

In a more precarious labour market, a well-designed benefits system that can respond in 'real time' can help stabilise lives.

Policy implications – what the research says

Analysis at individual and household level has helped to better understand the nature of change amongst low income households. Both 'income' events and 'demographic' events (eg, separation or divorce) are important in explaining what triggers movements in and out of poverty.

This dynamic perspective, rare two decades ago, is now widely accepted. It recognises the role of policy and 'active' programmes and has been reflected in welfare reforms since the 1990s. It also underpins the introduction of Universal Credit from 2013, which seeks to provide greater incentives to work by changing the rate at which benefits are withdrawn in relation to earned income. However, it remains to be seen whether the use of a single taper rate – the rate at which benefits are withdrawn as earnings increase – will work equally for all types of different individuals and households.

The OECD, in its report *Divided we Stand* (2011), argues that there is nothing inevitable about inequality: government can and should act, and its actions should focus on three main pillars:

1. investment in human capital
2. inclusive employment promotion; and
3. well-designed tax/transfer redistribution policies.

In a more precarious labour market where many people, particularly those on low income, are continually exposed to greater fluidity in their working lives, a well-designed benefits system that can respond in 'real time' can help stabilise lives. Equally, policy needs to ensure that the benefits system does not inadvertently contribute to greater casualisation of work at the margins, without other measures to help individuals and households escape long-term poverty.

Further information and resources

The DWP has ceased the production of its Low Income Dynamics Report to enable it to exploit the richer data from Understanding Society. According to the Department, persistent low-income estimates will become available in 2015 covering the period 2010 to 2013 and transition rates will be available from 2016. DWP contact: Income Monitoring; E-mail: team.hbai@dwp.gsi.gov.uk

Please refer to the Understanding Society Users Guide to see further information on the income measure and imputation. There are some very minor variations between the BHPS and Understanding Society. If you need further assistance please contact info@understandingsociety.ac.uk.

Jenkins, S (2012), *Changing Fortunes: Income mobility and poverty dynamics in Britain*.

OECD (2011), *Divided we stand: why inequality keeps rising*.

Department of Work and Pensions (2011), *Low Income Dynamics – Moving to using the Understanding Society survey*, HM Government.

Department of Work and Pensions (2010), *Low Income Dynamics – First [Statistical] Release*, HM Government.

Jenkins, S (2008), *Income and poverty: the rubber band theory in: In Praise of Panel Surveys*, Institute for Social and Economic Research.

Joseph Rowntree Foundation, <http://www.jrf.org.uk/work/workarea/monitoring-poverty-and-social-exclusion>

If you would like a more detailed briefing on this research or to discuss how you can make use of Understanding Society in your research please email info@understandingsociety.ac.uk.



Is all poverty the same?

Using the British Household Panel Survey (BHPS) and Understanding Society to tackle long-term poverty



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This case study is part of a series aimed at potential users of Understanding Society data, including: policy makers, researchers and people in a position to influence social policy. If you are using data from Understanding Society and would like to profile your work, please email info@understandingsociety.ac.uk



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Persistent low income is much more damaging for families and individuals than brief spells on low income. Knowing who is being trapped in poverty and who is escaping is crucial to efforts to turn around lives and target resources.

Researchers at the Department of Work and Pensions (DWP) have traditionally used the British Household Panel Study (BHPS) to understand transition into and out of low income and who is experiencing long-term poverty. It also compares the material living standards experienced by different types of households.

This research is published through their Low Income Dynamics (LID) Report, with the most recent Report providing a picture of the changes between 1991 and 2008.

Key findings

DWP's research reveals a very mixed picture of progress and setback, covering three broad areas:

Income mobility is slow

Between 1991-2008, there was considerable income mobility each year. Less than 5% of the population remained in the same fifth (quintile) of the income distribution for the whole of the period. However, the process of social mobility is slow, with around 45% of individuals, who were in the bottom fifth in 1991, spending nine or more years in that quintile during that period.

Long-term poverty is not easy to escape

The overall level of persistent low-income for all individuals decreased over the period 1991-2008. A sixth of individuals moved out of this group, which shows that it is possible to escape long-term poverty. However, there

were only small reductions in persistent low-income for working-age adults, with relatively better improvements for children and pensioners.

There were some fluctuations in the gains over this period. For example, for children there was a reduction in the level of persistent low income in the early to mid-1990s, with the proportion remaining flat at 17% until 2002. It fell significantly between 2003 and 2007, before rising to 12% in the period 2005-2008. Pensioners and both disabled and non-disabled adults also saw a slight rise during 2005-2008, following earlier falls.

Transition into and out of low income

Around a third of individuals (32%) in low income exited between one year and the next, although this varied significantly between groups. Not surprisingly lone parents and pensioners showed the lowest exit rates. There was also downward mobility, with 7% of households falling into the low income threshold from above. Various factors explain the transitions into and out of low income but two key ones were a change in the head of household's earning and a rise in benefit income.

