
Households Below Average Income

**An analysis of the income distribution
1994/95 – 2011/12**

Editorial team

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for Work &
Pensions**

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Chapter 1

Summary and background

Summary

The latest figures cover a period where the UK economy was showing little GDP growth and average earnings fell in real terms. Benefit reforms, including the adoption of CPI for the uprating of many benefits and tax credits (instead of RPI), the triple guarantee for pensions, measures to reduce housing benefit expenditure and the focussing of tax credits on lower income families were introduced in 2011/12.

This summary presents three main measures of low income:

- someone is considered to be in relative low income if they receive less than 60 per cent of the average income¹ in the year in question.
- someone is considered to be in absolute low income if they receive less than 60 per cent of average income¹ in 2010/11 adjusted by inflation.
- income inequality, as measured by the Gini coefficient, ranges from zero (when everybody has identical incomes) to 100 per cent (when all income goes to only one person).

Overall findings

- Average income decreased by 3 per cent in 2011/12 in real terms compared with 2010/11, similar to the decrease in 2010/11. Incomes across the distribution grew by less than RPI inflation². Average income fell as earnings and benefit income grew more slowly than the cost of living as measured by RPI. Prior to 2010/11, average income had risen in most years since 1994/95³.
- The percentage of individuals in relative low income, Before Housing Costs (BHC), was 16 per cent. This is unchanged from 2010/11 and continues the lowest level since the 1980s. Levels remained static because, in the main, real incomes for households near the bottom of the income distribution fell by roughly the same rate as real incomes for households at the average.
- In 2011/12, the percentage of individuals in absolute low income, measured against the 2010/11 baseline⁴, was 17 per cent, BHC, which is 1 percentage point, or 900,000 people, higher than in 2010/11⁵. As incomes across the distribution

¹ In this summary the **average income** is defined as the median equivalised net household income, where the median income divides the population of individuals, when ranked by income, into two equal sized groups. Equivalisation is a process that makes adjustments to incomes, so that the standard of living of households with different compositions can be compared.

² HBAI uses RPI to look at how incomes are changing over time in real terms. As described in the background section, the use of different inflation measures has an effect on historical real terms income figures.

³ This is the first year of data available on a consistent basis.

⁴ The change of baseline from 1998/99 to 2010/11 is explained in the Statistical Notice published on 16th May 2013 and reproduced in **Appendix 3**.

⁵ This increase is statistically significant.

1 Summary

grew by less than RPI inflation in 2011/12, and the absolute low-income threshold was uprated by RPI inflation, the population falling into absolute low income rose.

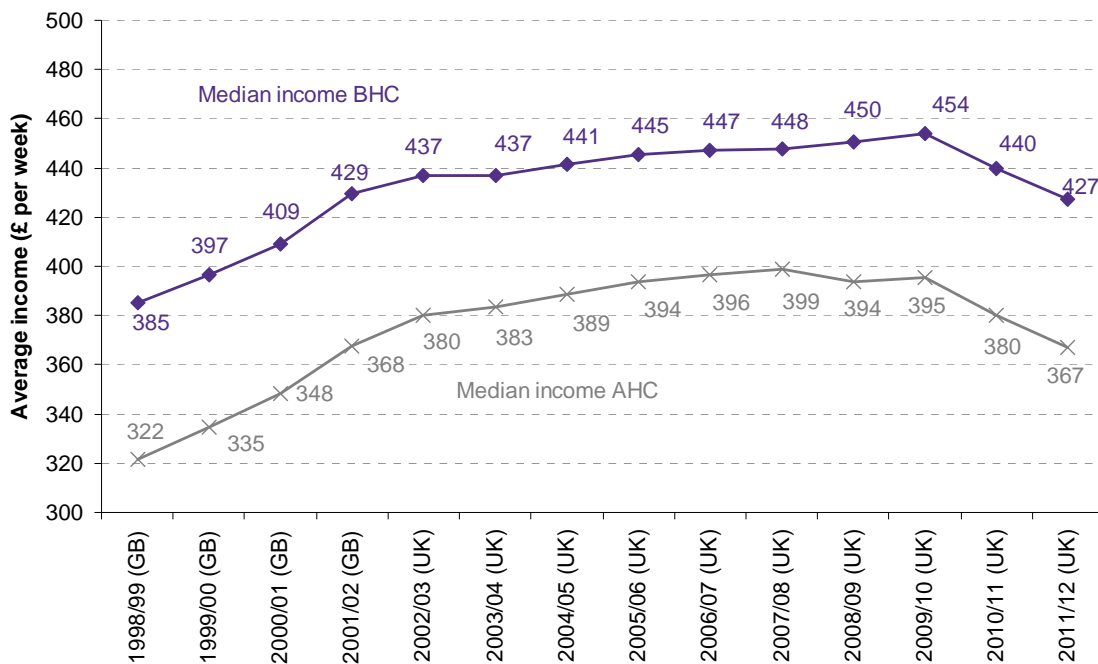
- Income inequality remained reasonably level between 2010/11 and 2011/12, as incomes fell by broadly similar amounts across the entire distribution. Having fallen between 2009/10 and 2010/11, income inequality is now at levels last seen in the middle of the last decade having reached historic highs in recent years.

Average income and the income distribution

HBAI uses variants of RPI to adjust for inflation to look at how incomes are changing over time in real terms. As described in the background section, the use of different inflation measures has an effect on historical real terms income figures.

Average income decreased by 3 per cent in 2011/12 in real terms compared with 2010/11, and incomes across the distribution grew by less than RPI inflation. Average income fell as earnings and benefit income grew more slowly than the cost of living as measured by RPI. Incomes in 2011/12 have fallen to around 2001/02 levels, but are still higher than in 1998/99 in real terms.

Chart 1.1: Average incomes, 1998/99 to 2011/12, United Kingdom (2011/12 prices)



The reduction in real terms earnings may partly be due to a combination of both pay freezes and economic restructuring following the recession⁶.

Various benefit reforms⁷ were introduced in 2011/12. These included the adoption of the CPI, rather than the RPI, for the uprating of many benefits and tax credits, the triple guarantee for basic State Pensions, measures to reduce housing benefit expenditure, and the focussing of tax credits on lower income families. These reforms

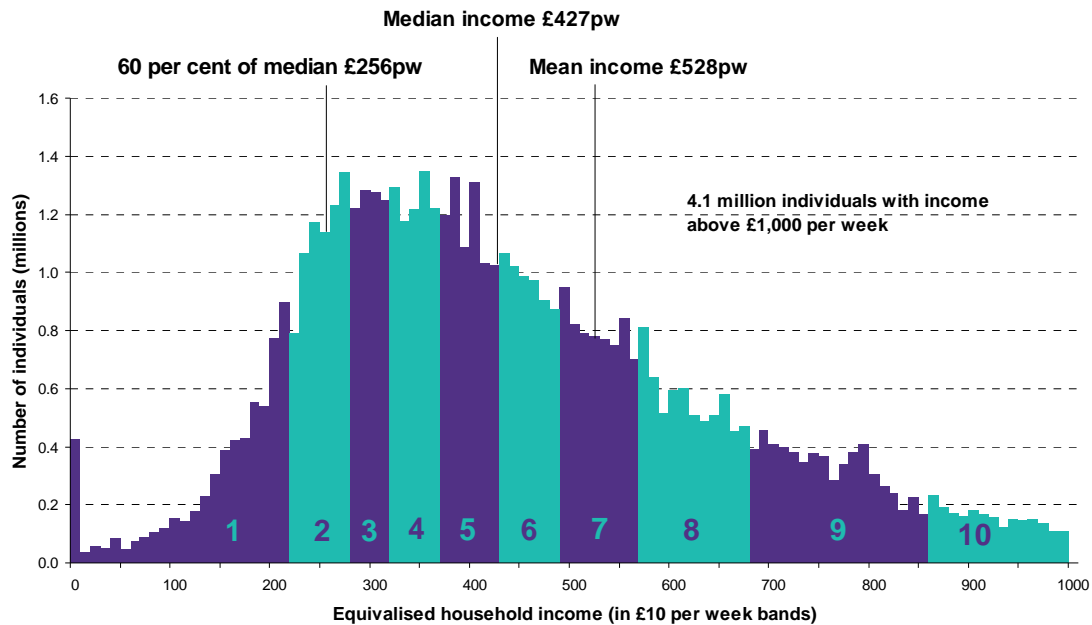
⁶ See ONS publication <http://www.ons.gov.uk/ons/rel/regional-trends/regional-economic-analysis/changes-in-real-earnings-in-the-uk-and-london--2002-to-2012/sum-real-wages-down-by-8-5--since-2009.html>

⁷ See Table A, **Chapter 2** for more details.

had different effects on different benefit recipients but overall resulted in a real terms fall in benefit income.

Average income in 2011/12 was £427 per week, BHC, and £367 per week, AHC. This meant that the most commonly used threshold to determine if someone is in relative low income, 60 per cent of average income, was £256 per week, BHC, and £220 per week, AHC. The income distribution showed a high concentration of individuals close to the relative low-income threshold (Chart 1.2).

Chart 1.2 (BHC): Income distribution for the whole population, 2011/12

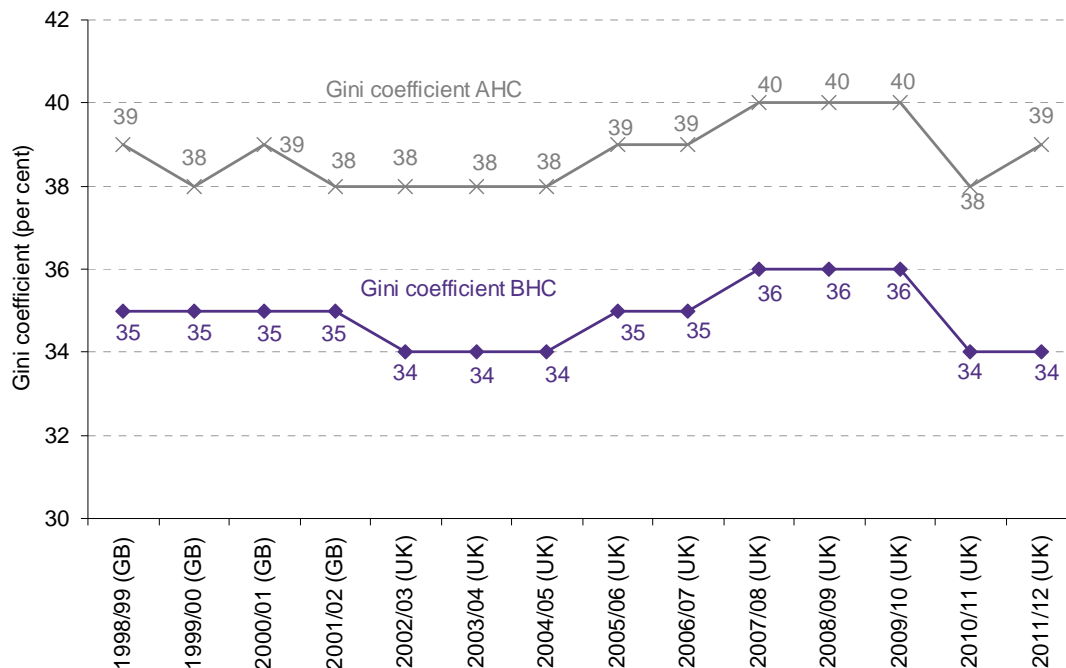


Income inequality

Income inequality is measured by the Gini coefficient (which ranges from zero when everybody has identical incomes to 100 per cent when all income goes to only one person) and remained reasonably level between 2010/11 and 2011/12, because household incomes fell by a broadly similar proportion across the entire distribution. Income inequality is now at levels last seen in the middle of the last decade having reached historic highs in recent years.

1 Summary

Chart 1.3: Income inequality, 1998/99 to 2011/12, United Kingdom



Individuals in low income and material deprivation

This section presents the latest annual estimates of the percentage living in relative and absolute low income, for the whole population, and then separately for children, working-age adults and pensioners, together with statistics on children living in combined low income and material deprivation and pensioners living in material deprivation.

HBAI uses variants of RPI to adjust for inflation to look at how incomes are changing over time in real terms. As described in the background section, the use of different inflation measures has an effect on absolute low income figures.

Average income decreased by 3 per cent in 2011/12 in real terms compared with 2010/11, and incomes across the distribution grew by less than RPI inflation. Average income fell as earnings and benefit income grew more slowly than the cost of living as measured by RPI.

Whole population

Both BHC and AHC measures are used to examine low income for the whole population. In this summary we focus on BHC measures⁸, as AHC measures can underestimate the true living standard of families who choose to spend more on housing to attain a higher standard of accommodation.

The proportion of individuals in relative low income has not changed since last year, after falling in both of the previous three years; however the percentage of individuals in absolute low income rose by 1 percentage point⁹, a similar increase to that seen between 2009/10 and 2010/11, and returns to levels last seen in 2008/09.

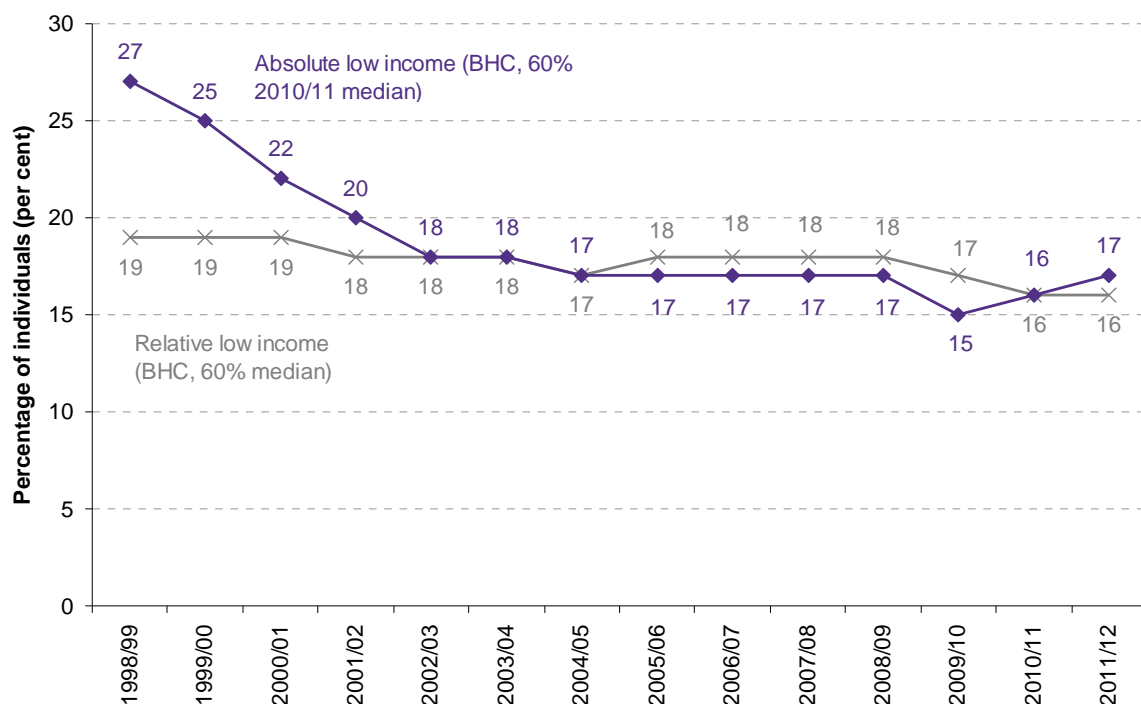
⁸ Both BHC and AHC measures are reported later in this report.

⁹ This increase is statistically significant.

