

# Households Below Average Income: An analysis of the UK income distribution: 1994/95-2014/15

● Annual Financial year 2014/15 Published: 28 June 2016 United Kingdom

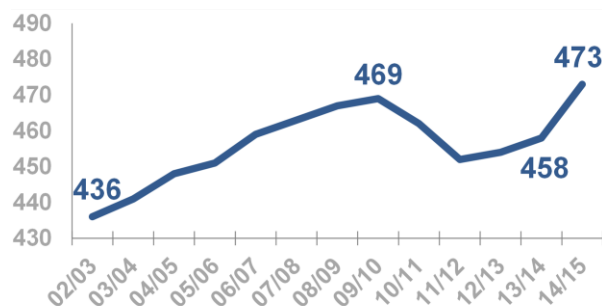
The Households Below Average Income (HBAI) report presents information on living standards in the UK based on household income measures for the 2014/15 financial year. Estimates are provided for average incomes, and for the number and percentage of people living in low income households.

## Main stories

- Average (median) incomes have increased to levels above those observed before the 2008/09 UK economic recession for the first time, and are at historic highs.
- Following increases in incomes across the distribution, income inequality is unchanged in 2014/15, and there are some decreases in absolute low income levels.
- Relative low income levels are generally in line with long term trends across the population, although there have been increases\* for children.

### Household Income

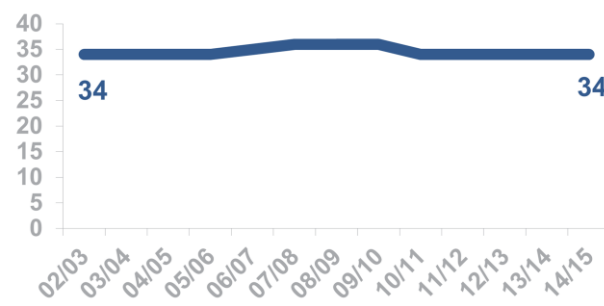
Average **increased** to £473 in 2014/15



Average (median) household net disposable income before housing costs increased in real terms (CPI) from 2013/14 to an historic high.

### Income Inequality

Gini measure **unchanged** in 2014/15



The Gini coefficient, ranging from 0% (low) to 100% (high), measures income inequality. This measure remained flat in 2014/15 at 34%, consistent with long term trends.

### Low Income Measures

Headline measures are **mixed** in 2014/15

	Relative Low Income	Absolute Low Income
<u>Before</u> Housing Costs	<b>16%</b> <b>(+1%*)</b>	<b>15%</b> <b>(-1%*)</b>
<u>After</u> Housing Costs	<b>21%</b> <b>(0%*)</b>	<b>20%</b> <b>(-1%)</b>

The proportion of individuals in low income against the headline '60% of median' threshold shows small increases\* in relative measures but decreases in absolute terms (percentage point change from 2013/14).

\* Not statistically significant

## At a glance

Page

The overall income distribution	3
Income inequality	4
Sources of income	5
Low income indicators	6
Children	7
Working Age	8
Pensioners	10
Disability	11

**Lead Statistician:** John Shale

[team.hbai@dwp.gsi.gov.uk](mailto:team.hbai@dwp.gsi.gov.uk)

**DWP Press Office:** 0203 267 5129

Comments? Feedback is welcome

Published 28 June 2016

Next edition February/March 2017

ISBN 978-1-78425-800-9

© Crown copyright

## What you need to know

HBAI is the foremost source for data and information about household income and inequality in the UK. Users include central Government, local authorities, academics, journalists and the voluntary sector.

### Income measures

HBAI estimates incorporate widely-used international standard measures of low income and inequality. The primary measure used in HBAI is equivalised disposable household income, estimated on both a before and after housing costs basis (BHC and AHC). Our main income measure includes contributions from earnings, state support, pensions, and investment income among others, and is net of tax.

In line with international best practice, the income measures used in HBAI are subject to several statistical adjustments and, as such, are not always directly relatable to income amounts as they might be understood by people on a day-to-day basis. These adjustments, however, allow us to compare measures over time and across households of different sizes and compositions on a consistent basis.

**From 2014/15 HBAI has moved from using RPI to CPI inflation when estimating how incomes are changing in real terms over time. This will mainly affect trends in real terms income and absolute low income series.** For further information see the HBAI Quality and Methodology Information Report.

### Survey data

Estimates are based on a sample of around 20,000 UK households. Use of survey data means that results in this report are subject to uncertainty which can affect how changes should be interpreted, especially in the short term. Latest estimates should be considered alongside long term patterns.

**Statistical significance** is a technical concept that says whether a reported change is likely to have arisen only by chance due to variations in the sampling. We calculate 95% **confidence intervals** around estimates in HBAI which sets a standard that, where any change is reported as statistically significant, there is less than a 1 in 20 chance that the reported difference is due to sampling variation and there is no real underlying change.

**None of the changes in this release are statistically significant unless specifically stated.**

**The reported change between two years may not equal the difference between the rounded numbers for those years. This is because we round at the final point in any calculation.**

### Additional tables and data

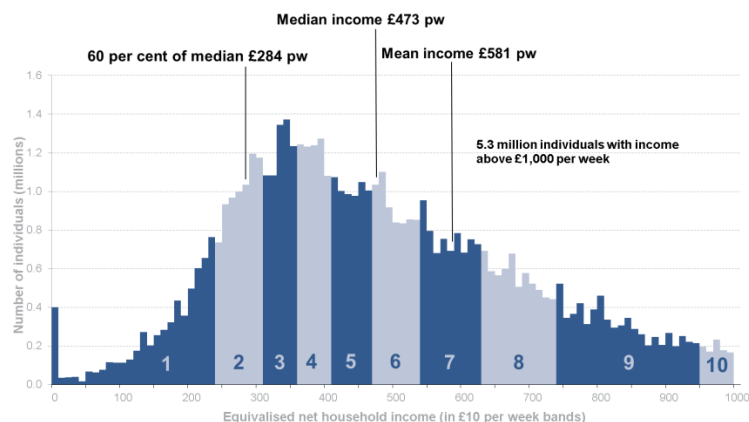
A large number of Excel reference tables are available online, breaking down results presented in this report for different demographic characteristics. Results are available for most series back to 1994/95. <https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201415>.

