

IN-WORK POVERTY IN THE UK:

New analysis of a growing problem

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Introduction

The problem of poverty amongst working families has been the subject of increasing attention in recent years. The latest *Monitoring Poverty and Social Exclusion* report finds that 55% of families living in poverty have someone in work, the highest proportion on record (Tinson *et al.*, 2016: 9). One reason why this is problematic is because a mantra of all recent governments has been that *work is the best route out of poverty*. This core belief has inspired labour market and social security reforms over the past two decades – from the introduction of the minimum wage and the increased spending on tax credits (in the case of the Labour Party) to the increased minimum wage (now labelled the National Living Wage) and amalgamation of six means-tested benefits into Universal Credit (in the case of the Coalition and Conservative governments in office since 2010).

At a time when attitudes to those who are out of work and are reliant on social security appear to be hardening (McKay, 2014; Deeming, 2014), there appears to remain strong support for the idea that working families should not experience poverty: a survey commissioned by the Social Mobility and Child Poverty Commission found that 75% of respondents believed that the government should top up the income of households which have someone in work, but are living in poverty (Gregg *et al.*, 2013).

This chapter presents results from an in-depth study of in-work poverty in the UK, funded by the Nuffield Foundation. It is comprised of three parts. This first part details the background and aims of the present study, and the methodology employed in this study. The second part contains the analysis demonstrating that in-work poverty has indeed increased over time in the UK and seeks to identify who has been most affected by this development. The third part of the chapter concludes and reflects on some of the policy issues that arise from the preceding analysis.

What in-work poverty is and why it matters

In-work poverty is often equated in public discussion with *low pay*. A useful starting point, then, is to explain how and why the relationship between low pay and in-work poverty is far from straightforward (on this issue, see Bennett, 2014, Marx *et al.*, 2012). Measures of low pay consider only the earnings of an individual worker – typically defined as where a worker receives less than two-thirds of median hourly earnings. In contrast, in-work poverty is based on an evaluation of the total circumstances of a working household, considering not only earnings from employment but income from all sources, minus taxes, with income ‘equivalised’ to take account of the differences in needs that different household types have, and with all household members classified as poor or non-poor.

In-work poverty occurs when a working household’s total net income is insufficient to meet their needs. Thus, low pay is one possible reason for in-work poverty occurring, but we must consider the circumstances of the whole household and not just the person in paid employment (Gardiner and Millar, 2006). Indeed, because in-work poverty is about total household resources and whether these are sufficient to meet their household’s needs, the possible policy responses to tackle in-work poverty are more varied than it may, at first glance, appear. Effective responses to in-work

poverty might include increasing earnings, hours of work, the number of workers in a household, or supports for low-paid workers (e.g. Working Tax Credit), but might also include reforming supports for larger families (e.g. through Child Tax Credit or Child Benefit) or even out-of-work payments for non-employed household members. This requires us to take a closer look at the nature of in-work poverty; its relationship to low pay; the extent to which state support, in the form of tax credits, succeeds in reducing it, and how people move in and out of in-work poverty.

Aims of this study & research questions

The aims of the in-work poverty project were to provide a robust analysis of the nature of in-work poverty in the UK, the events which explain why people enter and exit in-work poverty, and the contribution which policy can and does make to alleviating poverty amongst working households. This project sought to generate new evidence about in-work poverty in the UK by answering three research questions:

- 1) What is the extent of in-work poverty, and who experiences it?
- 2) What is the relationship between social security & tax credits and in-work poverty, and how has this changed over time?
- 3) How common are entries to and exits from in-work poverty, and what events are associated with such transitions?

This chapter provides a response to question 1. The data and analysis in response to questions 2 and 3 can be found in Hick and Lanau (2018a & b), respectively.

The policy context in the UK

One reason why the UK proves to be an interesting case to study in-work poverty is that it has a more long-standing and fully-developed system of tax credits (i.e. social security payments primarily for low income working families) than many other countries. Indeed, comparative studies of in-work supports often point to the UK as being something of an exemplar in this regard (e.g. Kenworthy, 2015; Marx and Nolan, 2014). The origins of tax credits can be traced back to the to the Family Income Supplement that was introduced by a Conservative government in 1971, which provided support for low income working families where at least one person worked 24 hours per week (Dilnot and McCrae, 1999). Subsequent reform under the Thatcher government reduced the minimum hours of work to 16 and renamed the scheme Family Credit, which, in turn, became Working Families' Tax Credit (WFTC) in 1999 under New Labour. As Brewer and Browne (2006) note, the introduction of WFTC was not simply a re-branding of FC – rather, the scheme became considerably more generous, by increasing the amounts people could receive, increasing the amount they could earn before any withdrawal occurred, and reducing the taper rate, so that people could keep more of their credit as earned income increased.

A second major reform under New Labour in 2003 divided Working Families' Tax Credit into two parts, Working Tax Credit and Child Tax Credit. For the first time, tax credit entitlement was extended to families without children (via Working Tax Credit) and to families where no-one was in work (via Child Tax Credit). Post-2003, Child Tax Credit was comprised of a family element (worth £545 per year and paid to families earning more than £50,000), and a child element (one per child, with much more generous amounts, but withdrawn at significantly lower income levels). Tax credits became a central component of Labour's attempt to eliminate child poverty and to make work pay.