16 per cent of individuals were in relative low income with incomes below £256 per week¹⁰ BHC, the same as 2010/11 and the lowest level since the 1980s, having fallen between 2008/09 and 2010/11. Incomes for households near the bottom of the income distribution fell by roughly the same rate as incomes for households at the average. As a result, levels of relative low income remained static.

In 2011/12, the percentage of individuals in absolute low income measured against the 2010/11 baseline¹¹ was 17 per cent, which is 1 percentage point higher than in 2010/11¹². This follows a period of decreases or stability between 1995/96 and 2009/10, and levels have increased to those last seen between 2004/05 and 2008/09. The recent increase was driven by an increase in the percentage of children and working-age adults in absolute low income, because there was a reduction in real terms income. The absolute low income threshold was uprated by RPI inflation and so the population falling into low income increased.

Chart 1.4: All individuals, main measures, 1998/99 to 2011/12, United Kingdom



The following groups were more likely to be in relative low income BHC in 2011/12 compared to the overall population:

- children and working-age adults in workless families, lone-parent families, those in families with three or more children and people in households with no savings;
- those aged 85 or more, pensioners having no occupational/personal pensions and pensioners living alone;

¹⁰ This is the relative low income threshold.

¹¹ The change of baseline from 1998/99 to 2010/11 is explained in the Statistical Notice published on 16th May 2013 and reproduced in **Appendix 3**.

¹² This increase is statistically significant.

1 Summary

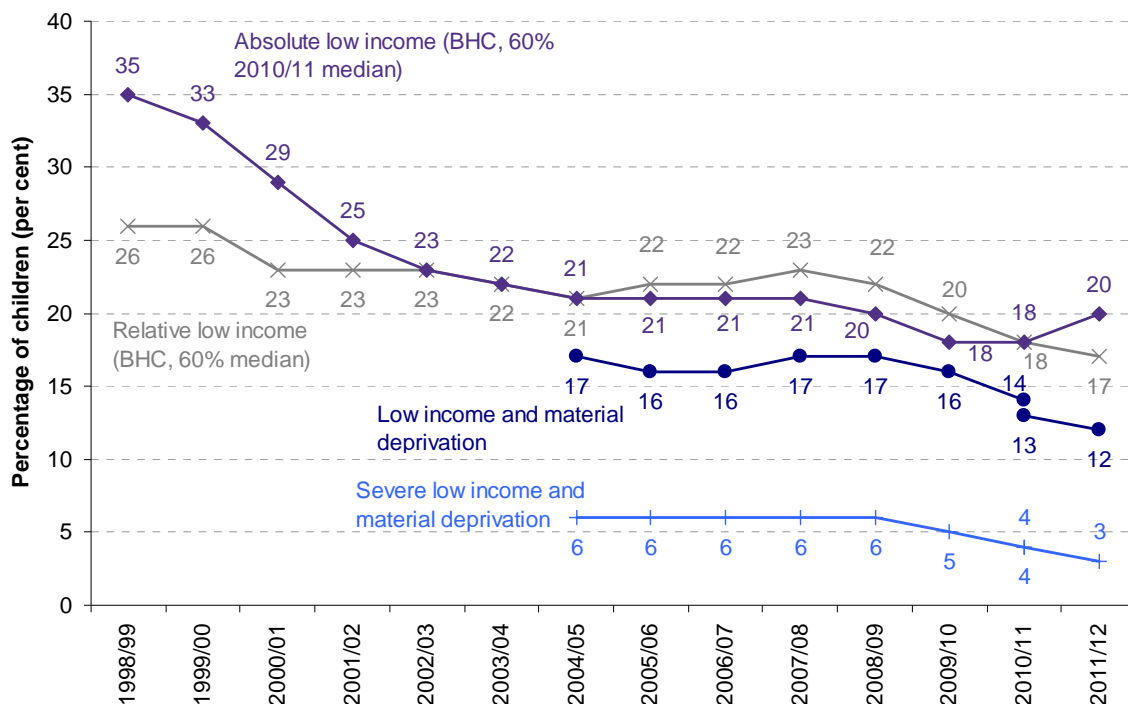
- households headed by a member of certain ethnic minority groups, particularly someone of Pakistani or Bangladeshi ethnic origin;
- individuals in families containing one or more disabled member and social rented sector tenants.

Children

Both BHC and AHC measures are used to examine low income for children. The preferred measure of low income for children is based on incomes measured BHC¹³, as AHC measures can underestimate the true living standard of families who choose to spend more on housing to attain a higher standard of accommodation. The [Child Poverty Act 2010](#) sets out four income related targets that the Government must meet by 2020. These are based on the measures of relative low income, absolute low income, low income and material deprivation¹⁴ and persistent poverty¹⁵.

Whilst the proportion in absolute low income rose in 2011/12¹⁶, the proportion of children in combined low income and material deprivation, and severe poverty continued to fall¹⁷, whilst the proportion in relative low income remained flat¹⁸.

Chart 1.5: Children, main measures, 1998/99 to 2011/12, United Kingdom



Note: Because new material deprivation items were introduced in 2010/11, low income and material deprivation and severe poverty figures prior to 2010/11 are not comparable to 2011/12.

¹³ Both BHC and AHC measures are reported later in this report.

¹⁴ Below 70 per cent of equivalised median household income, BHC and material deprivation.

¹⁵ Below 60 per cent of median household income for at least three of the last four years.

¹⁶ This increase is statistically significant.

¹⁷ These reductions are not statistically significant.

¹⁸ Table 4.1tr in the HBAI statistical report shows a change from 18 to 17 per cent between 2010/11 and 2011/12, but unrounded figures show relative low income to be flat. Rounding figures at the final point of calculation of a statistic produces the best estimate. This change is not statistically significant

Between 2010/11 and 2011/12, the percentage of children in relative low income was 17 per cent, and was at its lowest level since the mid 1980s. The stability in 2011/12 was driven primarily by incomes for families with children at the lower end of the income distribution falling at the same rate as incomes around the median.

The percentage of children in absolute low income BHC increased by 2 percentage points, or 300,000 children, between 2010/11 and 2011/12¹⁹. This was the first percentage point increase since the early 1990s, BHC. The recent increase was driven by a reduction in real terms income. The absolute low income threshold was uprated by RPI inflation and so the population falling into low income increased.

New material deprivation items were introduced in 2010/11. The proportion of children living in low income (below 70 per cent of equivalised median household income, BHC) and material deprivation and severe poverty (below 50 per cent of median household income and in material deprivation) for 2011/12 has fallen to 12 per cent and 3 per cent respectively in 2011/12, representing a 1 percentage point fall for both measures compared to 2010/11²⁰. As the proportion of households with children falling below the 70 per cent and 50 per cent low-income thresholds remained the same in 2011/12 compared to 2010/11, this fall was primarily driven by a decrease in the proportion of families experiencing material deprivation. As only two years' worth of data exists using the new items it is not possible to compare the trends prior to 2010/11 for either measure²¹.

Working-age adults

Both BHC and AHC measures are used to examine low income for working-age population. In this summary we focus on BHC measures²², as AHC measures can underestimate the true living standard of families who choose to spend more on housing to attain a higher standard of accommodation.

Between 2010/11 and 2011/12 the percentage of working-age adults in relative low income BHC remained constant, but an increase in the population led to a further 100,000 working-age adults in relative low income. This stability was driven by incomes for households near the bottom of the income distribution falling by roughly the same rate as incomes for households in the middle. The real terms decline in average income was driven by both earnings and benefit income growing by less than inflation.

The percentage of working-age adults in absolute low income increased by 1 percentage point BHC²³. This constituted an increase of 600,000 working-age adults BHC in absolute low income. The recent increase was driven by a reduction in real terms earnings and in real terms benefit income. The absolute low income threshold was uprated by RPI inflation and so the population falling into low income increased.

¹⁹ This increase is statistically significant.

²⁰ These reductions are not statistically significant.

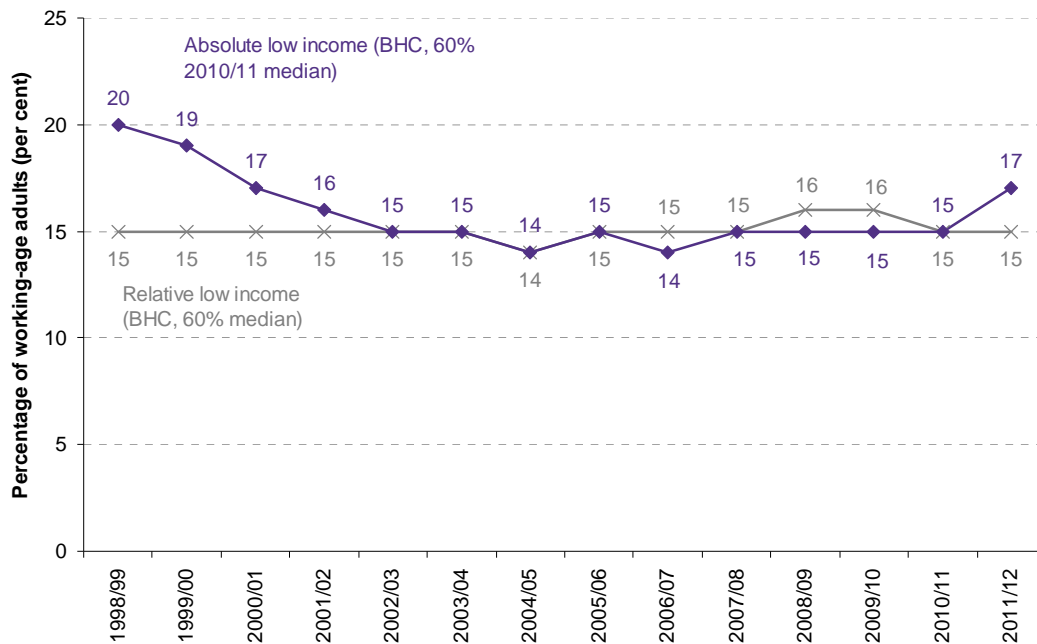
²¹ The break in the series is explained in the Statistical Notice published on 16th May 2013 and reproduced in **Appendix 3**.

²² Both BHC and AHC measures are reported in the rest of the report.

²³ This increase is statistically significant.

1 Summary

Chart 1.6: Working-age adults, main measures, 1998/99 to 2011/12, United Kingdom



Pensioners

Both BHC and AHC measures are used to examine low income for the working-age population. The preferred measure of low income for pensioners is based on incomes measured AHC²⁴, as around three quarters of pensioners own their own home. Considering pensioners' incomes compared to others after deducting housing costs allows for more meaningful comparisons of income between working-age people and pensioners, and for pensioners over time. Pensioners are defined as all those adults above State Pension age. Prior to 6th April 2010, women reached the State Pension age at 60. From 6th April 2010, the qualifying age for women has been gradually increasing. For example, pensionable age at 30 June 2011 was 65 for men and approximately 60 years and 238 days for women.

There was a decrease in the percentage of pensioners in relative low income between 2010/11 and 2011/12²⁵, with the percentage close to a historic low, and pensioners less likely to be in relative low income than the population as a whole, AHC. The reduction of 100,000 pensioners was driven primarily by incomes for pensioners at the lower end of the income distribution falling less than incomes around the middle. Households containing pensioners in the lowest quintiles generally received a larger proportion of their income from benefits and a smaller proportion from other sources. The introduction of the triple guarantee in 2011/12 meant that the key pensioner benefit – the basic State Pension – was uprated by 4.6 per cent in April 2011 (the higher of earnings, prices or 2.5 per cent). In addition the Pension Credit (Guarantee Credit) was increased by 3.6 per cent to ensure the lowest income pensioners received the full increase of the basic State Pension. These increases were larger than

²⁴ Both BHC and AHC measures are reported in the rest of this report.

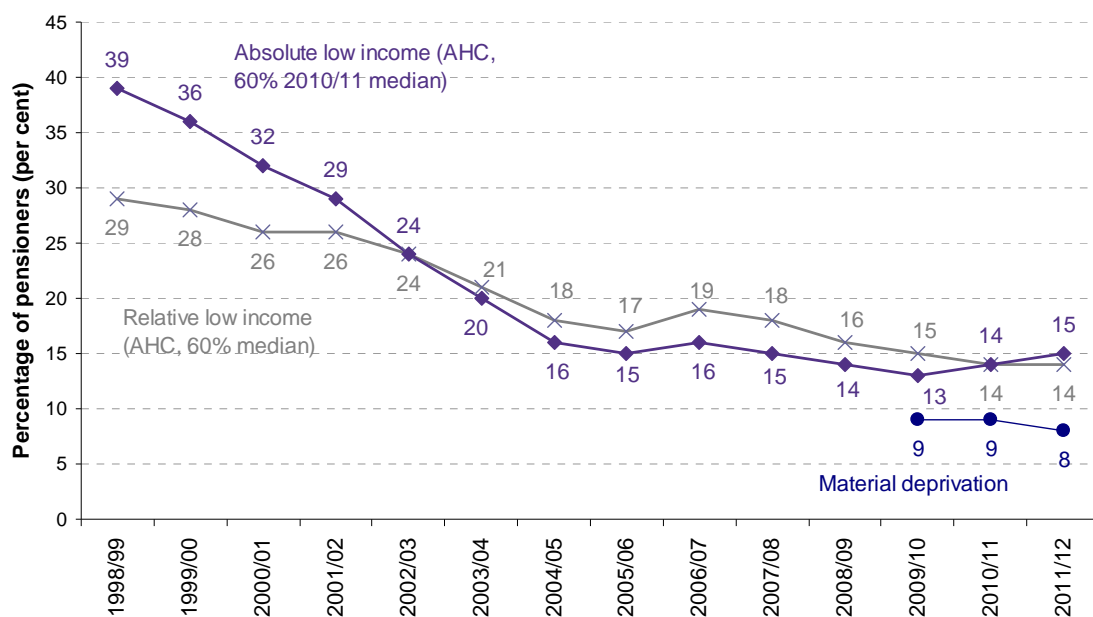
²⁵ Figure 7 shows that the percentage in relative low income AHC was 14 per cent in 2010/11 and 2011/12, but unrounded figures show a reduction of 1 percentage point. This reduction is not statistically significant.

for many other state benefits, which meant that pensioners in the lowest quintiles saw their income fall less in real terms than other households.

There was a 1 percentage point increase²⁶ in the proportion of pensioners in absolute low income AHC, as low-income households containing pensioners saw their income fall in real terms. This is because, despite the higher increases in benefits, incomes for low-income pensioners in 2011/12 rose by less than RPI inflation. The absolute low income threshold was updated by RPI inflation and so the population falling into low income increased by 100,000.

There has been a small decrease in the proportion of pensioners aged 65 or over in material deprivation, down from 9 per cent in 2010/11 to 8 per cent in 2011/12²⁷.

Chart 1.7: Pensioners, main measures, 1998/99 to 2011/12, United Kingdom



Disability

Both BHC and AHC measures are used to examine relative low income for disabled people. In this summary we focus on BHC measures²⁸, in line with most of the other figures in this release.

Between 2010/11 and 2011/12, there has been a decrease in the percentage of individuals living in relative low income in families where at least one member is disabled by 1 percentage point to 19 per cent BHC²⁹, whilst the percentage of individuals living in relative low income in families where no member is disabled has remained constant.

²⁶ This increase is statistically significant.

²⁷ This reduction is not statistically significant.

²⁸ Both BHC and AHC measures are reported in the rest of this report.

