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A minimum income standard for the UK in 2015

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A minimum income standard for the UK in 2015

by Donald Hirsch

This annual update of MIS is based on what members of the public think people need to achieve a socially acceptable living standard.

A MINIMUM INCOME STANDARD FOR THE UK IN 2015

Donald Hirsch

This is the 2015 update of the Minimum Income Standard for the United Kingdom, based on what members of the public think people need for an acceptable minimum standard of living.

This update of minimum budgets is based on changes in living costs. The findings also reflect adjustments to the tax and benefits systems, which affect both the extent to which people living on benefits can afford necessities and the amount that people in work need to earn in order to reach a minimum net income. After six consecutive years in which the cost of a minimum basket rose, causing a deterioration in the ability to meet the minimum for households on benefits and on the minimum wage, 2015 saw little change in the minimum cost of living, and a slight improvement in benefit and minimum wage incomes relative to the minimum required. However, with continued fiscal austerity, this improvement may be short-lived.

The report shows:

- what incomes different family types require in 2015 to meet the minimum standard; and
- how the cost of a minimum household budget has changed since the last update in 2014.

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EXECUTIVE SUMMARY

This report presents the 2015 update of the Minimum Income Standard (MIS), originally published in 2008. The standard is based on research into the items that members of the public, informed where relevant by expert knowledge, think should be covered by a household budget in order to achieve a minimum socially acceptable standard of living.

Regular updates to the standard are based on research into what should be included in the minimum 'basket' of required goods and services, and on price changes that affect the cost of this basket. The 2015 update is based only on this second element, inflation. As well as updating MIS to reflect changes in the past year, this considers changes in the adequacy of income on the National Minimum Wage (NMW) and on safety-net benefits since 2008.

Price updating

The fact that there was no inflation overall in the year to 2015 means the main MIS budgets have changed only very slightly. Food, petrol and domestic power fell in price, offset by some modest increases in items such as transport and leisure services. While some household types had small increases and others small falls, these changes were generally no more than half a per cent. Rents and childcare costs have, however, continued to rise modestly. Nonetheless, for the first time since MIS results were first published in 2008, there has been little change in their level this year.

The 2015 MIS budgets

The MIS budgets can be compared to benefits, the poverty line and wages. Most working-age benefits have been pegged to a 1 per cent increase, meaning out-of-work incomes have risen slightly relative to MIS in the past year, although for working-age households benefits remain well below the minimum required. A single person of working age wholly reliant on

benefits has just 40 per cent of what they need, according to MIS. The 3 per cent increase in the NMW has also meant that households receiving it have net incomes worth more relative to MIS than last year, but a single person working full-time on the NMW has only enough disposable income to afford 70 per cent of MIS. The wages required for households to reach MIS (assuming that adults in these households work full-time) are unchanged since 2014, at £17,100. This is due to the overall cost of the budget changing little and the increase in the personal tax allowance.

Incomes on benefits and the National Minimum Wage compared to MIS, 2008–2015

While the past year has seen most households improve their incomes slightly while costs remain steady, this follows a long period when minimum costs were rising much faster than incomes. This can be analysed by looking at how the net income of households reliant on basic benefits and on the minimum wage have changed relative to the MIS threshold since 2008. For those reliant on safety-net benefits (all in 2015 prices, per week):

- A single person was £100 short of reaching MIS in 2008, and £110 short in 2015.
- A couple with two children was £148 short of reaching MIS in 2008, and £197 short in 2015.
- A lone parent with one child was £74 short of reaching MIS in 2008, and £118 short in 2015.
- A pensioner couple was £11 above MIS in 2008, but £10 short in 2015.

Working incomes were influenced not just by changes in wages, relative to costs, but also by changes in in-work benefits and taxation. In these terms, households on low incomes face much greater shortfalls relative to MIS than they did in 2008 (all figures in 2015 prices, per week, where all adults are working full-time on the minimum wage):

- A single person was £27 short in 2008, and £54 short in 2015.
- A couple with two children were £31 short in 2008, and £75 short in 2015.
- A lone parent with one child was £4 short in 2008, and £39 short in 2015.

Conclusions

Today's conditions of zero inflation, small increases in benefits, above inflation increases in the NMW and a more generous personal tax allowance have helped improve households' ability to reach a minimum income in the past twelve months. However, they have gone only a small way to closing the substantial gap between the disposable incomes of people on benefits or the minimum wage and the budget they need to reach an acceptable living standard. This gap had been widening for the previous six years. Looking ahead, inflation is expected to resume, and the gap could again widen unless incomes keep up. Improvement in wages and increases to the personal tax allowance will help, but what happens to state benefits, both in and out of work, will also play a major role. A further report, later this year, will consider how government policies in the new Parliament might affect households' ability to reach a minimum acceptable standard of living.

1 INTRODUCTION

How much is needed to achieve a minimum acceptable standard of living in the United Kingdom today? In 2008, the first Minimum Income Standard (MIS) for Britain produced income standards based on detailed research into what ordinary people thought should go into a minimum household budget, supported by expert knowledge on certain physical living requirements, including nutrition (Bradshaw, *et al.*, 2008; see also ‘MIS in brief’ in Box 1).

As part of that project, there was a commitment to keep MIS up to date, in order to reflect changes in the cost of living and in the social norms that determine the items included in the calculation of a minimum budget. Annual updates alternate between those based on new research (in even-numbered years) and those based only on estimates of price rises (in odd-numbered years).

