# Child and working-age poverty from 2010 to 2020

Findings
Informing change

October 2011

This study forecasts UK income poverty among children and working-age adults from 2010/11 to 2020/21, taking into account expected economic and demographic changes and current government policy on personal taxes and state benefits.

## Key points

- The number of children in relative poverty is forecast to rise from 2.6 million in 2009/10 to 2.9 million in 2015/16 and 3.3 million by 2020/21 (measuring income before housing costs), and that of working-age adults from 5.7 million in 2009/10 to 6.5 million in 2015/16 and 7.5 million by 2020/21.
- Relative child poverty will rise from 20 per cent currently to 24 per cent by 2020/21, the highest rate since 1999/2000 and considerably higher than the 10 per cent target in the Child Poverty Act (2010).
- The proportion of children in absolute poverty (using the 2010/11 poverty line fixed in real terms) is forecast to rise to 23 per cent by 2020/21, compared with the 5 per cent target.
- Absolute poverty will rise considerably in the next few years as earnings growth is forecast to be weak but inflation high. Real median household income will remain below its 2009/10 level in 2015/16.
- The direct impact of the current government's announced reforms to personal tax and benefit policy will be to increase relative poverty among children by 200,000 in both 2015/16 and 2020/21, and among working-age adults by 200,000 and 400,000 in 2015/16 and 2020/21 respectively.
- Universal Credit should reduce poverty substantially, but the poverty-increasing effect of other government changes to personal taxes and state benefits will more than offset this.

**The research**
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# Background

## The 2010 Child Poverty Act commits successive governments to eradicating child poverty by 2020. It states that progress towards eradication should be tracked using four measures: relative income poverty; absolute income poverty; persistent income poverty; and relative income poverty combined with material deprivation. The coalition Government has proposed adding a fifth: severe income poverty.

This study forecasts relative and absolute income poverty among children and working-age adults for each year between 2010/11 and 2015/16, and for 2020/21. It concentrates on these two measures of poverty, as the other three cannot yet be modelled. Individuals are in relative poverty if their household's net equivalised income (i.e. adjusted for different household sizes and compositions) is below 60 per cent of the median in that year, and in absolute poverty if it is below 60 per cent of the 2010/11 median adjusted for inflation. All poverty measures are to use income before deducting housing costs, but this study also analyses income after housing costs, and poverty lines set at 50 and 70 per cent of median income.

## Poverty from 2009/10 to 2020/21

Before the Child Poverty Act, the Labour Government had set targets for relative child poverty to fall by a quarter of its 1998/99 level by 2004/05, and by half by 2010/11. Official estimates of the number of children in poverty in 2010/11 will be published in 2012, but this study forecasts that the figure will be considerably above target, having fallen by just over a quarter in twelve years rather than a half.

Table 1 shows forecast levels of relative and absolute poverty among children and working-age adults. The rate of relative child poverty will remain broadly constant between 2009/10 and 2012/13, before rising in 2013/14. Relative poverty among working-age adults will remain generally static between 2009/10 and 2012/13, and rise slightly in 2013/14. But absolute poverty among both groups will rise steadily over this period, and by more than relative poverty. This unusual pattern arises because low-income families' living standards are set to fall over this period, which will increase absolute poverty, but they will fall by less than the living standards of families at median income: hence, relative poverty is forecast to rise less quickly.

### Table 1: Relative and absolute poverty among children and working-age adults, to 2020

| | *Children* | | *Working-age parents* | | *Working-age adults without children* | |
|---|---|---|---|---|---|---|
| | *Millions* | *%* | *Millions* | *%* | *Millions* | *%* |
| | | | *Relative poverty* | | | |
| 2009/10 (actual) | 2.6 | 19.7 | 2.3 | 17.1 | 3.4 | 15.0 |
| 2010/11 | 2.5 | 19.3 | 2.1 | 16.6 | 3.5 | 15.0 |
| 2011/12 | 2.5 | 19.2 | 2.2 | 16.7 | 3.6 | 15.1 |
| 2012/13 | 2.6 | 19.6 | 2.2 | 17.0 | 3.7 | 15.1 |
| 2013/14 | 2.8 | 21.6 | 2.4 | 18.3 | 3.8 | 15.5 |
| 2014/15 | 2.9 | 22.0 | 2.4 | 18.5 | 3.8 | 15.3 |
| 2015/16 | 2.9 | 22.2 | 2.4 | 18.5 | 4.0 | 15.9 |
| 2020/21 | 3.3 | 24.4 | 2.6 | 20.0 | 4.9 | 17.5 |
| | | | *Absolute poverty* | | | |
| 2009/10 (actual) | 2.2 | 17.0 | 2.0 | 14.9 | 3.1 | 13.6 |
| 2010/11 | 2.5 | 19.3 | 2.1 | 16.6 | 3.5 | 15.0 |
| 2011/12 | 2.8 | 21.1 | 2.4 | 18.1 | 3.7 | 15.7 |
| 2012/13 | 2.8 | 21.8 | 2.4 | 18.7 | 3.9 | 16.0 |
| 2013/14 | 3.1 | 23.2 | 2.5 | 19.5 | 4.0 | 16.3 |
| 2014/15 | 3.0 | 22.9 | 2.5 | 19.2 | 4.0 | 16.0 |
| 2015/16 | 3.0 | 22.8 | 2.5 | 19.0 | 4.1 | 16.0 |
| 2020/21 | 3.1 | 23.1 | 2.5 | 19.0 | 4.7 | 16.8 |