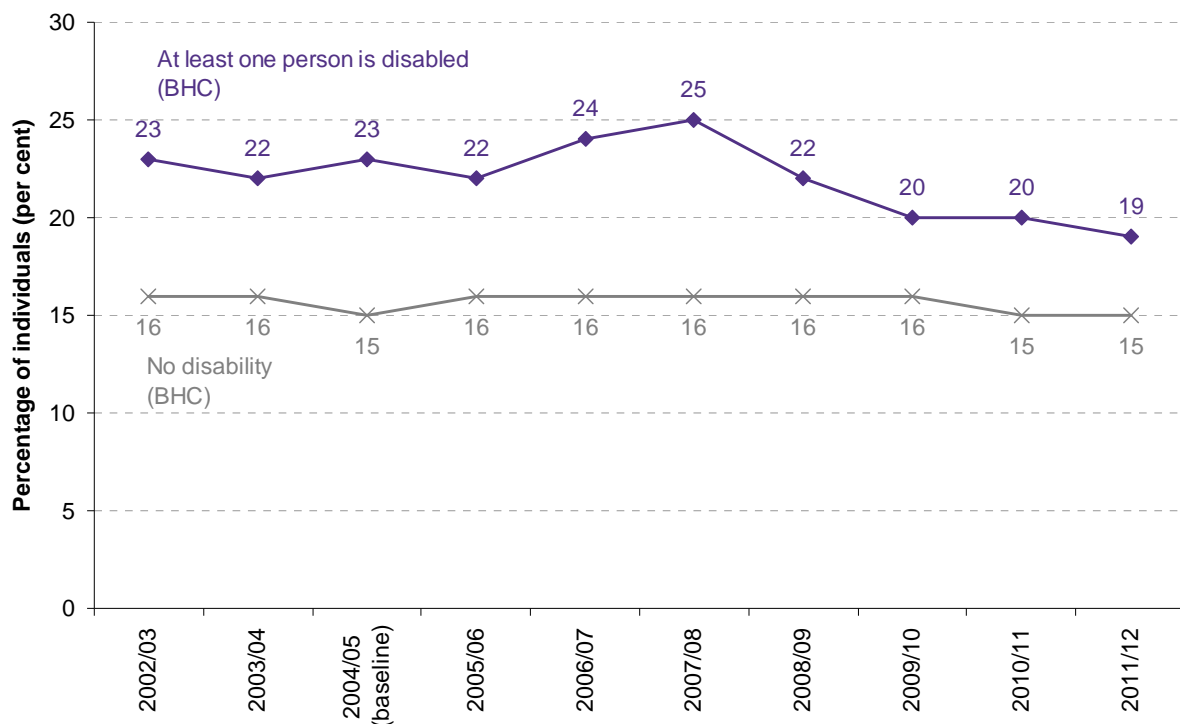
²⁹ This reduction is not statistically significant.

1 Summary

Over the longer term, since the Office for Disability Issues (ODI) baseline of 2004/05³⁰, BHC, there has been a decrease in the percentage of individuals living in relative low income in families where at least one member is disabled of 4 percentage points to 19 per cent³¹. The percentage of individuals living in relative low income in families where no-one is disabled BHC has remained level.

A higher proportion of individuals living in families with at least one disabled member live in relative low income BHC, compared to individuals living in families with no disabled members. This is particularly the case for individuals living in families containing one or more disabled member and not receiving disability benefits.

Chart 1.8: Individuals by family disability status 2002/03 to 2011/12, United Kingdom



No adjustment is made to disposable household income to take into account any additional costs that may be incurred due to a disability. This means that the position in the income distribution of these groups may be somewhat upwardly biased.

³⁰ The ODI has an indicator which looks at the percentage of individuals living in families containing one or more disabled member in low income with a baseline of 2004/05. <http://odi.dwp.gov.uk/disability-statistics-and-research/disability-equality-indicators.php>

³¹ This reduction is statistically significant.

Background

This report presents information on living standards in the United Kingdom as determined by net disposable income in 2011/12, and changes in income patterns over time.

What does HBAI measure?

Households Below Average Income (HBAI) uses net disposable weekly household income, after adjusting for the household size and composition, as an assessment for material living standards - the level of consumption of goods and services that people could attain given the net income of the household in which they live. In order to allow comparisons of the living standards of different types of households, income is adjusted to take into account variations in the size and composition of the households in a process known as equivalisation. HBAI assumes that all individuals in the household benefit equally from the combined income of the household. The unit of analysis is the individual, so the populations and percentages in the tables are numbers and percentages of individuals – both adults and children.

Income Before Housing Costs (BHC) takes income from all household members including dependants and includes the following main components:

- usual net earnings from employment;
- profit or loss from self-employment (losses are treated as a negative income);
- all Social Security benefits and tax credits¹;
- income from occupational and private pensions;
- investment income;
- maintenance payments, if a person receives them directly;
- income from educational grants and scholarships (including, for students, top-up loans and parental contributions);
- the cash value of certain forms of income in kind (free school meals, Healthy Start vouchers and free school milk and free TV licence for those aged 75 and over).

Income is net of the following items:

- income tax payments;
- National Insurance contributions;
- domestic rates / council tax;
- contributions to occupational pension schemes;
- all maintenance and child support payments, which are deducted from the income of the person making the payment;
- parental contributions to students living away from home;
- student loan repayments.

Income After Housing Costs (AHC) is derived by deducting a measure of **housing costs** from the above income measure.

¹ For the full list, please see the glossary in **Appendix 1**.

Changes to the 2011/12 publication

The following changes have been made to the analyses within the publication this year. These were detailed in the Statistical Notice released on 16th May 2013.

- **Change of reference year for absolute low income:** As advised in the 2010/11 HBAI publication, and in order to measure absolute low income in line with the Child Poverty Act 2010 and to keep the absolute measure more in line with contemporary living standards, absolute low incomes are measured against the median in 2010/11 adjusted for inflation, instead of against the 1998/99 median income as in previous publications.
- **Child material deprivation:** As advised in the 2010/11 HBAI publication, four new questions about additional material deprivation items for children were introduced into the 2010/11 Family Resources Survey (FRS) and from 2011/12 four questions from the original suite were removed. We present the breakdown tables for 2011/12 including the new questions. The time series table presents figures from the original suite of questions up to and including 2010/11, and the new suite of questions from 2010/11 onwards. Therefore 2010/11 data is presented on both bases as figures from the old and new suite of questions are not comparable. Due to the break in the series it is not possible to calculate results for ethnicity or regional breakdowns for this publication as these require three consecutive years of data; this will be available for the 2012/13 HBAI publication.
- **State Pension Age:** Pensioners are defined as all those adults above State Pension age. Prior to 6th April 2010, women reached the State Pension age at 60. From 6th April 2010, the basic State Pension qualifying age for women has been gradually increasing. The changes do not affect the State Pension age for men, currently 65. Therefore, as with the 2010/11 publication, the age groups covered by the analysis of working-age adults and pensioners have changed for this publication.
- **Pensioner material deprivation:** For this publication we have 3 years of data on pensioner material deprivation, and therefore present ethnicity and regional breakdowns for the first time.
- **Ethnicity breakdowns:** The ethnicity figures in this publication reflect the new harmonised standards published in August 2011 and updated in February 2013. This has resulted in some changes, the most significant being to the following categories²:
 - Chinese has moved from the 'Chinese or other ethnic group' section to the 'Asian/ Asian British' section;
 - Arab is now specifically included in the 'Other ethnic group' section; and
 - the treatment for 'Gypsy' and 'Gypsy or Irish traveller' is different for respondents in Northern Ireland compared to Great Britain.

² These changes are described in more detail in **Appendix 2**.

Uses of HBAI

The main source of data used in this publication is the UK Department for Work and Pensions (DWP) Family Resources Survey (FRS). Prior to 2002/03 the survey covered Great Britain; from 2002/03 the survey was extended to cover the UK.

HBAI is a key source for data and information about household income. Users include: policy and analytical teams within the DWP, the Devolved Administrations and other government departments, local authorities, parliament, academics, journalists, and the voluntary sector.

Researchers and analysts outside government use the statistics and data³ to examine topics such as income inequality, poverty, the distributional impacts of fiscal policies and understanding the income profile of vulnerable groups. Examples of published reports using HBAI data include:

- "[Living standards, poverty and inequality in the UK](#)": Cribb, Joyce and Phillips, Institute for Fiscal Studies, 2012;
- "[Working families receiving benefits](#)": Kenway, New Policy Institute, 2013;
- "[Squeezed Britain 2013](#)": Resolution Foundation, 2013;
- "[Monitoring poverty and social exclusion 2012](#)": Aldridge, Kenway, MacInnes and Parekh, Joseph Rowntree Foundation and New Policy Institute, 2012;
- "[Ending child poverty by 2020. Progress made and lessons learnt](#)": Child Poverty Action Group, 2012; and
- "[Later Life in the United Kingdom](#)": Age UK, 2013.

Within government the statistics and data are used to:

- to inform policy development and monitoring, and for international comparisons;
- to inform the [Child Poverty Strategy](#); and the four income-related targets set in the [Child Poverty Act 2010](#)⁴;
- to inform the [Social Justice Strategy](#) and the [Social Mobility Strategy](#);
- to inform the DWP indicators to measure progress on [disability equality](#) for the [Independent Living Strategy](#), the [Roadmap](#) to achieving disability equality by 2025 and the [UN Convention on the Rights of Persons with Disabilities](#);
- to inform the DWP indicator to measure progress on the aim that all [pensioners](#) have a decent and secure income in retirement;
- for use in the DWP's Policy Simulation Model (PSM)⁵ and HM Treasury's Inter-Governmental Tax Benefit Model (IGOTM)⁶; and

³ The UK Data Service web-site provides information on access to HBAI data <http://discover.ukdataservice.ac.uk/catalogue/?sn=5828&type=Data%20catalogue>

⁴ The HBAI report presents data for the four income-related targets set in the Child Poverty Act 2010. The Child Poverty Act sets out targets for relative low income, combined low income and material deprivation, absolute low income and persistent poverty (this target will be set at a later date). The other indicators covered in the HBAI report are: severe poverty, in-work poverty and poverty by family structure.

1 Background

- for use in the [DWP's annual equality information report](#) on its compliance with the Equality Duty under the Equality Act 2010.

The Scottish Government uses the HBAI data to:

- to support users to understand the issues and inequalities of concern in Scotland;
- to help to inform policy action, and to measure and evaluate the impact of changes or interventions;
- evidence the Scottish Government's National Performance Framework, specifically for the [Scottish Government's Solidarity Purpose Target](#);
- to inform two of the [Scottish Government's Scotland Performs National Indicators](#);
- to monitor progress of the [Scottish Government Child Poverty Strategy](#)⁷; and
- to inform the [Scottish Government's Equality Evidence Strategy](#).

The Welsh Government uses the HBAI data to:

- to support users to understand issues relating to poverty in Wales, and to help inform policy in this area;
- measure progress on the [Welsh Government's Programme for Government Poverty indicators](#);
- monitor progress of the [Welsh Government's Tackling Poverty Action Plan 2012-2016](#).

The Department of Social Development in Northern Ireland uses the HBAI data to:

- to monitor progress of the [Northern Ireland Child Poverty Strategy](#); and
- to measure progress on the [Northern Ireland Executive Programme for Government 2011-2015 targets](#).

Using HBAI data and statistics

The HBAI statistics incorporate widely-used, international standard measures of low income and inequality. There are a range of measures of low income, income inequality and material deprivation to capture different aspects of changes to living standards. The series started in 1994/95 and so allows for comparisons over time, as well as between different groups of the population. The statistics are based on the FRS, whose focus is capturing information on incomes, and as such captures more detail on different income sources compared to other household surveys. The FRS captures a lot of contextual information on the household and individual circumstances, such as employment, education level and disability. This is therefore a very comprehensive data source allowing for a lot of different analysis.

⁵ PSM is used extensively by analysts in DWP and the Department for Social Development, Northern Ireland, for policy evaluation and costing of policy options.

⁶ IGOTM is used to model possible tax and benefit changes before policy changes are decided and announced.

⁷ The Scottish Government Child Poverty Strategy focuses on policy matters that are devolved to the Scottish Parliament and Scottish Ministers.

The FRS is a household survey and so subject to the nuances of using a survey. **Chapter 1** of the **FRS 2011/12** publication and **Appendix 2** of this publication summarise key points to note when using FRS data including sampling error, non-response error, survey coverage, survey design and sample size.

From April 2011, the target achieved GB sample size for the FRS was reduced by 5,000 households, resulting in an overall achieved sample size for the UK of around 20,000 households for 2011/12. We previously published an [assessment](#) concluding that this still allows core outputs (such as measures of poverty and take-up of income related benefits) from the FRS to be produced, though with slightly wider confidence intervals or ranges.

The following issues need to be born in mind when using the HBAI:

- **Lowest incomes.** Comparisons of household income and expenditure suggest that those households reporting the lowest incomes may not have the lowest living standards. The bottom 10 per cent of the income distribution should not, therefore, be interpreted as having the bottom 10 per cent of living standards. For HBAI tables, this will have a relatively greater effect on results where incomes are compared against low thresholds of median income. For this reason, compositional and percentage tables using the 50 per cent of median thresholds have been italicised to highlight the greater uncertainty. We have also presented money value quintile medians in Table 2.3ts on three-year averages to reflect this uncertainty.
- **Adjustment for inflation.** There are a range of indices which seek to measure inflation, but there are differences in their coverage, calculation and population base⁸. As with previous years, the HBAI statistics use variants of the Retail Prices Index (RPI) to look at how incomes are changing over time in real terms. DWP is aware that in January 2013 the National Statistician announced, following a review and consultation, that the formula used to produce the RPI did not meet international standards and recommended that a new index be published (RPIJ) using the Jevons⁹ formula. The National Statistician also noted that there was significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations. In accordance with the Statistics and Registration Service Act 2007, the RPI and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics. A full report can be found on the [UK Statistics Authority website](#). In response to this announcement regarding the limitations of RPI, DWP plans to engage with users of the HBAI data and publications during Summer 2013, to explore whether the adoption of an alternative index would be appropriate, taking into account user needs, data availability and methodological issues¹⁰.

⁸ The ONS web-site provides further information on consumer price indices.

<http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/index.html>

⁹ This is a geometric formula, whereas the RPI uses the Carli which is an arithmetic formula. These formulae are used at the elementary aggregate level (i.e. the first stage of calculation where no weighting data are available). At higher levels of aggregation weighted averages are used.

¹⁰ See Statistical Notice at http://research.dwp.gov.uk/asd/hbai/statistical_notice_13_06_2013.pdf

1 Background

- The differences have resulted in different annual growth rates in the indices. To illustrate the effect of differences in calculation, in 2010/11 and 2011/12 the annual growth in the RPI was 0.7 percentage points higher than the RPIJ. In earlier years the difference was slightly lower, at 0.3 to 0.4 percentage points. The differences between indices will therefore have an effect on the statistics on real terms income trends and the percentage of people in absolute low income. Using other inflation indices instead of RPI would increase real term income prior to 2011/12 (with the differences increasing over time), moderately increase the proportion of people in absolute low income prior to 2010/11 and moderately decrease the proportion of people in absolute low income in 2011/12. Between 2010/11 and 2011/12 income grew less than all inflation measures, but the gap was largest using RPI.
- The CPI factor used for the uprating of many benefits and tax credits in 2011/12 (based on the change between September 2009 and September 2010) was 1.2 percentage points lower than actual CPI inflation in 2011/12, 1 percentage point less than actual RPIJ inflation and 1.7 percentage points less than actual RPI inflation. Therefore, as the uprating of many benefits in 2011/12 was lower than actual CPI, RPIJ and RPI inflation in 2011/12, this would have meant a reduction in real terms income for these benefits and tax credits irrespective of which inflation measure was used. For those benefits uprated by RPI, the factor was 0.2 and 1.3 percentage points lower than actual RPI and AHC RPI inflation in 2011/12. As mentioned above, the HBAI statistics use variants of RPI to look at how incomes are changing over time in real terms.
- **Benefit receipt.** Relative to administrative records, the FRS is known to under-report benefit receipt. However, the FRS is considered to be the best source for looking at benefit and tax credit receipt by characteristics not captured on administrative sources, and for looking at total benefit receipt on a benefit unit or household basis. It is often inappropriate to look at benefit receipt on an individual basis because means-tested benefits are paid on behalf of the benefit unit. DWP recently published research ([Working Paper 115](#)) which explores the reasons for benefit under-reporting with the aim of improving the benefits questions included within the FRS. Table M.6 of the 2011/12 FRS publication presents a comparison of receipt of state support between FRS and administrative data.
- **Self-employed.** All analyses in this publication include the self-employed. A proportion of this group are believed to report incomes that do not reflect their living standards and there are also recognised difficulties in obtaining timely and accurate income information from this group. This may lead to an understatement of total income for some groups for whom this is a major income component, such as pensioners, although this is likely to be more important for those at the top of the income distribution. There are few differences in the overall picture of proportions in low-income households when analysis is performed either including or excluding the self-employed.
- **Gender analysis.** The HBAI assumes that both partners in a couple benefit equally from the household's income, and will therefore appear at the same

position in the income distribution. Research¹¹ has suggested that, particularly in low income households, the assumption with regard to income sharing is not always valid as men sometimes benefit at the expense of women from shared household income. This means that it is possible that HBAI results broken down by gender could understate differences between the two groups.