The coming to office of the Coalition government in 2010 brought significant changes to policy in this area; first, a more sceptical disposition as regards tax credits, which were portrayed as having cost much but delivered little; and second, a major innovation of in-work benefits themselves through the amalgamation of Working and Child Tax Credit, as well as Housing Benefit and three out-of-work benefits into one payment, Universal Credit. Its introduction marks the latest, and arguably the most significant, step in the long evolution of supports for low income workers. However, Universal Credit is not just an administrative reform; it contains a number of important features in terms of social security provision which have been extensively discussed – for example, it removes the ‘hours rules’ which stipulated that claimants needed to work at least 16 hours to receive tax credits, thereby providing support to families with few hours of paid employment (Hills, 2015). More controversially, it extends conditionality to claimants who are in work (Dwyer and Wright, 2014), and to their partners. In a bid to make welfare more ‘like work’, it will be paid monthly, despite the disconnect between such a system and the realities of how people on low incomes manage their finances (Millar and Bennett, 2017). Crucially, Universal Credit has also been the subject of a number of cuts – while its initial introduction was intended to increase support for claimants, the cuts to Universal Credit which have been announced mean that its introduction is now expected to generate savings (Finch, 2016; and see below).

The introduction of Universal Credit comes against a backdrop of very significant austerity that has been imposed since 2010 in an attempt, not yet successful, to eliminate the budget deficit. The Office for Budget Responsibility note that ‘the vast number of policies [in the area of social security] announced by the Coalition are estimated to have reduced spending by £19.6 billion.’ (OBR, 2016: 4). Nonetheless, while there have been many cuts since 2010, a number have either been implemented very recently, or are coming down the tracks, including the phase-in of cuts to Universal Credit. Thus, this is a policy area which continues to undergo significant change.

Methodology

Conceptualisation and measurement of in-work poverty

It has been widely recognised in the literature on in-work poverty that the definitions of “working” and “poor” are of fundamental importance (Horemans *et al.*, 2015: 8; Thiede *et al.*, 2015). Our primary measure of poverty is the 60% of median income poverty measure, but we present findings using a measure of material deprivation too. Throughout, we adopt an After Housing Cost (AHC) measure of income, which deducts housing costs from net household income before households are classified as being in poverty or not. We make the ubiquitous, though problematic, assumption that income is shared within the household equally. The indicators used to construct a measure of material deprivation, an alternative measure of poverty, are contained in the Appendix. A household is classified as being material deprived when they report going without at least 4 of the 9 items because of a lack of resources (labelled “enforced lack”).

The definition of “in work” is also of central importance. The existing literature recognises that definitions can be more ‘encompassing’ or ‘strict’ in terms of how much work as household must have before members are recognised as “working”. Analysis at the European Union level often focusses on stricter definitions of work, where a person is in paid employment for of 7 or more months of the preceding year (e.g. the official EU measure of in-work poverty; Eurofound, forthcoming; see also Goerne, 2011).

In contrast, discussion about in-work poverty in the UK has tended to adopt a more ‘encompassing’ approach, including anyone who has performed at least one hour of work in the week preceding the interview (following the ILO definition of employment). One advantage of

this approach is so as ‘not to exclude from the outset any category of disadvantaged workers’ (Crettaz and Bonoli, 2011: 48; see also Crettaz, 2011; Horemans *et al.*, 2015). We adopt the latter approach here, partly for consistency with other work conducted in the UK (e.g. Tinson *et al.* 2016). In practice, the overwhelming majority of people who are currently employed have also been employed for 7 or more months of the preceding year.

One final issue relates to the unit of analysis, which, while technical, is significant – namely, the question of whether we are interested in the poverty of workers *per se* or that of people living in working families. The debate in the UK has largely focussed on poverty amongst working families – and thus counts both the person(s) who are in employment, but also other family members who, potentially, depend on their income (see, e.g., Scottish Government, 2015; Tinson *et al.*, 2016). This is in contrast to the official EU definition of in-work poverty (Eurostat, n.d.), and to most of the European literature on this subject (e.g. Eurofound, forthcoming; Crettaz, 2011), where the focus is on only on the proportion of *workers* who live in poverty, ignoring non-employed family members. The is one good, albeit technical, reason for focussing on all working-age household members: if we only count workers in the definition of in-work poverty, then the employment and income variables will be measured using different units of analyses, since the income variable (and thus the poverty status) considers all income sources in the household and thus all individuals. In this study, we follow the UK convention and focus on the experience of poverty for all working-age adults in households where someone is in work.

Analysis

The analysis in the remainder of this chapter seeks to answer research question 1 of the project: What is the extent of in-work poverty, and who experiences it?

The data presented in this chapter are based on an analysis of Households Below Average Income for 2014/15, the most recent year for which micro-data are available, using all cases for which we have data available. The exception to this is in the analysis of the risk of in-work poverty and in-work deprivation (Section 1.5), where we present an analysis of respondents with complete data in relation to all variables examined in that sub-section.

Data are weighted throughout by the cross-sectional weight for working-age adults, and findings are thus representative of this group (or, where indicated, for children). In practice, this means that pensioner households are excluded from the analysis but working-age individuals in households which also contain pensioners are included.

Findings

1.1. What recent findings on in-work poverty tell us

The recent focus on in-work poverty in the UK has stemmed in no small part from the 2013 *Monitoring Poverty and Social Exclusion* report, which found that ‘for the first time in the data series, there are more people in poverty in working families than in workless and working-age and retired families combined’ (McInness *et al.*, 2013: 3). This finding focusses on the *composition* of the poor (the proportion of those in poverty who live in working families), rather than the *risk* of poverty for working households (the probability of experiencing poverty for different family types), and included people of all ages in the calculation. Both the risk and the composition of people in poverty are important, as is the distinction between them.

Indeed, focusing on the composition and risk of poverty jointly is useful in understanding the relationship between work and poverty. In Table 1 we present three important elements of the relationship between poverty and work – the distribution of the population by household employment status, the risk of poverty for these households, and the share of those in poverty that they account for. This first analysis alone is weighted so that it is representative of the full population – including pensioners and children.

