

The Households Below Average Income (HBAI) report presents information on living standards in the UK based on household income measures for the 2015/16 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 increased\* to reach levels which exceed the historic highs observed in 2014/15.
- Income inequality Before Housing Costs (BHC) increased\* for the first time since 2010/11 but remains below the levels observed around the 2008/09 UK economic recession. Income inequality measures After Housing Costs (AHC) remained flat.
- Overall, headline low income measures are mostly unchanged but differ amongst various groups of the population. Children have seen slight rises\* in relative low income rates, whilst low income measures for pensioners have increased\* in both relative and absolute terms.

## Household Income

Average rose\* to £481 (BHC) in 2015/16



Average (median) household net disposable income, both before and after housing costs, increased\* in real terms; average household income BHC increased by £8 per week between 2014/15 and 2015/16, in real terms, reaching an historic high.

## Income Inequality

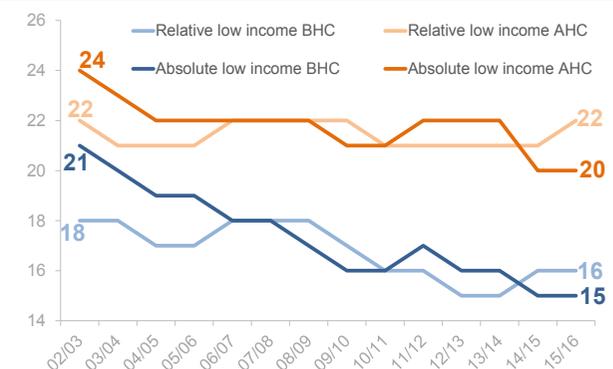
Gini BHC increased\* to 35% in 2015/16



The Gini coefficient, ranging from 0% (low) to 100% (high), measures income inequality. The BHC measure increased\* to 35%; a one percentage point increase\* from 2014/15. The AHC measure remained flat in 2015/16; both measures remain consistent with long-term trends.

## Low Income Measures

Measures are broadly stable in 2015/16



The percentage of individuals in low income against the headline '60% of median' threshold shows a small increase\* in relative terms AHC (a one percentage point change from 2014/15). All other headline measures are unchanged from 2014/15.

## At a glance

Page

|                                 |    |
|---------------------------------|----|
| The Overall Income Distribution | 3  |
| Income Inequality               | 4  |
| Sources of Income               | 6  |
| Low Income Indicators           | 7  |
| Children                        | 8  |
| Working-age                     | 9  |
| Pensioners                      | 10 |
| Disability                      | 12 |
| Long-term Trends                | 13 |

**Lead Statisticians:** John Shale and Lauren Thomas

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

**DWP Press Office:** 0203 267 5129

Comments? Feedback is welcome

Published 16 March 2017

Next edition February/March 2018

ISBN 978-1-78425-912-9

© 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.

HBAI uses CPI inflation when estimating how incomes are changing in real terms over time. For further information see the HBAI Quality and Methodology Information Report.

### Survey data

Estimates are based on a sample of over 19,000 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

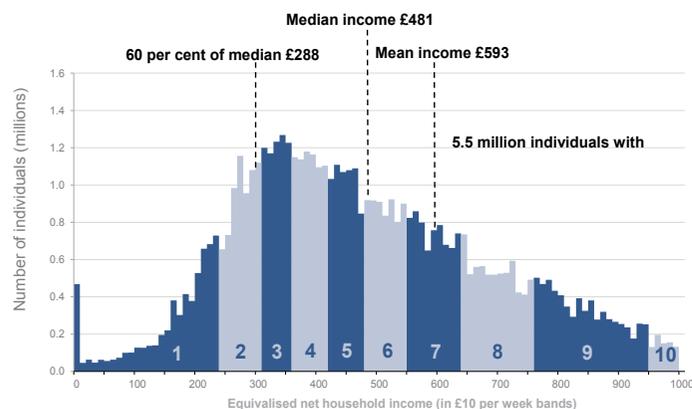
A large number of ODS reference tables are available online, breaking down results presented in this report for different demographic characteristics. Results are available for most series back to 1994/95. <https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201516>.