- **Students.** Information for students should be treated with some caution because they are often dependent on irregular flows of income. They also receive a large proportion of their income from loans, which, with the exception of student loans, are not counted as income in HBAI. The figures are also not necessarily representative of all students because HBAI only covers private households and this excludes halls of residence.
- **Elderly.** The effect of the exclusion of the elderly who live in residential homes is likely to be small overall except for results specific to those aged 80 and above.
- **Ethnicity analysis.** Smaller ethnic minority groups exhibit year-on-year variation which limits comparisons over time. For this reason, analysis by ethnicity is presented as three-year averages.
- **Disability analysis.** No adjustment is made to disposable household income to take into account any additional costs that may be incurred due to the illness or disability in question. This means that the position in the income distribution of these groups, as shown here, may be somewhat upwardly biased. Analysis excluding Disability Living Allowance and Attendance Allowance from the calculation of income has been published on the [ODI web-site](#).
- **Regional analysis.** Disaggregation by geographical regions¹² is presented as three-year averages. This presentation has been used as single-year regional estimates are considered too volatile. This issue was discussed in **Appendix 5** of the **2004/05 HBAI publication**, where regional time series using three-year averages were presented. Although the FRS sample is large enough to allow some analysis to be performed at a regional level, it should be noted that no adjustment has been made for regional cost of living differences, as the necessary data are not available. In the analysis here it is therefore assumed that there is no difference in the cost of living between regions, although the AHC measure will partly take into account differences in housing costs.

Interpreting low-income measures

Relative low income sets the threshold as a proportion of the average income, and moves each year as average income moves. It is used to measure the number and proportion of individuals who have incomes a certain proportion below the average.

The percentage of individuals in relative low income will **increase** if:

- the average income stays the same, or rises, and individuals with the lowest incomes see their income fall, or rise less, than average income; or
- the average income falls and individuals with the lowest incomes see their income fall more than the average income.

¹¹ See, for instance, Goode, J., Callender, C. and Lister, R. (1998) *Purse or Wallet? Gender Inequalities and the Distribution of Income in Families on Benefits*. JRF/Policy Studies Institute.

¹² Regional information is at [NUTS1](#) level.

1 Background

The percentage of individuals in relative low income will **decrease** if:

- the average income stays the same, or rises, and individuals with the lowest incomes see their income rise more than average income; or
- the average income falls and individuals with the lowest incomes see their income rise, or fall less, than average income, or see no change in their income.

Absolute low income sets the low income line in a given year, then adjusts it each year with inflation as measured by variants of the RPI. This measures the proportion of individuals who are below a certain standard of living in the UK (as measured by income).

- The percentage of individuals in absolute low income will **increase** if individuals with the lowest incomes see their income fall or rise less than inflation.
- The percentage of individuals in absolute low income will **decrease** if individuals with the lowest incomes see their incomes rise more than inflation.

Income inequality, measured by the Gini Coefficient, shows how incomes are distributed across all individuals, and provides an indicator of how high and low-income individuals compare to one another. It ranges from zero (when everybody has identical incomes) to 100 per cent (when all income goes to only one person).

BHC measures allow an assessment of the relative standard of living of those individuals who were actually benefiting from a better quality of housing by paying more for better accommodation, and income growth over time incorporates improvements in living standards where higher costs reflected improvements in the quality of housing.

AHC measures allow an assessment of living standards of individuals whose housing costs are high relative to the quality of their accommodation, and income growth over time may also overstate improvements in living standards for low-income groups, as a rise in Housing Benefit to offset higher rents (for a given quality of accommodation) would be counted as an income rise.

Other publications focussing on income and low-income statistics

The HBAI first release and report are released alongside a number of other publications focused on income and low-income statistics:

Poverty and income inequality in Scotland

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Social-Welfare/incomepoverty>

An analysis of the income distribution in Northern Ireland

http://www.dsdni.gov.uk/index/stats_and_research/stats-publications/stats-family-resource/households.htm

EU comparisons

A brief description of how levels of low income in the UK compare with other EU countries is available at:

<http://ons.gov.uk/ons/taxonomy/index.html?nscl=Living+Conditions>

Details of the differences between the EU and HBAI methodology are given in **Appendix 2**.

The effects of taxes and benefits on household income. The article provides estimates of income, taxes and benefits (in cash and in kind) in decile groups ranked by equivalised disposable income.

<http://ons.gov.uk/ons/taxonomy/index.html?nscl=Effects+of+Taxes+and+Benefits+on+Households>

Pensioners' Incomes series. This gives more a more detailed analysis of pensioners' incomes. http://research.dwp.gov.uk/asd/index.php?page=pensioners_income

Family Resources Survey

<http://research.dwp.gov.uk/asd/frs/>

Low-Income Dynamics

<http://research.dwp.gov.uk/asd/index.php?page=lid>

Survey of Personal Incomes

<http://www.hmrc.gov.uk/statistics/personal-incomes.htm>

Estimates of income and low-income levels for small areas

HBAI data cannot be broken down below the level of region ([NUTS1](#)), due to sample size and coverage issues. However there are some data sources that present information at smaller geographies:

The revised local child poverty measure

The revised local child poverty measure published by HM Revenue and Customs gives the proportion of children living in families in receipt of out of work (means-tested) benefits or in receipt of tax credits where their reported income is less than 60 per cent of median income. The means-tested out-of-work benefits are Income Support, income based Jobseekers Allowance, Employment and Support Allowance and Pension Credit. The median income used is based on the HBAI publication, but as income on tax credit records is at benefit unit not household level, a series of manipulations have to be made to calculate this. The 2010 data, which is the most recent published, is available for England, Wales, Scotland and Northern Ireland at the following geographic levels: region ([NUTS1](#)), county, local authority, ward, parliamentary constituency and Lower Layer Super Output Area (LSOA)/Data Zone/SOA. Statistics for 2006-2008 only include local child poverty figures for England. Data is available here:

<http://www.hmrc.gov.uk/statistics/child-poverty-stats.htm>.

The local child poverty proxy measure

The local child poverty proxy measure estimates the proportion of children living in families in receipt of out-of-work benefits. The out-of-work benefits are Income Support, Jobseekers Allowance, Incapacity Benefit/Severe Disablement Allowance, Pension Credit and Employment Support Allowance. The proportion of children in poverty is calculated using the out-of-work benefits data and ONS mid-year population estimates. Data is published to Local Authority level. Data is available from 2011 and can be accessed via the following link:

http://research.dwp.gov.uk/asd/asd1/ben_hholds/index.php?page=child_ben_hholds

1 Background

Neighbourhood Statistics model-based poverty levels for England and Wales

The Neighbourhood Statistics website has model-based estimates of average income and proportions of households in low income at Middle Layer Super Output Area (MSOA) level for 2007/08. This is available at:

See <http://neighbourhood.statistics.gov.uk/dissemination/Download1.do>.

English Indices of Deprivation

The English Indices of Deprivation, produced by the Department for Communities and Local Government is a measure of relative levels of deprivation in small areas of England called Lower Layer Super Output Areas and is available at:

<http://www.communities.gov.uk/publications/corporate/statistics/indices2010>.

Guide to the tables

tr suffix

headline trends over time.

db suffix

detailed breakdown results for the most recent year.

ts suffix

time series.

db: quintile distribution

the percentage of the population with a particular characteristic in each income quintile, with the value of the income quintiles determined by the household income of all individuals in the whole population, so that the quintiles are equal sized groups of all individuals in the whole population .

db: composition

the composition of people in relative low income.

db: percentage of people in low-income groups

the percentage of people with a particular characteristic who are in relative low income.

The publication follows the following conventions.

.. not available due to small sample sizes (less than 100)

- the estimate is less than 50,000 or the percentage is less than 0.5 per cent

Population estimates are rounded to the nearest 100,000.

Percentages are rounded to the nearest 1 per cent.

Assessment of compliance with the Code of Practice for Official Statistics

In December 2011, the UK Statistics Authority (UKSA) published [assessment report 161](#) on whether it was appropriate for HBAI to be designated as a National Statistic.

Subject to specific requirements, it was agreed that this was the case. To meet these requirements, in the 2010/11 publication we introduced commentary to the start of **Chapters 2 to 6** to aid user interpretation of the statistics in the report. We also published an [analysis](#) looking at the balance between users' needs for accuracy and timeliness. Finally, a comparison on how the methods used for measuring income differ from other European measures of income was included in **Appendix 2**.

In November 2012, the UKSA reviewed progress on these requirements following the 2010/11 publication and [confirmed](#) the designation of the outputs as National Statistics on the understanding that DWP:

- includes information about strengths and weaknesses in relation to uses in future releases; and
- continues to improve commentary in HBAI, taking into account users' views.

The DWP has addressed these comments for this publication and plans to engage with users about the future format and structure of the HBAI publication.

Acknowledgements

As in previous years, the DWP would like to thank the Institute for Fiscal Studies (IFS) for the substantial assistance that they have provided in checking and verifying the income data and grossing factors underlying the main results in this edition.

We are also grateful to HM Revenue and Customs (HMRC) for the provision of aggregated data from the Survey of Personal Incomes.

The British Household Panel Survey data was made available through the UK Data Archive at the University of Essex. Responsibility for the accuracy and interpretation of the results lies solely with the DWP.

Future developments

DWP statisticians plan to engage with HBAI users over the coming year on the following issues:

- **Adjustment for inflation.** As mentioned above, HBAI uses variants of the Retail Price Index (RPI) to adjust for inflation. DWP is aware that in January 2013 the National Statistician announced, following a review and consultation, that the formula used to produce the RPI did not meet international standards and recommended that a new index be published (RPIJ) using the Jevons¹³ formula. The RPI and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics. In response to this announcement regarding the limitations of RPI, we plan to engage with users to explore whether the adoption of an alternative index would be appropriate, taking into account user needs, data availability and methodological issues.

¹³ This is a geometric formula, whereas the RPI uses the Carli with is an arithmetic formula. These formulae are used at the elementary aggregate level (i.e. the first stage of calculation where no weighting data are available). At higher levels of aggregation weighted averages are used.

1 Background

- **Publication format and structure.** As mentioned above, we plan to engage with users about the future format and structure of the HBAI publication.
- **Weighting methodology for the material deprivation measures.** Comments have been made about the methodology used to calculate the prevalence weights for material deprivation items¹⁴. We currently recalculate the prevalence weights each year based on the question responses from that year. The maximum possible material deprivation score for each year is then rescaled to 100 for ease of interpretation, and children in a family with a score of at least 25, or pensioners with a score of 20 or more, are classed as being materially deprived. If over time more families can afford a certain item, then a family lacking such a good will see an increasing overall deprivation score, and will be considered as becoming more materially deprived. The concern with the current method is that if there is a general increase in access to items, this should imply that a family lacking a particular number of items is now suffering from greater relative deprivation than before. But, because of the rescaling of scores to 100, each item lacked still counts the same amount towards the overall material deprivation score and a family is still required to lack five items to reach a score of 25 and be declared materially deprived. We will be engaging with users to explore whether an alternative methodology would be more appropriate.

In addition, for next year's publication we plan to incorporate the 2011 Census based mid-year population estimates into the grossing regime for HBAI data, as by that time data for all countries regions of the UK will be available, as well as a consistent historical series.

National Statistics

The United Kingdom Statistics Authority has designated these statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

Designation can be broadly interpreted to mean that the statistics:

- meet identified user needs;
- are well explained and readily accessible;
- are produced according to sound methods; and
- are managed impartially and objectively in the public interest.

Once statistics have been designated as National Statistics it is a statutory requirement that the Code of Practice shall continue to be observed.

¹⁴ Living standards, poverty and inequality in the UK: Cribb, Joyce and Phillips, 2012; p.98.

Chapter 2

The income distribution

Key findings

- *Median equivalised net household income*¹ in 2011/12 was £427 per week, *Before Housing Costs (BHC)* and £367 per week, *After Housing Costs (AHC)*. This meant that the most commonly used threshold to determine if someone is in *relative low income*, 60 per cent of *median income*, was £256 per week, *BHC* and £220 per week, *AHC*.
- In 2011/12 *median income* decreased by 3 per cent in real terms compared with 2010/11, similar to the decrease in 2010/11. Prior to this, average income had risen in most years since 1994/95². Incomes across the distribution grew by less than Retail Prices Index (RPI) inflation³ in 2011/12. Median incomes fell as earnings and benefit income grew more slowly than the cost of living as measured by RPI.
- Overall there were *real terms* increases in *income* across the *income distribution* from 1998/99 to 2011/12. *Incomes*, both *BHC* and *AHC*, saw fastest growth in the lowest *quintile*.
- The *income* distribution was *skewed* towards the lower end, showing a relatively high concentration of individuals close to the 60 per cent of *median relative low-income* threshold and, particularly *BHC*, a long 'tail' for higher *incomes*.
- Following a large reduction between 2009/10 and 2010/11, *income inequality* remained broadly level between 2010/11 and 2011/12. This is because the income of households fell by similar amounts across the entire distribution with no strong trend *BHC*, although *AHC* the incomes of households in the lowest quintiles fell by more than those in the highest quintiles. *Income inequality* is now at levels last seen in the middle of the last decade having increased towards the end of the decade.

¹ Technical terms in the key findings in italics are explained immediately before the tables.

² This is the first year of data available on a consistent basis.

³ HBAI uses variants of RPI to look at how incomes are changing over time in real terms. The use of the RPI in comparison to other measures to adjust for inflation has an effect on historical figures as described in the background section in **Chapter 1**. In accordance with the Statistics and Registration Service Act 2007, the Retail Prices Index and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics. A full report can be found on the UK Statistics Authority website.

2 The income distribution

1. Introduction

This chapter looks at the overall income distribution and, in order to place the findings presented in this report in a wider context, it considers the prevailing social and economic conditions between 1994/95 and 2011/12.

2. Income as a measure of living standards

Household disposable incomes, adjusted for household size and composition can be used as a proxy for material living standards or, more precisely, the level of consumption of goods and services that people could attain given the disposable income of the household in which they live. Therefore, looking at income movements gives an idea of the evolution of overall living standards. While well-being extends well beyond income, the personal finance element of the [Office for National Statistics' Measuring Well-being Discussion paper](#) published in 2011 includes income measures, while the influential [Stiglitz-Sen-Fittoussi report on the Measurement of Economic Performance and Social Progress](#) recommends looking at the distribution of income at a household level when considering well-being.

