The low earners audit

August 09 update: low earners' experiences of work

August 2009

Contents

Summary: low earners' experience of work

Of the 13.7 million low earner adults in the UK with gross household incomes between £11,650 and £27,150, 7.5 million were economically active prior to the start of the current recession. Of these, around 4.9 million were in employed work, 2.2 million were self-employed and 0.4 million were unemployed.

Wages and salaries account for around three-quarters of non-retired low earners' gross household incomes.[1] Therefore, our low earner definition of £11,650-£27,150 gross household income is equivalent to total household wages and salaries of £8,750-£20,350. Although not all people earning below this amount will live in low earner households because of the income received from other sources (including other members of their household), it is probable that low earner employees will be highly represented in lower paying industries

On a proportional basis, low earner employees are likely to be particularly highly concentrated in the *hotels and restaurants* (80-90 per cent of all employees), *agriculture, hunting and forestry* (60-70 per cent), *wholesale & retail trade; repair of motor vehicles, motorcycles & personal & household goods* (60-70 per cent), *education* (50-60 per cent), *health and social work* (50-60 per cent) and *other community, social and personal service activities* (50-60 per cent) sectors.

In absolute terms, the highest number of employees earning below £20,350 occur in the *wholesale & retail trade; repair of motor vehicles, motorcycles & personal & household goods* (around 2.1 million), *education* (2.0 million), *health and social work* (1.5 million), *manufacturing* (1.0 million) and *real estate renting and business activities* (1.1 million) sectors. While just 0.35 million people employed in the *construction* sector earn below £20,350, it is probable that a large proportion of the 2.2 million self-employed low earners work on a non-salaried basis in this sector.

Due to the origins of the current economic crisis in banking and housing the hardest hit sectors in the latter part of 2008 were the higher paying finance and construction industries, leading to some talk of a middle class recession. However, the shock has subsequently spread to all sectors of the economy.

- The service sector, where low earners predominate, has experienced a steep decline in output in the last 12 months. For example, output in the *distribution; hotels & catering; repairs* industry fell by 7.9 per cent between Q1 2008 and Q2 2009, and now stands at a lower level than in 2005.
- Low earner industries have also experienced large increases in company insolvencies. In Q1 2009, the number of company insolvencies in the *wholesale & retail trade; repair of motor vehicles, motorcycles & personal & household goods* sector was up 46 per cent year-on-year in England.
- Similarly, low earner industries have experienced large numbers of job losses. For example, the number of JSA applicants recording *administrative occupations*, where 65-70 per cent of employees earn below £20,350, as their usual occupation increased by 87 per cent in the year to June 2009.

Moreover, there is some evidence that the recent slowdown in deterioration experienced in some higher paying sectors is not being replicated in low earner industries.

[1] ONS, *The effects of taxes and benefits on household income, 2007/08*, Table 16 (Appendix 1)

- For example, company insolvencies in the *wholesale and retail* sector increased by 19 per cent in Q1 2009 on the previous quarter; by contrast, *financial intermediary* insolvencies increased by just 3 per cent.
- Similarly, while there was a net increase in June 2009 of 670 in the number of JSA applicants describing their usual occupation as *caring personal services*, there was a net decrease of 525 among *corporate managers*.
- The number of redundancies taking place in the *distribution, hotels and restaurants* sector in Q1 2009 was 45 per cent higher than in the previous quarter; by contrast, the number of redundancies announced in the *banking, finance and insurance* sector was up 17 per cent.

It is possible that the nature of the downturn could result in the high street, where low earner workers predominate, experiencing a longer period of decline than other sectors of the economy. Credit constraint and households' desire to reduce their debt-income ratios is likely to ensure that UK consumer spending remains depressed for some time. By contrast, the fall in the value of sterling has made UK exports cheaper, meaning that the manufacturing industry is well placed to benefit from future growth in global demand.

Notwithstanding the prospects for the different sectors, it is likely that within every industry low earners are at greater risk of losing their jobs or facing reduced working hours than higher earners because of:

- *Lower levels of skills*; 50 per cent of low earner household members have no qualification above GCSE, compared with 30 per cent of members of high earner households.
- *Lower levels of job security*; low earners are considered more dispensable than higher earners that companies may have difficulty replacing.
- *Higher concentration in small- and medium-sized enterprises (SMEs)*; such organisations are likely to be less resilient than larger firms and more likely to face closure during a period of reduced demand.
- *Higher levels of self-employment*; while 16 per cent of low earners are self-employed, just 10 per cent of higher earners are.

In addition to being more likely to bear the brunt of a softening of the labour market, low earners are also more vulnerable than others in society to the consequences of this: they are more likely to be reliant on an earned income than members of benefit-dependent households and less likely than higher earners to have the safety net of savings and insurance.

Low earners whose jobs are under threat are likely to find it more difficult than higher earners to find alternative employment because of their lower starting level of skills and qualifications and their reduced access to on- and off-the-job training. Low earners often fall through the gap in relation to training. They are often too low skilled to be considered a worthwhile investment by employers who choose to focus on higher skilled members of their workforce: around 53 per cent of managers receive training from their employer, compared with 7 per cent of machine operatives. At the same time, low earners are often too highly skilled to be eligible for Government assistance which focuses on those without the most basic qualifications.

Low earners are also disadvantaged in their attempts to progress in the labour market by time constraints: they frequently work long and unsocial hours, particularly if they are currently self-employed. In-work overheads, such as travelling, relocation and clothing and equipment costs, represent a further barrier. Similarly, job-search costs associated with taking time off work for interviews and application processes can discourage or prevent low earners from switching job.

Where unemployment occurs, low earners are less likely than higher earners to receive sizeable redundancy payments to help soften their fall in income and less likely to be able to make a swift return to employment. Their opportunities are likely to be squeezed by unemployed skilled workers taking jobs at lower salaries as a way of returning to the labour market.

Low earners who attended our focus group in June 2009 considered job security and employment prospects to be their greatest concern during the recession. We heard how the worsening employment situation brought about by the recession and rises in the cost of living experienced during 2008 have served to weaken the position of low earners and expose them to increasing pressures and vulnerabilities. Job insecurity, lack of employment opportunities and having less money left at the end of the week have had a negative consequence on people's quality of life. Feelings of physical tiredness, stress, anxiety and depression were being experienced by several members of the group. Tellingly, no member of the group felt that the Government or other private or public service providers had their concerns at heart or was there to advocate for positive change on their behalf.

Introduction

The Resolution Foundation is an independent research and policy organisation, concerned with how low earners fare in today's mixed economy. We aim to deliver change in areas where this income group is currently disadvantaged by producing new research and actively engaging in the policy-making process.

In March 2009, we published the first ever *low earners audit*.[2] The report presented a statistical review of the experience of low earners in the mixed UK economy and highlighted the often unique pressures faced by the group.

At its broadest, we define the *low earner* group as including all those with below-median income (from all sources) who are not dependent on state support. For the purposes of analysis, precise definitions depend on the data source being used: details are provided in Appendix 3. However, as a proxy, we consider the low earning group to be made up of the 30 per cent of households in income deciles 3, 4 and 5: that is, with gross annual income between £11,650 and £27,150. Around 7.6 million households fall into this category in the UK, equivalent to around 13.7 million adults.[3] We define two other income groups in relation to low earners: households with above-median incomes (income deciles 6-10) are considered *higher earners*, while those with below £11,650 income (deciles 1 and 2) are considered *benefit-dependent*.

Significant numbers of people move in and out of the group at different life-stages. Analysis of the British Household Panel Survey in 2006 found that around 50 per cent of identified low earners were not in the group a decade earlier. Young people in particular, many of whom are students or just starting out in their careers, will move out of the group as their income rises: the data suggests that around 75 per cent of them will have moved out of the target group within a decade. In addition, the reduced earnings faced by most people at retirement means that many of those considered low earners during their working lives will fall into the benefit-dependent group in retirement, while some higher earners will drop into the low earner group. The Foundation uses a static definition of low earner income throughout the life cycle because our concern is with the position of low earners relative to others in society rather than relative to their direct peers.

In truth, the low earner group is highly diverse. The number and composition of households that can be considered low earners differs across policy areas, depending on the nature of the good or service, the cost and accessibility of private solutions and the volume and value of available state support. For example, the affordability of homeownership is likely to be most relevant to younger low earners, while long-term care is likely to be most relevant to older low earners

By looking at the wider low earner group as a whole, the original audit attempted to present a broad description of some of the pressures faced by those who are disadvantaged by the mixed economy. By contrast, the Foundation's major projects[4] look in more detail at the particular members of the low earner group who are affected by each policy circumstance. The original audit concluded that low earners are:

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[2] *Squeezed: the low earners audit*, March 2009: http://www.resolutionfoundation.org/publications.php

[3] ONS, E*ffects of taxes and benefits on household income 2007/08*, Tables 14 & 15

[4] Projects to date include money guidance and long-term care.

- *Squeezed*: often too poor to benefit from the full range of opportunities provided by private markets but too rich to qualify for substantial state support;
- *Exposed*: living at the edge of their means and therefore vulnerable to changes in circumstances; and
- *Overlooked*: low earners are not well-defined as a group and the pressures they face are not well understood.

The current economic context has heightened the exposure experienced by low earners. In relation to those who are already largely dependent on state benefits, low earners are more at risk of a drop in income due to loss of work and more likely to have ongoing financial commitments. In relation to those who live in households with above median income, low earners are less likely to have a safety net of savings and insurance and less likely to be in a position to return rapidly to employment following redundancy.

We intend to update the audit on a quarterly basis. Each issue will provide updates of all of the tables and charts included in the original audit in order to monitor both changes in low earners' circumstances and changes in the economic and policy environment in which they operate. However, the focus of our detailed analysis and commentary will vary with each issue. In this first update, the next section considers low earners' experience of work during an economic downturn.

The original audit tables and charts are re-presented in Appendices 1 and 2, with updates and improved detail where available. Limited commentary is included, but readers should refer to the original audit for detailed analysis.

Appendix 3 sets out the various technical definitions of low earners used in this report and Appendix 4 provides details of the low earner focus group carried out on our behalf in June 2009 by OPM.

Low earners' and work

Qualifications

Table A details educational qualifications by income group. It shows that half of low earners have no qualification beyond GCSE/O level, compared to 30 per cent of higher earners. Low earners are more likely to have vocational qualifications than members of other income groups.

Table A: Highest level of educational qualification by income group: *GB Sep/Oct 2008*

	Benefit-dependent	Low earners	Higher earners	All
No formal qualification	45%	25%	8%	23%
GCSE/O-level	18%	25%	22%	22%
A-level	12%	15%	20%	16%
Bachelor	8%	13%	24%	16%
Masters/PhD	2%	3%	9%	5%
Vocation	9%	11%	9%	9%
Other	7%	8%	8%	8%
Still studying	0%	1%	0%	0%

Note: Base = 1,355.
Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).
Source: Bank of England, *2008 NMG Research Survey*, Sep/Oct 2008

Economic activity

Table B compares the economic activity of low earners with all adults in the UK. It shows that 55 per cent of low earner households (7.5 million) are *economically active*, compared with 64 per cent among the population as a whole. Among low earners, 36 per cent (4.9 million) are in paid employment and 16 per cent (2.2 million) are self-employed; among the population as a whole the proportions change to 59 per cent and 10 per cent respectively. However, the whole population figures include some double counting and may therefore over-represent the differences from the low earner population.

Low earners are more likely to be classified as *economically inactive* than higher earners, primarily because the group includes relatively large numbers of students and retired individuals. A large number of the economically inactive are still affected by labour market issues because they are likely to be reliant on the earned income of other members of the household or family.

In addition to being more likely to be self-employed, low earners are also more likely than higher earners to work for small- and medium-sized employers (SMEs).[5]

[5] Alliance for Health & the Future, *Living in the Advice Gap: An Investigation into the Resolution Foundation's Target Group*

Table B: Economic activity among adults aged 16+: *UK Mar – May 2009*

	All aged 16+		Low earners aged 16+[1]	
	Number (000s)	Proportion[2]	Number (000s)	Proportion
Economically active	31,400	64%	7,500	55%
Employed	29,000	59%	4,900	36%
Self-employed	3,800	10%	2,200	16%
Unemployed	2,400	8%	400	3%
Economically inactive	7,900	37%	6,200	45%
Full-time education	2,100	5%	1,400	10%
Family care	2,200	6%	700	5%
Long-term sick/disabled	2,000	5%	100	1%
Other	1,000	3%	0	0%
Retired	10,100	26%	4,000	29%
All aged 16+	49,400	100%	13,700	100%

Notes: [1] Estimates based on application of proportion of low earners in each category in GB in 2006 to low earner population figure in 2008. Subsequent economic downturn means figures are likely to overstate levels of economic activity.
[2] Individuals can be both employed and self-employed.
Low earners defined on basis of income and benefit receipt. Includes both low earner households and low earner individuals (see Appendix 3).

Sources: Resolution Foundation, *Closing the advice gap*
ONS, *Labour market statistics: first release* , July 2009

Low earning industries and occupations during recession

The Annual Survey of Hours and Earnings records median salaries earned in different industries and occupations. Wages and salaries account for around three-quarters of non-retired low earners' gross household incomes.[6] Therefore, our low earner definition of £11,650-£27,150 gross household income is equivalent to total household wages and salaries of £8,750-£20,350. Given that low earner households can comprise multiple wage earners, all individuals earning salaries below £20,350 are potentially members of the group, depending on their household composition.

In 2008, median gross annual pay (full-time and part-time) received in the UK across all manufacturing industries was £24,343. The median in service industries was £19,727, suggesting that low earners were more likely to be employed in this area.

Chart A provides a more detailed breakdown. It shows that more than half of all employees received salaries below the low earner upper threshold of £20,350 in six industries:

- *hotels and restaurants*;
- *wholesale and retail trade, repair of motor vehicles and household goods*;
- *agriculture, hunting and forestry*;
- *health and social work*;
- *other community, social and personal service activities*; and
- *education*

Some of these individuals may actually form part of the higher earners group when their aggregate household income is calculated (their earned income plus income from other sources including the earned income of other members of their household). However, the relatively low levels of pay in these industries suggest that low earners are likely to be generally over-represented within them.

[6] ONS, *The effects of taxes and benefits on household income, 2007/08*, Table 16 (Appendix 1)

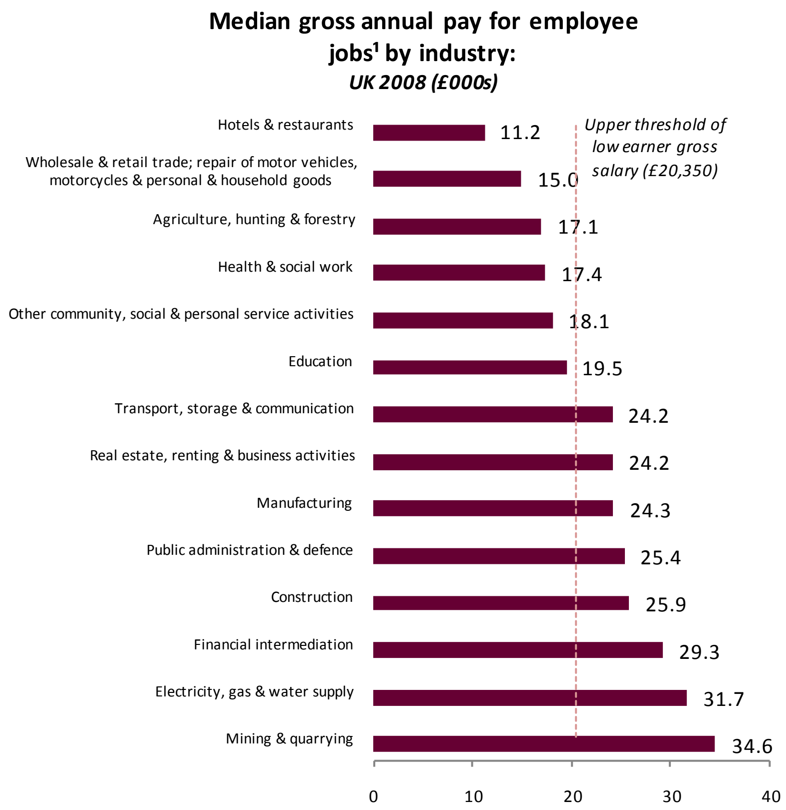

Chart A: Median gross annual pay for employee jobs by industry: UK 2008

Note: [1] Employees on adult rates who have been in the same job for more than a year.

Source: ONS, *2008 Annual Survey of Hours and Earnings*, Table 4.7a

Chart B provides a similar breakdown by type of occupation. There are ten occupation categories with recorded medians below the £20,350 low earner threshold:

- *sales occupations*;
- *elementary administration and service occupations*;
- *caring personal service occupations*;
- *customer service occupations*;
- *leisure and other personal service occupations*;
- *secretarial and related occupations*;
- *textiles, printing and other skilled trades*;
- *administrative occupations*;
- *skilled agricultural trades*; and
- *elementary trades, plant and storage related occupations*.

Again, while we cannot definitively say that low earners make up the majority of the members of these occupation categories, the relatively low levels of pay are indicative of low earner concentration.

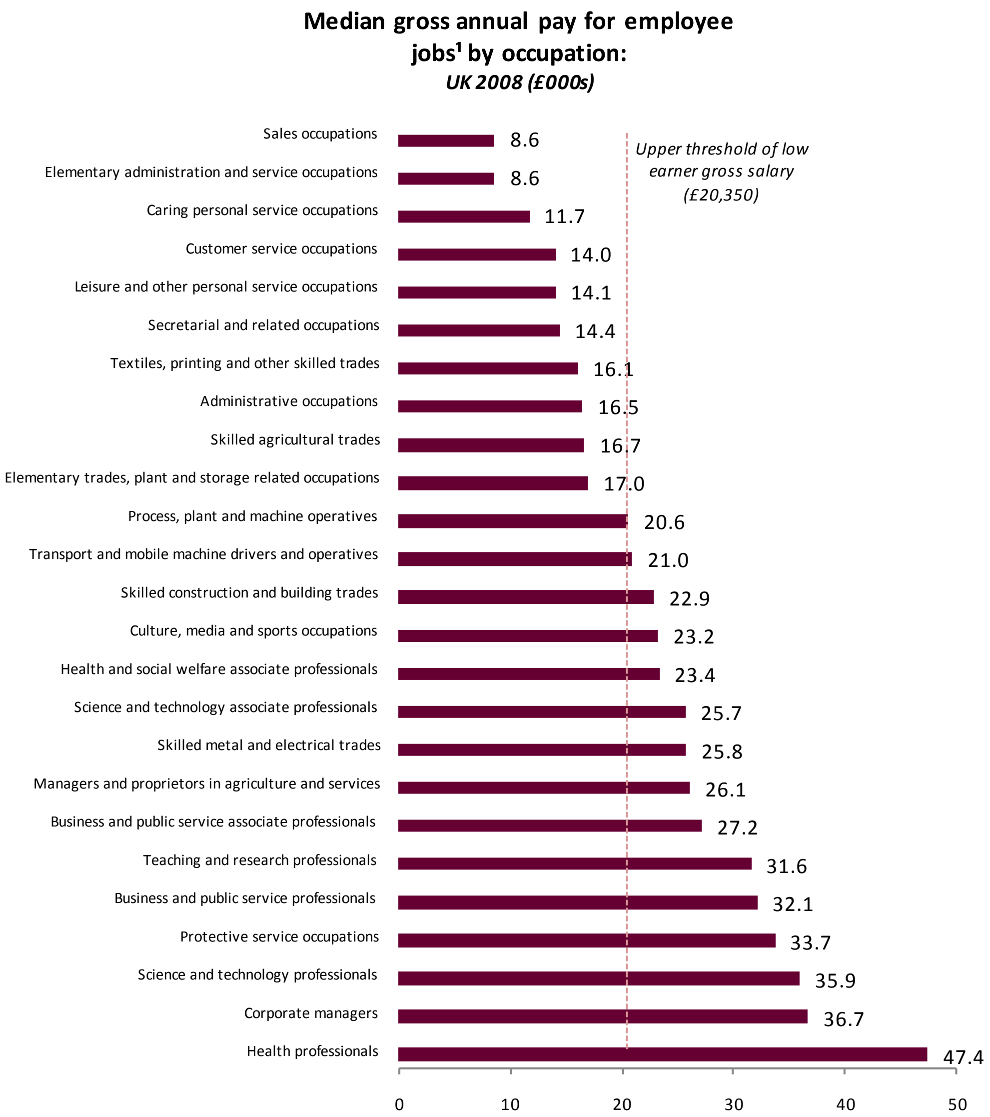

Chart B: Median gross annual pay for employee jobs by occupation: UK 2008

Note: [1] Employees on adult rates who have been in the same job for more than a year.

Source: ONS, *2008 Annual Survey of Hours and Earnings*, Table 2.7a

Chart A suggested that low earners are generally more concentrated in service industries and less concentrated in production. Chart C details changes in output in three industries in the period 2003-2009: *manufacturing*; *construction*; and *distribution, hotels & catering and repairs*. Output in each industry fell significantly in 2008, with *manufacturing* appearing to be the worst affected. The fall in output in the *distribution, hotels & catering and repairs* industry lagged that experienced in *construction* and *manufacturing* by one quarter but, when it arrived, it proved sharp. More recently, the rates of decline in output in each industry have slowed, though the fall in *construction* activity remains steep.

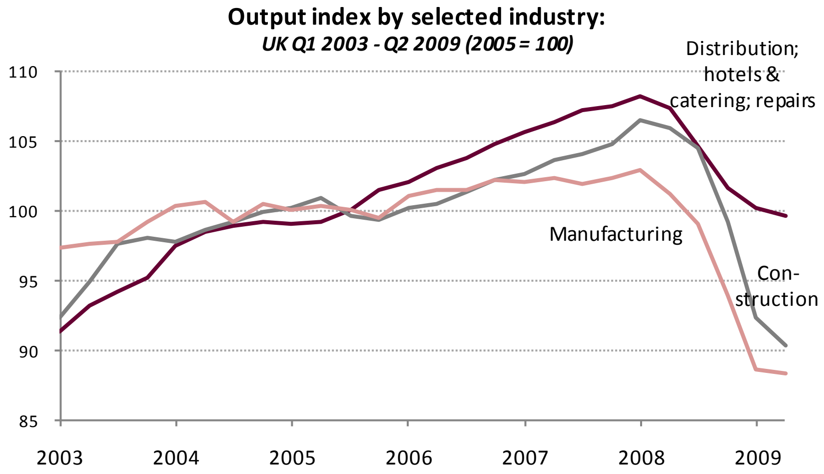

Chart C: Output index by selected industry: UK 2003-2009
Source: ONS Time Series GDQE, GDQB & CKYY

While the impact of the economic downturns appears to have been initially greatest on higher earning industries such as banking and construction, there is some evidence that the service industries where low earners dominate are beginning to perform less well than these other industries. Chart D compares the numbers of redundancies made in a selection of industries in the period Q2 2008-Q1 2009. It shows clearly that the biggest increases in redundancies in the immediate aftermath of the near collapse of the international banking system and the bursting of the UK housing bubble were in the *banking, finance and insurance*, *construction* and *manufacturing* industries. However, in Q1 2009, the biggest increase took place in the low earner industry of *distribution, hotels and restaurants*.

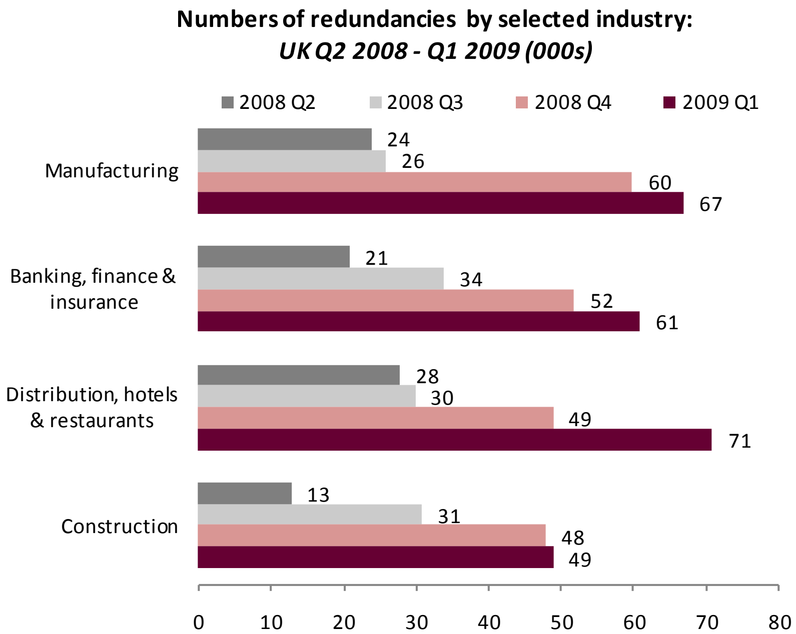

Chart D: Redundancies by selectedindustry: 2008-2009
Note: Non-seasonally adjusted.
Source: ONS Labour Market Datasets BEAK, BEBW, BEBJ & BEAL

Table C provides a more detailed breakdown. It shows the approximate number and proportion of employee jobs within each industry in 2008 which attracted gross annual salaries below the low earner upper earnings threshold of £20,350. For example, in the *hotels and restaurants* industry, between 80 per cent and 90 per cent of jobs (equivalent to between 501,000 and 563,000 posts) paid below £20,350 in total over the course of the year.

