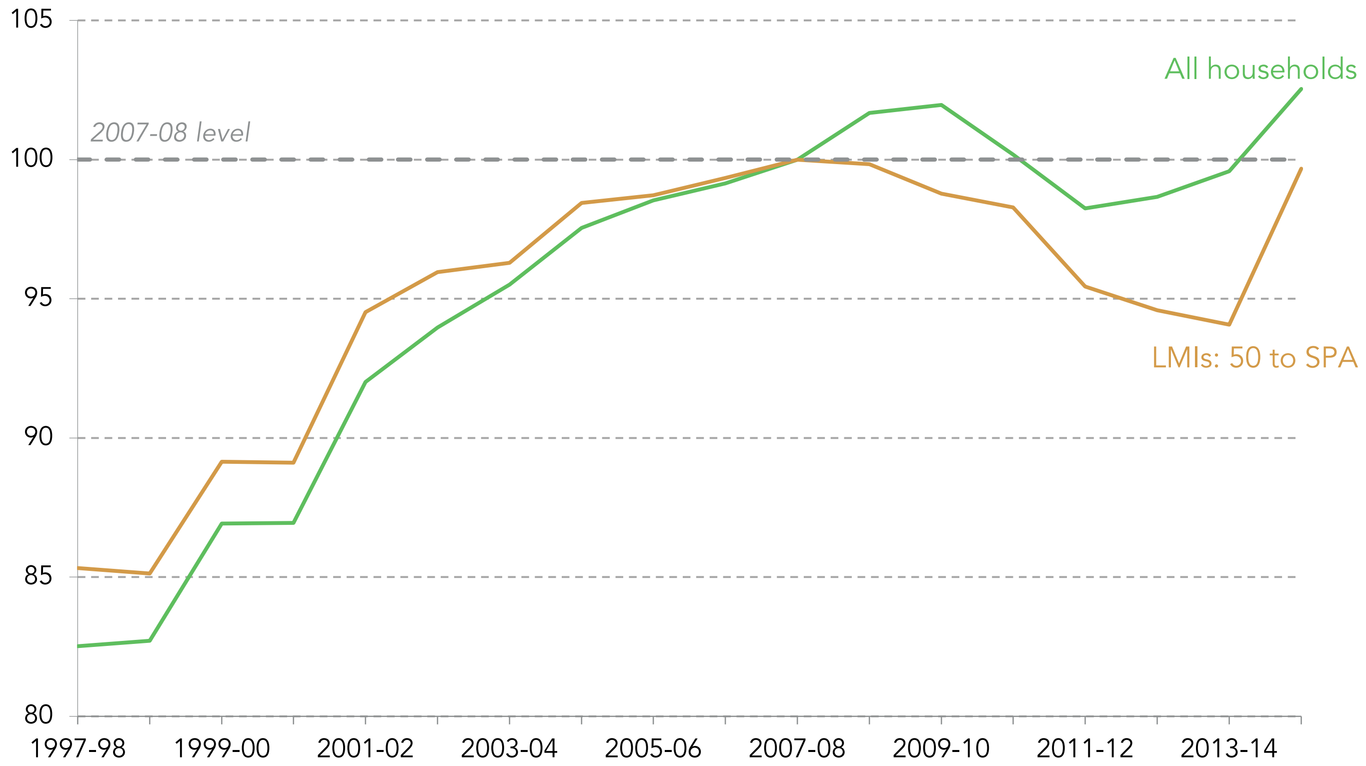
Notes: 1,2 for a full definition please see Annex A

Taking a longer term perspective, over the last ten years the incomes of older LMIs have performed relatively weakly compared to all households, and in 2014-15 were still not quite back to their 2007-08 level. Figure 11 compares growth in typical equivalised income for older LMIs to all households since 1997-98 taking 2007-08 as an index point. The disposable incomes of older LMIs grew relatively rapidly in the period to 2004-05, but beyond this point income grew only slightly before falling after 2007-08.

The last year (2014-15) shows a considerable uptick in income with typical incomes returning to their 2006-07 level and close to their pre-financial crisis peak. This improvement in income levels follows stronger employment growth in the last year boosting total income from earnings in the latest period.

Figure 11: Median income trends: All and LMI households, before housing costs, UK

Indices of median net equivalised weekly household income, 2007-08=100 (CPI(BHC) adjusted)



Notes: Data relates to GB only in years prior to 2002-03

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

Over the same period typical income levels for all households reached a peak in 2009-10, suffered a more shallow dip in income following the downturn and have since surpassed the 2009-10 peak.

Four key trends underpin these changes in household incomes since 1997-98:

- An almost 15 year period of relatively weak real earnings growth since 2002-03, exacerbated by a seven year real earning squeeze since the economic crisis in 2008.
- Strong employment growth in recent years helping to boost household incomes.
- Increases in the personal tax allowance for income tax providing a boost to income for in-work households. Although some gains will have been accrued by older LMIs, the vast majority of gains would benefit the richest half of households,[11] and have no impact whatsoever on almost half (45 per cent) of the lowest earning older LMI women.
- Older LMIs have been largely insulated from cuts to working-age benefits in the last two parliaments, although ESA claimants have been affected. Over the same period the protection of pensioner benefits and introduction of the triple lock have helped to boost pensioner incomes, with the knock-on effect of boosting growth on a measure for all households.