The source data underlying production of these statistics is available for download for further analysis via the UK Data Archive.

## The overall income distribution

Distribution of UK household income is skewed with a long right-hand tail of higher incomes. The shape of the overall income distribution evolves slowly over time, with relatively small year-on-year changes.

### Income distribution (BHC) for the total population (2014/15)



### Main Findings

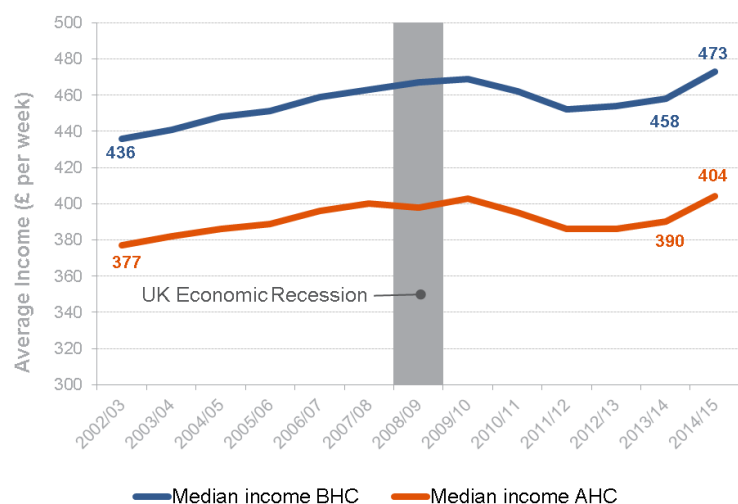
In 2014/15 just under two-thirds of individuals had a household income less than the national mean average (£581 per week).

The presence of large numbers of individuals with relatively high incomes results in a skewed or non-symmetric distribution. As a result, **median income (£473 per week)** is the standard measure of average income as changes in the mean can be driven by extreme values. The median represents the income of the individual in the middle of the distribution.

There are a large number of individuals with household incomes around the 60% of median income mark (£284 per week). Those falling below this line are considered to have relative low income. As a result of the clustering around this income level, relatively small movements in the overall income distribution can sometimes lead to sizeable movements in this low income measure.

See **Table 2.1 BHC** for full data. AHC data is available in **Table 2.1 AHC**.

### Average real terms incomes in 2014/15 prices



In 2014/15 the average (median) real terms household income before housing costs (BHC) **increased** from 2013/14 levels to **£473 per week** (around £24,700 per year). Average household income with housing costs taken into account (AHC) has also increased from 2013/14 levels to £404 per week (around £21,100 per year). Both these increases were statistically significant.

Before 2009/10 real terms incomes generally saw steady increases since the current survey series began in 1994/95. Following falls from 2009/10, real terms incomes have now started to increase again with levels in 2014/15 at historic highs.

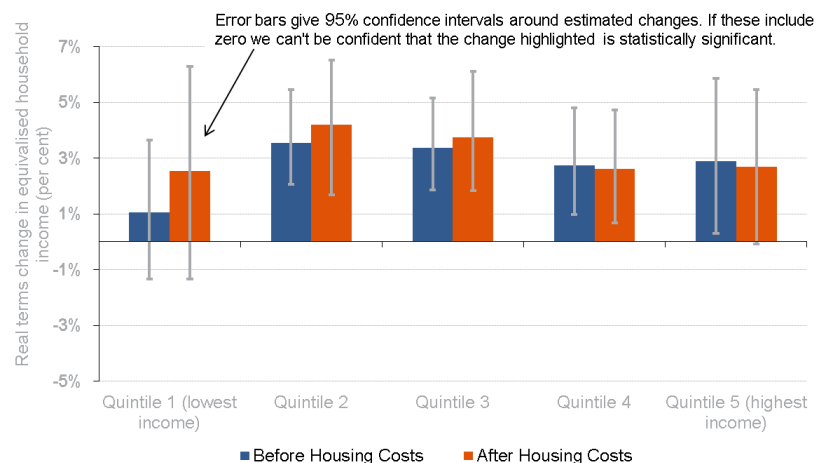
Mean average incomes also increased in real terms both BHC and AHC in 2014/15, driven in part by increases in both employment rates and in employment incomes. These changes were not statistically significant.

See **Table 2.1ts** for full data.

# Income inequality

From 2013/14 to 2014/15 there have been increases in incomes across the distribution, leaving overall levels of inequality largely unchanged.

## Changes in real terms incomes by quintile, 2013/14 to 2014/15



## Interpretation

Quintiles divide the population, when ranked by household income, into five equal sized groups. Looking at changes to average incomes for these groups gives an indication of how the most well off and least well off are doing in comparison with each other and with previous years.

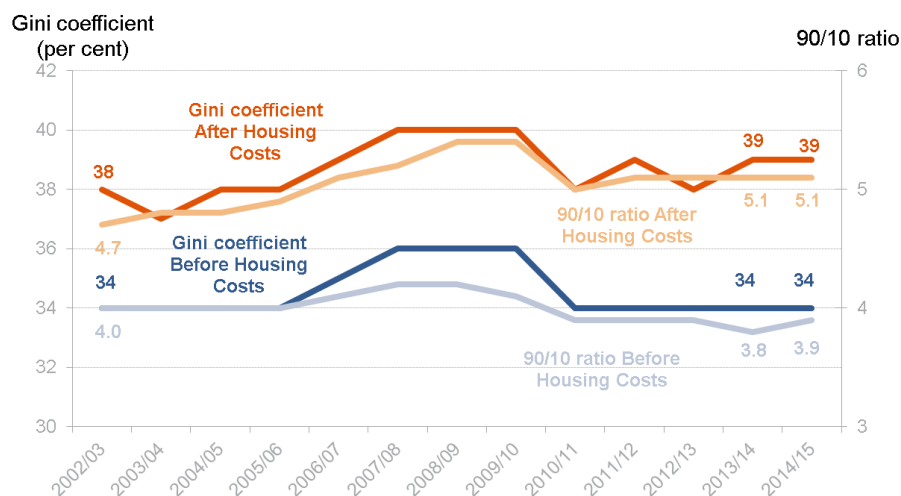
## Main Findings

Individuals across the income distribution have seen increases in real terms incomes, although those at the very bottom have seen the smallest increases. Those towards the middle of the distribution have seen the largest increases, driven in part by growth in both employment rates and employment income.

