

A MINIMUM INCOME STANDARD FOR THE UK IN 2014

This annual update of JRF's Minimum Income Standard (MIS) looks afresh at what members of the public think households need to achieve a socially-acceptable living standard. Despite social and economic change, the budgets are similar in real terms to the original 2008 amounts. However, people's ability to afford them has declined.

Key points

- In 2014, single people need to earn £16,300 a year before tax to afford a minimum acceptable standard of living. Couples with two children need to earn £20,300 each. The difference between the earnings required per worker in these two household types has risen from £450 to £4,000 since 2008.
- Slow earnings growth and price increases have made households worse off relative to the MIS. A minimum basket of goods and services costs 27 to 28 per cent more than in 2008 – much higher than the 19 per cent increase of the official Consumer Prices Index.
- Increased tax allowances have curbed the effect of falling real earnings, but ongoing cuts in tax credits have outweighed this for low-earning families with children. Out-of-work benefits have fallen further below what people need for the MIS.
- Pensioners claiming Pension Credit are still guaranteed incomes close to their minimum requirement. Social change means that pensioners now say they need computers and the internet; overall, their requirements have converged with those of working-age adults.
- Some budget items have changed. Working-age adults without children think a landline telephone is no longer needed, and now regard eating out as an occasional treat. However, other requirements have risen: worsening public transport has necessitated more use of taxis for households without children, or cars for those with children.

The research

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BACKGROUND

How much income do people need to achieve an acceptable minimum living standard in the UK? JRF's Minimum Income Standard (MIS) is based on asking groups of members of the public to discuss and reach a consensus on the items and services households need to reach an acceptable standard of living, covering essential needs and allowing household members to participate in society.

Continuity and change

In 2014, the minimum basket of goods and services needed for an acceptable living standard is generally very similar to that in 2008. Despite the impact of austerity on many households, people's views on minimum needs have remained stable. However, changes include the following:

- Technology needed to participate in society has changed. In 2008, home access to computers and the internet was only considered essential for families with schoolchildren, for educational purposes. In 2014, it is considered essential for all groups, including pensioners for the first time. Also, working-age adults without children decided that a landline telephone is no longer needed.
- Rising transport costs, as bus services have become less adequate. Unlike in 2008, families with children think that a car is essential. While other households do not need a car, they require more taxis because bus services are insufficiently flexible in terms of frequency and timetabling.
- A reduction in the amount allocated for eating out or takeaways by working-age households, who now regard this as an occasional treat. Overall budgets for recreation, including eating out, have fallen in real terms.

The research also detected convergence between the requirements of pensioners and those of other households without children. In 2008, a single pensioner's basket cost about 10 per cent less than that of a single person of working age; in 2014 their baskets cost the same (but pensioners get free bus travel). This reflects pensioners' growing emphasis on social participation and ensuring that their needs are fully met. Today's pensioners seem to be rejecting traditional self-denying attitudes associated with older people.

The content and price of baskets

The cost of a minimum basket of goods and services has typically risen by between a quarter and just over a third between 2008 and 2014 (see Table 1). This rise is mostly because of inflation, which has added 27 to 28 per cent to the cost of most baskets. This is greater than the 19 per cent increase in the official Consumer Prices Index over the same period, because some of the items most prominent in a minimum basket have risen particularly rapidly in price. In particular, food has risen by 26 per cent, domestic energy 45 per cent and bus travel 37 per cent. The food inflation figure may also understate the true picture, as the basket representing a minimum requirement has risen in price faster than a general food basket.

Additionally, changes in baskets' contents have altered their real-terms value in recent years. The value of a single person's basket has reduced slightly, because of economies such as not needing a landline and less frequent eating out (as noted above). The largest real growth in a budget – 10 per cent – has been for lone parents with one child, because in 2012 it was decided that families with children needed a car. For this household type, including a car represents a large additional expense relative to the small size of family.

Table 1 – Summary of changes in minimum income requirements, 2008–2014

	Single working age	Pensioner couple	Couple +2 children	Lone parent +1 child
1. Minimum weekly budget, excluding rent and childcare				
2008	£158.12	£201.49	£370.05	£210.31
2014	£197.86	£262.76	£482.29	£291.03
Increase (CPI=19%)	25%	30%	30%	38%
2. Adequacy of safety-net benefits: percentage comparison with MIS budget*				
2008	42%	105%	63%	68%
2014	39%	95%	57%	57%
Change (percentage points)	-3%	-10%	-6%	-11%
3. Annual earnings needed to meet MIS (per adult in household)				
2008	£13,450	N/A	£13,896	£11,990
2014	£16,284	N/A	£20,287	£27,073
% increase (average earnings increase by 9%)	21%	N/A	46%	126%

* Safety-net plus universal entitlements: Income Support/Jobseeker's Allowance or Pension Credit, plus Child Tax Credit and Child Benefit for families and Winter Fuel Allowance for pensioners. Comparison with MIS excluding rent, childcare and council tax.

Affording MIS, in and out of work

As Table 1 shows, safety-net benefits now provide less than 40 per cent of the minimum income needed by working-age people without children and less than 60 per cent for families with children. However, pensioner households still get 95 per cent of what they need.

Working households must earn substantially more in 2014 than in 2008 to meet the Minimum Income Standard. The amount now needed is influenced by the increasing cost of living, including rising childcare and housing costs, which are factored into the calculation of earnings requirements.

Another crucial factor is the way in which working incomes are taxed on the one hand and topped up by benefits and tax credits on the other. For single people, increases in tax allowances have meant that the earnings needed to meet MIS have risen more slowly than the required household budget – although still much faster than actual earnings. For families with children, however, real-terms cuts in Child Benefit and tax credits have been more important factors. These cuts have typically created losses double the amount of tax allowance gain for working couples, and nearly four times the amount for working lone parents. These losses have pushed up required earnings for families with children by large amounts, as Table 1 shows. Lone parents can find it especially difficult to make up for cuts by increasing their earnings, since each time they earn more they may lose over 90 per cent of the increase by reductions in tax credits and Housing Benefit, and paying more in tax.

Conclusion

The Minimum Income Standard annual updates show how minimum household needs change with society. However, in the past six years the more important determinants of whether low-income households can afford the minimum budget have been the increasing cost of living relative to earnings and benefit cuts for households in and out of work. For working families with children, if these cuts continue, the opportunity to reach an acceptable living standard may not improve, even as wages start rising again in real terms.

About the project

The MIS team at the Centre for Research in Social Policy at Loughborough University carried out the research. In 2014, new research looked afresh at what items pensioners and working-age adults without children need as a minimum. Twelve groups of members of the public discussed in detail what comprises an acceptable minimum living standard in today's society. Corresponding research for families with children, recalculating minimum household budgets from scratch, was last conducted in 2012; five additional discussion groups in 2014 reviewed those budgets.

FOR FURTHER INFORMATION

The full report, **A Minimum Income Standard for the UK in 2014** by Abigail Davis, Donald Hirsch and Matt Padley, is published by the Joseph Rowntree Foundation. It is available as a free PDF at www.jrf.org.uk.

A minimum income calculator is also available, which lets people find out how their income measures up to the MIS. It can be found online at: <http://www.minimumincome.org.uk/>

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