

Introduction and summary of key findings

Introduction

Background

This is the twentieth edition of the Households Below Average Income (HBAI) series. This report presents information on potential living standards in the United Kingdom as determined by disposable income in 2007/08, and changes in income patterns over time.

What does HBAI measure?

Households Below Average Income (HBAI) uses household disposable incomes, after adjusting for the household size and composition, as a proxy for material living standards. More precisely, it is a proxy for the level of consumption of goods and services that people could attain given the disposable income of the household in which they live.

In order to allow comparisons of the living standards of different types of households, income is adjusted to take into account variations in the size and composition of the households in a process known as equivalisation, which is explained in more detail below.

A key assumption made in HBAI is that all individuals in the household benefit equally from the combined income of the household. This enables the total equivalised income of the household to be used as a proxy for the standard of living of each household member.

See **Appendix 1** for a detailed definition of net disposable household income and see **Appendix 2** for a more 'in-depth' presentation of the methodology underpinning HBAI.

Publication structure

This publication is split into seven chapters and three appendices. Chapter 1 gives a summary of the results and an introduction to the analysis; Chapter 2 gives an overview of the income distribution and looks at the economic climate for the period covered; Chapters 3 to 6 provide detailed analysis of

the incomes of all individuals, children, working age adults and pensioners respectively; Chapter 7 gives a summary of analysis of persistent poverty. Chapters 3 to 6 follow a common structure, starting with results for the most recent year, followed by tables showing headline trends over time, which have a **tr** suffix, and tables showing time series which have a **ts** suffix.

Appendix 1 gives a glossary of terms used and detailed definitions, while Appendix 2 gives a more 'in-depth' presentation of the methodology underpinning HBAI. Appendix 3 gives Opportunity for all indicators.

Changes to the publication

The following changes have been made to the analyses within the publication this year.

- Following user consultation, the excluding self-employed section of Table 2.3 has been removed, as have the 50 per cent of mean section from Table 2.4ts.
- A split showing the number of disabled and non-disabled individuals split further between children, working age adults and pensioners, by income quintile distribution has been added to Table 3.1. Similarly, splits showing the composition of low-income groups and the risk of falling into low-income groups by this classification have been introduced in Tables 3.3 and 3.5 respectively.
- Splits showing a time series of the numbers of children and pensioners in low-income groups have been introduced in Chapters 4 and 6. A matrix showing the old and new numbering of the tables is available following the content pages.
- The methodology to calculate total savings and assets has been improved. More households are shown to have no savings and fewer households are shown

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to have a small level of savings. This means figures in this publication are not directly comparable with figures in the previous publication. Revised tables for earlier years are available on request.

- Following consultation with users, the questions on pension provision in the Family Resources Survey were changed in 2006/07 to try to provide more information on the type of private pension scheme and identify increasing participation within older age groups. However, problems were identified during analysis as some respondents reported dormant (closed) pension schemes memberships as if they were live pension scheme memberships with respondents making continuing contributions. It has not been possible to identify and exclude all the dormant memberships on a consistent basis and the decision has been taken to withdraw estimates showing pension scheme membership by type of provision from Chapter 5.
- The years 1995/96, 2000/01, 2003/04 and 2005/06 have been dropped from all non-regional time series presented in the time series tables for reasons of space, while the periods 1999/00 to 2001/02 and 2003/04 to 2005/06 have been removed from the regional time series tables. These dropped years are indicated on the tables by double lines. All years, however, are included in the high-level summaries in the middle of each chapter and in versions of time series shown on the internet.
- The four-year periods 1993 to 1996 and 1995 to 1998 have been dropped from the persistent low-income tables in **Appendix 3**. These dropped years are indicated on the tables by double lines. All periods, however, are included in versions of time series shown on the internet.
- Minor changes to breakdowns for some chapters have been made because of small sample sizes.
- Some minor improvements have been made to the HBAI processing methodology. These are detailed in Appendix 2.

Equivalisation

Income is adjusted, or equivalised, to take into account variations in both the size and

composition of the household. This process reflects the common sense notion that a family of several people needs a higher income than a single person in order for both households to enjoy a comparable standard of living.

Equivalence scales conventionally take a couple with no children as a reference point. The incomes of larger households are adjusted downwards and the incomes of smaller households adjusted upwards relative to this benchmark. The values of the OECD and McClements equivalisation scales are shown in **Appendix 2**.