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

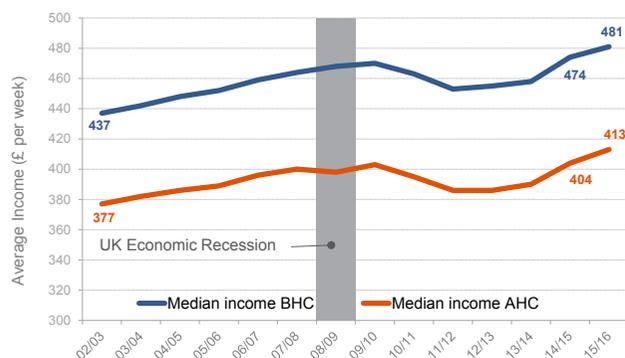
# The Overall Income Distribution

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

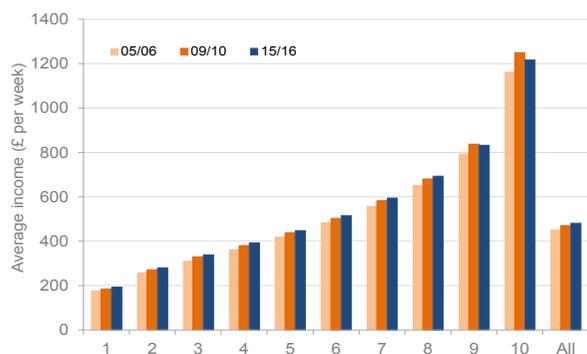
## Income distribution BHC for the total population, 2015/16



## Average real terms incomes in 2015/16 prices



## Average real terms incomes BHC by decile, in 2015/16 prices



## Main Findings

In 2015/16 just under two-thirds of individuals had a household income less than the national mean average (£593 per week).

The presence of large numbers of individuals with relatively high incomes results in a skewed or non-symmetric distribution. As a result, the **median** income (£481 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 (£288 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 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**.

In 2015/16 the average (median) real terms household income before housing costs (BHC) **increased\*** from 2014/15 levels to **£481 per week** (around £25,100 per year). Average household income with housing costs taken into account (AHC) has also increased\* from 2014/15 to £413 per week (around £21,500 per year).

Since the current survey series began in 1994/95, there were generally steady increases in real terms income until 2009/10. Following falls in 2010/11 and 2011/12, there have generally been rises in the subsequent years. Levels in 2015/16 exceeded the median income in 2014/15 to reach a historic high. See **Table 2.1ts Decile** for full data.

2015/16 was a relatively stable year in terms of the UK labour market\*\*, the tax-benefit system, and the overall income distribution itself. As such it is difficult to identify any simple clear drivers of the reported movements in the UK income distribution this year.

Deciles divide the population, when ranked by household income, into ten equal sized groups.

The shape of the overall income distribution evolves slowly over time and a notable movement requires significant changes to incomes at the bottom and top of the distribution.

From 2005/06 to 2015/16 average income increased by 6 per cent in real terms; incomes of those in the bottom half of the distribution grew slightly more than those at the top, around 8 per cent compared to 6 per cent. Relatively similar income growth across all deciles, like that observed over the past ten years, result in shifts of the income distribution to the right rather than a notable change in shape.

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

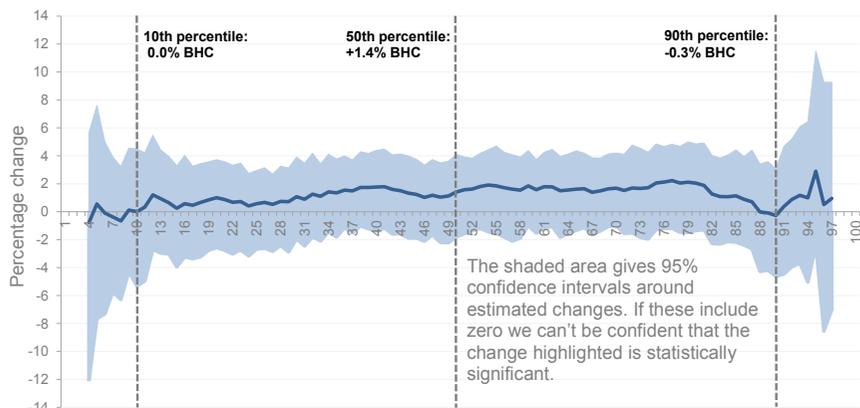
\*Not statistically significant

\*\*To note, there was a fall in the overall employment rate in the FRS data in 2015/16, which is likely due to survey volatility as this change is not seen in other data sources, such as the Labour Force Survey.

# Income Inequality

Some headline measures of income inequality increased\* between 2014/15 and 2015/16 after a period of stability; incomes of those in the top half of the distribution saw marginally stronger growth than those at the bottom

Change in real term income BHC by percentile, 2014/15 to 2015/16



Percentiles 1-3 and 98-100 are excluded because of large statistical uncertainty.

