

Chapter 7

Low-income dynamics

These results are unchanged from the previous HBAI report. The British Household Panel Survey, the source of this analysis, has been subsumed into Understanding Society. We hope to produce our first analysis of low-income data from this source in late 2012.

- **Definition:** Persistence of low income is defined as spending three or more years out of any four-year period in a household with an income below 60 per cent of median income. Incomes are equivalised using the McClements equivalisation scale.
- **Overall trends:** On both a Before and After Housing Costs basis there was a fall in persistent low income for the whole population over the period 1991-1994 to 2004-2007 with a slight increase in 2005-2008.
- **Trends for children:** On a Before Housing Costs 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 2004-2007. The level for the most recent period 2005-2008 has increased. On an After Housing Costs basis, there were falls in the persistent low-income estimates for children between 1996-1999 and 2003-2006. In the latest two periods, 2004-2007 and 2005-2008 there has been an increase.
- **Trends for working-age adults:** On both Before Housing Costs and After Housing Costs bases, there were falls in persistent low income for working-age adults over the period 1991-1994 to 2004-2007, before a rise in 2005-2008.
- **Trends for pensioners:** On both Before Housing Costs and After Housing Costs bases, there were slight increases 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 shown a continuous fall which has continued on an AHC basis to the latest period 2005-2008, but levels rose slightly on a BHC basis in the latest period 2005-2008.
- **Long-term trends:** For all individuals, children, working-age adults and pensioners, the level of persistent poverty in 2005-2008 was lower than it was at the start of the 18-year period on both a Before Housing Costs basis and an After Housing Costs basis.
- **Further details:** For further details see the DWP Low-Income Dynamics publication available at <http://research.dwp.gov.uk/asd/index.php?page=lid>.

Introduction

HBAI analysis contained in the previous chapters of this report uses a snapshot survey, and records usual household income at the time of the interview. The extent to which individuals living in low-income households at a point in time are simply experiencing transitory fluctuations in income, or are persistently experiencing low income, is clearly an important issue and one that can only be addressed using longitudinal data. The issues of income mobility and the extent of persistence of low incomes experienced by different groups are therefore addressed in this chapter, using data from the longitudinal British Household Panel Survey (BHPS).

The BHPS is run by The University of Essex's Institute for Social and Economic Research. Further information is on their website at <https://www.iser.essex.ac.uk/survey/bhps>

The data were made available through the UK Data Archive and were released under the auspices of the ESRC UK Longitudinal Studies Centre (ULSC) at the University of Essex. Neither the ULSC nor the Archive bears any responsibility for the analysis or interpretation of the BHPS data presented here.

The information presented in this chapter is based on analysis of 18 waves of the British Household Panel Survey (BHPS), from 1991 up to and including 2008. This chapter is based on the findings of the 'Low-Income Dynamics' (LID) analytical paper which was published by DWP in autumn 2010. Due to improvements in the timeliness of the availability of Family Resources Survey (FRS) data, it is no longer possible to include the analysis of the latest wave of BHPS in the HBAI report. The BHPS has been subsumed into the larger Understanding Society survey from the start of 2009. Due to the timing of data delivery of the BHPS element of the Understanding Society survey it was not possible to produce a Low-Income Dynamics report in 2011; instead the period was used to look into options on how to continue measuring the persistence of low income, with options set out in a technical note available at:

http://research.dwp.gov.uk/asd/hbai/low_income/usoc_tech_note.pdf.

This chapter focuses mainly on the trends in relation to individuals who are persistently observed as living in low-income households between 1991-1994 and 2005-2008. Full details of the analysis of income mobility and transition rates are covered in the LID paper, which is available on the DWP website at <http://research.dwp.gov.uk/asd/index.php?page=lid>. This contains further analysis, including details of changes between the latest two periods.

Equivalisation scale used

Note that incomes have been equivalised using the McClements equivalisation scale (see **Appendix 2** for details on equivalisation scales).