Discussion of the use of low-income statistics specifically is given in **Chapter 1**.

3. Drivers of low income

Economic indicators show:

- sustained growth in GDP between 1994/95 and 2007/08. After a contraction in both 2008/09 and 2009/10, there was a generally upward trend in 2010/11 although this growth slowed in 2011/12.
- growth in average earnings for 2011/12 was similar to that seen in 2010/11. Between 1996/97 and 2007/08, earnings growth was generally above RPI⁴, RPIJ and Consumer Prices Index (CPI) inflation, but it was lower than these indices in 2008/09, 2010/11 and 2011/12. This meant that in three of the last four years, average earnings fell in real terms. The reduction in real terms earnings may partly be due to a combination of both pay freezes and economic restructuring following the recession.
- growth in earnings seen in the survey data tended to be higher than the average earnings index. This was primarily due to increased numbers of working individuals in the survey data and went some way to mitigate real terms earnings reductions.
- the Bank of England interest rate in 2011/12 remained at the same low since 2009/10 (0.5 per cent), but inflation rates have been high at 4.8 per cent for the RPI, 4.1 per cent for RPIJ and 4.3 per cent for CPI⁵.
- there was a fall in the real disposable household income across the distribution in 2011/12. The fall was not as large as that seen in 2010/11 but

⁴ In accordance with the Statistics and Registration Service Act 2007, the Retail Prices Index and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics. A full report can be found on the [UK Statistics Authority](#) website.

⁵ All BHC incomes in this publication have been adjusted for inflation using a bespoke index supplied by the Office for National Statistics, consisting of the Retail Price Index excluding Council Tax, while all AHC incomes in this publication have been adjusted for inflation using the Retail Price Index excluding housing.

these two years constitute the only decreases seen since the series began in 1994/95.

- Following a reduction between 2007/08 and 2009/10, employment rates have been broadly flat between 2009/10 and 2011/12 for both males and females.

Earnings and benefit income grew more slowly than the cost of living as measured by the RPI, and these were drivers of the reduction in median and mean incomes⁶ in 2011/12. Mean income fell less than median income reflecting the slower reduction in earnings compared to benefit income.

Various benefit reforms (see Table A, overleaf) were introduced in 2011/12. These included the adoption of the CPI, rather than the RPI, for the uprating of many benefits and tax credits, the triple guarantee for basic State Pensions, measures to reduce housing benefit expenditure, and the focussing of tax credits on lower income families. These reforms had different effects on different benefit recipients but overall resulted in a real terms fall in benefit income.

HBAI uses variants of RPI to adjust for inflation to look at how incomes are changing over time in real terms. As described in the background section of **Chapter 1**, the use of different inflation measures has an effect on historical real terms income figures.

⁶ Such a reduction was predicted. For instance, in their 2012 commentary, available at <http://www.ifs.org.uk/comms/comm124.pdf>, IFS stated “recent forecasts by IFS researchers have suggested that median household income will continue to fall in real terms until 2013–14”.

2 The income distribution

Table A: Benefit and tax reform in 2011/12

Uprating

From April 2011 many benefits and tax credits were uprated in line with the CPI instead of RPI. From April 2011 basic State Pension uprating was governed by a 'triple guarantee' where the increase is the highest of earnings, prices or 2.5%. Prices were measured by RPI in 2011, although CPI was the Government's preferred measure for benefit uprating. The standard minimum income guarantee in Pension Credit was increased in April 2011 by the cash rise in a full basic State Pension.

Child Benefit

Child Benefit was frozen to help fund increases in the Child Tax Credit.

Housing Benefit (HB)

The following reforms impacted HB recipients in the private rented sector subject to Local Housing Allowance (LHA) calculations: the removal of the £15 excess, overall caps on LHA rates, the restriction to the four bedroom rate and reducing the level at which LHA rates are set to the 30th percentile of market rents rather than the median. Nine months transitional protection was afforded to existing customers from the anniversary of their claim. In January 2012, the shared accommodation rate in LHA (for claimants under the age of 25) was extended to claimants under 35 years old. The Government increased its contribution to local authorities' funding for Discretionary Housing Payments by £10 million in 2011/12, and it started to include an additional bedroom within the size criteria used to assess HB claims in the private rented sector where a disabled person, or someone with a long term health condition, has a proven need for overnight care and it is provided by a non-resident carer. There were also increases in non-dependent deductions for those in receipt of HB and renting in the private or social rented sectors.

Maternity payments

From April 2011 the Government restricted eligibility to the Sure Start Maternity Grant to the first child only and abolished the Health in Pregnancy Grant from January 2011.

Tax credits

The family element of the Child Tax Credit previously payable to families with an income of up to £50,000 was reduced to incomes of £40,000 from April 2011. The Government increased the rate at which tax credits are withdrawn once household incomes rise. The Government froze Child Benefit to help fund above indexation increases in the Child Tax Credit. The baby element of Child Tax Credit was removed from 2011-12. The basic and 30 hour element of working tax credits were frozen, and there was a reduction from 80 per cent to 70 per cent of eligible childcare costs. From April 2011, the level of in-year rises of income disregarded from calculations of tax credit entitlement decreased from £25,000 to £10,000. From April 2011, people aged over 60 qualified for Working Tax Credit if they worked at least 16 hours a week, rather than 30 as previously.

Council Tax

The Government allocated £650 million to help local authorities to implement a council tax freeze in England in 2011-12.

Personal allowance

There was a £1,000 cash increase in the income tax personal allowance, with a corresponding decrease in the levels at which the 40% higher rate of tax and the 2% rate of NICs are paid, for those aged under 65.

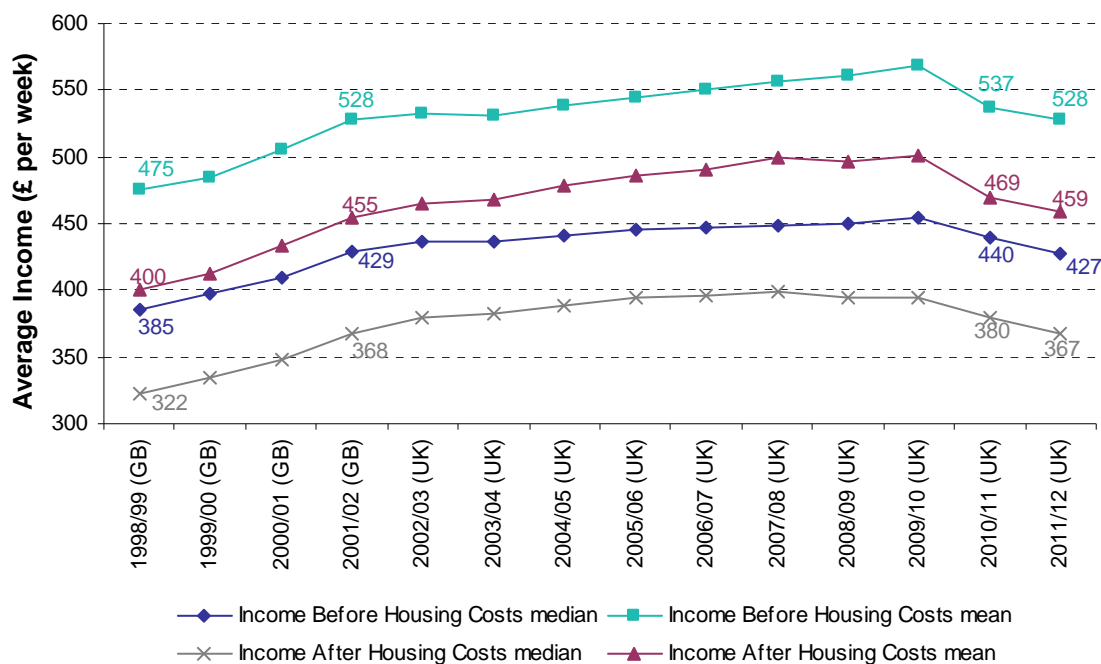
National Insurance Contributions

The main employee and self-employed NICs rate was increased by 1% in 2011-12. The additional employee and self-employed NICs rate was increased by 1%, from 1% to 2%. The primary threshold and lower profits limit were increased, whilst the upper earnings limit and upper profits limit were reduced.

4. What the figures show

Trends in average income: There were decreases in average incomes on all bases between 2010/11 and 2011/12 (Chart 2.1 and Table 2.1ts). Median incomes fell by around £12 a week⁷ (around 3 per cent both BHC and AHC) and mean incomes fell by around £10 per week (around 2 per cent both BHC and AHC) in real terms. This means that incomes in 2011/12 have fallen to around 2001/02 levels, adjusted by variants of the RPI, but are still higher than in 1998/99⁸.

Chart 2.1: Average incomes, 1998/99 to 2011/12, United Kingdom⁹



Income inequality: Income inequality remained reasonably level between 2010/11 and 2011/12. This is because the income of households fell by broadly similar amounts across the entire distribution with no strong trend BHC, although AHC the incomes of households in the lowest quintiles fell by more than those in the highest quintiles (Chart 2.2 and Table 2.1ts). The equivalised household income of individuals fell by 3 per cent both BHC and AHC. Individuals in the bottom quintile saw reductions of 2 per cent and 4 per cent BHC and AHC respectively. The higher falls in AHC income are driven by Housing support not rising in line with housing costs.

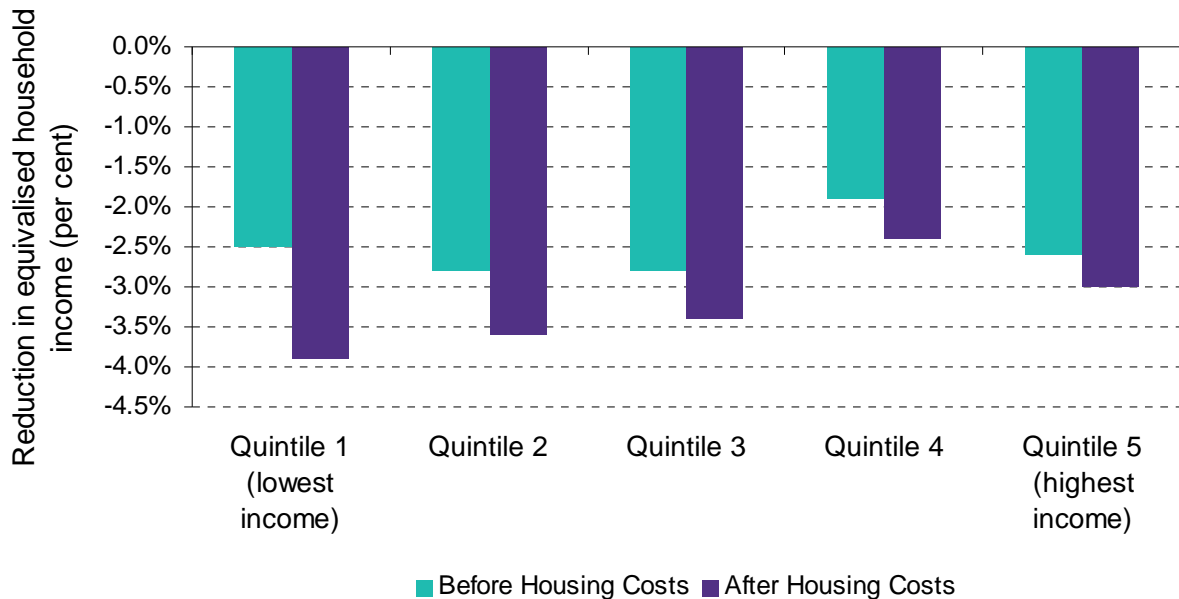
⁷ Chart 2.1 shows the reduction in median incomes to be equal to £13, BHC and AHC. This apparent inconsistency is due to rounding. Rounding figures at the final point of calculation of a statistic produces the best estimate.

⁸ Data are only available for the United Kingdom from 2002/03.

⁹ Comparisons are often made to 1998/99, as this is the first year where some results are available for the United Kingdom.

2 The income distribution

Chart 2.2: Reduction in incomes by Quintile, 2010/11 to 2011/12, United Kingdom

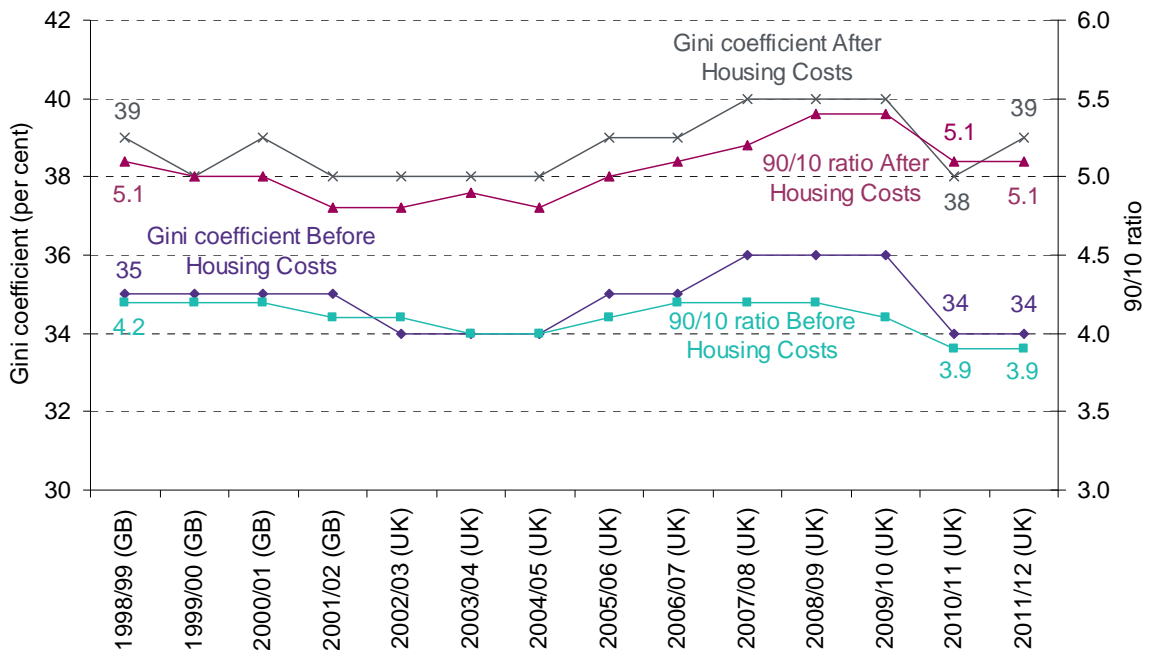


This change in income keeps the Gini coefficient¹⁰ broadly level, both BHC and AHC. The Gini coefficient BHC was 34 per cent in 2011/12 while AHC it was 39 per cent. No change was seen in the 90/10 ratio¹¹, BHC and AHC. Following a peak between 2007/08 and 2009/10 income inequality in 2011/12 is now around levels seen in 2004/05 BHC, and 2006/07 AHC. Despite this, in 2011/12, individuals in the top quintile accounted for over 40 per cent of total income both BHC and AHC, whilst those in the bottom quintile accounted for less than 10 per cent. (Chart 2.3 and Table 2.2ts).

¹⁰ The Gini coefficient is a widely-used measure of inequality, which can values from zero to 100. A value of zero would indicate complete equality, while a value of 100 per cent would indicate total inequality (i.e. all income held by one person).

¹¹ A further measure of inequality, defined as the ratio of the top quintile median (90th percentile) to the bottom quintile median (10th percentile).

