

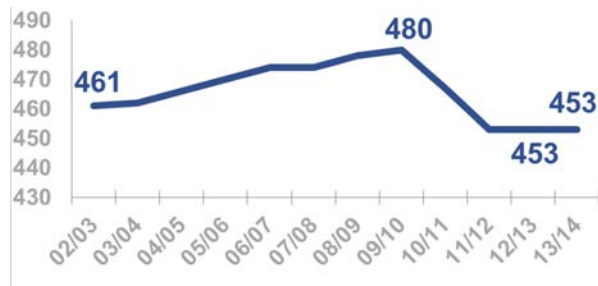
The Households Below Average Income (HBAI) report presents information on living standards in the UK based on income measures for the 2013/14 financial year. Annual estimates are provided for average incomes, and for the number and percentage of people living in low income households.

## Main stories

- The income distribution was very stable in 2013/14 with few changes in headline low income measures compared to 2012/13.
- Average (median) incomes are unchanged, but remain below levels observed before the 2008/09 UK economic recession.

### Household Income

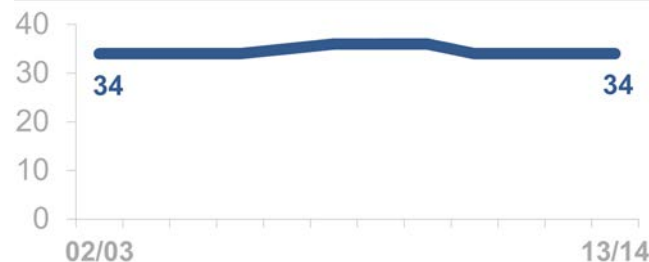
Average **unchanged** at £453 in 2013/14



Average household net disposable income before housing costs was unchanged in real terms (RPI) from 2012/13.

### Income Inequality

Small **increase\*** in Gini coefficient measure



The Gini coefficient, ranging from 0 (low) to 100% (high) measures incomes inequality. There was a 1 percentage point increase to 34% but levels are consistent with long term trends.

### Low Income Measures

Headline measures **unchanged** in 2013/14

	Relative Low Income	Absolute Low Income
<u>Before</u> Housing Costs	<b>15%</b> <b>(+0%)</b>	<b>17%</b> <b>(+0%)</b>
<u>After</u> Housing Costs	<b>21%</b> <b>(+0%)</b>	<b>23%</b> <b>(+0%)</b>

The current proportions of all UK individuals in low income against headline '60% of median' measures are unchanged (percentage point change from 2012/13).

\* Not statistically significant

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Comments? Feedback is welcome

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## What you need to know

HBAI is the foremost source for data and information about household income and inequality in the UK. Annual estimates are provided relating to the overall income distribution, as well as for the number and percentage of people living in low-income households. Users include central Government, local authorities, academics, journalists and the voluntary sector.

### Income measures

HBAI estimates incorporate widely-used international standard measures of low income and inequality. The primary measure used in HBAI is equivalised disposable household income, estimated on both a before and after housing costs basis (BHC and AHC).

In line with international best practice, the income measures used in HBAI are subject to several statistical adjustments and, as such, are not always directly relatable to income amounts as they might be understood by individuals on a day-to-day basis. These adjustments are necessary, however, to allow us to compare measures over time and across households of different sizes and compositions on a consistent basis. These adjustments are discussed in more detail on the page 12, with further information available via the HBAI Quality and Methodology Information Report.

### Survey data

HBAI estimates are based on a sample of 20,000 households in the UK. Use of survey data means that results in this report are subject to a margin of error which can affect how changes should be interpreted, especially in the short term. Latest estimates should be considered alongside medium and long-term patterns.

**Statistical significance** is a technical expression that says whether a reported change is likely to have arisen only by chance due to variations in the sampling. We calculate 95% **confidence intervals** around estimates in HBAI which sets a standard that, where any change is reported as statistically significant, there is less than a 1 in 20 chance that the reported difference is due to sampling variation and there is no real underlying change. In other words, if we created 100 different samples, we would expect confidence intervals for 95 of them to contain the true value.

**None of the changes in this release are statistically significant unless specifically stated.**

### Additional tables and data

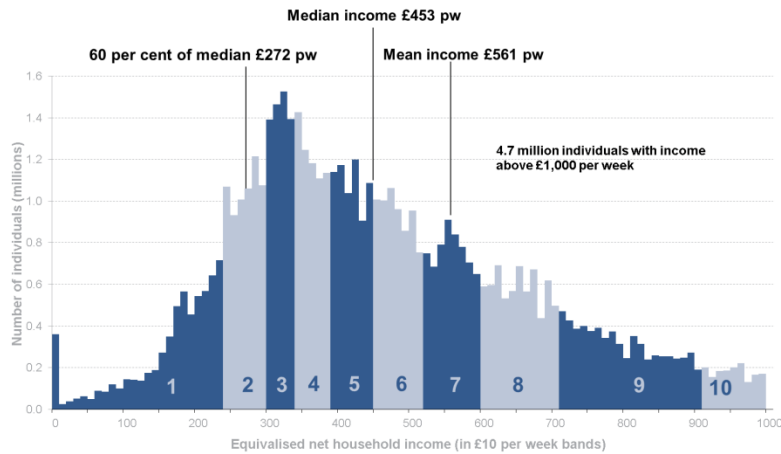
A large number of additional Excel reference tables are also available online, breaking down headline results presented in this report for different demographics and characteristics (including work status, ethnicity, region, and tenure type amongst others). Results are available for most series back to 1994/95. <https://www.gov.uk/government/statistics/households-below-average-income-19941995-to-20132014>

The source data underlying production of these statistics is available for download for further analysis via the UK Data Archive.