## Interpretation

Percentiles divide the population, when ranked by household income, into 100 equal sized groups. Looking at changes to average incomes for these groups on this basis between 2014/15 and 2015/16 allows us to assess how the income for each part of the distribution has changed during this period.

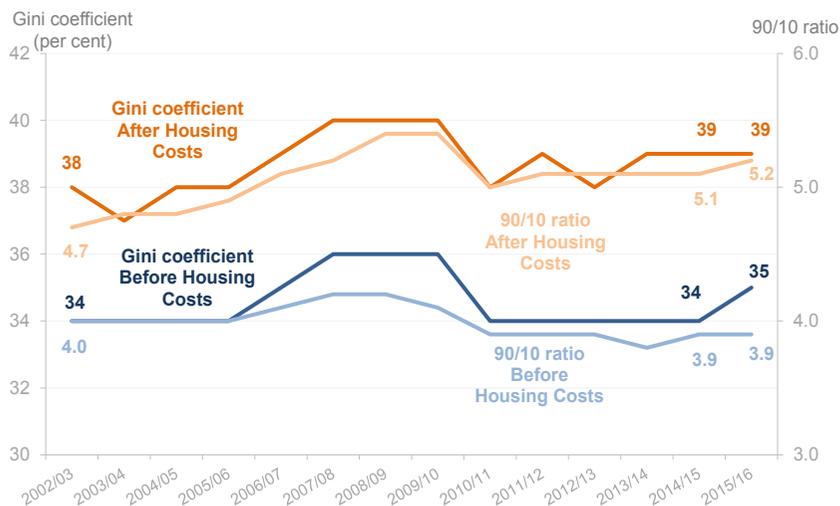
## Main Findings

Overall, individuals have seen positive real term income growth across the distribution. Between 2014/15 and 2015/16, incomes of those in the bottom half of the distribution saw more modest growth compared to those in the top half. From percentile 10 to 80, there is a slight trend of increasing real income growth as we move up the distribution.

Some of the biggest increases\* in real income were in the top fifth of the distribution whilst the weakest income growth was observed by those in the bottom fifth; unequal income growth at either end of the distribution affects measures of inequality. In 2015/16, for those in the 10<sup>th</sup> and 90<sup>th</sup> percentiles average household income remained at similar levels as 2014/15. This was reflected in certain headline inequality measures; between 2014/15 and 2015/16 the 90/10 ratio (BHC) remained flat at 3.9.

See **Table 9.1** for full data.

Measures of inequality, 2002/03 to 2015/16



## 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 per cent (quintile 5) divided by the average income of the bottom 20 per cent (quintile 1). The higher the number, the greater the gap between those with the highest incomes and those with the lowest incomes.

## Main Findings

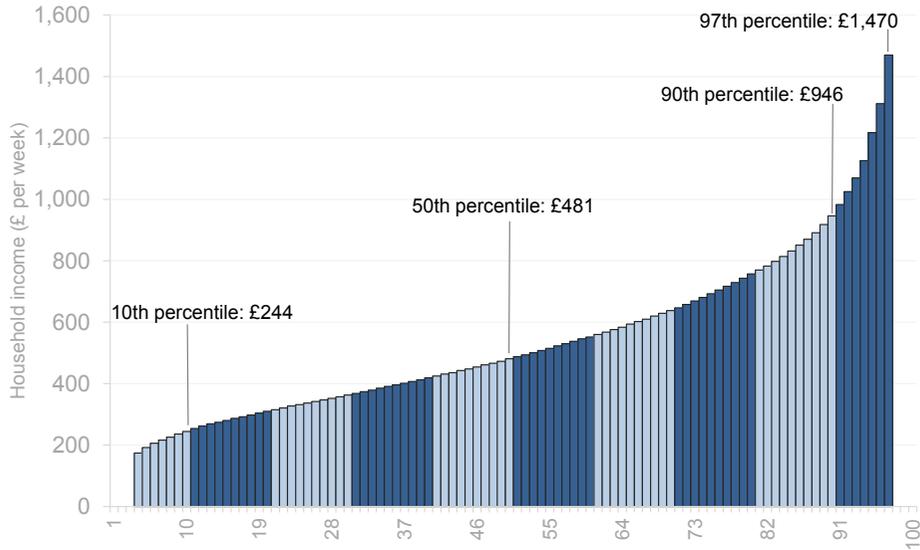
Following changes in household income in 2015/16, which saw unequal real terms growth across the distribution, the Gini BHC coefficient increased\* by 1 percentage point to 35 per cent following a sustained period of stability. The Gini AHC remained flat in 2015/16 at 39 per cent.

See **Table 2.1ts and 2.2ts** for full data.