Chart 2.3: Measures of income inequality, 1998/99 to 2011/12, United Kingdom¹²



Low-income thresholds: Table 2.4ts gives the mean, median and 60 per cent of median threshold since 1994/95. This shows that the most commonly used threshold to determine if someone is in relative low income, 60 per cent of contemporary median income, was £256 per week, BHC and £220 per week, AHC in 2011/12. The absolute low-income threshold is based on 60 per cent of the median income in 2010/11¹³, which was £264 per week, BHC and £228 per week, AHC in 2011/12 prices.

¹² Data are only available for the United Kingdom from 2002/03.

¹³ The change of baseline from 1998/99 to 2010/11 is explained in the Statistical Notice published on 16th May 2013 and reproduced in **Appendix 3**.

2 The income distribution

The overall income distribution: Chart 2.4 shows the income distribution for the United Kingdom in 2011/12 both BHC and AHC. The shaded areas numbered 1 to 10 show each successive tenth, or decile, of the population.

An explanation of how the negative incomes AHC and zero incomes BHC shown in the chart can occur is given in **Appendix 1**.

Chart 2.4 (BHC): Income distribution for the total population, 2011/12

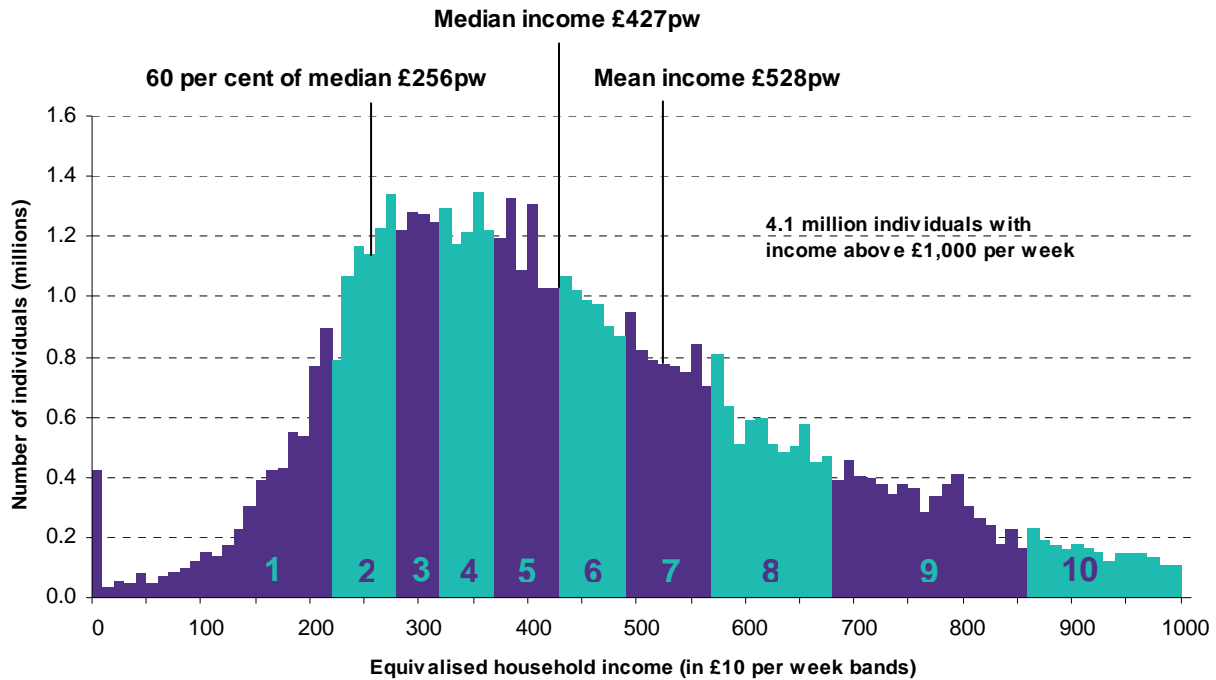
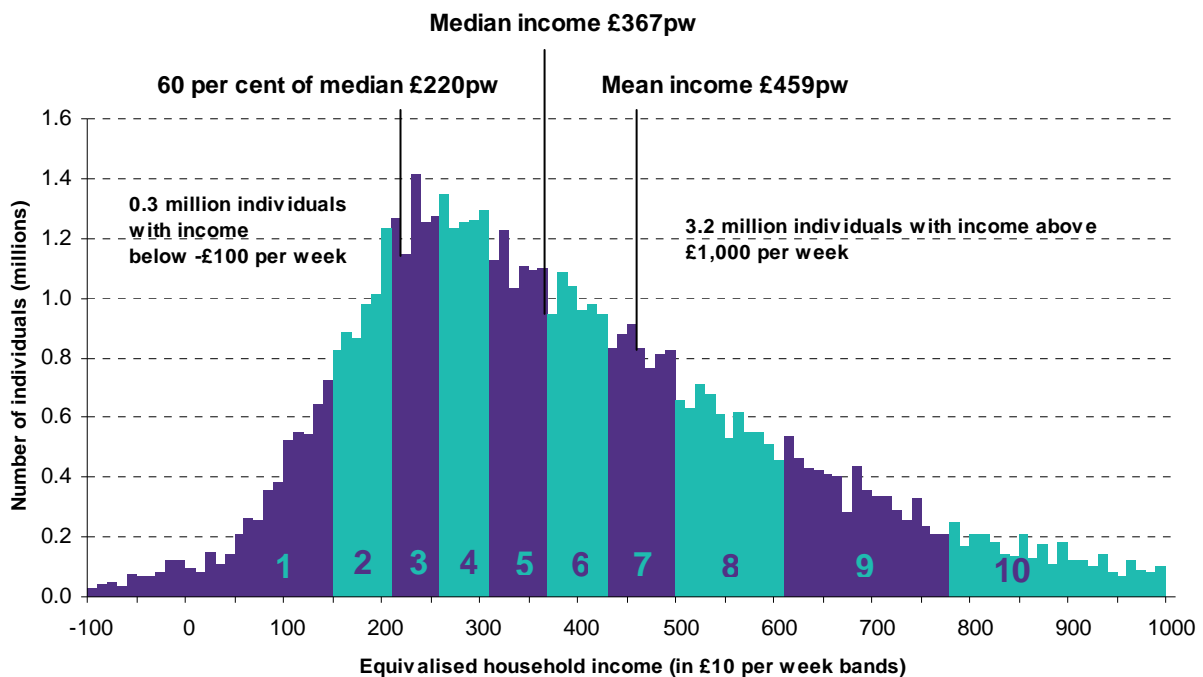


Chart 2.4 (AHC): Income distribution for the total population, 2011/12



The income distribution for 2011/12 is clearly skewed towards the lower end and has a long tail at the upper end. On a BHC basis, around two-thirds of individuals had an equivalised household income that was less than the national mean. There was a large concentration of individuals around the 60 per cent of median income mark. The distribution showed similar characteristics on an AHC basis.

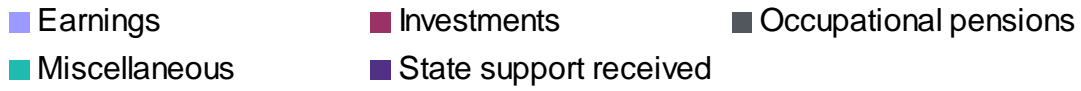
The presence of substantial numbers of individuals with relatively high incomes results in a skewed distribution and a large difference between the overall mean and the median.

Income components: Households receive income from a variety of sources. The main ones are earnings, self-employment, state support (i.e. benefits and tax credits), interest on investments and occupational pensions. Overall, BHC, earnings have increased to around 36 per cent of the gross income of the bottom quintile while state support made up 53 per cent (Table 2.1db). In the top quintile, 83 per cent of income was derived from earnings. AHC, earnings made up around 41 per cent of the gross income of the bottom quintile while state support made up 50 per cent. In the top quintile, 82 per cent of income was derived from earnings.

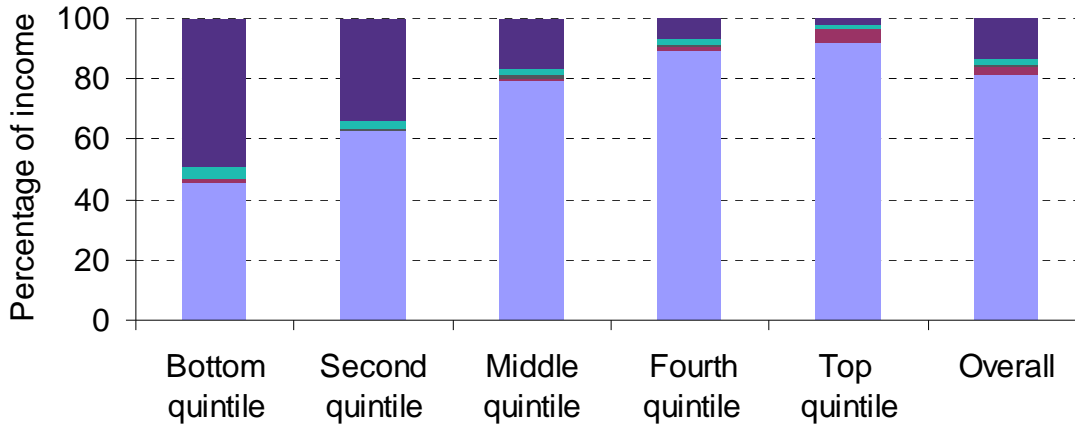
Chart 2.5 below looks at the distribution of gross income sources for different household types for each fifth, or quintile, of the population, ranked by net disposable household income, and by the various sources of income as a percentage of the total gross income of the quintile. Successive quintiles, from the bottom to the top, show a steadily diminishing share of state support income and an increasing share of income from employment. Earnings and state support were the main sources of income overall, accounting for around 90 per cent of combined income.

2 The income distribution

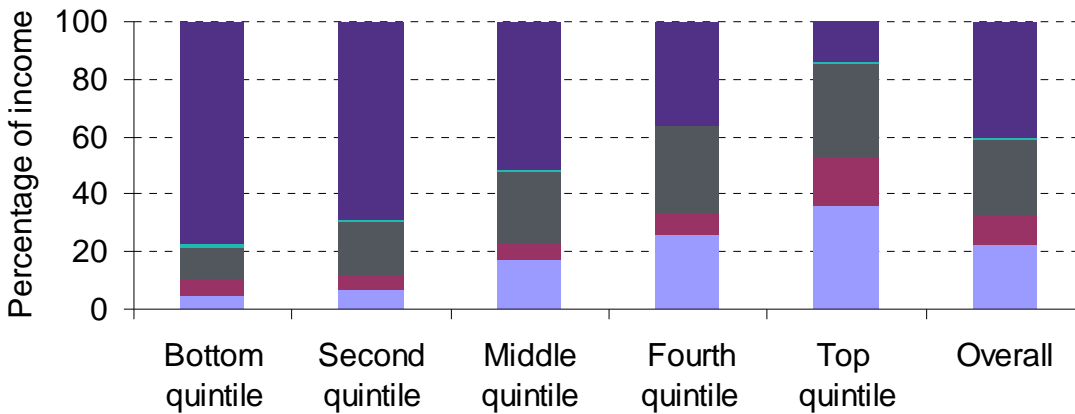
Chart 2.5 (BHC): Income sources as a proportion of gross income by quintile and household type, 2011/12



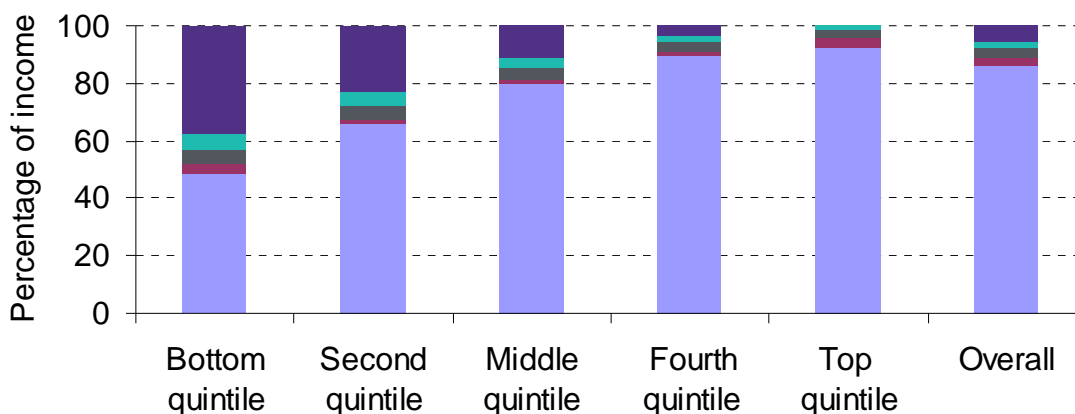
Households containing children



Households containing pensioners and no children



Households containing working-age adults only



Chapter 2 Glossary

For more information on these and other terms, see **Appendix 1**. For a detailed discussion of the methodology used throughout the publication, see **Appendix 2**.

Income

The income measure used in HBAI is weekly net (disposable) equivalised household income. This comprises total income from all sources¹⁴ of all household members including dependants. For *BHC*, housing costs¹⁵ are not deducted from income, while for *AHC* they are.

Sources of income

Households receive income from a variety of sources. The main ones are earnings, self-employment, state support (i.e. benefits and tax credits), interest on investments and occupational pensions.

It should be noted that comparisons with National Accounts data would suggest that surveys such as the Family Resources Survey (FRS) understate investment income. It is also the case that the FRS underestimates receipt of most types of State Support.

Equivalisation

Income measures used in HBAI take into account variations in the size and composition of the households in which people live. This process is called equivalisation.

Equivalisation reflects the fact that a family of several people needs a higher income than a single individual in order for them to enjoy a comparable standard of living.

Equivalence scales conventionally take a couple with no children as the reference point. Consider a single person, a couple with no children, and a couple with two children aged fourteen and ten, all having unadjusted weekly household incomes of £200 (BHC). The process of equivalisation, as conducted in HBAI, gives an equivalised income of £299 to the single person, £200 to the couple with no children, but only £131 to the couple with children. **Appendix 2** gives more detail.

Median

Median household income divides the population, when ranked by equivalised household income, into two equal-sized groups. *Contemporary median income* refers to the median income in the survey year being considered.

Mean

Mean equivalised household income of individuals is found by adding up *equivalised household incomes* for each individual in a population and dividing the result by the number of people.

¹⁴ This includes income from employment, self-employment, investments, occupational pensions, benefits and other sources, and is measured net of taxes and National Insurance. See **Appendix 1** for full details of what is included.

¹⁵ Housing costs include rent, water rates, mortgage interest payments, buildings insurance payments and ground rent and service charges.

2 The income distribution

Deciles, Quintiles and Percentiles

These are income values which divide the population, when ranked by equivalised household income, into equal-sized groups. Deciles are ten equal-sized groups - the lowest decile describes individuals with incomes in the bottom 10 per cent of the income distribution. Quintiles are five equal-sized groups - the lowest quintile describes individuals with incomes in the bottom 20 per cent of the income distribution. Percentiles are 100 equal-sized groups.

Low income

'Low income' is defined using thresholds derived from percentages of median income for the whole population. Households reporting the lowest incomes may not have the lowest living standards. The bottom 10 per cent of the income distribution should not, therefore, be interpreted as having the bottom 10 per cent of living standards. Results for the bottom decile are also particularly vulnerable to income measurement problems.

Individuals are said to be in *relative low income* if they live in a household with an equivalised income below a percentage of contemporary median income, BHC or AHC. Relative low-income statistics fall if income growth at the lower end of the income distribution outstrips overall income growth.

Individuals are said to be in *absolute low income* if they live in a household with an equivalised income below a threshold of median income (for example 60 per cent of median income) in a specific year adjusted for inflation, BHC or AHC. The year 2010/11 is used in this report, in order to measure absolute low income in line with the Child Poverty Act 2010, and to keep the absolute measure more in line with contemporary living standards. Absolute low-income statistics fall if low-income households are seeing their incomes rise faster than inflation.