Definition of income

The measures of income used in the BHPS analysis presented in this chapter are very similar to those used in FRS analysis (see **Appendix 1**), but with two notable exceptions:

- i) This chapter presents results on the persistence of low income on both Before Housing Costs (BHC) and After Housing Costs (AHC) measures. However, the housing costs in BHPS differ from the ones normally used in HBAI (see **Appendix 1** for a list of housing costs normally used in HBAI). For this analysis, housing costs have been defined simply as weekly gross housing costs as recorded on the BHPS. In the case of renters, these housing costs will include service and water charges because this is how the information is requested on the questionnaire. For mortgage payers, these amounts will not be included. There is also no information collected in the BHPS on the cost of structural insurance payments. Another difference is that for HBAI methodology, only the interest element from a repayment mortgage is deducted as housing costs, whereas in BHPS both the repayment and interest elements will be included as part of 'gross housing costs'. Households with this type of mortgage will have understated AHC incomes compared with standard HBAI methodology.
- ii) As a form of general taxation, Council Tax is also deducted from the definition of net disposable income used in FRS-based HBAI analysis. However, there was insufficient information on Council Tax collected on the BHPS in earlier years to allow the construction of an income measure deducting Council Tax. This affects both BHC and AHC incomes.

Persistent low-income indicators

Table 7.1tr (BHC) presents the persistent low-income indicators for individuals, and for children, pensioners and working-age adults, Before Housing Costs. **Table 7.1tr (AHC)** presents the same figures on an After Housing Costs basis.

The definition of persistence used is 'at least three years out of four below thresholds of 60 or 70 per cent of median income'. An alternative definition using the bottom 20 or 30 per cent of the income distribution as opposed to thresholds of median income, is also included for validation purposes. This is useful as threshold results may be subject to variation due to the density of the income distribution around the 60 and 70 per cent of median markers.

Using this alternative definition of the bottom 20 or 30 per cent of the income distribution to describe low income is also shown in **Table 7.1tr (BHC)** and **Table 7.1tr (AHC)**. While there was a slight tendency for 20 / 30 per cent levels to show less variation on a BHC basis than on an AHC basis, the trends over time were broadly consistent.

7 Low-income dynamics

Table 7.1tr (BHC): Persistent low income by group¹

Source: BHPS 1991-2008				
Percentage of group below threshold in at least 3 out of 4 years				
	Main definition		Alternative definition ²	
	Below 60% of median	Below 70% of median	In bottom 20%	In bottom 30%
All individuals				
1991 - 1994	12	20	14	24
1992 - 1995	12	20	14	24
1993 - 1996	11	20	14	24
1994 - 1997	12	20	15	24
1995 - 1998	11	20	14	24
1996 - 1999	12	20	15	24
1997 - 2000	12	20	14	24
1998 - 2001	12	19	14	24
1999 - 2002	11	19	14	24
2000 - 2003	10	19	14	24
2001 - 2004	10	19	14	24
2002 - 2005	9	17	13	23
2003 - 2006	8	17	13	23
2004 - 2007	8	17	13	23
2005 - 2008	9	17	13	23
Children				
1991 - 1994	19	29	22	33
1992 - 1995	18	28	21	32
1993 - 1996	17	27	20	33
1994 - 1997	17	27	21	32
1995 - 1998	17	28	20	32
1996 - 1999	17	28	21	33
1997 - 2000	17	27	21	32
1998 - 2001	17	26	21	32
1999 - 2002	16	27	19	32
2000 - 2003	14	25	18	31
2001 - 2004	12	23	17	30
2002 - 2005	11	21	15	29
2003 - 2006	10	20	15	27
2004 - 2007	10	21	16	28
2005 - 2008	12	23	18	28
Working-age adults				
1991 - 1994	8	13	9	15
1992 - 1995	8	13	9	16
1993 - 1996	7	13	9	16
1994 - 1997	7	12	9	16
1995 - 1998	7	13	9	16
1996 - 1999	7	13	9	16
1997 - 2000	7	12	9	15
1998 - 2001	7	12	8	15
1999 - 2002	7	12	8	15
2000 - 2003	6	12	8	16
2001 - 2004	6	12	9	16
2002 - 2005	6	11	9	15
2003 - 2006	5	11	8	15
2004 - 2007	5	11	8	16
2005 - 2008	6	12	9	16
Pensioners				
1991 - 1994	19	37	23	43
1992 - 1995	19	35	24	43
1993 - 1996	19	34	25	43
1994 - 1997	21	35	26	43
1995 - 1998	20	36	25	43
1996 - 1999	20	36	26	42
1997 - 2000	20	38	26	45
1998 - 2001	21	37	27	44
1999 - 2002	19	37	25	44
2000 - 2003	18	36	25	43
2001 - 2004	17	36	25	44
2002 - 2005	16	32	24	42
2003 - 2006	16	31	23	40
2004 - 2007	14	28	23	38
2005 - 2008	14	27	22	36