\*Not statistically significant

# Those in the top 3 per cent of the income distribution have at least 3 times the income of the average household

## Weekly net equivalised household income BHC by percentile, 2015/16



Percentiles 1-3 and 98-100 are excluded because of large statistical uncertainty.

### Interpretation

Percentiles divide the population, when ranked by household income, into 100 equal sized groups. The chart indicates the amount of weekly net equalised household income an individual requires to sit at each percentile of the UK income distribution.

### Main Findings

Income at the 10<sup>th</sup> percentile is around half of the median (50<sup>th</sup> percentile) implying that 10 per cent of the population have less than half of the median household income.

Income inequality between those in the top and bottom half of the distribution increases sharply past the 90<sup>th</sup> percentile. In 2015/16 income at the 90<sup>th</sup> percentile is almost double that of the median, whilst the top 3 per cent of the population (97<sup>th</sup> percentile and above) have more than 3 times that of the median.

See **Table 9.2** for full data.

## Annualised net household income BHC at different percentiles of the 2015/16 UK distribution

| Percentile | Single individual | Couple with no children | Couple with two children under 14 |
|------------|-------------------|-------------------------|-----------------------------------|
| 10th       | £8,500            | £12,700                 | £17,800                           |
| 50th       | £16,800           | £25,100                 | £35,100                           |
| 90th       | £33,000           | £49,300                 | £69,000                           |
| 97th       | £51,400           | £76,700                 | £107,300                          |

Annualised net household income is equivalised to different household types. Percentiles refer to particular points on the overall UK income distribution.

### Interpretation

To create income analysis by percentiles the population is ordered according to their **equivalised** household income. The annual income required to be at a given point in the distribution is therefore different for different household types. See page 14 for more information on equivalisation in HBAI.

### Main Findings

Larger families require a higher level of household income to achieve similar 'living standards' (based on a household income measure) as smaller families.

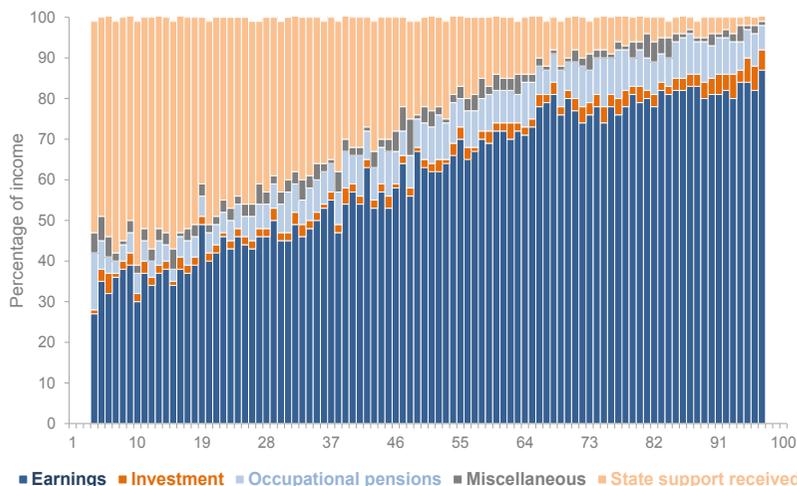
To lie in the top half of the income distribution in 2015/16, a single individual needed a net income over £16,800, compared to a couple with two young children who required a combined net income over £35,100.

In 2015/16, a single individual with household income of around £33,000 would sit above the 90<sup>th</sup> percentile on the distribution, implying their income exceeded that of 90 per cent of the UK population. A couple with two children receiving the same level of combined annual income would lie in the bottom half at the income distribution and be considered to have less than average (median) household income.