# The overall income distribution

Distribution of UK income is skewed with a long upper tail of higher incomes. The shape of the income distribution evolves slowly over time, with relatively small year-on-year changes.

Income distribution (BHC) for the total population (2013/14)



## Main Findings

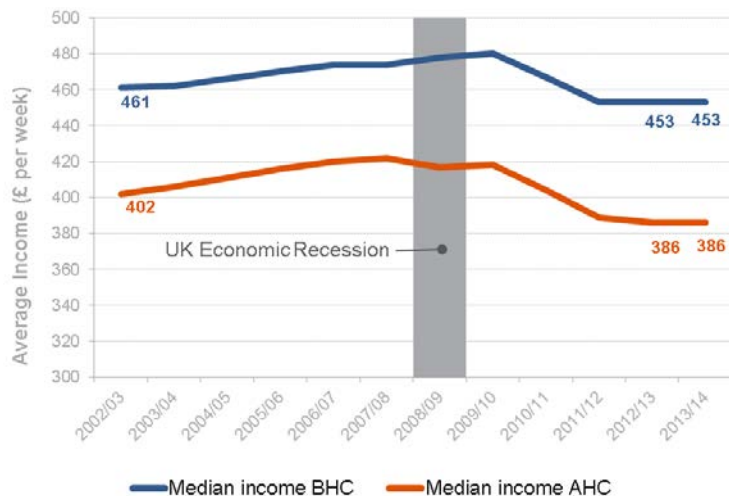
In 2013/14 around two-thirds of individuals had a household income less than the national average (£561 per week).

The presence of high numbers of individuals with relatively high incomes results in a skewed or non-symmetric distribution. As a result, **median** income (£453 per week) is the standard measure of average income as changes in the mean can be driven by extreme values. The median represents the income of the individual in the middle of the distribution.

There are a large number of individuals with household incomes around the 60 per cent of median income mark (£272 per week). Those falling below this line are commonly considered to have relative low income. As a result of the clustering around this income level, relatively small movements in the overall income distribution can sometimes leads to sizeable movements in this low income measure.

See **Table 2.1 BHC** for full data. AHC data is available in **Table 2.1 AHC**.

Average real terms incomes in 2013/14 prices



In 2013/14 the average (median) real terms household income before housing costs (BHC) was **unchanged** from 2012/13 at **£453 per week** (around £23,600 per year). Average household income with housing costs taken into account (AHC) was similarly unchanged at £386 per week (around £20,100 per year).

Before 2009/10 real terms incomes generally saw steady increases since the current survey series began in 1994/95. Following falls from 2009/10, real terms incomes have now stabilised with levels in 2013/14 around those seen in 2001/02.

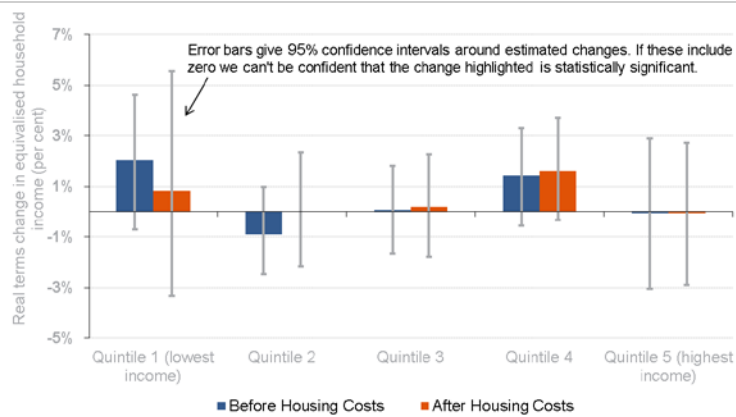
Mean incomes increased in real terms both BHC and AHC in 2013/14, driven in part by increases in employment rates. These changes were not statistically significant.

See **Table 2.1ts** for full data.

# Income inequality

From 2012/13 to 2013/14 there have been only small changes in the overall income distribution and so in levels of inequality.

## Changes in real terms incomes by quintile, 2012/13 to 2013/14



## Interpretation

Quintiles divide the population, when ranked by household income, into five equal sized groups. Looking at changes to average incomes for these groups gives an indication of how the most well off and least well off are doing in comparison with each other and with previous years.

## Main Findings

Individuals at both the very bottom and at the top of the income distribution have seen small real terms increases in income in the latest year, driven in part by growth in employment rates. These changes were not statistically significant.

See **Table 2b** for full data.

## Measures of income inequality, 1998/99 to 2013/14



## Interpretation

The **Gini Coefficient** is an international standard technical measure, showing how incomes are distributed across all individuals. It ranges from zero (when everyone has identical incomes) to 100% (when all income goes to only one person).

The **90/10 ratio** is the average (median) income of the top 20 per cent (quintile 5) divided by the average income of the bottom 20 per cent (quintile 1). The higher the number, the greater the gap between those with the highest incomes and those with the lowest incomes

## Main Findings

Following changes in income in 2013/14 which saw increases at the very bottom and top of the income distribution, the Gini coefficient increased by 1 percentage point BHC and AHC to 34 per cent and 39 per cent respectively. These changes were not statistically significant.

See **Table 2.2ts** for full data.