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

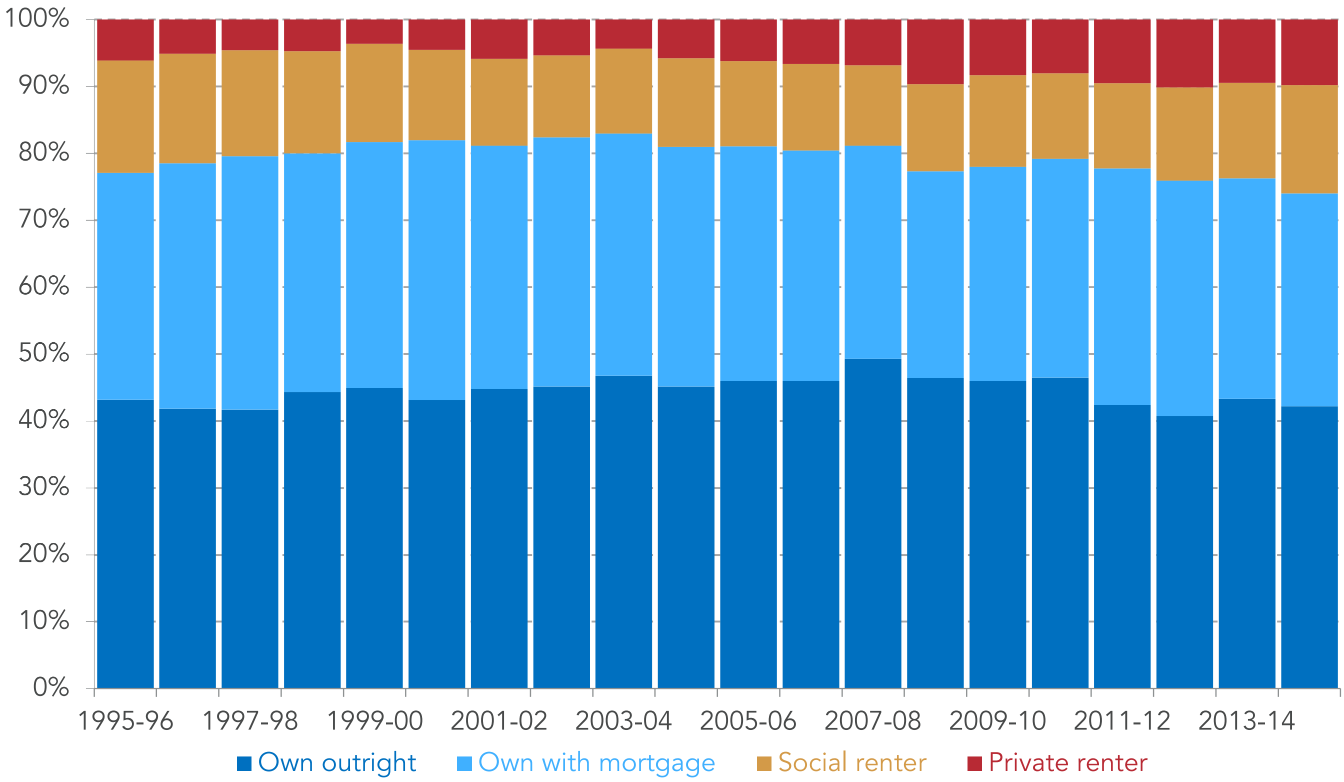
The role of housing

Regardless of age or income housing remains an important determinant of living standards. For younger households the story has been a large switch in tenure away from home ownership towards private renting, with home ownership falling from 70 per cent to 44 per cent since 1995-96. Among older LMIs that is not currently the case, although there are some signs of a change.

Figure 12 shows that older LMIs have experienced a smaller reduction in home ownership falling from a high of 83 per cent ownership in 2003-04 to 74 per cent in 2014-15 – the lowest home ownership figure for older LMIs in the 20 year period. There have been two key phases of tenure change. Between 1995-96 and 2007-08 outright home ownership gradually rose, with a small fall in the share of owners with a mortgage and social renters. After 2007-08 outright ownership has fallen, contributing to the overall fall in home ownership and a gradual rise in social and private