In the column on the right (‘share’), we observe that six in ten (59.9%) of people in poverty live in a household with at least one member in employment. This does not mean that people in work are *worse off* than those who are not in paid employment, however. There are many more working households than non-working households – indeed, more than half of the population live in households where all working-age adults are in employment (which includes a single earner in a one-adult household), and three quarters have at least one adult in paid employment (‘distribution’).

While much recent discussion has focused on the *share* of the population in poverty living in working households (that is, the composition the poor), the risk of poverty – that is, the proportion of individuals by households type that experiences poverty – is also of fundamental importance. In Table 1 we observe that the risk of poverty for people living in households where *all adults* are working is 10.1%. The risk for those living in households where some, but not all, working-age members are in employment is one-third (32.6%), while the poverty risk for workless households is just over one-third (35.1%).¹

Two findings stand out. First, even when all working-age members of a household are in employment, they experience a non-zero risk of poverty. That is, work fails to provide a guarantee against poverty. Second, the work intensity of the household is clearly related to the poverty risk, with a linear increase in poverty as we move from all members, to some members, to no members in paid employment.

The risk and composition perspectives provide complementary, but different, information. We must take care to note that while most individuals in poverty live in working households, the evidence provided here shows that poverty risk clearly falls as work intensity rises. Nonetheless, given that working poverty accounts for a large share of *total* poverty, a successful attempt to reduce poverty in the UK will need to identify how this is to be achieved for working households.

Table 1. Distribution of the population, risk of poverty and share of poverty by household employment status, respondent of all ages

	distribution of population	risk of poverty	share of people in poverty
all working-age adults in employment	53.0	10.1	25.1
some, but not all, working	22.7	32.6	34.8
workless HH	24.3	35.1	40.1

HBAI 2014-15. Weighted by population weight

1.2. The risk of in-work poverty over time

One might then ask: is the risk of in-work poverty rising? We have noted that the most commonly cited claim about in-work poverty relates to the *composition* of people in poverty. However,

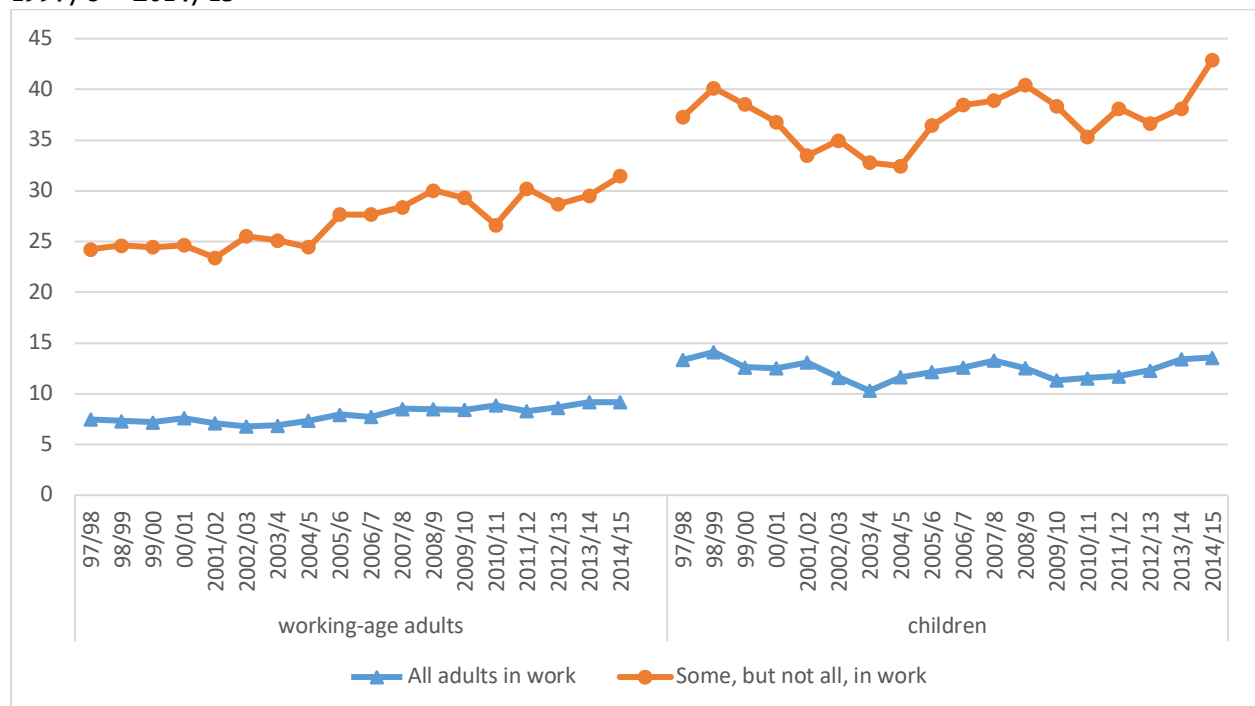
¹ If this latter figure seems low, it is because this table considers the whole population and thus includes pensioners, who comprise a significant share of workless households. If we restrict our focus to working-age adults only, the risk of poverty for working-adults in households where no-one works is 60%.

pensioners have been a priority group for some time – benefitting in recent years from the ‘triple lock’ which guarantees that the State Pension rises in value over time; pensioner poverty, consequently, has been falling. Perhaps the risk of in-work poverty is not rising, but those in work nonetheless account for a growing share of people in poverty because of this fall in pensioner poverty. Thus, one might ask: *is the risk of in-work poverty increasing?*

The analysis presented here indicate it is. For working-age adults living in working households, the risk of poverty has risen from 12.4% to 15.7% - that is, by 26.5% - between 2004/5 and 2014/15. In Figure 1 below, we present trends in in-work poverty for working-age adults and children, respectively, and by the work intensity of the household (i.e. where all adults, or some but not all adults are working). In this figure we can observe that the risk of poverty for working-age adults who live in working households has been rising since 2004/5. We can see that this risk increases from 7.3% to around 9.2% for households where all working-age members are in employment, and from 24.4% to 31.4% of all working-age adults where some, but not all, members are in employment.

