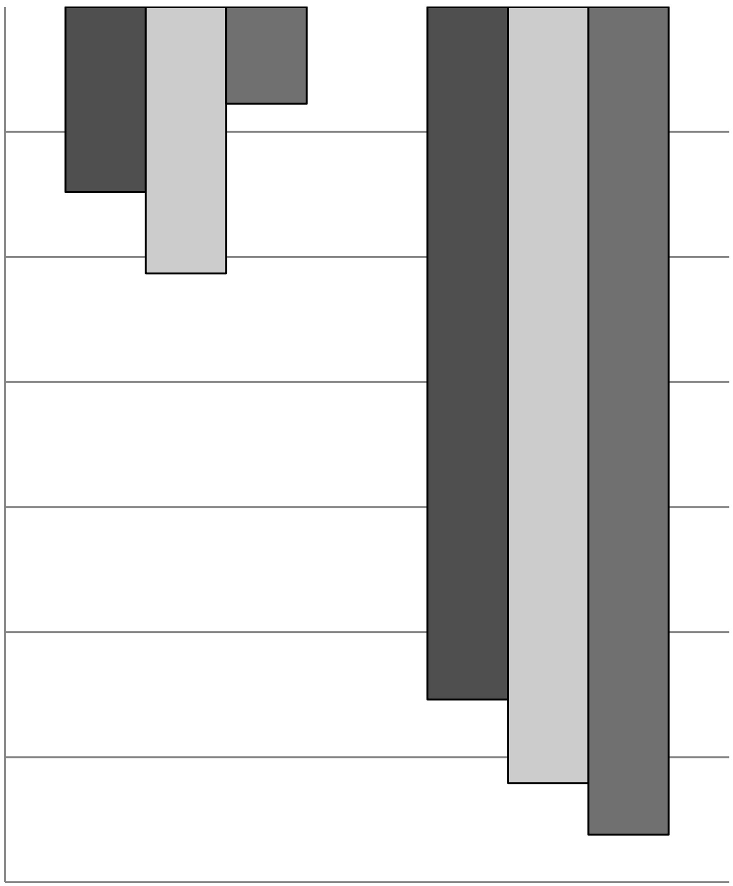
Introduction

- The Minimum Income Standard (MIS) represents what families need for an acceptable standard of living, according to members of the public.
- Public policies setting minimum wages, tax rates and benefit rates affect the ability of households to reach this standard, and how far those on low incomes fall short.
- This analysis:
  - Compares the living standards of different household types to MIS in 2010, now and 2022, relative to the minimum required;
  - Breaks down the effect of different policies on household incomes in 2022;
  - Identifies three key trends in income adequacy.
- Specifically, it considers working age households, either out of work or earning the National Minimum Wage for over-25s. Families with children are assumed to live in social rented house and people without children in a low cost privately rented house.

Change in shortfalls compared to MIS, 2010- 2022



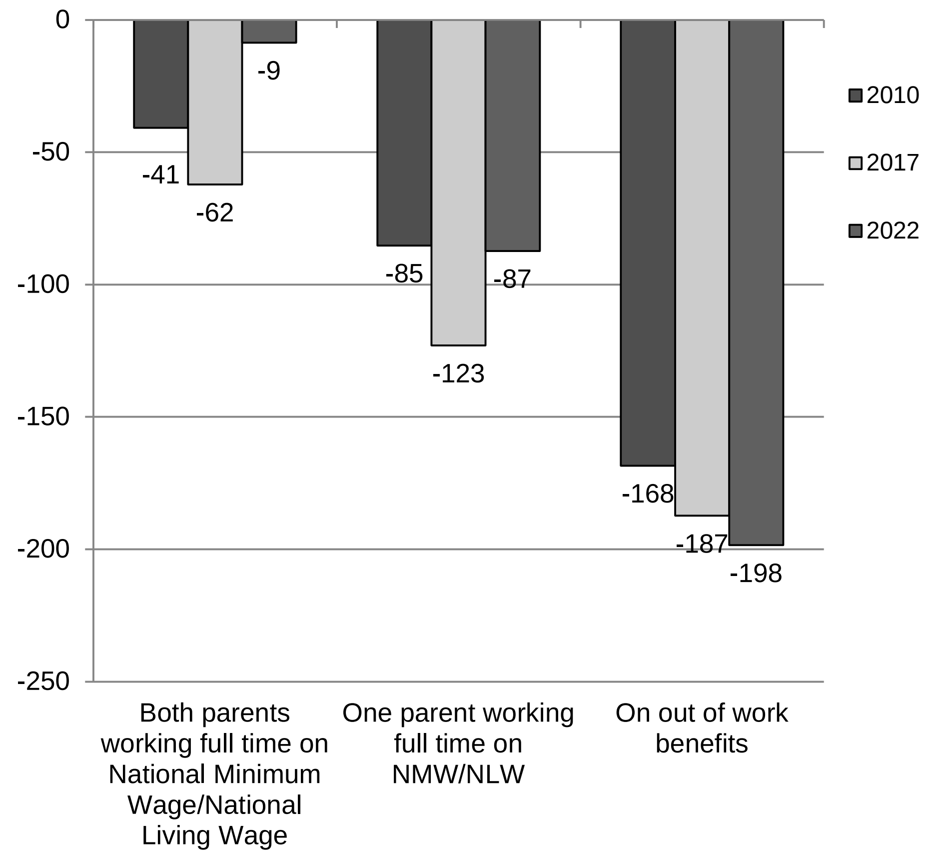
Change in shortfalls compared to MIS, 2010-2022

Change in shortfalls compared to MIS, 2010-2022

Disposable income compared to MIS, £ per week, 2017 prices

C. Couple with children aged 4 and 7

- In the most favourable case, couples who both work full time will be helped by the National Living Wage and improved childcare support to improve their living standard to around the MIS level by 2022.
- Those with a single earner on low pay will have an £87 per week shortfall, about 20% short of what the family needs.
- Where nobody works, the shortfall will increase to £198, around 44% of the budget.