Most income values quoted in this publication relate to the 'cash' income for a couple with no children; the equivalisation process must be reversed in order for them to be converted to cash incomes for other family types (see HBAI **Table 2.4ts** for examples).

Housing costs

It could be argued that the costs of housing faced by different households at a given time do not always match the true value of the housing that they actually enjoy, and that housing costs should therefore be deducted from any definition of disposable income. However, any measure of income defined in this way would understate the relative standard of living of those individuals who were actually benefiting from a better quality of life by paying more for better accommodation. Income growth over time would also understate improvements in living standards where higher costs reflected improvements in the quality of housing.

Conversely, any income measure which does not deduct housing costs will overstate the living standards of individuals whose housing costs are high relative to the quality of their accommodation (for example for some residents of London). Growth over time in income before housing costs could also overstate improvements in living standards for low-income groups in receipt of Housing Benefit, and whose rents have risen in real terms. This is because Housing Benefit will also rise to offset the higher rents (for a given quality of accommodation) and would be counted as an income rise, although there would be no associated increase in the standard of living. A similar effect could work in the opposite direction for pensioners: if a shift from renting to owning their housing outright leads to a fall in Housing Benefit income, because fewer low-income pensioners are paying rents, then

changes in income before housing costs may understate any improvement in living standards.

Therefore, HBAI presents analyses of disposable income on two bases: Before Housing Costs (BHC) and After Housing Costs (AHC). This is principally to take into account variations in housing costs that themselves do not correspond to comparable variations in the quality of housing. A definition of housing costs can be found in **Appendix 1**.

Self-employed

All analyses in this volume include the self-employed. However, it should be noted that a proportion of this group are believed to report incomes that do not reflect their living standards and that there are recognised difficulties in obtaining timely and accurate income information from this group. Previous analysis of the level of material deprivation reported by those self-employed and reporting incomes amongst the lowest 20 per cent of incomes suggests that the link between lower incomes and higher levels of material deprivation is much weaker than it is for the population as a whole.

Data sources

The main source of data used in this publication is the UK DWP Family Resources Survey (FRS), which is a continuous cross-sectional survey. During 2007/08, full interviews were completed with 23,121 households in Great Britain and 1,861 households in Northern Ireland.

As the FRS does not track individuals over time, analysis of incomes is supplemented by the use of longitudinal data from the British Household Panel Survey (BHPS), which is carried out by the Institute for Social and Economic Research (ISER) UK Longitudinal Studies Centre at the University of Essex.

Population coverage

Both the FRS and the BHPS are surveys of private households. This means that people in residential institutions, such as nursing homes, barracks or university halls of residence, and also homeless people are excluded from the scope of the analysis presented here. Northern Ireland was included in the FRS from the 2002/03 survey year. The selected BHPS

results presented in this publication do not include data for Northern Ireland, which are only available from the 1996 wave. The area of Scotland north of the Caledonian Canal was included in the FRS for the first time in the 2001/02 survey year, and from the 2002/03 survey year, the FRS was extended to include a 100 per cent boost of the Scottish sample. This has increased the sample size available for analysis at the Scottish level.

For some tables, estimates for Northern Ireland (NI) have been imputed for the years 1998/99 to 2001/02. This allows for changes since 1998/99 to be measured at the United Kingdom (UK) level. For further details, see Appendix 4 of the HBAI 2004/05 publication. The FRS time series in this publication are therefore presented with discontinuities in the years denoting changes from GB to UK.

Reliability of results

All figures presented in HBAI are estimates taken from sample surveys and, as such, are subject to variation as a result of both sampling error and bias due to non-sampling errors. These areas are covered in more detail in **Appendix 2**, as well as being outlined briefly below:

- **Sampling error** – as mentioned above, HBAI results are derived from a survey and are therefore subject to sampling error. This will vary to a greater or lesser extent depending on the level of disaggregation at which results are presented. Estimates of income growth between years are vulnerable to sampling error.
- **Non-response** – as with any survey, HBAI results are also at risk from systematic bias due to non-response by households selected for interview in the FRS. In an attempt to correct for differential non-response, estimates are weighted using population totals. Further information on the weighting methodology is included in **Appendix 2**.
- Investigations in 2002 into differences between FRS estimates of worklessness and estimates from the Labour Force Survey (LFS) suggested that the FRS overstates the proportion of children living in workless households. A report on findings is at the following URL: http://www.dwp.gov.uk/asd/frs/reports/children_in_workless_households.pdf.