# Sources of Income

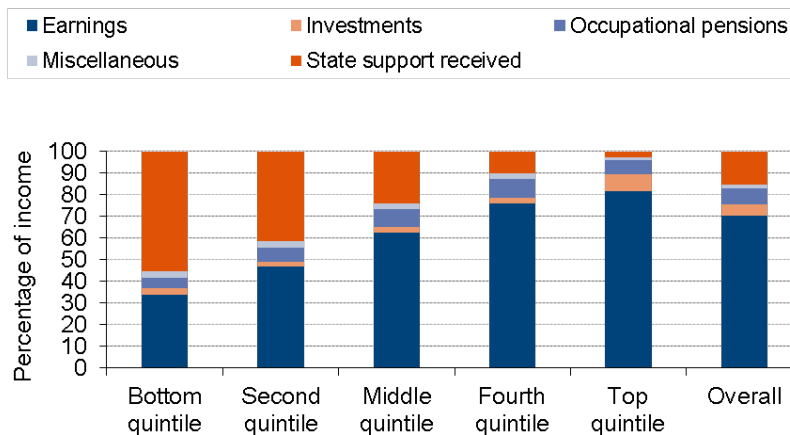
## The majority of household income in the UK comes from either earnings or state support

### Main Findings

The chart below shows the different sources of gross income by quintile, ranking the population by income and dividing into five equal-sized groups. Earnings and state support are the main sources of income overall, accounting for around 85 per cent of combined income.

Whilst there is a clear pattern of higher income households receiving more of their income from earnings, and lower income households more of their income from state support, there is no obvious cut-off between groups – those in the bottom fifth still have earned income and those in the top fifth still show some receipt of state support.

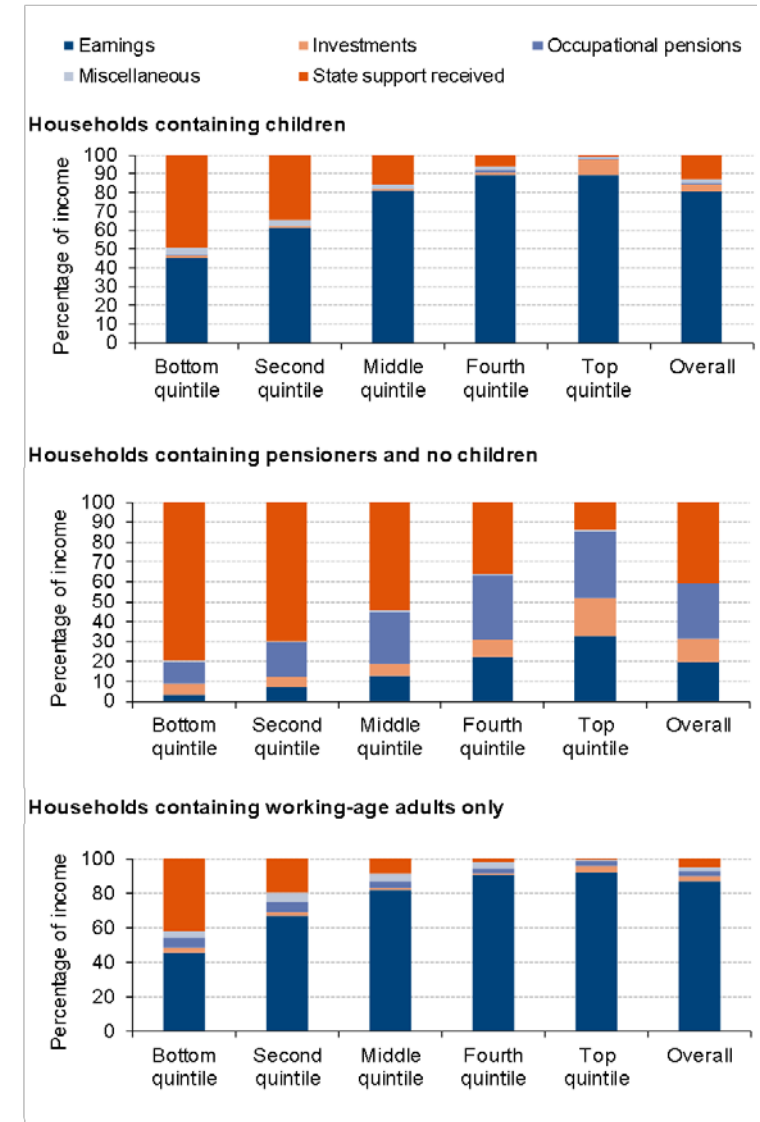
Income sources as a proportion of gross income by quintile (2013/14)



The charts to the right show how results compare for different household types. Households containing children or working age adults only, show a similar breakdown of income components to the overall population. In comparison, more of the income of households containing pensioners and no children comes from state support and occupational pensions.

**Movements in the UK income distribution are therefore driven by changes in the wider economy, the overall labour market, changes in the tax and welfare systems, and the relative effects of these changes on different groups. There are a large number of complex and interacting factors and it is therefore difficult to assess exactly which changes have driven movements in the income distribution (and related measures), or to predict how things may change in future.**

