

A Minimum Income Standard for the United Kingdom in 2021

The Minimum Income Standard (MIS) presents a vision of the living standards that we as a society consider everyone in the UK should be able to achieve. In 2021, millions of people risk falling well short of this standard because they lack secure work or decent pay and benefits. As the UK emerges from the pandemic, this underlines the importance of both stable opportunities to earn a decent income, and improved support from the state to help people who are being held back from an acceptable living standard.

Key points and recommendations

- A single person needs to earn £20,400 a year to reach a minimum acceptable standard of living in 2021, but the National Living Wage (NLW) is not high enough to allow them to reach this standard, as it pays around £17,400 for someone working full-time.
- A couple with two children need to earn £34,200 between them, which they can only achieve on the NLW if both parents work full-time. In practice, only just over one in four (28%), couples with children both work full-time, often because suitable jobs are not available or because of issues such as the availability of childcare or the health status of parents or children (Family Resources Survey, 2018/19).
- After a period of low inflation, the cost of living rose by 2.5% for a family with children, not including rent and childcare. While rent inflation was low, childcare costs rose by 3-4% (for pre-school nursery places).
- Without the support of last year's £20-per-week increase in Universal Credit (UC), millions of people would fall well below what they need. Without this extra support, out-of-work families with children would have barely half the income they require, and adults without children would have less than a third. Many working families would also be held back from reaching a decent standard of living – for example, even with a full-time job on the NLW, a lone parent would be £66 a week, or 17%, short of MIS. Yet the Government is planning to reduce UC by £20 per week in October 2021.

- While the pandemic has profoundly affected the ways in which people live, members of the public continue to underline the need for a stable income that allows people to participate in society including, for example, being able to socialise, travel, and maintain presentable standards in their homes and the way they dress. In some areas, such as modes of shopping and the use of technology, there may be significant changes affecting minimum budgets in the future, but it is too early to assess their impact.
- The Government should recognise the value of the additional support in helping families build better lives and keep the £20 a week, rather than take it away from the already precarious incomes of millions of families by cutting UC this October. It should also ensure people who are still receiving the legacy benefits that UC is replacing, many of whom are disabled or carers, are no longer excluded from this vital improvement to support.
- As the UK rebuilds its economy in the wake of the pandemic, the Government should prioritise the creation of decent jobs, that provide stability, pay at least the real Living Wage, and give people options about working hours.

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Background

Since 2008, research on the Minimum Income Standard has shown what households need to spend to reach an acceptable standard of living, based on detailed discussions by the public. The most recent groups took place while global concern grew about COVID-19 and were completed the day before the World Health Organisation declared it a pandemic. Since then, many people's lives in the UK have changed, and continue to change as restrictions are lifted. In 2021, existing MIS budgets have been updated to take account of inflation. In addition, new research was conducted with members of the public to explore whether, and to what extent, COVID-19 had changed their perceptions of what is needed for a minimum socially acceptable standard of living. This preliminary research captured views in April and May 2021, and will inform the research in 2021-22, which will show to what extent recent changes have affected MIS budgets.