Figure 12: Change in tenure among older low to middle income households: UK

Proportion of households



Notes: Data relates to GB only in years prior to 2002-03

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

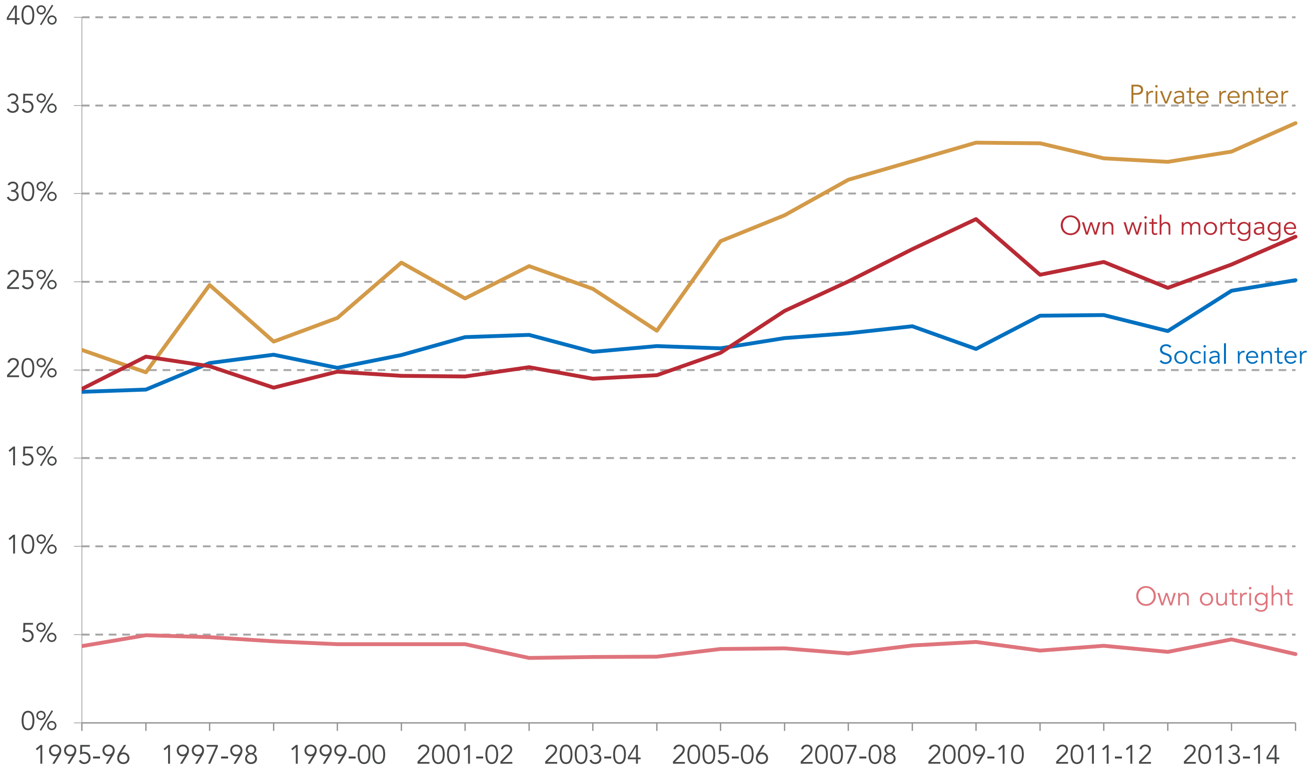
renting. Looking ahead this picture is likely to change as younger private renting LMIs – who have been unable to afford their own home – grow older and transition into this age group, either having failed to purchase a home at all or with a mortgage outstanding to older ages. A move away from home ownership and towards private rented accommodation for LMIs signals increased vulnerability given the higher cost of housing associated with this tenure, with significant implications for both their immediate living standards and longer term prospects.

Figure 13 highlights both the relative cost of different tenures and how they have changed in the last two decades for the older LMI group. We measure the scale of housing costs though a 'housing cost to income ratio' (HCIR) which compares the cost of housing to disposable income.[12]

The greatest upward pressure on housing costs for the group as a whole stems from a long term rise in the HCIR for homeowners with a mortgage, driven by increasing house prices in the pre-crisis period.[13] Accounting for two-fifths of older LMIs, the HCIR for this tenure increased from around a fifth of income in 2004-05 to over a quarter (28 per cent) in 2014-15. The two-fifths who own their home outright have seen little change in costs. The greatest increase in HCIR for a particular tenure has been within the private rented sector. Here the HCIR increased to 34 per cent in 2014-15, up from around a quarter in the early 2000s, but only 10 per cent of older LMIs privately rent.

Figure 13: Change in cost of housing for older low to middle income households: UK

Average housing cost to net income ratio



Notes: Data relates to GB only in years prior to 2002-03

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

As shown in Figure 14, the HCIR has increased for the group of older LMIs as a whole, putting together the shift in tenures and HCIR trends from Figures 12 and 13 respectively. Due to high rates of home ownership and a smaller average household size, the cost of housing for older LMIs is lower than for other LMIs (18 per cent v 27 per cent). However, the greatest proportional