Table C: Number and proportion of employee jobs attracting below representative low earner threshold salary and year-on-year change in company insolvencies, by industry: *2008*

Industry	Number of employees with salaries below £20,350 *UK 2008 (000s)*	Proportion of employees with salaries below £20,350 *UK 2008*	Year-on-year change in company insolvencies *Eng & Wales Q1 2009*	Quarter-on-quarter change in company insolvencies *Eng & Wales Q1 2009*
Wholesale & retail; repair of motor vehicles & personal & household goods	2,001 - 2,155	60% - 70%	+46%	+19%
Education	1,949 - 2,126	50% - 60%	+20%	+15%
Health & social work	1,382 - 1,508	50% - 60%	+25%	+30%
Manufacturing	910 - 1,040	30% - 40%	+61%	+31%
Real estate, renting & business activities	999 - 1,249	40% - 50%	+59%	+18%
Hotels & restaurants	532 - 563	80% - 90%	+66%	+15%
Transport, storage & communication	354 - 472	30% - 40%	+31%	-5%
Other community, social & personal service activities	430 - 469	50% - 60%	+46%	+15%
Public administration & defence	406 - 464	30% - 40%	+67%	-38%
Financial intermediation	323 - 369	30% - 40%	+104%	+3%
Construction	308 - 352	30% - 40%	+79%	+26%
Agriculture, hunting & forestry	72 - 78	60% - 70%	-10%	+38%
Electricity, gas & water supply	31 - 34	20% - 25%	+18%	-28%
Mining & quarrying	6 - 9	10% - 20%	-40%	-67%

Note: [1] Employees on adult rates who have been in the same job for more than a year.
Source: ONS, *2008 Annual Survey of Hours and Earnings*, Table 4.7a
Insolvency Service, *Insolvencies in the second quarter 2009*, 7 August 2009 (and earlier), Tables 1a & 1b

For each industry, Table C details year-on-year and quarter-on-quarter changes in company insolvency figures. It shows that, on an annual basis, the worst affected industries at the start of 2009 were largely those with higher proportions of higher earners, such as *financial intermediation* and *construction*. However, sizeable increases in insolvencies were recorded in several of the industries with potentially large numbers of low earners. For example, there was a 46 per cent year-on-year increase in *wholesale and retail* company insolvencies and a 66 per cent increase in *hotels and restaurants* insolvencies.

It is also worth noting that the data in Chart A and Table C only considers salaries and wages of employees on adult rates who have been in the same job for more than a year. It is therefore likely to overstate the median earnings achieved in some industries with large numbers of relatively low paid self-employed workers. For example, around one in five self-employed individuals work in *construction*.[7] Given the high proportion of low earners classed as self-employed, they are likely to be represented more highly in this industry than the data suggest.

Moreover, on a quarterly basis, a number of the less well-paying industries have experienced bigger than average increases in insolvencies. For example, in Q1 2009, the number of *financial intermediation* companies becoming insolvent rose by just 3 per cent compared with Q4 2008; by contrast, the number of *wholesale and retail* company insolvencies rose by 19 per cent.

[7] ONS, *Self-employment: by gender and industry, 1991 and 2000: Social Trends Dataset*: http://www.statistics.gov.uk/statbase/ssdataset.asp?vlnk=3476&More=Y

These findings again support the hypothesis that the recession is starting to hit the service industries where low earners predominate harder as time passes and continued consumer spending restraint takes its toll on high street profits.

Table D provides a similar analysis by category of occupation. It compares the approximate number and proportion of employee jobs within each occupation which attracted gross annual salaries in 2008 below the low earner upper earnings threshold of £20,350 with year-on-year increases in the number of JSA claimants describing each occupation as their 'usual occupation' and with flows onto and off the claimant list in June 2009. It shows that increases in unemployment have been particularly pronounced within higher skilled and higher paid occupations. For example, the number of people describing themselves as *corporate managers* claiming JSA increased by 168 per cent in the year to June 2009.

However, a number of the occupations with potentially large numbers of low earners experienced large year-on-year increases in JSA claimants. For example, the number of JSA claimants recording *administrative occupations* as their usual occupation increased by 87 per cent and the number recording *secretarial and related occupations* rose by 71 per cent. In addition, it is probable that the number of JSA claimants recording lower paying jobs as their 'usual occupation' is deflated somewhat by the numbers of migrants who have left the country following job loss rather than claiming unemployment benefit in the UK.

Again, it is likely that job losses in typical low earner occupations will increase as prolonged reductions in discretionary consumer spending hits the service industries. The CBI's first service sector survey of 2009 identified sharp falls in business volumes and profitability in the three months to February 2009 and expectations of further declines. The survey also included a record proportion of firms saying that lack of demand would restrict business in the next 12 months.[8] The May edition of the survey noted some signs of renewed optimism, but showed that overall the service sector recession had deepened.[9] Subsequent CBI releases have highlighted signs of optimism in some parts of financial services, an easing of contraction in manufacturing but continued problems for the high street.[10]

While retail sales figures have shown some signs of improvement over the summer,[11] shop closures and redundancies are likely to lag any improvement in the general economy. Recent research from the Local Data Company found that around 12,000 independent shops and 7,000 branches of major chains closed in England and Wales in the first half of 2009, with the average town centre vacancy rate rising from 4 per cent in 2008 to 12 per cent in 2009.[12]

[8] CBI Press Release, "Service sector recession worsening", 26 February 2009
[9] CBI Press Release, "Service sector in deep recession – but signs decline is slowing", 27 May 2009
[10] CBI Press Releases, "First signs of optimism returning to some parts of financial services", 29 June 2009; "Contraction in manufacturing is easing but return to growth could be distant", 22 July 2009; "UK high street struggling through the summer", 28 July 2009
[11] BRC-KPMG, Retail Sales Monitor, "Home Spending Drives July Sales", 11 August 2009
[12] LDC, *Broken teeth, faded smile: LDC mid-year report 2009*, July 2009

Table D: Number and proportion of employee jobs attracting below representative low earners threshold salary, year-on-year change in JSA applicants by usual occupation of claimant and JSA claimant flows by usual occupation: *UK 2008 – 2009*

Occupation	Number of employees with salaries below £20,350 *UK 2008 (000s)*	Proportion of employees with salaries below £20,350 *UK 2008*	Year-on-year change in number of JSA applicants *UK Jun 2009*	JSA claimant flows *UK June 2009 (000s)* Off	On
Administrative occupations	1,220 - 1,423	65% - 70%	+87%	31.2	31.1
Caring personal service occupations	1,236 - 1,373	95% - 100%	+71%	10.5	11.1
Elementary administration and service occupations	1,196 - 1,346	85% - 90%	+61%	26.0	26.0
Sales occupations	1,061 - 1,179	95% - 100%	+71%	40.5	41.8
Elementary trades, plant and storage related occupations	453 - 529	65% - 70%	+57%	55.7	50.1
Secretarial and related occupations	421 - 449	78% - 80%	+102%	5.4	4.9
Corporate managers	280 - 560	15% - 20%	+168%	15.3	14.8
Process, plant and machine operatives	319 - 399	45% - 50%	+103%	15.1	13.3
Health and social welfare associate professionals	304 - 405	35% - 40%	+52%	1.9	2.2
Business and public service associate professionals	262 - 314	28% - 30%	+147%	8.2	8.2
Teaching and research professionals	251 - 314	23% - 25%	+60%	2.4	3.0
Transport and mobile machine drivers and operatives	245 - 306	45% - 50%	+110%	21.1	17.7
Leisure and other personal service occupations	237 - 253	78% - 80%	+76%	4.3	4.2
Customer service occupations	230 - 258	85% - 90%	+82%	7.8	7.7
Textiles, printing and other skilled trades	218 - 233	73% - 75%	+76%	4.8	4.5
Skilled metal and electronic trades	176 - 221	23% - 25%	+159%	12.9	12.8
Managers and proprietors in agriculture and services	134 - 179	35% - 40%	+103%	3.3	3.0
Skilled construction and building trades	101 - 135	35% - 40%	+156%	23.1	19.8
Science and technology associate professionals	112 - 135	28% - 30%	+177%	4.6	4.9
Culture, media and sports occupations	93 - 117	45% - 50%	+196%	6.5	7.0
Business and public service professionals	58 - 115	15% - 20%		3.7	3.9
Skilled agricultural trades	74 - 79	78% - 80%	+61%	3.6	3.4
Protective service occupations	35 - 70	15% - 20%	+115%	0.4	0.4
Science and technology professionals	0 - 45	5% - 10%	+177%	5.2	5.8
Health professionals	17 - 33	15% - 20%	+52%	0.2	0.3

Note: [1] Employees on adult rates who have been in the same job for more than a year.
Sources: ONS, *2008 Annual Survey of Hours and Earnings*, Table 2.7a
NOMIS database

Tellingly, the JSA flow figures in Table D suggest that the numbers of claimants joining the list in June 2009 within relatively low paying industries tended to outweigh the number leaving the list; by contrast, in higher paying jobs the numbers leaving the list tended to outweigh the number joining. For example, while there was a net increase in June 2009 of 670 in the number of JSA applicants describing their usual occupation as *caring personal services*, there was a net decrease of 525 among *corporate managers*.

Barriers to labour market progress

Irrespective of the relative performance of high- and low-paying industries, it is likely that within each sector those with the lowest earnings are likely to be disproportionately affected by job losses, because of their relative dispensability: struggling employers are more likely to be reluctant to release highly skilled staff who they have invested time and money in training and who will prove difficult and expensive to replace than low skilled, low earning members of the workforce. Therefore, while the 168 per cent increase in the number of *corporate manager* claimants detailed in Table D is likely to have had a significant impact on higher earners who predominate, it is also likely to have affected up to 0.6 million low earners working in this profession.

A recent ippr study noted that low-paid workers[13] experience difficulties with both job retention and career progression. On retention, just 74 per cent of employees who were low-paid in 2000 were in employment in 2005, compared with 83 per cent of higher earners. Workers recorded as low-paid in 2000 were twice as likely as higher earners to be unemployed and three times as likely to be economically inactive in 2005. On progression, over half of low-paid workers experienced no significant improvement in income from 2002 to 2005: moves out of low pay were found to be particularly infrequent among workers who start out in skilled trades, customer service, semi-skilled manual occupations and in entry-level jobs.[14]

The report cited findings from previous studies that showed that low pay was little better than unemployment in helping people move into higher paid work, even where other factors such as age, gender and qualification were discounted. Explanations for this effect included the 'signal' low pay experience sends to prospective employers and the detrimental effect low pay may have on workers' motivation and self-confidence.[15]

Lack of training opportunities is another potential cause. Low earners in general have fewer opportunities to train in work than higher earners. Chart E shows that, where training is offered, it is more likely to be given to higher skilled and better paid workers and to employees in larger organisations than it is to low earners and those in SMEs.

At the same time, low earners are less likely than members of the benefit-dependent group to be eligible for state-supported training. This is because such assistance is largely targeted on those without the most basic level of skills while low earners, as shown in Table A, frequently have existing mid-range qualifications. With little access to private finance, low earners are therefore often unable to gain the necessary skills to progress within their chosen occupation or change career altogether.

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[13] Earning less than 60 per cent of median full-time earnings and more than £3 per hour.

[14] ippr, *Nice Work If You Can Get It: achieving a sustainable solution to low pay and in-work poverty*, January 2009, Tables 2.2 & 2.3

[15] *Ibid*. pp25-26

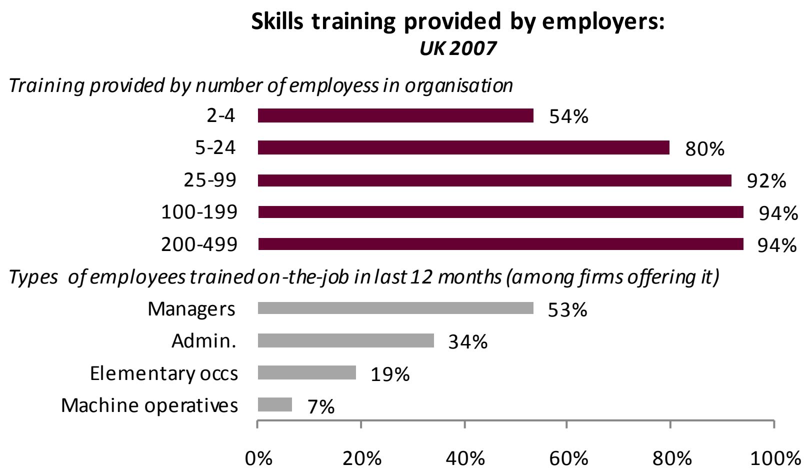

Chart E: Skills training provided by employers: UK 2007
Source: Learning & Skills Council, *National Employer Skills Survey 2007*

A National Consumer Council (NCC) qualitative study of a sub-set of low earners[16] in January and February 2008 identified a number of labour market concerns and barriers to progression.[17] Almost all participants in the review felt their jobs were insecure. This was a particular problem in areas with a weak local job market or an abundance of cheap labour because respondents said they were restricted in their ability to travel or relocate for work by their lack of resources. Members of the focus groups also said that they typically worked long hours, with some doing so because they were pressured to take shifts by their employers. They also had little access to flexible working opportunities and had difficulties booking annual leave at short notice. The NCC concluded that the group was exposed because of a lack of information and understanding about employment rights, variations in those rights and differences in enforcement.

Some of the younger low earners involved in the study said that they wanted to change occupation in order to secure better working hours and improved prospects but they found their lack of experience to be a barrier. Financial realities meant that these individuals could not consider retraining in their spare time, particularly because of the irregular and limited nature of their time off.

The current economic context means that lower skilled workers' opportunities to progress in the labour market, either while they are in work or after being made redundant, are likely to be squeezed by unemployed skilled workers taking jobs at lower salaries as a way of returning to the workforce. The Social Market Foundation (SMF) has shown that the median time out of work among JSA applicants has fallen to its lowest level ever (eight weeks), suggesting that this recession is producing a polarisation between the fast-moving majority of unemployed people who are out of work for a few weeks and a numerically large minority who become long-term unemployed and therefore are in danger of losing touch with the labour market altogether.[18]

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[16] Low-income workers (single people earning between £10,000 and £18,500; couples earning under £29,000 with neither of them earning above £18,500 individually) not living with dependent children and or claiming welfare benefits including tax credits.
[17] NCC, *more snakes than ladders? an insight into the lives of the forgotten working poor*, July 2008
[18] SMF, *Newsletter*, Jan/Feb 2009

Analysis of off-flows from the claimant count in the period May-Jun 2009 in Table E shows that applicants who report their usual occupation to be relatively low skilled (and therefore lower paid) are less likely than higher skilled applicants to return to work within 13 weeks.

Table E: Duration on JSA at point of exit, by usual occupation of claimant: *UK May - Jun 2009*

	13 weeks or less	Over 13 - 26 weeks	Over 26 - 52 weeks	Over 52 - 78 weeks	Over 78 - 104 weeks	Over 104 weeks
Managers and Senior Officials	62%	25%	11%	1%	1%	0%
Professional Occupations	64%	22%	11%	1%	1%	0%
Associate Professional and Technical Occupations	62%	23%	12%	1%	1%	0%
Administrative and Secretarial Occupations	62%	23%	13%	1%	1%	0%
Skilled Trades Occupations	60%	25%	13%	1%	1%	0%
Personal Service Occupations	59%	22%	15%	2%	2%	0%
Sales and Customer Service occupations	58%	23%	15%	2%	1%	0%
Process, Plant and Machine Operatives	56%	26%	14%	2%	2%	0%
Elementary Occupations	53%	24%	17%	2%	3%	1%
Occupation unknown	77%	20%	3%	0%	0%	0%
Total	58%	24%	14%	2%	2%	0%

Source: NOMIS database

Table F shows that lower skilled JSA applicants are also more likely to leave the count for a reason other than finding alternative work. It is also worth noting that, while the proportion of those describing their usual occupation as *elementary* who left the claimant count to pursue Government supported training is relatively high at 11 per cent, the proportions following this route from other low paying occupations are little higher than for the highest skilled occupations. This is likely to reflect the fact that Government support is targeted at those without the most basic skills.

Table F: Reasons for leaving claimant count by usual occupation of claimant: *UK May - Jun 2009*

	Found work/ increased work to more than 16 hours a week	Claimed benefit other than JSA	Government supported training	Education or approved training	Other reasons	Not known
Managers and Senior Officials	48%	1%	2%	0%	40%	8%
Professional Occupations	44%	1%	3%	1%	42%	9%
Associate Professional and Technical Occupations	41%	1%	4%	1%	44%	8%
Administrative and Secretarial Occupations	41%	3%	5%	1%	41%	9%
Skilled Trades Occupations	40%	2%	5%	0%	43%	10%
Personal Service Occupations	35%	5%	7%	1%	40%	12%
Sales and Customer Service occupations	30%	4%	9%	1%	45%	11%
Process, Plant and Machine Operatives	43%	3%	5%	0%	38%	11%
Elementary Occupations	28%	3%	11%	0%	45%	12%
Occupation unknown	2%	12%	12%	0%	6%	68%
Total	36%	3%	7%	1%	43%	11%

Source: NOMIS database

Low earners' experiences of recession

Overview

Many of the above findings regarding low earners' experiences of work during recession were reflected in the focus group we commissioned OPM to conduct in June 2009.[19]

A total of 21 low earners attended an event on the evening of 15 June. Participants were asked first to write down on a card their biggest concern about the recession. The vast majority of responses related to *job insecurity* for those in work or *lack of employment opportunities* for those seeking paid employment.

[19] Details of the methodology used are provided in Appendix 4.

A number of participants who were currently employed felt that the future security of their jobs was uncertain. Several participants had friends, family members or neighbours who had recently lost their jobs. The precarious position of low earners was reflected in participants' responses to the statement: *My number one concern about the recession is*:

> *Unemployment and not knowing if I still would have my job by the end of the year.*
>
> *Losing my job at the age of 52. Also what would happen if my husband lost his job?*
>
> *The lack of work out there at the moment and how the cost of everything's going up and there's no help.*
>
> *Losing my job and not being able to pay the bills and the mortgage, my biggest fear is losing my house.*

The ramifications of job loss for households, such as losing their homes, not being able to afford basics such as utilities, food and clothing or relying on credit to "make ends meet" were forefront in people's minds.

Participants were asked to talk about how they felt they had fared over the two years prior to the event, assess their current situation and talk about their hopes and concerns for the future. The picture presented was one of a rising cost of living and worsening employment situation, with the situation deteriorating particularly in the past year. This decline had resulted in a subsequent rise in worry and stress and a perceived lower quality of life for most.

Participants stated that two years previously their money went further and they had money left at the end of the week after paying for basics such as rent, food and utility bills. This meant they could afford non-essentials such as going on holiday or having a drink in the pub. As people charted their course over the past two years, for most it was around summer 2008 that significant concerns began to materialise:

> *No life, not living just existing. No change left after bills, no holiday and no quality of life.*

Timelines revealed that many participants became increasingly worried and unhappy during the first six months of 2009. Many were 'feeling the pinch' of the recession. Some were taking on a second job to increase income and facing rent rises and struggling with loan repayments. All participants said they were currently worried about the price of living and being able to cover the basics such as rent and bills. Some said they had been forced to dip into savings to cover the cost of keeping the house running. Those participants who had steady employment stated they felt lucky to have a job.

Participants spoke about the impact that living in a low earner household through the recession was having on their emotional, physical and psychological health. As well as being 'cash poor' participants often stated they were 'time poor' due to the long hours they worked or the necessity of taking on two jobs to make ends meet.

> *Having to take on a second job made me feel angry; it's something you don't want to do – you want to be able to relax in the evening and watch the telly – you don't want to go straight back out and work again. You feel constantly tired*

My salary wasn't covering all the bills and as it was coming up to Christmas we didn't have any money to celebrate it for the kids. My partner started working weekends and I took on a second job. We never saw each other.

Taking on two jobs was a cause of resentment and meant people were often tired and their relationships suffered. As well as taking on additional paid work, some members of the group relied on other family members to support and top up their income.

My poor son helps me, but he shouldn't have to.

This was a cause of guilt for those that received money or an additional financial burden for those who supported family members. Participants were unsure whether such support could continue indefinitely during the economic downturn.

There was also an emotional impact for people living on a low household income. Several participants mentioned how they felt depressed, stressed and worried about how they would survive on a day-to-day basis.

My marriage broke up because of the money troubles we were having.

The emotional impact of living in debt was also highlighted:

I feel vulnerable and worry about the bailiffs.

These different factors combined to impact negatively on people's quality of life. Several participants described their lives as 'not living but surviving' with little other than work and money worries to think about.

It feels hand to mouth . . . . Right now I feel like I'm just existing; I don't feel like I'm living.

I feel like I'm in limbo. We're just surviving. It's like Groundhog Day where every day you wake up and it's the same thing day after day: you go to work, you worry, you go to sleep and then you go back to work. There's nothing to look forward to.

As a result of the recession many participants described cutting back on non-essentials. For example, a number of people said they were no longer able to go on holiday or socialise as much as they had due to the lack of disposable income. The social links and networks forged through clubs, pubs and seeing friends and family were jeopardised in some cases through a lack of time as well as a lack of money.

I think the recession has impacted on people's social lives. I've noticed people haven't been going out as much as they used to; they're going to the off-license and taking drink back home.

Following this initial consideration of everyday experiences and concerns and thoughts about the impact of the recession and the future, the discussion moved on to consider three specific issues: *employment and skills*; *housing*; and *household finances*.

Job security and experience of work

Most participants at the focus group were in paid employment, either on a permanent or temporary basis, and a small number were self-employed. The type of employment varied and included cleaning, retail, administration, transport, and garden maintenance across the private, public and third sectors. A smaller number were not working due to being retired, seeking employment or having other responsibilities such as caring for children or other relatives.

A number of participants said that their company had made redundancies since the recession or had reduced the number of hours available to work in a week.

> *I've noticed that they are cutting back at my job. I sometimes do outreach work and now I can't claim expenses anymore for outreach work. Sometimes I think it's just a matter of time until I get made redundant.*

> *They've started trying to cut down my hours at work because of the credit crunch.*

There were several examples of 'work not paying'. Certain members of the group reported having net incomes from employment that were only marginally higher than what would be available to them in state support if they were unemployed. In a smaller number of cases, participants argued that they were less well-off compared to benefit-dependent households because of their ineligibility for council tax rebates and housing support. One woman who worked in a school as an administrative assistant reflected:

> *I'm £5 better off a week from working, and I get up at 5 a.m. every day. How can that be right?*

This situation was considered to be demoralising for people who felt they were working hard and contributing to society but seeing little benefit as a result.

> *You fall out of the catchment [for benefits] if you earn more than the threshold. With my wage I earn £11 more than the threshold for benefits so I'm not entitled to anything. I want to say to my employer 'well you can keep your £11 so that I can get a bit of extra help with benefits' but they say that's illegal.*

The lack of a secure, guaranteed, income each week that a permanent contract can offer was felt to be a particular disadvantage and made budgeting more difficult for those that were self-employed. For example a couple of participants who were self-employed faced particular challenges relating to irregular income and budgeting.

> *I'm a cab driver but before that I used to be a bus driver... I wanted the control of being self-employed so that's why I became a cab driver. I tried to better my life but I was stupid to think that I could be self-employed. Some weeks you make a lot of money other weeks you make very little. It's less easy to budget for your life when you don't have a steady income. Now with the recession I noticed that there are fewer people taking cabs: people are walking or taking public transport because they are cutting back their costs.*

Seeking employment

Participants who were not already in paid employment, retired or caring for someone tended to be looking for work. Since the recession, the group agreed there were fewer job opportunities available and more people competing for vacancies.

Participants criticised the courses job seekers are required to attend: they were felt to be of questionable quality and to provide a poor fit with their existing skills. For example, one participant's partner was a qualified electrician who was out of work and was sent on a 13 week course on business skills which they felt was irrelevant. There were also examples of people being made to go on courses just a few weeks before they reached statutory retirement age.

Participants commented on the negative effect the courses had on people who felt degraded by having to go on poor quality training with the threat of benefits being withdrawn through non-attendance. The group expressed doubt as to whether the courses led to better employment prospects.

> *You're a statistic: the courses get you off their books.*

> *It gives you hopes and dreams of a job, but no job at the end of it.*

Apart from a lack of jobs, a number of older participants felt that ageism played a large barrier in seeking employment with one person stating:

> *Employers don't want to know if you're over 50.*

There was widespread agreement from the group on this point. Older members of the group felt that employers could tell how old they were from their education and employment history on their CV and that this was a big disadvantage. This prejudice had also been experienced at the job centre where a number of older participants had been asked how old they were and, on stating that they were in their 50s, were told that they would find it difficult looking for work and should start thinking about retirement.

The high cost of transport was also identified as a further barrier to finding work.

> *It would be really helpful if people on low incomes could get some form of subsidised support: such as the free or subsidised travel cards that people on benefits get.*

In the days following the initial focus group, OPM approached a number of participants to obtain a fuller picture of their experiences of work, finances and housing during the recession. In relation to employment, the difficulties faced by low earners in obtaining and retaining work and the implications of losing their jobs were reflected in the stories related by Darren and Anne.[20]

Education

The group also reflected on the difficulties members of low earner families have in affording university attendance, suggesting that the poor job prospects faced by low earners could potentially be reinforced over time. This is likely to be a particular issue during the recession while low earner families feel under increased financial pressure.

[20] Not their real names.

I really want my daughter to be able to go to university but how can we pay for it? She'll need to rely on a grant or a loan but I don't think that would cover her living costs.

My older boys, they wanted to go to university, but when they calculated how much it would cost they realised it would leave them with a £20,000 debt each. I told them that's no way to start your life.

One woman who had previously subsidised her daughter at university was no longer able to because of the recession:

The recession has impacted on my daughter at university – well it's impacted on me directly and her indirectly as I'm subsidising her. Her loan isn't enough so I need to give her extra for her rent, clothes etc but we haven't really got the money at the moment.

Case study one: Darren

Darren is a 20 year old man living in South London. He usually works in temporary jobs through an agency although this kind of work has decreased recently.

I usually do temporary work like picking and packing in a warehouse or handling goods and get it through an agency. The first couple of days I went to the warehouse and sat there for three hours and then they said there wasn't any work so I went home. But then it turned out there were some night shifts which I could do. Usually the agency will phone me when they have shifts but there seems to be less work than there used to be because of the recession.

I've got experience in retail and warehouse work and am looking for permanent jobs in these areas. I use the computers at the Jobcentre and also look in the local press. The Jobcentre has been useful in helping me write my CV and develop my interview techniques and some of the training courses are good. But if there are no jobs at the end of it, what's the point? It's even harder in a recession as other people have lost their jobs too and are also looking for work.

The lack of permanent work means I have to live at home with my mum at the moment who rents privately. I'd prefer to be able to move out and live on my own but I can't afford it at the moment. You have to save up for a deposit and a month's rent in advance and it's too expensive. The price of things seems to be going up all the time and it means I don't have much money left over at the end of the week. I can't afford to go out at the moment but I do play football with my friends or end up staying inside and watching TV. I've cut down on things that are luxury items like sweets or fizzy drinks and I don't eat out any more.

I don't use credit cards; they are something I won't touch. I've seen what they've done to some friends of mine and they are big trouble. It's more of a struggle to pay back the money you've borrowed on top of trying to live so you have less to spend on everyday items.