High income

Results for the top 10 per cent are particularly susceptible to sampling errors and income measurement problems.

Income growth in real terms

For some years, income growth in the HBAI-based series appears slightly lower than the National Accounts estimates. The implication of this is that absolute real income growth could be understated in the HBAI series. Comparisons over a longer time period are believed to be more robust.

Income inequality

The extent of disparity between high income and low-income households, commonly measured using either the *Gini coefficient* or *90/10 ratio*. The *Gini coefficient* is a widely-used, international standard summary measure of inequality. It can take values from zero to 100, where a value of zero would indicate total equality, with each household having an equal share of income, while higher values indicate greater inequality. The *90/10 ratio* is the ratio of the median income of the top quintile to the median of the bottom quintile.

Skewness

Skewness measures the degree to which a statistical distribution is asymmetrical or lopsided. A perfectly symmetrical distribution is not skewed. A distribution with a long tail to the right such as the income distributions shown in Chart 2.4 are positively skewed.

2 The income distribution

Chapter 2 tables

- 2.1tr** Key economic indicators.
- 2.1db** Income sources as a proportion of gross household income by quintile. Distribution of gross income sources for each fifth, or quintile, of the population, ranked by net disposable household income. The various sources of income are shown as a percentage of the total gross income of the quintile.
- 2.2db** Equivalised net disposable income distribution for different family types. This shows how the equivalised values of different statistics relating to the overall income distribution can be translated into actual household incomes for different family types.
- 2.1ts** Money values of decile and quintile medians and overall population mean. This shows the evolution of the income distribution since 1994/95. One way of measuring inequality is to determine the ratio of the top quintile median (90th percentile) to the bottom quintile median (10th percentile), often called the 90/10 ratio, shown in Table 2.1ts, which also shows the ratio of the top to middle quintile medians, and middle to bottom quintile medians.
- 2.2ts** Income shares and Gini coefficient. This shows the share of total income received by individuals in different quantiles of the income distribution. Table 2.2ts also shows the value of the Gini coefficient since 1994/95.
- 2.3ts** Values of quintile medians and population means for family type and economic status groups.
- 2.4ts** Equivalent money values of overall distribution mean, median and 60 per cent of median incomes. This shows how the equivalised values of different statistics relating to the overall income distribution can be translated into actual household incomes for different family types for historic years.

Table 2.1tr: Recent economic indicators^{1,2,3}

Percentages		Source: ONS, Bank of England							
	GDP Growth ⁴	Base Interest Rate ⁵	Inflation Rate (RPI) ⁶	Inflation Rate (RPIJ) ^{6,7}	Inflation Rate (CPI) ⁶	Male Employment rate ⁸	Female Employment Rate ⁸	Average Earnings Growth ⁹	Real Household Disposable Income growth ¹⁰
1994/95	4.6	5.6	2.7	-	2.0	75.9	62.3	3.6	1.4
1995/96	3.0	6.5	3.3	-	2.7	76.5	63.1	3.0	3.2
1996/97	3.1	5.8	2.4	-	2.3	77.0	63.7	3.8	4.2
1997/98	4.0	6.9	3.3	-	1.7	78.0	64.3	4.5	4.0
1998/99	3.2	6.8	3.1	2.8	1.6	78.5	64.9	5.0	1.9
1999/00	3.6	5.4	1.6	1.3	1.1	79.0	65.4	5.1	4.7
2000/01	4.0	6.0	3.0	2.6	0.8	79.3	66.0	4.4	4.7
2001/02	2.6	4.7	1.5	1.2	1.4	79.1	66.1	4.4	5.2
2002/03	2.7	4.0	2.1	1.8	1.2	79.1	66.4	3.2	2.4
2003/04	4.1	3.7	2.8	2.5	1.3	79.3	66.6	3.1	2.5
2004/05	2.2	4.6	3.1	2.8	1.5	79.2	66.7	4.9	1.7
2005/06	3.3	4.6	2.6	2.3	2.1	78.9	66.9	4.7	1.4
2006/07	2.3	4.8	3.7	3.3	2.6	78.8	66.7	4.9	1.0
2007/08	3.6	5.5	4.1	3.7	2.2	78.9	66.7	4.5	0.9
2008/09	-3.2	3.6	3.0	2.6	3.8	78.0	66.6	1.7	0.3
2009/10	-2.2	0.5	0.5	0.0	2.2	75.4	65.8	1.6	2.4
2010/11	1.8	0.5	5.0	4.3	3.5	75.7	65.5	2.0	-0.7
2011/12	0.8	0.5	4.8	4.1	4.3	75.5	65.5	2.0	-0.3

Notes:

- All growth figures are for the financial year in question compared to the previous financial year.
- All figures are for the United Kingdom, except Average Earnings Growth which covers Great Britain.
- Some minor revisions exist since last year due to revisions to underlying ONS data.
- Gross Domestic Product at market prices, seasonally adjusted, chained volume measures.
- The base interest rate is the annual average for the relevant financial year.
- Inflation rate is the annual average change for each financial year as measured by All Items Retail Price Index or Consumer Price Index. In accordance with the Statistics and Registration Service Act 2007, the Retail Prices Index and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics. A full report can be found
- RPIJ are designated by ONS as 'experimental statistics' which are undergoing evaluation and being assessed for National Statistics status. The series starts from 1997.
- Employment Rates are seasonally adjusted figures for the financial year and now cover the age range 16 to 64.
- Average earnings growth is the actual (as opposed to real terms) annual average for each financial year. This is based on the Average Earnings Index to 2000/01 and Average Weekly Earnings from 2001/02.
- Real disposable income growth is based on the Real Disposable Income series, seasonally adjusted, financial years, chained volume measures.

Percentages		Source: FRS	
HBAI mean net disposable unequivalised income growth (BHC) ^{1,2}			
	Real terms	Cash terms	
1995/96	-0.3	2.9	
1996/97	2.4	5.5	
1997/98	4.0	5.5	
1998/99	4.5	6.0	
1999/00	0.5	3.2	
2000/01	7.6	7.0	
2001/02	5.1	6.5	
2002/03	0.5	2.4	
2003/04	-0.3	2.1	
2004/05	1.9	4.9	
2005/06	1.1	3.7	
2006/07	0.1	3.8	
2007/08	0.9	5.1	
2008/09	0.4	3.4	
2009/10	1.8	2.2	
2010/11	-5.7	-0.9	
2011/12	-2.0	2.9	

Notes:

- Growth in unequivalised mean net disposable income is also presented here, in order to allow better comparisons with Real Household Disposable Income growth.
- Figures are for the United Kingdom from 2002/03 onwards. Earlier years are for Great Britain only.

2 The income distribution

Table 2.1db: Income sources as a proportion of gross¹ household income by quintile

Percentage of gross ¹ household income						Source: FRS 2011/12
	Bottom quintile	Second quintile	Middle quintile	Fourth quintile	Top quintile	Overall
Before Housing Costs						
Earnings	36	46	64	76	83	71
Investments	3	2	2	3	6	4
Occupational pensions	5	7	8	8	6	7
Miscellaneous	4	3	2	2	1	2
State support received	53	42	24	12	3	16
After Housing Costs						
Earnings	41	50	64	75	82	71
Investments	2	2	2	3	6	4
Occupational pensions	2	5	7	9	7	7
Miscellaneous	5	3	2	1	1	2
State support received	50	40	24	12	3	16

Notes:

1. Gross household income is not equivalised.
2. Percentages may not sum to 100 per cent due to rounding.

Table 2.2db: Statistics relating to the overall equivalised net disposable income distribution and their equivalent money values for different family types, in 2011/12 prices, United Kingdom^{1,2}

£pw equivalised 2011/12 prices								Source: FRS 2011/12
	Mean	Median	60% median	Bottom quintile	Second quintile	Middle quintile	Fourth quintile	Top quintile
Before Housing Costs								
Couple with no children								
(equivalised income benchmark)	528	427	256	< 276	276 - 374	375 - 490	491 - 676	677 +
Single with no children	354	286	172	< 185	185 - 251	252 - 328	329 - 453	454 +
Couple with two children aged 5 and 14	808	654	392	< 423	423 - 573	574 - 750	751 - 1,034	1,035 +
Single with two children aged 5 and 14	634	513	308	< 332	332 - 449	450 - 588	589 - 811	812 +
After Housing Costs								
Couple with no children								
(equivalised income benchmark)	459	367	220	< 215	215 - 311	312 - 428	429 - 607	608 +
Single with no children	266	213	128	< 125	125 - 180	181 - 248	249 - 352	353 +
Couple with two children aged 5 and 14	743	594	357	< 349	349 - 504	505 - 694	695 - 983	984 +
Single with two children aged 5 and 14	550	440	264	< 258	258 - 373	374 - 514	515 - 728	729 +

Note:

1. This table takes levels of equivalised income for the population as a whole and translates them into cash equivalents for a selection of family types. For example, for results Before Housing Costs, it shows that 60 per cent of median equivalised income in 2011/12 for a couple (the equivalised income reference) was £256 per week. This translates to a reference income of £172 for a single person with no children. This implies that a single person with no children with a cash income of less than £172 is below 60 per cent of median equivalised income for the population as a whole.

Table 2.1ts: Money values of decile medians and overall population mean in average 2011/12 prices, United Kingdom¹

£pw equivalised 2011/12 prices											Source: FRS	
	Decile group medians										Population median	Population mean
	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10		
Income Before Housing Costs												
1994/95	152	200	238	281	330	386	450	527	638	910	357	430
1995/96	151	203	240	283	331	386	447	523	647	923	357	432
1996/97	155	206	247	293	345	401	464	544	663	941	372	447
1997/98	153	208	252	299	353	407	472	555	674	962	379	459
1998/99	157	212	256	304	358	416	486	571	698	1,017	385	475
1999/00	159	220	264	312	368	425	494	584	708	1,028	397	484
2000/01	162	230	276	325	380	440	508	600	732	1,063	409	506
2001/02	174	241	290	344	400	460	529	620	765	1,107	429	528
2002/03	174	247	297	350	407	468	540	628	766	1,117	437	532
2003/04	173	248	299	351	407	468	540	632	768	1,110	437	531
2004/05	178	254	304	357	412	471	543	635	775	1,126	441	538
2005/06	174	254	305	357	413	477	550	644	785	1,156	445	545
2006/07	168	252	306	360	417	477	549	646	791	1,154	447	550
2007/08	167	250	306	360	416	481	553	648	795	1,177	448	556
2008/09	167	253	309	364	421	483	559	654	808	1,185	450	561
2009/10	177	261	316	367	423	485	562	657	808	1,210	454	569
2010/11	175	258	309	358	412	471	539	625	767	1,130	440	537
2011/12	176	251	301	350	400	458	527	617	754	1,110	427	528
Income After Housing Costs												
1994/95	89	146	178	223	269	319	376	444	544	785	293	355
1995/96	97	148	179	223	270	319	374	443	547	798	294	357
1996/97	98	148	184	233	284	335	392	463	571	826	309	372
1997/98	97	151	192	242	290	341	399	473	581	839	315	384
1998/99	105	156	196	246	295	349	412	488	601	892	322	400
1999/00	105	163	206	256	307	362	422	504	615	910	335	412
2000/01	105	173	218	270	322	377	438	524	645	944	348	434
2001/02	116	186	232	289	341	397	459	541	671	990	368	455
2002/03	116	193	242	297	352	410	474	558	684	1,001	380	465
2003/04	114	195	247	300	354	413	479	564	692	1,019	383	468
2004/05	116	204	255	306	361	418	485	571	702	1,043	389	478
2005/06	113	200	254	308	363	426	493	584	717	1,071	394	486
2006/07	106	197	253	309	367	426	494	583	721	1,075	396	491
2007/08	105	196	253	309	369	431	501	590	731	1,104	399	500
2008/09	96	194	251	307	364	426	502	596	737	1,103	394	497
2009/10	102	196	252	306	363	427	501	592	737	1,126	395	501
2010/11	102	193	246	297	351	413	478	561	697	1,048	380	469
2011/12	102	187	239	287	339	397	464	550	681	1,017	367	459

Notes:

1. Figures are for the United Kingdom from 2002/03 onwards. Earlier years are for Great Britain only.

Table 2.1ts (continued): Money values of quintile medians and overall population mean in average 2011/12 prices, United Kingdom¹

£pw equivalised 2011/12 prices										Source: FRS
	Quintile group medians					Population mean	Ratio of top to bottom quintile medians	Ratio of top to middle quintile medians	Ratio of middle to bottom quintile medians	
	Quintile 1	Quintile 2	Quintile 3 (median)	Quintile 4	Quintile 5					
Income Before Housing Costs										
1994/95	180	259	357	486	733	430	4.1	2.1	2.0	
1995/96	182	261	357	482	738	432	4.1	2.1	2.0	
1996/97	184	269	372	501	759	447	4.1	2.0	2.0	
1997/98	186	274	379	511	772	459	4.2	2.0	2.0	
1998/99	189	279	385	525	801	475	4.2	2.1	2.0	
1999/00	196	288	397	536	813	484	4.2	2.0	2.0	
2000/01	202	300	409	552	843	506	4.2	2.1	2.0	
2001/02	214	317	429	572	883	528	4.1	2.1	2.0	
2002/03	217	322	437	578	886	532	4.1	2.0	2.0	
2003/04	219	325	437	582	878	531	4.0	2.0	2.0	
2004/05	224	330	441	587	889	538	4.0	2.0	2.0	
2005/06	223	331	445	594	903	545	4.1	2.0	2.0	
2006/07	219	331	447	593	910	550	4.2	2.0	2.0	
2007/08	218	332	448	597	919	556	4.2	2.1	2.1	
2008/09	222	337	450	603	934	561	4.2	2.1	2.0	
2009/10	229	341	454	605	936	569	4.1	2.1	2.0	
2010/11	227	334	440	579	888	537	3.9	2.0	1.9	
2011/12	221	325	427	568	865	528	3.9	2.0	1.9	
Income After Housing Costs										
1994/95	125	199	293	408	624	355	5.0	2.1	2.3	
1995/96	129	200	294	405	631	357	4.9	2.1	2.3	
1996/97	130	207	309	425	656	372	5.1	2.1	2.4	
1997/98	132	216	315	433	670	384	5.1	2.1	2.4	
1998/99	137	221	322	446	698	400	5.1	2.2	2.3	
1999/00	142	231	335	460	711	412	5.0	2.1	2.4	
2000/01	149	243	348	477	746	434	5.0	2.1	2.3	
2001/02	161	260	368	498	778	455	4.8	2.1	2.3	
2002/03	165	268	380	514	793	465	4.8	2.1	2.3	
2003/04	164	273	383	518	799	468	4.9	2.1	2.3	
2004/05	171	280	389	525	816	478	4.8	2.1	2.3	
2005/06	168	281	394	535	832	486	5.0	2.1	2.4	
2006/07	164	280	396	534	840	491	5.1	2.1	2.4	
2007/08	162	281	399	543	851	500	5.2	2.1	2.5	
2008/09	159	279	394	544	857	497	5.4	2.2	2.5	
2009/10	160	279	395	542	861	501	5.4	2.2	2.5	
2010/11	159	273	380	516	809	469	5.1	2.1	2.4	
2011/12	153	263	367	503	785	459	5.1	2.1	2.4	

Notes:

1. Figures are for the United Kingdom from 2002/03 onwards. Earlier years are for Great Britain only.

Table 2.2ts (BHC): Income shares and Gini coefficient, United Kingdom^{1,2,3,4}

	Source: FRS																	
	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12
Quintile shares of total income (%)																		
Bottom 20% of the income distribution	8	8	8	7	7	7	7	7	7	7	8	7	7	7	7	7	8	8
Second quintile	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Middle quintile	17	17	17	17	16	16	16	16	16	17	16	16	16	16	16	16	16	16
Fourth quintile	23	23	23	22	22	22	22	22	22	22	22	22	22	22	22	21	22	22
Top 20% of the income distribution	41	41	41	41	42	42	43	42	42	42	42	42	43	43	43	43	42	42
Share ratios																		
Ratio top quintile share to middle quintile share	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.5	2.5	2.6	2.6	2.7	2.7	2.7	2.5	2.6
Ratio middle quintile share to bottom quintile share	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.2	2.2	2.1
Ratio top quintile share to bottom quintile share	5.3	5.3	5.3	5.5	5.7	5.7	5.9	5.7	5.6	5.6	5.5	5.7	5.9	6.1	6.0	5.9	5.5	5.5
Other comparisons																		
<i>Bottom 10% of the income distribution.²</i>	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Bottom 30% of the income distribution	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
Bottom 40% of the income distribution	20	20	20	19	19	19	19	19	20	20	20	20	19	19	19	19	20	20
Bottom 50% of the income distribution	27	28	27	27	27	27	27	27	27	27	28	27	27	27	27	27	28	28
<i>Top 10% of the income distribution.³</i>	26	26	26	27	27	27	28	28	28	27	27	28	28	29	29	29	27	28
Top 30% of the income distribution	53	53	53	54	54	54	55	54	54	54	54	54	54	55	55	55	53	54
Top 40% of the income distribution	64	64	64	64	64	64	65	64	64	64	64	64	64	65	65	65	63	64
Top 50% of the income distribution	73	72	73	73	73	73	73	73	73	73	72	73	73	73	73	73	72	72
Ratio top 30% share to bottom 30% share	4.0	4.0	4.0	4.1	4.2	4.2	4.3	4.2	4.1	4.1	4.1	4.1	4.2	4.3	4.3	4.3	4.0	4.0
Ratio top 40% share to bottom 40% share	3.2	3.2	3.2	3.3	3.4	3.3	3.4	3.3	3.3	3.2	3.2	3.3	3.3	3.4	3.4	3.4	3.2	3.2
Ratio top 50% share to bottom 50% share	2.6	2.6	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.7	2.7	2.8	2.8	2.7	2.6	2.6
Gini coefficient (per cent)	33	33	33	34	35	35	35	35	34	34	34	35	35	36	36	36	34	34

Notes:

- Figures are for the United Kingdom from 2002/03 onwards. Earlier years are for Great Britain only.
- Results for the bottom 10 per cent of reported incomes (italicised in the above table) are particularly vulnerable to income measurement problems. They have no validity as a guide to the consumption capabilities of the poorest 10 per cent of individuals.
- Results for the top 10 per cent of reported incomes (italicised in the above table) are particularly vulnerable to sampling errors and income measurement problems. HMRC statistics are likely to provide a better guide to incomes at the top end of the income distribution.
- Percentages may not sum to 100 per cent due to rounding.

Table 2.2ts (AHC): Income shares and Gini coefficient, United Kingdom^{1,2,3,4}

	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12
Source: FRS																		
Quintile shares of total income (%)																		
Bottom 20% of the income distribution	6	6	6	6	6	6	6	6	6	6	6	6	6	5	5	5	6	6
Second quintile	11	11	11	11	11	11	11	11	12	12	12	12	11	11	11	11	12	11
Middle quintile	17	17	17	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16
Fourth quintile	23	23	23	23	23	23	22	22	22	22	22	22	22	22	22	22	22	22
Top 20% of the income distribution	43	43	43	44	44	44	45	44	44	44	44	44	45	46	46	46	44	45
Share ratios																		
Ratio top quintile share to middle quintile share	2.6	2.6	2.6	2.7	2.8	2.7	2.8	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.9	2.9	2.7	2.8
Ratio middle quintile share to bottom quintile share	2.8	2.7	2.8	2.8	2.8	2.8	2.8	2.7	2.7	2.8	2.7	2.9	2.9	3.0	3.1	3.0	2.9	2.8
Ratio top quintile share to bottom quintile share	7.4	7.1	7.3	7.5	7.6	7.6	7.9	7.5	7.3	7.4	7.3	7.8	8.1	8.7	9.0	8.7	7.8	7.9
Other comparisons																		
<i>Bottom 10% of the income distribution.²</i>	2	2	2	2	2	2	2	2	2	2	2	2	2	1	1	1	2	2
Bottom 30% of the income distribution	11	11	11	11	11	11	11	11	11	11	11	11	11	10	10	10	11	11
Bottom 40% of the income distribution	17	17	17	17	17	17	17	17	18	18	18	17	17	17	16	16	17	17
Bottom 50% of the income distribution	25	25	25	25	24	24	24	25	25	25	25	25	24	24	24	24	25	25
<i>Top 10% of the income distribution.³</i>	28	28	28	28	29	29	30	29	29	29	29	29	30	31	31	31	29	30
Top 30% of the income distribution	56	56	56	56	57	56	57	56	56	56	56	56	57	57	58	58	56	57
Top 40% of the income distribution	66	66	66	66	67	67	67	66	66	66	66	67	67	67	68	68	66	67
Top 50% of the income distribution	75	75	75	75	76	76	76	75	75	75	75	75	76	76	76	76	75	75
Ratio top 30% share to bottom 30% share	5.1	5.0	5.1	5.2	5.3	5.2	5.3	5.1	5.0	5.0	4.9	5.2	5.3	5.6	5.7	5.6	5.2	5.2
Ratio top 40% share to bottom 40% share	3.9	3.8	3.9	3.9	4.0	3.9	4.0	3.8	3.8	3.7	3.7	3.9	3.9	4.1	4.2	4.1	3.9	3.9
Ratio top 50% share to bottom 50% share	3.0	3.0	3.0	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.1	3.1	3.2	3.2	3.2	3.0	3.1
Gini coefficient (per cent)	37	37	37	38	39	38	39	38	38	38	38	39	39	40	40	40	38	39

Notes:

1. Figures are for the United Kingdom from 2002/03 onwards. Earlier years are for Great Britain only.
2. Results for the bottom 10 per cent of reported incomes (italicised in the above table) are particularly vulnerable to income measurement problems. They have no validity as a guide to the consumption capabilities of the poorest 10 per cent of individuals.
3. Results for the top 10 per cent of reported incomes (italicised in the above table) are particularly vulnerable to sampling errors and income measurement problems. HMRC statistics are likely to provide a better guide to incomes at the top end of the income distribution.
4. Percentages may not sum to 100 per cent due to rounding.

2 The income distribution

Table 2.3ts (BHC): Money values of quintile medians and population mean for family type and economic status groups in average 2011/12 prices^{1,2,3}

Income Before Housing Costs (Epw equivalised 2011/12 prices)						Source: FRS
	Quintiles of family type and economic status					Whole Group (mean)
	Bottom quintile	Second quintile	Middle quintile (median)	Fourth quintile	Top quintile	
1996/97 - 1998/99 (Great Britain)⁴						
Pensioner couple	189	253	324	435	693	411
Single male pensioner	173	239	289	372	572	352
Single female pensioner	159	223	269	344	505	317
Couple with children	186	286	378	489	724	451
Couple without children	249	418	540	685	994	614
Single with children	172	205	236	285	420	278
Single male without children	189	312	430	566	814	496
Single female without children	196	306	414	539	781	473
One or more full-time self-employed	149	292	418	584	1,060	577
Single/couple all in full-time work	326	447	550	678	937	616
Couple, one full-time, one part-time work	274	357	433	534	747	499
Couple, one full-time work, one not working	198	276	360	468	708	446
No full-time, one or more part-time work	170	238	301	408	646	380
Workless, one or more aged 60 or over	170	231	283	365	549	339
Workless, one or more unemployed	119	172	199	239	367	228
Workless, other inactive	158	199	231	284	422	269
All individuals	186	274	379	512	777	460
2009/10 - 2011/12 (United Kingdom)						
Pensioner couple	240	333	426	557	844	525
Single male pensioner	232	319	382	481	696	461
Single female pensioner	208	289	360	450	627	404
Couple with children	231	335	439	573	890	555
Couple without children	263	457	592	757	1,130	699
Single with children	217	278	328	397	537	365
Single male without children	193	325	442	589	865	519
Single female without children	202	331	444	580	842	510
One or more full-time self-employed	188	328	453	629	1,138	646
Single/couple all in full-time work	355	486	598	746	1,069	694
Couple, one full-time, one part-time work	318	417	513	632	929	598
Couple, one full-time work, one not working	237	313	395	524	855	562
No full-time, one or more part-time work	202	295	370	477	726	449
Workless, one or more aged 60 or over	216	300	367	461	662	424
Workless, one or more unemployed	120	207	250	304	456	278
Workless, other inactive	162	244	292	360	515	333
All individuals	226	333	440	584	896	545

Notes:

1. The 1996/97-1998/99 information is for Great Britain and 2009/10-2011/12 is for the United Kingdom. However, means and medians for Great Britain and the United Kingdom were found to be very similar (see Appendix 4 of HBAI 2004/05), so allowing comparisons of the type shown in this table.

2. From one year to the next, certain results may be volatile. Therefore, results have been presented as three-year averages to overcome this.

3. Results for the bottom quintile median are particularly vulnerable to income measurement problems.

Table 2.3ts (AHC): Money values of quintile medians and population mean for family type and economic status groups in average 2011/12 prices^{1,2,3}

Income After Housing Costs (£pw equivalised 2011/12 prices)	Quintiles of family type and economic status					Whole Group (mean)
	Bottom quintile	Second quintile	Middle quintile (median)	Fourth quintile	Top quintile	
1996/97 - 1998/99 (Great Britain)⁴						
Pensioner couple	153	216	289	399	650	371
Single male pensioner	149	184	252	351	577	325
Single female pensioner	141	175	226	323	489	288
Couple with children	130	222	305	400	602	367
Couple without children	187	348	460	585	856	522
Single with children	112	142	161	212	349	208
Single male without children	112	239	357	483	714	415
Single female without children	116	232	340	458	678	388
One or more full-time self-employed	84	225	342	494	936	487
Single/couple all in full-time work	257	369	462	575	812	522
Couple, one full-time, one part-time work	215	290	358	448	639	418
Couple, one full-time work, one not working	145	211	289	388	603	367
No full-time, one or more part-time work	116	177	244	351	578	321
Workless, one or more aged 60 or over	146	183	246	336	523	304
Workless, one or more unemployed	56	109	129	159	281	152
Workless, other inactive	95	138	157	205	344	195
All individuals	133	215	315	435	674	385
2009/10 - 2011/12 (United Kingdom)						
Pensioner couple	212	306	402	532	822	498
Single male pensioner	203	284	370	486	737	460
Single female pensioner	181	264	339	447	644	395
Couple with children	159	267	369	500	795	474
Couple without children	196	380	515	672	1,032	616
Single with children	137	198	246	319	466	287
Single male without children	101	240	367	516	794	440
Single female without children	111	249	365	507	777	429
One or more full-time self-employed	115	264	387	557	1,044	568
Single/couple all in full-time work	277	411	521	663	972	612
Couple, one full-time, one part-time work	252	352	443	561	840	526
Couple, one full-time work, one not working	164	247	328	457	771	486
No full-time, one or more part-time work	133	227	304	420	682	387
Workless, one or more aged 60 or over	189	269	345	445	659	405
Workless, one or more unemployed	34	114	168	215	369	189
Workless, other inactive	76	162	210	270	427	244
All individuals	157	271	381	520	818	477

Notes:

1. The 1996/97-1998/99 information is for Great Britain and 2009/10-2011/12 is for the United Kingdom. However, means and medians for Great Britain and the United Kingdom were found to be very similar (see Appendix 4 of HBAI 2004/05), so allowing comparisons of the type shown in this table.
2. From one year to the next, certain results may be volatile. Therefore, results have been presented as three-year averages to overcome this.
3. Results for the bottom quintile median are particularly vulnerable to income measurement problems. They are also affected by the presence of negative incomes on the After Housing Cost measure.

Table 2.4ts: Equivalent money values of overall distribution mean, median, and 60 per cent of median income for different family types in 2011/12 prices, United Kingdom^{1,2}

£pw equivalised 2011/12 prices	Source: FRS																	
	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12
Income Before Housing Costs																		
Median																		
Couple no children	357	357	372	379	385	397	409	429	437	437	441	445	447	448	450	454	440	427
Single no children	239	239	250	254	258	266	274	288	293	293	296	298	300	300	302	304	295	286
Couple with two children aged 5 and 14	546	546	570	580	589	607	626	657	669	669	675	681	684	685	689	694	673	654
Single with two children aged 5 and 14	428	428	447	455	462	476	491	515	524	524	530	534	537	537	541	544	528	513
60% of median																		
Couple no children	214	214	223	228	231	238	246	258	262	262	265	267	268	269	270	272	264	256
Single no children	143	143	150	152	155	160	164	173	176	176	177	179	180	180	181	182	177	172
Couple with two children aged 5 and 14	327	327	342	348	353	364	376	394	401	401	405	409	411	411	413	417	404	392
Single with two children aged 5 and 14	257	257	268	273	277	286	295	309	315	315	318	321	322	322	324	327	317	308
Mean																		
Couple no children	430	432	447	459	475	484	506	528	532	531	538	545	550	556	561	569	537	528
Single no children	288	289	299	307	318	324	339	354	357	356	360	365	368	372	376	381	359	354
Couple with two children aged 5 and 14	658	661	684	702	726	741	774	808	815	812	823	834	841	850	858	871	821	808
Single with two children aged 5 and 14	516	518	536	550	569	581	607	634	639	637	646	654	659	667	673	683	644	634
Income After Housing Costs																		
Median																		
Couple no children	293	294	309	315	322	335	348	368	380	383	389	394	396	399	394	395	380	367
Single no children	170	171	179	183	187	194	202	213	221	222	225	228	230	231	228	229	220	213
Couple with two children aged 5 and 14	475	476	501	510	521	542	564	596	616	621	629	638	642	646	638	641	616	594
Single with two children aged 5 and 14	352	353	371	378	386	402	418	441	456	460	466	473	476	478	472	474	456	440
60% of median																		
Couple no children	176	176	185	189	193	201	209	221	228	230	233	236	238	239	236	237	228	220
Single no children	102	102	108	110	112	116	121	128	132	133	135	137	138	139	137	138	132	128
Couple with two children aged 5 and 14	285	286	300	306	313	325	338	358	370	373	378	383	385	388	383	384	369	357
Single with two children aged 5 and 14	211	212	223	227	232	241	251	265	274	276	280	284	285	287	283	285	274	264
Mean																		
Couple no children	355	357	372	384	400	412	434	455	465	468	478	486	491	500	497	501	469	459
Single no children	206	207	216	223	232	239	252	264	270	271	278	282	285	290	289	291	272	266
Couple with two children aged 5 and 14	575	578	603	623	647	667	703	737	754	757	775	788	795	809	806	812	760	743
Single with two children aged 5 and 14	426	428	447	461	480	494	521	546	558	561	574	584	589	599	597	602	563	550

Notes:

1. Figures are for the United Kingdom from 2002/03 onwards. Earlier years are for Great Britain only.

2. This table takes levels of equivalised income for the population as a whole and translates them into cash equivalents for a selection of family types. For example, for results Before Housing Costs, it shows that 60 per cent of median equivalised income in 2011/12 for a couple (the equivalised income reference) was £256 per week. This translates to a reference income of £172 for a single person with no children. This implies that a single person with no children with a cash income of less than £172 is below 60 per cent of median equivalised income for the population as a whole.