Notes:

1. There is a higher density of individuals around 60% and 70% median income. The alternative definition is presented for validation purposes as it presents estimates that are not vulnerable to errors in measuring median income.

Table 7.1tr (AHC): Persistent low income by group¹

Source: BHPS 1991-2008				
Percentage of group below threshold in at least 3 out of 4 years				
	Main definition		Alternative definition ²	
	Below 60% of median	Below 70% of median	In bottom 20%	In bottom 30%
All individuals				
1991 - 1994	15	22	14	23
1992 - 1995	15	23	14	24
1993 - 1996	14	22	14	24
1994 - 1997	15	22	15	24
1995 - 1998	15	22	14	24
1996 - 1999	15	21	14	24
1997 - 2000	14	21	14	24
1998 - 2001	14	21	14	24
1999 - 2002	13	21	13	24
2000 - 2003	12	21	13	24
2001 - 2004	11	20	13	24
2002 - 2005	11	19	13	22
2003 - 2006	10	18	12	23
2004 - 2007	9	17	12	22
2005 - 2008	10	18	12	22
Children				
1991 - 1994	25	32	23	34
1992 - 1995	23	32	22	33
1993 - 1996	22	31	22	33
1994 - 1997	23	31	22	33
1995 - 1998	23	31	22	34
1996 - 1999	23	31	23	33
1997 - 2000	22	30	22	33
1998 - 2001	21	30	22	34
1999 - 2002	20	30	21	34
2000 - 2003	17	28	19	33
2001 - 2004	15	27	19	32
2002 - 2005	16	26	19	31
2003 - 2006	14	24	19	31
2004 - 2007	15	26	19	31
2005 - 2008	17	27	19	32
Working-age adults				
1991 - 1994	10	14	9	16
1992 - 1995	10	16	10	17
1993 - 1996	10	15	10	16
1994 - 1997	10	14	10	16
1995 - 1998	10	14	9	17
1996 - 1999	9	14	9	16
1997 - 2000	9	14	9	16
1998 - 2001	9	14	9	16
1999 - 2002	8	14	9	16
2000 - 2003	8	14	9	17
2001 - 2004	8	13	9	16
2002 - 2005	8	13	9	16
2003 - 2006	7	13	9	16
2004 - 2007	7	13	9	17
2005 - 2008	8	13	9	16
Pensioners				
1991 - 1994	21	36	17	38
1992 - 1995	20	36	17	39
1993 - 1996	19	35	18	38
1994 - 1997	21	35	20	40
1995 - 1998	23	34	22	38
1996 - 1999	23	34	22	37
1997 - 2000	23	35	22	38
1998 - 2001	22	35	23	38
1999 - 2002	18	34	20	38
2000 - 2003	17	33	20	37
2001 - 2004	16	31	20	37
2002 - 2005	14	27	17	33
2003 - 2006	11	24	15	32
2004 - 2007	9	20	11	28
2005 - 2008	8	20	11	28

Notes:

1. There is a higher density of individuals around 60% and 70% median income. The alternative definition is presented for validation purposes as it presents estimates that are not vulnerable to errors in measuring median income.