- **Equivalence scales** – the results presented in HBAI are calculated using the OECD equivalence scales. The exception is in **Appendix 3**, where information for Great Britain from 1994/95 to 2007/08, based on the McClements equivalisation scales, is available. Please refer to **Appendix 2** for a table showing the equivalence scale values.
- **Income components** – as previously mentioned, there are particular problems with the collection and quality of data relating to the incomes of the *self-employed*. The FRS also records a shortfall in *investment income* when compared with National Accounts totals. This may lead to an understatement of total income for some groups for whom this is a major income component, such as pensioners, although this is likely to be more important for those at the top of the income distribution.
- **High incomes** – comparisons with Her Majesty's Revenue and Customs' Survey of Personal Incomes (SPI), which is drawn from tax records, suggest that the FRS under-reports the number of individuals with very high incomes and also understates the magnitude of their incomes. There is also some volatility in the number of high income households surveyed. Since any estimate of mean income is very sensitive to fluctuations in incomes at the top of the distribution, an adjustment to correct for this is made to 'very rich' households in FRS-based results using SPI data. The median-based low-income statistics are not affected.
- **Incomes as a guide to living standards** – comparisons of household income and expenditure suggest that those households reporting the lowest incomes may not have the lowest living standards. The bottom 10 per cent of the income distribution should not, therefore, be interpreted as having the bottom 10 per cent of living standards. For HBAI tables, this will have a relatively greater effect on results where incomes are compared against low thresholds of median income. For this reason, compositional and risk tables using the 50 per cent of median thresholds have been italicised to highlight the greater uncertainty.
- **Comparisons with National Accounts** – **Table 2.1** shows comparisons between growth in Real Household Disposable Income and real growth in HBAI mean BHC unequivalised income. For some more recent years, income growth in the HBAI-based series appears lower than the National Accounts estimates. The implication of this is that absolute real income growth could be understated in the HBAI series. Comparisons over a longer time period are believed to be more robust.
- **Back payments** – it is possible that at the time of an FRS interview, a person will not be in receipt of a benefit, but will be subsequently awarded the benefit which is backdated to the time of interview. In this situation, HBAI methodology does not adjust for the 'retrospectively' increased income. This is relevant for benefits where there are significant backlogs in processing claims or where it is possible for families to submit backdated claims. The size of this effect will be larger in years with a relatively large volume of back payments, such as in 2003/04, when Child and Working Tax Credits and Pension Credit were introduced. Further details of possible effects of the introductions of these benefits were described in the 2004/05 HBAI publication.
- **Geographical disaggregation** – the sample size of the FRS is large enough to allow analysis at regional level within the UK for some results. However, in general, estimates of changes over time, at a regional level, are unlikely to yield a reliable picture of how different regions have experienced different changes. To address this issue, **Chapters 3 to 6** of the publication present data to the level of Government Office Region (GOR) and country as three-year averages. A list of the constituent counties of English GORs is provided in **Appendix 1**.
- **Ethnicity breakdowns** – where results are presented for households headed by a person reporting their ethnic status as Mixed, Black Caribbean or Black non-Caribbean and Chinese or other ethnic group, caution should be applied when interpreting results due to the small sample sizes of these groups. Smaller ethnic minority groups exhibit year-on-year variation which limits comparisons over time. For this reason, detailed ethnic estimates are presented as three-year averages.

National Statistics Quality Review of Income Statistics

In 2001, as part of the National Statistics Quality Review of Income Statistics, the DWP launched a joint review of the HBAI and Pensioners' Incomes (PI) statistical reports. The purpose was to establish whether the HBAI and PI series continue to meet the needs of their users and, where they did not, how best to address those needs. It considered the definitions and methodology used and also the timeliness and accessibility of the statistics. Details of the review and its conclusions are available on the DWP website at the following URL: <http://www.dwp.gov.uk/asd/hbai.asp>.

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We are also grateful to Her Majesty's Revenue and Customs for the provision of aggregated data from the Survey of Personal Incomes.

The British Household Panel Survey data was made available through the UK Data Archive at the University of Essex. Responsibility for the accuracy and interpretation of the results lies solely with the DWP.

Contact points

We welcome feedback on our publications. If you have any comments or questions regarding this or previous editions of HBAI please contact the DWP statistician responsible for HBAI by telephone on 020 7962 8232 or the HBAI team by e-mail at team.hbai@dwp.gsi.gov.uk.