Minimum living costs have started rising again

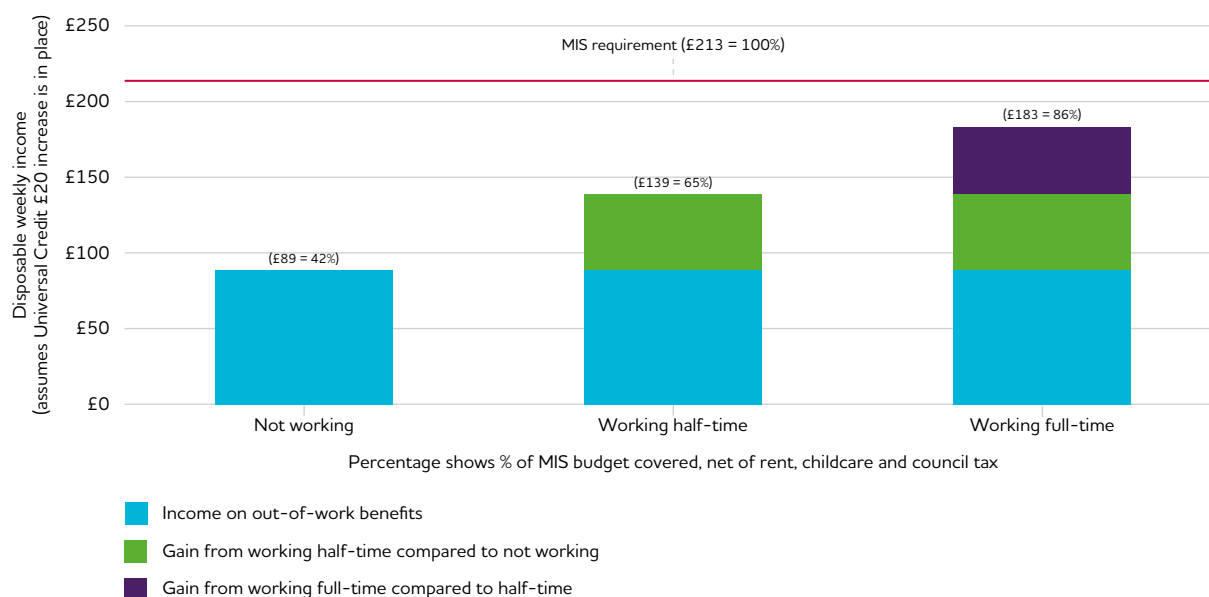
After a period of stable prices, renewed inflation is affecting the latest Minimum Income Standard budgets, updated to April 2021. In that month, overall annual CPI inflation was 1.5%. MIS budgets are updated by each component of the index, which increased at considerably different rates – ranging from no increase in the cost of food, to a 14% rise in petrol prices when compared to the low levels of the early pandemic. Families with children, whose MIS budgets include running a second-hand car, saw their budgets increase by about 2.5%, whereas for other households it was closer to 1%. In contrast, indexation of working-age benefits was based on 0.5% inflation from the previous September (2020).

How adequate are people's incomes on out-of-work benefits and the National Living Wage?

This year's MIS report illustrates how disposable income (income after paying taxes, housing and any childcare costs) can increase from highly inadequate levels for those out of work to much higher levels if working on the National Living Wage (NLW)¹. For example, Figure 1 shows that single people without children have well under half of what they need on benefits and can double their disposable income if working full-time, but despite improvements in the NLW their incomes remain well below the MIS level. Families with children start with incomes of around 60% of MIS if not working. A lone parent with two children still ends up about 12% below MIS if working full-time; a couple with two children can reach MIS if both parents work full-time on the NLW, and get within 5% of this level if one works full-time and the other half-time.

These results are the product of both favourable and adverse factors in 2021. A further increase in the National Living Wage from £8.72 to £8.91 an hour, and the £20-per-week increase in Universal Credit, have both helped. The slower-than-inflation uprating of benefits and UC, and a 3-4% increase in childcare costs, have not. If the present policy of cutting UC by £20 per week in October 2021 is implemented, the value of out-of-work benefits will fall to just 33% of MIS requirements for a single person without children, and 55% for a couple with two children, their lowest recorded levels. Incomes for working families on UC will also fall sharply.

Figure 1. By working full-time on the National Living Wage, a single adult without children can double their out-of-work income, but still falls short of MIS



COVID-19 and the public’s views of a minimum living standard in 2021

The people taking part in the 2021 research reflected on what they had missed most during the pandemic. Perhaps most prominently, they had missed social contact, especially with relatives, and parents were conscious of the possible negative effects on their children from a lack of social interaction with their peers. People had also missed having the range of options that they had enjoyed before lockdown and expressed this in terms of missing freedom of movement, social contact and recreational activities.

“I’ve missed personally seeing my family. I’ve got two older daughters, one was pregnant, so I didn’t get to see my grandson when he was first born, so that was really upsetting for me, not being able to have that first cuddle with a tiny one.”

Parent

“My nan passed away with COVID, I couldn’t go to her funeral, that was really difficult for me, very, very difficult. So I know you say what have we missed, but that to me was a massive part of my life I missed out where I couldn’t take part in that. Basically, social interaction with other people... for me there’s quite a bit I’ve missed out on.”