Case study two: Anne

Anne is a 56 year old woman who lives on her own in a flat rented from a housing association. Previously she lived there with her husband but they separated last year. Anne has recently been made redundant and the combination of these two life events has meant a significant change in her circumstances and household income.

I've had a very difficult last six or seven months with different things happening all at the same time so my circumstances have changed a lot. I used to work part time as a pharmacy assistant but last year I was made redundant when the owner had to close the pharmacy. I'd worked there for over four years; I suppose you could say I'm one of these credit crunch victims. The pharmacy went bust as the supermarkets have pushed it out. Now it's one of lots of boarded up shops round here and I've been forced to go on Job Seekers Allowance.

I'm desperate to find a job, I'm on all the job websites and I go to the Jobcentre twice a week and get the three local papers to try and find work. It's so demoralising: I'm 56 years old, what chance have I got? I've been going into local shops to see if there are any vacancies, I don't know what else I can do. Ageism shouldn't come in to it but it does, even my Jobcentre advisor says so. I'd have a go at anything, I'd like to be a pharmacy assistant but I'd do driving or care work. Some of the jobs that are available you need to have three years' relevant experience or NVQs at level 2, 3 and 4. I've only got one NVQ at Level 1.

Also last November my husband left me. He just left one day and the flat was empty when I came in from work. I was so shocked I thought I'd been burgled. As a household we used to rely on his income more than mine as he was a signalman on the underground but now things have really changed. From having been fairly comfortable and both working all of a sudden I had no income and was on my own. I got very unwell and am on anti-depressants now for depression and anxiety.

It's very hard to try and get this over to people that don't have this worry but it's literally heating or eating. After my outgoings like gas and electric I have £5 left a week for food. I have to rely on my son to help me which makes me feel like a burden, I feel guilty. If he gets a 'buy one get one free' offer he gives me the extra one. But it doesn't feel right – he's got a wife and two children and a hefty mortgage himself. I had a car but I had to sell it and give up my garage which I'd been on a waiting list for 14 years for.

I don't socialise any more because I can't afford it. I've forgotten what it's like to go to the cinema or out for a meal. I want to be able to take my granddaughter out. I can't even get her an ice cream when I see her and that's breaking my heart. Every week it's like robbing Peter to pay Paul. I spread things out like toilet roll and toothpaste over the different weeks to ensure they don't all come at once. For food I tend to buy the value items which are full of the worst things and I'm sure that's why I've put on weight. Last week I bought a pack of eight value sausages and put two each in a freezer bag and I managed to get four dinners out of them with some potatoes.

I feel like I've lost the person I was, I don't even recognise my own self. If I had a job I'd have a purpose but being unemployed I feel worthless, I feel a burden on society but I don't want to be classed as sponging off society, I want to get up I the morning and have somewhere to go. When I was meeting customers I knew I was doing a good job and it makes you feel worthwhile. I don't feel like I've got a future, I'm living hand-to-mouth on a day-to-day basis. There's nothing to look forward to and it's just about getting through the day.

How low earners see themselves

Most people in the group identified themselves as someone who was generally less well-off than average and working hard to make ends meet. Rather than comparing themselves to higher earners, most people in the group tended to make comparisons with two other groups: newly arrived migrant workers and people wholly dependent on state benefits.

In relation to newly arrived migrant workers some people in the group felt that mass migration had meant increased competition for fewer jobs. There was also concern that migrant workers undercut wages and therefore have a negative impact on wage rates.

There were widespread comparisons to people who rely predominantly on state support, underlining participants' views that work does not pay. Several members of the group expressed resentment in relation to the perceived better lifestyle that people on benefits enjoy for minimum effort.

> *I've got a neighbour on benefits who lives a better life than I do. I'm not bitter but I do get a bit resentful. I've got all the worry from work, I'm working, my husband's working, but my neighbour's fine.*

Linked to this point, some people in the group felt that having a job was a higher risk than relying on benefits because paid employment did not always guarantee a minimum level of income, especially in insecure economic times. Being in paid work also opened a household up to increased outgoings such as housing costs, council tax and dental treatment associated with the loss of state support.

> *I have to pay £40 for my dental treatment: if I was on benefits this would be free.*

> *I've got two children at school and before I was able to apply for a grant to cover the costs of their school uniform. But now that I have a job I'm not able to get that grant anymore: those uniforms cost £80 each. It feels like a lot of money.*

Views of the Government and wider service providers were unequivocally negative. The recent MPs expenses scandal compounded the disillusionment and cynicism expressed by members of the group towards Government. There was confirmation that low earners are overlooked, with participants arguing that they were not a priority group for the Government:

> *Whenever the Government's budget comes out it's always focused on people who claim benefits or people with mortgages. It never talks about the people who are just surviving.*

When asked what they would like to see the Government do, some participants felt that they should put more money into industries and services to support them in the recession and protect jobs.

> *They could have saved* Woolworths*: loads of people worked there.*

Appendix 1: Economic indicators

The UK economy since 1976

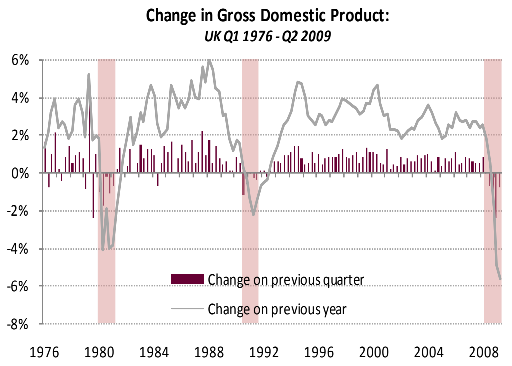


Chart 1: Change in GDP: UK 1976-2009

Source: ONS Time Series IHYQ & IHYR

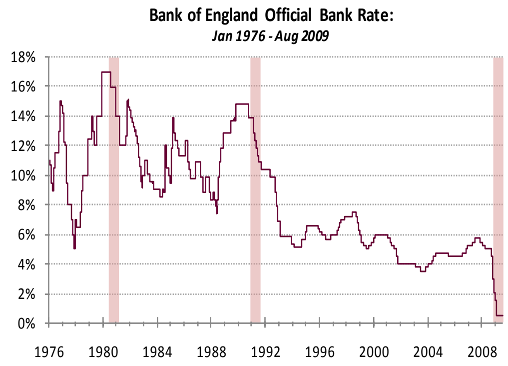


Chart 2: UK Official Base Rate: 1976-2009

Source: Bank of England

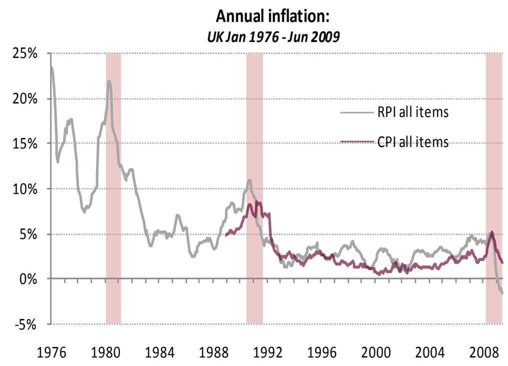


Chart 3: Annual inflation: UK 1976-2009

Source: ONS Time Series CZBH & D7G7

- **UPDATED**
- GDP fallen for five consecutive quarters
- Contraction of 2.4 per cent in Q1 2009 biggest since 1958
- Annual drop in period to Q1 2009 of 4.9 per cent biggest on record
- Contraction in Q2 2009 of 0.8 per cent double the predicted rate

- **UPDATED**
- Official Base Rate of 0.5 per cent is lowest level in its history
- Reduces impact of high levels of personal debt, but leaves Bank of England with little room for manoeuvre on monetary policy

- **UPDATED**
- Inflation has fallen from peak in September 2008
- CPI is below target and RPI has become negative
- Low inflation reduces the benefit of low interest rates for borrowers

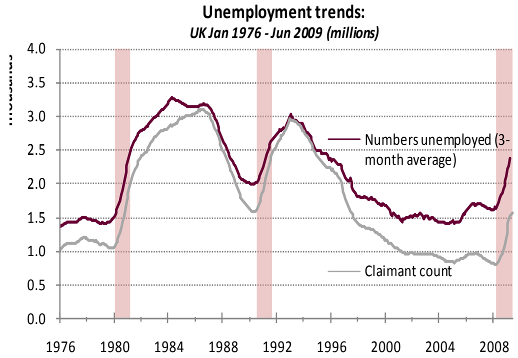


Chart 4: Unemployment trends: UK 1976-2009

Source: ONS, Labour Market Datasets MGSC & BCJD

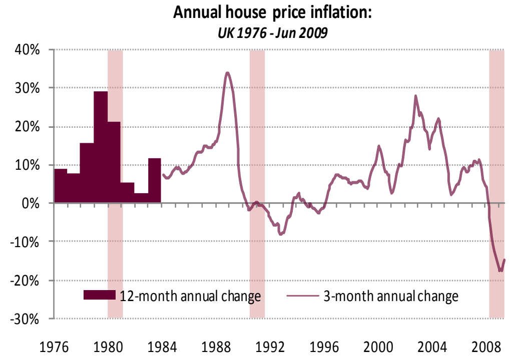


Chart 5: House price inflation: UK 1976-2009

Sources: HBOS, *Halifax House Price Index*; DCLG, *Live Table 502*

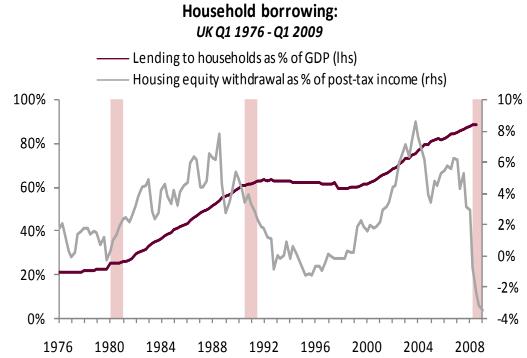


Chart 6: Household borrowing: UK 1976 - 2009

Sources: Bank of England, *Financial Stability Report*, October 2008, Issue No. 24, Chart 1.2; Bank of England, *Housing Equity Withdrawal*, Table A

- **UPDATED**
- Unemployment has grown sharply since the onset of the recession in Q2 2008
- It is likely to continue rising even after the economy begins to grow again
- Following the end of the 1980 recession it took 37 months for unemployment to begin falling; it took 16 months following the end of the 1990 recession
- Expected to peak above three million

- **UPDATED**
- Prolonged housing boom between 1996 and 2008
- Subsequent crash has been sharper and deeper than others that have occurred in recent decades
- Prices in June 2009 were 15 per cent down year-on-year

- **UPDATED**
- Lending to individuals as a proportion of GDP reached a peak of 88 per cent in Q3 2008
- Housing equity withdrawal as a proportion of post-tax income has fallen dramatically: from 6.2 per cent in Q4 2006 to 2.9 per cent prior to the start of the recession and -3.5 per cent in Q1 2009

Recession in 2009

Industry, employment and insolvencies

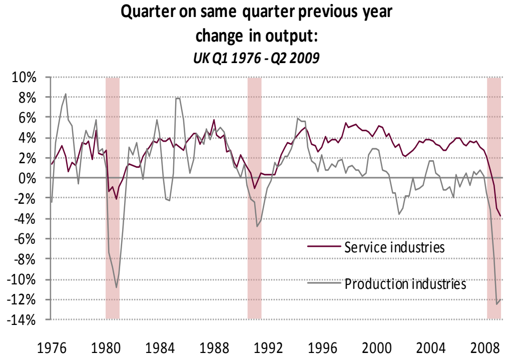


Chart 7: Change in output: UK 1976-2009

Source: ONS Time Series ERIE & GDRN

- **UPDATED**
- Output in production industries in Q2 2009 was 12 per cent down on Q2 2008
- Output in service industries was down 4 per cent in same period

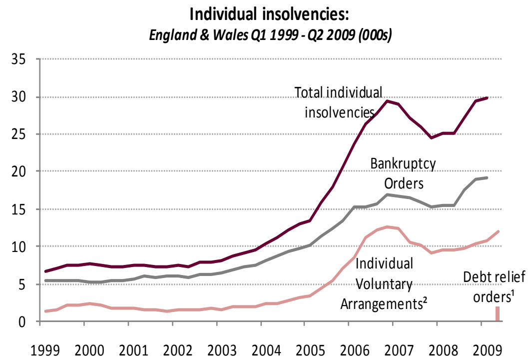


Chart 8: Company liquidations: England & Wales 1999-2009

Notes: [1] Debt Relief Orders (DROs) came into effect on 6 April 2009 as an alternative route into personal insolvency.

[2] Including Deeds of Arrangements.

Source: Insolvency Service, *Insolvencies in the first quarter 2009*, Table 2

- **UPDATED**
- Nearly 30,000 individual insolvencies in England and Wales in Q1 2009, up 19 per cent on Q1 2008
- Debt Relief Orders (DROs) were introduced in April 2009 and offer an alternative route into individual insolvency for people with low incomes and debts below £15,000

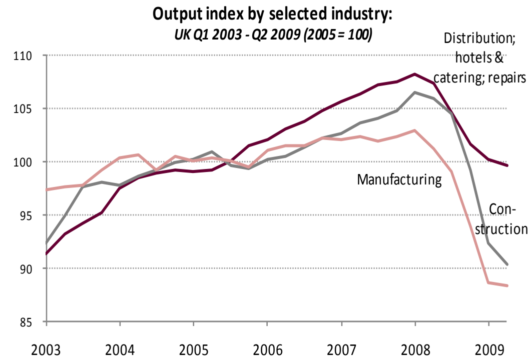


Chart 9: Output index by selected industry: UK 2003-2009

Source: ONS Time Series GDQE, GDQB & CKYY

- **UPDATED**
- Sharp declines in output in all industries: *manufacturing*, *construction* and *distribution; hotels & catering; repairs*
- Some slowdown in deterioration in Q1 2009, but contraction of *construction* remains steep

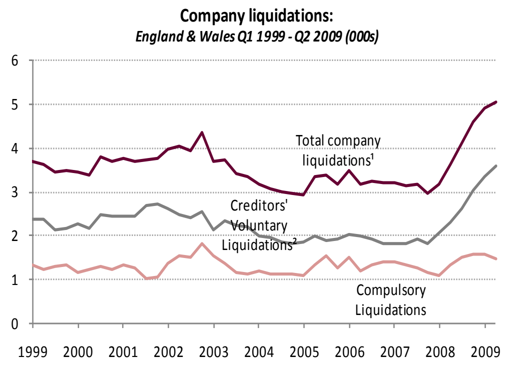


Chart 10: Company liquidations: England & Wales 1999-2009

Notes: ¹ Including partnerships.
² Where the Creditors' Voluntary Liquidation is the first Insolvency procedure entered into.

Source: Insolvency Service, *Insolvencies in the second quarter 2009*, Table 1

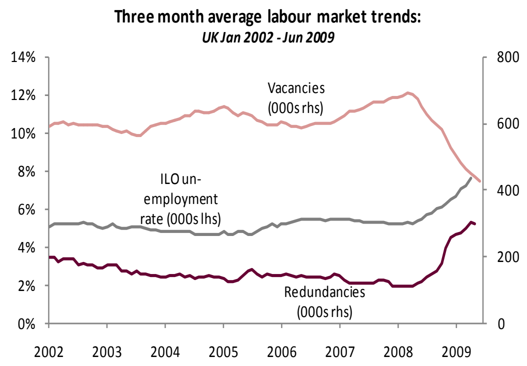


Chart 11: Labour market trends: UK 2002-2009

Source: ONS Time Series AP2Y, BEAO & MGSX

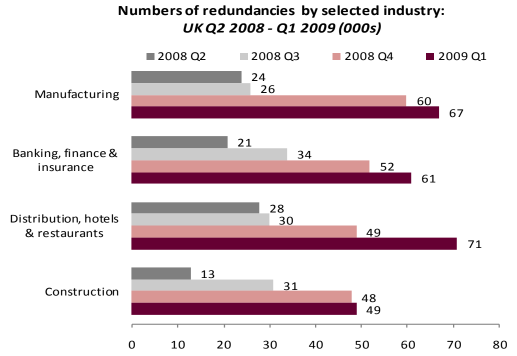


Chart 12: Redundancies by selected industry: 2008-2009

Note: Non-seasonally adjusted.

Source: ONS Labour Market Datasets BEAK, BEBW, BEBJ & BEAL

- **UPDATED**
- Company liquidations risen rapidly since start of recession
- In Q2 2009, 5,055 companies were liquidated, up 39 per cent on Q2 2008

- **UPDATED**
- Unemployment rate among economically active adults rose to 7.6 per cent in three months to May 2009 – the highest level since December 1996
- Rapid reductions in vacancies and increases in redundancies suggest unemployment will continue to grow for some time

- **UPDATED**
- Redundancies have increased in most sectors of the economy
- In Q4 2008, biggest increases were in *manufacturing*, *banking* and *construction* industries
- More recently, bigger losses have occurred in *distribution, hotels and restaurants* sector

Table 1: Company insolvencies by industry: *England & Wales: four-quarter moving totals, 2008-2009*

	Compulsory insolvencies					Voluntary insolvencies					All insolvencies			
	2008			2009		2008		2009			2008		2009	
	Q2	Q3	Q4	Q1	Q-on-Q change	Q3	Q4	Q1	Q2	Q-on-Q change	Q3	Q4	Q1	Q-on-Q change
Production industries	367	379	383	407	+6%	1,114	1,227	1,404	1,626	+16%	1,493	1,610	1,811	+8%
Agriculture, hunting & forestry	29	29	31	29	-6%	32	34	34	35	+3%	61	65	63	+7%
Fishing	6	10	8	9	+13%	1	1	2	2	+0%	11	9	11	-18%
Mining & quarrying	11	11	12	9	-25%	5	10	11	13	+18%	16	22	20	+38%
Manufacturing	288	294	289	315	+9%	1,069	1,174	1,349	1,562	+16%	1,363	1,463	1,664	+7%
Electricity, gas & water supply	33	35	43	45	+5%	7	8	8	14	+75%	42	51	53	+21%
Others	79	85	94	92	-2%	45	53	55	64	+16%	130	147	147	+13%
Construction	871	961	1,059	1,193	+13%	1,451	1,643	1,946	2,202	+13%	2,412	2,702	3,139	+12%
Service industries	2,501	2,629	2,763	2,928	+6%	5,608	6,386	7,250	8,084	+12%	8,237	9,149	10,178	+11%
Wholesale & retail trade; repair of motor vehicles, motorcycles & personal & household goods	720	707	726	755	+4%	1,514	1,714	1,944	2,182	+12%	2,221	2,440	2,699	+10%
Hotels & restaurants	332	349	361	383	+6%	565	611	713	749	+5%	914	972	1,096	+6%
Transport, storage & communication	351	361	379	382	+1%	406	472	526	569	+8%	767	851	908	+11%
Financial intermediation	124	134	130	155	+19%	104	143	165	191	+16%	238	273	320	+15%
Real estate, renting & business activities	490	579	639	698	+9%	2,380	2,757	3,135	3,572	+14%	2,959	3,396	3,833	+15%
Public administration & defence	11	13	13	14	+8%	9	12	13	13	+0%	22	25	27	+14%
Education	52	41	46	49	+7%	56	56	58	58	+0%	97	102	107	+5%
Health & social work	54	58	50	53	+6%	70	74	78	85	+9%	128	124	131	-3%
Other community, social & personal service	354	376	409	433	+6%	493	538	610	659	+8%	869	947	1,043	+9%
Private households employing staff and undifferentiated production activities of households	3	2	3	2	-33%	8	6	7	5	-29%	10	9	9	-10%
Extra-territorial organisations and bodies	10	9	7	4	-43%	3	3	1	1	+0%	12	10	5	-17%
Others	76	65	69	69	+0%	76	77	79	77	-3%	141	146	148	+4%
All others	1,485	1,584	1,633	1,679	+3%	661	785	814	858	+5%	2,245	2,418	2,493	+8%
Total	5,224	5,553	5,838	6,210	+6%	8,834	10,041	11,414	12,674	+11%	14,387	15,879	17,624	+10%

Source: Insolvency Service, *Insolvencies in the second quarter 2009* , 7 August 2009 (and earlier), Tables 1a & 1b

- **UPDATED**
- The number of company insolvencies taking place in the 12 months to Q1 2009 were 10 per cent higher than in Q4 2008
- Insolvencies were up 8 per cent in the *production* sector; up 12 per cent in the *construction* sector; and up 11 per cent in the *service* sector

Table 2: Number of workforce jobs by industry: *UK Q1 2008 & Q1 2009*

(seasonally adjusted, 000s)	2008 Q1	2009 Q1	Year-on-year change Number	Proportion
Manufacturing	3,154	2,942	-212	-6.7%
Construction	2,251	2,246	-5	-0.2%
Total services	25,556	25,311	-245	-1.0%
Distribution, hotels & restaurants	7,053	6,857	-196	-2.8%
Transport & communication	1,867	1,845	-22	-1.2%
Finance & Business services	6,669	6,483	-186	-2.8%
Education, health & public administration	7,977	8,145	+168	+2.1%
Other services	1,990	1,981	-9	-0.5%
All industries	31,643	31,188	-455	-1.4%

Source: ONS labour market datasets LOLO, LOLR, LOLU, LOLX, LOMA, LOMD, LOMG, LOMJ & DYDC

- **UPDATED**
- Number of workforce jobs fallen in most industries in the year to Q1 2009
- Particularly sharp falls in *manufacturing*, *finance and business services* and *distribution, hotels and restaurants*

Table 3: Number of JSA claimants by 'usual occupation' of claimant: *UK Jun 2008 & Jun 2009*

	2008 Jun	2009 Jun	Year-on-year change
Managers and senior officials	31,790	80,725	+154%
Professional occupations	21,560	52,250	+142%
Associate professional and technical occupations	46,810	98,215	+110%
Administrative and secretarial occupations	84,805	160,165	+89%
Skilled trades occupations	90,555	209,405	+131%
Personal service occupations	40,590	69,900	+72%
Sales and customer service occupations	136,670	235,250	+72%
Process, plant and machine operatives	88,900	184,365	+107%
Elementary occupations	287,305	453,930	+58%
Occupation unknown	1,840	4,055	+120%
All	830,825	1,548,260	+86%

Note: Non-seasonally adjusted.

Source: NOMIS database, 27 July 2009

- **UPDATED**
- On a non-seasonally adjusted basis, the number of individuals claiming Job Seekers Allowance increased by 717,000 (86 per cent) in the year to June 2009
- On an annual basis, many of the biggest increases took place among higher skilled occupations such as *managers and senior officials*, *professional occupations* and *skilled trades occupations*

The housing market

Table 4: Ratio of median house prices to median earnings: *England 1998-2008*

	1998	2002	2003	2004	2005	2006	2007	2008
South East	4.38	6.28	7.16	7.71	8.09	7.95	8.47	8.43
London	4.35	6.50	7.17	7.67	7.86	8.03	8.25	8.29
South West	3.96	5.93	6.92	7.71	8.03	7.95	8.38	8.09
East	3.84	5.61	6.58	7.22	7.47	7.43	7.88	7.78
West Midlands	3.35	4.39	5.07	6.03	6.19	6.39	6.46	6.11
East Midlands	3.25	4.18	4.95	6.04	6.13	6.09	6.48	6.06
Yorkshire & the Humber	3.02	3.49	4.08	5.16	5.57	5.81	6.01	5.69
North West	3.01	3.43	3.94	4.83	5.37	5.62	5.82	5.53
North East	3.01	3.22	3.85	4.66	4.97	5.52	5.71	5.47
England	3.67	5.07	5.83	6.58	6.81	6.91	7.26	6.94

Source: DCLG, *Live Table 577*

- LAST UPDATED *March 2009 audit*
- Housing boom reduced affordability significantly in the decade to 2008: price to earnings ratio has grown from 3.67 in 1998 to 6.94 in 2008

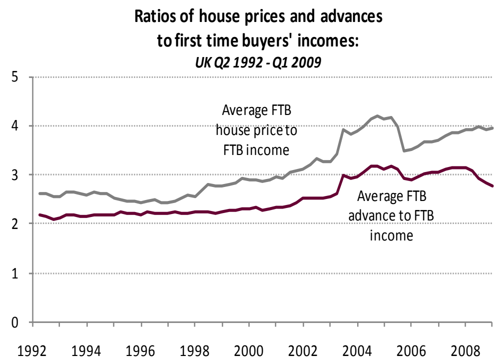


Chart 13: Ratios of house prices and advances to first time buyers' incomes: UK 1992-2009

Source: DCLG, *Live Table 514*

- LAST UPDATED *March 2009 audit*
- Ratio of house prices to incomes among first time buyers rose from 2.5 in 1992 to 4.2 in 2004. It stood at 4.0 in 2008.
- Ratio of average advances to FTBs incomes peaked at 3.2 in 2004. It stood at 2.9 in 2008.