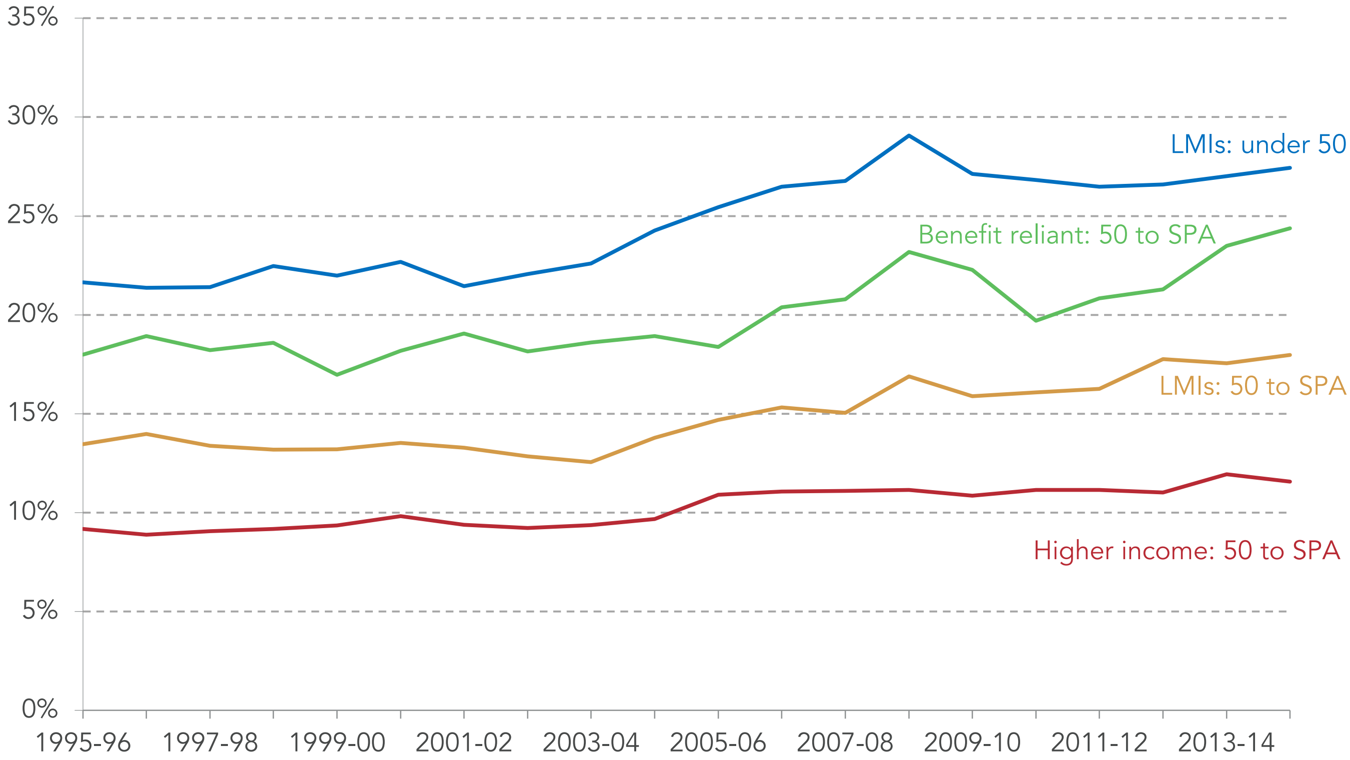
[12] The housing cost to income ratio shows the proportion of disposable income a household spends on housing to provide insight into the extent to which housing costs bear down on households.

[13] For a fuller discussion of this and wider trends in the cost of housing see: S Clarke, A Corlett & L Judge, *The housing head-wind: The impact of rising hosing costs on UK living standards*, Resolution Foundation, June 2016

increase in the cost of housing to income ratio since 2003 has actually been experienced by older LMIs – a 43 per cent increase in this measure since 2003-04, twice the scale of the increase for under-50 LMIs.

Figure 14: Change in average housing cost to income ratio among working-age households by income group: UK