These changes were statistically significant for all groups except for the bottom quintile for both BHC and AHC income, and for the top quintile for AHC income.

See **Table 2b** for full data.

## Measures of income inequality, 2002/03 to 2014/15



## Interpretation

The **Gini coefficient** is an international standard technical measure, showing how incomes are distributed across all individuals. It ranges from 0% (when everyone has identical incomes) to 100% (when all income goes to only one person).

The **90/10 ratio** is the average (median) income of the top 20% (quintile 5) divided by the average income of the bottom 20% (quintile 1). The higher the number, the greater the gap between those with the highest incomes and those with the lowest incomes.

## Main Findings

Following changes in income in 2014/15 which saw real terms increases across the distribution, the Gini coefficient remained unchanged BHC and AHC at 34% and 39% respectively.

See **Table 2.2ts** for full data.

# Sources of Income

## The majority of household income in the UK comes from either earnings or state support

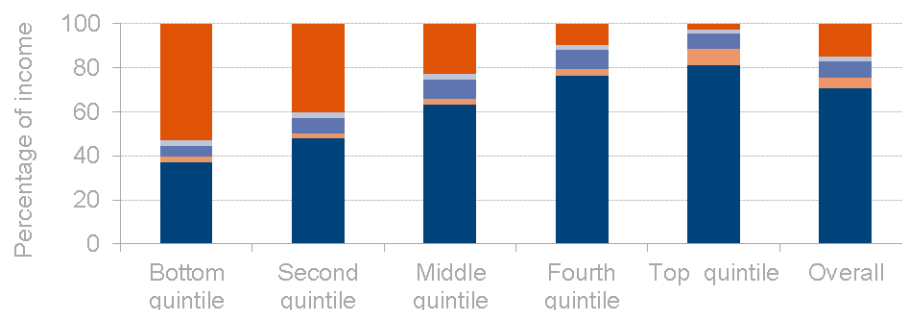
### Main Findings

The chart below shows the different sources of gross income by quintile, ranking the population by income and dividing into five equal-sized groups. Earnings and state support are the main sources of income overall, accounting for around 85% of combined income.

Whilst there is a clear pattern of higher income households receiving more of their income from earnings, and lower income households more of their income from state support, there is no obvious cut-off between groups – those in the bottom fifth still have earned income and those in the top fifth still show some receipt of state support.

### Income sources as a proportion of gross income by quintile (2014/15)

■ Earnings ■ Investments ■ Occupational pensions ■ Miscellaneous ■ State support received



The charts to the right show how results compare for different household types. Households containing children or working age adults only, receive the majority of their income from employment income. In comparison, more of the income of households containing pensioners and no children comes from state support (particularly the basic state pension) and occupational pensions.

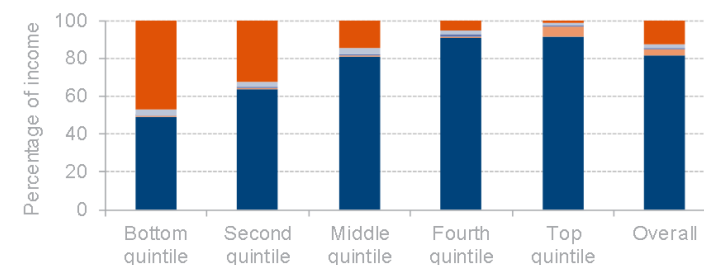
**Movements in the UK income distribution are therefore driven by changes in the wider economy, the overall labour market, changes in the tax and welfare systems, and the relative effects of these changes on different groups. There are a large number of complex and interacting factors and it is therefore difficult to assess exactly which changes have driven movements in the income distribution (and related measures), or to predict how things may change in future.**

See **Tables 2.1db** and **2.2 BHC** for full data.

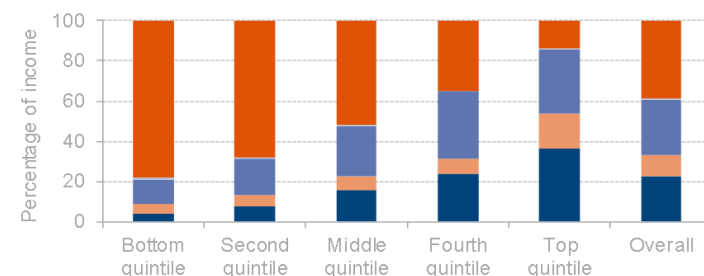
### Income sources as a proportion of gross income BHC by quintile and household type (2014/15)

■ Earnings ■ Investments ■ Occupational pensions  
■ Miscellaneous ■ State support received