# Sources of Income

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

### Income sources as a percentage of gross income by percentile, 2015/16



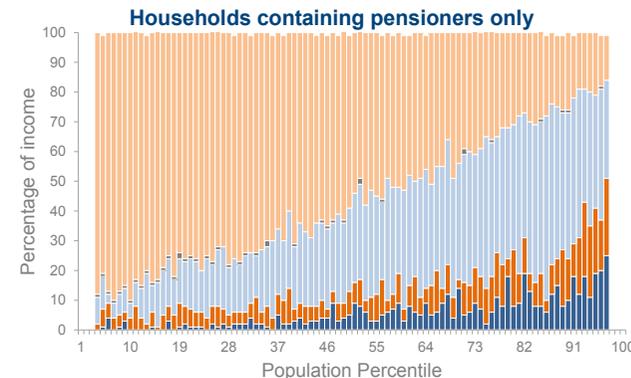
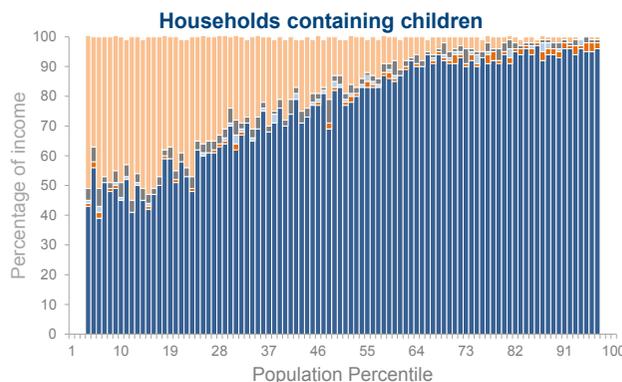
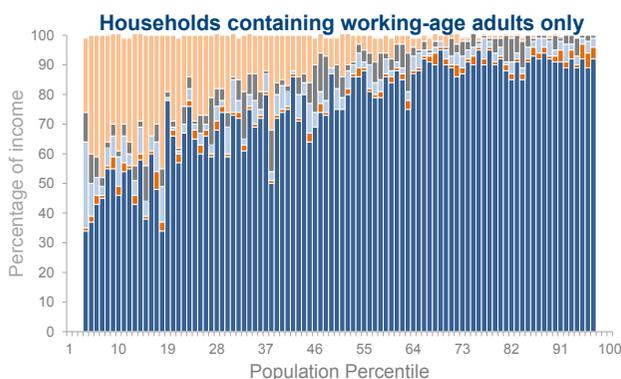
### Interpretation

The charts show the different sources of **gross** income by percentile, ranking the population by income and dividing into 100 equal-sized groups. Income components are all considered before tax, this is therefore a different definition of income from that used elsewhere in the HBAI report.

### Main Findings

There is a clear pattern of higher income households receiving a large proportion of income from earnings, and lower income households more of their income from state support. In 2015/16:

- Earnings account for around 30 per cent of gross income for those in the 10<sup>th</sup> percentile compared to over 80 per cent for those in the 90<sup>th</sup> percentile.
- The proportion of household income from earnings exceeds that received from state support for around 70 per cent of the UK population (those above the 29<sup>th</sup> percentile).
- Income from occupational pensions exceeds state support receipt for the top 25 per cent of the distribution. See **Table 9.3, 9.4, 9.5 and 9.6** for full data.



Households containing only working-age adults receive the majority of their income from earnings. On average, those in households containing working-age adults only and who lie above the 20<sup>th</sup> percentile of the distribution receive a larger proportion of their household income from earnings than all other income sources combined.

Households containing children have similar income sources as households containing working-age adults only. State support receipt generally makes up a larger proportion of income for households containing children. This is related to eligibility to state support for different family types.

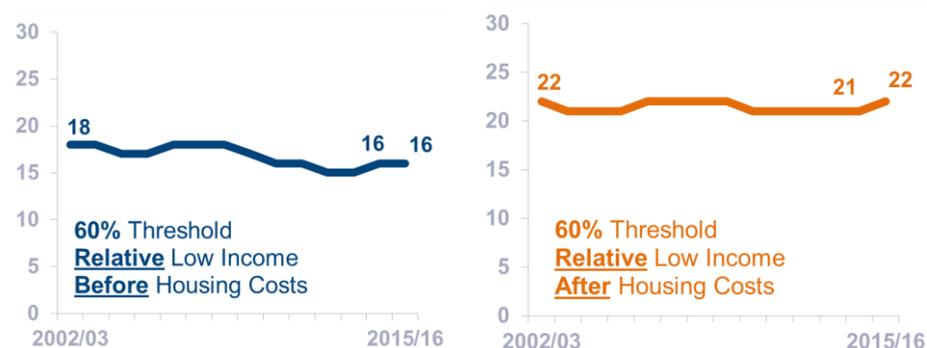
Overall, households containing only pensioners receive around 80 per cent of their income from state support (particularly the basic state pension) and occupational pensions. Earnings and investment make a notable contribution to household income for those in the top half of the distribution. For those in the top quarter of the distribution the proportion of income from occupational pensions is greater than that from state support receipt.

**Movements in the UK income distribution are driven by change in the wider economy, the overall labour market, changes in the tax and benefits 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 predict how things may change in future.**

## 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 Relative low income indicators



**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 per cent of median of the 2010/11 median, adjusted to the relevant year's prices).