The 2015 report is thus based on price increases only. These are estimated by applying changes in the relevant components of the Retail Prices Index (RPI) to the categories of goods and services included in MIS budgets.

The full schedule for carrying out this updating work is shown in Figure 1. Following the 2008 research, each budget is being fully rebased (calculated from scratch) every four years on an alternating basis: for families with children in 2012 and then in 2016, and for households without children starting in 2014. The Joseph Rowntree Foundation (JRF) has agreed to fund these updates up to at least 2016.

Chapter 2 of this report estimates changes in the cost of a minimum acceptable standard of living between April 2014 and April 2015, using inflation data. Chapter 3 summarises the revised set of MIS budgets, looking at the incomes that are needed to afford them and comparing these with benefits, with the poverty line and with earnings on the minimum wage. Chapter 4 reflects on how incomes of households on benefits and on the minimum wage have moved relative to the MIS level since 2008. Finally, Chapter 5 draws conclusions.

Figure 1: Planned programme of MIS research

Publication date	2008	2009	2010	2011	2012	2013	2014	2015	2016
Families with children	Original research		Review		Rebase		Review		Rebase
	Pricing	Inflation	Inflation	Inflation	Pricing	Inflation	Inflation	Inflation	Pricing
Families without children	Original research		Review		Review		Rebase		Review
	Pricing	Inflation	Inflation	Inflation	Inflation	Inflation	Pricing	Inflation	Inflation

Notes (definitions):

Rebase: repeat original research to create new budgets from scratch.

Review: groups consider whether existing budgets need selective changes.

Pricing: identify current prices of individual items from suppliers.

Inflation: apply Retail Prices Index (RPI)-based uprating method to adjust budget costs from previous year.

Box 1 summarises the main features of MIS. For further detail, see Bradshaw, *et al.*, 2008. The results of MIS, updated to April 2015, are available in full using the online Minimum Income Calculator (CRSP, 2015a) and in a summary spreadsheet published on the MIS website (CRSP, 2015b), as well as in tables for selected household types in Chapter 3 below. The Minimum Income Calculator allows users to specify the number and ages of family members and to adjust for some costs over which they have little control, such as rent, in order to personalise a minimum budget. Users can also see the gross earnings or pension that their family will need in order to achieve that budget, and compare the spending available to someone on a different income with the minimum requirement.

Box 1 Minimum Income Standard in brief

What is MIS?

The Minimum Income Standard (MIS) is the income that people need in order to reach a minimum socially acceptable standard of living in the United Kingdom today, based on what members of the public think. It is calculated by specifying baskets of goods and services required by different types of household in order to meet these needs and to participate in society.

How is it arrived at?

A sequence of groups has detailed negotiations about the things a family would have to be able to afford in order to achieve an acceptable living standard. Experts check that these specifications meet basic criteria such as nutritional adequacy and, in some cases, feed back information to subsequent research groups that check and amend the budgets. Each group typically comprises six to eight people from a mixture of socio-economic backgrounds, but all participants are from the particular demographic category under discussion. For example, pensioner groups decide the minimum for pensioners.

What does it include?

Groups in the original research defined MIS thus: 'A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.'

Thus, a minimum is about more than survival alone. However, it covers needs, not wants, necessities, not luxuries: items that the public think that people need in order to be part of society. In identifying things that everyone should be able to afford, it does not attempt to specify extra requirements for particular individuals and groups: for example, those resulting from living in a remote location or having a disability. So, not everybody who has more than the minimum income can be guaranteed to achieve an acceptable living standard. However, someone falling below the minimum is unlikely to achieve such a standard.

To whom does it apply?

MIS applies to 'nuclear' families and to childless adults: that is, households that comprise a single adult or a couple, with or without dependent children. It covers most such households, with its level adjusted to reflect their makeup. It does not cover families living with other adults, such as households with grown-up children. However, a separate study of the situation of adult sharers (Hill, *et al.*, 2015) has shown that, apart from rent, minimum costs are very similar to those of single people living alone.

Where does it apply?

MIS was originally calculated as a minimum for Britain; subsequent research in Northern Ireland in 2009 showed that the required budgets there are all close to those in the rest of the United Kingdom, so the national budget standard now applies to the whole of the UK. This standard was calculated based on the needs of people in urban areas. Further projects (Smith, *et al.*, 2010; Padley, *et al.*, 2015b) have looked at how requirements differ in rural areas and in London, respectively. This information is also contained in the online Minimum Income Calculator (CRSP, 2015a) and can be obtained by clicking on the 'rural' or 'London' options on the main results page. Another variation for remote rural Scotland was published in 2013 (Hirsch, *et al.*, 2013). Outside the United Kingdom, the team responsible for the UK MIS has applied the method in Guernsey (Smith, *et al.*, 2011) and supported MIS projects employing the same method in France (ONPES, 2015) and in Austria, Japan and Portugal (all in progress), while in the Republic of Ireland, an ongoing MIS programme uses methods based on the UK work (Collins, *et al.*, 2012).

How is it related to the poverty line?

MIS is relevant to the discussion of poverty, but does not claim to be a poverty threshold. This is because participants in the research were not specifically asked to talk about what defines poverty. However, it is relevant to the poverty debate in that almost all households officially defined as being in income poverty (having below 60 per cent of median income) are also below MIS. Thus households classified as in relative income poverty are generally unable to reach an acceptable standard of living as defined by members of the public.

Who produced it?

The original research was funded by the Joseph Rowntree Foundation (JRF). It was conducted by the Centre for Research in Social Policy (CRSP) at Loughborough University in partnership with the Family Budget Unit at the University of York. Updates are being carried out by CRSP, again with JRF support. In 2011, the Family Budget Unit was wound up on the basis that the calculation of MIS takes forward its mission.