Figures based on Universal Credit system for 2022 only, and assume that benefits uprated by CPI after 2019/20

Policy effects

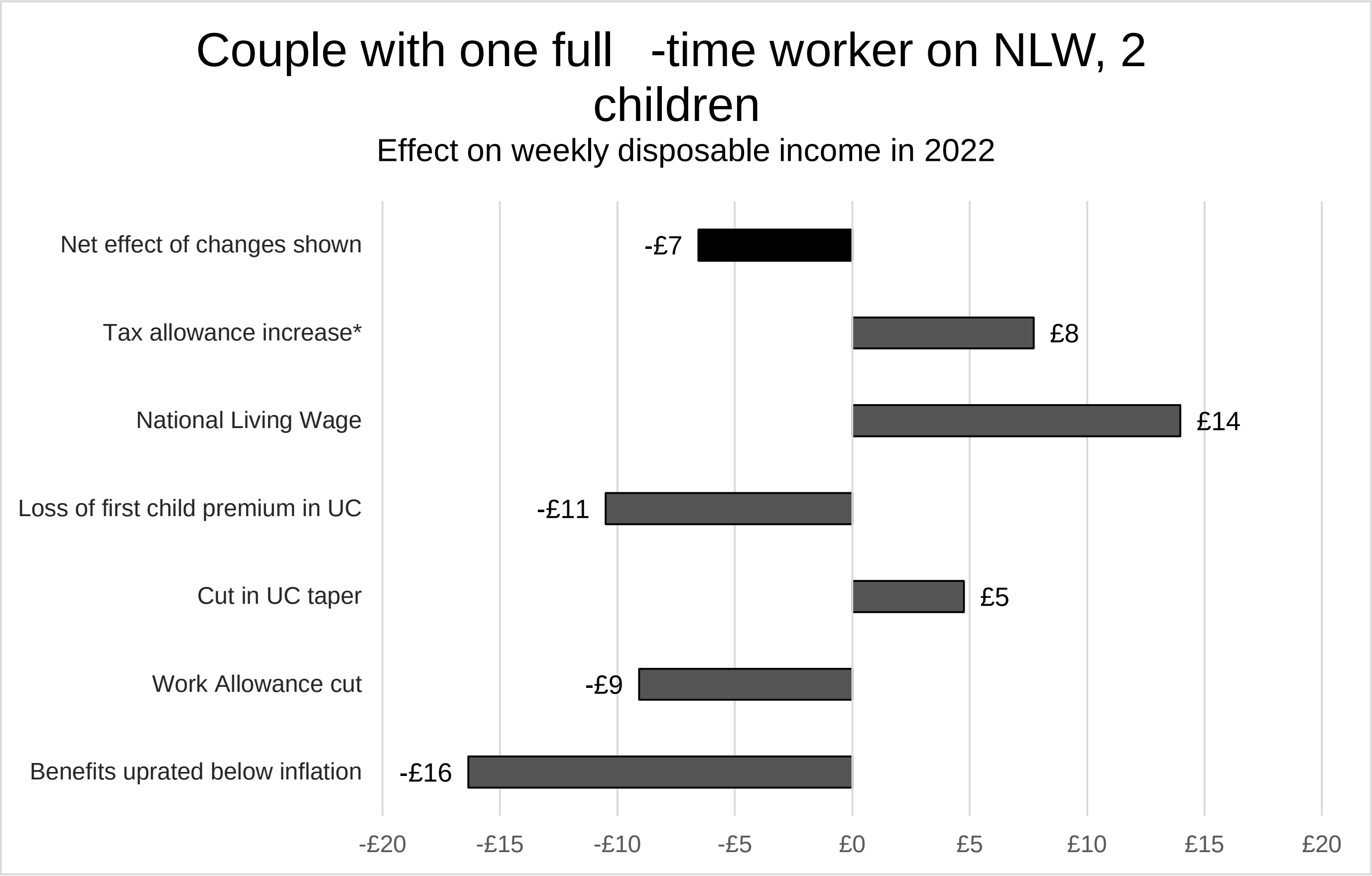
Focusing on policies with widespread impact, the next five slides show how policies to raise pay, lower taxes and reduce welfare affect various working families receiving Universal Credit and starting a family after April 2017.