For children, the trend is somewhat different: a falling risk of poverty between 1998/9 and 2004/5, followed by a rise to 2008/9, followed by a further reduction and another increase. The risk of child poverty amongst working families is now the highest in the period 1997/8 - 2014/15 and the risk of poverty for children has risen by 17% and 32% for those living in households where all adults, and some but not all adults, work, respectively. Thus, for both working-age adults and children, the rise in working poverty is concentrated in the period since 2004/5.

Figure 1. In-work poverty risks for working-age adults and children by work intensity, 1997/8 – 2014/15



Source: HBAI, respective years, weighted

1.3. Low pay and in-work poverty

In this sub-section, we explore the relationship between in-work poverty and low pay. In Table 2, we focus on the most common measure of low pay – namely, using a threshold of less than two-thirds of gross median hourly earnings (see, for example, Nolan and Marx, 2000). However, because our analysis considers not only workers, but other working-age members of the household – we focus on working-age adults with a low paid member in the household rather than just these low paid workers. We can observe in Table 2 that just 22.2% of working-age adults living in households with a low paid member experience in-work poverty. This seems to support the findings from previous literature, which has emphasised the distinctive nature of low pay and in-work poverty. However, if we approach the comparison from the opposite direction; namely, looking at individuals living in in-work poverty, we observe that almost half of these live in households where someone is low paid (48.3%).

Table 2. Incidence of, and relationship between, low pay and in-work poverty, working-age adults only

Measure	%	sample size
Individuals living in HH with low paid member	30.2	16,803
In-work poverty rate	13.9	16,803
Indiv with low paid HH member who experience in-work poverty	22.2	16,803
in-work poverty who live in HH with low paid member	48.3	16,803

Source HBAI 2014/15, weighted

One of the reasons why the overlaps are so different is that the size of the low pay and in-work poverty groups differs. Low pay is a larger problem than in-work poverty – indeed twice the number of people live in a household with a low paid member as live in a household which has work but is poor. But of significance is that almost half of those experiencing in-work poverty live in households where someone is low paid.

Another way to think about the relationship between low pay and in-work poverty – beyond the numbers affected – is to consider the extent to which they are spread across the income distribution. In Table 3 below, we plot working-age adults with a low paid member in their households and those experiencing in-work poverty respectively across the income distribution (top two rows).² In the top row, we can observe that working-age adults living in households with a low paid member are reasonably spread throughout the income distribution and, indeed, if anything are concentrated in the middle of the distribution (in deciles 4-6). In contrast, and by definition, people living in working poor households are concentrated at the bottom three deciles of the income distribution (see second row). Thus, low pay and in-work poverty are related, but quite distinct, problems.

² The income deciles are constructed on the basis of the income distribution of the full, weighted sample and not just people of working-age.

Table 3. Measures of low pay and in-work poverty across the income distribution, working-age adults only

measure	bottom decile	2	3	4	5	6	7	8	9	top decile	%	sample size
Indiv in HH with low paid member (hourly)	10.3	10.4	10.4	12.9	11.5	11.4	10.6	11.5	6.4	4.7	100	16,803
in-work poverty	47.8	45.9	6.3	0	0	0	0	0	0	0	100	16,803
low paid worker (hourly)	11.6	12.5	11.8	14.4	12.8	11.3	8.8	9.0	4.3	3.7	100	10,236
Indiv in HH with low paid member (weekly)	9.9	10.0	10.2	12.5	12.4	11.7	10.7	10.3	6.9	5.5	100	16,803
in-work deprivation	18.5	18.3	17.7	13.2	11.1	8.0	6.2	4.4	1.3	1.3	100	12,192

Source: HBAI 2014/15, weighted

In the third row, we present the distribution of low paid workers themselves (which reduces the sample size, since only workers are included) rather than adults living in households with a low-paid worker; row four reverts to the measure capturing individuals living in a household with a low paid member, but presents the distribution based on a measure of low pay which reflects earnings falling below two-thirds of gross *weekly* earnings; while row five presents the distribution of in-work deprivation, being the joint experience of being in a household where at least one person is in work, but which also experiences material deprivation.

When low pay is measured on the basis of low-paid *workers* (as opposed to individuals living in a household with a low paid member), we see slightly greater concentration towards the lower end of the income distribution (though the overwhelming majority remain non-poor); when measured at the household level using low weekly earnings, the slight concentration towards the middle of the income distribution is again observed. In all cases, these measures of low pay and their relationship across the income distribution stand in stark contrast to the measure of in-work poverty, which is (by definition) restricted to those at the lower end of the income distribution. Finally, if we turn to the in-work deprivation measure in row 5, the concentration becomes less precise – nonetheless, however, more than three-quarters of people experiencing in-work deprivation are found in the bottom half of the income distribution.

The analysis above shows that while low pay and in-work poverty are manifestly not the “same problem”, nearly half of people who experience in-work poverty live in households with at least one low paid member. What this shows is that boosting the incomes of low paid workers may be one way to combat in-work poverty. However, the extent to which increasing the pay of such workers would reduce in-work poverty also depends not only on the presence of low paid workers within working poor households, but also *how far* below the poverty line such households are, and on the extent of increases to such families (how significant increases in the minimum wage are, for example). Since families with a low paid worker are reasonably spread throughout of the income distribution, however, the ‘limitation’ is arguably that this mechanism would have substantial ‘spill-over’ effects since most of those who would gain would not be poor.