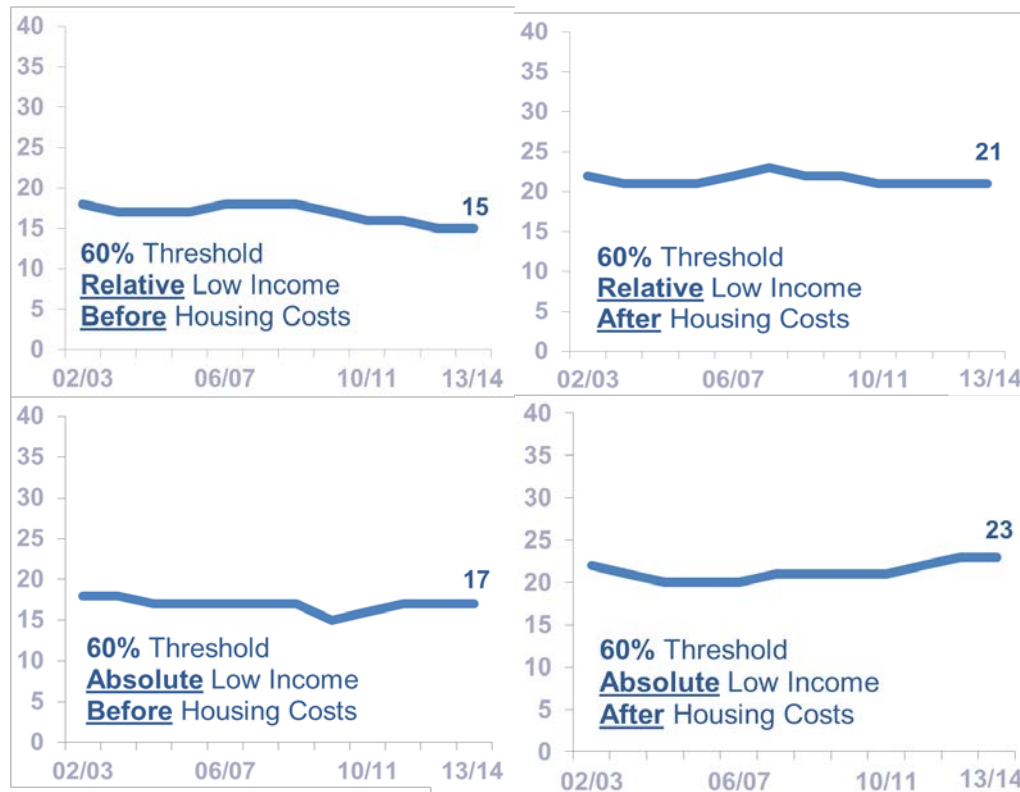
Income sources as a proportion of gross income BHC by quintile and household type (2013/14)



# Low Income Indicators

## Relative and Absolute low income indicators for the overall population are unchanged in recent years

### Percentage of individuals falling below headline low income indicators



### Interpretation

**Relative low income** sets a threshold as a proportion of the UK average income and moves each year as average income changes. It is used to measure the number and proportion of individuals who have incomes below this threshold (typically 50, 60 or 70% of median).

The percentage of individuals in relative low income will **decrease** if:

- Average income stays the same or rises, and individuals with lower incomes see their incomes rise more than average; or
- Average income falls, and individuals with lower incomes see their income rise or fall less than average income.

**Absolute low income** sets a threshold as a proportion of the UK average income in a given year (2010/11) and moves each year in line with inflation. It is used to measure the number and proportion of individuals who have incomes below this threshold (typically 50, 60 or 70% of median of the 2010/11 median, adjusted to contemporary prices).

The percentage of individuals in absolute low income will **decrease** if individuals with lower incomes see their incomes rise by more than inflation.

### Main Findings

- The percentage of individuals in relative low income has been broadly stable in recent years and, based on income before housing costs, is at the lowest level since the 1980s.
- Absolute low income has been increasing, following historic lows in the 2000s, but has stabilised more recently and is broadly unchanged in 2013/14.
- Patterns over the past twenty years show how year-on-year changes tend to be relatively modest, with longer term patterns emerging only slowly over time.

**Overall the percentage of individuals in relative and absolute low income, both before and after housing costs, have not seen statistically significant changes in the latest year**

# Children in Low Income Households

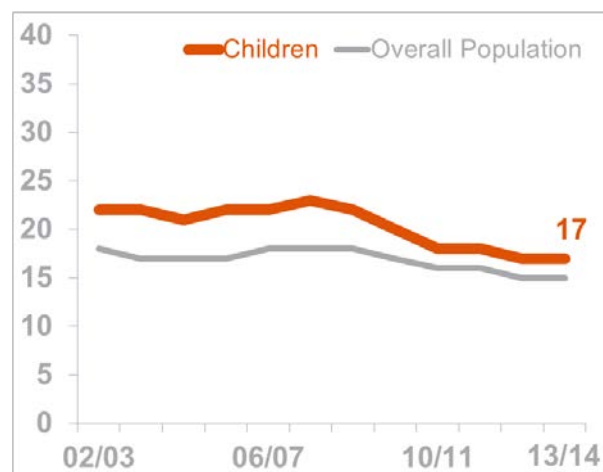
Three main measures are used by Government to monitor low income for children – a 60% threshold relative low income measure, a 60% threshold absolute low measure, and a combined 70% threshold low income and material deprivation measure. All use a before housing costs (BHC) measure of income.

See Tables 4.1tr, 4.2tr, and 4.5tr for full data.

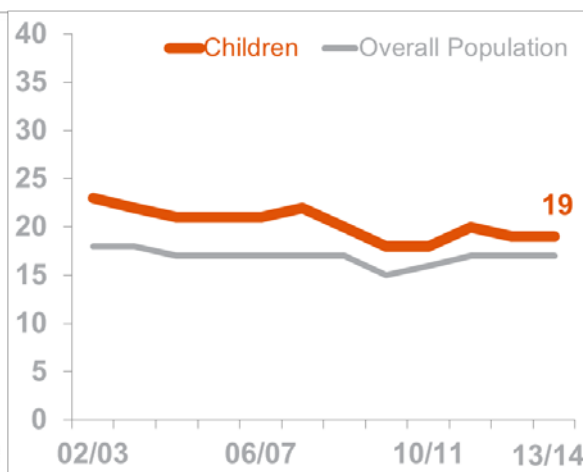
## Headline low income indicators are stable in 2013/14, following long-term downwards trends