When was it produced and how is it being updated?

The original research was carried out in 2007 and the findings presented in 2008 were costed using April 2008 prices. Every July, new MIS figures are published, updated to April of the same year. The updates take on board inflation and changes in minimum needs as set out in Figure 1 above.

2 MIS AND CHANGES IN PRICES

Overall inflation was close to zero in the year to April 2015. The official Consumer Prices Index (CPI) fell by 0.1 per cent and the Retail Prices Index (RPI) rose by 0.9 per cent. To date, MIS has been updated using RPI, using category-level price changes to update elements of the MIS basket of goods and services.

This analysis shows that a minimum household budget, excluding rent and childcare costs, changed by less than half a per cent for the households under consideration. Food, petrol and domestic power fell in price, offset by some modest increases in items such as transport and leisure services. While some household types had small increases and others small falls, these changes were generally in the range £0–2 a week.

More significantly for many households, there were modest increases in rents and the cost of childcare, both of which have risen steadily in recent years. Social rents increased by 2.2 per cent, based on a new formula under which they are increased each April by 1 per cent above CPI inflation as of the previous September. Private rents rose by about 2 per cent at the lower quartile, outside London, according to Valuation Office Agency data. Childcare continued its long-term increase, and for the category used to estimate childcare costs in MIS (childminder fees for over-2s outside London), the increase was 2.4 per cent. Neither the rent nor the childcare increases create very large inflation in MIS budgets, but they do mean that when these elements are included, minimum household costs have not stopped rising entirely.

Inflation indices and MIS

The MIS estimates continue to use RPI rather than CPI as the basis for reporting MIS budgets in between the revision of baskets every four years,

when items are priced afresh. This basis was adopted for pragmatic reasons because of the ways in which MIS items are classified.

The Government's dropping of RPI as a National Statistic raises the issue of the validity of such estimates. A recent review by Paul Johnson (2015) concluded that there are technical flaws in RPI, which makes a switch to other indices desirable. However, others (such as Altmann, 2012; Courtney, 2014) have argued that, for the purposes of uprating low incomes, RPI remains the best measure available, because CPI underestimates the true increase in the costs that people face.

Behind these debates about the desirability of various indices lie some highly technical arguments, but one thing that is generally agreed is that no one index suits all purposes. At the core of the difference between indices is the way in which prices of individual goods are averaged. To simplify, the CPI method tends to produce lower estimates of inflation partly because it better represents a situation where consumers switch to goods that are becoming relatively lower in price. Those criticising this method in relation to the costs facing worse-off groups argue that they may not be well placed to take advantage of lower prices (e.g. because they do not have access to a range of stores). This argument has some salience to MIS; in the research, groups have argued that the pressures of everyday life in practice limit people's ability to look for the cheapest goods in multiple stores.

A working paper on this subject (Hirsch, 2015a) suggests that there is no clear-cut indication of the 'best' inflation index to use to uprate MIS, and therefore no reason at present to change the basis – uprating components of the index by the components of RPI to which they correspond. At some point in the future it might be possible to use the new index, RPIJ, which is calculated using the same categories as RPI but a different indexing method. However, at present, it is not possible to use RPIJ because the results by category are not broken down, and there are currently no plans to publish this data. Three considerations (set out more fully in Hirsch, 2015a) support the decision not to replace the RPI-based method with another index, which would require a recategorisation of MIS budgets:

- In 2009, a year after the first MIS budgets were published, an attempt was made to reprice the same items as in 2008. This proved difficult, due to products having changed, but the results suggested that uprating by RPI indices provided a comparable result to direct repricing. If anything, there was a small tendency to underestimate the price increase.
- An analysis of those parts of a single person's MIS budgets that did not change significantly in composition between the original research in 2008 and the first rebase (new research with repriced items) in 2014 also found that RPI provided a good estimate which did not overstate actual price rises during that period. The actual cost of this subset of MIS categories rose 32 per cent over six years, compared to 31 per cent using components of the RPI and 25 per cent using components of the CPI to estimate the change in price of the 2014 basket.
- While there remains uncertainty about which index is best, the consequences for regular uprating of MIS is quite minor, given that inflation indices only produce interim estimates for years between new, fully repriced budgets, which are now undertaken every four years for any one household type. Over the long run, RPI has been about 0.7 per cent per year higher than CPI. This means that in the last inflation uprating before a rebase, three years after the previous one, the difference between the two estimates is likely to be of the order of 2 per cent.

This final point, about the fact that inaccuracy due to indexing has minor cumulative consequence over a short period, does not, however, apply to longer-term analysis of how much living costs rise due to price inflation. MIS has been used regularly as a tool to track how a minimum basket has risen more in cost over several years than is suggested by general inflation indices. The use of components of RPI to make these calculations affects these results, which should be interpreted with caution in future, given the questions that have been raised over this index. One way of presenting this is to show for comparison an estimate of the same results using components of CPI instead. (This is possible by matching subcategories of MIS to CPI categories, producing a reasonable estimate of the overall inflation rate on this basis.) Analysis of change in the price of a single person's basket between 2008 and 2014 shows the following rate of change:

- 19 per cent increase in CPI;
- 22 per cent increase in the cost of a MIS basket inflated using CPI categories;
- 22 per cent increase in RPI (excluding mortgages); and
- 28 per cent increase in the cost of a MIS basket inflated using RPI categories.