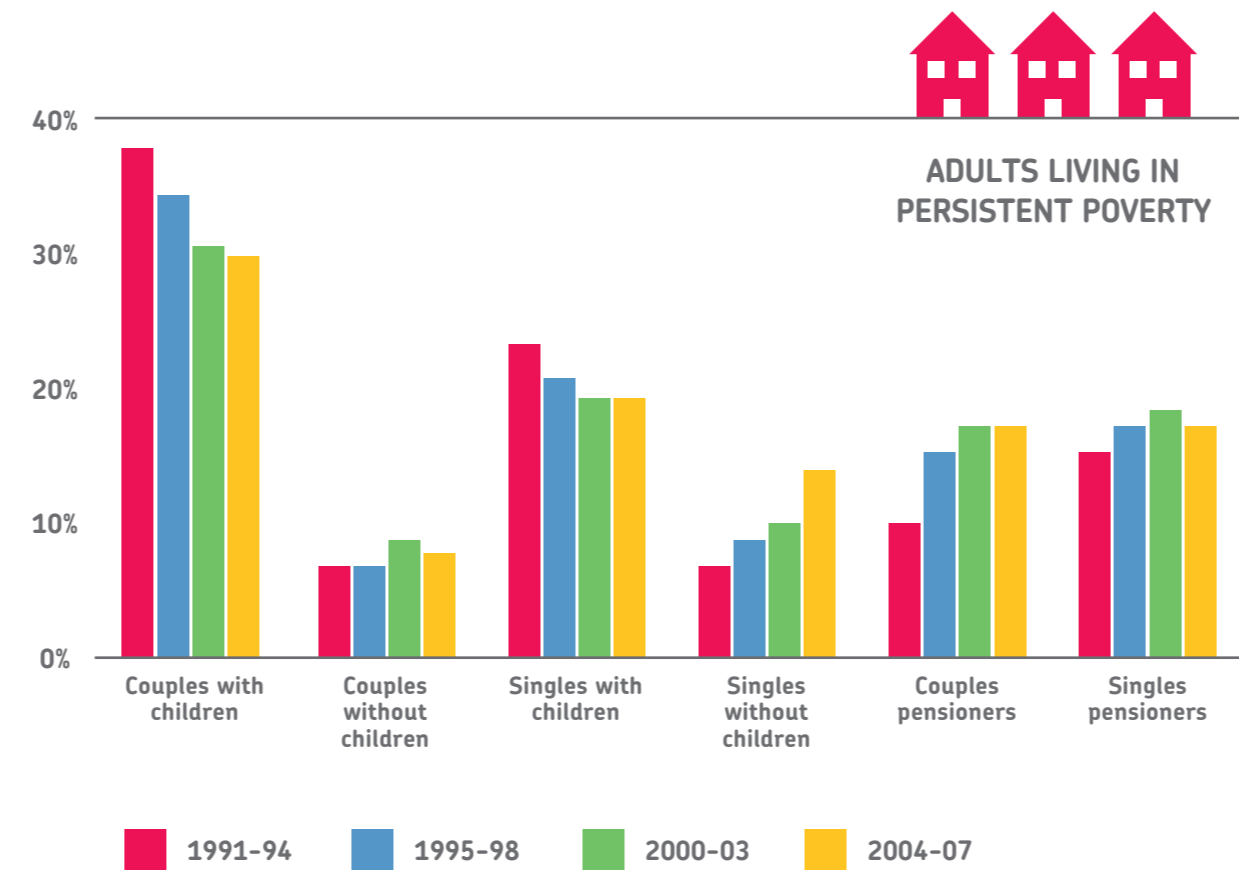
Policy context

Income inequality has been growing in Britain since the late 1970s and is now the highest for over 30 years. Of particular challenge in the UK is the level of poverty and its impact on experiences, life chances and outcomes for different groups, particularly children.

Trends in persistent poverty by family type (1991 and 2007)

Whilst households with children made up the greatest proportion of those experiencing persistent poverty, couples and singles with children experienced the greatest gains between 1991 and 2007. In contrast, the proportion of singles without children and pensioner couples in persistent poverty increased.

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People are classified according to their circumstances in the first year of the relevant four-year period.

Contrary to public perceptions, many types of households experience poverty – from hard working families and pensioners to lone parents and those with a disability. Some 13 million people now live below the poverty line, and their profile has been changing over time. Whilst child poverty has fallen during the last decade, poverty amongst working-age adults without dependent children has been on the increase. But are people who experience poverty in one year the same as those who experience it in the following year?

The financial crises of 2008 and its economic aftermath has raised the expectation that, with falling living standards and a turbulent labour market, more people will be pushed into long-term poverty. Welfare reforms could have a further impact. The increased prevalence of people using food banks provides a stark picture of the real consequences for those facing extreme poverty.

Measuring poverty

How you measure poverty matters. Measurements inform a range of policies and decisions about how resources and programmes are deployed.

There are different ways to measure poverty:

- One approach has been to measure poverty in relation to the median level of income, with households with less than 60% of the median income classified as those on low income.
- Others have tended to include material deprivation (eg, having a washing machine or other white goods) and financial assets (eg, savings).

The Government is introducing new ways to measure child poverty, taking a

'multidimensional approach' to identify different types poverty other than income (eg, parental skills and worklessness).

Data users should bear in mind that housing costs vary across the country and can have a significant impact on the level of disposable incomes. Disposable income is defined in terms of 'before housing costs' (BHC) or 'after housing costs' (AHC). Understanding Society collects data on housing costs, although unlike some other measures of disposable income, it does not directly deduct local taxation (Council Tax).

Why Understanding Society and BHPS?

The BHPS sample is now subsumed into its successor, the much larger Understanding Society study which started in 2009. This provides an ideal opportunity to make full use of the larger sample, do wider analysis and examine how the poverty landscape is changing.

Understanding Society can accommodate different ways to measure poverty. Although surveys such as the Family Resources Survey (FRS) can provide more detailed statistics on household income, the BHPS and Understanding Society are the only sources of longitudinal income data for individuals and households that can provide a picture of long-term social change.

Persistent low income is defined as spending three or more years out of any four year period in a household with below 60% of median income. To enable the DWP to build the latest picture of long-term poverty, four years of data is required to produce the current measure of persistent low income, therefore the transition from the BHPS to Understanding Society will be a gradual process.

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