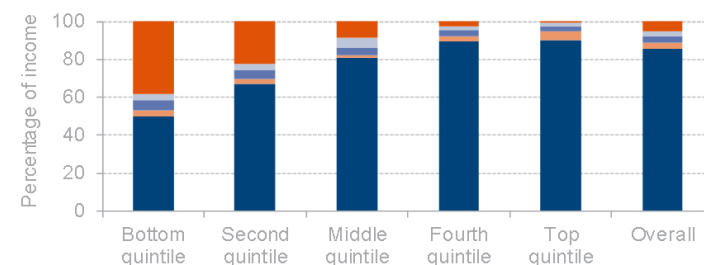
#### Households containing children



#### Households containing pensioners and no children



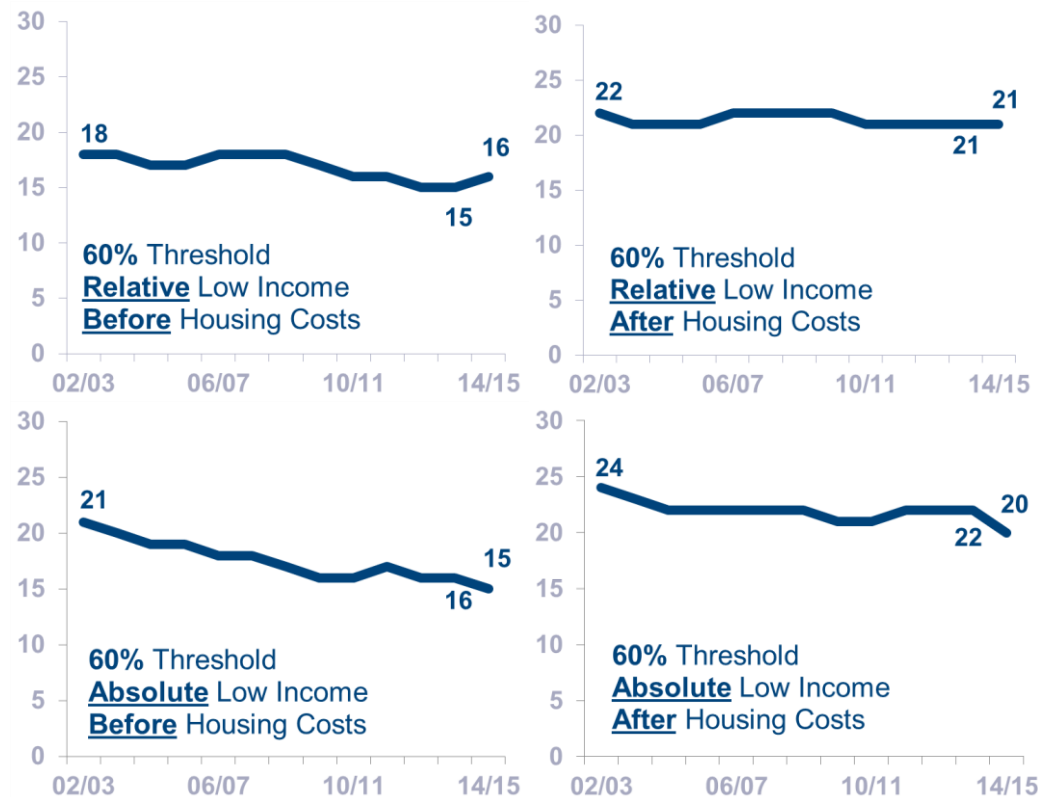
#### Households containing working age adults only



## Low Income Indicators

Most Relative and Absolute low income indicators for the overall population are broadly stable in recent years

Percentage of individuals falling below headline low income indicators



### Interpretation

**Relative low income** sets a threshold as a proportion of the UK average (median) income and moves each year as average income changes. It is used to measure the number and proportion of individuals who have incomes below this threshold (typically 50, 60 or 70% of median).

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

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

**Absolute low income** sets a threshold as a proportion of the UK average income in a given year (2010/11) and moves each year in line with inflation. It is used to measure the number and proportion of individuals who have incomes below this threshold (typically 50, 60 or 70% of median of the 2010/11 median, adjusted to the relevant year's prices).

The percentage of individuals in absolute low income will **decrease** if individuals with lower incomes see their incomes rise by more than inflation.

See **Tables 3.1tr** and **3.2tr** for full data.

### Main Findings

- The percentage of individuals in relative low income has been broadly stable in recent years at around 16% BHC and 21% AHC.
- Following a period of stability, absolute low income has fallen in 2014/15 by 1 percentage point to 15% BHC (not statistically significant) and by 1 percentage point to 20% AHC (this change is statistically significant).
- Patterns over the past twenty years show how year-on-year changes tend to be relatively modest, with longer term patterns emerging only slowly over time.

**Overall the percentages of individuals in relative and absolute low income in 2014/15 were broadly stable except for a statistically significant fall in the proportion in absolute low income AHC.**

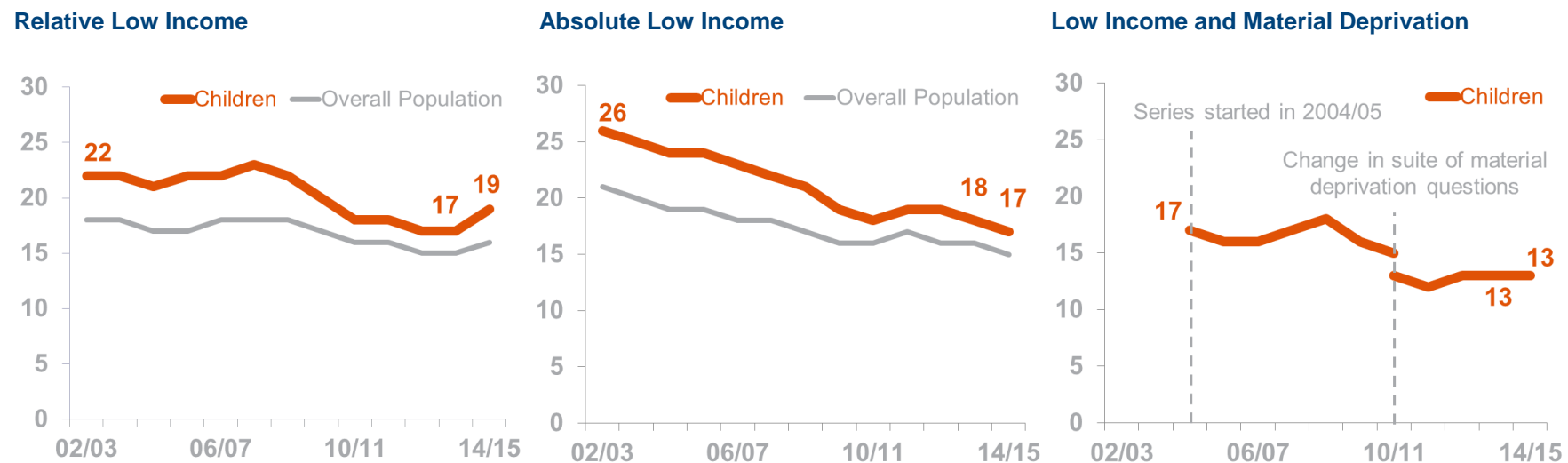
## Children in Low Income Households

Three low income measures for children from HBAI are referenced in the 2016 Welfare Reform and Work Act – a 60% threshold relative low income measure, a 60% threshold absolute low income measure, and a combined 70% threshold low income and material deprivation measure. All use a before housing costs (BHC) measure of income.

See **Tables 4.1tr, 4.2tr, and 4.5tr** for full data.