Average housing cost to net income ratio



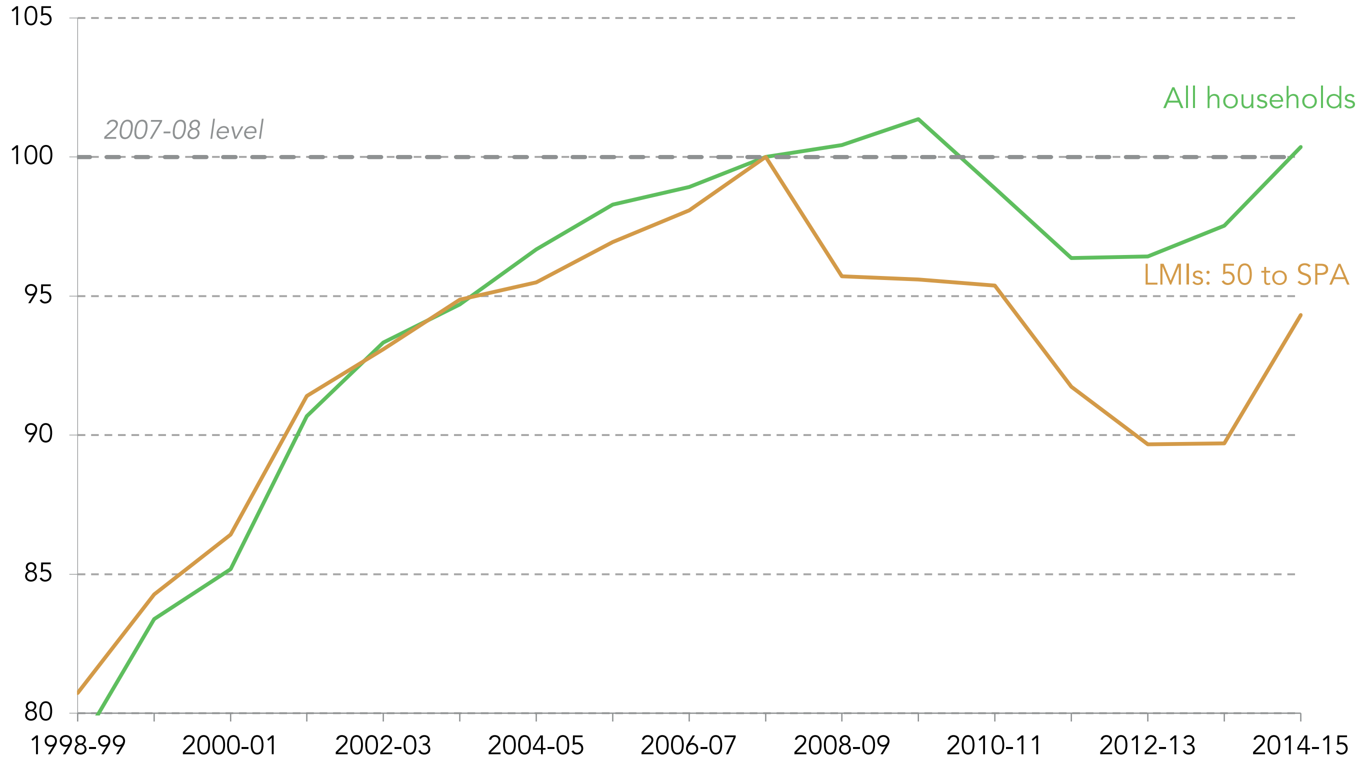
Notes: Data relates to GB only in years prior to 2002-03

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

We can complete the picture of how housing costs have affected household incomes by returning to the long term income trends shown in Figure 11 but this time taking into account the cost of housing when estimating net household incomes. Figure 15 demonstrates that once we take housing costs into account, typical income for older LMIs was higher in 2003-04, over a decade ago. And income levels remain well below the 2007-08 peak. For all households the picture also worsens with income yet to return to 2009-10 levels once accounting for housing costs.

Figure 15: Median income trends: All and LMI households, after housing costs, UK

Indices of median net equivalised weekly household income, 2007-08=100 (CPI(AHC) adjusted)



Notes: Data relates to GB only in years prior to 2002-03

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

Looking ahead to the end of the decade, although incomes are likely to grow for both groups until 2016-17, real wages are set to fall in 2017, while the scale of cuts to working-age welfare will grow to 2020. The implication being that income levels for the poorest half of working-age households will be lower in 2020-21 than in 2016-17.

Spending and saving: preparing for retirement?

It is not just housing spend that differs by age for LMIs. Table 1 shows the proportion of total disposable income spent on different categories of expenditure for different household types split by age and income. As well as confirming the smaller share of income spent on housing relative to younger LMIs a number of patterns stand out:

- Older LMIs spend a similar share of income (42 per cent) on what we may think of as 'essentials' such as housing, transport and food as under-50 LMIs (44 per cent) and older benefit reliant households but this share is significantly lower among older higher income households (28 per cent)
- The need to spend more on essentials means that older LMIs spend a far greater share of their disposable income on overall consumption (88 per cent) than higher income households (67 per cent) leaving them with less income leftover to put towards other activities such as saving and potentially preparing for retirement.
- Finally older LMIs are actually spending more than their total income (105 per cent), which is more than under-50 LMIs (99 per cent). While this may reflect retirees drawing down

on savings it also highlights the lack of surplus income for this group placing them at risk of making further provision for retirement and unable to cope with unexpected, short term financial pressures.

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

	50 to SPA			Under 50
	Benefit-reliant	LMIs	Higher income	LMIs
As proportion of average disposable household income				
Housing (net),[2] fuel & power	17%	14%	7%	20%
Transport	13%	15%	13%	13%
Food & non-alcoholic drinks	18%	13%	8%	11%
Recreation & culture	13%	12%	12%	9%
Restaurants & hotels	7%	7%	6%	7%
Miscellaneous goods & services	7%	7%	6%	7%
Household goods & services	6%	6%	6%	5%
Clothing & footwear	4%	5%	3%	5%
Communication	4%	4%	2%	3%
Alcoholic drinks, tobacco & narcotics	6%	3%	2%	2%
Health	2%	1%	1%	1%
Education	1%	1%	1%	1%
All consumption expenditure[3]	98%	88%	67%	84%
Non-consumption expenditure[4]	11%	16%	14%	14%
All spending	109%	105%	81%	99%

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.