1.4. Who experiences in-work poverty?

In this sub-section, we examine who it is that experiences in-work poverty. To do this, we present data on the proportion of particular groups who experience in-work poverty and in-work deprivation (with the latter measure being used to check whether the groups we identify continue to be the same when an alternative measure of poverty is used). As previously mentioned, the in-work poverty measure is constructed using a low income poverty line set at 60% of median income (using the After Housing Cost measure of income), while the in-work deprivation measure is created using a deprivation threshold of 4 or more of the 9 deprivation items. Thirteen variables are considered in this analysis: the number of workers in the household, household composition,

the number of children in the household,³ whether there are pensioners in the household, whether there is a self-employed household member, socio-economic class, standard industrial classification of employment, educational attainment, housing tenure, sex, whether respondents live in a female-headed household, are migrants or are native born, and age group.

Risks of in-work poverty

The results from the analysis of risks of in-work poverty can be categorised into three sets of groups. The first set of groups comprises sub-groups that exhibit a high *risk* of in-work poverty or deprivation, while at the same time accounting for a substantial proportion of the *composition* of those experiencing in-work poverty. A key variable of interest here is the number of workers in the household. For both the in-work poverty and in-work deprivation measures, one of the highest risks of in-work poverty/deprivation for any of the sub-groups considered here is for households with only one person in employment (33.8% and 28.6% for the income and deprivation measures, respectively). In both cases, such households represent a substantial proportion of those experiencing in-work poverty/deprivation (60% in the case of the income measure, 49% in the case of the deprivation measure).

A second sub-group who also experience both a very high *risk* of in-work poverty while at the same time accounting for a large share of its composition are individuals living in rented accommodation. The risk of in-work poverty is 34% and 27% for social and private rented sector tenants respectively on the income measure; and 47% and 25% of such tenants on the deprivation measure. Tenants in social and private rented sector account for about six in ten people in in-work poverty, but only about three in ten of people of working age. A final, albeit weaker, case of a sub-group with a high risk of in-work poverty while also accounting for a large share of the in-work poor is in relation to service sector employment, where there is a pronounced risk of in-work poverty (19% on the income measure, 20% on the deprivation measure, comprising about 45% of the composition on both measures).

There are, then, a second set of groups that display pronounced *risks* of in-work poverty on both income and deprivation measures, but which account for a small proportion of those experiencing in-work poverty. Being a migrant and living in a household with 3 or more children, or a single parent, raises the risk of in-work poverty/deprivation, but in most cases account for less than 30% (sometimes considerably so) of the share of individuals in in-work poverty. Indeed, it is non-migrants, households with either no or one child, and with two or more adults who make up the overwhelming majority of those experiencing in-work poverty.

A third set of groups are those for whom the income and deprivation measures provide partially conflicting information about the risks of in-work poverty that these groups face. The risk of in-work poverty for households with a self-employed member is substantial on the income measure, which is consistent with previous research in this area (e.g. Hallerod *et al.*, 2015). However, this risk is *lower* than those with no self-employed members when we look at the deprivation measure (see also Hick, 2016). Having a pensioner in the household reduces in-work poverty on the income, but not the deprivation, measure, reflecting, perhaps, the fact that their income will be assumed to be shared in the income-centric analysis, irrespective of whether this, in fact, happens.

³ Note that we select number of children rather than the ratio of children to working-age adults, as suggested by Crettaz and Bonoli (2011), as this provides marginally greater discrimination in terms of in-work poverty and deprivation, and is the more intuitive measure.

In terms of some of the other key findings, lower levels of education are associated with a raised risk of in-work poverty, especially on the deprivation measure. The risk of in-work poverty is greatest amongst younger respondents – again, the effect is slightly stronger when the deprivation measure is employed (though this may be an artefact of the deprivation measure; there have been suggestions that material deprivation measures may under-state true levels of deprivation amongst older respondents, see Hick, 2013). Women experience slightly greater rates of in-work poverty than men on both measures, though the gendered effect of in-work poverty is more pronounced when we focus on female-headed households rather than sex per se. Of course, the gendered effect of in-work poverty is obscured by the assumption of equal sharing of resources within households. Some studies have sought to create measures of ‘individual’ in-work poverty (e.g. Pena-Casas and Ghailani, 2011; Ponthieux, 2010) – that is, relying *only* on the income received by an individual worker: such studies show that ‘women appear to be much more exposed to poverty as individuals rather than as household members’ (Pena-Casas and Ghailani, 2011: 213).