Specifically, they project the effect of past and current policies on net weekly household

…but for a couple where one parent works part time and the other full time, the net gain is smaller…

Policy effects

…and for a "single breadwinner" couple, with the other parent not working, smaller tax and wage gains create a net loss…

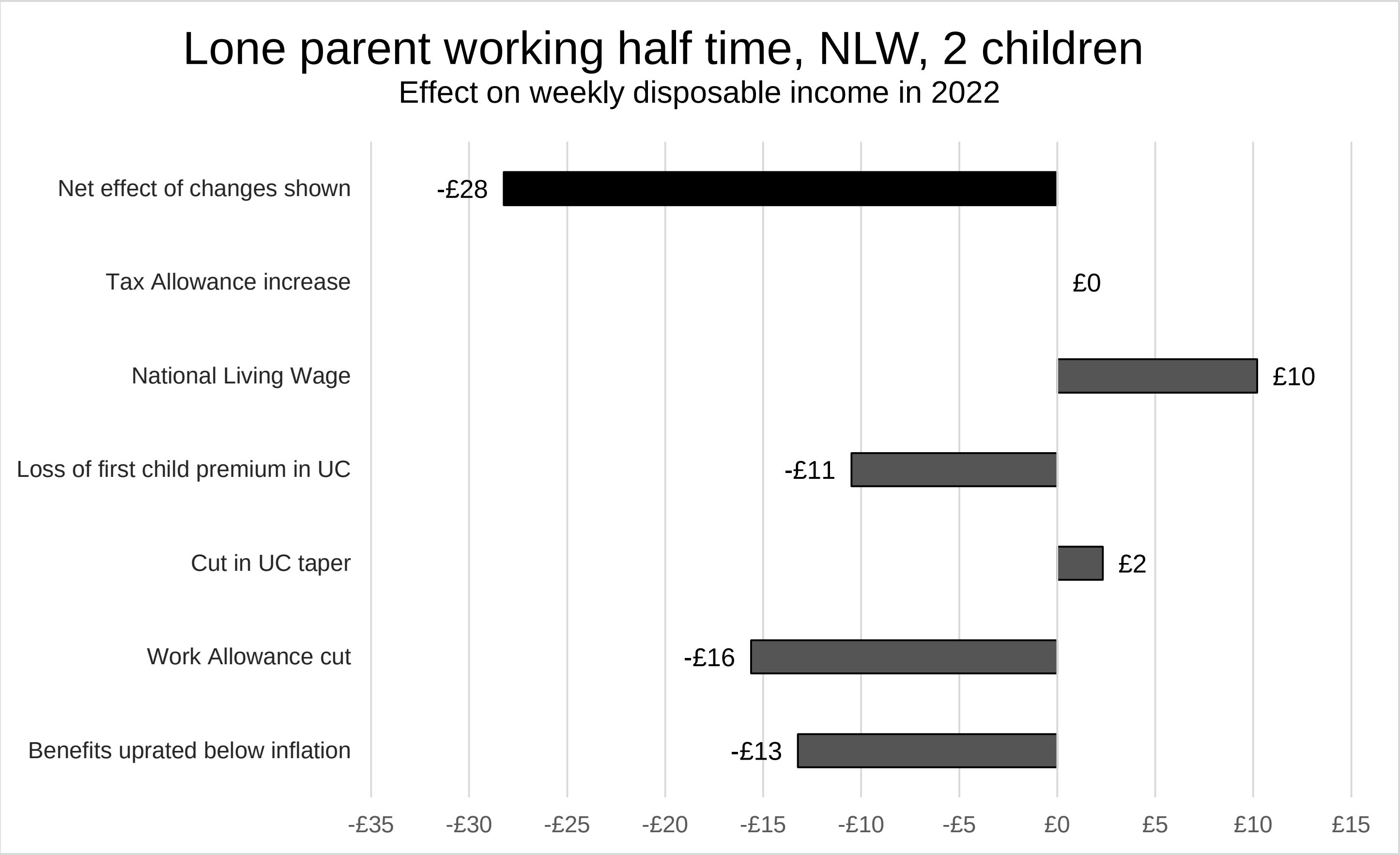


*NB tax allowance gain includes Married Tax Allowance, worth £1.85 a week to this family

For a lone parent working full time , the net effect is negative. Wage and

Policy effects

…and for a lone parent working part time , the policy effects have been overwhelmingly negative.



Policy effects – family work patterns matter

Overall for working families, things have improved only for those with two working parents, with at least one working full time. However, only one in three working families below a Minimum Income Standard is in that situation.