On this basis, the nine percentage point difference between CPI inflation and the change in a MIS basket inflated by RPI categories over the period seems partly to be related to the different composition of a MIS basket and that of the main indices (categories heavily represented in MIS were subject to higher inflation during this period) and partly to the indexing method used. However, how much is due to the compositional effect differs according to the index. For RPI it is six percentage points, but for CPI only three, reflecting wider between-category differences in inflation rates identified by the latter. The overall conclusion is that it has been reasonable for MIS to identify higher inflation for a minimum than a general budget in recent years, but the true magnitude of this difference is subject to uncertainty, which will be reflected in reporting future inflation, should prices again start to rise, at significantly different rates for different parts of the household budget.

Prices and living costs – a reflection

Paul Johnson's (2015) review of inflation indices emphasised that these indices do not, and are not intended to, measure changes in the overall cost of reaching a given standard of living, since this depends on more than just how particular items change in price. MIS, on the other hand, does seek to track how the cost of reaching a particular living standard changes. The debate over inflation indices shows that disentangling an 'inflation' effect in this change will never be a precise science.

The imprecision in measuring inflation arises in large part because what we consume is continuously changing. The effect of this is most obvious in the very long term: we cannot say precisely how much more expensive things have become in the past century because much of a household budget today is spent on things – from washing machines to ready meals – that did not exist in 1915 and therefore their prices cannot be compared.

However, even in a much shorter period such as the seven years since MIS research was first published, there have been significant changes in consumer markets that make like for like comparisons difficult. This does not just apply to new items of technology such as smartphones and laptop

The imprecision in measuring inflation arises in large part because what we consume is continuously changing.

computers, as they become cheaper and more ubiquitous. It also applies, for example, to clothing, a category whose inflation rate has been particularly hard to measure: different indices give contrasting results, and the RPI method has been considered particularly problematic. The emergence of low-price retailers such as Primark has been associated with a different formulation of a minimum clothing budget, involving different combinations of price, quality and durability in MIS budgets than when they were first published in 2008. (In particular, there has been a move towards cheaper but less durable clothing, largely on the basis that with the advent of low-cost retailers, paying more for quality no longer brings durability gains that represent value for money.) Such change cannot be fully captured by tracking the changes in prices of identical items, yet are not associated with any fundamental change in the content of what people say that they need to wear. In this sense, changes in the level of MIS budgets cannot be definitively divided into 'changes in prices' and 'changes in content', although MIS reports do compare the overall change to the official inflation rate (see Annex, Table B).

As the MIS series extends, it will be analysed to yield additional information on the long-term increase in the cost of living. In particular, for categories where the concept of what is needed is relatively stable, such as food or clothing, MIS budgets give an account of how basic costs are changing that cannot be fully achieved just by looking at how the prices of particular items change. In this way, MIS can itself contribute to the understanding of inflation as experienced in this wider sense by households on low incomes.

3 THE 2015 MIS BUDGETS

The MIS budgets for 2015, adjusted for recent changes in price indices, are summarised below for four household types. More detailed results are shown in the online Minimum Income Calculator (CRSP, 2015a), which allows budgets to be calculated for most types of household where a single adult or a couple live on their own or with up to four dependent children. The calculator also allows items such as housing costs to be adapted to individual circumstances. Spreadsheets showing the budgets for eleven different household types over time are also available online (CRSP, 2015b). In addition, the Annex to this report summarises what has happened to MIS budgets and income requirements since the first results in 2008.

Table 1 summarises the cost of what the public thinks is needed for a minimum acceptable standard of living for four family types. The totals are listed in five different ways to allow different kinds of comparison to be made. The rest of this chapter then compares the budgets to benefit levels, the poverty line and incomes on the National Minimum Wage.

Table 1: Summaries of MIS for four family types, April 2015

	Single, working age	Pensioner couple	Couple with 2 children (aged 2–4 and primary school age)	Lone parent with 1 child (aged 0–1)
	£ per week			
Food	43.38	72.69	103.25	53.73
Alcohol	4.88	7.80	7.21	6.87
Tobacco	0.00	0.00	0.00	0.00
Clothing	7.25	12.33	47.94	23.71
Water rates	5.59	6.60	9.56	9.09
Council Tax	14.77	19.69	22.97	17.23
Household insurances	1.17	1.58	2.33	2.30
Fuel	16.68	17.94	24.71	20.40
Other housing costs	1.93	1.93	10.25	3.81
Household goods	12.04	15.88	28.38	23.89
Household services	2.88	8.30	9.10	8.50
Childcare	0.00	0.00	165.62	167.78
Personal goods and services	13.67	32.28	44.54	30.17
Motoring	0.00	0.00	56.22	44.43
Other travel costs	26.68	11.15	15.24	1.25
Social and cultural participation	45.25	55.87	102.78	45.76
Rent	86.13	86.20	92.42	86.20
'Headline' total excluding rent and childcare	196.16	264.04	484.48	291.14
Total including rent and childcare	282.29	350.24	742.53	545.12
Totals excluding:				
Rent, Council Tax, childcare (comparable to out-of-work benefits)	182.65	244.35	463.47	275.38
Rent, Council Tax, childcare, water rates (comparable to 'after housing costs' in HBAI*)	175.81	237.76	451.95	264.82
Council Tax, childcare (comparable to 'before housing costs' in HBAI)	267.53	330.55	553.94	360.12

Note: * Households Below Average Income (HBAI).