Notes: Poverty line is 60 per cent of median before-housing-costs (BHC) income.
Source: Authors' calculations based on Family Resources Survey 2008/09 using TAXBEN (Institute for Fiscal Studies tax and benefit model)

At its lowest point, real median household income is forecast to be 7 per cent lower in 2012/13 than in 2009/10, and to remain below its 2009/10 level until at least 2015/16. This drop in living standards, unprecedented in recent history, is chiefly due to (actual or forecast) high inflation and weak earnings growth over this period. As families in poverty receive much of their income from state benefits and tax credits, which typically increase in line with inflation, a fall in real earnings closes the gap between them and families on/around median income, who get much of their income from earnings.

Between 2013/14 and 2015/16, absolute poverty is forecast to fall slightly and relative poverty to rise slightly as real earnings return to positive growth. Between 2015/16 and 2020/21, both poverty measures rise or remain broadly unchanged. Under these forecasts, relative child poverty will rise from its current level of 20 per cent to 24 per cent in 2020/21, and child poverty against the fixed 2010/11 poverty line will reach 23 per cent in 2020/21. Both rates are considerably higher than the Child Poverty Act's targets (10 and 5 per cent respectively), and it would be the highest rate of relative child poverty since 1999/00 (see Figure 1).

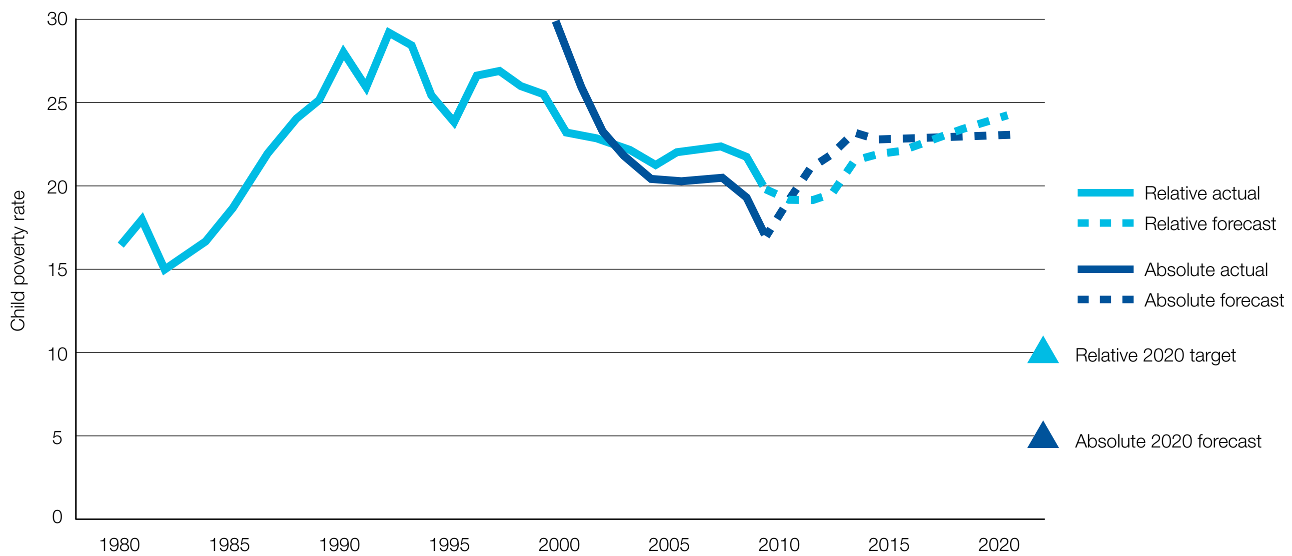
## Impact of the Coalition Government's reforms on poverty

These forecasts take into account government policy on personal tax and state benefits as of summer 2011. The study estimated the impact on poverty of the current Government's reforms by comparing the forecasts with a projection which assumed that none of the government reforms was introduced. This comparison suggested that the impact of announced changes to personal tax and benefit policy would be to increase relative child poverty by 200,000 in both 2015/16 and 2020/21, and working-age adult poverty by 200,000 and 400,000 in 2015/16 and 2020/21 respectively. The reforms are forecast to increase absolute child poverty by 200,000 in 2015/16 and 300,000 in 2020/21, and working-age adult poverty by 300,000 in 2015/16 and 700,000 in 2020/21.