**Relative low income increased\* in 2014/15, following a downwards trend. Other indicators are flat or falling.**

Percentage of children falling below headline low income indicators



### Interpretation

\* Not statistically significant

- Child Low Income & Material Deprivation** – respondents are asked whether they have access to a list of 21 goods and services. If they can't afford a given item, this is scored in the material deprivation measure, with items more commonly owned in the population given a higher weighted score. A child is considered to be in low income and material deprivation if they live in a family that has a total score of 25 or more out of 100 and an equivalised household income BHC below 70% of median. More details are available in the HBAI Quality and Methodology Information Report.

### Main Findings

- The percentage of children in relative low income BHC increased by 2 percentage points to 19% (not statistically significant) in 2014/15. The percentages of children in absolute low income and in combined low income and material deprivation, however, remained unchanged at 17% and 13% respectively. This is most likely due to families with children benefiting less from increases in full-time work than childless families, as well as the 1% uprating of some benefits.
- Children are at higher risk of living in both relative and absolute low income than the overall UK population. This result holds over the past 20 years and is true on both a Before and After Housing Costs basis.



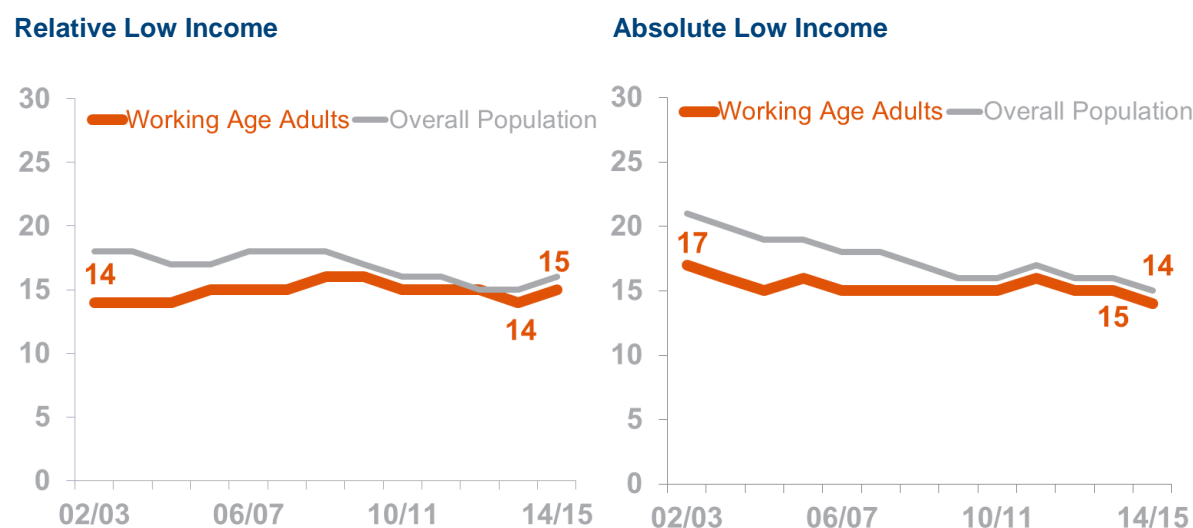
## Working Age Adults in Low Income Households

Working age adults make up around 60% of the UK population – as such changes in income for this group can drive overall results more than changes amongst children and pensioners (with each of these groups making up around 20% of the population). As shown on page 5, this group receive a greater proportion of their income from employment and so their results are more sensitive to changes in the labour market.

See Tables 5.1tr and 5.2tr for full data.

### Headline low income indicators are broadly stable in 2014/15, in line with long term trends

Percentage of working age adults falling below headline low income indicators (BHC)



### Main Findings

- The percentage of working age adults in relative low income BHC and AHC was unchanged in 2014/15 at 15% and 21% respectively. Percentages in absolute low income fell, however, by 1 percentage point to 14% BHC (not statistically significant) and 20% AHC (change is statistically significant).
- These patterns are consistent with long term trends which show a stable series for headline low income measures for working age adults.
- Those with higher levels of employment have fared better – for those adults in working families the risk of relative low income BHC is unchanged in 2014/15 at 10%; whereas for those in workless families there is a 2 percentage point increase (not statistically significant) to 39%.
- At a high level, this is most likely because both employment rates and earned income have increased in 2014/15, but income from many state benefits has fallen in real terms from 2013/14. 2014/15 is the second of three years where benefits were uprated by 1%.



## Low Income and Working Pattern for Working Age Adults

Working age adults in working families face a much lower risk of relative low income than those in families where no-one is in work. However, because a high proportion of adults are in working families, the majority of those in relative low income are from working families.

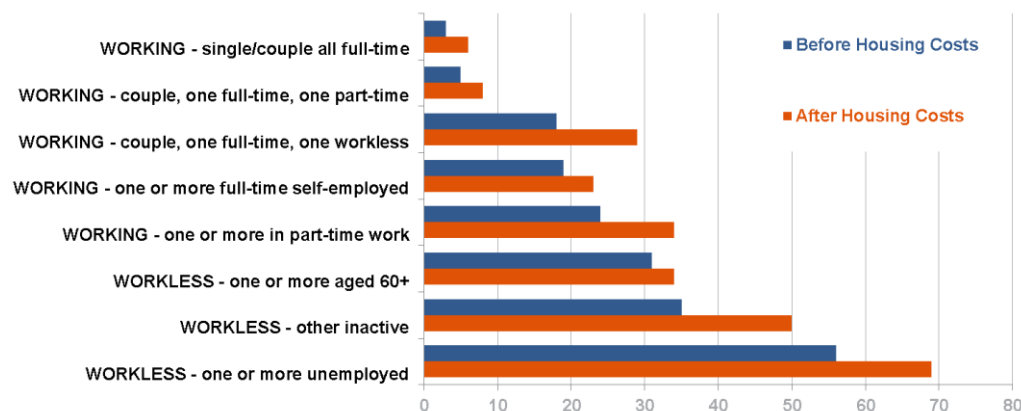
### Main Findings

In 2014/15:

- **6.3million** adults were in workless families. **2.5million (39%)** were in relative low income BHC.
- **31.6million** adults were in working families. **3.1million (10%)** were in relative low income BHC.

As such, whilst over half of those working age adults in relative low income are living in working families; those in working families are far less likely to be in relative low income. The chart below highlights relative risks of low income by different family working patterns. The highest risks are observed in families who are either workless or with relatively low work intensity.

