

# The dynamics of low income



Llywodraeth Cymru  
Welsh Government

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Research Summary

Social research

Number: 30/2014

1. The report was commissioned by the Welsh Government and is based on analysis of the British Household Panel Survey (BHPS) and covers the years 2000 to 2008, with a particular focus on the period 2005-2008. This survey is the most reliable source of data that allows us to track individuals and their incomes over time. It has been absorbed by the Understanding Society survey, for which fieldwork began in 2010 but more up-to-date income data was not available for this project. Most of the analysis is presented at the Great Britain level, but where sample sizes allow, conclusions are drawn regarding the position in Wales.
2. The purpose of the report is to take a dynamic view of poverty in Great Britain in general and Wales specifically. It looks at the extent to which individuals move in and out of poverty, the characteristics of those who remain in poverty and the types of events that can lead people to move in or out of poverty.
3. In this report, we say a person is in poverty if their household income is below 60% of the GB median in that year. If, over a four year period, a person is in poverty in three or more years, this is described as persistent poverty. If they are in poverty in one or two years, we refer to this as transient poverty.
4. Over the four years from 2005 to 2008, a greater proportion of people experienced poverty in Wales (36%) than in England (33%). This higher level was due to more people experiencing transient poverty (one or two years in poverty) rather than persistent poverty (three years or more). The overall level of people experiencing poverty in Wales was the same in 2005-2008 as it was in 2000-2003, but in 2005-08 a greater proportion of poverty was transient and a lower proportion persistent.

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## Levels of persistent, transient and recurrent poverty

**Table 1.1 Overview of persistent and transient poverty in Wales and England**

	Persistent poverty	Transient poverty	Ever experienced poverty
	%	%	%
Wales 2000-2003	15	22	37
England 2000-2003	10	20	30
Wales 2005-2008	12	25	36
England 2005-2008	11	22	33

*Source: BHPS Waves J-M and O-R*

## Characteristics of people in persistent poverty

**Table 1.2 Groups with high levels of persistent or transient poverty 2005-2008**

	In persistent poverty	In transient poverty	Not in poverty
	%	%	%
Couple pensioner households	15	21	64
Single pensioner households	24	25	51
Lone parent households	25	36	39
Always workless households	42	37	21
Always working households	4	15	81
Households with a disabled person	15	27	58
Households where head has no qualifications	22	29	49
Social rented accommodation	24	34	42

*Source: BHPS Waves O-R (2005 to 2008)*

5. Across Great Britain as a whole, a relatively high proportion of pensioners were in both persistent and transient poverty between 2005 and 2008. Single pensioners had the highest level – almost one in four were in persistent poverty. There was a similar proportion for those in lone parent households. We should note, however, that the measure of income we use – the measure in the BHPS dataset - is calculated before housing costs are deducted. Pensioners tend to have low housing costs, so are likely to have a much lower level of poverty, transient or persistent, after housing costs are deducted.
6. Across Great Britain as a whole, almost four-fifths of working age people who lived in workless households for the whole period of 2005-2008 experienced some poverty. Around half of this was persistent poverty.

7. The level of persistent poverty in households where there was someone in work in all of the four years was low, at 4%. However, such households are very common, making up almost two-thirds of all households. This means that, among working age households, people in households where there was always at least one adult working made up over one-third of people in persistent poverty and over half of those in transient poverty.
8. Wales had a higher proportion of workless households than England, and a lower proportion of households that were always in work. This contributed to the higher level of poverty, both transient and persistent, for Wales. In Britain as a whole, around one in three people who experienced poverty between 2005 and 2008 lived in a household that also contained a disabled adult. Wales has a higher level of disability among its working age population than other parts of Britain, which contributes both to its higher levels of worklessness and its higher levels of poverty.
9. Some 24% of people in social rented accommodation were in persistent poverty (before housing costs are deducted) between 2005 and 2008 across Great Britain as a whole. In private rented accommodation, the figure was 11%. Levels of poverty were also high in households that were owned outright, mainly accounted for by the high level of poverty among pensioners.

#### **Moves in and out of poverty**

10. The table below looks at the events associated with moves in and out of poverty. It looks at the proportion of people who moved into or out of poverty in the same year as one of these events occurred. It demonstrates the proportion of all moves into or out of poverty with which each event is associated.

**Table 1.3 Key events associated with moves in and out of poverty in Great Britain**

Event associated with move out of poverty	Proportion moving out of poverty	Proportion of all moves out of poverty	Event associated with move into poverty	Proportion moving into poverty	Proportion of all moves into poverty
	%	%		%	%
No longer a workless household	52	13	Become a workless household	37	17
Increase in number of working people (in already working household)	50	12	Decrease in number of working people (but still working household)	10	12
Change from lone parent to couple with children	55	2	Change from couple with children to lone parent	43	4
Increase in benefit income	49	48	Decrease in benefit income	20	41
Increase in pension income	76	11	Decrease in pension income	16	9
Increase in earned income	67	44	Decrease in earned income	21	63

*Source: BHPS Waves O to R (2005 to 2008)*

11. Increasing the number of working people in a household is associated with moves out of poverty in around half of cases. This is true both for households where previously no adult worked and for those where some (but not all) adults previously worked. In total, around one in four moves out of poverty was in a household where the number of working adults increased.
12. Just under one-third of all moves into poverty were in households where the number of working adults decreased. Over one-third of people in households which became workless, moved into poverty. One-tenth of those in households where the number of working age adults decreased (but at least one adult remained in work) moved into poverty.
13. Changes in family type make a big difference, but are rare. Over half of people in families that changed from couple parents to lone parents moved into poverty. However, such an event, year on year, is rare, so they only accounted for 4% of all moves into poverty. Likewise, around half of lone parent families that became 'couple families' moved out of poverty, but such moves only accounted for 2% of all moves out.
14. Increases in benefits and other sources of income can lead to moves out of poverty. Around half of moves out of poverty came from households where the benefit income increased. Almost half came from households where the earned income increased. One in nine came in households where the pension income increased. Conversely, decreases in income were associated with moves into poverty. However, only around one in five people in households where the earned or benefit income decreased moved into poverty, and only one in six of those in households where the pension income decreased.