Comparison with benefits

Table 2 shows that basic out-of-work benefits provide well under half of the minimum income (net of rent and Council Tax) required for an adult with no children, and somewhat over half for families with children. Pension Credit, the safety-net benefit for pensioners, pays almost enough for them to meet the MIS.

Table 2: MIS compared with out-of-work benefit income, April 2015

	Single, working age	Pensioner couple	Couple with 2 children	Lone parent with 1 child
	£ per week			
MIS excluding rent, 91.5% of Council Tax* and childcare	182.65	244.35	463.47	275.38
Income Support**/Pension Credit	73.10	234.69	266.08***	157.43
Difference (negative number shows shortfall)	-109.55	-9.66	-197.39	-117.95
Benefit income as % of MIS	40%	96%	57%	57%

Notes: * Assumed coverage of Council Tax Support.

** Including Child Benefit and Child Tax Credit for families and Winter Fuel Allowance for pensioners.

*** If the value of Free School Meals is included, this adds £8 to the weekly income of the family with two children, which is then 59 per cent of MIS rather than 57 per cent.

The percentage of MIS provided by benefits rose slightly this year – the first time it has done so for families with children since the advent of MIS. (It also rose for single people last year, when the rebased budgets produced a slightly lower requirement than before due to some economies including not needing a landline, and a reduced eating-out budget.) As shown in Annex, Table B and also in Figure 2 below, the general trend since 2008 has been for benefits adequacy to decline. Up to 2012, this was largely due to MIS budgets increasing by more than the inflation indices on which benefits uprating was based; since 2013, working-age benefits have been decoupled from inflation, and increased by 1 per cent a year, exacerbating the trend. In the first two years of this policy, benefits rose 2 per cent, the Consumer Prices Index 4 per cent and the cost of a MIS basket 7 per cent. The 2015 improvement, caused by zero inflation, is slight in comparison: working-age benefits rose 1 per cent, as CPI and the cost of a MIS basket stood still. This is likely to be a temporary pause in the downward trend (other than for pensioners) unless a link between benefits uprating and price increases is restored.

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Comparison with the poverty line

The most common measure of the ‘poverty line’ is 60 per cent of median household income. In order to compare this with the minimum required for a socially acceptable living standard, Table 3 looks at the percentage of median income represented by a MIS budget. This uses the latest available data from the Households Below Average Income (HBAI) series (Department for Work and Pensions, 2014), which is for 2012–2013, and compares it with the average of the 2012 and 2013 MIS budgets.

Table 3: MIS compared with median income, 2012/13

	Single, working age	Pensioner couple	Couple, 2 children	Lone parent, 1 child
	£ per week			
a) Before housing costs: median income 2012/13*	295	440	616	383
MIS excluding childcare and Council Tax	254	297	525	343
MIS as % of median	86%	67%	85%	90%
b) After housing costs: median income 2012/13	217	374	524	292
MIS excluding childcare, Council Tax, water rates and rent	177	211	431	255
MIS as % of median	81%	56%	82%	87%

Note: * Adjusted for household composition (i.e. median income is shown as higher for larger households and lower for smaller ones, according to a formula that assumes greater needs for larger families).

While the data shown covers incomes both including and excluding money spent on housing, the more meaningful comparison is between net MIS budgets and income after housing costs. This is because the rent figure in the MIS budgets cannot give a single accurate representation of the 'minimum' cost of housing, since the housing options that are actually available vary so greatly from one household to another, and from one place to another.

The results show, as previously, that most budgets are significantly above the official poverty line. The one exception among all the family types in MIS is pensioner couples, whose minimum requirement after housing costs is slightly below the poverty line. However, even in this group, the majority will effectively require more than the 60 per cent median because most pensioners live in houses rather than flats as assumed for the minimum, and this imposes extra expense such as higher heating costs.

The percentages of median income required for MIS grew substantially between 2008 and 2013 (Annex, Table D). This is because what the public think is required for a decent living standard has remained relatively stable – falling slightly in some cases and increasing slightly in others – at a time when median incomes fell substantially in real terms. While income data does not yet extend to 2014 and 2015, all the signs are that median incomes are now rising in real terms, while MIS remains stable. The Institute for Fiscal Studies (2015, Table 2.1) estimates that median income increased by 1 per cent in real terms last year (financial year 2014/15). The Office for Budget Responsibility (2015, Table 1.1) forecasts, moreover, that real wage growth will rise from 0.7 per cent in 2014 to 2.1 per cent in 2015. Thus, while MIS requirements have risen from just over 70 to just over 80 per cent of median income after housing costs for working-age households, it seems likely that this proportion will now start to fall again.

Comparison with wages

Previous MIS reports have noted that few families can expect to reach a minimum income as defined by MIS as a result of adults working full-time (37.5 hours a week) on the National Minimum Wage (NMW). Table 4 shows that this remains the case in 2015, despite the fact that the minimum wage rose by 3 per cent to £6.50 an hour, while most costs did not increase. For a

single person, the wage required to reach MIS was almost identical in 2015 (£8.75) and 2014 (£8.73). Since 2008, the gap between the NMW and the single person's earnings required to meet MIS has risen from £1.37 to £2.25 an hour, a real-terms increase of over a third. There was some reduction this year in the shortfall between disposable incomes of people earning the NMW and the MIS budget, but this was small compared to the reverse trend in recent years. A single person now falls £54 short of meeting the MIS budget each week (30 per cent of the total), a figure that has doubled in seven years.