- LAST UPDATED *March 2009 audit*
- Despite some reduction in 2008, the house price/income and advances/income ratios in Chart 13 remain high historically

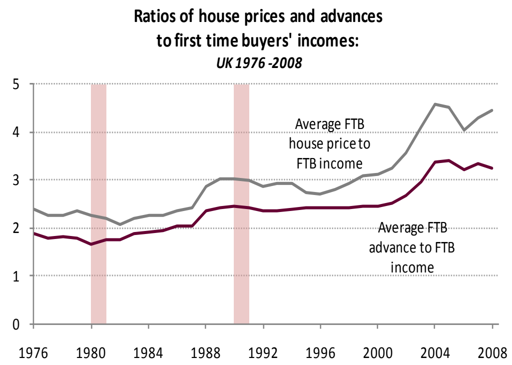


Chart 14: Ratios of house prices and advances to first time buyers' incomes: UK 1976-2008

Source: DCLG, *Live Tables 517*

Table 5: Residential loans (regulated and non-regulated) to individuals: loan to value, income multiples and credit history status: *UK Q4 2007 - Q1 2009*

As a proportion of value of gross advances	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1
Loan to value bracket						
≤ 75%	49.5%	55.2%	55.9%	64.4%	65.2%	73.6%
75 ≤ 90%	37.1%	34.3%	33.7%	29.1%	28.7%	22.8%
90 ≤ 95%	7.8%	6.3%	7.2%	5.1%	4.6%	2.5%
Over 95%	5.5%	4.2%	3.2%	1.5%	1.5%	1.0%
Income multiple bracket						
Single:						
< 2.5	8.5%	10.1%	9.1%	10.4%	11.4%	12.7%
2.5 < 3.0	5.3%	5.2%	5.0%	5.5%	5.7%	5.8%
3.0 < 3.5	7.2%	6.9%	6.4%	6.7%	6.8%	6.6%
3.5 < 4.0	7.1%	6.8%	6.3%	6.5%	6.6%	6.1%
4.0 or over	9.6%	9.0%	9.4%	8.9%	8.3%	7.7%
Other	12.4%	11.1%	10.2%	8.0%	8.6%	6.5%
Total on single income	50.1%	49.1%	46.4%	46.0%	47.5%	45.4%
of which not evidenced	*19.1%*	*19.8%*	*16.8%*	*16.1%*	*16.5%*	*14.6%*
Joint:						
< 2.0	8.5%	9.9%	10.2%	11.0%	11.4%	13.7%
2.00 < 2.50	6.8%	7.3%	7.8%	8.6%	8.5%	9.2%
2.50 < 2.75	4.5%	4.6%	4.9%	5.1%	5.0%	5.0%
2.75 < 3.00	5.0%	6.4%	5.2%	5.2%	5.1%	5.1%
3.00 or over	22.5%	21.1%	24.0%	22.9%	21.2%	20.0%
Other	2.6%	1.4%	1.4%	1.1%	1.2%	1.6%
Total on joint income	49.9%	50.9%	53.6%	54.0%	52.5%	54.6%
of which not evidenced	*19.6%*	*22.1%*	*20.4%*	*20.3%*	*20.0%*	*19.5%*
Credit history status						
Loans with impaired credit history	3.2%	2.4%	2.2%	1.6%	0.9%	0.7%
Loans without impaired credit history	96.8%	97.6%	97.8%	98.4%	99.1%	99.3%

Source: FSA, *Statistics on Mortgage Lending*, MLAR Table 1.31, June 2009

- **NEW**
- The proportion of mortgages provided at above 90 per cent LTV has fallen from 13.3 per cent to 3.5 per cent in the period Q4 2007 – Q1 2009
- The proportion of mortgages provided to a borrower with a single income has also fallen: from 50.1 per cent to 45.4 per cent
- The proportion of borrowers with single incomes obtaining mortgages worth three times their income or above has fallen from 23.9 per cent to 20.4 per cent
- Similarly, the proportion of borrowers with joint incomes obtaining mortgages worth three times their income has fallen from 22.5 per cent to 20.0 per cent
- The proportion of mortgages given to single income borrowers without income evidence (i.e. self-certified) has also fallen
- The proportion of all mortgages provided to people with impaired credit history has fallen from 3.2 per cent to 0.7 per cent

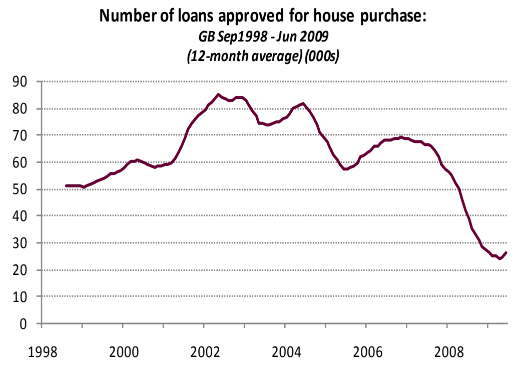


Chart 15: Number of loans approved for house purchase: GB 1998-2009

Source: BBA, *High street banking: monthly statistics release*, Table 5

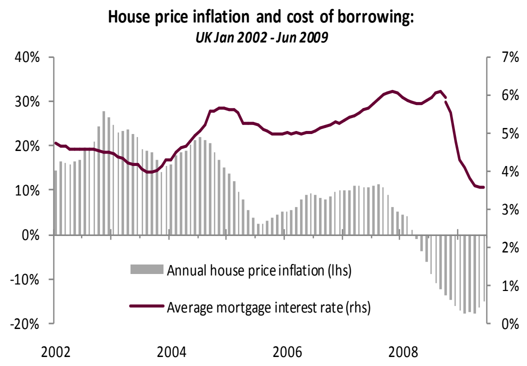


Chart 16: House price inflation and cost of borrowing: UK 2002-2009

Sources: HBOS, *Halifax House Price Index*; Council of Mortgage Lenders, *Table ML5*; Bank of England, *Monetary and Financial Statistics*, Table G1.4

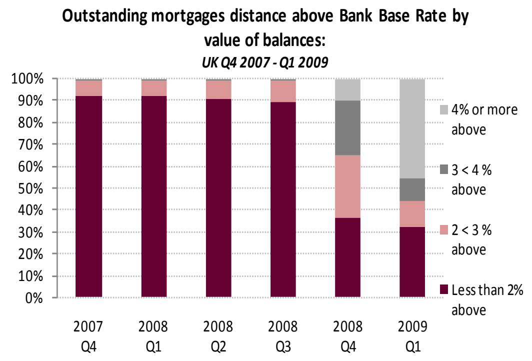


Chart 16a: Difference between interest rates on outstanding mortgages and Bank Base Rate: UK 2007-2009

Source: FSA, *Statistics on Mortgage Lending,* MLAR Table 1.22, June 2009

- **UPDATED**
- Number of loans approved for house purchase has increased slightly from the low point at the start of 2009
- However, 12 month average in the period to June 2009 of 26,033 remains 38 per cent lower than in June 2008 and is 62 per cent below the peak in November 2006

- **UPDATED**
- Although average interest rates paid on mortgages have fallen with the rapid cuts in the Official Bank Rate in the period since October 2008, the decline has stopped in recent months
- House prices continue to fall, meaning that increasing numbers of households will be experiencing negative equity

- **NEW**
- As Official Bank Rate has approached 0 per cent, lenders have increased their margins
- In Q3 2008, 90 per cent of mortgages were within 2 percentage points of the base rate; by Q1 2009, just 32 per cent were
- Similarly, while just 0.4 per cent of mortgages were 4 percentage points or more higher than the base rate in Q3 2008, by Q1 2009, 46 per cent were

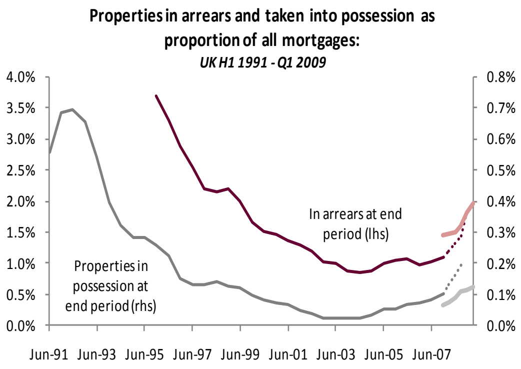


Chart 17: Properties in arrears and taken into possession: UK 1991-2009

Note: Historical data is sourced from the CML. This data is no longer freely available, but data from the FSA is. The data from the two organisations is not directly comparable. The CML data is for repossessions on *first-charge mortgages* only, including buy-to-let mortgages, as issued by their members. The FSA data, as well as covering possessions on first-charge mortgages, covers possessions on *second-charge loans* (where the borrower takes an extra loan from another lender) by regulated firms but doesn't cover possessions as comprehensively on buy-to-let mortgages, as some of these are from unregulated firms.

Sources: Council of Mortgage Lenders, *Tables AP1 & AP4*;
FSA, *Statistics on Mortgage Lending*, MLAR Table 1.4

- **UPDATED**
- Numbers of mortgages in arrears has grown more steeply than number of properties in possession in recent months, possibly reflecting the obligation on lenders to treat borrowers fairly
- This could result in a surge in repossessions as borrowers reach the end of their grace periods or as the pressure on lenders abates

Cost of living

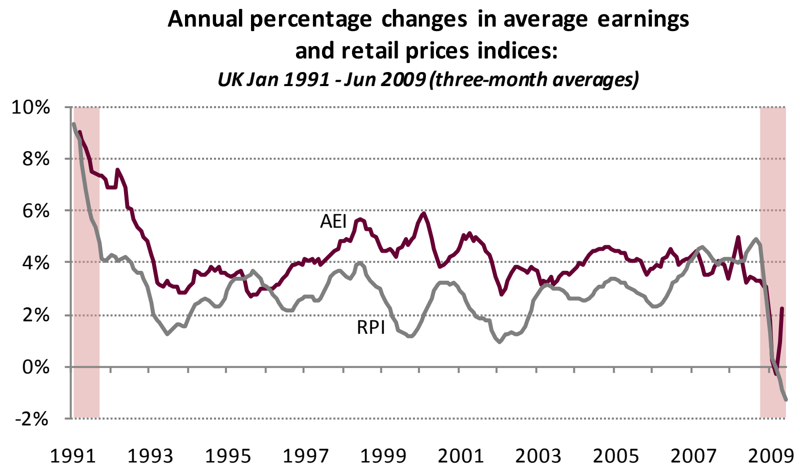


Chart 18: Annual percentage changes in average earnings and retail price indices: UK 1991-2009

Source: ONS Time Series CZBH & LNMU

- **UPDATED**
- Prices increased more rapidly than average earnings in 2008 before growth in both slowed at a similar rate following the start of the recession
- More recently, average earnings growth has become weakly positive while retail prices have become negative

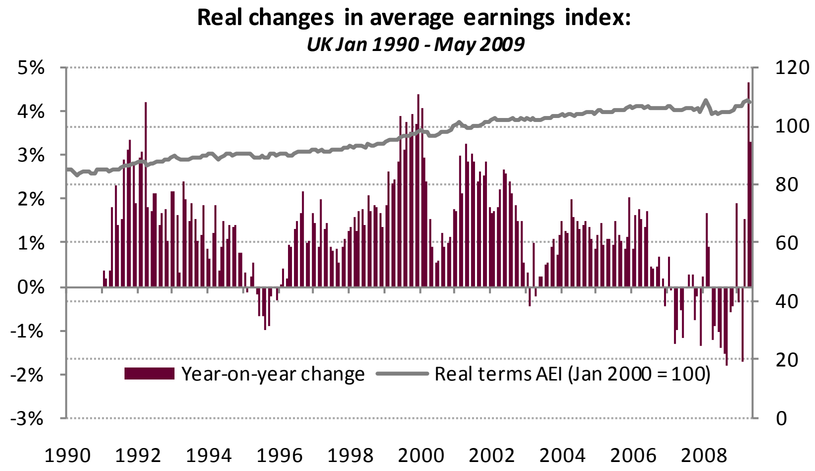


Chart 19: Real changes in average earnings index: UK 1990-2009
Source: ONS Time Series CHAW & LNMQ

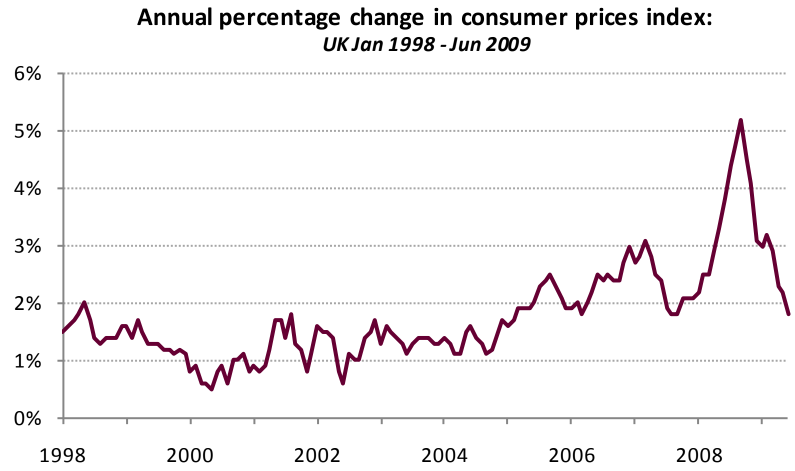


Chart 20: Annual percentage changes in the consumer prices index: UK 1998-2009
Source: ONS Time Series D7G7

- **UPDATED**
- Although average earnings fell on a year-on-year basis in several months during 2007 and 2008, recent growth has been stronger

- **UPDATED**
- CPI has fallen sharply in period since September 2008
- Having been above the inflation target set for the Bank of England 19 months, the CPI fell below 2.0 per cent in June 2009

Table 6: Percentage changes in components of consumer prices index: *UK 2008 & 2009*

	2008				2009	
	Mar	Jun	Sep	Dec	Mar	Jun
Year-on-year change						
Food & non-alcoholic beverages	+5.5%	+9.5%	+11.3%	+10.4%	+10.5%	+5.4%
Alcoholic beverages, tobacco & narcotics	+2.5%	+4.5%	+4.3%	+4.4%	+5.9%	+3.3%
Clothing & footwear	-5.3%	-7.5%	-6.2%	-10.3%	-8.7%	-8.1%
Housing, water & fuels	+3.9%	+7.0%	+15.0%	+14.3%	+8.6%	+5.5%
Furniture, household equipment & repair of the house	+0.5%	+1.8%	+2.9%	+0.8%	+3.3%	+1.9%
Health	+3.5%	+3.0%	+2.9%	+2.1%	+2.3%	+2.6%
Transport	+7.0%	+7.3%	+7.6%	+0.1%	-2.0%	-1.3%
Communication	-4.0%	-1.3%	-2.7%	-3.4%	-0.8%	+0.7%
Recreation & culture	-1.5%	+0.0%	+0.2%	-1.2%	+0.8%	+1.2%
Education	+13.2%	+13.2%	+10.8%	+8.6%	+8.6%	+8.6%
Hotels, cafes & restaurants	+3.3%	+3.9%	+4.3%	+3.6%	+3.4%	+2.4%
Miscellaneous goods & services	+1.2%	+2.7%	+3.4%	+2.6%	+3.1%	+2.1%
All items	*+2.5%*	*+3.8%*	*+5.2%*	*+3.1%*	*+2.9%*	*+1.8%*
Month-on-month change						
Food & non-alcoholic beverages	+0.4%	+2.1%	-0.3%	+0.7%	-0.5%	-0.2%
Alcoholic beverages, tobacco & narcotics	+0.0%	-0.1%	-0.1%	-0.2%	+0.3%	-0.7%
Clothing & footwear	+0.4%	-1.4%	+2.2%	-4.2%	+1.1%	-1.5%
Housing, water & fuels	+0.3%	+0.2%	+4.4%	-0.3%	-1.0%	+0.2%
Furniture, household equipment & repair of the house	+2.1%	+2.3%	+1.6%	+0.3%	+2.1%	+1.0%
Health	+0.2%	+0.2%	+0.0%	-1.0%	+0.2%	+0.2%
Transport	+1.1%	+1.7%	-2.4%	+0.5%	+0.5%	+1.4%
Communication	-0.1%	+0.6%	-0.2%	-2.0%	-0.2%	+0.0%
Recreation & culture	-0.4%	+0.3%	+0.6%	-0.9%	+0.1%	+0.7%
Education	+0.0%	+0.0%	+2.2%	+0.0%	+0.0%	+0.0%
Hotels, cafes & restaurants	+0.4%	+0.2%	+0.5%	-0.3%	+0.2%	+0.1%
Miscellaneous goods & services	+0.4%	+0.1%	+0.2%	-0.5%	+0.3%	+0.0%
All items	*+0.4%*	*+0.7%*	*+0.5%*	*-0.4%*	*+0.2%*	*+0.3%*

Source: ONS Time Series

- **UPDATED**
- While inflation has fallen from 5.2 per cent in September 2008 to 1.8 per cent in June 2009, annual increases in essential items such as *food & non-alcoholic beverages* and *housing, water and fuels* remain in excess of 5 per cent

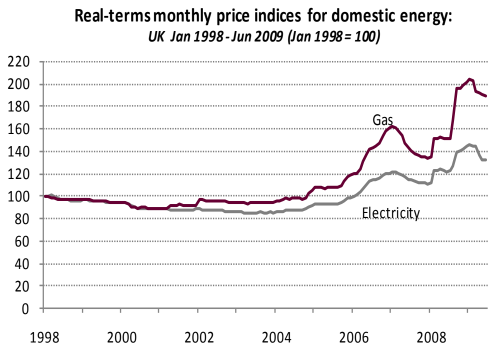


Chart 21: Real-terms monthly price indices for domestic energy: UK 1998-2009

Sources: DECC, *Quarterly Energy Prices*, Tables 2.2.1 & 2.3.1; ONS Time Series CHAW

Table 7: Average annual domestic gas and electricity bills: *1998-2008 (2008/09 prices)*

	Gas[1] (Great Britain)			Electricity[2] (UK)		
£	Standard credit	Direct debit	Prepayment	Standard credit	Direct debit	Prepayment
1998	400	352	420	340	327	362
2000	362	324	382	316	301	337
2005	417	382	434	308	291	329
2006	498	445	523	355	329	377
2007	564	508	602	391	357	410
2008	570	525	618	405	376	424
1998-2008	+43%	+49%	+47%	+19%	+15%	+17%
2005-2008	+37%	+38%	+43%	+31%	+29%	+29%

Notes: [1] Based on annual consumption of 18,000kWh.
[2] Based on annual consumption of 3,300kWh.

Source: DECC, *Quarterly Energy Prices* , Tables 2.2.1 & 2.3.1

- **UPDATED**
- Domestic gas and electricity prices rose rapidly in real terms in 2008
- Falling global oil prices have reduced the costs of electricity and gas in 2009, but prices remain high by historical standards

- LAST UPDATE *March 2009 audit*
- Average household gas bills in the period 2007-08 reached £570 on a standard credit basis, 41 per cent higher in real terms than in 1998 and 35 per cent higher than in 2005
- The average standard credit electricity bill in the same period was £405, 18 per cent higher in real terms than in 1998 and 30 per cent higher than in 2005
- For both gas and electricity, prepayment bills are higher

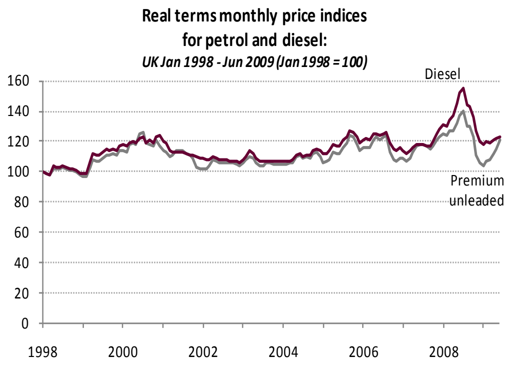


Chart 22: Real-terms monthly price indices for petrol and diesel: UK 1998-2009

Sources: DECC, *Quarterly Energy Prices*, Table 4.1.1; ONS Time Series CHAW

- **UPDATED**
- Although petrol and diesel prices declined in real terms in the period to January 2009 from their peak in July 2008, there have been increases more recently
- In June 2009, petrol prices were 21 per cent higher in real terms than in January 1998; diesel prices were 23 per cent higher over the same period

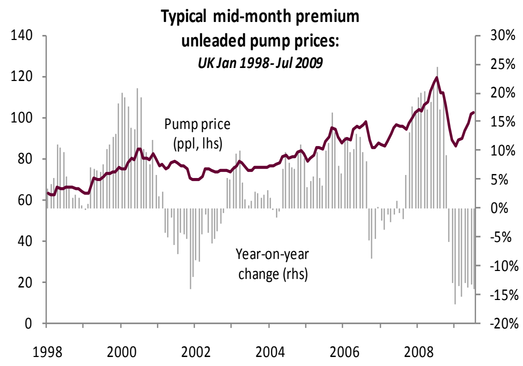


Chart 23: Typical mid-month premium unleaded pump prices: UK 1998-2009

Source: DECC, *Quarterly Energy Prices*, Table 4.1.1

- **UPDATED**
- The typical unadjusted UK pump price of premium unleaded was 102.78 pence per litre (ppl) in July 2009, down from 119.62 ppl in July 2008 but up from 96.05 ppl in July 2007

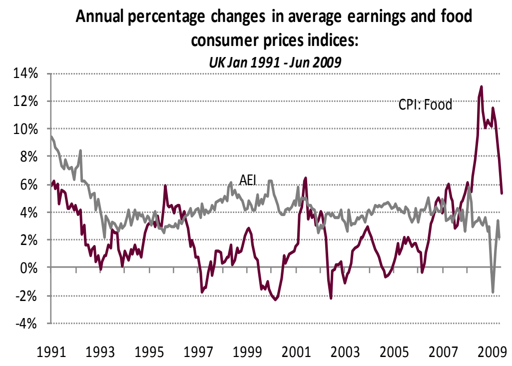


Chart 24: Annual percentage changes in average earnings and food consumer price indices: UK 1991-2009

Source: ONS Time Series D7G8 & LNMU

- **UPDATED**
- Although annual percentage changes in the average earnings index have grown in recent months while annual percentage changes in the food consumer price index have fallen, food prices are still rising more rapidly than earnings
- In May 2005, the food CPI was up 7.8 per cent year-on-year while average earnings were up just 2.2 per cent
- Food price increases have outstripped earnings increases for 14 consecutive months

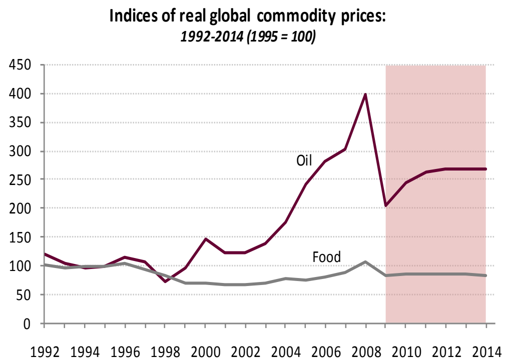


Chart 25: Indices of real global commodity prices: 1992-2014

Source: IMF, *World Economic Outlook Update*, 28 January 2009, Figure 4

- LAST UPDATED *March 2009 audit*
- Although food and fuel prices have shown signs of falling back in recent months, oil prices are expected to settle at a level significantly higher than experienced during the 1990s and early 2000s

Pensions and investments

Table 8: Number of entrants to and exits from private sector occupational pension schemes: *UK 2007*

	Numbers (000s)		Proportion	
	Defined benefit	Defined contribution	Defined benefit	Defined contribution
Total exits	380	130	75%	25%
Retirements	80	10	89%	11%
Total entrants	170	210	45%	55%

Source: ONS, *Occupational Pension Schemes Survey 2007* , 26 September 2008, Table 3.11

- LAST UPDATED *March 2009 audit*
- Private pension provision is shifting from defined benefit (DB) to defined contribution (DC). In 2007, around 90 per cent of private sector occupational pension holders who retired were members of a DB scheme, but just 45 per cent of new members of occupational pensions joined DB schemes

- LAST UPDATED *MARCH 2009 AUDIT*
- The number of active members of open private sector occupation DG schemes declined from 4.1 million in 2000 to 1.3 million in 2007

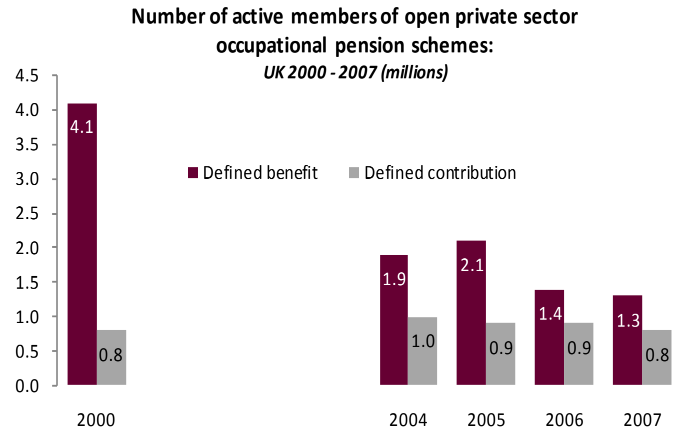


Chart 26: Membership of private sector occupational pension schemes: UK 2000-2007

Source: ONS, *Occupational Pension Schemes Survey 2007*, 26 September 2008, Tables 3.05 & 3.11

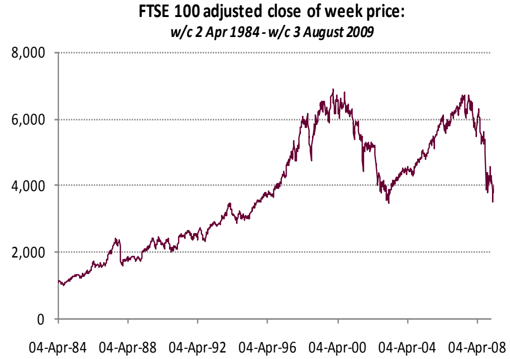


Chart 27: FTSE 1000 adjusted close of week price: 1988-2009

Source: Historical prices

- **UPDATED**
- Stock market losses associated with the collapse of global financial markets mean that those who have retired recently with DC schemes face significantly reduced pension pots, as do all those who are reliant on invested income to supplement their pension
- The low levels of interest rates mean that pre- and post- retirement savings held in bank accounts will also be offering a lower return than expected

Prospects for recovery

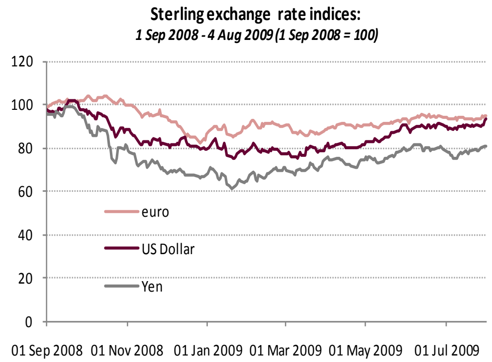


Chart 28: Exchange rates: 2008–2009

Source: www.x-rates.com

- **UPDATED**
- Global slowdown has produced sharp exchange rate adjustments
- In immediate aftermath of collapse of financial system, dollar, yen and euro all strengthened against the pound, making UK exports cheaper
- More recently, the pound has regained some ground

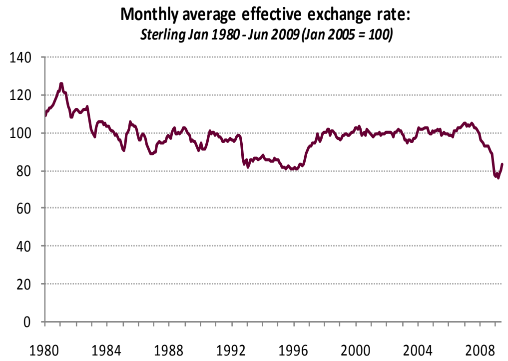


Chart 29: Effective sterling exchange rate: 1980–2009

Source: ONS Time Series BK67

- **UPDATED**
- Global slowdown has produced sharp exchange rate adjustments
- In immediate aftermath of collapse of financial system, dollar, yen and euro all strengthened against the pound, making UK exports cheaper
- More recently, the pound has regained some ground

Table 9: Output expectations and consumer confidence: *UK 2008 - 2009*

Balance of % expecting improvement over % expecting deterioration

	Future output expectations (CBI)	Consumer confidence (GfK)
Jan 2008	+4	-13
Feb 2008	+11	-17
Mar 2008	+18	-19
Apr 2008	0	-24
May 2008	0	-29
Jun 2008	+2	-34
Jul 2008	-7	-39
Aug 2008	-13	-36
Sep 2008	-16	-32
Oct 2008	-31	-36
Nov 2008	-42	-35
Dec 2008	-42	-33
Jan 2009	-43	-37
Feb 2009	-44	-35
Mar 2009	-48	-30
Apr 2009	-32	-27
May 2009	-17	-27
Jun 2009	-17	-25

Sources: CBI, *Industrial Trends Survey (monthly)* from ONS database, series: ETCU;
GfK NOP, *Consumer Confidence Survey* on behalf of the European Commission

- **UPDATED**
- A balance of 17 per cent of firms responding to the CBI's *Industrial Trends Survey* in June 2009 stated that they believed output would decrease over the next four months
- Although not as negative as the findings in late 2008 and early 2009, the figures point to a continued pessimistic business outlook
- Similarly, a reduced but still significant balance of 25 per cent of respondents to GfK's June 2009 *Consumer Confidence Barometer* expressed a lack of confidence in the UK economy and their own financial position

Appendix 2: Low earner indicators

Profile

Table 10: Household composition by income group: *UK 2007/08*

	Numbers (000s)			Proportion of total		
	Benefit-dependent	Low earners	Higher earners	Benefit-dependent	Low earners	Higher earners
Total number of households	5,050	7,600	12,700	100%	100%	100%
Non-retired households	3,100	4,700	10,950	61%	62%	86%
One adult	800	700	2,050	16%	9%	16%
Two adults	550	1,100	4,250	11%	14%	34%
Three or more adults	200	550	1,200	4%	7%	10%
One adult with children	600	550	300	11%	7%	2%
Two adults with one child	250	450	1,150	5%	6%	9%
Two adults with two children	300	700	1,250	5%	9%	10%
Two adults with three or more children	250	300	250	4%	4%	2%
Three or more adults with children	250	400	450	5%	5%	4%
Retired households	2,000	2,850	1,800	39%	38%	14%
One adult	1,000	1,550	1,000	20%	21%	8%
One adult: men	*250*	*500*	*300*	*5%*	*7%*	*2%*
One adult: women	*800*	*1,100*	*700*	*15%*	*14%*	*5%*
Two or more adults	1,000	1,300	800	19%	17%	6%
Total number of people	11,900	18,250	29,950	20%	30%	50%
Adults	8,600	13,700	24,350	18%	29%	52%
Men	*3,800*	*6,600*	*12,450*	*17%*	*29%*	*54%*
Women	*4,550*	*7,600*	*11,900*	*19%*	*32%*	*49%*
Children	3,300	4,300	5,850	25%	32%	43%

Notes: Income groups defined on basis of deciles ranked by equivalised disposable income (see Appendix 3).
Number of households scaled up to match number recorded in *Family Spending*.