### Percentage of children falling below headline low income indicators

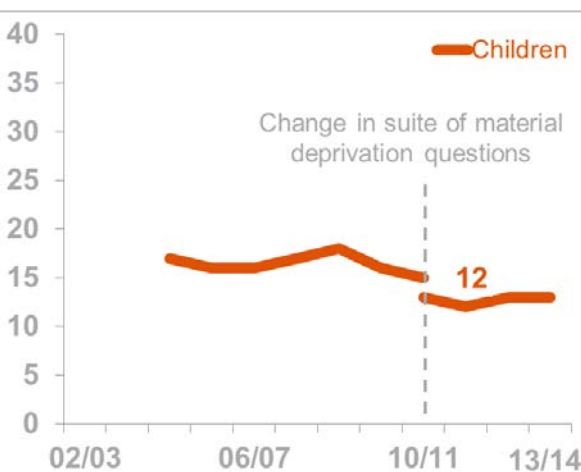
Relative Low Income



Absolute Low Income



Low Income and Material Deprivation



### Interpretation

- **Child Low Income & Material Deprivation** – respondents are asked whether they have access to a list of 21 goods and services. If they can't afford a given item, this is scored in the material deprivation measure, with items more commonly owned in the population given a higher weighted score. A child is considered to be in low income and material deprivation if they live in a family that has a total score of 25 or more out of 100 and an equalised household income BHC below 70% of median. More details are available in the HBAI Quality & Methodology Report.

### Main Findings

- The percentage of children in relative and absolute low income BHC remained unchanged in 2013/14, as did the percentage in combined low income and material deprivation.
- Children are at higher risk of living in both relative and absolute low income BHC than the overall UK population. This result holds over the past 20 years and is true on both a before and after housing costs basis.

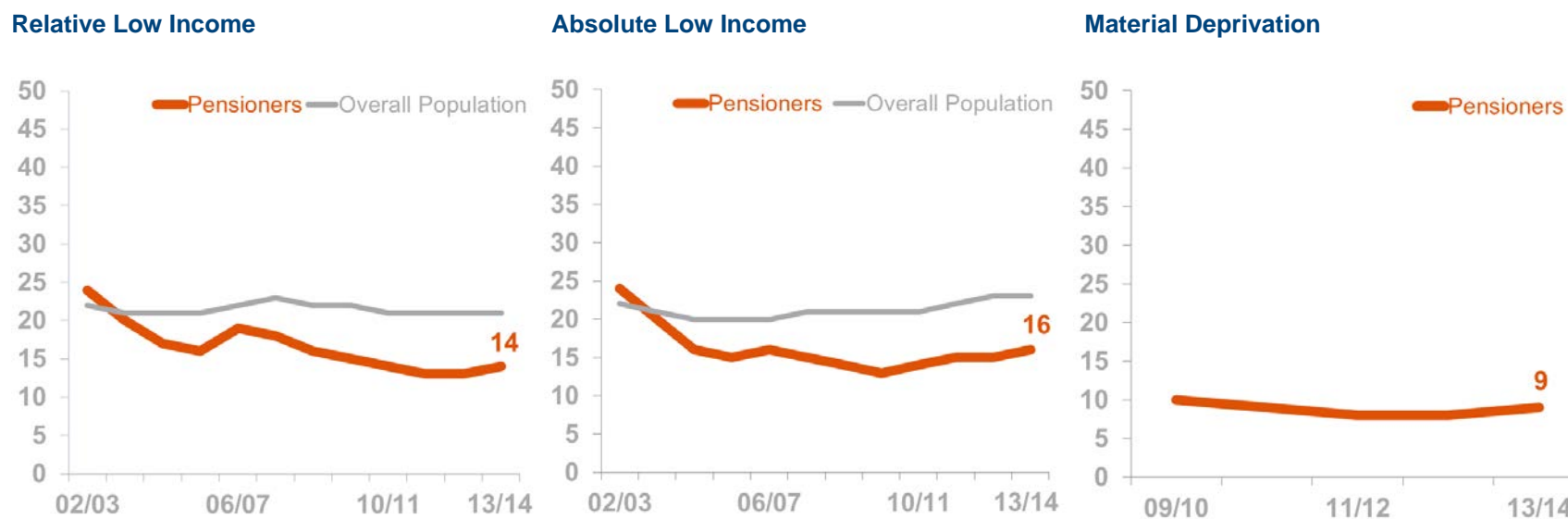
## Pensioners in Low Income Households

Nearly three-quarters of pensioners live in homes that are owned outright, and so face no housing costs (compared to roughly 1 in 5 of the working age population). The Government's preferred measures of low income for the pensioner population are therefore estimated on an after housing costs (AHC) basis to draw out the difference in living standards for the minority of pensioners who do face housing costs. We also estimate a broader material deprivation measure for pensioners.

See Tables 6.1tr, 6.2tr, and 6.7tr for full data.

## Headline low income indicators are stable in 2013/14, following long-term downwards trends

### Percentage of pensioners falling below headline low income indicators



### Interpretation

- **Pensioner Material Deprivation** – pensioners aged over 65 are asked whether they have access to a list of 15 goods and services. If they don't have a given item (because of cost, health, or availability) this is scored in the material deprivation measure, with items more commonly owned in the population given a higher weighted score. A pensioner is considered to be in material deprivation if they live in a family that has a final score of 20 or more out of 100. More details are available in the HBAI Quality & Methodology Report.

### Main Findings

- The percentage of pensioners in relative and absolute low income AHC, and in material deprivation, all increased between 2012/13 and 2013/14. These changes were not statistically significant.
- Pensioners are at lower risk of living in both relative and absolute low income AHC than the overall UK population. This result holds from around 2004/05 onwards and follows significant declines in low income levels for pensioners over the past 20 years.