Summary of key findings

The income distribution

- Overall, the income distribution in 2007/08 was skewed towards the lower end, showing a relatively high concentration of individuals close to the 60 per cent of median low-income threshold and – particularly for Before Housing Cost – a long 'tail' for higher incomes.
 - State support was the main source of income for the bottom quintile whereas earnings were the principal source for the other four quintiles.
 - There was income growth across the whole distribution from 1994/95 to 2007/08, with growth being the greatest in the second quintile on both Before Housing Costs and After Housing Costs bases.
 - The ratio of the incomes of the top quintile (fifth) of the population to the incomes of the bottom quintile has shown little change between 1994/95 and 2007/08.
 - The Gini coefficient, a measure of inequality, has fluctuated slightly since 1994/95 on both Before Housing Cost and After Housing Cost bases, but has shown evidence of a marginal rise between 2006/07 and 2007/08.
- In 2007/08, individuals in workless families were much more likely to live in low-income households than those with one or more adults in full-time work.
 - Families with children, particularly lone-parent families, were more at risk of low income than their childless counterparts.
 - Women had a higher risk of low income than men.
 - Individuals in families containing one or more disabled people were more likely to live in low-income households than those in families with no disabled person if they were not in receipt of disability benefits. Disabled individuals were also more likely to live in low income households than non-disabled individuals.
 - Individuals living in households headed by a member of an ethnic minority were more likely to live in low-income households. This was particularly the case for households headed by someone of Pakistani or Bangladeshi ethnic origin.
 - Individuals living in Council or Housing Association accommodation were more likely to live in low-income households than other tenure types. This was also true of those in Private rented accommodation After Housing Costs.

Whole population

- Over the period 1994/95 to 2007/08, the percentage of the population below 60 per cent and 70 per cent thresholds of contemporary median income showed slight falls on both Before Housing Costs and After Housing Costs bases. The number of individuals below 60 per cent contemporary median income increased on a Before Housing Costs basis between 1994/95 to 2007/08 but was at the same level on an After Housing Costs basis.
- The proportion and number of the population below low-income thresholds that remained fixed in real terms fell substantially over the same period – with proportions falling by around one half.
- Individuals in low-income households were more likely than the rest of the population to have no bank account.
- Around half of individuals in low-income households lived in families reporting no savings.
- Individuals living in the North East, North West, West Midlands and Wales were most likely to live in low-income households on a Before Housing Costs basis, with individuals in Inner London more likely on an After Housing Cost basis. Those living in the East of England, South East, South West and Scotland were least likely to live in low-income households on both bases.

Children

- In general, there was a decrease in the proportion and number of children below various thresholds of contemporary median income between the years 1994/95 and 2007/08. The figures showed a rise in the earlier years of the period and a fall in later years, however between 2006/07 and 2007/08, the numbers and the proportions either stayed the same or rose, depending on the measure. The number and proportion of children who were living in low-income and material deprivation increased over the last year.
- Over the period 1994/95 to 2007/08, there was a marked fall in the proportion of children below income thresholds held constant in real terms, however between 2006/07 and 2007/08 the proportions broadly stayed the same.
- In 2007/08, children were more likely to be in the bottom two quintiles, and less likely to be in the top two quintiles, of the income distribution than the population as a whole.
- Children in lone-parent families were much more likely to live in low-income households than those in families with two adults. However, there has been a reduction in the risk of relative low income for children in lone-parent families since 1996/97.
- Children in workless families were much more likely to live in low-income households than those with one or more adults in full-time work.
- Children in large families – those with three or more children – were more likely to live in low-income households, although the risk of relative low income for this group has decreased since 1996/97.
- Children in families containing someone who is disabled were more likely to live in low-income households than those in families with no disabled person if they were not in receipt of disability benefits.
- Children living in a family headed by someone from an ethnic minority were more likely to live in low-income households. This was particularly the case for those headed by someone of Pakistani or Bangladeshi origin, where the majority of

children were in households below 60 per cent of median income.

- Children in Inner London had a greater risk of low income than for any other region After Housing Costs. Before Housing Costs, the North West, the North East and West Midlands had similar levels.
- Children in low income and material deprivation were more likely than low-income households to live in social rented sector housing and workless households. Their family was also more likely to receive Income Support or Housing Benefit. Around two thirds of children in the bottom quintile were in families that would like to have a holiday away from home one week a year not with relatives or would like to make savings of £10 a month or more but said they could not afford to do so.

