

Introduction and summary of key findings

Introduction

Background

This is the nineteenth 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 2006/07, 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.

Changes to the publication

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

- Statistics pertaining to levels of the number of children in relative low-income households and in material deprivation

have been introduced. This is a third indicator of child poverty that was specifically defined as part of the Comprehensive Spending Review.

- The publication has been restructured to bring the supplementary tables into the main body of the publication bringing together all statistics on a particular group. Tables showing headline trends over time have a **tr** suffix and tables showing time series have a **ts** suffix. A matrix showing the old and new numbering of the tables is available following the content pages.
- Time series tables for pensioners based on a threshold of 50 per cent of contemporary median income have been introduced to help to monitor that element of the 'Tackle poverty and promote greater independence and wellbeing in later life' PSA target.
- The way levels of savings are classified on the Family Resources Survey have changed. This means fewer households are shown to have no savings and more with small levels of savings. This means figures in this publication are not directly comparable with figures in the previous publication.
- Following consultation with users, the questions on pension provision in the Family Resources Survey have changed to try to more accurately capture contributions to pensions. While we are evaluating the impact of these changes, we have tried to mirror the former question block as far as possible to minimise any discontinuity in analysing pension provision, however pension provision breakdowns have been changed in line with these new questions.
- A more detailed age split for pensioners has been introduced, as have time trends tables for individuals aged 65 or over.

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- Minor changes have been made to some HBAI tabulations to align these with standard National Statistics breakdowns and other DWP publications.
- Minor changes to breakdowns for some chapters have been made because of small sample sizes.
- Like in the last publication, high-level trends tables from 1994/95 which are included in **Chapters 3, 4, 5, and 6** show UK level data from 1998/99 onwards, with data for Great Britain (GB) for the earlier years. For these 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 this section in the previous publication and 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. Such mixed coverage may cause unreliable interpretation of real-terms changes in point estimates of changes between the 1994/95 survey year and the 2006/07 survey year. As in the 2005/06 publication, such comparisons are therefore excluded from this publication.
- Summary information for GB from 1994/95 to 2006/07, based on the McClements equivalisation scales is available in **Appendix 3**. These tables retain the style of previous years, and estimates on these bases are still used as indicators in the Government's annual 'Opportunities for all' report on tackling poverty and social exclusion. In addition, readers can easily compare these latest Ofa-style results with comparable series published in previous years.
- The years 1995/96, 2000/01 and 2003/04 have been dropped from all time series presented in the **long term trend tables** for reasons of space. 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 period 1996 to 1999 has been dropped from the persistent low-income tables in **Appendix 3**. All periods, however, are included in versions of time series shown on the internet.

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 2006/07, full interviews were completed with 23,874 households in Great Britain and 1,918 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.

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 2006/07, based on

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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. Among pensioners and children, minority ethnic groups are small and detailed ethnic estimates are only possible if 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/quality_review/quality_review.asp.

Acknowledgements

As in previous years, the DWP would like to thank the Institute for Fiscal Studies (IFS) for the substantial assistance that they have provided in checking and verifying the income data and grossing factors underlying the main results in this edition.

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 2006/07 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 2006/07, with growth being the greatest in the second quintile on both Before Housing Costs and After Housing Costs measures.
- 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 2006/07.
- 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 no change between 2005/06 and 2006/07.

Whole population

- Over the period 1994/95 to 2006/07, the percentage of the population below various low-income thresholds of contemporary median income showed slight falls on the 60 per cent and 70 per cent thresholds on both Before Housing Cost and After Housing Cost bases. Over the same period the number of individuals below 60 per cent contemporary median income increased on a Before Housing Costs basis but fell 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.
- In 2006/07, 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 marginally 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.
- 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 – particularly After Housing Costs
- 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 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 South East and the East of England 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 2006/07. The figures showed a rise in the earlier years of the period and a fall in later years, however between 2005/06 and 2006/07, the numbers increased 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 fell over the last year.
- Over the period 1994/95 to 2006/07, there was a marked fall in the proportion of children below income thresholds held constant in real terms, however between 2005/06 and 2006/07 the proportions either stayed the same or rose, depending on the measure.
- In 2006/07, 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 disabled were more likely to live in low-income households than those in families with no disabled people, 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, with nearly half of children in households below 60 per cent of median income After Housing Costs.
- Children in low income and material deprivation were more likely to live in social rented sector housing and workless households. Their family was also more likely to receive income support or housing benefit. Children in the two lowest quintiles of the income distribution were most likely to lack a week's holiday away from home, because their families could not afford to provide this.

Working-age adults

- Over the period 1994/95 to 2006/07 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 2005/06 and 2006/07 the number of working-age adults below 60 per cent contemporary median income remained the same on a Before Housing Costs basis but rose on an After Housing Costs basis.
- There were marked falls over the period in the percentage of working-age adults below various low-income thresholds that were fixed in real terms, although there has been less change since 2001/02.
- In 2006/07, 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 experience low income than those in

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households or 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, though not if they received 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 or 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, around half lived in families that reported no savings.
- Among working-age adults with three 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 2006/07, 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 since 1998/99. However, there was an increase 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.
- From 1994/95 to 2006/07, 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.

- In 2006/07, 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, although the risk for this group was fairly typical when compared with all pensioners.
- Around 40 per cent of pensioners in households below 60 per cent of contemporary median household income After Housing Costs had someone receiving a personal or occupational pension, compared to 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 small falls in persistent low income for the whole population over the period 1991 to 2005.
- 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 2002-2005. On an After Housing Cost basis, there were falls since 1995-1998.
- On a Before Housing Cost basis there was little change in persistent low income for people of working age. However, there were falls when incomes were measured

on an After Housing Cost basis for this group.

- On a Before Housing Cost basis there was a slight increase in the incidence of persistent low income among pensioners up to 1998-2001. Since this time, however there has been a continued fall. On an After Housing Cost basis the proportion of pensioners experiencing persistent poverty rose between the periods 1991-1994 and 1998-2001, but has since shown a marked and continuing fall.
- For all individuals, children, working age individuals, and pensioners, the level of persistent poverty in 2002-2005 was lower than it was at the start of the 15-year period on both a Before Housing Cost basis and an After Housing Cost basis.