# Low Income and Working Pattern

The risk of relative low income for workless families has been falling and the number of families in work has risen. As a result, those in working families make up an increasing proportion of those in low income, despite being less likely as a group to have lower incomes.

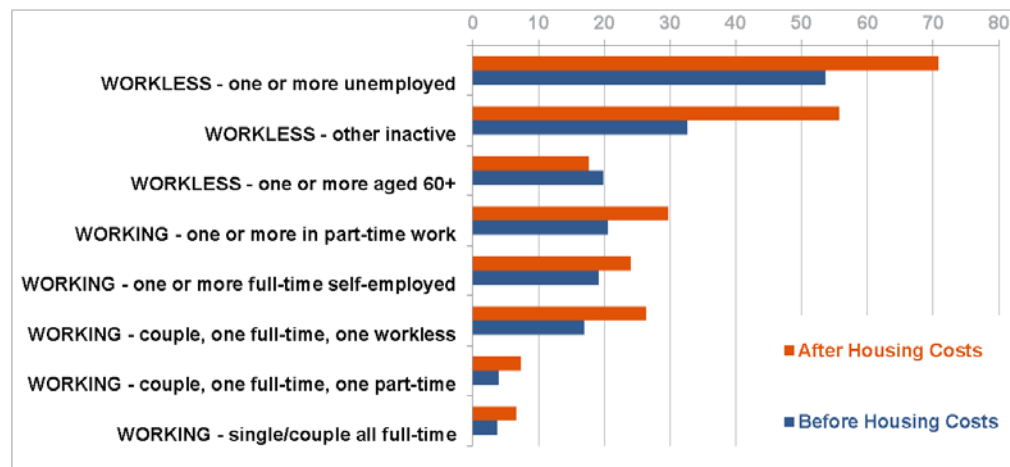
## Main Findings

In 2013/14:

- **18.4million** individuals were in workless families. Of these **5.0million** were in relative low income BHC, and **6.4million** AHC.
- **44.5million** individuals were in working families. Of these **4.6million** were in relative low income BHC, and **6.8million** AHC.

As such, whilst around half of those in relative low income are living in working families; those in working families are far less likely to be in relative low income. The chart below highlights relative risks of low income by different family working patterns. The highest risks are observed in families who are either workless or with relatively low work intensity.

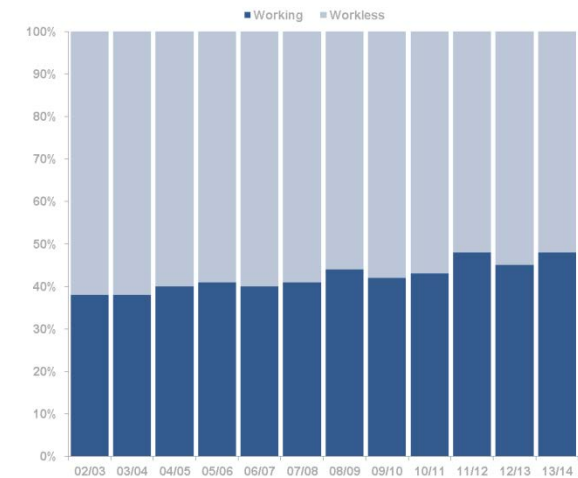
**Risk of relative low income by economic status of adults in family**



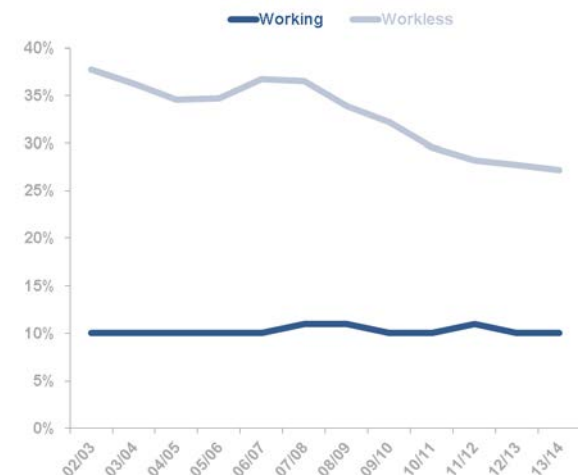
The charts opposite demonstrate how, over recent years, there has been an on-going increase in the proportion of families falling below a 60% of median relative low income threshold who are in work. This has driven an increasing focus on this issue.

Over the same period, however, there has been a fall in overall numbers in relative low income BHC, driven primarily by lower risks for those in workless families, while risks for those in working families have been relatively stable. The impact of these changes has been a key driver for the observed increasing proportion of families in relative low income who are in work.