**Risk of relative low income for working age adults by economic status of adults in family**

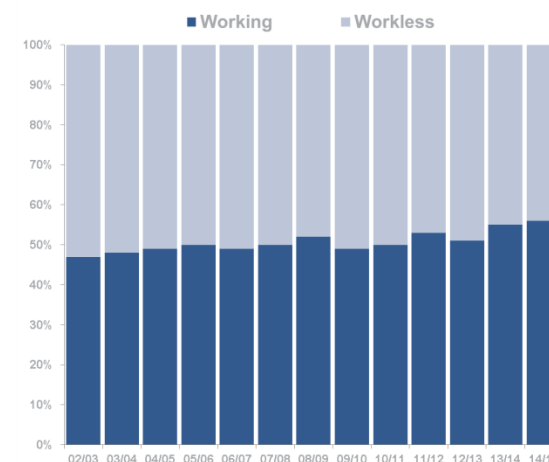


The composition chart opposite demonstrates how, over recent years, there has been an increase in the proportion of families falling below a 60% of median relative low income threshold who are in work. This has driven an increasing focus on this issue.

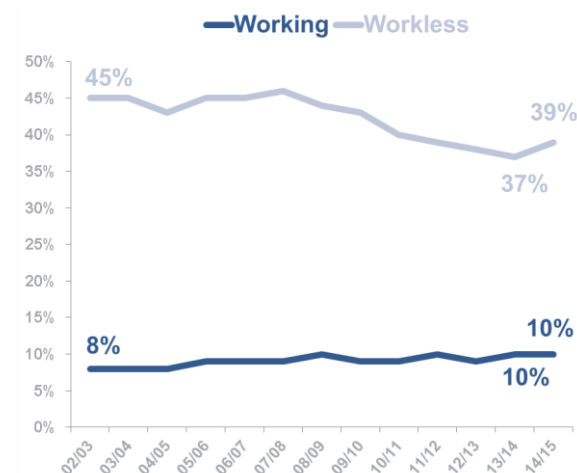
Employment rates have been increasing and the risk of relative low income BHC for those in work has been relatively stable, whereas the risk for those in workless families has been falling. These factors have contributed to the increasing proportion in relative low income who are in work.

See Tables 2.1tr, 5.7db, 5.2ts, 5.5ts, and 5.11ts for full data.

**Composition of relative low income BHC for working age adults by family economic status**



**Risk of relative low income BHC for working age adults by family economic status**



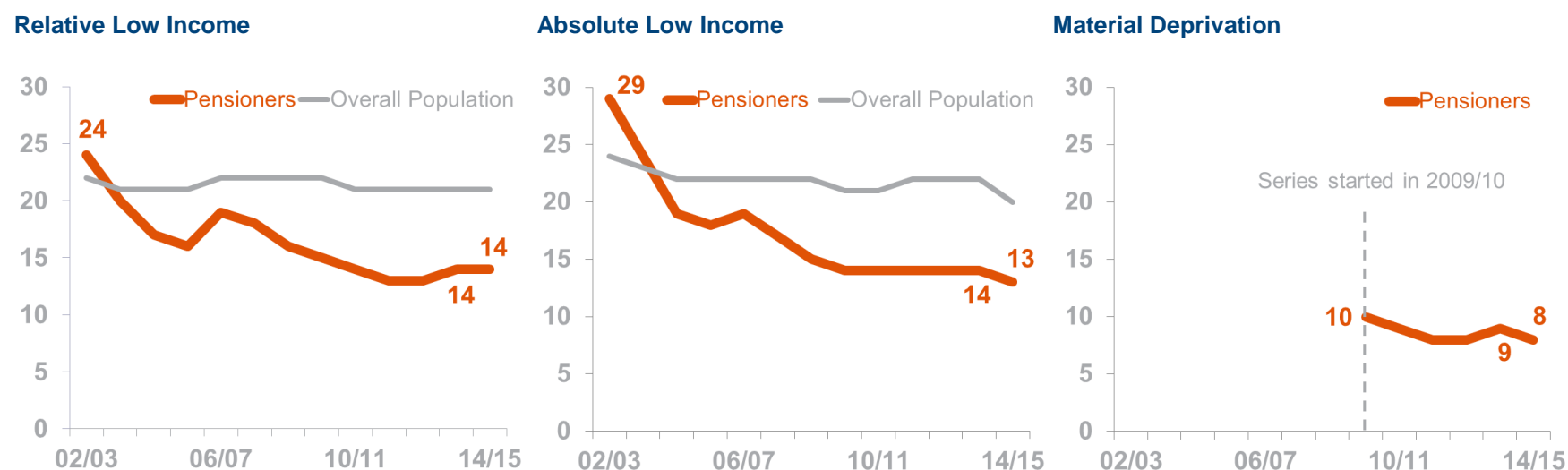
## Pensioners in Low Income Households

Nearly three-quarters of pensioners live in homes that are owned outright (compared to roughly 1 in 5 of the working age population), and so face no housing costs. The Government's preferred measures of low income for the pensioner population are therefore estimated on an after housing costs (AHC) basis to draw out the difference in living standards for the minority of pensioners who do face housing costs. We also estimate a broader material deprivation measure for pensioners.

See **Tables 6.1tr, 6.2tr, and 6.7tr** for full data.

### Headline low income indicators show some decreases in 2014/15, following long term downwards trends

#### Percentage of pensioners falling below headline low income indicators (AHC)



#### Interpretation

- Pensioner Material Deprivation** – pensioners aged 65 or over are asked whether they have access to a list of 15 goods and services. If they don't have a given item (because of cost, health, or availability) this is scored in the material deprivation measure, with items more commonly owned in the population given a higher weighted score. A pensioner is considered to be in material deprivation if they live in a family that has a final score of 20 or more out of 100. More details are available in the HBAI Quality and Methodology Information Report.