The most significant proposed reform is to replace all means-tested benefits and tax credits for working-age people with a single, integrated benefit – Universal Credit. Considered in isolation, Universal Credit should reduce relative poverty significantly (by 450,000 children and 600,000 working-age adults in 2020/21), but this will be more than offset by the poverty-increasing impact of the Government's other changes to personal taxes and state benefits. The key change is that benefits, including the Local Housing Allowance (from April 2013), will be indexed in line with the consumer price index (CPI) measure of inflation, rather than the retail price index (RPI) measure.

There is no way of knowing precisely how a different government would have chosen to rebalance the public finances had it won the 2010 General Election. The forecasts outlined here simply quantify the impact of the Coalition Government's reforms relative to continuing with the tax and benefit plans inherited from the previous administration. The Government's reforms may also have affected macroeconomic variables such as earnings and employment, and these could have additional implications for poverty not accounted for in the analysis of the impact of the reforms.

## Figure 1: Absolute and relative child poverty, 1980 to 2020




Notes: Covers calendar years to 1992; thereafter, financial years. Incomes measured before deducting housing costs and equivalised using modified Organisation for Economic Co-operation and Development (OECD) equivalence scale. Figures for Great Britain before 2001 and the UK from 2002

Sources: Figures for 1980 to 2009 are from Family Expenditure Survey (1980 to 1993) and Family Resources Survey (from 1994). Figures after 2009 are authors' calculations using Family Resources Survey 2008–09 and TAXBEN

### *Alternative scenarios*

The forecasts incorporate various official bodies' economic and demographic forecasts. Alternative scenarios of employment rates rising or non-take-up rates falling relative to the central scenario (perhaps because of Universal Credit) show poverty rates in 2020/21 strikingly similar to those reported here. Similarly, variants where future earnings growth favours high or low earners also result in little difference in poverty rates. This is in part because of the imperfect match between individuals who are not working, or have low hourly wages, and individuals in poverty. This mismatch occurs because poverty is assessed at the household level, and many individuals with no or low earnings live with other adults with higher earnings.

The study's alternative scenarios confirm previous research that a rise in hourly wages for low-paid workers can act to increase relative poverty because the boost to wages helps households close to median income by more than it helps households in poverty. The potential of welfare-to-work policy to reduce child poverty is also limited because 56 per cent of children in poverty are in working families, and moving into low-paid work often does little to change the risk of being in income poverty.

## Implications for policy and poverty measurement

This study provides a baseline forecast for what might happen to poverty under current government policies. It also shows that governments cannot rely on higher employment and earnings to reduce relative poverty: if anything, a buoyant labour market will increase inequalities in household incomes. The results suggest, therefore, almost no chance of eradicating child poverty (as defined in the Child Poverty Act) on current government policy. The Coalition Government considers poverty as being about more than low relative income and has announced additional indicators to cover aspects other than income. But these are to stand alongside, rather than replace, the four income-based poverty targets in the Child Poverty Act.

Although this project did not assess what policies would be required to eradicate child poverty, it is impossible to see how relative child poverty could fall greatly in the next ten years without changes to the labour market and welfare policy and increasing the amount of redistribution by the tax and benefit system to an extent never seen in the UK.

The authors of this study have previously argued that the Child Poverty Act targets were extremely challenging; these findings confirm that view. It seems most unlikely that the targets can be met, yet the Government confirmed its commitment to them earlier this year in its first child poverty strategy, and remains legally bound to hit them. The Government might consider whether it would be more productive to set realistic targets for child poverty, along with concrete suggestions for reaching them, verified with a quantitative modelling exercise such as this one. The authors also suggest that the Government consider how best to adjust the absolute poverty line over time to reflect changes in the cost of living faced by poor households.

## About the project

The research updated and extended previous JRF-supported work by Mike Brewer and Robert Joyce, which forecast poverty to 2013/14, and built on Economic and Social Research Council-funded work by Mike Brewer, James Browne and Wenchao Jin, which simulated the impact of Universal Credit on household incomes. Income distribution forecasts were produced using a static microsimulation model (TAXBEN) and techniques for uprating and reweighting data from a large household survey of 2008/09 (Family Resources Survey) to produce synthetic populations and income distributions for future years. Official forecasts of key economic and demographic characteristics were also used, taking into account the Coalition Government's plans for personal tax and state benefits from summer 2011.

## For further information

The full report, **Child and working-age poverty from 2010 to 2020** by Mike Brewer, James Browne and Robert Joyce, is published by the Institute for Fiscal Studies with support from the Joseph Rowntree Foundation. JRF has funded this work as part of its programme of research and innovative development projects, which it hopes will be of value to policy-makers, practitioners and service users. The report is available at www.ifs.org.uk

Published by the Joseph Rowntree Foundation, The Homestead, 40 Water End, York YO30 6WP. This project is part of the JRF's research and development programme. These findings, however, are those of the authors and not necessarily those of the Foundation. ISSN 0958-3084

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