

A MINIMUM INCOME STANDARD FOR THE UK IN 2015

This annual update of JRF's Minimum Income Standard (MIS) is based on what members of the public think people need to achieve a socially acceptable living standard. For the first time since 2008, actual incomes have risen relative to MIS.

Key points

- The cost of the MIS basket of goods and services stayed stable in 2015, as there was no overall inflation.
- In 2015, single people need to earn at least £17,100 a year before tax to achieve MIS. Couples with two children need to earn at least £20,000 each.
- Incomes for households on out-of-work benefits rose slightly relative to MIS in the past year. In 2015, an out-of-work single person achieves 40 per cent of what the public says they need.
- Incomes of those on the National Minimum Wage (NMW) have risen slightly relative to MIS, helped by above-inflation rises in the NMW and an increased personal tax allowance. In 2015, single people on the NMW achieve 70 per cent of what the public says they need.
- Since 2008, the incomes of households on benefits have fallen substantially relative to MIS, particularly families with children. For lone parents with one child, benefits provide nearly 60 per cent of MIS compared with nearly 70 per cent in 2008. Their shortfall has increased by £44 per week (2015 prices).
- Since 2008, net incomes of households earning the NMW have also fallen further below MIS. In 2008, families with children came close to MIS if they worked full-time on the NMW, but are now 15 per cent short. For single people, the shortfall has grown from 15 to 30 per cent, or by £27 per week (2015 prices).
- Prices are projected to start rising again in late 2015; the slight reduction in income shortfalls may prove temporary.

The research

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BACKGROUND

How much do people need to achieve an acceptable standard of living in the United Kingdom? Since 2008, JRF has published annual updates of the Minimum Income Standard (MIS) for the UK, to reflect changes in costs and living standards. The standard is based on what groups of members of the public identify as the items and services that households need to reach a minimum acceptable standard of living, covering essential requirements and allowing household members to participate in society. In 2015, the update was based purely on changes in prices, set in the context of changing taxes, benefits and wages.

Minimum budgets and incomes in 2015

Prices in April, on which annual MIS budgets are based, did not change significantly between 2014 and 2015. Hence the overall MIS budgets are similar for both years. With working-age benefits rising by 1 per cent and pensioner benefits by over 2 per cent, benefit income rose slightly relative to the MIS.

For people on the National Minimum Wage (NMW), earnings rose by 3 per cent and the personal tax allowance by 6 per cent, also causing incomes to rise relative to MIS. However, modest rent increases meant that the earnings required to achieve the MIS for a single person stayed stable at £17,100 a year. Earnings requirements fell for families with children, helped by a small increase in Child Benefit and tax credits. A working couple with two children must each earn £20,000 to reach MIS, down from £20,300. Table 1 summarises MIS budgets and the most recent changes.

Table 1: Summary of MIS requirements, 2014 and 2015

	Single working age	Pensioner couple	Couple + 2 children	Lone parent + 1 child
1. Minimum weekly budget, excluding rent and childcare				
2014	£195.29	£262.76	£482.89	£291.26
2015	£196.16	£264.04	£484.48	£291.14
2. Adequacy of safety-net benefits: % of MIS*				
2014	39.8%	94.7%	57.2%	56.7%
2015	40.0%	96.0%	57.4%	57.2%
3. Annual earnings needed to meet MIS (per full-time wage earner)				
2014	£17,072	N/A	£20,287	£27,073
2015	£17,102	N/A	£20,024	£26,725

* Safety-net benefits – Income Support/Jobseeker’s Allowance or Pension Credit – plus universal entitlements: Child Tax Credit and Child Benefit for families, and Winter Fuel Allowance for pensioners; comparison with MIS excluding rent, childcare and Council Tax.

Changes in disposable incomes

In recent years, household incomes have grown more slowly than prices, causing living standards to drop. How much have the incomes of less well-off households, both in and out of work, eroded relative to the MIS benchmark? A measure of ‘income adequacy’ is a household’s net disposable income as a percentage of the MIS. For working-age households, neither out-of-work benefits nor

NMW earnings topped up by in-work benefits produce an income that meets the standard. Figures 1 and 2 and Tables 2 and 3 illustrate how people on these low incomes have fared relative to MIS since 2008. They show that:

- any small improvement in incomes in 2015 has only partially reversed larger falls since 2008 (Figure 1);
- the adequacy of safety-net benefits (Income Support and Pension Credit) varies greatly by household type, but has fallen for all groups (Figure 1). In particular, families with children received about two-thirds of what they needed in 2008, but now have just over half (57 per cent);
- work does not generally allow people to reach the MIS if they are on the minimum wage, even with in-work benefits such as tax credits (Figure 2). However, in 2008, aided by this support, families with children working full-time on the NMW got close to what they needed; now they fall about 15 per cent short. Single people on the NMW were already about 15 per cent below MIS in 2008; now they have nearly double that shortfall.