Working-age adults

- Over the period 1994/95 to 2007/08 there was little change in the percentage of working-age adults below various thresholds of contemporary median income although there was an increase in the number. Between 2006/07 and 2007/08 the number of working-age adults below 60 per cent contemporary median income rose on both a Before Housing Cost and an After Housing Cost basis.
- There were marked falls over the period in the percentage and number of working-age adults below various low-income thresholds that were fixed in real-terms, although there has been little change since 2001/02.
- In 2007/08, working-age adults were more likely to be in the top two quintiles and less likely to be in the bottom two quintiles of the income distribution than the population as a whole.
- Working-age adults with children were more likely to live in low-income households than their childless counterparts. This was particularly evident for singles with children, of whom around 70 per cent were in the bottom two quintiles.
- Working-age adults in workless households or families were much more likely to be in low-income than those in households or

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families with one or more adults in full-time work.

- Working-age adults living in families with at least one disabled adult or child were more likely to live in low-income households if they were not in receipt of disability benefits. Working-age adults who were disabled or had a disabled partner accounted for around three in ten of those in households with incomes below 60 per cent of median income.
- Working-age adults living in households headed by someone from an ethnic minority were more likely to live in low-income households. This was particularly the case for those headed by a member of the Pakistani and Bangladeshi communities, of whom around half were in households with below 60 per cent of median income on a Before Housing Cost basis.
- Of those working-age adults in low-income households, over half lived in families that reported no savings.
- Among working-age adults with two or more household bills in arrears, around three quarters were in the bottom two quintiles.
- Working-age adults with no educational qualification were about twice as likely to live in low-income households as those with a qualification below degree level.

Pensioners

- Between 1994/95 and 2007/08, there was no consistent change in the proportion or number of pensioners living in households below thresholds of contemporary median income on a Before Housing Costs basis; a slight rise was followed by a drop between 1998/99 and 2005/06. There has been no change between 2006/07 and 2007/08 following a rise between 2005/06 and 2006/07. For income After Housing Costs, the proportions and numbers showed a marked fall, from 1998/99, before an increase between 2005/06 and 2006/07 and a slight decrease between 2006/07 and 2007/08.
- From 1994/95 to 2007/08, there were pronounced falls in the proportions and

numbers of pensioners below low-income thresholds held constant in real terms, on both income measures, although there was an increase between 2005/06 and 2006/07 followed by a slight decrease between 2006/07 and 2007/08.

- In 2007/08, pensioners were more likely to be in the bottom two income quintiles and less likely to be in the top two quintiles of the income distribution, than the population as a whole.
- Single pensioners living alone had a higher risk of low income than all other groups.
- In general, the older the age of the pensioners, the greater the likelihood of low income.
- Pensioners living in a household headed by someone from an ethnic minority group had a greater risk of low income.
- The majority of pensioners in low-income households were owner-occupiers who owned their homes outright, and the risk for this group was fairly typical when compared with all pensioners.
- Pensioners living in a household headed by someone from an ethnic minority group had a greater risk of low income.
- Around 40 per cent of pensioner families in households below 60 per cent of contemporary median household income After Housing Costs had someone receiving a personal or occupational pension compared to just around 70 per cent of all pensioners.

Persistence of Low Income

- Persistence of low income is defined as spending three or more years out of any four-year period in a household with below 60 per cent of median income.
- On both Before Housing Cost and After Housing Cost bases there were falls in persistent low income for the whole population over the period 1991 to 2006.
- On a Before Housing Cost basis, there was a reduction in persistent low income for children over the period 1991-1994 to 1993-1996. While trends remained broadly

the same between 1993-1996 and 1999-2002, since then there has been a continued fall to the most recent period 2003-2006. On an After Housing Cost basis, there were falls in the persistent low-income estimates for children since 1996-1999.

- On both Before Housing Cost and After Housing Cost bases there were falls in persistent low income for people of working age over the period 1991 to 2006.
- On both Before Housing Cost and After Housing Cost bases there was a slight increase in the incidence of persistent low income among pensioners up to around 1998-2001. Since this time, however the proportion of pensioners experiencing persistent poverty has since shown a continuous fall.
- For all individuals, children, working age individuals, and pensioners, the level of persistent poverty in 2003-2006 was lower than it was at the start of the 16-year period on both a Before Housing Cost basis and an After Housing Cost basis.