Parent

The pandemic had caused widespread changes to some people’s working lives. People working at home said that this had often resulted in additional needs in terms of, for example, IT equipment, and although they thought employers should provide or pay for this, that had not always been the case. Groups reflected widely on how the past year had seen changes in the way they accessed both goods and services. Many more goods were being bought online. Groups did not think that things would necessarily return to a pre-pandemic ‘normal’ in this regard, as new habits and perceptions have developed. Some people said the pandemic had caused them to shop more locally to support small businesses. Some self-employed people had experienced an increase in support from their local community, while others had struggled to keep going because people were no longer able to use the services they provided because of lockdown.

When it came to accessing services, groups reported that the pandemic had caused prices to rise, partly to compensate for loss of business over several months and in some cases to cover changes required for social distancing, safety and hygiene. An example of this is hairdressing, where people said that prices were higher post-lockdown, justified by the need to cover the cost of increased cleaning and the provision of PPE for staff. They also anticipated households continuing to have additional costs, such as face masks and hand sanitiser.

Looking ahead, there was consensus that a greater amount of working from home was likely to continue for the foreseeable future, but also that this would vary greatly according to people's jobs, with an awareness that not everyone was able to choose to work more flexibly. Some participants also expressed a desire to retain some positive aspects of change that they had experienced during the pandemic, such as eating more healthily, exercising more, an increased appreciation of their local area, and parents spending more time with their children.

“I think for me it’s actually made me a lot more aware of my immediate surroundings. We know our neighbours now like super well. I just don’t know if that would have happened naturally or so quickly. So I think that has changed because actually it means that my whole neighbourhood is actually a very different place to live in.”

Working-age adult

Although some people felt that they had been able to make savings because of the restrictions – for example because they had not been able to go out or had not had to travel to work, others said that the pandemic had increased their concerns about financial stability and security. For people already experiencing precarious financial and/or employment situations, the pandemic was likely to have undermined their ability to maintain the living standards that are a socially defined acceptable minimum.

Conclusion

This year's MIS study reflects considerable uncertainty about what the future will bring. After a period of stable prices, inflation appears to be returning. Job instability has been exacerbated, particularly for people working in service industries hit by the pandemic. Working patterns are in flux, and the prevailing model of people travelling daily to a place of work looks likely to give way to changes and greater diversity in working patterns going forward. For many, future job prospects remain highly uncertain.

In these circumstances, it has become more important than ever to support people to attain stable and adequate incomes, allowing them to reach the living standards that we as a society think everyone ought to be able to achieve. Two lifelines helping people's incomes are scheduled to be pulled away in October: social security support will be weakened by cutting £20 a week from UC, and the furlough scheme will end. To avoid people falling well below what is needed for a minimum living standard, the Government should not take away £20 a week from millions of families' already precarious incomes by cutting Universal Credit this October. This would be a first step in building a more adequate system of financial support for people on low incomes in and out of work. At the same time, a strategy for ensuring that people can access better and more stable jobs is urgently needed for the post-COVID world.

The research

The results reported here are based on a regular annual update taking account of inflation and tax and benefit changes. In advance of the research in 2022 (for households without children) and 2024 (for households with children) to 'rebase' MIS budgets (research them from scratch), nine groups of members of the public were consulted in April and May of 2021 about their experiences during the pandemic and how this relates to MIS budgets. This preliminary research is being used to help frame future rebases, but it is too early to use it to adjust MIS results.

References

Department for Work and Pensions (2018/19) Family Resources Survey [Online]. Available at: <https://www.gov.uk/government/statistics/family-resources-survey-financial-year-2018/19> [Accessed: 1 July 2021].

Notes

- ¹ The NLW is the compulsory wage paid to over 22-year-olds, but remains lower than the Real Living Wage, paid by Living Wage Employers and based on the MIS research.

For further information

The full report, **A Minimum Income Standard for the United Kingdom in 2021**, is published by the Joseph Rowntree Foundation. It is available as a free PDF at www.jrf.org.uk

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