**Composition of relative low income BHC by family economic status**



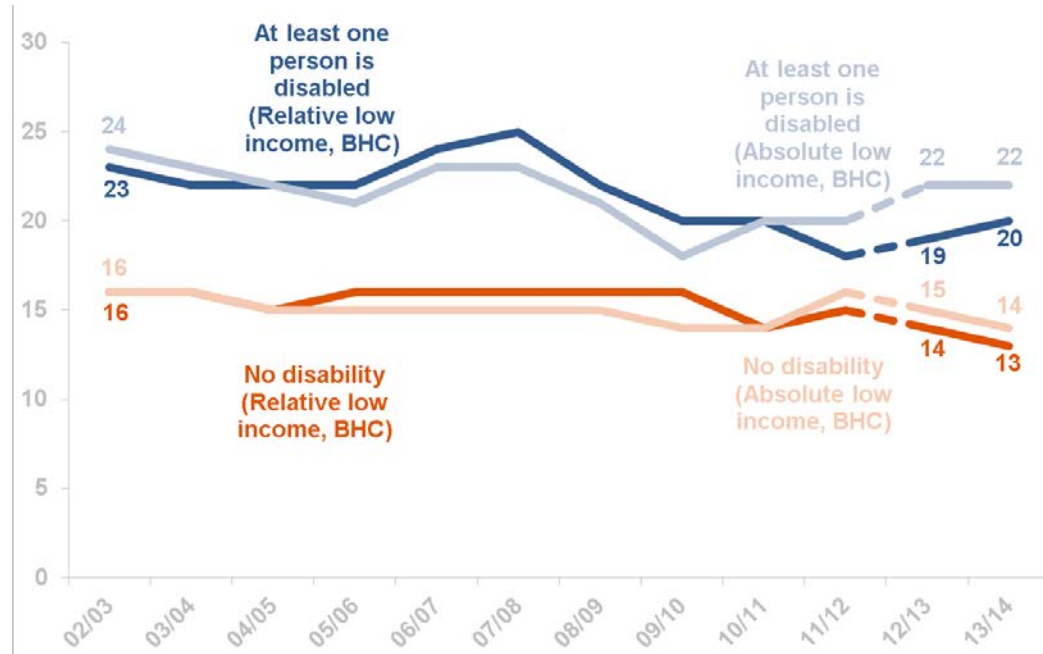
**Risk of relative low income BHC by family economic status**



# Disability

Overall, those living in families with a disabled member are more likely to be in low income. This result holds for children and working age adults but not for pensioners.

Percentage of individuals in relative and absolute low income BHC, by family disability



## Main Findings

- On both relative and absolute measures, those living in a family with a disabled member are more likely to be in low income
- There is no obvious correlation between trends from those with and without disabled family members, suggesting that different factors affect the income of these households. We know, for example, that those with disabilities are less likely to be in employment, and that disability is more prevalent amongst pensioners.
- On a before housing costs basis the percentage of individuals in families where at least one member is disabled in both relative and absolute remained unchanged in 2013/14.
- Looking at income after housing costs, however, low income risk for this group increased on both absolute and relative measures by 2 percentage points in 2013/14 to 27% and 30% respectively. Both changes were statistically significant.

## Interpretation and Definitions

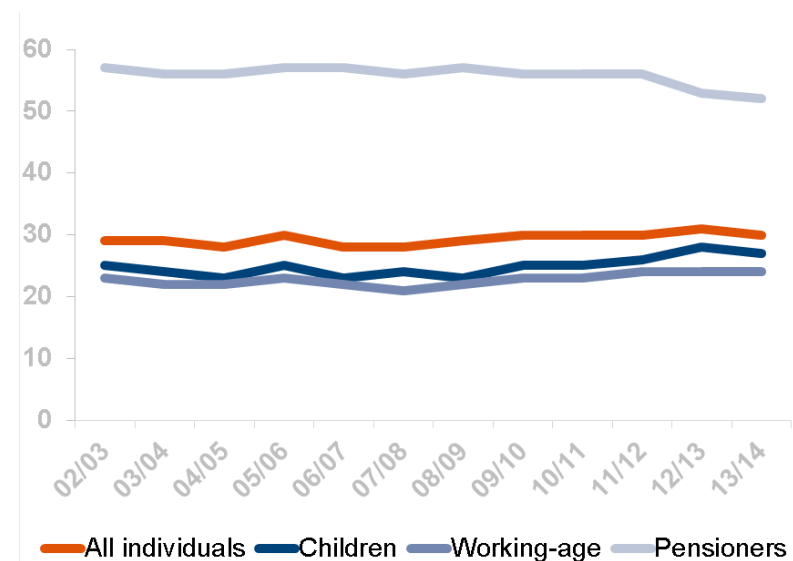
Disabled people are identified as those who report any physical or mental health condition(s) or illness(es) that last or are expected to last 12 months or more, and which limit their ability to carry out day-to-day activities a little, or a lot.

The means of identifying people with a disability has changed over time however, with different standards applied for 1995/96-2001/02; 2002/03-2003/04; 2004/05-2011/12; and 2012/13 to date.

As such, changes over time in the number of individuals with disabilities could be affected by the change in the disability questions. Individuals might have different interpretations of particular health conditions or question wording meaning that changes to the disability question may have had a different effect on certain groups.

Therefore, comparisons between current figures from 2012/13 onwards and earlier years should be made with caution.

## Percentage of individuals living in families where someone is disabled



# Measuring income in HBAI

HBAI uses data from the Family Resources Survey (FRS) to derive a measure of disposable household income. Adjustments are made to take into account the size and composition of households to make figures comparable.

**FRS Survey Data** The FRS covers a sample of around 20,000 private households in the United Kingdom. Therefore, certain individuals, for example students in halls of residence and individuals in nursing or retirement homes will not be included.