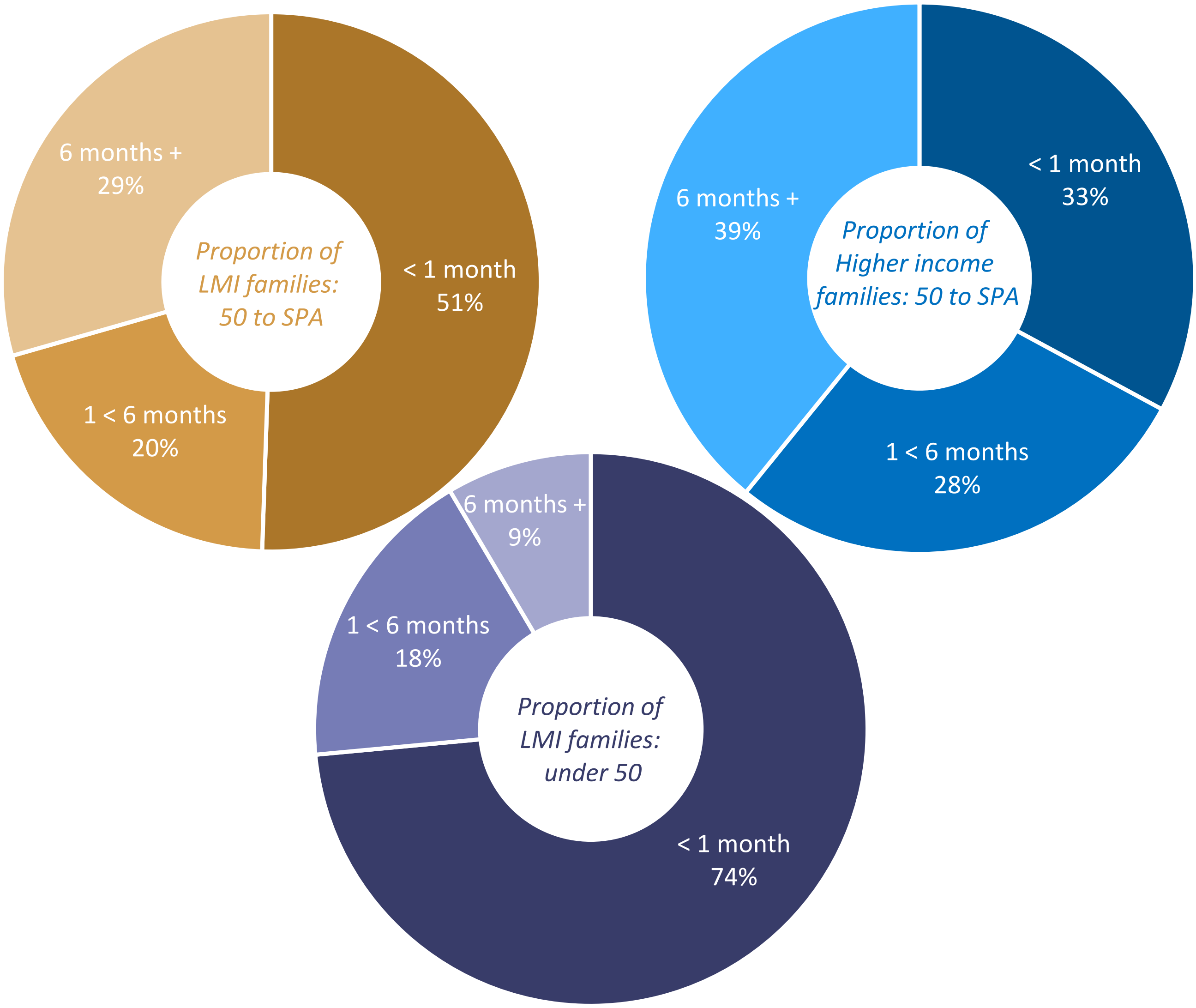
[4] Including spending not included in net housing category, along with taxes, fines, money spent abroad, gifts, pension contributions, gambling receipts, savings and investments. Income groups based on LCF definition: see Annex A

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

Looking more closely at the savings of older LMIs shows that they have built greater savings than under-50 households but significantly less compared to older higher income households. Across all older households only 46 per cent have more than a month's worth of income saved. Figure 16 shows that half (51 per cent) of older LMIs have less than one months' worth of income held as savings, a fifth have between one and five months' worth of income held, and 29 per cent have more than six months' worth of income saved. However, older higher income households have greater levels of savings – two-fifths (39 per cent) have saved more than six months' worth of income.