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

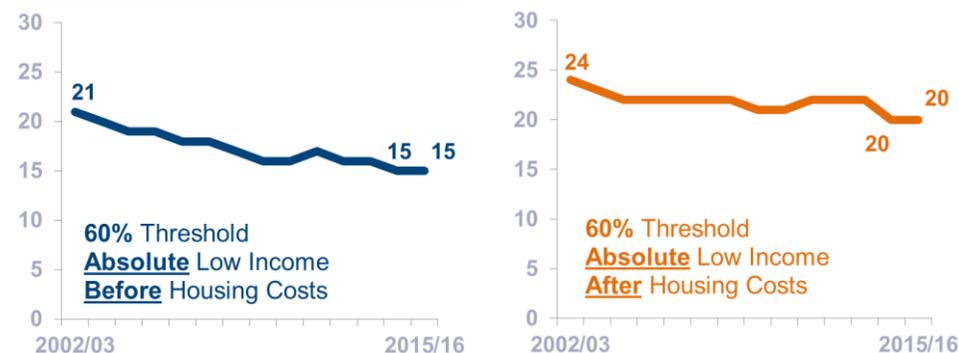
See **Tables 3.1tr and 3.2tr** for full data.

**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 income below this threshold (typically 50, 60 or 70 per cent of the median).

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

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

#### Percentage of individuals falling below Absolute low income indicators



#### Main Findings

- The percentage of individuals in relative low income BHC has been broadly stable in recent years at around 16 per cent whilst, following a period of stability, relative low income AHC increased\* by 1 percentage point to 22 per cent.
- Following falls in the proportion of individuals in absolute low income in 2014/15, both absolute low income BHC and AHC remained stable in 2015/16 at 15 per cent and 20 per cent respectively. Both absolute measures remained at their respective historic lows.
- Patterns over the past twenty years show how year-on-year changes tend to be relatively modest, with longer-term patterns emerging over time.

**Overall the percentages of individuals in relative and absolute low income in 2015/16 were broadly stable except for a rise\* in the percentage in relative low income AHC.**

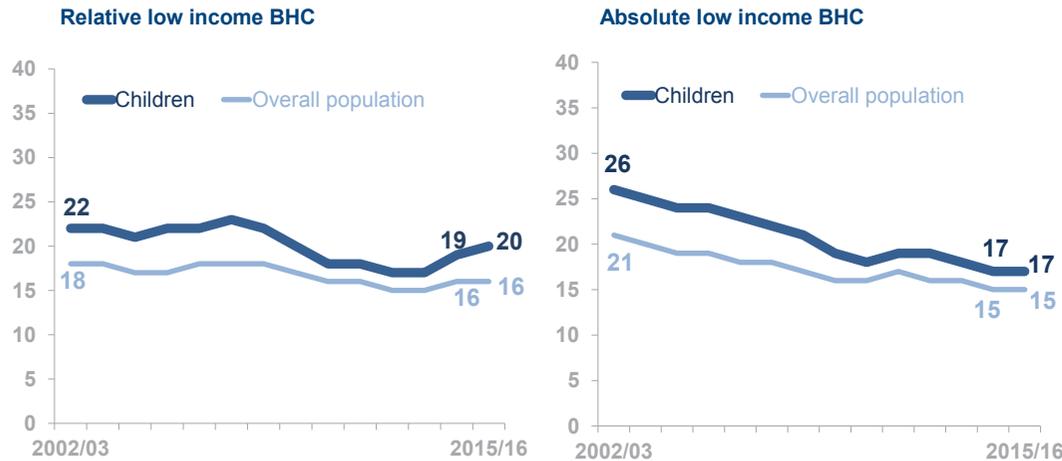
\* Not statistically significant

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

## Relative low income increased\*, rising to levels last seen in 2009/10

Percentage of children falling below low income indicators BHC



### Main Findings

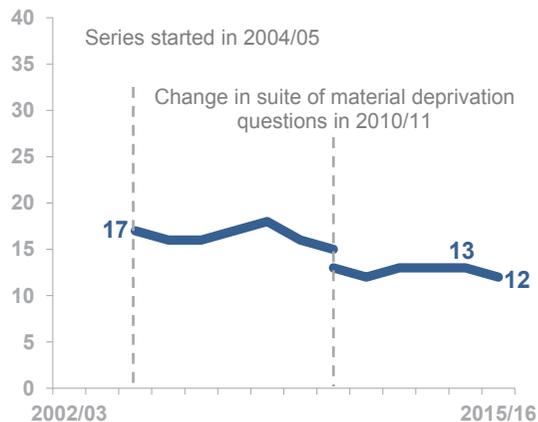
The percentage of children in relative low income BHC increased\* by one percentage point from 2014/15, rising to levels last seen in 2009/10; after housing cost measures display similar trends.