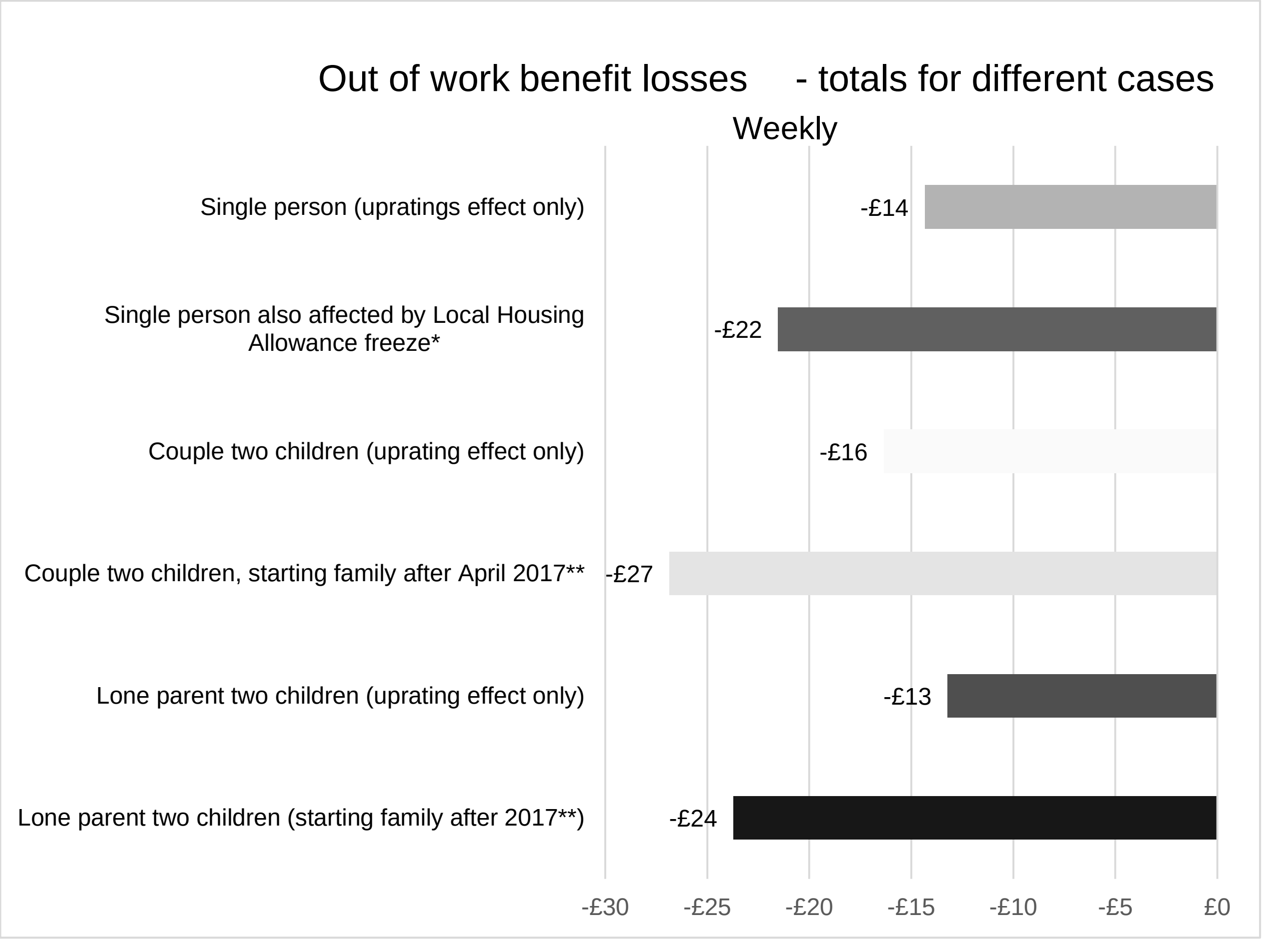
The pattern of winners and losers shown above is most benign for those with less need for help.

In-work support is particularly important for families with part-time or irregular work, and for lone parents. Many of these families have caring responsibilities.

The following two slides show the effect on out-of-work households.