Table 4. Risk and composition of in-work poverty, working-age adults only

RISK OF POVERTY				COMPOSITION OF POVERTY			
	non-poor	in-work poverty	total		non-poor	in-work poverty	total
<i>Number of workers in HH</i>				<i>Number of workers in HH</i>			
1	66.3	33.8	100	1	21.0	59.7	26.9
2	90.7	9.3	100	2	61.4	35.3	57.4
3 or more	95.1	4.9	100	3 or more	17.6	5.1	15.7
<i>Household composition</i>				<i>Household composition</i>			
single person HH	80.1	19.9	100	single person HH	4.6	6.4	4.9
single parent HH	71.3	28.7	100	single parent HH	1.3	2.9	1.6
couple, no children	90.1	9.9	100	couple, no children	33.7	20.6	31.7
couple, children	80.4	19.6	100	couple, children	33.1	45.1	35.0
other family, no children	90.2	9.8	100	other family, no children	18.7	11.3	17.6
other family, children	77.7	22.3	100	other family, children	8.5	13.6	9.3
<i>children in HH</i>				<i>children in HH</i>			
0	89.2	10.8	100	0	57.1	38.4	54.2
1	82.1	17.9	100	1	21.1	25.6	21.8
2	78.9	21.1	100	2	16.9	25.2	18.1
3+ children	71.8	28.2	100	3+ children	4.9	10.8	5.8
<i>pensioners in HH</i>				<i>pensioners in HH</i>			
none	84.6	15.4	100	none	95.7	97.2	95.9
1 or more	89.6	10.4	100	1 or more	4.3	2.8	4.1
no self-employed member	86.3	13.7	100	no self-employed member	81.2	71.9	79.8
self-employed HH member	78.9	21.1	100	self-employed HH member	18.8	28.1	20.2
<i>Standard Occupational Classification</i>				<i>Standard Occupational Classification</i>			
Managers, Prof, Assoc Prof, Technicians	91.8	8.2	100	Managers, Prof, Assoc Prof, Technicians	45.5	22.7	42.0
Intermediate (trades, secretarial, care)	85.0	15.0	100	Intermediate (trades, secretarial, care)	30.2	29.7	30.1
Less skilled (sales, machine ops, etc.)	76.9	23.1	100	Less skilled (sales, machine ops, etc.)	21.9	36.7	24.1
Undefined	55.2	44.8	100	Undefined	2.4	10.9	3.7
<i>Standard Industrial Classification</i>				<i>Standard Industrial Classification</i>			
Manufacturing	86.8	13.2	100	Manufacturing	10.3	8.7	10.0
Engineering, construction, science, etc	86.7	13.3	100	Engineering, construction, science, etc	15.9	13.6	15.6
Financial services and real estate	92.1	7.9	100	Financial services and real estate	5.6	2.7	5.2
Public service	90.0	10.0	100	Public service	30.8	19.0	29.0
Other services and the arts	81.2	18.8	100	Other services and the arts	34.8	44.8	36.3
Undefined	56.9	43.1	100	Undefined	2.7	11.2	4.0
degree or higher	90.4	9.6	100	degree or higher	31.2	18.4	29.2
some further education	88.0	12.0	100	some further education	13.8	10.5	13.3
A-level or equivalent	86.5	13.5	100	A-level or equivalent	18.1	15.8	17.8
GCSE or equivalent	81.1	18.9	100	GCSE or equivalent	22.8	29.6	23.8
other quals	80.7	19.3	100	other quals	5.6	7.4	5.9
no quals	72.1	27.9	100	no quals	8.5	18.4	10.0
owns outright	92.2	7.8	100	owns outright	21.0	9.9	19.3
owns w/ mortgage	91.1	8.9	100	owns w/ mortgage	51.9	28.3	48.3
social rented	66.1	33.9	100	social rented	8.1	23.2	10.4
private rented	72.7	27.3	100	private rented	18.3	38.3	21.3
other	94.9	5.1	100	other	0.8	0.2	0.7
Male	85.2	14.8	100	Male	50.9	49.2	50.6
Female	84.4	15.6	100	Female	49.2	50.8	49.4
male headed HH	85.8	14.2	100	male headed HH	69.8	64.5	69.0
female headed HH	82.6	17.4	100	female headed HH	30.2	35.5	31.0
non-migrant	87.2	12.8	100	non-migrant	83.8	68.8	81.5
migrant	74.3	25.7	100	migrant	16.2	31.3	18.5
<i>Age</i>				<i>Age</i>			
16 to 29	82.3	17.7	100	16 to 29	20.6	24.7	21.2
30 to 44	83.5	16.5	100	30 to 44	36.3	39.9	36.8
45 to 59	87.1	12.9	100	45 to 59	36.7	30.3	35.7
60 to 64	87.6	12.4	100	60 to 64	6.5	5.2	6.3