Absolute low income measures remained stable between 2014/15 and 2015/16, both before and after housing costs, at 17 per cent and 27 per cent respectively. The percentage of children in absolute low income BHC remains at the historic low observed in 2014/15.

Compared to the overall population, children remain more likely to be in low income households.

## Low Income and Material Deprivation decreased\* following a period of stability

Percentage of children falling below low income and material deprivation indicators



### Interpretation

**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

Following a period of stability from 2012/13 to 2014/15 the percentage of children in low income and material deprivation decreased\* by one percentage point in 2015/16, falling to 12 per cent.

\*Not statistically significant

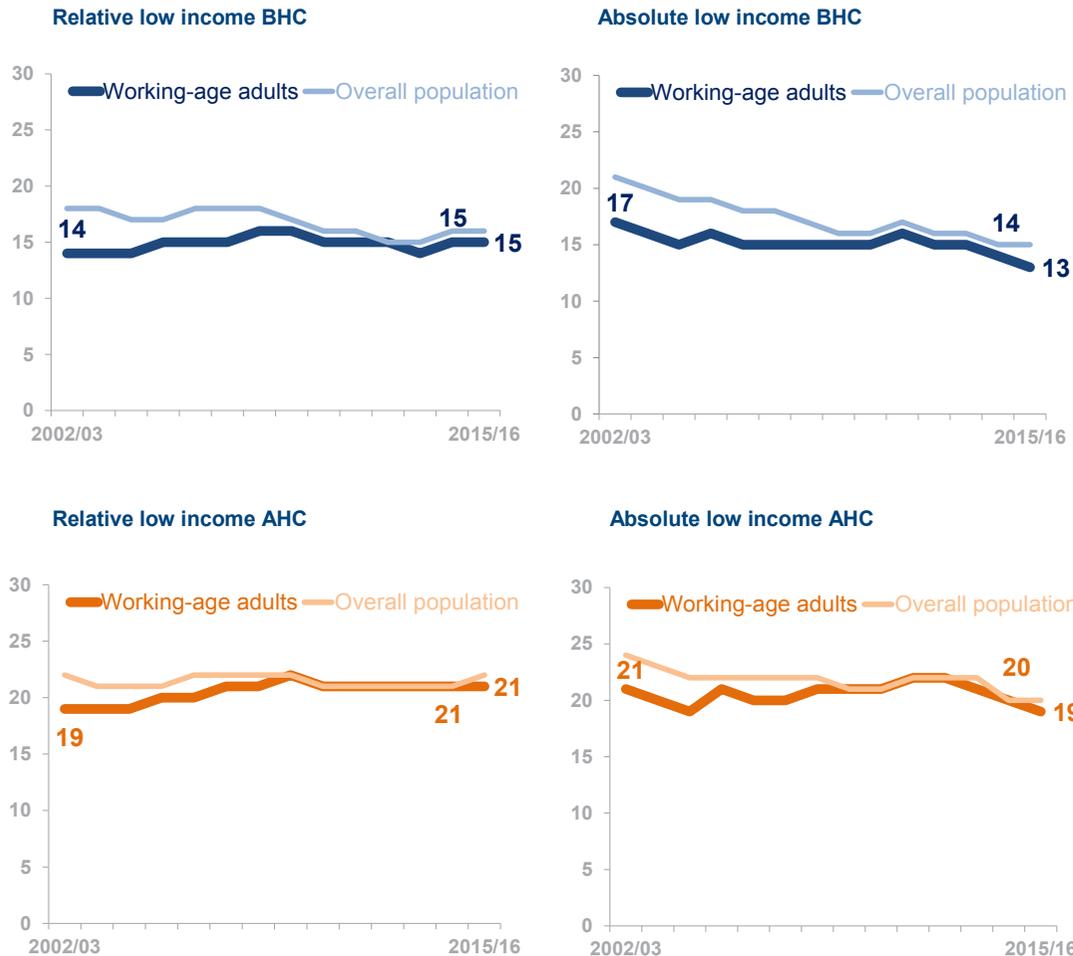
# Working-age Adults in Low Income Households

Working-age adults make up around 60 per cent 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 per cent of the population). As shown on page 6, 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, 5.2tr, 5.2ts, 5.5ts and 5.11ts for full data.