Sources: ONS, *Effects of taxes and benefits on household incomes: 2007/08*, Tables 14 & 15
ONS, *Family Spending: A report on the 2007 Expenditure and Food Survey*, 26 November 2008, Table A6

- **UPDATED**
- In 2007/08, there were around 7.6 million low earner households representing 13.7 million adults
- Around 2.9 million of the low earner households were retired and 4.7 million were non-retired
- Low earner adults account for around 29 per cent of the UK adult population
- Children in low earner households account for 32 per cent of the total

Table 11: Income group of household by age of chief income earner/chief shopper: *GB Sep/Oct 2008*

	Benefit-dependent	Low earners	Higher earners
18-24	35.8%	38.9%	25.3%
25-34	14.8%	39.5%	45.7%
35-44	15.9%	25.5%	58.6%
45-54	15.9%	23.8%	60.3%
55-64	23.3%	33.5%	43.2%
65+	51.8%	34.7%	13.5%
All	25.7%	31.6%	42.8%

Note: Base = 1,356.
Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).
Source: Bank of England, *2008 NMG Research Survey*, Sep/Oct 2008

- LAST UPDATED *March 2009 audit*
- Low earners are over represented among the youngest (<34) and oldest (>55) age groups
- This reflects expected changes in income over the life-cycle, with households generally earning less in both their earlier and later stages

Table 12: Ethnicity of household head by gross household income group: *UK 2007-08*

	Benefit-dependent	Low earners	Higher earners	All
White	89.0%	88.9%	89.3%	89.1%
Mixed	0.7%	0.6%	0.6%	0.6%
Asian or Asian British	2.3%	2.8%	3.0%	2.8%
Indian	*0.8%*	*1.0%*	*1.7%*	*1.3%*
Pakistani or Bangladeshi	*1.2%*	*1.4%*	*0.8%*	*1.0%*
Black or Black British	2.3%	2.1%	1.7%	1.9%
Black Caribbean	*1.2%*	*1.1%*	*0.8%*	*1.0%*
Black Non-Caribbean	*1.2%*	*1.1%*	*0.9%*	*1.0%*
Chinese or other ethnic group	1.4%	1.1%	1.2%	1.2%
All households	100.0%	100.0%	100.0%	100.0%

Note: Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).
Source: DWP, *Family Resources Survey 2007-08*, Table 3.7

- **UPDATED**
- Low earners have a similar ethnic profile to the UK population as a whole
- Low earners are slightly more likely to be *Asian or Asian British* than other income groups
- They are more likely to be *Black or Black British* than higher earners, but less likely than members of the benefit-dependent group
- Low earners are more likely (1.4 per cent) to be Pakistani or Bangladeshi than members of either the benefit-dependent group (1.2 per cent) or the higher earners group (0.8 per cent)

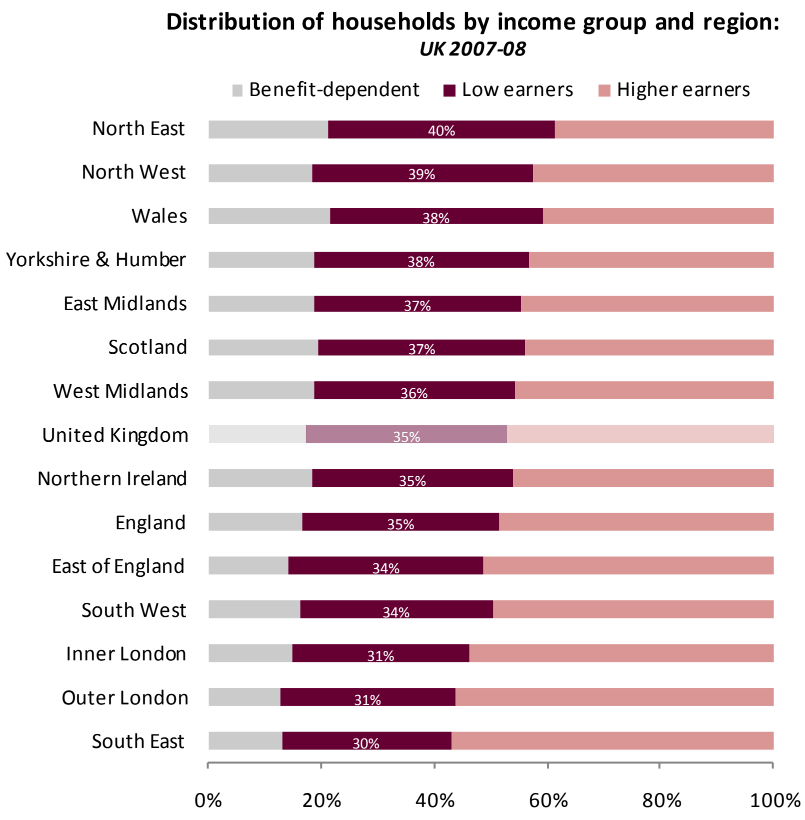


Chart 30: Distribution of households by income group within Government Office Regions: UK 2007-08

Note: Income groups defined on basis of deciles ranked by gross household income (see Appendix 3)

Source: DWP, *Family Resources Survey 2007-08*, Table 3.10

- **UPDATED**
- In income terms, low earners are most prevalent in the North East and North West; they are least prevalent in the South East and London

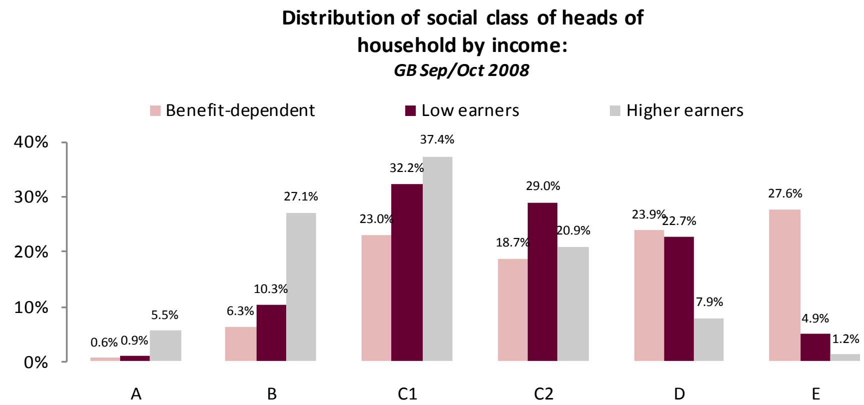


Chart 31: Distribution of social class of heads of household by income: GB 2008

Note: Base = 1,356.

Source: Bank of England, *2008 NMG Research Survey*, Sep/Oct 2008

- LAST UPDATED *Match 2009 audit*
- Over 60 per cent of low earner heads of households are covered by social classes C1 and C2
- Over 80 per cent fall within classes C1, C2 and D

Incomes, tax and benefits

Table 13: Average incomes, taxes and benefits by income group: *UK 2007/08*

	Average per household (£ per year)	All households			Non-retired households		
		Benefit-dependent	Low earners	Higher earners	Benefit-dependent	Low earners	Highe earner
	Original income	4,700	15,200	49,800	7,500	25,000	58,20
+	*plus cash benefits*	6,500	6,800	2,900	6,000	4,200	1,70
=	Gross income	11,100	22,000	52,700	13,500	29,100	59,90
-	*less direct taxes & employees' NIC*	1,200	3,400	12,300	1,600	5,500	14,40
=	Disposable income	9,900	18,600	40,400	11,900	23,600	45,40
-	*less indirect taxes*	3,100	3,900	6,300	3,700	5,000	6,80
=	Post-tax income	6,800	14,700	34,200	8,300	18,700	38,70
+	*plus benefits in kind*	7,500	6,600	5,000	8,300	6,900	4,80
=	Final income	14,300	21,400	39,200	16,600	25,600	43,50

Note: Income groups defined on basis of deciles ranked by equivalised disposable income (see Appendix 3).

Source: ONS, *The effects of taxes and benefits on household income, 2007/08* , Tables 14 & 16

- **UPDATED**
- In 2007/08, the average disposable household income among those we consider to be low earners was £18,600
- Inclusion of indirect taxes and benefits in kind (the value of consumed public services) increased low earners' average household income to £21,400

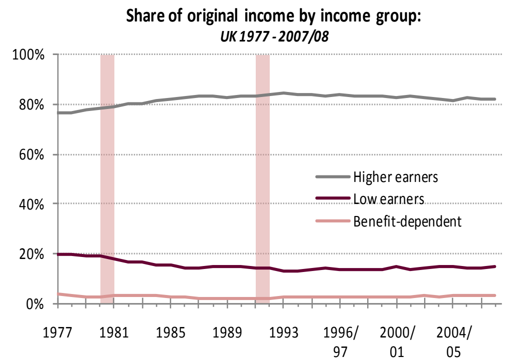


Chart 32: Share of total household original income: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data

- **UPDATED**
- Low earner households accounted for 15 per cent of total original income in the UK in 2007/08, up from 13 per cent in 1997

- **UPDATED**
- Cash benefits made up 31 per cent of low earners' gross income in 2007/08, down from 35 per cent in 1997

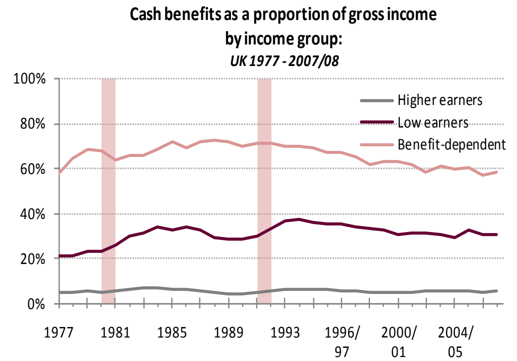


Chart 33: Cash benefits as proportion of gross income: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data

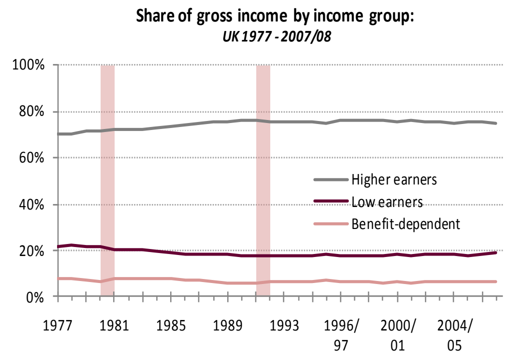


Chart 34: Share of household gross income: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data

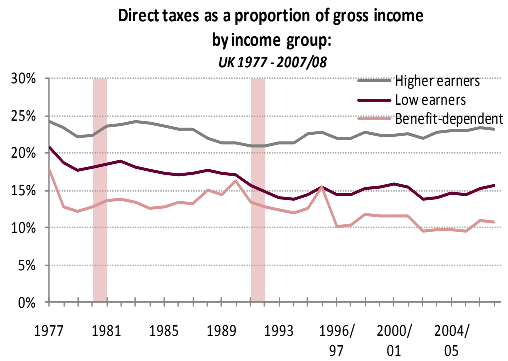


Chart 35: Direct taxes as proportion of gross income: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data

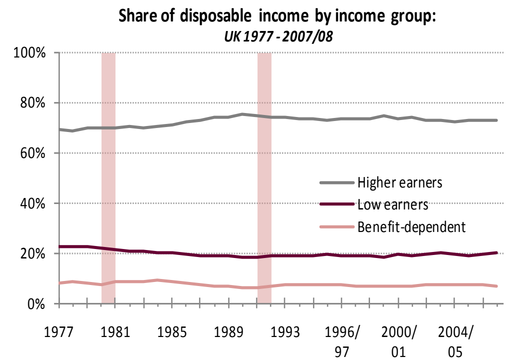


Chart 36: Share of household disposable income: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data

- **UPDATED**
- Low earner households accounted for 19 per cent of total gross income in the UK in 2007/08, up from 18 per cent in 1997

- **UPDATED**
- Direct taxes paid by low earner households in 2007/08 were equivalent to 16 per cent of their gross income, up from 14 per cent in 1997

- **UPDATED**
- Low earners accounted for 20 per cent of total disposable income in the UK in 2007/08, up from 19 per cent in 1997

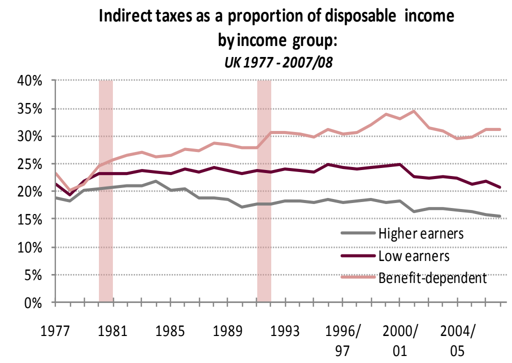


Chart 37: Indirect taxes as proportion of disposable income: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data

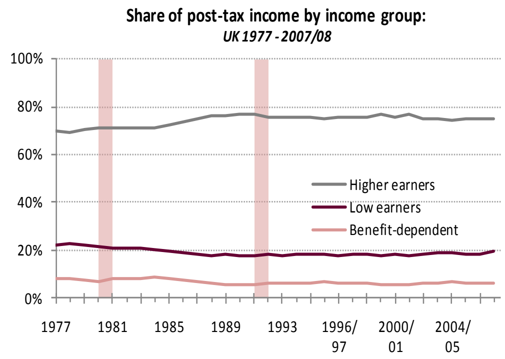


Chart 38: Share of household post-tax income: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data

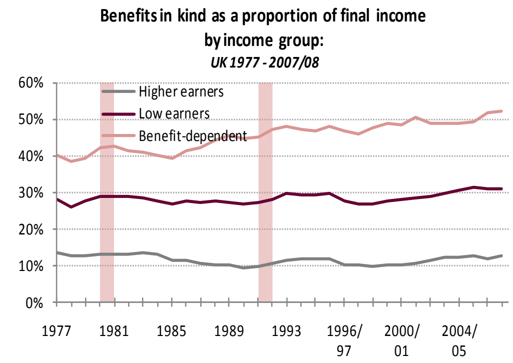


Chart 39: Benefits in kind as proportion of final income: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data

- **UPDATED**
- Indirect taxes paid by low earner households in 2007/08 were equivalent to 21 per cent of their gross income, down from 24 per cent in 1997

- **UPDATED**
- Low earner households accounted for 19 per cent of total post-tax income in the UK in 2007/08, up from 18 per cent in 1997

- **UPDATED**
- Benefits in kind consumed by low earner households in 2007/08 were equivalent to 31 per cent of their gross income, up from 28 per cent in 1997

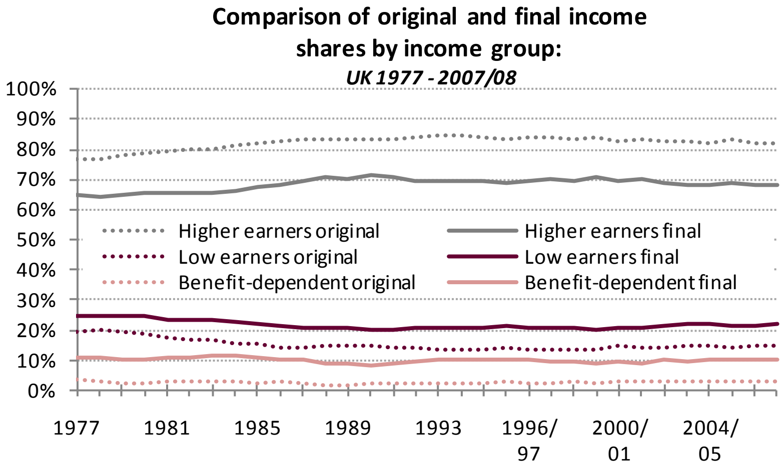


Chart 40: Comparison of original and final income shares by income group: UK 1977-2007/08

Note: Income groups defined on basis of deciles ranked by equivalised disposable income.

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data

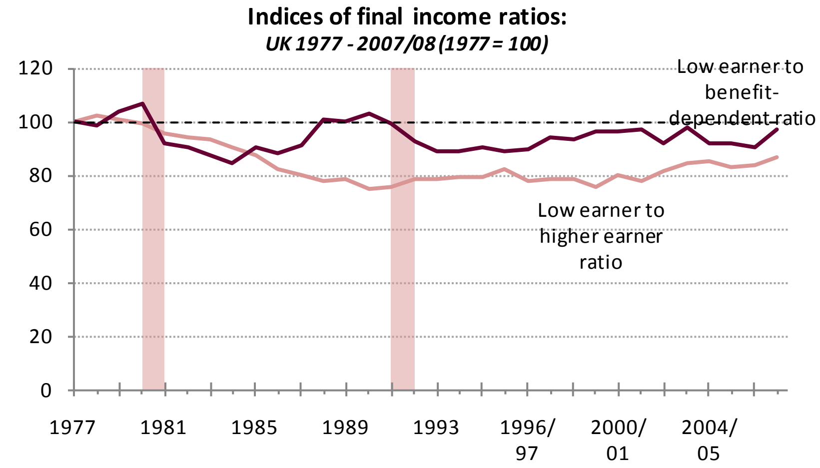


Chart 41: Indices of final income ratios: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data

- **UPDATED**
- Tighter concentration of solid lines compared to dotted lines highlights the overall progressive nature of adjustments made to UK household incomes. However, gap between final incomes increased in period 1977 – 2007/08, meaning income distribution has become less equal over time
- In 1977, the 50 per cent of households comprising the higher earner group accounted for 65 per cent of final income, the 30 per cent of households in the low earner group took 24 per cent and the 20 per cent of households in the benefit-dependent group took 11 per cent
- In 2007/08, proportions had changed to 68 per cent, 22 per cent and 10 per cent

- **UPDATED**
- Since 1977, low earners have become poorer in average final income terms than both higher earner and benefit-dependent households
- However, low earners have experienced some improvement in the period since 1997 because of the introduction of tax credits and the national minimum wage, and investment in public services

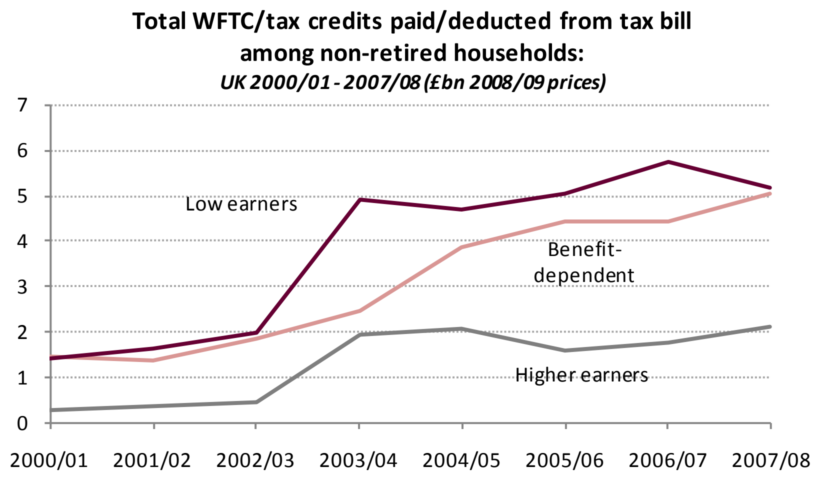


Chart 42: WFTC/tax credits by income group: UK 2000/01-2007/08

Note: Tax credits recorded as cash benefits and negative income tax.

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data, Table 16

- **UPDATED**
- Low earners have been major beneficiaries of the development of tax credits
- In 2002/03, non-retired low earner households received similar amounts of tax credits as non-retired members of benefit-dependent households
- Subsequent development led to low earners receiving significantly larger amounts of tax credits
- However, by 2007/08, low earners were again receiving the same amount as benefit-dependent households (~£5bn)

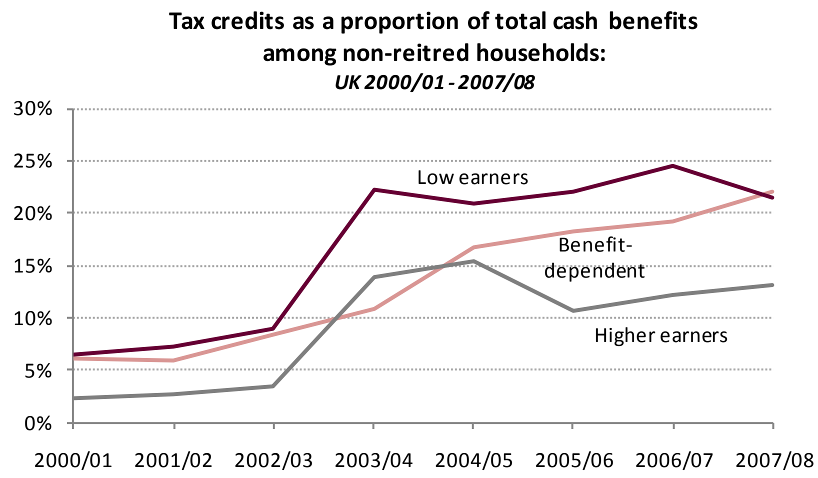


Chart 43: WFTC/tax credits as proportion of total cash benefits: UK 2000/01-2007/08

Note: Tax credits recorded as cash benefits and negative income tax.

