

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 BHC and AHC bases there were small falls in persistent low income for the whole population over the period 1991-2004. These falls were slightly more pronounced on an AHC basis, over this 14-year period.
- On a BHC 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 up to 1999-2002, since then there has been a continued fall to the most recent period 2001-2004. On an AHC basis, there were similar falls in the persistent low-income estimates for children. Falls on this AHC basis have been evident since 1998 to 2001.
- On a BHC basis there was little change in persistent low income for people of working age. However, there were falls when incomes were measured on an AHC basis for this group.
- On a BHC 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 AHC 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. The latest data covering the period 2001-2004 show the level of persistent poverty for pensioners to be lower than it was at the start of the 14-year period.

7 Low-income dynamics

Introduction

HBAI analysis contained elsewhere 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, Institute for Social and Economic Research. Further information is on their web-site at <http://www.iser.essex.ac.uk/ulsc/bhps/doc>

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 14 waves of the British Household Panel Survey (BHPS), from 1991 up to and including 2004. This chapter is based on the findings of the 'Low-Income Dynamics' (LID) analytical paper which was published by DWP in July 2006. 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. Analysis of 2005 (Wave 15) BHPS data will therefore be published separately in Summer 2007.

This chapter focuses mainly on the trends in relation to individuals who are persistently observed as living in low-income households between 1991 to 1994 and 2001 to 2004. For full details of the analysis of income mobility and transition rates covered in the LID paper, which is available on the DWP website at http://www.dwp.gov.uk/asd/hbai.asp#low_income

Changes since last year

Some of the BHPS figures presented in this chapter have been revised since their publication in the last (2004/05) HBAI report.

This is due to changes made by the data providers.

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 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'. On the BHPS, there were around 500 cases with this type of mortgage, whose AHC income (as compared with standard HBAI methodology) will be understated.
- 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.

Similar to the BHC series from the BHPS, the BHPS-based AHC series does not deduct Council Tax payments from income.

'Opportunity for all' persistent low income indicators

Table 7.1 (BHC) presents the persistent low-income indicators for children, pensioners and working-age adults that are included in the Government's annual report on tackling poverty

and social exclusion 'Opportunity for all' (OFA), with additional figures presented here for 'all individuals' for comparative purposes. **Table 7.1 (AHC)** presents the same figures on an After Housing Costs basis.

For the period 2001 to 2004 **Table 7.1** shows that, for income Before Housing Costs:

- Ten per cent of individuals lived in households with below 60 per cent of median income for at least three out of four consecutive years. This figure has shown little change for the entire 14 years of the survey.
- 13 per cent of children lived in households with below 60 per cent of median income for at least three years. There was a reduction for children over the period 1991-1994 to 1993-1996, which remained broadly the same up to 1999-2002. There have been continuing falls since then to the most recent period 2001-2004.
- Seven per cent of working-age adults lived in households with below 60 per cent of median income for at least three years. This series has shown little change since 1991-1994.
- 16 per cent of pensioners lived in households with below 60 per cent of median income for at least three years. For pensioners, there were increases up to 1998-2001, followed by successive falls since.

On an AHC basis, the table shows that for 2001 to 2004:

- 12 per cent of individuals experienced persistent low income (defined as at least three out of any four years below 60 per cent of median income). This figure has fallen since 1991-1994.
- 17 per cent of children lived in households with below 60 per cent of median income for at least three years. This figure has fallen, with most of the decline occurring after 1996-1999.
- Eight per cent of working-age adults experienced persistent low income. This figure has decreased since 1991-1994.
- 14 per cent of pensioners lived in households with below 60 per cent of

median income for at least three out of four consecutive years. For pensioners, the proportion rose between the periods 1991-1994 and 1998-2001, but has shown a marked fall since. The level of persistent poverty for pensioners in 2001-2004 was lower than it was at the start of the 14-year period.

The definition of persistence used in Ofa is 'at least three years out of four below thresholds of 60 or 70 per cent of median income'. An alternative definition that does not appear in Ofa, 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 Ofa 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 **Tables 7.1 BHC and 7.1 AHC**. While there was a slight tendency for 20 / 30 per cent levels to show less variation on a BHC basis, the trends over time were broadly consistent.

7 Low-income dynamics

Table 7.1 (BHC): Opportunity for all indicators

Source: BHPS 1991-2004				
Percentage of group below threshold in at least 3 out of 4 years				
	OFA definition		Alternative definition ²	
	Below 60% of median	Below 70% of median	In bottom 20%	In bottom 30%
All individuals				
1991 to 1994	12	20	14	24
1992 to 1995	11	20	14	24
1993 to 1996	11	20	14	24
1994 to 1997	12	20	14	24
1995 to 1998	11	20	14	24
1996 to 1999	11	20	14	24
1997 to 2000	12	20	14	24
1998 to 2001	12	20	14	24
1999 to 2002	11	20	14	24
2000 to 2003	11	20	14	24
2001 to 2004	10	19	14	24
Children				
1991 to 1994	20	29	22	33
1992 to 1995	18	29	21	32
1993 to 1996	17	29	20	33
1994 to 1997	17	28	20	32
1995 to 1998	17	28	20	32
1996 to 1999	16	27	20	32
1997 to 2000	17	27	20	32
1998 to 2001	17	26	21	31
1999 to 2002	17	27	20	31
2000 to 2003	15	26	19	30
2001 to 2004	13	24	18	30
Working-age adults				
1991 to 1994	8	13	9	15
1992 to 1995	8	14	9	16
1993 to 1996	7	14	9	17
1994 to 1997	7	13	9	16
1995 to 1998	7	13	9	16
1996 to 1999	7	13	9	15
1997 to 2000	7	13	9	15
1998 to 2001	7	13	9	16
1999 to 2002	7	12	8	16
2000 to 2003	7	13	9	16
2001 to 2004	7	12	9	16
Pensioners				
1991 to 1994	17	35	21	41
1992 to 1995	17	33	21	41
1993 to 1996	17	34	22	41
1994 to 1997	19	35	25	43
1995 to 1998	19	35	24	42
1996 to 1999	20	36	24	43
1997 to 2000	20	37	25	45
1998 to 2001	21	37	26	44
1999 to 2002	19	37	24	44
2000 to 2003	18	34	24	43
2001 to 2004	16	33	23	43

Notes:

1. Some of the figures presented in the table above have seen revisions since their publication in the last (2004/05) HBAI report. This is due to changes to the base dataset made by the data providers.

2. 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 7.1 (AHC): Opportunity for all indicators

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

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