Table 4: MIS compared to the National Minimum Wage, April 2015

	Single, working age	1-earner couple, 2 children (no childcare)	2-earner couple, 2 children (with childcare)	Lone parent, 1 child (with childcare)
MIS (including rent, childcare and Council Tax)	282.29	576.91	742.53	545.12
Gross earnings required	327.98	704.68	768.02	512.53
Annual earnings requirement	17,102	36,744	40,047**	26,725
Hourly wage rate	8.75	18.79	10.24	13.67
Amount above the NMW, hourly	2.25	12.29	3.74	7.17
Disposable income* on NMW, as % of MIS budget	70%	74%	84%	86%

Notes: * After rent, Council Tax and childcare costs.

** Combined earnings required by both partners.

4 INCOME ON BENEFITS AND THE MINIMUM WAGE COMPARED TO MIS, 2008–2015

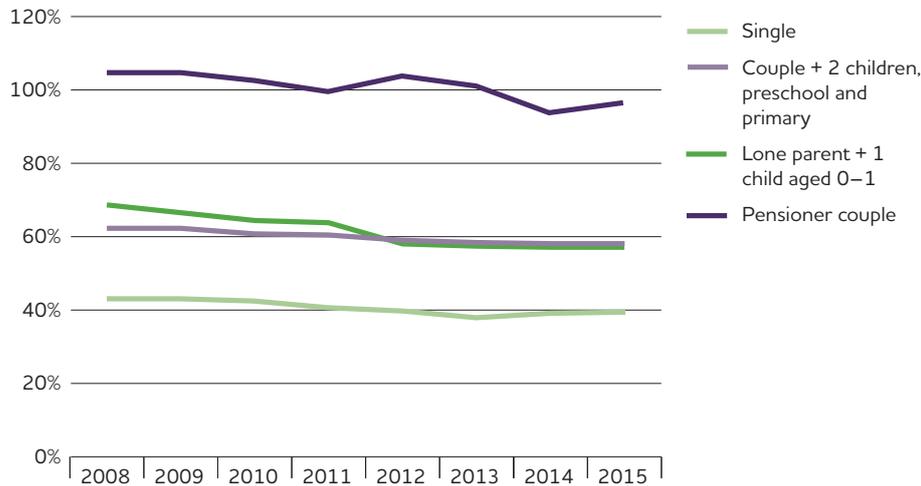
Since the launch of MIS in 2008, the proportion of households with income below the MIS level has increased substantially – by nearly a third up to 2012/13 (from 21.0 to 27.3 per cent of people in households covered by MIS), according to income survey data (Padley, *et al.*, 2015a). This has largely been due to adverse economic circumstances; in particular, earnings have risen more slowly than costs.

However, public policy has also had an influence, affecting for example the level of out-of-work benefits, the minimum wage rate, in-work support and the taxation of low earnings. Two indicators of this influence are the adequacy of minimum incomes for people in and out of work: those on the National Minimum Wage and those reliant on safety-net benefits. (In-work incomes are influenced by not just the level at which the NMW is set but also how much it is taxed and supplemented by in-work benefits.) How adequate are incomes of people on out-of-work benefits or the NMW, relative to the minimum budgets set by MIS? The answers for 2015 are shown in Tables 2 and 4 above, and this chapter looks at how adequacy in these terms has changed since 2008.

Trends in safety-net incomes compared to MIS

Figure 2 and Table 5 show what has happened to the level of means-tested benefits for people not working, relative to MIS, since 2008. This refers to Income Support levels for working-age households and Pension Credit levels for those of pension age, as well as including two universal payments – Child Benefit for families with children and Winter Fuel Allowance for pensioners.

Figure 2: Safety-net benefits as a percentage of MIS, 2008–2015



Note: Data: see Annex, Table C.

Table 5: Safety-net benefits compared to MIS, 2008 and 2015 – surplus/deficit in 2015 prices (per week)

	2008	2015	Deterioration 2008–2015*
Single	–£100.08	–£109.50	£9.42
Couple + 2 children	–£148.18	–£197.17	£48.99
Lone parent + 1 child	–£73.68	–£117.77	£44.08
Pensioner couple	£11.27	–£9.66	£20.93

Note: * How much less disposable income rose than rising minimum costs.

For all groups shown in Figure 2, the adequacy of benefits has fallen, but from very different starting points. For families with children, benefits provided enough for about two-thirds of a minimum required household budget in 2008, but now provide about 57 per cent. This represents an increase in the shortfall of £45–50 a week or £2,000 a year for the families with children shown here. This is a very large amount for such families: a loss of about 9 per cent of disposable income relative to minimum needs for a couple with two children, and about 15 per cent for a lone parent with one child. (These calculations, and similar ones below, are made by looking at the proportionate decline in income as a percentage of MIS. So in the case of the couple with two children, the 57.5 per cent of MIS provided by benefit income in 2015 compared with 63 per cent in 2008 is a drop of 9 per cent in the disposable income adjusted for MIS levels, since 57.5 is 9 per cent lower than 63.)

For an out-of-work single person, the shortfall increased by £9 a week, reducing income relative to need by 5 per cent. This more modest fall

This represents an increase in the shortfall of £45–50 a week or £2,000 a year for families with children.

has been influenced by some small new economies identified in meeting minimum needs (see Chapter 2 above) as well as by the latest year's small real increase in benefit rates, but it is important to remember that single people started with the least adequate benefit levels. The 'safety net' is set at less than half of what they need as a minimum.

In contrast to working-age households, pensioners were guaranteed an income about equal to MIS under Pension Credit in 2008. This has declined slightly due to the safety net rising roughly in line with CPI inflation but MIS rising faster in recent years. This trend is likely to reverse if earnings start growing in real terms, since the Pension Credit is guaranteed to rise at least in line with earnings.