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data, Table 16

- **UPDATED**
- Tax credits make up around 22 per cent of the value of all low earners' cash benefits, up from 6 per cent in 2000/01

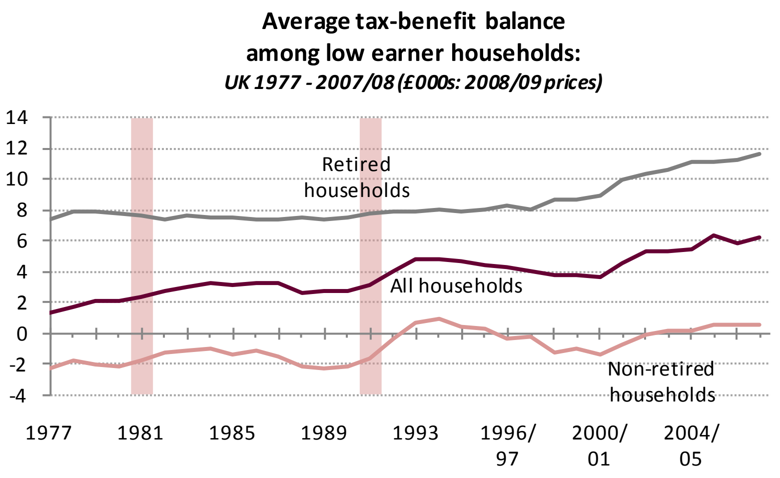


Chart 44: Average tax-benefit balance among low earner households: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data, Tables 14, 16 & 18

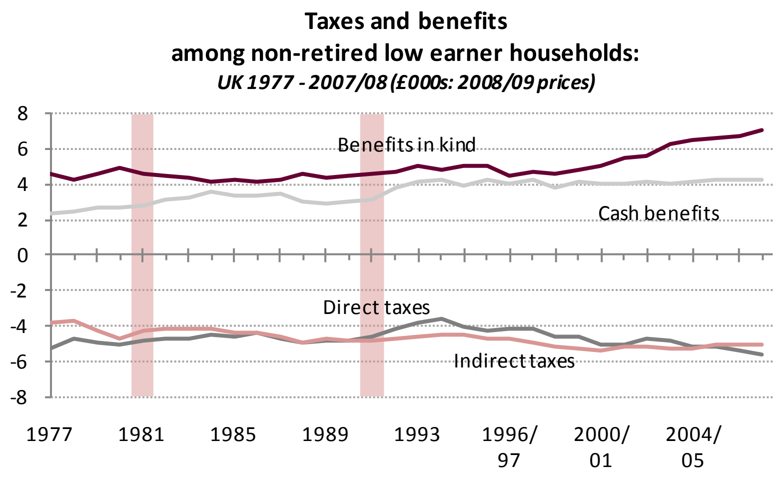


Chart 45: Taxes and benefits among non-retired low earner households: UK 1977-2007/08

Source: ONS, *The effects of taxes and benefits on household incomes, 2007/08*, historical data, Table 16

- **UPDATED**
- Overall, low earners have been net beneficiaries of the tax and benefits system in the period since 1977
- Among non-retired low earner households the balance of cash benefits, in-kind benefits, direct taxes and indirect taxes has fluctuated over the period, becoming positive in recent years
- In 2007/08, non-retired low earner households received an average of £629 more in benefits than they paid in taxes

- **UPDATED**
- The improvement in the position of non-retired low earners' tax-benefits position appears to primarily be due to increases in their consumption of benefits in kind, reflecting real terms increases in health spending by the Government
- As the Government replaces private spending with public and as low earners increasingly lose their jobs and therefore become eligible for state benefits, we would expect their positive tax-benefit balance to improve still further
- However, the fiscal contraction that is inevitable once the economy shows signs of recovery could reduce significantly the value of benefits in kind available to low earners and so push their balance back into negative

Financial health

Table 14: Weekly household expenditure by income group: *UK 2007*[1]

	As proportion of total expenditure			As proportion of disposable household income		
	Benefit-dependent	Low earners	Higher earners	Benefit-dependent	Low earners	Higher earners
Housing (net),[2] fuel & power	20.7%	15.1%	9.0%	20.1%	13.9%	7.6%
Food & non-alcoholic drinks	15.4%	12.8%	9.2%	14.9%	11.7%	7.7%
Recreation & culture	11.2%	12.6%	12.6%	10.8%	11.6%	10.6%
Transport	8.5%	12.0%	14.4%	8.2%	11.0%	12.1%
Miscellaneous goods & services	7.4%	7.3%	7.8%	7.2%	6.6%	6.6%
Restaurants & hotels	5.9%	7.0%	8.7%	5.7%	6.4%	7.3%
Household goods & services	7.4%	6.9%	6.6%	7.1%	6.3%	5.5%
Clothing & footwear	4.2%	4.6%	4.9%	4.1%	4.2%	4.1%
Communication	3.5%	3.0%	2.4%	3.4%	2.8%	2.0%
Alcoholic drinks, tobacco & narcotics	3.4%	2.8%	2.2%	3.3%	2.6%	1.9%
Health	1.2%	1.4%	1.2%	1.2%	1.3%	1.0%
Education	1.1%	0.7%	1.8%	1.1%	0.6%	1.5%
All expenditure groups	89.8%	86.2%	80.9%	87.0%	78.9%	67.7%
Other expenditure items[3]	10.2%	13.8%	19.1%	9.9%	12.6%	16.0%
Total expenditure	100.0%	100.0%	100.0%	96.9%	91.6%	83.7%

Notes: [1] Based on weighted data and including children's expenditure.
[2] Excluding mortgage interest payments, council tax and Northern Ireland rates.
[3] Including mortgage interest payments and council tax.
Income groups defined on basis of income deciles ranked by equivalised disposable income (see Appendix 3).

Sources: ONS, *Family Spending: A report on the 2007 Expenditure and Food Survey* , 26 November 2008, Tables 3.2E & 3.3E
ONS, *The effects of taxes and benefits on household income, 2007/08* , Table 14

- **UPDATED**
- In 2007/08, low earner households spent around 92 per cent of their disposable income each week on average
- Essential items such as *housing, fuel and power* and *food & non-alcoholic drinks* accounted for around 26 per cent of their disposable income; by contrast, such items account for just 15 per cent of higher earners' disposable income

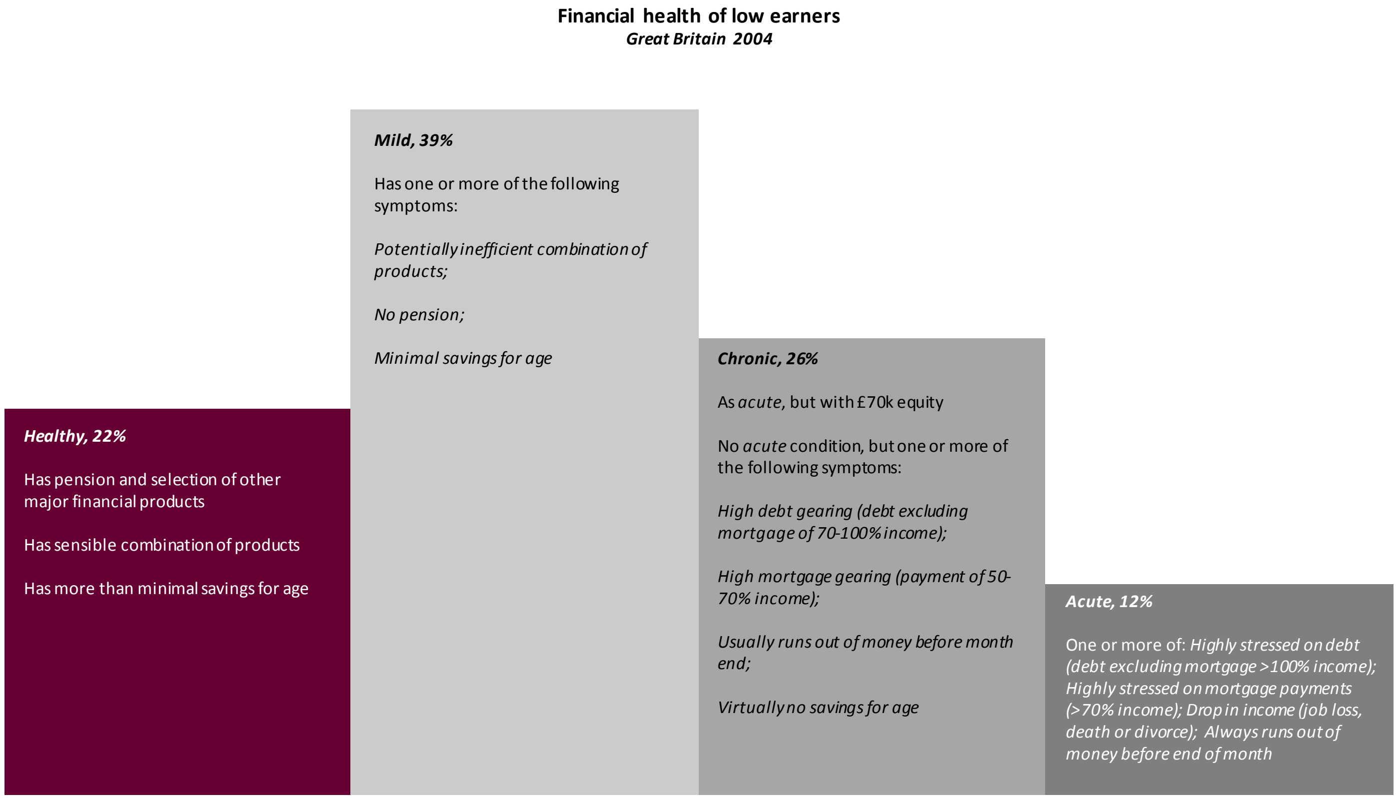


Chart 46: Financial health of low earners: GB 2004

Note: Low earners defined on basis of income and benefit receipt low earner households and low earner individuals. See Appendix 3.

Sources: Alliance for Health & the Future, *Living in the Advice Gap: An Investigation into the Resolution Foundation's Target Group*
Resolution Foundation, Closing the advice gap

- LAST UPDATED *March 2009 audit*
- Prior to the start of the current recession, 78 per cent of low earners were already in poor financial health, with inadequate levels of savings, high debt repayments and budgeting problems
- While 39 per cent had *mild* financial health problems, 26 per cent were considered to have *chronic* financial ill health and 12 per cent suffered *acute* symptoms

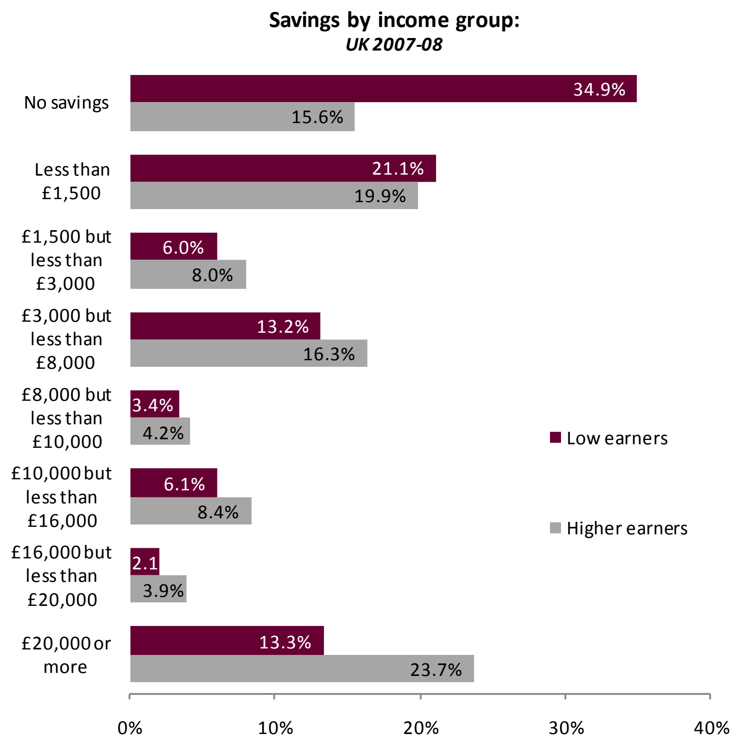


Chart 47: Savings by income group: UK 2007/08

Note: Gross household income definition. See Appendix 3.

Source: DWP, *Family Resources Survey*, Table 5.12

- **UPDATED**
- 35 per cent of low earners had no reported savings in 2007-08, leaving them exposed to the consequences of falling incomes during recession
- A further 21 per cent had savings of less than £1,500

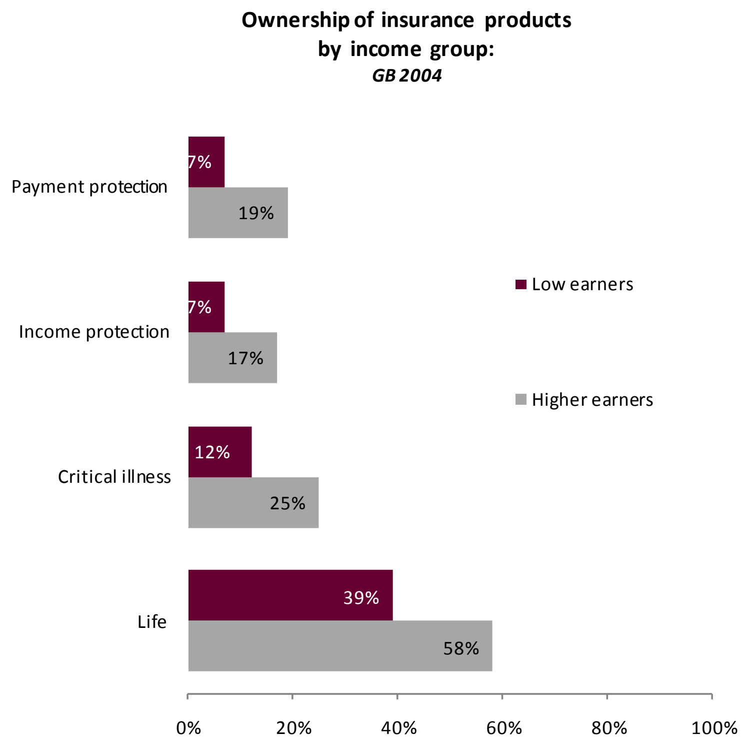


Chart 48: Ownership of insurance products by income group: GB 2004

Note: British Household Panel Survey definition: low earner households and low earner individuals. See Appendix 3.

Sources: Alliance for Health & the Future, *Living in the Advice Gap: An Investigation into the Resolution Foundation's Target Group*;
Resolution Foundation, *Closing the advice gap*, January 2007

- LAST UPDATED *March 2009 audit*
- Low earners are less likely than higher earners to have the safety net offered by insurance products

Table 15: Debt position of households by income group: *GB Sep/Oct 2008*

	Benefit-dependent	Low earners	Higher earners	All
Secured debt				
Proportion with outstanding debts *(base = 1,354)*	16%	36%	68%	45%
Outstanding debt among all answering question *(base = 1,233)*	£5,020	£17,910	£57,910	£31,240
Outstanding debt among all with secured debt *(base = 485)*	£43,420	£61,330	£89,640	£79,420
Unsecured debt				
Proportion with outstanding debts *(base = 1,204)*	41%	53%	67%	56%
Outstanding debt among all answering question *(base = 1,153)*	£1,430	£1,830	£3,950	£2,640
Outstanding debt among all with unsecured debt *(base = 628)*	£3,590	£3,520	£6,070	£4,850
Total debt				
Proportion with outstanding debts *(base = 1,356)*	46%	63%	83%	67%
Outstanding debt among all answering question *(base = 1,103)*	£6,807	£20,278	£61,528	£34,179
Outstanding debt among all with debt *(base = 735)*	£14,807	£31,544	£75,541	£51,291

Note: Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).
Source: Bank of England, *2008 NMG Research Survey* , Sep/Oct 2008

- LAST UPDATED *March 2009 audit*
- 63 per cent of low earners reported outstanding secured or unsecured loans and mortgages in 2008, with a mean value of £31,544

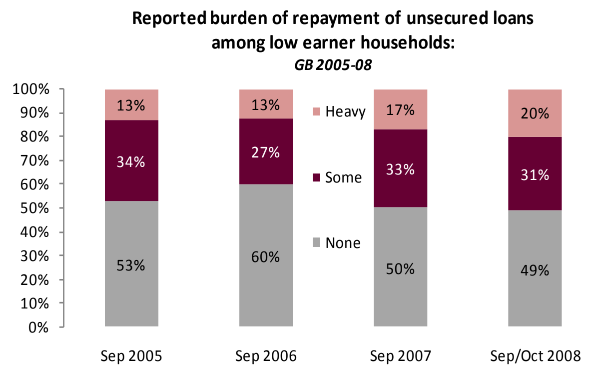


Chart 49: Reported financial burden associated with repayment of unsecured loans among low earner households: GB 2005-08

Note: Low earners defined on basis of deciles ranked by gross household income. See Appendix 3.
Source: Bank of England, *NMG Research Survey*, various

- LAST UPDATED *March 2009 audit*
- Proportion of low earners saying that unsecured debt repayments represented a financial burden to the household increased from 47 per cent in 2005 to 51 per cent in 2008: the proportion describing the burden as *heavy* increased from 13 per cent to 20 per cent

Table 16: Distribution of ratio of last monthly debt payment to monthly income among low earner households: *GB 2005-08*

	Sep 2005	Sep 2006	Sep 2007	Sep/Oct 2008
Secured debt				
Base	*313*	*275*	*280*	*386*
0	75%	74%	83%	71%
<0.25	19%	16%	10%	13%
>0.25	5%	10%	7%	16%
Unsecured debt				
Base	*313*	*273*	*248*	*344*
0	65%	55%	55%	49%
<0.25	33%	41%	40%	44%
>0.25	2%	4%	5%	6%
Total debt				
Base	*313*	*264*	*241*	*327*
0	51%	42%	49%	37%
<0.25	37%	42%	37%	40%
>0.25	12%	15%	13%	24%

Note: Low earners defined on basis of deciles ranked by gross household income (see Appendix 3).
Source: Bank of England, *NMG Research Survey*, various

- LAST UPDATED *March 2009 audit*
- 63 per cent of low earners reported outstanding secured or unsecured loans and mortgages in 2008, with a mean value of £31,544

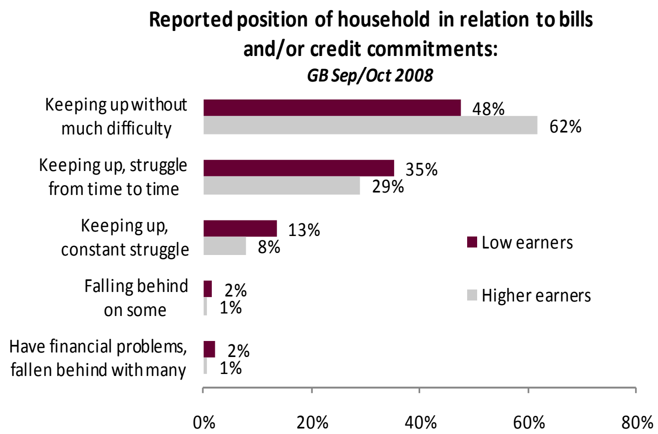


Chart 50: Reported position of household in relation to bills/and or credit commitments: GB 2008

Notes: Gross income definition of head of household. See Appendix 3. Base = 1,219.

Source: Bank of England, *NMG Research Survey 2008*, Sep/Oct 2008

- LAST UPDATED *March 2009 audit*
- 4 per cent of low earners reported falling behind with some of their loan or bill payments, compared with 2 per cent of higher earners
- 13 per cent of low earners described keeping up with their payments as a “constant struggle”, compared with 8 per cent of higher earners
- Overall, 52 per cent of low earners reported some problems with bills and credit commitments, compared with 38 per cent of low earners

Table 17: Reasons for difficulty in keeping up with bills and credit commitments by income group: *GB Sep/Oct 2008*

Proportion menitioning:	Benefit-dependent	Low earners	Higher earners	All
Unexpected bills	37%	37%	38%	37%
Lack of cash flow	31%	27%	29%	29%
Overspending	7%	17%	14%	13%
Unemployment	17%	8%	4%	9%
Loss of income	8%	7%	8%	8%
Redundancy	1%	5%	0%	2%
Higher than expected interest rates	5%	4%	13%	8%
Illness	7%	4%	2%	4%
Divorce	4%	4%	0%	2%
Credit cards too tempting	1%	4%	1%	2%
School or university tuition fees	0%	2%	3%	2%
Had a child	1%	1%	2%	1%
Debt legacy from being a student	2%	1%	0%	1%
Other specified reason	7%	5%	8%	6%

Note: Base = 570.
Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).

Source: Bank of England, *2008 NMG Research Survey* , Sep/Oct 2008

- LAST UPDATED *March 2009 audit*

Table 18: Reasons for debt problems experienced by low earner households: *GB 2006-2008*

	Sep 2006		Sep 2007		Sep/Oct 2008	
	Proportion	Ranking	Proportion	Ranking	Proportion	Ranking
Unexpected bills	13%	4	17%	3	37%	1
Lack of cash flow that has/will be resolved	33%	2	48%	1	27%	2
Overspending	43%	1	35%	2	17%	3
Unemployment	4%	7	10%	4	8%	4
Loss of income	24%	3	5%	7	7%	5
Redundancy	2%	10	2%	12	5%	7
Higher than expected interest rates	-	-	7%	5	4%	8
Illness	2%	10	7%	5	4%	9
Divorce	6%	5	0%	13	4%	9
Credit cards too tempting	4%	7	3%	9	4%	9
School or university tuition fees	4%	7	0%	13	2%	12
Had a child	2%	10	3%	9	1%	13
Debt legacy from being a student	2%	10	3%	9	1%	14
Other specified reason	6%	5	5%	7	5%	6
Base	*54*		*60*		*191*	

Note: Low earners defined on basis of deciles ranked by gross household income (see Appendix 3).

Source: Bank of England, *NMG Research Survey* , various

- LAST UPDATED *March 2009 audit*

Table 19: Actions considered by those reporting having had difficulty repaying debts, by income group: GB Sep/Oct 2008

	Benefit-dependent	Low earners	Higher earners	All
Cutbacks	49%	55%	50%	51%
None of these	25%	22%	18%	21%
Other	9%	11%	16%	12%
Borrowing unsecured	1%	3%	7%	4%
Borrowing secured	1%	2%	1%	1%
Sell house	4%	2%	4%	3%
Insolvency	2%	0%	0%	1%
Don't know	9%	6%	4%	6%

Note: Base = 569.
Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).
Source: Bank of England, *2008 NMG Research Survey* , Sep/Oct 2008

- LAST UPDATED *March 2009 audit*

Table 20: Credit constraint reported by households by income group: *GB Sep/Oct 2008*

	Benefit-dependent	Low earners	Higher earners	All
Put off spending because concerned would not be able to get credit when needed *(base = 1,296)*	24%	23%	16%	20%
Would like to borrow more but find it too expensive or difficult to do so *(base = 1,309)*	6%	7%	5%	6%
Actual or perceived credit constraint *(base = 1,250)*	27%	27%	19%	23%

Note: Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).
Source: Bank of England, *2008 NMG Research Survey* , Sep/Oct 2008

- LAST UPDATED *March 2009 audit*
- Around one-quarter of low earners were facing perceived or actual credit constraint in Sep/Oct 2008
- 23 per cent had been put off spending because they didn't think they would be able to access credit when they needed it
- 7 per cent stated that they wanted to borrow more but found it too expensive or difficult

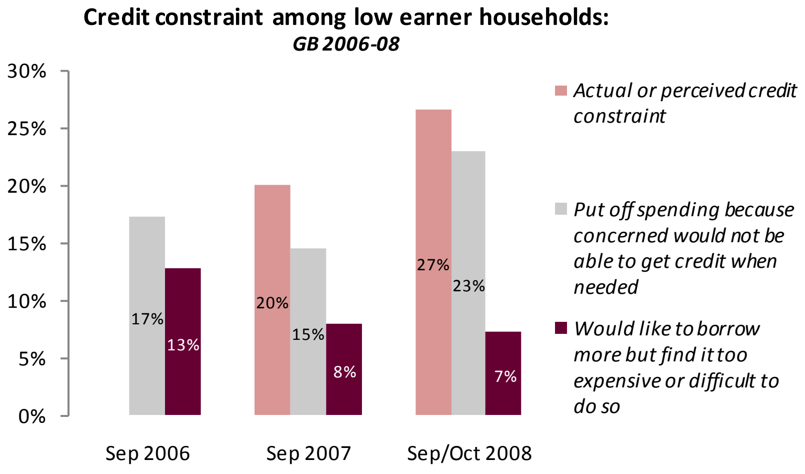


Chart 51: Credit constraint among low earner households: GB 2006-08

Note: Gross income definition of head of household. See Appendix 3.

Source: Bank of England, *NMG Research Survey*, various

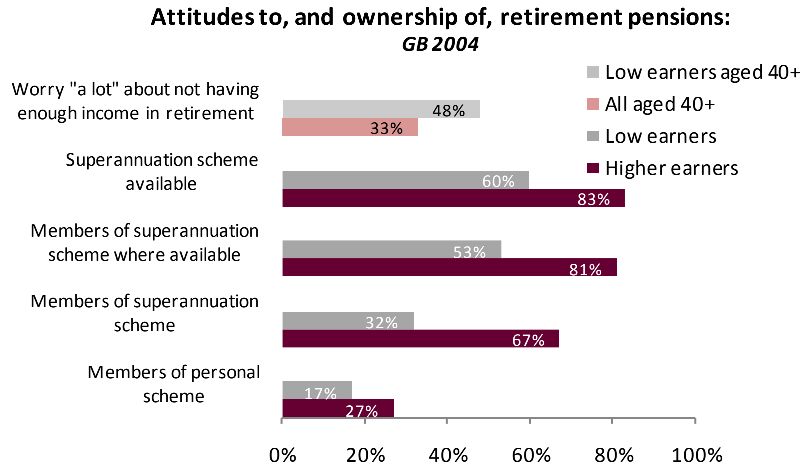


Chart 52: Attitudes to, and ownership of, retirement pensions: GB 2004

Note: Low earners defined on basis of income and benefit receipt: low earner households and low earner individuals. See Appendix 3.

Sources: Alliance for Health & the Future, *Living in the Advice Gap: An Investigation into the Resolution Foundation's Target Group*;
Resolution Foundation, *Closing the advice gap*, January 2007

- LAST UPDATED *March 2009 audit*
- Credit constraint among low earners grew significantly in 2008
- The proportion putting off spending because of concerns about the availability of credit rose from 17 per cent in 2006 to 23 per cent in 2008
- The proportion saying they would like to borrow more but did not because of cost and accessibility issues fell from 13 per cent to 7 per cent over the same period

- LAST UPDATED *March 2009 audit*
- 48 per cent of low earners aged over 40 say they *worry a lot* about not having enough income in retirement, compared with 33 per cent of the over-40 population as a whole
- Around 60 per cent of working low earners were in jobs with superannuation schemes in 2004, compared with 83 per cent of higher earners
- Where available, just 53 per cent of low earners joined superannuation schemes, compared with 81 per cent of higher earners

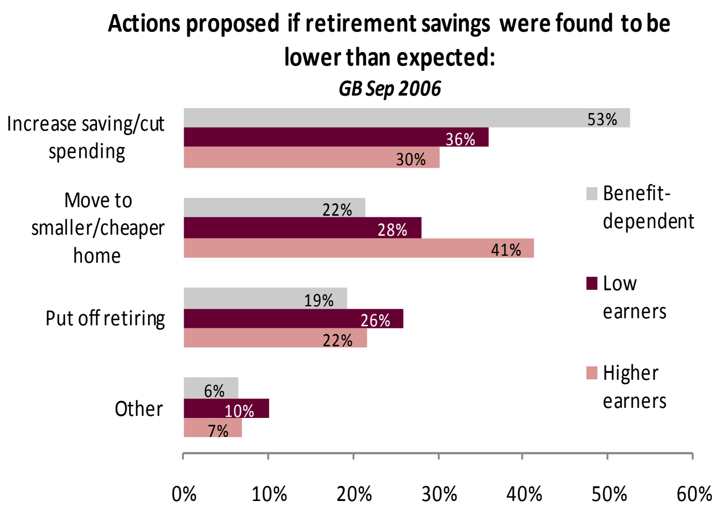


Chart 53: Distribution of actions proposed if value of savings/private pension were found to be lower than expected: GB 2006

Note: Base = 309.