Source: HBAI/FRS, 2014/15, weighted

Table 5. Risk and composition of in-work deprivation, working-age adults only

RISK OF DEPRIVATION				COMPOSITION OF DEPRIVATION			
	non-deprived	in-work poverty	total		non-deprived	in-work poverty	total
<i>Number of workers in HH</i>				<i>Number of workers in HH</i>			
1	71.4	28.6	100	1	22.2	48.8	26.3
2	89.5	10.5	100	2	65.1	42.0	61.5
3 or more	88.4	11.6	100	3 or more	12.8	9.2	12.2
<i>Household composition</i>				<i>Household composition</i>			
single person HH	82.6	17.4	100	single person HH	5.0	5.8	5.1
single parent HH	56.0	44.0	100	single parent HH	1.2	5.1	1.8
couple, no children	91.0	9.0	100	couple, no children	34.7	18.8	32.3
couple, children	82.1	17.9	100	couple, children	38.7	46.3	39.8
other family, no children	88.3	11.7	100	other family, no children	13.4	9.8	12.9
other family, children	73.2	26.8	100	other family, children	7.1	14.3	8.2
<i>children in HH</i>				<i>children in HH</i>			
0	89.5	10.5	100	0	53.1	34.4	50.2
1	80.8	19.2	100	1	21.9	28.6	22.9
2	81.5	18.5	100	2	19.5	24.4	20.3
3+ children	70.7	29.3	100	3+ children	5.6	12.7	6.7
<i>pensioners in HH</i>				<i>pensioners in HH</i>			
none	84.7	15.3	100	none	98.6	98.3	98.5
1 or more	82.1	17.9	100	1 or more	1.4	1.7	1.5
no self-employed member	84.4	15.6	100	no self-employed member	79.9	81.3	80.2
self-employed HH member	85.6	14.5	100	self-employed HH member	20.1	18.7	19.8
<i>Standard Occupational Classification</i>				<i>Standard Occupational Classification</i>			
Managers, Prof, Assoc Prof, Technicians	93.7	6.4	100	Managers, Prof, Assoc Prof, Technicians	49.7	18.6	44.9
Intermediate (trades, secretarial, care)	82.7	17.3	100	Intermediate (trades, secretarial, care)	29.9	34.4	30.6
Less skilled (sales, machine ops, etc.)	71.7	28.3	100	Less skilled (sales, machine ops, etc.)	19.1	41.5	22.5
Undefined	56.3	43.7	100	Undefined	1.3	5.6	2.0
<i>Standard Industrial Classification</i>				<i>Standard Industrial Classification</i>			
Manufacturing	85.7	14.3	100	Manufacturing	10.8	9.9	10.7
Engineering, construction, science, etc	89.3	10.7	100	Engineering, construction, science, etc	16.8	11.1	15.9
Financial services and real estate	92.6	7.4	100	Financial services and real estate	6.0	2.6	5.4
Public service	87.8	12.2	100	Public service	32.1	24.5	31.0
Other services and the arts	79.7	20.3	100	Other services and the arts	32.7	46.0	34.8
Undefined	60.1	39.9	100	Undefined	1.6	5.8	2.2
degree or higher	93.4	6.6	100	degree or higher	32.8	12.7	29.7
some further education	88.9	11.1	100	some further education	14.7	10.1	14.0
A-level or equivalent	85.6	14.4	100	A-level or equivalent	16.7	15.5	16.5
GCSE or equivalent	79.8	20.2	100	GCSE or equivalent	22.7	31.7	24.1
other quals	76.1	23.9	100	other quals	5.4	9.3	6.0
no quals	67.5	32.5	100	no quals	7.8	20.7	9.8
owns outright	94.6	5.4	100	owns outright	20.3	6.4	18.2
owns w/ mortgage	90.4	9.7	100	owns w/ mortgage	57.0	33.5	53.4
social rented	53.2	46.8	100	social rented	6.4	30.9	10.2
private rented	75.2	24.8	100	private rented	15.5	28.3	17.5
other	81.6	18.4	100	other	0.8	0.9	0.8
Male	85.8	14.2	100	Male	50.4	45.8	49.7
Female	83.4	16.6	100	Female	49.6	54.2	50.3
male headed HH	86.3	13.7	100	male headed HH	71.6	62.6	70.2
female headed HH	80.7	19.3	100	female headed HH	28.4	37.4	29.8
non-migrant	86.2	13.8	100	non-migrant	84.6	74.7	83.1
migrant	77.0	23.0	100	migrant	15.4	25.3	16.9
<i>Age</i>				<i>Age</i>			
16 to 29	81.8	18.2	100	16 to 29	13.1	16.1	13.6
30 to 44	83.5	16.5	100	30 to 44	39.7	43.2	40.2
45 to 59	85.8	14.2	100	45 to 59	41.5	37.9	40.9
60 to 64	91.7	8.3	100	60 to 64	5.8	2.9	5.3

Source: HBAI/FRS, 2014/15, weighted

1.5. What explains the rise in in-work poverty?

We might also want to know what explains the rise in in-work poverty. Again, it can be worth distinguishing between composition and risk perspectives here. In Table 6, we present *change* in poverty between 2004/5 and 2014/15 using both the risk and composition perspectives (in the left and right side of table, respectively).

In terms of the risk perspective, we can see that the risk of poverty has increased for people living in private rented and social rented accommodation (by 5 and 3.5 ppts, respectively). Turning to the composition perspective, we see that the one group whose contribution to in-work poverty has grown has been private rented sector tenants. The reason such a sharp change in the composition of those in in-work poverty is because there has been a 10 percentage-point shift from mortgage-holders to private tenants over the period. That is, the underlying composition of tenancy changes, as well as the increasing risk for private rented sector tenants, has driven the dramatic shift in the composition of people experiencing in-work poverty. In their *Monitoring Poverty and Social Exclusion 2016* report, Tinson *et al.* (2016: 10) describe the private rented sector as ‘in many ways reflects the front line of poverty’. The decomposition here shows why this so – firstly, the transfer from owner occupation to private rented sector amongst the general population, and secondly the increasing risk of in-work poverty for this group.

Table 6. Change in poverty rates (AHC) between 2004/5 and 2014/15 (percentage point change), risk and composition perspectives, working-age adults only

	% change in risk		% change in composition
owns outright	-0.2	owns outright	-2.9
owns w/ mortgage	0.6	owns w/ mortgage	-13.0
social rented	3.5	social rented	-0.5
private rented	5.0	private rented	16.7

Source: HBAI, respective years

There are, then, a number of points to consider here. As we have shown in Tables 6 and 7, the highest absolute risk of in-work poverty is for tenants in the social rented sector: people in this tenancy face the greatest challenge in avoiding working poverty. The risk of in-work poverty has increased for this group (by 3.5 percentage points), but it has increased even more for private rented sector tenants (by 5 percentage points). That the risk is increasing for both social and private rented housing tenants is, of course, a concern.

The composition perspective gives us a picture of the problem that society faces in a macro perspective (Jenkins, 2011: 244). The past decade has witnessed a substantial shift from owner-occupation to private rented tenancy. This matters because the composition of society is shifting from a low poverty risk group (owners with mortgages) to a higher risk group (private renters). Given that it seems likely that private rented sector tenancy will increase in the years to come, in-work poverty is likely to face significant upward pressures. This points towards two potential policy solutions: reducing the conditional risks of in-work poverty for the high-risk groups (social and private rented sector tenants), or seeking to stem the tide towards private rented tenancy, which is associated with high poverty risks.

Discussion: Tackling working poverty

The existing literature on in-work poverty has largely focussed on three policy mechanisms which might be utilised in order to reduce working poverty: increasing work intensity in households; raising levels of pay, especially at the lower end of the earnings distribution; and the use of transfers to support families with additional needs, with most studies focussing on the additional costs of large families.