Yet even among higher income households a substantial proportion of households (33 per cent) hold less than a single months' worth of savings. It should be remembered that a month of income is worth significantly less for LMIs than higher income households. That means dealing with short-term spending pressures – like a broken washing machine – tougher for LMIs.

Figure 16: Number of months' net income held in savings/financial assets by age and income group: UK, 2014-15



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.

Source: RF analysis of DWP, Family Resources Survey

The new State Pension will provide an effective income floor for future pensioners, but a weekly income of £159.55 today is unlikely to be sufficient on its own to mean people have an adequate income in retirement. For example, a full-time worker on the National Living Wage would have a replacement rate of only 55 per cent with only the new State Pension for income, lower than the 70 per cent widely considered as the target for workers with low pay.[14] Clearly, people will need some form of private saving to supplement their state pension income.

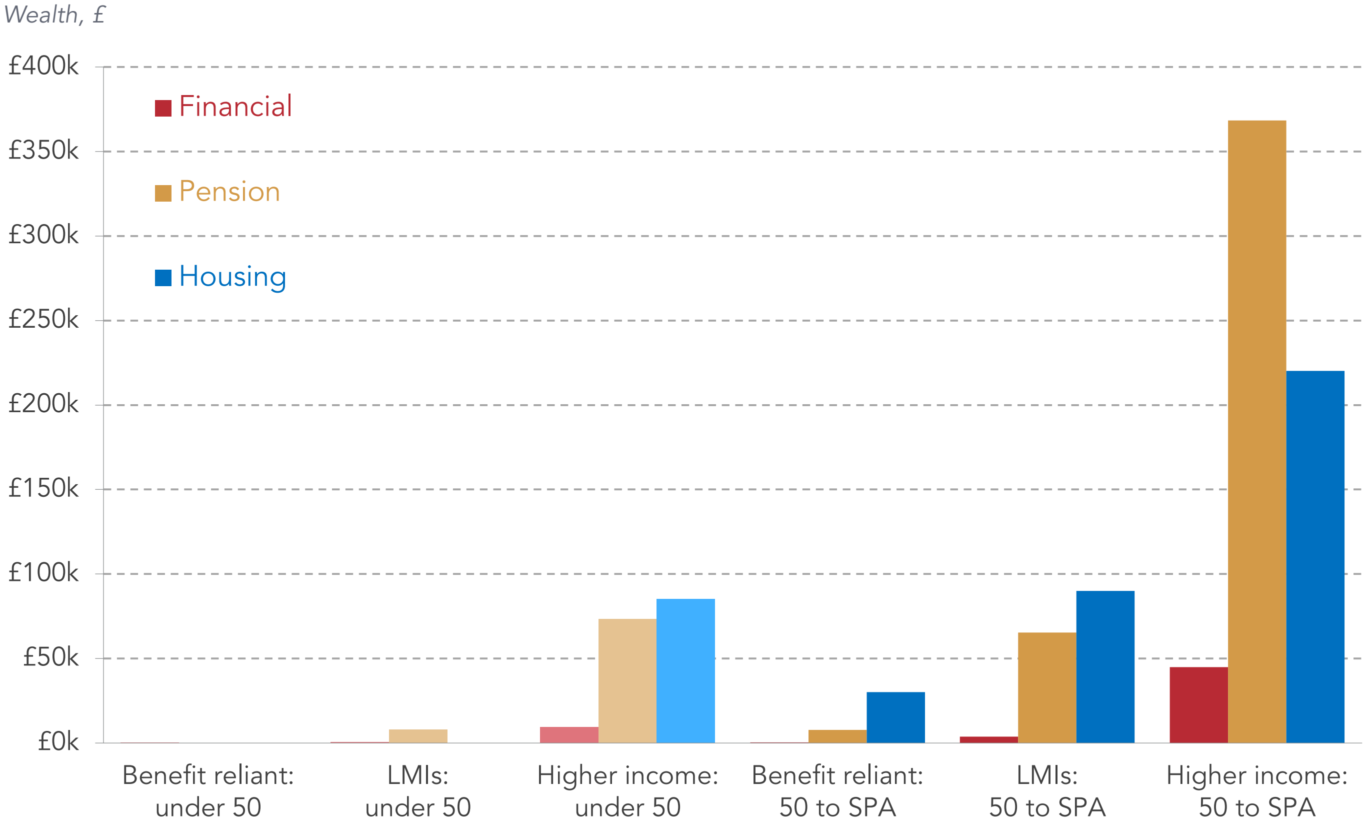
Household savings are only part of the picture when considering household wealth and assets. Using data from the Wealth and Assets survey, which provides a more complete picture of household wealth than the data used in Figure 16, Older LMIs are estimated to typically have total wealth of £245,000, the single largest element of which comes from housing (£90,000).

[14] An 'adequate' retirement income replacement rate of 70 per cent was suggested by the Pensions Commission back in 2004, and subsequently used as a target measure of adequacy by various organisation including recently the PLSA in: PLSA, *Retirement Income Adequacy: Generation by Generation*, November 2016

That is less than a third of the wealth held by older higher income households (£825,000). It is worth noting that typical wealth levels for older LMIs are also lower than those of younger higher income households.