Policy effects

Out of work individuals and families have seen only losses…

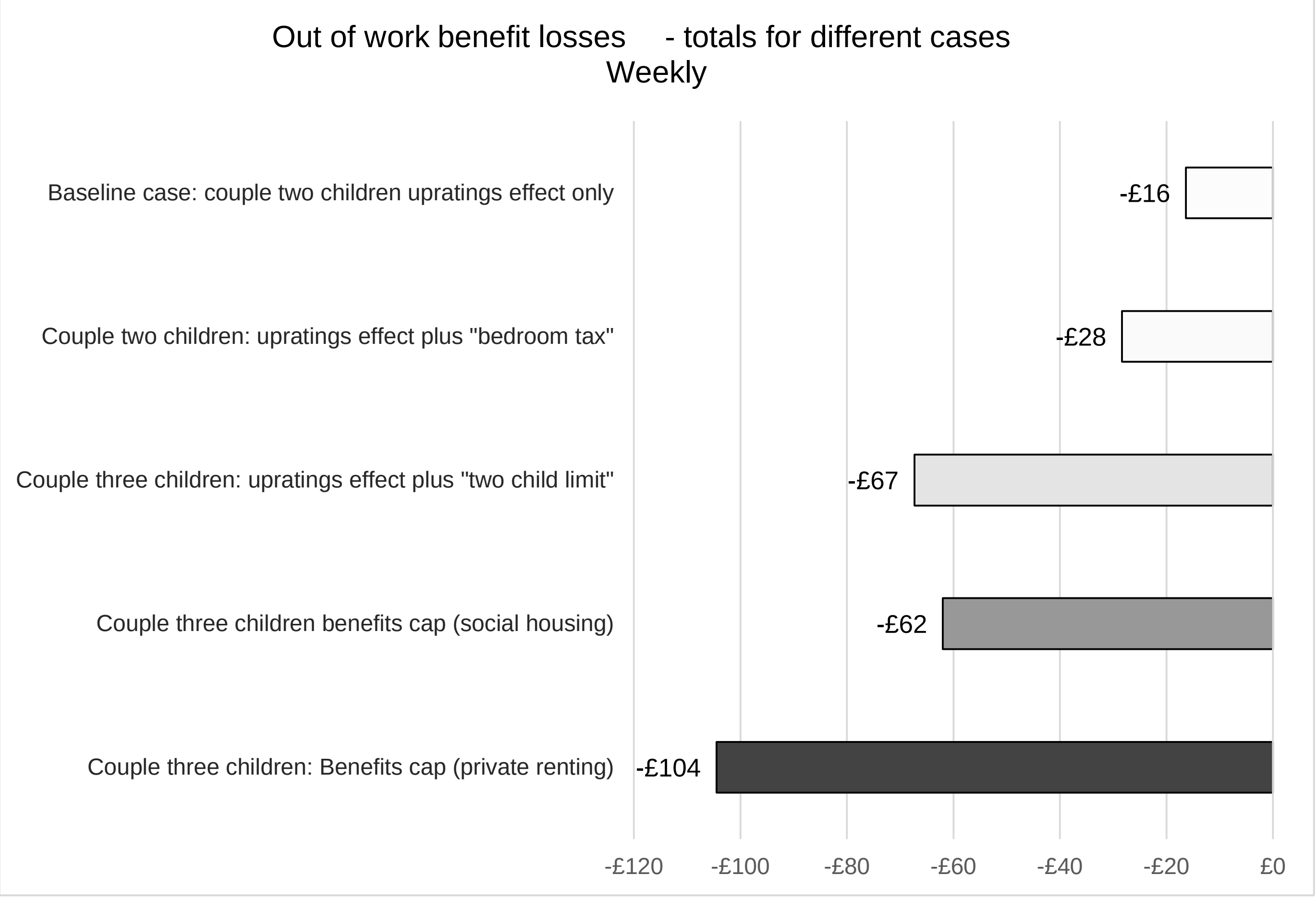


* Includes effect of cash-limiting support for private rents to 2020

** Includes loss of first child premium UC

Policy effects

…and some bigger cuts will add to the losses of selected out of work families

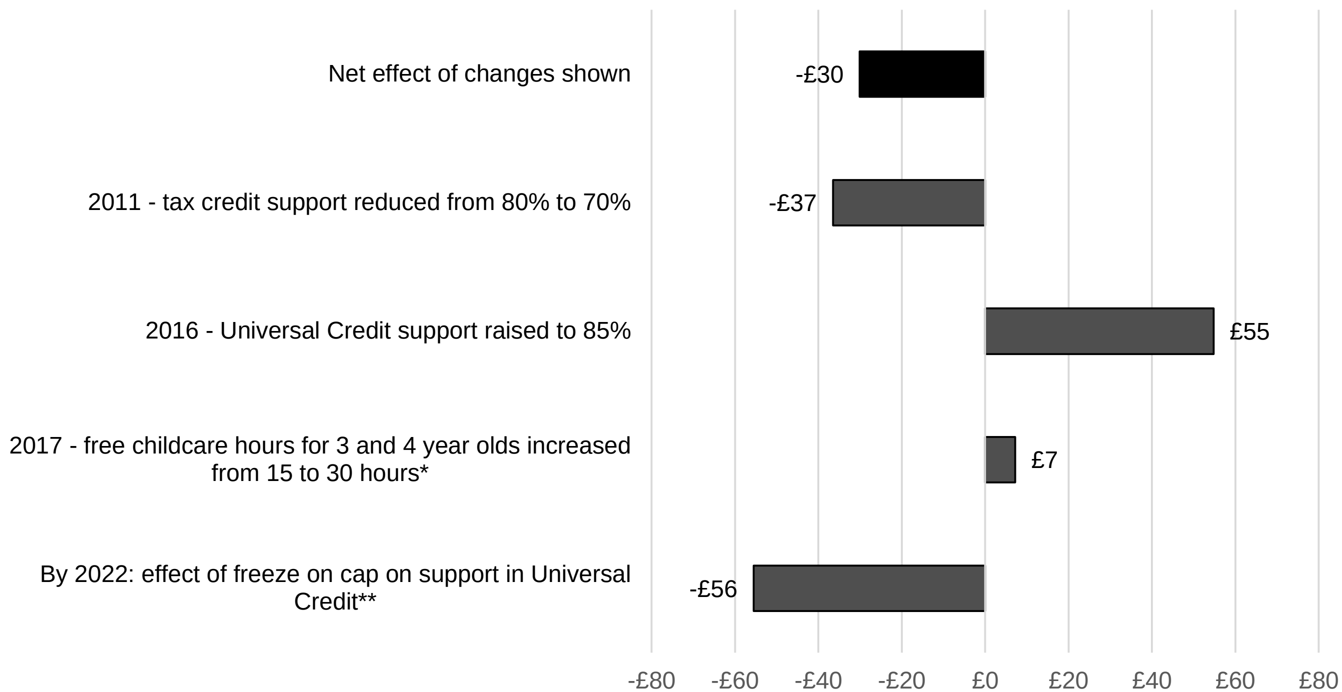


*Two-child limit applied to UC entitlement if third child born after 2017

For working families, living standards are also highly dependent on how much, if anything, they spend on childcare. Changing

Additional policy effects: childcare

Family b) has children aged 1 and 3. With no free childcare for the 1 year old, high childcare expenses are increasingly likely to exceed the fixed cap on childcare support in Universal Credit, if it is not raised. The consequence will be high additional costs to families, outweighing other gains.