Sources: Bank of England, *2006 NMG Research Survey*, September 2006

- LAST UPDATED *March 2009 audit*

Employment, skills and earnings

Table 21: Highest level of educational qualification by income group: *GB Sep/Oct 2008*

	Benefit-dependent	Low earners	Higher earners	All
No formal qualification	45%	25%	8%	23%
GCSE/O-level	18%	25%	22%	22%
A-level	12%	15%	20%	16%
Bachelor	8%	13%	24%	16%
Masters/PhD	2%	3%	9%	5%
Vocation	9%	11%	9%	9%
Other	7%	8%	8%	8%
Still studying	0%	1%	0%	0%

Note: Base = 1,355.
Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).

Source: Bank of England, *2008 NMG Research Survey*, Sep/Oct 2008

- LAST UPDATED *March 2009 audit*
- Half of low earners have no qualification beyond GCSE/O level, compared with 30 per cent of higher earners
- Low earners are more likely than members of other income groups to have a vocational qualification

Table 22: Economic activity among adults aged 16+: *UK Mar-May 2009*

	All aged 16+		Low earners aged 16+[1]	
	Number (000s)	Proportion[2]	Number (000s)	Proportion
Economically active	31,400	64%	7,500	55%
Employed	29,000	59%	4,900	36%
Self-employed	3,800	10%	2,200	16%
Unemployed	2,400	8%	400	3%
Economically inactive	7,900	37%	6,200	45%
Full-time education	2,100	5%	1,400	10%
Family care	2,200	6%	700	5%
Long-term sick/disabled	2,000	5%	100	1%
Other	1,000	3%	0	0%
Retired	10,100	26%	4,000	29%
All aged 16+	49,400	100%	13,700	100%

Notes: [1] Estimates based on application of proportion of low earners in each category in GB in 2006 to low earner population figure in 2008. Susbequent economic downturn means figures are likely to overstate levels of economic activity.
[2] Individuals can be both employed and self-employed.
Low earners defined on basis of income and benefit receipt. Includes both low earner households and low earner individuals (see Appendix 3).

Sources: Resolution Foundation, *Closing the advice gap*
ONS, *Labour market statistics: first release* , July 2009

- **UPDATED**
- Around 55 per cent of low earners are economically active, compared with 64 per cent of the population as a whole
- 36 per cent of low earners are employed and 16 per cent are unemployed; among the population as a whole the corresponding proportions are 59 per cent 10 per cent, suggesting that low earners are slightly less likely to be in work but more likely to be self-employed

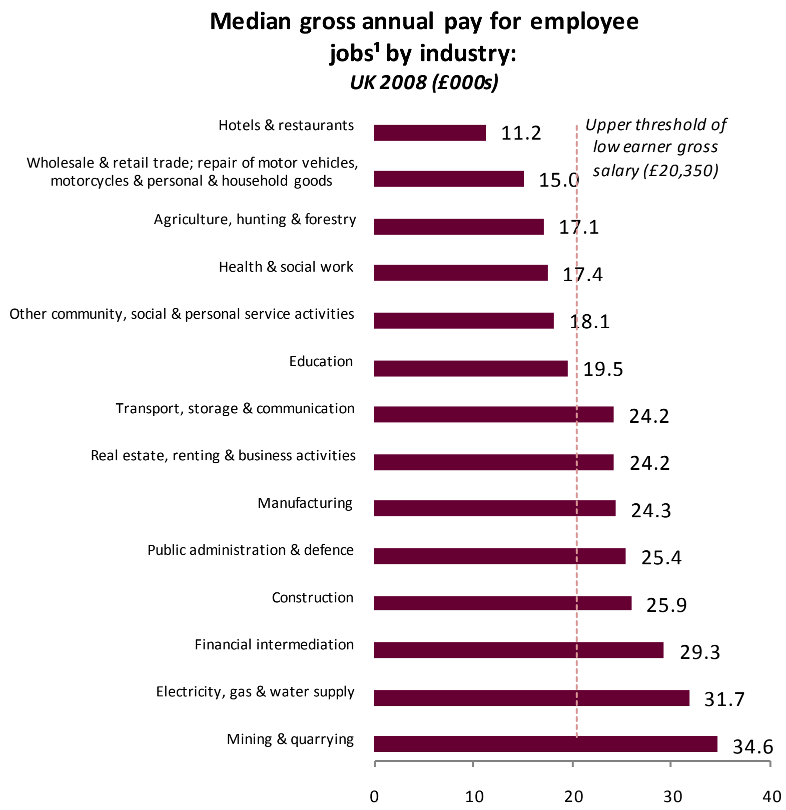


Chart 54: Median gross annual pay for employee jobs by industry: UK 2008

Note: [1] Employees on adult rates who have been in the same job for more than a year.

Source: ONS, *2008 Annual Survey of Hours and Earnings*, Table 4.7a

- LAST UPDATED *March 2009 audit*
- The Annual Survey of Hours and Earnings records median salaries earned in different industries and occupations. Wages and salaries account for around three-quarters of non-retired low earners' gross household incomes. Therefore, the low earner upper threshold of £27,150 gross household income is equivalent to total household wages of £20,350.
- In 2008, median gross annual pay (full-time and part-time) received in the UK across all manufacturing industries was £24,343. The median in service industries was £19,727, suggesting that low earners were more likely to be employed in this sector.
- More than half of all employees received salaries below the low earner upper threshold of £20,350 in six industries: *hotels and restaurants*; *wholesale and retail trade, repair of motor vehicles and household goods*; *agriculture, hunting and forestry*; *health and social work*; *other community, social and personal service activities*; and *education*
- Some of these individuals may actually form part of the higher earners group when their aggregate household income is calculated (their earned income plus income from other sources including the earned income of other members of their household). However, the relatively low levels of pay in these industries suggest that low earners are likely to be generally over-represented within them.

Table 23: Number and proportion of employee jobs attracting below low earner threshold salary by industry and year-on-year change in company insolvencies by industry: *2008*

Industry	Number of employees with salaries below £20,350 *UK 2008 (000s)*	Proportion of employees with salaries below £20,350 *UK 2008*	Year-on-year change in company insolvencies *Eng & Wales Q1 2009*	Quarter-on-quarter change in company insolvencies *Eng & Wales Q1 2009*
Wholesale & retail; repair of motor vehicles & personal & household goods	2,001 - 2,155	60% - 70%	+46%	+19%
Education	1,949 - 2,126	50% - 60%	+20%	+15%
Health & social work	1,382 - 1,508	50% - 60%	+25%	+30%
Manufacturing	910 - 1,040	30% - 40%	+61%	+31%
Real estate, renting & business activities	999 - 1,249	40% - 50%	+59%	+18%
Hotels & restaurants	532 - 563	80% - 90%	+66%	+15%
Transport, storage & communication	354 - 472	30% - 40%	+31%	-5%
Other community, social & personal service activities	430 - 469	50% - 60%	+46%	+15%
Public administration & defence	406 - 464	30% - 40%	+67%	-38%
Financial intermediation	323 - 369	30% - 40%	+104%	+3%
Construction	308 - 352	30% - 40%	+79%	+26%
Agriculture, hunting & forestry	72 - 78	60% - 70%	-10%	+38%
Electricity, gas & water supply	31 - 34	20% - 25%	+18%	-28%
Mining & quarrying	6 - 9	10% - 20%	-40%	-67%

Note: [1] Employees on adult rates who have been in the same job for more than a year.

Source: ONS, *2008 Annual Survey of Hours and Earnings*, Table 4.7a

Insolvency Service, *Insolvencies in the second quarter 2009*, 7 August 2009 (and earlier), Tables 1a & 1b

- **UPDATED**
- Year-on-year changes in company insolvencies have been biggest in *financial intermediation*, *construction*, *public administration and defence*, *hotels and restaurants* and *manufacturing* industries. These industries account for anywhere up to 2.7 million low earners
- While the rate of deterioration appears to be slowing in some higher earning industries such as *financial intermediation*, quarter-on-quarter increases in insolvencies appear particularly large in low earner industries such as *health and social work*

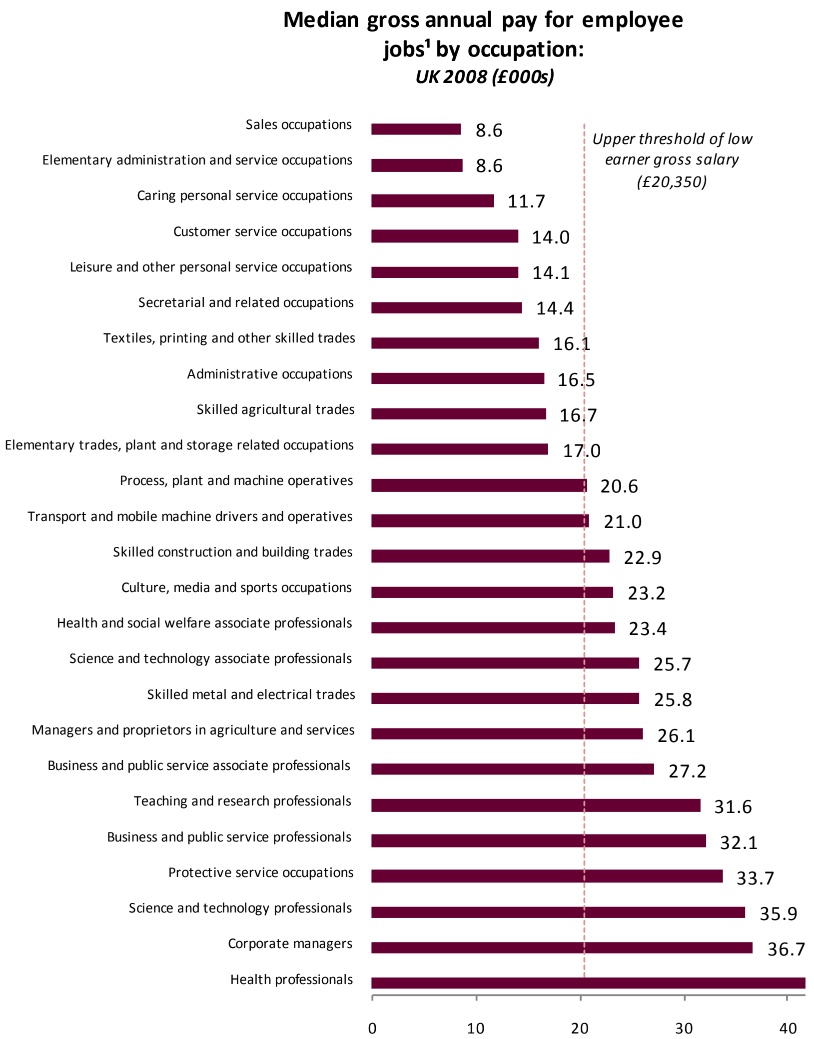


Chart 55: Median gross annual pay for employee jobs by occupation: UK 2008

Note: ¹ Employees on adult rates who have been in the same job for more than a year.

Source: ONS, *2008 Annual Survey of Hours and Earnings*, Table 2.7a

- LAST UPDATED *March 2009 audit*
- There are ten occupation categories with recorded medians below the £20,350 low earner threshold: *sales occupations*; *elementary administration and service occupations*; *caring personal service occupations*; *customer service occupations*; *leisure and other personal service occupations*; *secretarial and related occupations*; *textiles, printing and other skilled trades*; *administrative occupations*; *skilled agricultural trades*; and *elementary trades, plant and storage related occupations*.
- As with Chart 54, while we cannot definitively say that low earners make up the majority of the members of these occupation categories, the relatively low levels of pay are indicative of low earner concentration.

Table 24: Number and proportion of employee jobs attracting below representative low earners threshold salary, year-on-year change in JSA applicants by usual occupation of claimant and JSA claimant flows by usual occupation: *UK 2008 - 2009*

Occupation	Number of employees with salaries below £20,350 *UK 2008 (000s)*	Proportion of employees with salaries below £20,350 *UK 2008*	Year-on-year change in number of JSA applicants *UK Jun 2009*	JSA claimant flows *UK June 2009 (000s)*	
				Off	On
Administrative occupations	1,220 - 1,423	65% - 70%	+87%	31.2	31.1
Caring personal service occupations	1,236 - 1,373	95% - 100%	+71%	10.5	11.1
Elementary administration and service occupations	1,196 - 1,346	85% - 90%	+61%	26.0	26.0
Sales occupations	1,061 - 1,179	95% - 100%	+71%	40.5	41.8
Elementary trades, plant and storage related occupations	453 - 529	65% - 70%	+57%	55.7	50.1
Secretarial and related occupations	421 - 449	78% - 80%	+102%	5.4	4.9
Corporate managers	280 - 560	15% - 20%	+168%	15.3	14.8
Process, plant and machine operatives	319 - 399	45% - 50%	+103%	15.1	13.3
Health and social welfare associate professionals	304 - 405	35% - 40%	+52%	1.9	2.2
Business and public service associate professionals	262 - 314	28% - 30%	+147%	8.2	8.2
Teaching and research professionals	251 - 314	23% - 25%	+60%	2.4	3.0
Transport and mobile machine drivers and operatives	245 - 306	45% - 50%	+110%	21.1	17.7
Leisure and other personal service occupations	237 - 253	78% - 80%	+76%	4.3	4.2
Customer service occupations	230 - 258	85% - 90%	+82%	7.8	7.7
Textiles, printing and other skilled trades	218 - 233	73% - 75%	+76%	4.8	4.5
Skilled metal and electronic trades	176 - 221	23% - 25%	+159%	12.9	12.8
Managers and proprietors in agriculture and services	134 - 179	35% - 40%	+103%	3.3	3.0
Skilled construction and building trades	101 - 135	35% - 40%	+156%	23.1	19.8
Science and technology associate professionals	112 - 135	28% - 30%	+177%	4.6	4.9
Culture, media and sports occupations	93 - 117	45% - 50%	+196%	6.5	7.0
Business and public service professionals	58 - 115	15% - 20%		3.7	3.9
Skilled agricultural trades	74 - 79	78% - 80%	+61%	3.6	3.4
Protective service occupations	35 - 70	15% - 20%	+115%	0.4	0.4
Science and technology professionals	0 - 45	5% - 10%	+177%	5.2	5.8
Health professionals	17 - 33	15% - 20%	+52%	0.2	0.3

Note: [1] Employees on adult rates who have been in the same job for more than a year.

Sources: ONS, *2008 Annual Survey of Hours and Earnings*, Table 2.7a

NOMIS database

- **UPDATED**

Table 25: Areas with lowest median annual gross salary among working residents: *UK 2008*

Rank	Parliamentary constituency	Median annual gross salary (£)	Local authority	Median annual gross salary (£)
1	Redcar	14,173	Berwick-upon-Tweed	14,441
2	South Thanet	14,650	Gwynedd	14,870
3	Montgomeryshire	14,710	Restormel	15,778
4	Wolverhampton South East	14,783	Thanet	15,846
5	North Cornwall	14,872	Middlesbrough UA	15,874
6	Middlesbrough	15,043	South Tyneside	15,930
7	Bradford West	15,323	Moray	16,133
8	Caernarfon	15,469	North Devon	16,142
9	Vale of Clwyd	15,585	Torridge	16,142
10	South Shields	15,615	Powys	16,359
11	Hereford	15,819	Torbay UA	16,430
12	Torbay	15,835	Denbighshire / Sir Ddinbych	16,547
13	Leicester East	15,959	Redcar and Cleveland UA	16,615
14	Manchester, Blackley	15,980	Kerrier	16,666
15	Blackburn	16,009	Blaenau Gwent	16,693
16	Liverpool, Walton	16,070	Hyndburn	16,730
17	North Devon	16,123	Newport	16,795
18	Moray	16,133	Herefordshire, County of UA	16,928
19	St. Ives	16,193	Wyre	16,936
20	Tyne Bridge	16,206	North Norfolk	17,011
21	Carlisle	16,288	South Shropshire	17,040
22	Sheffield, Brightside	16,418	Shrewsbury and Atcham	17,088
23	Newport East	16,444	Cornwall and Isles of Scilly	17,094
24	Glasgow North East	16,492	Scarborough	17,106
25	Rotherham	16,545	Kingston upon Hull UA	17,128

Note: FIgures based on all part-time and full-time adult rates paid to those who have been in the same job for more than a year. Figures exclude self-employed earnings.

Source: ONS, *2008 Annual Survey of Hours and Earnings* , Tables 10.7a

- LAST UPDATED *March 2009 audit*

Chart 56: Skills training provided by employers: UK 2007

Source: Learning & Skills Council, *National Employer Skills Survey 2007*

- LAST UPDATED *March 2009 audit*
- Training is offered more frequently to workers in larger organisations where higher earners dominate
- Training is also more frequently offered to more highly skilled workers, because employers expect to achieve a better return on their investment than they would spending time and money training lower skilled employees

- **UPDATED**
- 56 per cent of low earner households own their own home, compared with 83 per cent of higher earners and 52 per cent of benefit-dependent households
- Just 19 per cent of low earners are in the process of buying a home with a mortgage
- Low earners are more likely than members of other income groups to rent privately

Housing

Table 26: Housing tenure by income group: *UK 2007-08*

	Benefit-dependent	Low earners	Higher earners	All households
Owners	52%	56%	83%	68%
Owned outright	*42%*	*37%*	*27%*	*34%*
Buying with a mortgage	*8%*	*19%*	*55%*	*34%*
Social rented sector tenants	36%	31%	7%	21%
Rented from council	*23%*	*17%*	*3%*	*12%*
Rented from housing association	*13%*	*14%*	*3%*	*9%*
Rented privately	12%	13%	11%	12%
Rented privately, unfurnished	*8%*	*10%*	*7%*	*9%*
Rented privately, furnished	*3%*	*3%*	*3%*	*3%*
All households	100%	100%	100%	100%

Note: Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).

Source: DWP, *Family Resources Survey 2007-08* , Table 3.10

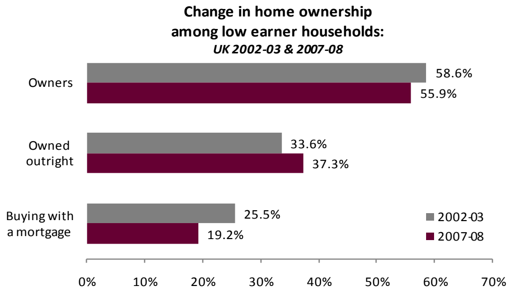


Chart 57: Home ownership rates among low earner households: UK 2002-03 & 2007-08

Note: Gross household income definition. See Appendix 3.

Source: DWP, *Family Resources Survey*¸ 2002-03 & 2007-08, Table 3.1

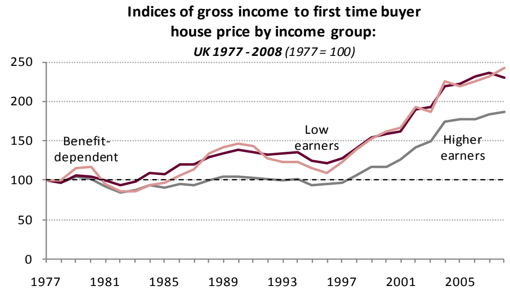


Chart 58: Indices of first time buyer housing affordability by income group: UK 1977-2008

Sources: ONS, *The effects of taxes and benefits on household income, historic data*, Table 14; DCLG, *Live Table 505*

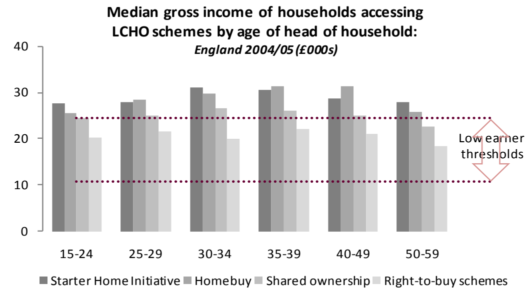


Chart 59: Median gross income of households accessing LCHO schemes: England 2004/05

Source: DCLG, *Who are the Low Cost Home Ownership (LCHO) purchasers and what is the demand for LCHO?* December 2006

- **UPDATED**
- Homeownership rates among low earner households have declined slightly in the period 2002-03 to 2007-08
- While the proportion of low earners who own their home outright has increased, the proportion buying with a mortgage has fallen, reflecting the fact that younger low earners are having difficulty entering the housing market

- **UPDATED**
- Houses have become less affordable for members of all income groups in the period since 1977, but poorer members of society, including low earners, have fared worse that higher earners

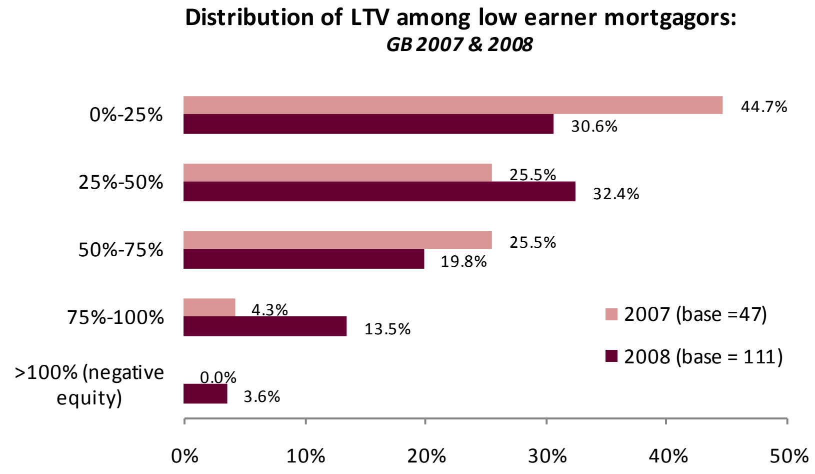
- **UPDATED**
- Properties sold under Government sponsored low cost home ownership schemes have been bought by more higher earners than low earners
- For all ages of LCHO clients, median income has been above the upper threshold of income for low earners

Table 27: Distribution of loan to value among those with mortgages by income group: GB Sep/Oct 2008

	Benefit-dependent	Low earners	Higher earners	All
0%-25%	47.4%	30.6%	29.3%	31.0%
25%-50%	26.3%	32.4%	32.9%	32.3%
50%-75%	13.2%	19.8%	23.6%	21.9%
75%-100%	10.5%	13.5%	11.8%	12.1%
>100% (negative equity)	2.6%	3.6%	2.4%	2.7%

Note: Base = 480.
Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).
Source: Bank of England, *2008 NMG Research Survey* , Sep/Oct 2008

- LAST UPDATED *March 2009 audit*
- In Sep/Oct 2008, low earner mortgagors were more likely to be in negative equity than either benefit-dependent or higher earner mortgagors
- Low earners were also more likely to have a loan to value (LTV) of between 75 per cent and 100 per cent, meaning that further house price falls are likely to have pushed still more into negative equity



- LAST UPDATED *March 2009 audit*
- Levels of negative equity and high LTVs among low earners have increased rapidly in 2008, reflecting the sharp falls experienced in house prices that have affected those homeowners who have stretched themselves

Chart 60: Distribution of loan-to-value rates among low earner mortgagors: GB Sep 2007 & Sep/Oct 2008
Note: 2007 base = 47; 2008 base = 111.
Source: Bank of England, *NMG Research*, various

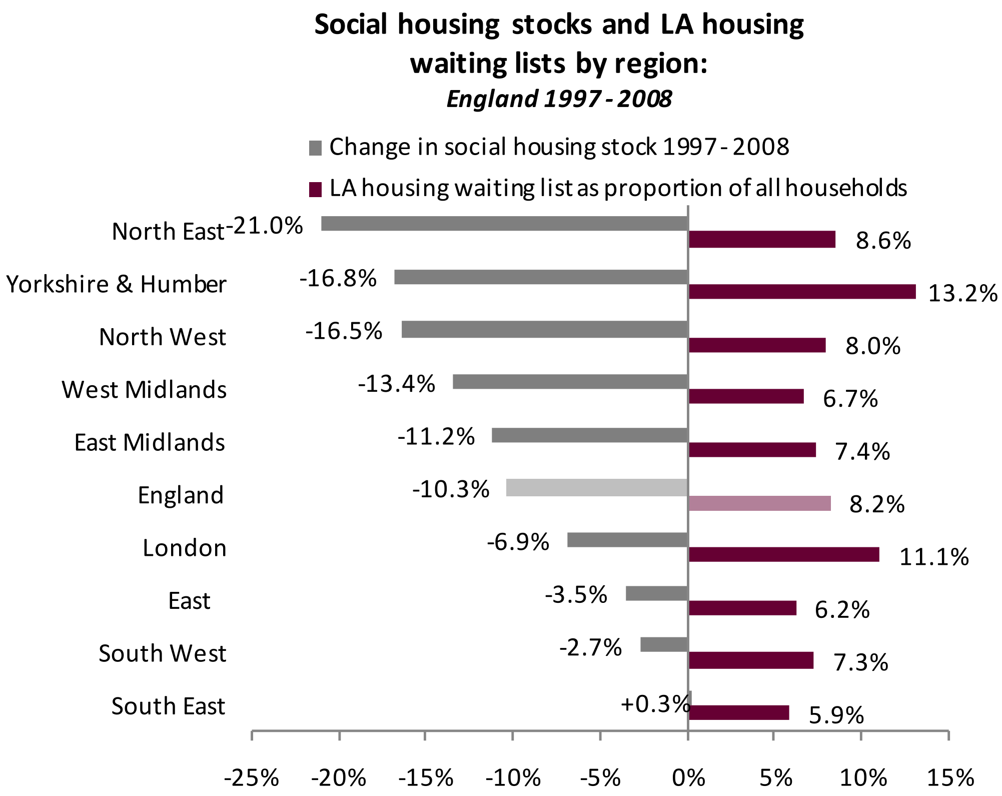
Table 28: Change in monthly mortgage repayments by income group: *GB Sep/Oct 2008*

	Benefit-dependent	Low earners	Higher earners	All
Distribution of change in monthly mortgage repayments among those who have fallen off a fixed rate in past 12 months (base = 88)				
Decreased by more than £100	12.5%	9.1%	5.2%	6.8%
Decreased up to £100	25.0%	4.5%	5.2%	6.8%
More or less the same	37.5%	18.2%	20.7%	21.6%
Increased up to £100	12.5%	50.0%	39.7%	39.8%
Increased by more than £100	12.5%	18.2%	29.3%	25.0%
Distribution of expected change in monthly mortgage repayments at the end of existing fixed rate among those who did not fall off a fixed rate in past 12 monts (base = 190)				
No increase	0.0%	2.4%	3.0%	2.6%
<£50	50.0%	28.6%	44.8%	41.6%
£50-£99	7.1%	21.4%	17.9%	17.9%
>£100	42.9%	47.6%	34.3%	37.9%
Distribution of increases in monthly mortgage repaymentsin past 12 months among those without a fixed rate (base = 259)				
No increase	8.7%	9.4%	4.1%	5.8%
<£50	82.6%	70.3%	77.9%	76.4%
£50-£99	0.0%	3.1%	8.1%	6.2%
>£100	8.7%	17.2%	9.9%	11.6%

Note: Income groups defined on basis of deciles ranked by gross household income (see Appendix 3).