Figure 17 compares elements of typical wealth for different households – financial, pensions and housing – by age and income group. The estimates shown are medians for each type of wealth for each group and so do not sum to the totals in the text above, but it remains clear that older LMIs hold only a fraction of the wealth of higher income households.

Figure 17: Median household wealth by type of wealth, age and income group, UK: 2012-2014



Notes: 'Benefit reliant' here represents households in the lowest decile by equivalised household income (using OECD-modified scale); 'LMI' are households in the second to fifth deciles by income and 'higher' are households in deciles six and above, see Annex A for more detail.

Source: RF analysis of Wealth and Assets Survey, 2012-2014

What this analysis reminds us is that the wealth of the baby boomers is concentrated among the richer half of households, not all of this generation have benefited from generous DB pension provision. As previous Resolution Foundation research has highlighted there is a high level of inequality of wealth within generations. Looking forward, auto-enrolment will increase private pension coverage but it may have arrived too late for oldest members of this group.

Conclusion

The 2017 general election is likely to be dominated by debates over Brexit. But there are plenty of other issues of concern for politicians to grapple with. The outlook for living standards to the end of the decade, while uncertain, is decidedly gloomy – especially for LMIs. There is a clear need for the next government to focus attention on earnings and incomes.

The living standards of Older LMIs are still no higher than in 2007-08, longer taking into account the rising cost of housing. And they remain at risk of continued financial strain as they approach retirement, facing a struggle to maintain current living standards and save enough to support their future living standards in retirement.

Living standards matter. Longer term tackling the challenges, such as the higher cost of housing due to a shift into private renting, faced by younger cohorts, will help support living standards of future older working-age households. But more immediately measures to further boost employment but also boost pay will be particularly important to help today's older LMI households. A focus on keeping people in work, preventing early exit from the labour market will be key.

This report provides an insight into the financial situation of older low to middle income households highlighting the living standards challenges they face. Some unique to this group but others shared by all working-age households. In doing so it aims to provide better understanding of the characteristics of older low to middle income families and provide a platform on which to start building more effective policy changes for this group.

Annex A: Defining older low to middle income households

A majority of the figures presented in this report are derived from 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, net income and benefit receipt.

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 net incomes to account for differing household sizes and compositions, using the modified OECD scale. This matters because, for any given 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.

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 LMI group. At the lower end we create a threshold at the boundary between deciles 1 and 2. We do this 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. 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 (child benefit is still considered a non-income related benefit in the FRS) into the benefit-reliant 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.

As this report serves as a description of living standards for older LMIs we have split the group by age – the focus being those 'older' households headed by a person aged 50 but below State Pension age. The head being the highest income member of the household also responsible for owning or renting the accommodation. The younger group remain working-age households with a head under the age of 50.

Table 1 of this report makes use of the Living Cost and Food Survey, using a similar definition of older LMIs. However, working-age households are defined as those where the household reference person's economic status is not 'retired', or where retirement pensions account for less than three-quarters of total income. Households are grouped according to where they stand in the distribution of gross equivalised household income. Those in decile 1 are "benefit reliant". Those in deciles 2-5 are "low to middle income". Those in deciles 6-10 are "higher income". Finally households reporting 'social security' as their main source of income are defined as "benefit reliant".

Remaining income 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.

Net 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.

Figure 18 utilises the Wealth and Assets Survey which also implements the board definition outlined above but with some deviations – removing those aged over 64 and below 16 and equivalising on annual net household incomes (combining 'regular' and 'other' income sources) but without using information on benefits received.

Estimates related to voting behaviour are based on the British Election Study 2015. From this data it is possible to identify household income bands, whether a person is in a couple and if they have any children. It does not intimate the number of children in a family. Therefore an equivalisation factor is constructed accounting for these characteristics and is applied to the mid-point of each income band. Results are then ranked and used to identify individuals in households with income in deciles 2 to 5. There is insufficient information to account for benefit income.

Annex B

Table B1: Upper and lower gross household income thresholds for 'low-to-middle income' households, by selected composition: UK 2014-15

	Weekly income (£)		Annual income (£)	
	Lower	Higher	Lower	Higher
Single no children	180	420	9,250	21,600
Single with one child	230	540	12,000	28,050
Single with two children	280	660	14,750	34,500
Single with three children	340	790	17,500	40,950
Couple with no children	270	620	13,800	32,250
Couple with one child	320	740	16,550	38,700
Couple with two children	370	870	19,300	45,150
Couple with three children	420	990	22,050	51,600
Couple with four children	480	1,120	24,800	58,050
Three adults, no children	350	820	18,350	42,900
Four adults, no children	440	1,040	23,000	53,850
Equivalised income [1]	270	620	13,800	32,250

Note: [1] Equivalised incomes calculated using modified-OECD scale.

Source: RF analysis of DWP, Family Resources Survey 2014-15

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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