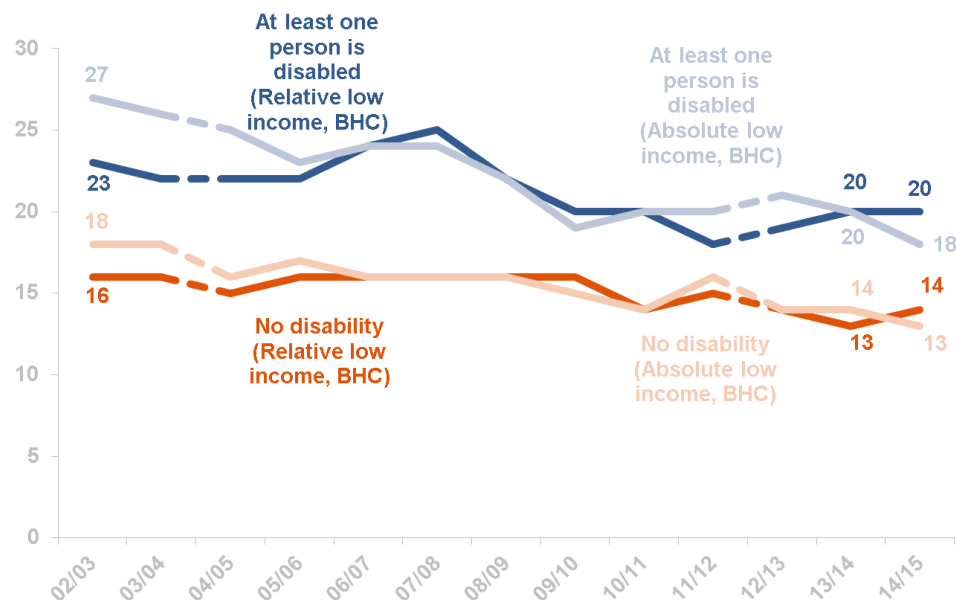
#### Main Findings

- The percentage of pensioners in relative low income AHC was unchanged between 2013/14 and 2014/15. However, the percentage of pensioners in absolute low income AHC decreased by 2 percentage points to 13% (this change is statistically significant) and the percentage in material deprivation decreased by 1 percentage point to 8% (not statistically significant). This is most likely due to the 'Triple Lock' uprating of Basic State Pension, and of most other benefits by CPI.
- Pensioners are at lower risk of living in both relative and absolute low income AHC than the overall UK population. This result holds from around 2004/05 onwards and follows significant declines in low income levels for pensioners over the past 20 years.

# Disability

Overall, those living in families with a disabled member are more likely to be in low income. This result holds for children and working age adults but not for pensioners.

Percentage of individuals in relative and absolute low income BHC, by family disability



Interpretation and Definitions

Disabled people are identified as those who report any physical or mental health condition(s) or illness(es) that last or are expected to last 12 months or more, and which limit their ability to carry out day-to-day activities a little, or a lot. This is in line with Equality Act definition.

The means of identifying people with a disability has changed over time however, with different criteria applied for 2002/03-2003/04; 2004/05-2011/12; and 2012/13 to date. As such, changes over time in the number of individuals with disabilities could be affected by the change in the disability questions.

Further, different individuals may also have different interpretations of particular health conditions or question wording, meaning that changes to the disability questions may have had a different effect on different groups.

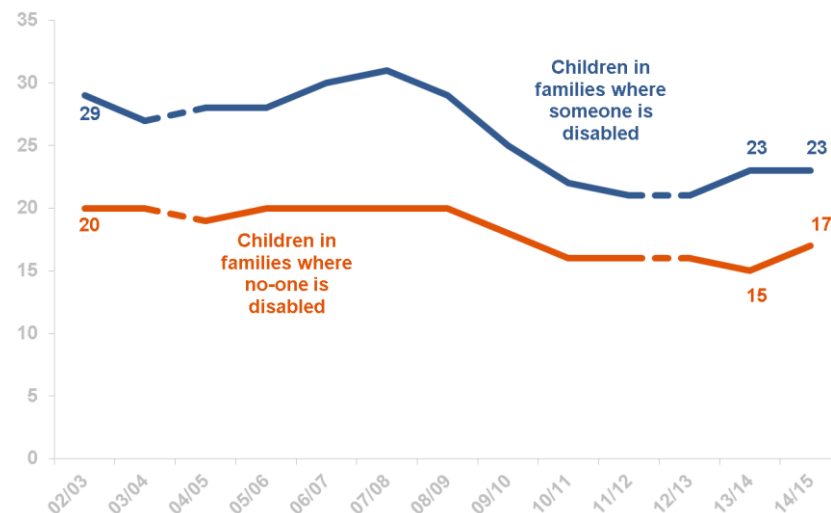
**Therefore, comparisons between figures from 2012/13 onwards and earlier years should be made with caution.**

See Tables 7.1ts to 7.16ts for full data.

## Main Findings

- There is no strong relationship between trends for those with and without disabled family members, suggesting that different factors affect the income of these households. We know, for example, that working age adults with disabilities are less likely to be in employment, and that disability is more prevalent amongst pensioners.
- On both relative and absolute measures, those living in a family with a disabled member are more likely to be in low income than non-disabled families.
- Between 2013/14 and 2014/15, however, gaps narrowed across headline low income measures, with decreases in absolute low income rates BHC and AHC (both changes are statistically significant) for individuals in families where at least one member is disabled.
- Similar patterns hold for children in families where someone is disabled, with generally reduced risks of low income (in some contrast to overall results for children in 2014/15 discussed on page 7).
- This is likely to be due to improvements in employment of disabled people and protection of the levels of disability benefits.

Percentage of children in families in relative low income BHC by family disability



# Measuring income in HBAI

**HBAI uses data from the Family Resources Survey (FRS) to derive a measure of disposable household income. Adjustments are made to take into account the size and composition of households to make figures comparable.**

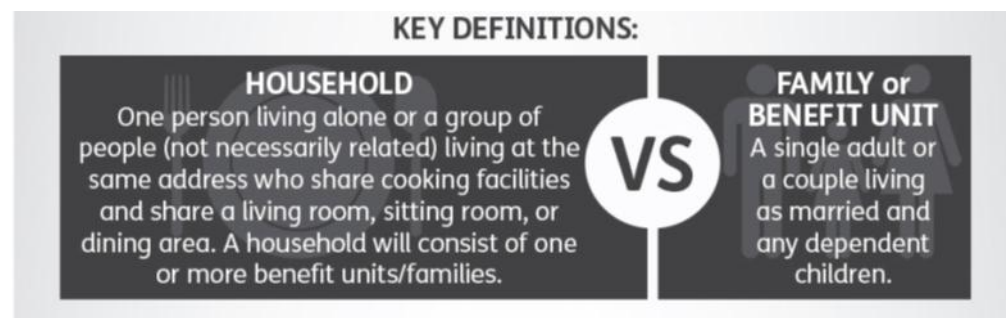
**FRS Survey Data** The FRS covers a sample of around 20,000 private households in the United Kingdom. Therefore, certain individuals, for example students in halls of residence and individuals in nursing or retirement homes will not be included.