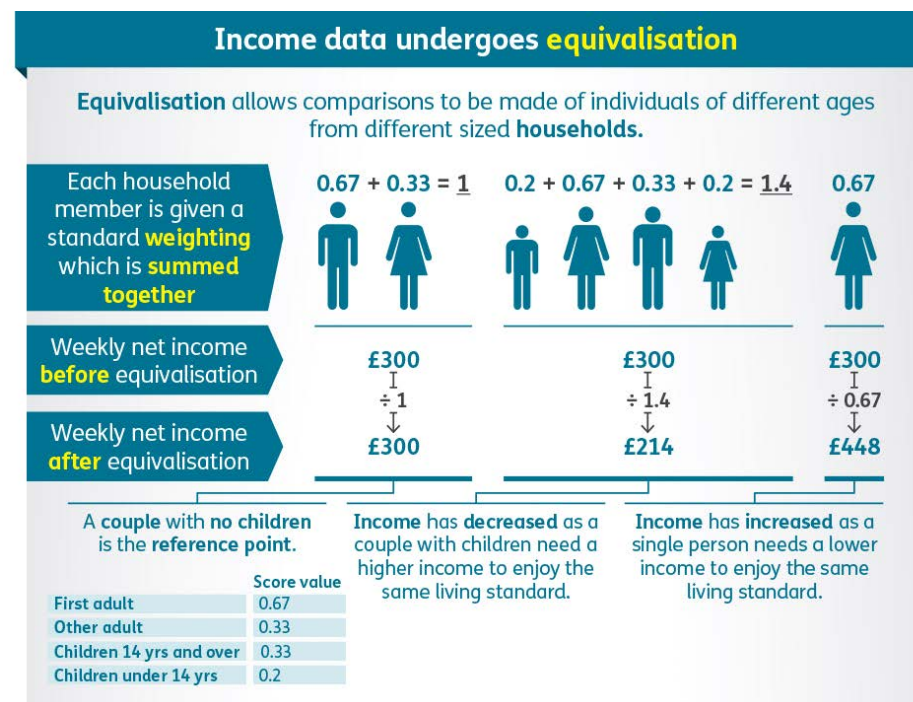
**Sampling Error** Results from surveys are estimates and not precise figures - in general terms the smaller the sample size, the larger the uncertainty. Confidence intervals help to interpret the certainty of these estimates, by showing the range of values around the estimate that the true result is likely to be within.

**Non-Sampling Error** These results are based on data from respondents to the survey. If people give inaccurate responses or certain groups of people are less likely to respond this can introduce biases and errors. This non-sampling error can be minimised through effective and accurate sample and questionnaire design and extensive quality assurance of the data. However, it is not possible to eliminate it completely, nor can it be quantified.

**Income** This is measured as total weekly household income from all sources after tax (including child income), national insurance and other deductions. Income measures are presented before and after housing costs (rent, mortgage interest payments, buildings insurance etc.).

A household income measure implicitly assumes that all members of the household benefit equally from the household's income and so appear at the same position in the income distribution.

**Equivalisation** An adjustment is made to income to make it comparable across households of different size and composition. For example, this process of equivalisation would adjust the income of a single person upwards, so their income can be compared directly to the standard of living for a couple.



**Inflation** is the speed at which the prices of goods and services rise or fall. The use of different inflation measures has an effect on trends in average household income and absolute low income measures in HBAI.

HBAI currently uses variants of RPI to adjust for inflation to look at how incomes are changing over time in **real terms** i.e. if, for example, average incomes rise by 3% in cash terms but inflation is higher at 5%, then we will record a fall in average incomes as the real average purchasing power of incomes has fallen.

## KEY DEFINITIONS:

### HOUSEHOLD

One person living alone or a group of people (not necessarily related) living at the same address who share cooking facilities and share a living room, sitting room, or dining area. A household will consist of one or more benefit units/families.

VS

### FAMILY or BENEFIT UNIT

A single adult or a couple living as married and any dependent children.

## About these statistics

The income measure used in HBAI is weekly net disposable equivalised income **Before Housing Costs (BHC)**. This comprises total income from all sources of all household members including dependents. In detail income includes:

- usual net earnings from employment;
- profit or loss from self-employment (losses are treated as negative income);
- state support – all benefits and tax credits;
- income from occupational and private pensions;
- investment income;
- maintenance payments, if a person receives them directly;
- income from educational grants and scholarships;
- the cash value of certain forms of income in kind, including free school meals.

Income is net of:

- income tax payments and National Insurance contributions;
- domestic rates/council tax
- contributions to occupational pension schemes
- all maintenance payments
- student loan repayments
- parental contributions to students living away from home

## Where to find out more

Further outputs and reference tables from HBAI analysis, alongside our HBAI Quality and Methodology Information Report, giving further detail on how we estimate the measures reported here are available via the following link

<https://www.gov.uk/government/collections/households-below-average-income-hbai--2>

ONS guidance on alternative sources of data on earnings and income is available at the following link and provides useful information to contextualise the HBAI statistics:

<http://www.ons.gov.uk/ons/guide-method/method-quality/specific/labour-market/articles-and-reports/a-guide-to-sources-of-data-on-earnings-and-income.pdf>

### Other National and Official Statistics

Details of other National and Official Statistics produced by the Department for Work and Pensions can be found on the DWP website at the following links:

- A schedule of statistical releases over the next 12 months and a list of the most recent releases: <https://www.gov.uk/government/organisations/department-for-work-pensions/about/statistics>
- In accordance with the Code of Practice for Official Statistics, all DWP National Statistics are also announced via the UK Statistics Authority publication hub at: [http://www.statistics.gov.uk/hub/statistics-producers/publications/index.html?newquery=\\*%26source-agency=Work+and+Pensions%26pagetype=release-landing-page](http://www.statistics.gov.uk/hub/statistics-producers/publications/index.html?newquery=*%26source-agency=Work+and+Pensions%26pagetype=release-landing-page)

Income **After Housing Costs (AHC)** is derived by deducting a measure of housing costs from the overall income measure.

**Housing costs** include:

- rent (gross of housing benefit)
- water rates, community water charges and council water charges;
- mortgage interest payments;
- structural insurance premiums
- ground rent and services charges.

### Negative Incomes

Negative incomes BHC are reset to zero, but negative AHC incomes are possible.

**Children** are defined as individuals aged under 16; or aged 16 to 19 in full-time non-advanced education.

**Pensioners** are defined as individuals over their state pension age at the time they are interviewed on the survey.