These are indeed the immediate policy levers that one can adopt, and are well-recognised as such (e.g. Scottish Government, 2015; Crettaz 2011; Gautié and Ponthieux, 2016; Bradshaw *et al.*, 2010, *inter alia*). However, there are additional, secondary levers which might be utilised in order to improve the balance between resources and needs for working families. For example, research by Eurofound (forthcoming) emphasises the role of what they call ‘indirect measures’, such as the provision of childcare to enable people to work additional hours, improvements in people’s skills so as to enable them to secure better-paid jobs, and so forth. These indirect levers are not necessarily mutually exclusive from the primary mechanisms more frequently identified in the literature – one might seek to boost work intensity by providing additional childcare, for example. A recent evidence review of in-work poverty and low pay highlights how paid maternity leave and publicly-subsidised childcare can help to facilitate maternal employment and can contribute to poverty reduction amongst working families (McKnight *et al.*, 2016). The identification of such indirect mechanisms serves to highlight that there are many policies, big and small, which can alter the balance of working families’ resources and their needs, and which might therefore be seen to represent part of an attempt to tackle working poverty.

We have noted that the work intensity of the household is a very strong predictor of in-work poverty. Boosting employment amongst families with a weak labour market attachment is likely to positively impact on in-work poverty. There are, however, additional considerations. One is that it matters not only that employment is increasing, but also who gets the additional employment. Research by Bea Cantillon (2011) shows how improvements in employment across Europe in the years preceding the Great Recession did not significantly reduce poverty levels: she argues that this is due to much of the additional employment being generated in non-poor households. So, what matters is additional employment accruing to poor households specifically and, from a policy perspective, a shift from thinking about employment creation in the aggregate to a distribution-sensitive perspective.

At the same time, we have noted that work intensity is not the *only* thing that matters and that non-trivial proportions of households where all working-age adults are in employment remain poor. Thus, a policy approach that focusses solely on getting people into work is likely to be ineffective. Moreover, there are limits to the feasibility of an employment-centred approach to tackling in-work poverty. Analysis by Jonathan Bradshaw and Gill Main (2014) using data from HBAI 2011/12 suggests that just four in ten children who live in working poor families have adults who have additional work potential.

Increasing rates of pay at the lower end of the earnings distribution is also vital in terms of reducing in-work poverty. To this end, the introduction, and planned increases, of National Living Wage will raise earnings at the bottom of the earnings distribution, and will be of benefit to low paid

workers, and is significant. The NLW is expected to reach 60 per cent of the median over-25s hourly wage by 2020 for workers aged 25 and over (D'Arcy and Kelly, 2015) – currently forecast to be £8.75 by 2020 (OBR, 2017: 58). We have noted that nearly half of people experiencing in-work poverty live in a household with a low paid member.

The third focus of most studies on the working poor is the performance of the welfare state. Comparative studies of in-work poverty have emphasised the important role of welfare state generosity in explaining in-work poverty rates across countries (e.g. Brady *et al.*, 2010; Lohmann, 2009).

In the literature on in-work poverty, this triumvirate of boosting work intensity, tackling low pay and the welfare state is typically identified as the required policy solution. In practice, low pay and work intensity are intended to reflect the 'resources' side of the equation, while large family size is intended to capture households with additional needs. In previous studies on in-work poverty, these additional needs are often assumed to relate to large families, and the focus is then the extent to which the welfare state shares with families some of the cost of raising children. But our ability to conduct analysis on an after housing cost (AHC) measure of poverty, which many previous European studies have been unable to do, has enabled us to identify another important – indeed, an increasingly important – difference between households, namely the housing costs that they face. The ongoing trend towards private rented sector tenancy status, when combined with the high costs incurred by households in this tenancy (own analysis; see also Tinson *et al.*, 2016: 10) and restrictions on Housing Benefit, mean that housing costs are likely to play an important role in determining in-work poverty rates in the years to come. The role of housing costs as representing one of the additional needs that households face should receive greater attention in the in-work poverty literature.

For some, the rise in in-work poverty is proof that the often-claimed 'a job is the best route out of poverty' is mistaken. We would argue that the results suggest something different. The number of workers in a household is consistently a very strong predictor of poverty – indeed, often the strongest predictor we observe in empirical analyses, both in this research and in previous studies. Undoubtedly, working families are – on average – better off than those without a working member. But people are not averages, and work fails to lift a substantial number of families above the poverty line. Moreover, the best route out of poverty is the one that works, and this demands an approach which acknowledges the heterogeneity and complexity of families' work and living circumstances.

In-work poverty is a growing problem in the UK. Policy-makers need to address the rise of in-work poverty and respond with policies measures which not only seek to tackle low pay, but which address the many reasons why families experience in-work poverty. Work will fail to offer a route out of poverty for increasing numbers of people if they do not.

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Appendix: The material deprivation index

The material deprivation index in HBAI contains the nine items listed below. The material deprivation index is a simple sum-scoring of the number of items a respondent does not possess due to a lack of resources (and not because they do not want the items, or for any other reason). All items are equally weighted, and all members of the household receive the same score. The material deprivation index is comprised of the following nine items:

1. Ability to afford a holiday for one week a year (not staying with relatives);
2. Enough money to keep your home in a decent state of decoration;
3. Ability to afford household contents insurance;
4. Ability to make savings of £10 a month or more for rainy days or retirement;
5. Ability to replace any worn out furniture
6. Ability to replace or repair major electrical goods, when broken;
7. Ability to spend a small amount of money each week on yourself, not on your family;
8. Whether respondent keeps up with bills and regular debt repayments;
9. In winter, are you able to afford to keep your accommodation warm enough?