### **How does persistent poverty differ from “point-in-time” poverty?**

15. Much of the discussion of poverty centres around a point-in-time estimate, rather than the persistent or transient measures in this report. The level of persistent and transient poverty in Wales that we find in our analysis is consistent with the “point-in-time” estimates from the Households Below Average Income dataset. Both persistent and “point-in-time” poverty is higher in Wales than England. The Welsh level is, though, similar to the English North and Midlands.
16. In terms of the composition of poverty, the main difference between persistent poverty and the estimates is the high proportion of pensioners in persistent poverty compared to “point-in-time” poverty. We find that at any single point-in-time, 24% of those in poverty are in pensioner households (see Households Below Average Income, 2007/08, DWP). However, when we look at those in persistent poverty across a four-year period, 49% are in pensioner households. This is because pensioner incomes are much more static – there is far less potential to increase earnings by changing jobs or working more hours.
17. Excluding pensioners, around two-thirds of those in persistent poverty were in workless households. This compares to just under half of those who were in poverty at a particular point-in-time. So, worklessness is a larger part of persistent poverty than point-in-time poverty. It does mean, though, that in-work poverty is a significant minority.
18. It follows from this that individuals with characteristics associated with higher levels of worklessness also make up a greater share of people in persistent poverty than point-in-time poverty. For instance, overall levels of worklessness are higher in social rented accommodation than in other tenures. As a result, a greater proportion of persistent poverty than point-in-time poverty was found among those living in social rented accommodation.

### **Changes since 2008**

19. The data we analyse in this report takes us to 2008. This takes us only to the very beginning of the economic downturn. Since then, there have been a number of changes that could be expected to impact on our findings.
20. Firstly, unemployment is higher in Wales now than it was in 2008. The most recent full-quarter figures, from July to September 2012, show 121,000 people unemployed in Wales. This figure is one-third higher than for the same quarter in 2008, when it was 94,000. It is almost double the figure for 2005, the beginning of the period of our analysis, when unemployment in Wales stood at 64,000. Since 2008, the rise in unemployment in Wales has been greater than the Great Britain average. Moreover, the proportion of people economically inactive was higher in Wales (25%) than England (22%) although both rates were lower in 2012 than in 2008.

21. We also know that the duration of unemployment is important. In 2012, some 33,000 people in Wales had been claiming job seeker's allowance for over six months. This is roughly treble the figure for both 2008 and 2005, a higher rate of increase than for the rest of Great Britain. The number of people claiming in Wales for over one year was 20,000, almost four times as high as 2008 and, again, a faster rise than for the rest of Great Britain.
22. In this report we look at overall worklessness, rather than just unemployment. So, if we focus on all working age adults not in paid work we see a less dramatic rise. In the third quarter of 2012, there were 595,000 working age people (16-64 years old) not in work. This is almost identical to the figure for the same quarter in 2008, and 40,000 higher than for the same period in 2005.
23. So, conditions in the labour market have on the whole deteriorated, though more markedly for some measures than others. The overall proportion of people living in poverty has not changed much, however. Using the "point-in-time" figures from the Households Below Average Income dataset, we see that the poverty rate for working age adults (calculated before housing costs) was unchanged in the three years to 2011 compared to the three years to 2008. The level in Wales was actually lower for children in the most recent three years than the earlier period. On the after housing costs measure, there was no change for children or working age adults between 2008 and 2011. In total, then, there have been some labour market changes since 2008 which one would expect to increase poverty, both persistent and transient. However, these changes had not yet had the anticipated effect by 2010/11, to which the most recent HBAI data refers.
24. There are reforms to the benefits system, both which have happened since 2008 and which are to happen in 2013, which one could anticipate would increase the number of people in poverty, if not necessarily the number in persistent poverty. Changes that are expected to result in a reduction in benefit income are numerous – the 20% reduction in Disability Living Allowance caseload with the introduction of the Personal Independence Payment, the overall benefit cap, the under-occupancy penalty and the below inflation rises in benefits both in and out of work are some of the more prominent examples. Our analysis shows that reductions in benefit income accounted for almost half of all moves into poverty, so a rise in the number of people in poverty should be expected.

### **Implications for tackling poverty**

25. The findings of this report have relevance for anti-poverty strategy, particularly regarding the links between poverty and work. Firstly, persistent poverty is more concentrated in workless households than point-in-time poverty. In half of cases, an increase in the number of people working is associated with a move out of poverty, so work can be an effective route out. However, substantial in-work poverty remains, even persistent in-work poverty. So simply finding work may not be sufficient – the level of pay is also important, as is the number of hours worked. Equally, while finding work is important, staying in work is vital, too. Losing a job is strongly associated with a move into poverty.

26. The number of people who are in persistently workless households is relatively low. As a result, they form only a minority of those in persistent poverty. Focusing solely on long-term worklessness will therefore have only limited impact on reducing overall poverty and even on reducing persistent poverty. Moreover, as effective as work is for reducing poverty, it will not always be an option. There are some people with disabilities or caring responsibilities who are not able to take up paid work. For these groups, maximising non-work (mainly benefit) income will be important, as will mitigating the effects of poverty.

**Views expressed in this report are those of the researchers and not necessarily those of the Welsh Government**

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ISBN 978-1-4734-1079-4

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