Trends in income on the National Minimum Wage compared to MIS

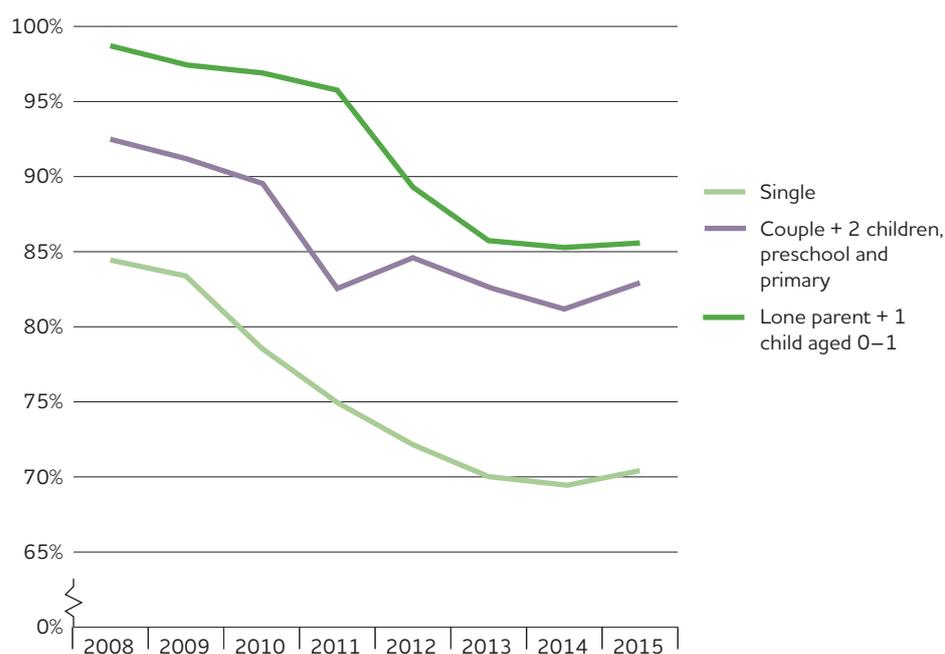
As noted above, the NMW does not in general provide enough for most households to reach MIS, even if they work full-time, and disposable income of those on the NMW has declined relative to the MIS level. This indicator looks at how much households have after paying rent, childcare and Council Tax, relative to the budget required for MIS, if all adults work full-time on the NMW. This takes into account taxation and in-work benefits.

Figure 3 and Table 6 show that, as with benefits, the adequacy of income on the NMW has generally declined since 2008. For single people, this has been a consequence of wages rising more slowly than costs, which has been only partially offset by a rising personal tax allowance. For families with children, in addition, there have been cuts in the real value of tax credits, including a cut in the proportion of childcare costs that can be paid as part of the Working Tax Credit from 80 to 70 per cent in 2011. On the other hand, for a family with a three- or four-year-old child eligible for 15 hours' free childcare, this provision offset some of the cut when it was first brought into MIS calculations in 2012 (when MIS groups first said that it was available widely enough to be included). This applies to the couple example shown here, which is assumed to have a preschool and primary-school child (the assumed ages of children are kept the same over time, to compare families of comparable types rather than track the fortunes of particular families as their children get older).

The most striking thing about Figure 3 and Table 6 is that for families with children and especially for lone parents, the tax credit system had come quite close to supporting an adequate income on the NMW by 2008, but today it falls well short of that. For a lone parent with one young child, the shortfall has increased from less than £4 to nearly £40 a week, making the family £1,900 a year worse off relative to the minimum. This represents a loss of 13 per cent of disposable income. For the couple with two children, the loss is 9 per cent or £2,300 a year, and for the single person it is 17 per cent or £1,400.

For lone parents, the tax credit system had come quite close to supporting an adequate income on the NMW by 2008, but today it falls well short of that.

Figure 3: Disposable income on National Minimum Wage as a percentage of MIS, 2008–2015



Note: Data: see Annex, Table F.

Table 6: Disposable income on National Minimum Wage compared to MIS, 2008 and 2015 – surplus/deficit in 2015 prices (per week)

	2008	2015*	Deterioration 2008–2015**
Single	-£26.77	-£53.63	£26.87
Couple + 2 children	-£30.76	-£75.38	£44.62
Lone parent + 1 child	-£3.57	-£38.72	£35.15

Notes: * Pre-Universal Credit – i.e. for those claiming existing working-age benefits and tax credits.

** How much less disposable income rose than rising minimum costs.

5 CONCLUSION

Since MIS was launched in 2008, the cost of achieving what the public think is needed for a minimum acceptable standard of living has risen year on year. What is more, it has risen faster than the incomes of people relying on out-of-work benefits, on low-wage work and on in-work support from the state.

The consequence has been to make low-income working-age households substantially worse off, relative to what they need. This loss was particularly serious for families with children. Those who are not working have to survive on not much over half of what they require, down from nearly two-thirds. Those in low-paid jobs can no longer rely on the tax credit system to get them quite as close to meeting a minimum budget – they face a widening deficit, which typically was £2,000 a year higher in 2015 than in 2008.

In 2015, there was a pause in this trend and a minor improvement in incomes relative to MIS. However, this was largely the consequence of an inflation-free period that is forecast to be short-lived (Office for Budget Responsibility, 2015). Over the medium term, a return to conditions that cause the incomes of the worst-off working-age households to decline relative to the minimum seems likely.