Source: Bank of England, *2008 NMG Research Survey* , Sep/Oct 2008

- LAST UPDATED *March 2009 audit*
- Prior to the Bank of England implementing rapid cuts in the Official Bank Rate, 68 per cent of low earners whose fixed rate mortgage came to an end in the 12 months to Sep/Oct 2008 faced higher costs at renewal and 91 per cent of low earners with variable rate mortgages similarly experienced some increase in repayment costs



- **NEW**
- At the same time as struggling to get on, and stay on, the housing ladder, low earners have faced restricted access to social housing because of the need to target scarce resources on the most vulnerable
- In the period 1997-2008, the social housing stock fell by 10.3 per cent in England, with the North East faring particularly badly
- The overall waiting list for social housing in England in 2008 represented 8.2 per cent of all households

Chart 61: Social rental stock and LA waiting lists: England 1997-2008

Sources: DCLG, *Live Tables 115, 116 & 600*

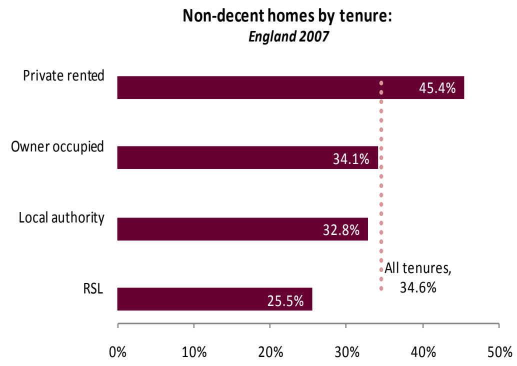


Chart 62: Non-decent homes by tenure: England 2007

Source: DCLG, *English House Condition Survey 2007: Headline Report*, Table 1

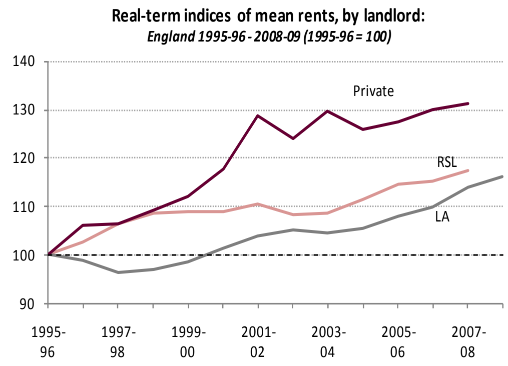


Chart 63: Real term indices of mean rents by landlord: England 1995-96 - 2008-09

Source: DCLG, *Live Tables 701, 703 & 731*

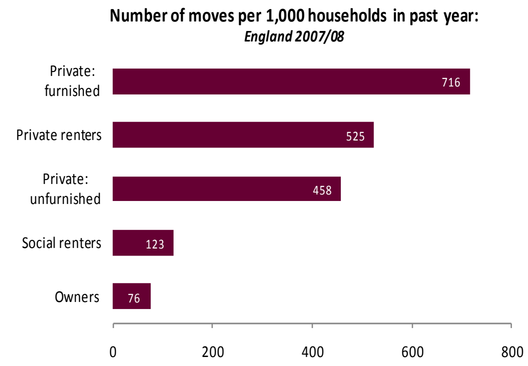


Chart 64: Number of moves per 1,000 households in past year: England 2007/08

Source: DCLG, *Live Tables 812*

- *LAST UPDATED March 2009 audit*
- With restricted access to homeownership and social housing, younger low earners are increasingly facing a limited choice
- Reliance on private rental property exposes them to a sector with a higher proportion of non-decent homes than any other tenure

- **UPDATED**
- Private rental average rents have increased more rapidly than other forms of rents

- *LAST UPDATED March 2009 audit*
- Private renters tend to move more frequently than other tenure types
- In 2007/08, 525 per 1,000 private renter households moved, compared with 123 per 1,000 social renters and 76 per 1,000 owners

Cost of living

Table 29: Weekly household expenditure on fuel by income group: *UK 2007*[1]

	As proportion of total expenditure			As proportion of equivalised disposable household income		
	Benefit-dependent	Low earners	Higher earners	Benefit-dependent	Low earners	Higher earners
Household fuel	6.6%	4.7%	3.1%	6.6%	4.6%	2.8%
Transport fuel	2.7%	3.9%	4.2%	2.7%	3.8%	3.7%
Total	9.3%	8.5%	7.3%	9.2%	8.4%	6.5%

Notes: [1] Based on weighted data and including children's expenditure.
Income groups defined on basis of deciles ranked by equivalised disposable income (see Appendix 3).

Sources: ONS, *Family Spending: A report on the 2007 Expenditure and Food Survey* , 26 November 2008, Table A8
ONS, *The effects of taxes and benefits on household income, 2007/08* , Table 14

- UPDATED
- Low earners spend more of their income on household and transport fuel than members of the higher earner group, making it harder for them to meet increased costs associated with fuel price rises
- They are also less likely than members of benefit-dependent households to qualify as being in fuel poverty and are therefore ineligible for state assistance and social tariffs

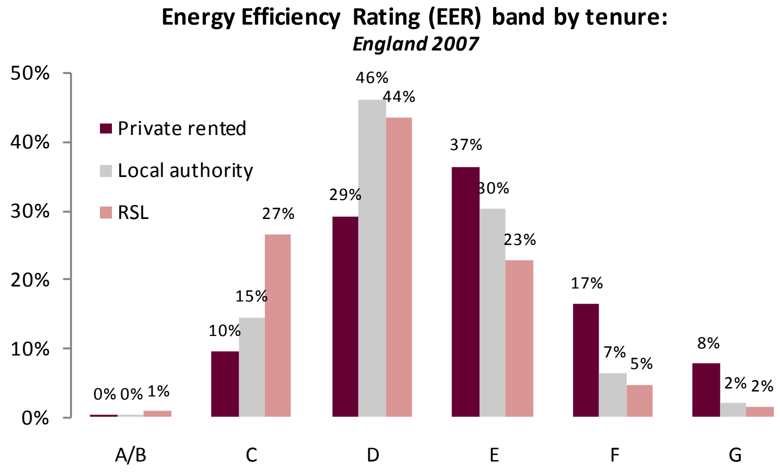


Chart 65: Energy Efficiency Rating band by tenure: England 2007

Source: DCLG, *English House Condition Survey 2007: Headline Report*, Table 9

- LAST UPDATED *March 2009 audit*
- Low earners' concentration in private rental properties means they are more likely than members of the benefit-dependent and higher earner groups to live in energy inefficient properties, thus increasing their potential fuel costs
- Low earners independence from benefits means they are largely unable to obtain grants such as Warmfront for improving the energy efficiency of their homes

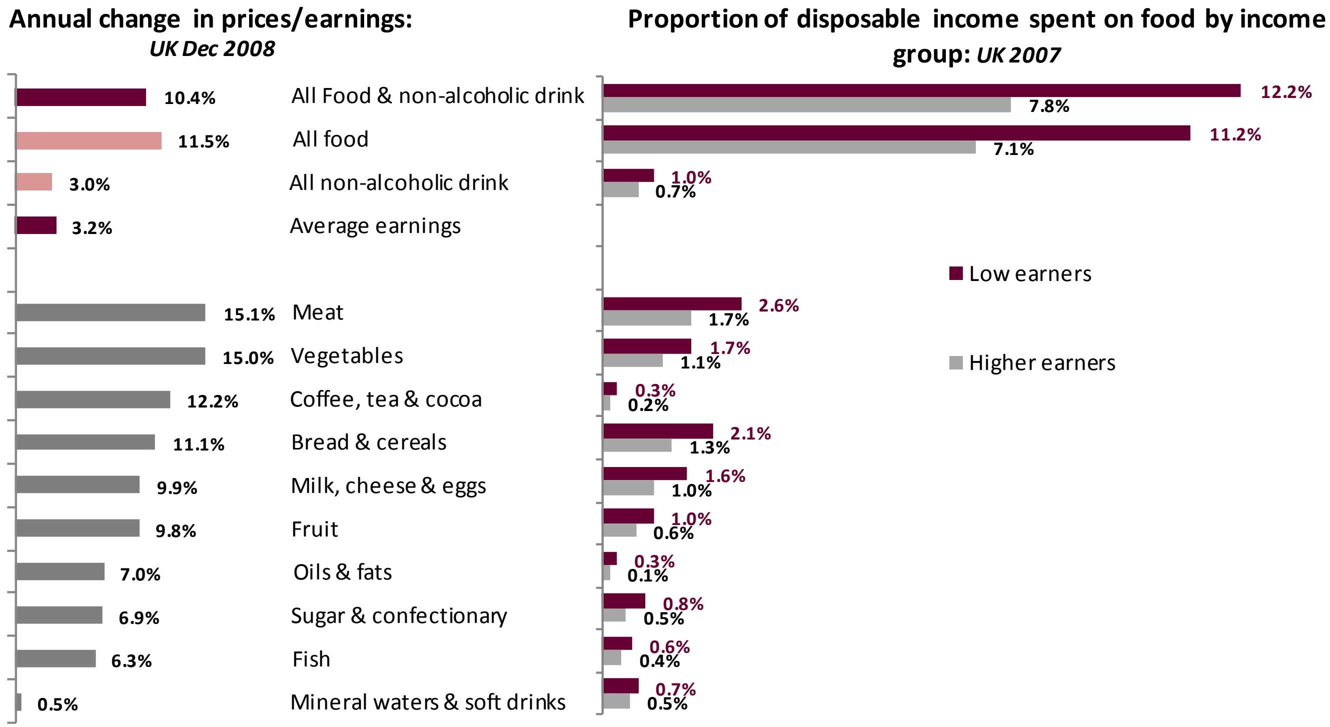


Chart 66: Annual change in prices/earnings and proportion of weekly income spent on food: UK 2007 & 2008

Note: Income groups defined on basis of deciles ranked by gross household income. See Appendix 3.

Sources: ONS Time Series;
ONS, *Family Spending: A report on the 2007 Expenditure and Food Survey*, 26 November 2008, Table A8;
ONS, *The effects of taxes and benefits on household income, 2006/07*, Table 14

- LAST UPDATED *March 2009 audit*
- In the year to December 2008, increases in the prices of nearly all foodstuffs outstripped earnings, with the prices of staple foods such as *meat*, *bread and cereals* and *milk, cheese and eggs* rising at even faster rates
- Low earners spent significantly more of their disposable income on these items in 2007 than higher earners did

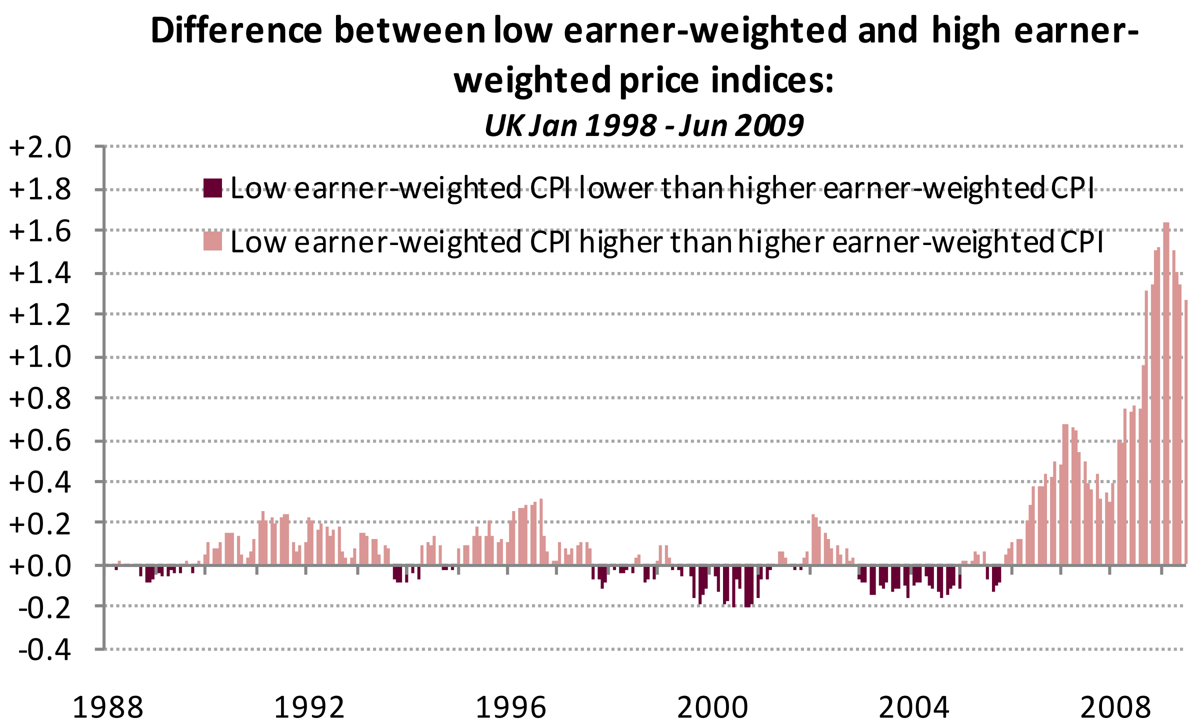


Chart 67: Difference between low earner-weighted and high earner-weighted price indices: UK 1998-2009

Note: Low and higher earner CPI weights based on proportion of total expenditure spent on CPI components in 2001-07. Income groups defined on basis of deciles ranked by gross household income definition. See Appendix 3.

Sources: ONS Time Series;
ONS, *Family Spending: A report on the 2007 Expenditure and Food Survey*, 26 November 2008 (and previous), Table A8

- **UPDATED**
- While the CPI increased during 2008 because of the rising costs of food and fuel, the effects were partially offset by reductions in the costs of many white goods
- Different households experience different levels of personal inflation depending on their spending patterns
- In the period 1988-2006, the differences in inflation experienced by low earners and higher earners were relatively small
- Low earners have subsequently faced significantly higher levels of inflation, particularly from the latter half of 2008

NHS and long-term care charges

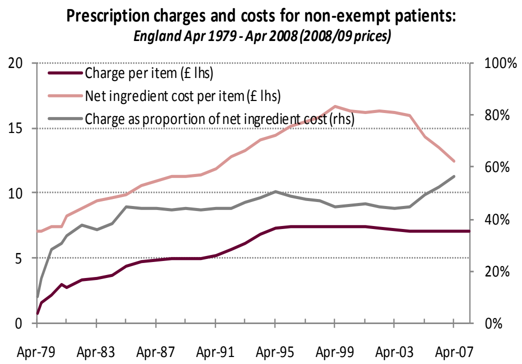


Chart 68: Prescription charges and costs for non-exempt patients: England 1979-2008

Sources: Royal Pharmaceutical Society of Great Britain; NHS Information Centre, *Prescriptions Dispensed in the Community*; DH, *Prescriptions dispensed by pharmacy and appliance contractors England 1979-1989*

- LAST UPDATED *March 2009 audit*
- Many low earners do not qualify for assistance with NHS charges
- While the prescription charge has remained stable in real terms since 1995, it has increased as a proportion of the cost of each item dispensed, meaning that net ingredient cost savings are not being passed onto non-exempt patients

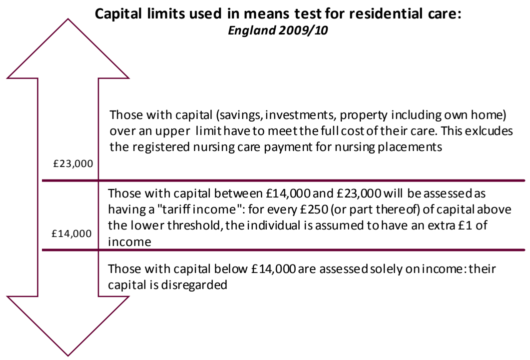


Chart 69: Capital limits used in means test for residential care: England 2009/10

- **UPDATED**
- Older people assessed by their local authority as needing a care home placement are means-tested to determine who pays
- In 2002, 72 per cent of low earners aged over 60 had wealth greater than the higher capital threshold

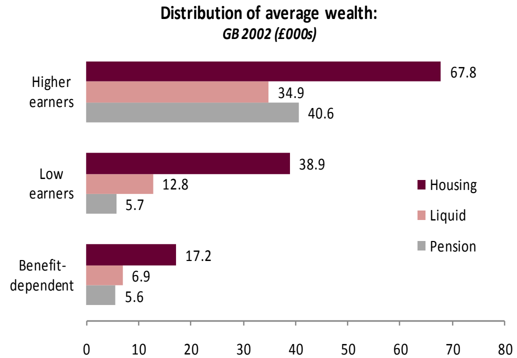


Chart 70: Distribution of average wealth by income group: Great Britain 2002

Note: British Household Panel Survey definition: low earner households and low earner individuals. See Appendix 3.

Source: Resolution Foundation, *Lost: low earners and the elderly care market*, February 2008, p13

- LAST UPDATED *March 2009 audit*
- Low earners hold more of their wealth in the form of property than members of the higher earner and benefit-dependent groups
- In order to fund their long-term care needs, older low earners must therefore find some way of accessing this illiquid store of wealth

Public policy and low earners

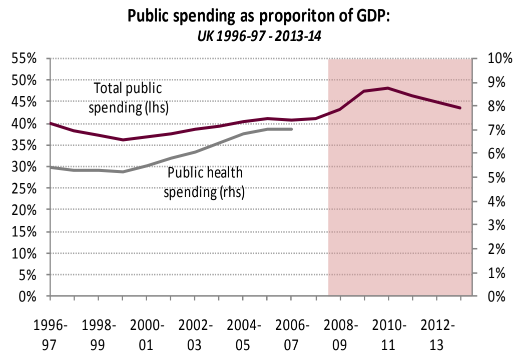


Chart 71: Public spending as a proportion of GDP: UK 1996-97-2013-14

Sources: HMT, *Public Finances Databank*, Table B2; HMT, *PESA 2009*, Table 4.4

- **UPDATED**
- When the Labour Government came to office in 1997, it retained the previous administration's spending plans for its first two years in power
- Public spending declined from 40.8 per cent of the GDP in 1996-97 to 37.1 per cent in 1999-00
- Public spending subsequently grew faster than the economy, peaking at 41. 4 per cent of GDP in 2005-06
- It is projected to rise still further in 2009-10 and 2010-11 in response to the recession, before declining in subsequent years. Such reductions could have significant consequences for low earners
- Health spending has increased over the period more rapidly than overall public expenditure, with particular benefit for lower income households

Table 30: National Minimum Wage rates

	16-17 year olds[1]		18-21 year olds		Aged 22 and over		Average earnings growth (% change on
	£ per hour	% change on year	£ per hour	% change on year	£ per hour	% change on year	
Apr 1999	..	..	£3.00	..	£3.60	..	4.1%
Jun 2000	..	..	£3.20	6.7%	£3.60	0.0%	3.8%
Oct 2000	..	..	£3.20	6.7%	£3.70	2.8%	4.2%
Oct 2001	..	..	£3.50	9.4%	£4.10	10.8%	4.5%
Oct 2002	..	..	£3.60	2.9%	£4.20	2.4%	3.6%
Oct 2003	..	..	£3.80	5.6%	£4.50	7.1%	3.5%
Oct 2004	£3.00	..	£4.10	7.9%	£4.85	7.8%	4.6%
Oct 2005	£3.00	0.0%	£4.25	3.7%	£5.05	4.1%	4.1%
Oct 2006	£3.30	10.0%	£4.45	4.7%	£5.35	5.9%	3.8%
Oct 2007	£3.40	3.0%	£4.60	3.4%	£5.52	3.2%	4.3%
Oct 2008	£3.53	3.8%	£4.77	3.7%	£5.73	3.8%	3.2%

Notes: [1] The 16-17 year old development rate was first introduced in October 2004.
[2] Based on whole economy Average Earnings Index including bonues (GB).

Source: BERR;
ONS Time Series LNMU

- LAST UPDATED *March 2009 audit*

Appendix 3: How are *low earners* defined?

At its broadest, we define the *low earner* group as including all those with below-median income (from all sources) who are not dependent on state support. While median income is relatively straightforward to establish as an upper threshold, defining when people become independent of state support is more difficult, particularly as all income groups are entitled to some welfare payments. For the purposes of analysis, precise definitions depend on the data source being used. In this report, we have used two broad methods for establishing the lower threshold: benefit receipt and income decile.

Benefit-receipt definition

In relation to the Foundation's project on financial advice, which was launched in 2005, we established thresholds for low earners based on the cut-off points for access to financial services industry advice at the upper level and access to services aimed at the poorest and most vulnerable at the lower level.

Working-age adults were considered low earners if they lived in a household with below median household income (£22,548 in 2005) of which no more than 20 per cent was sourced from state benefits.

Working-age adults were also considered to be low earners if they individually had below median individual income (£11,747 in 2005) of which no more than 20 per cent was sourced from state benefits. This definition picked up low earners living in non-low earning households, such as young adults who lived with their parents and people with informal care responsibilities for children or adults.

Older people were counted as low earners if they lived within a household with below median income or had personal income below individual median income and did not receive any means-tested benefits.[21]

Applying these thresholds to the British Household Panel Survey (BHPS) identified a total of 15 million low earners in Great Britain: 12 million of working-age and 3 million retired. Of these 15 million, around one-half were found to have been in the group a decade earlier

Income decile definition

Standard data collections and surveys do not identify low earners as set out above. The study of the BHPS found that around 30 per cent of UK adults were low earners. Therefore, for the purposes of analysis, the low earning group can alternatively be thought of as the 30 per cent (7.6 million) of households in income deciles 3, 4 and 5. This approach allows us to define two other income groups in relation to low earners: households with above-median incomes (income deciles 6-10) are considered *higher earners*, while those in income deciles 1 and 2 are considered *benefit-dependent*.

This definition inevitably excludes some low earners (those in income deciles 1 & 2 who are not benefit-dependent and those living in high earner households who are individual low earners) and

[21] Pension Credit, Income Support, Incapacity Benefit, Housing Benefit, Council Tax Benefit, Job Seekers Allowance, Disabled Persons Credit and Disability Living Allowance.

includes some benefit-dependent individuals. However, while it was relevant to focus on household and individual low earners in relation to financial advice, in other areas, for example homeownership, it is more sensible to focus on the household only.

The income values associated with deciles 3-5 vary depending on the method of income distribution used.

Gross household income

On a gross household income basis, deciles 3-5 in equate to annual income in the range £11,650 - £27,150. These boundaries include around 13.2 million people: 12.4 million adults and 0.8 million children.[22]

Disposable household income

On a disposable household income (gross income less direct tax) basis, deciles 3-5 equate to annual income in the range £11,150 - £22,900. On this measure, there are around 16.0 million people in the low earner group: 12.5 million adults and 3.5 million children.[23]

Equivalised gross household income

In order to compare economic well-being, household income can be weighted to calculate *equivalised* income. That is, household income is adjusted to reflect the cost of living implications of the household composition. For example, for any given level of household income, a household of five adults is likely to achieve a lower standard of living than a single-person household.

The boundaries of equivalised income deciles 3-5 are £13,350 and £25,600. Table A1 sets out a selection of income thresholds equivalent to the low earner group and shows that a single person household can be considered low earning on this measure if their household income is in the range £8,150 - £15,600 while a cohabiting couple with three older children could be considered low earning with a household income in the range £26,000 - £50,000.

The equivalisation process increases the average household size at lower income levels. The 7.6 million low earner households therefore include around 18.0 million people on this basis: 14.5 million adults and 3.5 million children.[24]

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[22] ONS, *Family Spending: A report on the 2007 Expenditure and Food Survey*, 26 November 2008, Table A6
[23] Ibid. Table A9
[24] Ibid. Tables A6 & 3.1

Table A1: Gross household incomes equivalent to decile three to five thresholds for selected household compositions: UK 2007

	Weekly income (£)		Annual income (£)	
	Lower	Higher	Lower	Higher
Single no children	157	300	8,150	15,600
Single with child aged 7	211	403	10,950	21,000
Single with child aged 14	226	433	11,750	22,500
Single with two children aged 3 and 9	262	502	13,650	26,100
Couple with no children	257	492	13,350	25,600
Couple with child aged 1	280	536	14,550	27,900
Couple with child aged 15	344	659	17,900	34,300
Couple with three children aged 11, 13 and 17	501	959	26,050	49,900
Two adults (not couple), no children	275	526	14,300	27,350
Three adults, no children	383	733	19,900	38,100
Four adults, no children	475	910	24,700	47,350
Equivalised income	257	492	13,350	25,600

Note: [1] Equivalised incomes calcualted using McClements Equivalence Scale.

Source: ONS, *Family Spending: A report on the 2007 Expenditure and Food Survey* , 26 November 2008, pp26-27

Equivalised disposable household income

Equivalised disposable household income can be determined in the same way, using disposable income as the base. On this basis, the low earner boundaries are £12,950 and £20,900. Around 7.6 million households fall into this category in the UK, equivalent to around 13.7 million adults.[25]

The detailed household composition analysis in Table 10 is presented in terms of equivalised disposable household income due to the nature of the underlying source.

[25] ONS, E*ffects of taxes and benefits on household income 2007/08*, Tables 14 & 15

Appendix 4: Low earner focus group

OPM ran a focus group with low earners, on our behalf, on the evening of 15 June 2009. The discussion focused on low earners' experiences of and attitudes towards the recession.

Group members were drawn from the Lewisham area and met the criteria contained in a detailed recruitment specification based on equivalised household income thresholds (see Appendix 3 above) and independence from means-tested benefits. All participants were aged between 18 and 70 and were either retired or lived in a working household: students and members of unemployed households were excluded. Twenty-one people attended in total and participants were paid £30 as a thank you for taking part and their travel and any childcare expenses were reimbursed.