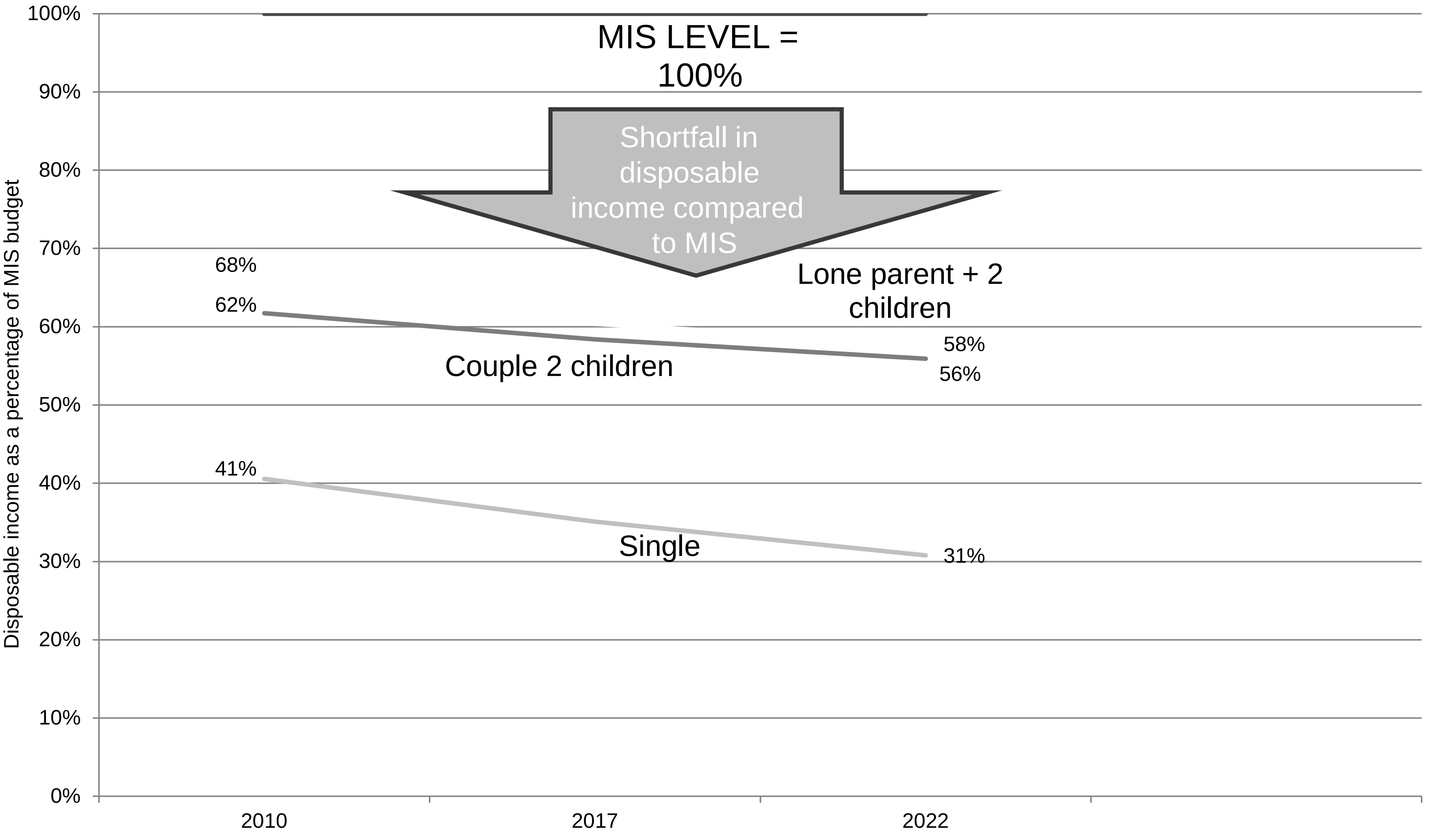


*Net benefit of 15 extra free childcare hours based on family on Universal Credit, who was paying only 15% of this cost.
** Cap on eligible childcare for support has remained at £175 for one and £300 for two children, since 2005. This family's costs exceed £300.