Which government policies in the new Parliament will most impact these trends? Policies to increase pay, including changes in the minimum wage, together with the level of taxation imposed on people with low earnings, will play a part. The amount households are able to earn before their benefits begin to be withdrawn will also have an influence. At the same time, the level of help that people on low incomes receive from the state will be important, particularly the rate at which benefits, tax credits, and Universal Credit are increased in order to help meet rising costs. This will have crucial effects on out-of-work households and families in work with children but on low incomes, who depend heavily on such state support. Promised increases in support for childcare, due to be implemented in 2016 (increased support in Universal Credit) and 2017 (30 free hours for three and four year olds), will be a significant boost, and further increases to the personal tax allowance will benefit those working full-time on the NMW. But how far will these measures compensate for the erosion of living standards among

low-income households in the past, and potentially in the future too? The impact of policies proposed by the new Government on income adequacy will follow in a further report later in 2015. This will project the analysis of incomes of households reliant on out-of-work benefits and the NMW to 2020, exploring the impact of government policy. It will help identify the key challenges for the Spending Review and beyond in terms of improving the living standards of those who have been falling further behind what they need in recent years.

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ANNEX: SUMMARY OF MIS BUDGETS, 2008–2015

Table A: Minimum requirements not including rent or childcare, £ per week

	2008	2009	2010	2011	2012	2013	2014	2015
Single, working age	158.12	165.82	175.34	184.68	192.59	200.64	195.29	196.16
Couple, working age	245.03	256.35	272.55	286.79	301.74	314.52	320.15	321.99
Pensioner single	131.98	138.53	147.41	154.62	158.74	165.24	182.16	182.98
Pensioner couple	201.49	210.66	222.22	232.74	231.48	241.25	262.76	264.04
Lone parent, 1 child	210.31	220.11	233.73	246.37	275.59	284.57	291.26	292.14
Lone parent, 2 children	282.69	295.49	308.90	325.90	361.99	375.15	383.55	385.33
Lone parent, 3 children	379.94	396.28	406.15	429.19	457.66	475.03	485.59	488.17
Couple, 1 child	286.64	299.83	315.38	332.27	374.17	386.90	396.99	398.83
Couple, 2 children	370.05	386.96	402.83	424.65	454.52	471.16	482.89	485.76
Couple, 3 children	465.71	485.75	496.84	524.48	554.55	577.02	591.34	594.92
Couple, 4 children	504.69	526.44	539.08	569.27	605.80	628.70	644.35	648.64

Table B: Percentage increase in minimum requirements, 2008–2015

	(i) Due to rise in prices* (%)	(ii) Due to change in baskets (%)**	(iii) Total (%)	(iv) Overall increase compared to CPI increase (19%) (%)
Single, working age	29.0	-3.8	24.1	4.3
Pensioner couple	27.2	3.0	31.0	10.2
Lone parent, 1 child	26.0	9.8	38.3	16.3
Couple, 2 children	27.6	2.5	30.8	9.9

Notes: * Based on inflation in components of RPI applied to 2014 budgets.

** Actual increase additional to inflation as calculated in previous column.

Table C: Safety-net benefits (IS/Pension Credit) as a percentage of MIS (excluding rent, childcare, Council Tax)

	2008	2009	2010	2011	2012	2013	2014	2015
Single, working age	42	42	41	40	40	38	40	40
Pensioner couple	105	105	102	100	104	101	95	96
Couple, 2 children	63	63	62	62	60	58	57	57
Lone parent, 1 child	68	67	65	64	59	57	57	57

Table D: MIS as a percentage of median income*

	2008/9	2009/10	2010/11	2011/12	2012/13
Before housing costs					
Single, working age	74	76	79	83	86
Pensioner couple	62	64	66	67	67
Couple, 2 children	75	77	79	83	85
Lone parent, 1 child	75	77	80	86	90
After housing costs					
Single, working age	72	74	77	79	81
Pensioner couple	53	54	57	56	56
Couple, 2 children	73	74	77	80	82
Lone parent, 1 child	72	73	77	83	87

Note: * Survey data not available after 2011/12.

Table E: Earnings required to reach MIS

	2008	2009	2010	2011	2012	2013	2014	2015
£ per year								
Single, working age	13,450	13,859	14,436	15,000	16,383	16,852	17,072	17,102
1-earner couple, 2 children	26,910	27,635	29,227	31,584	34,881	36,060	37,043	36,744
2-earner couple, 2 children	27,792	27,940	29,727	36,800	36,728	38,759	40,573	40,047
Lone parent, 1 child	11,990	12,122	12,454	18,243	23,861	25,586	27,073	26,725
£ per hour								
Single, working age	6.88	7.09	7.38	7.67	8.38	8.62	8.73	8.75
1-earner couple, 2 children	13.76	14.13	14.95	16.15	17.84	18.44	18.94	18.79
2-earner couple, 2 children	7.11	7.14	7.60	9.41	9.39	9.91	10.37	10.24
Lone parent, 1 child	6.13	6.20	6.37	9.33	12.20	13.09	13.85	13.67

Table F: Net income on the National Minimum Wage as a percentage of MIS (excluding rent, childcare, Council Tax)

	2008	2009	2010	2011	2012	2013	2014	2015
Single, working age	84%	83%	79%	75%	72%	70%	69%	70%
2-earner couple, 2 children	93%	91%	89%	83%	84%	83%	82%	84%
Lone parent, 1 child	98%	97%	97%	96%	89%	86%	85%	86%

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