Figure 1: Safety-net benefits as % of MIS, 2008–15

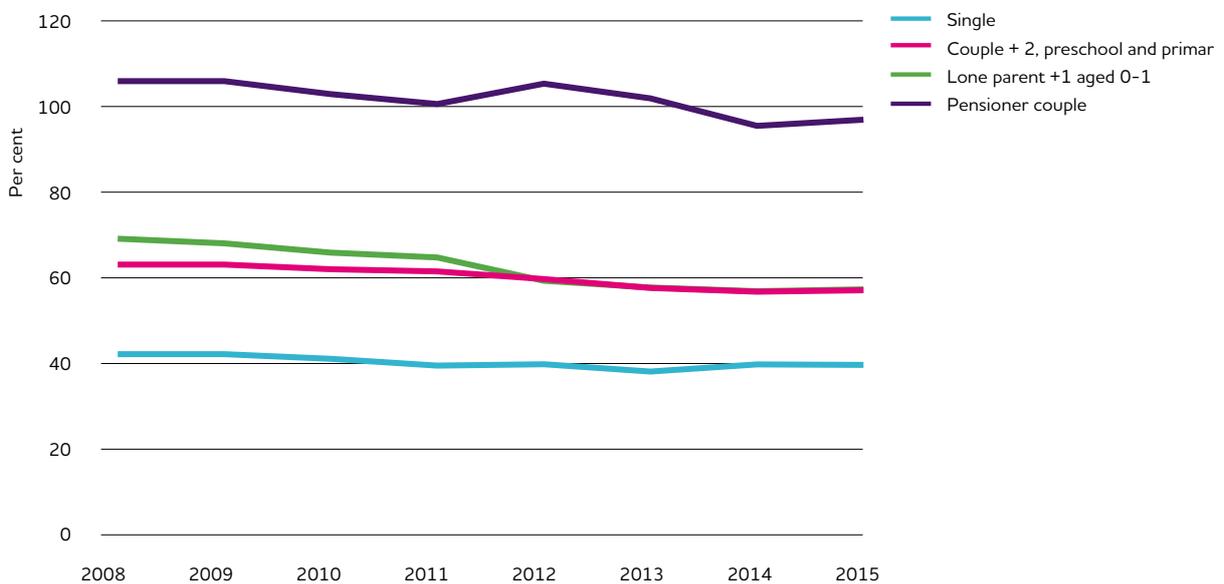
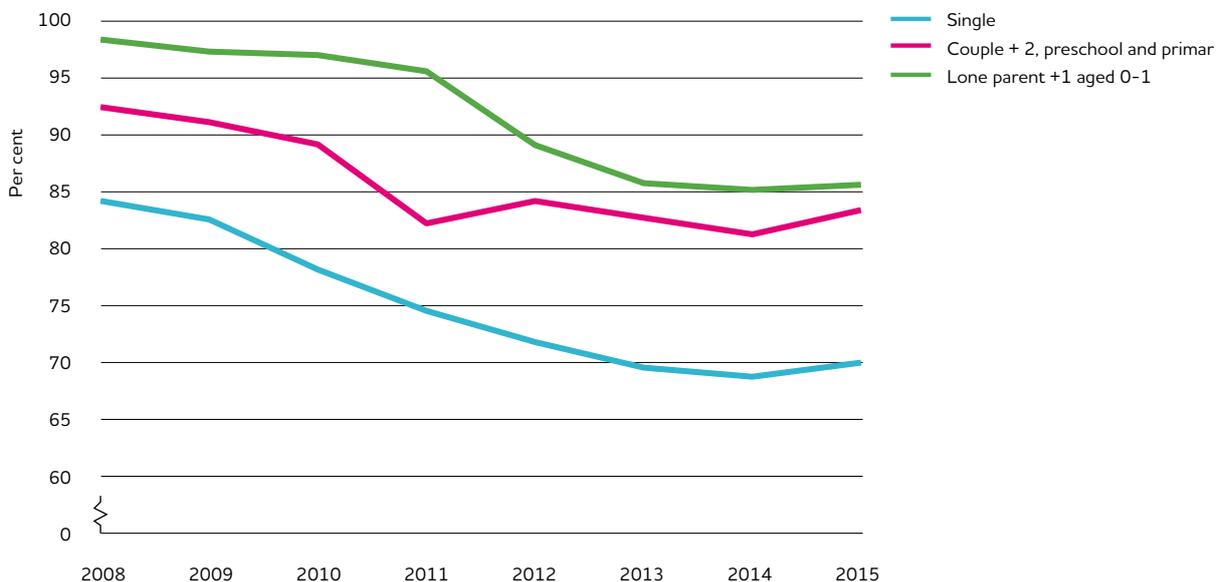


Figure 2: Disposable income on NMW as % of MIS, 2008–2015



Note: Post-tax income net of rent, childcare and council tax as % of MIS budget, where adult/s in household work full time on NMW and claim in-work benefits.

Table 2: Safety-net benefits compared to MIS, 2008 and 2015. Surplus/deficit in 2015 prices (per week)

	2008	2015	Deterioration 2008-2015
Single	-£100.08	-£109.50	£9.42 fall
Couple + 2 children	-£148.18	-£197.17	£48.99 fall
Lone parent + 1 child	-£73.68	-£117.77	£44.08 fall
Pensioner couple	£11.27	-£9.66	£20.93 fall

Table 3: Disposable income on NMW compared to MIS, 2008 and 2015. Surplus/deficit in 2015 prices (per week)

	2008	2015*	Deterioration 2008-2015
Single	-£26.77	-£53.63	£26.87 fall
Couple + 2 children	-£30.76	-£75.38	£44.62 fall
Lone parent + 1 child	-£3.57	-£38.72	£35.15 fall

*Pre-Universal Credit – i.e. for those claiming existing working-age benefits and tax credits

Conclusion

The pause in inflation has helped people on low incomes to become slightly better off relative to their needs in 2015, despite working-age benefits and tax credits rising by only 1 per cent. However, households on low incomes remain much further behind what they need than before the recession. The gap between family incomes and what the public think people need for an acceptable living standard has grown sharply. Moreover, a predicted return of modest inflation combined with a planned freeze in benefits, tax credits and Universal Credit will create a less favourable environment for households reliant on help from the state. A further MIS report, published later in 2015, will project the impact on living standards of policies to 2020, including the effect of the July 2015 Budget.

FOR FURTHER INFORMATION

This summary is part of JRF's research and development programme. The views are those of the authors and not necessarily those of JRF.

The full report, **A Minimum Income Standard for the UK in 2015** by Donald Hirsch, 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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