Three key trends in income adequacy

1. The safety net is declining

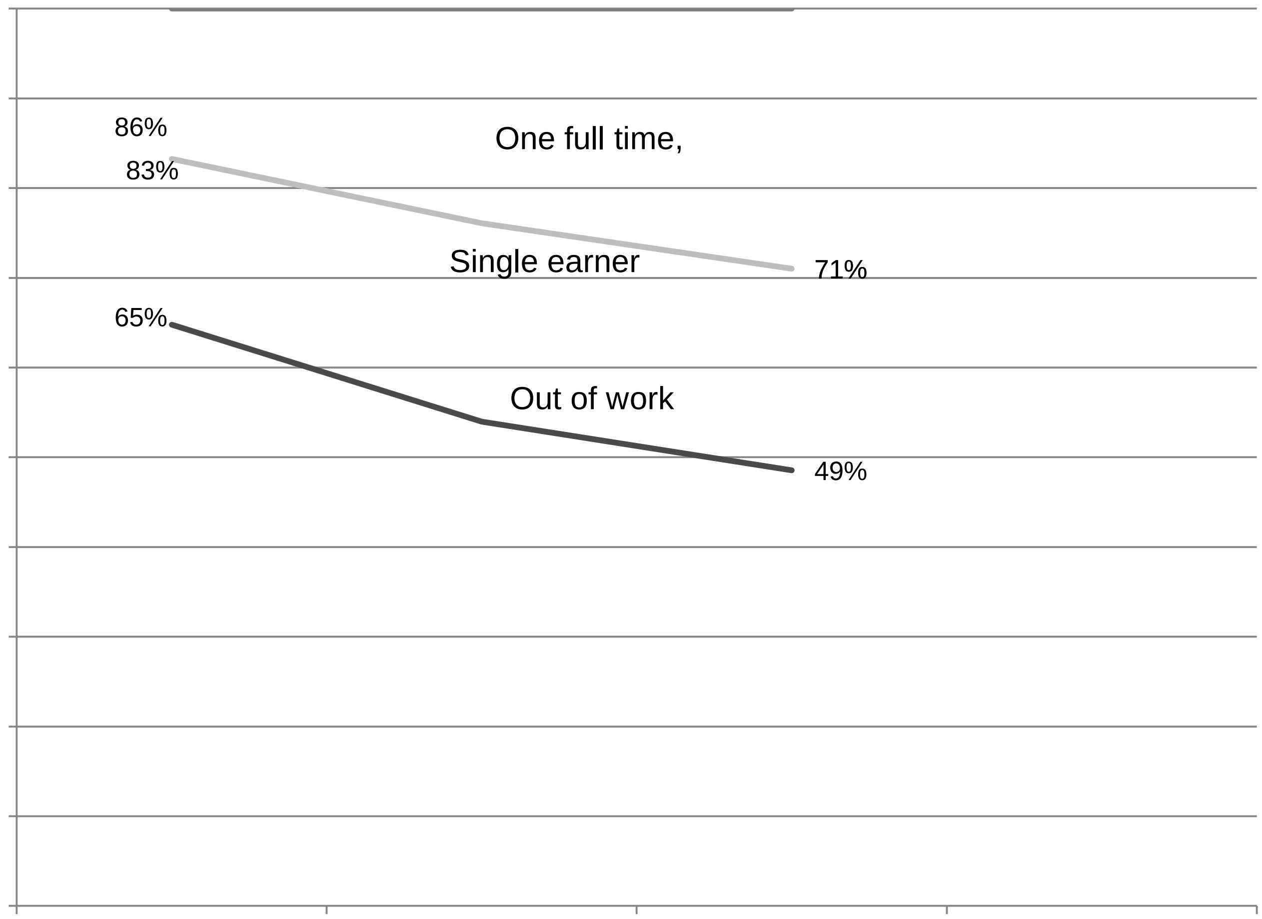
Out of work benefits are projected to have fallen from about two thirds to about half of what is needed for families, and to little over a quarter for singles without children



Three key trends in income adequacy

2. Larger families are becoming much worse off (a)

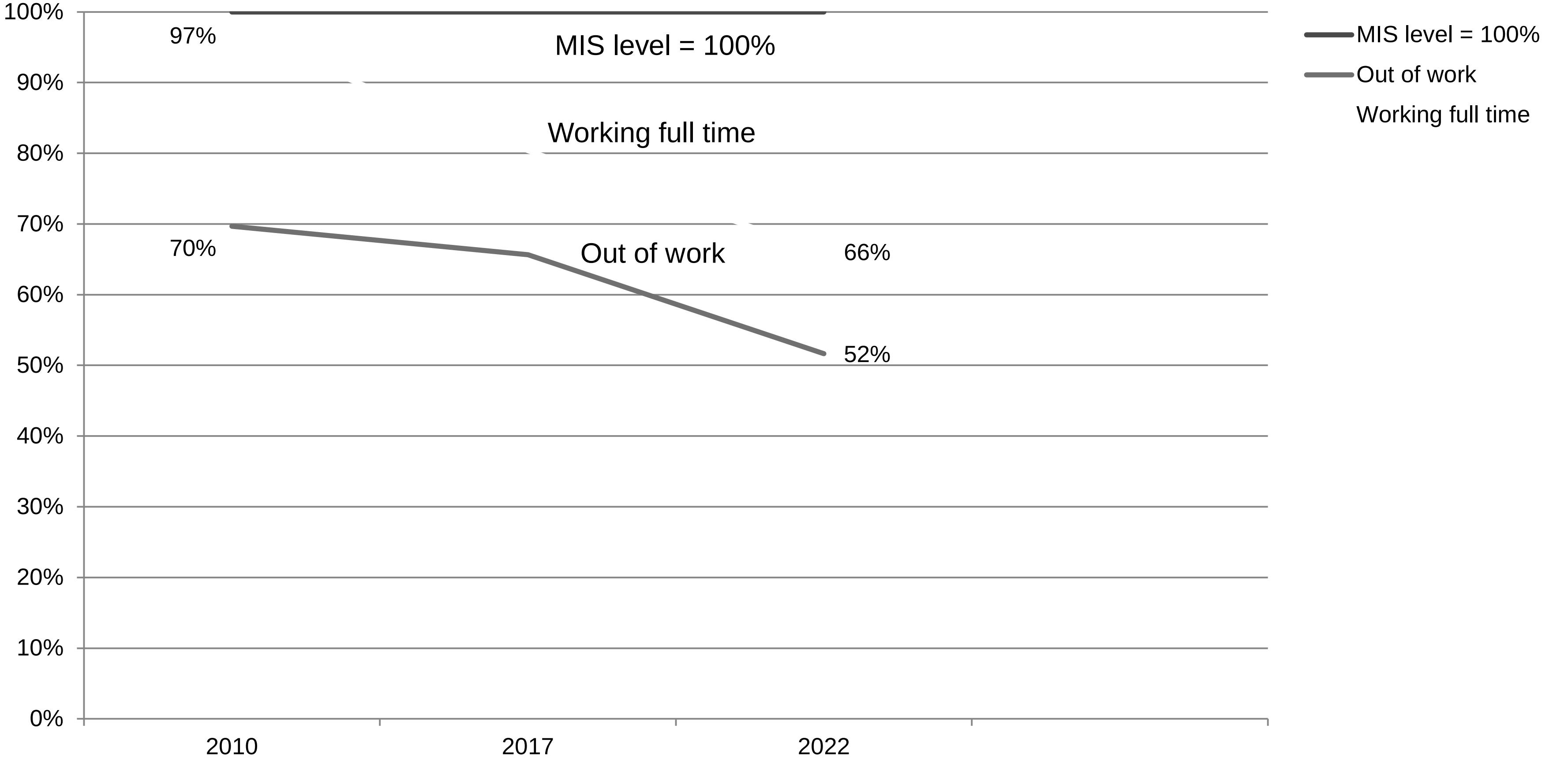
A couple with three children (aged 3, 5 and 7) is getting steadily worse off whether in or out of work…