**Sampling Error** Results from surveys are estimates and not precise figures - in general terms the smaller the sample size, the larger the uncertainty. Confidence intervals help to interpret the certainty of these estimates, by showing the range of values around the estimate that the true result is likely to be within.

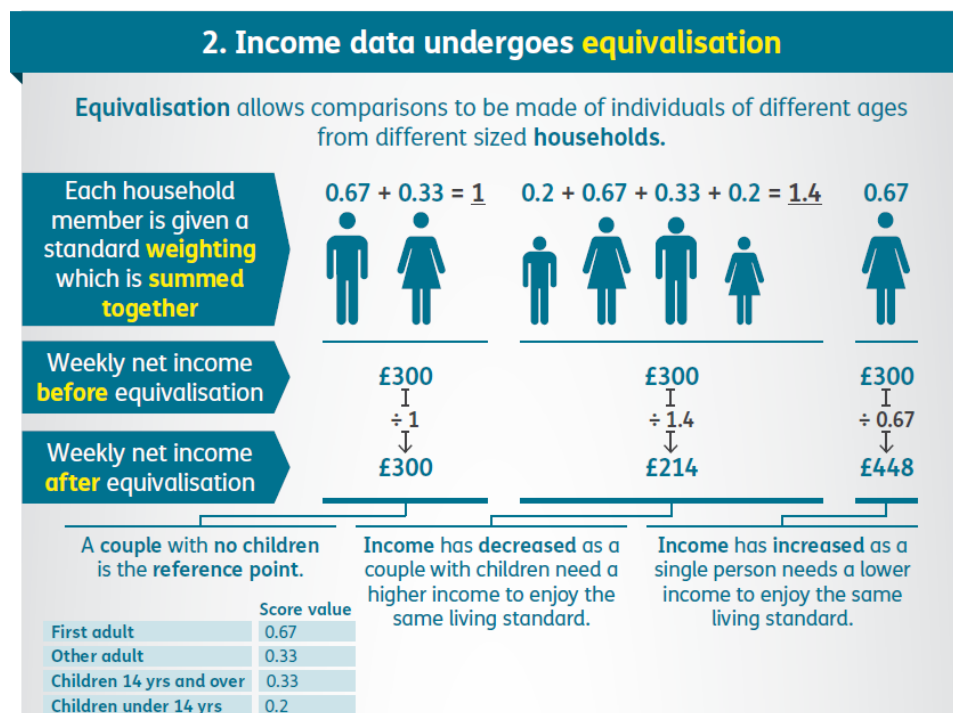
**Non-Sampling Error** These results are based on data from respondents to the survey. If people give inaccurate responses or certain groups of people are less likely to respond this can introduce biases and errors. This non-sampling error can be minimised through effective and accurate sample and questionnaire design and extensive quality assurance of the data. However, it is not possible to eliminate it completely, nor can it be quantified.

**Income** This is measured as total weekly household income from all sources (including child income) after tax, national insurance and other deductions. Income measures are presented before and after housing costs (rent, mortgage interest payments, buildings insurance etc.)

A household income measure implicitly assumes that all members of the household benefit equally from the household's income and so appear at the same position in the income distribution.



**Equivalisation** An adjustment is made to income to make it comparable across households of different size and composition. For example, this process of equivalisation would adjust the income of a single person upwards, so their income can be compared directly to the standard of living for a couple.



**Inflation** is the speed at which the prices of goods and services rise or fall. The use of different inflation measures has an effect on trends in average household income and absolute low income measures in HBAI.

From 2014/15, HBAI uses variants of CPI to adjust for inflation to look at how incomes are changing over time in **real terms** i.e. if, for example, average incomes rise by 3% in cash terms but inflation is higher at 5%, then we will record a fall in average incomes as the real average purchasing power of incomes has fallen.

## About these statistics

The income measure used in HBAI is weekly net disposable equivalised income **Before Housing Costs (BHC)**. This comprises total income from all sources of all household members including dependants. In detail income includes:

- usual net earnings from employment;
- profit or loss from self-employment (losses are treated as negative income);
- state support – all benefits and tax credits, including state pension;
- income from occupational and private pensions;
- investment income;
- maintenance payments, if a person receives them directly;
- income from educational grants and scholarships;
- the cash value of certain forms of income in kind, including free school meals.

Income is net of:

- income tax payments and National Insurance contributions;
- domestic rates/council tax;
- contributions to occupational pension schemes;
- all maintenance payments;
- student loan repayments;
- parental contributions to students living away from home.

**National Statistics:** the United Kingdom Statistics Authority has designated this series as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

## Where to find out more

Further outputs and reference tables from HBAI analysis, alongside our HBAI Quality and Methodology Information Report, giving further detail on how we estimate the measures reported here are available via the following link:

<https://www.gov.uk/government/collections/households-below-average-income-hbai--2>

ONS guidance on alternative sources of data on earnings and income is available at the following link and provides useful information to contextualise the HBAI statistics:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/methodologies/aquidetosourcesofdataonearningsandincome>

### Other National and Official Statistics

Details of other National and Official Statistics produced by the Department for Work and Pensions can be found on the DWP website at the following links:

- A schedule of statistical releases over the next 12 months and a list of the most recent releases: <https://www.gov.uk/government/organisations/department-for-work-pensions/about/statistics>
- In accordance with the Code of Practice for Official Statistics, all DWP National Statistics are also announced via the UK Statistics Authority publication hub at: <https://www.gov.uk/government/statistics/announcements>

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

**Housing costs** include:

- rent (gross of housing benefit);
- water rates, community water charges and council water charges;
- mortgage interest payments;
- structural insurance premiums;
- ground rent and service charges.

### Negative Incomes

Negative incomes BHC are reset to zero, but negative AHC incomes are possible.

**Children** are defined as individuals aged under 16; or aged 16 to 19 in full-time non-advanced education.

**Pensioners** are defined as individuals over their state pension age at the time they are interviewed.