Three key trends in income adequacy

2. Larger families are becoming much worse off (b)

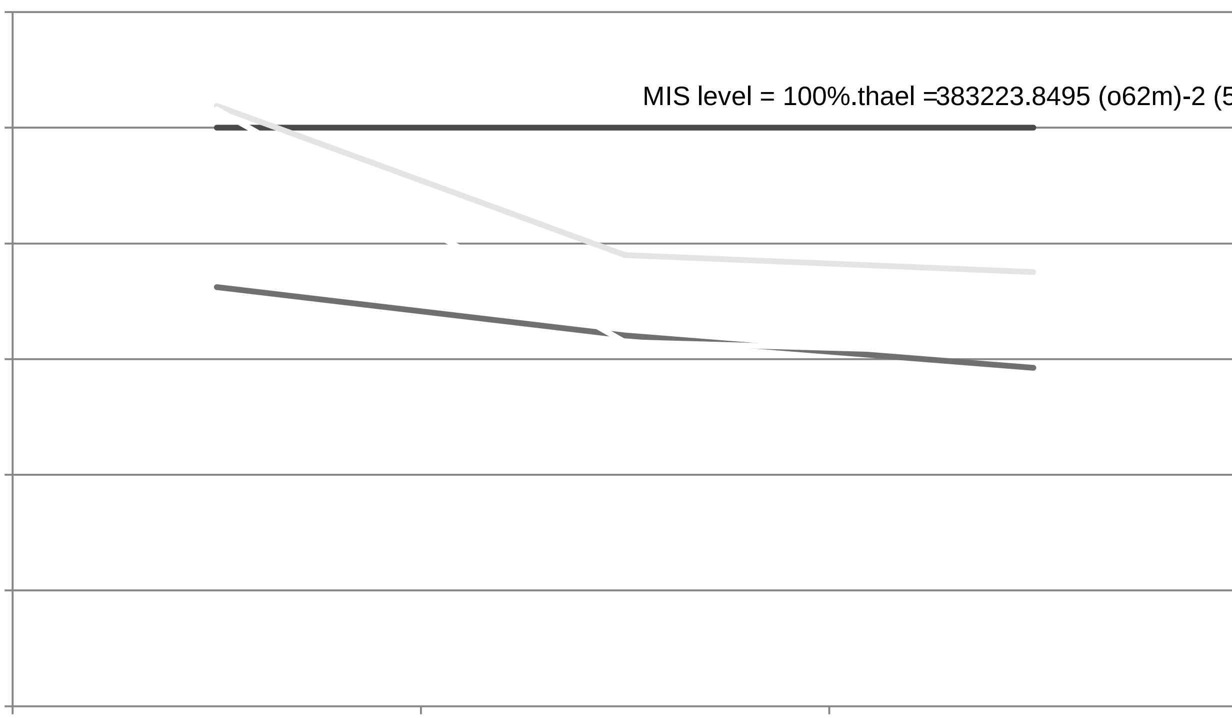
A lone parent with three children (aged 3, 5 and 7) could nearly reach MIS by working on the Minimum Wage in 2010. By 2022, a full-timer could fall further short than an out-of-work lone parent did in 2010.



3. Overall, families with young children, particularly lone parents, are caught between worsening out of work benefits and the freeze in childcare support

Parents are not expected to work until their youngest child is 3, but an out of work lone parent faces declining living standards. In the past, part time work would bring an adequate living standard, but no longer does. By working full time this lone parent is barely better off than not working as the high cost of childcare means they exceed the cap for support.

Lone parent with children aged 1 and 3: disposable income as % of Minimum Income Standard



Summary of family winners and losers

Change in income relative to MIS: percentage points, 2010- 2022

	Couple parents							
	One child				Two children			Three children
	Baby	P (qQ re W						

The freeze on benefits makes a big difference to living standards

The government has not said whether it will restore inflation uprating of working age benefits, tax credits and Universal Credit after the announced freeze in their level expires after 2019/20. The projections shown above assume that CPI-uprating is restored as the 'default' policy.

On projected inflation levels, a continuation of the freeze beyond 2019/20 would mean that working and non-working families on low incomes would fall even further short of meeting their needs in 2022. Conversely, ending the freeze in 2018/19 would reduce the hit to family budgets.