## Headline low income indicators are broadly stable in 2015/16, in line with long-term trends

### Percentage of working-age adults falling below headline low income measures



### Main Findings

#### Low Income Measures

The percentage of working-age adults in relative low income BHC and AHC remained stable in 2015/16 at 15 per cent and 21 per cent respectively; 2015/16 is the fifth consecutive year in which relative low income levels AHC, amongst working-age adults, remained unchanged.

Absolute low income BHC changed by less than one percentage point between 2014/15 and 2015/16 with 13 per cent of working-age adults falling below the measure. Comparatively, absolute measures AHC decreased\* by one percentage point, falling from 20 per cent to 19 per cent between 2014/15 and 2015/16.

Overall, the patterns observed are consistent with long term trends which show a stable series for headline low income measures for working-age adults.

#### In-work Low Income & Composition

Working-age adults in working families are much less likely to be in relative low income than those in families where no-one is in work.

In 2015/16, 10 per cent of working-age adults in working families were in relative low income BHC compared to 39 per cent in workless families (unchanged from 2014/15).

Although work reduces the likelihood of falling below low income measures amongst working-age adults, the majority of those in relative low income belong to working families. This is because a higher percentage of working-age adults belong to working families. In 2015/16;

- 6.6 million working-age adults were in **workless** families. 2.6 million (39 per cent) were in relative low income BHC.
- 31.8 million working-age adults were in **working** families. 3.2 million (10 per cent) were in relative low income BHC.
- In total, 5.8 million working-age adults were in relative low income BHC. 2.6 million (45 per cent) were in workless families. 3.2 million (55 per cent) were in working families.

\*Not statistically significant

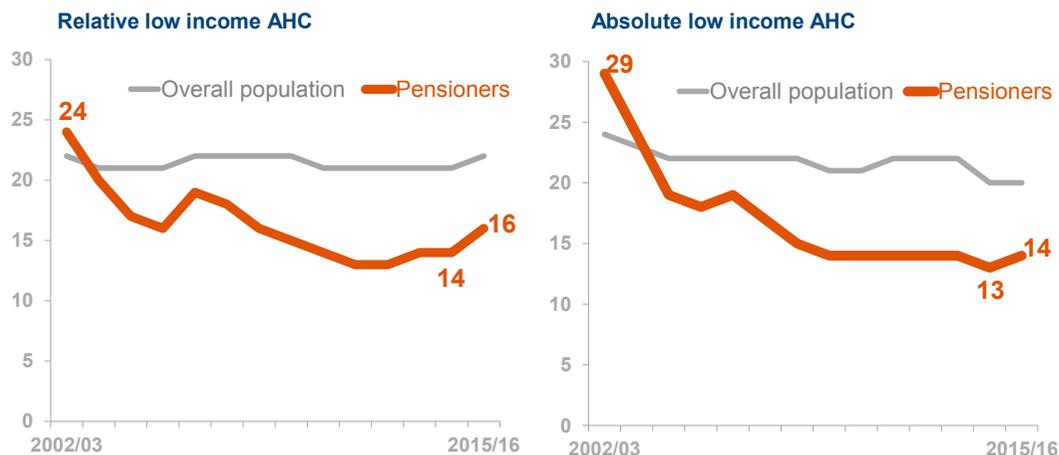
## Pensioners in Low Income Households

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 minimal 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.

### Relative low income measures increased\* to the highest level since 2009/10

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



#### Main Findings

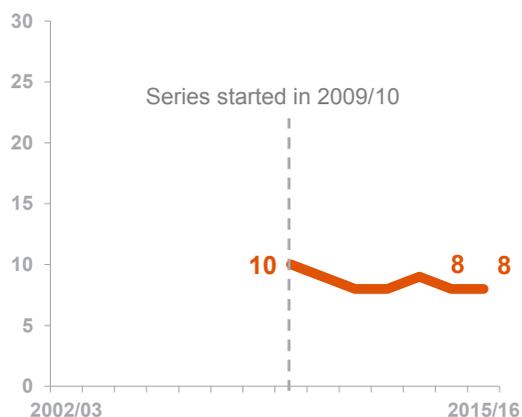
The percentage of pensioners falling below headline low income measures AHC increased\* between 2014/15 and 2015/16.

Absolute low income rose\* slightly from 2014/15 to 14 per cent, but remained consistent with long-term trends observed for pensioners. Relative low income increased\* by 2 percentage points, rising to 16 per cent between 2014/15 and 2015/16.

Compared to the overall UK population, pensioners have been less likely to fall below headline low income measures AHC from around 2004/05. This trend follows significant declines in low income levels for pensioners over the past 20 years.

## Material Deprivation remained stable in 2015/16

#### Percentage of pensioners falling below Material Deprivation indicators



#### 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.

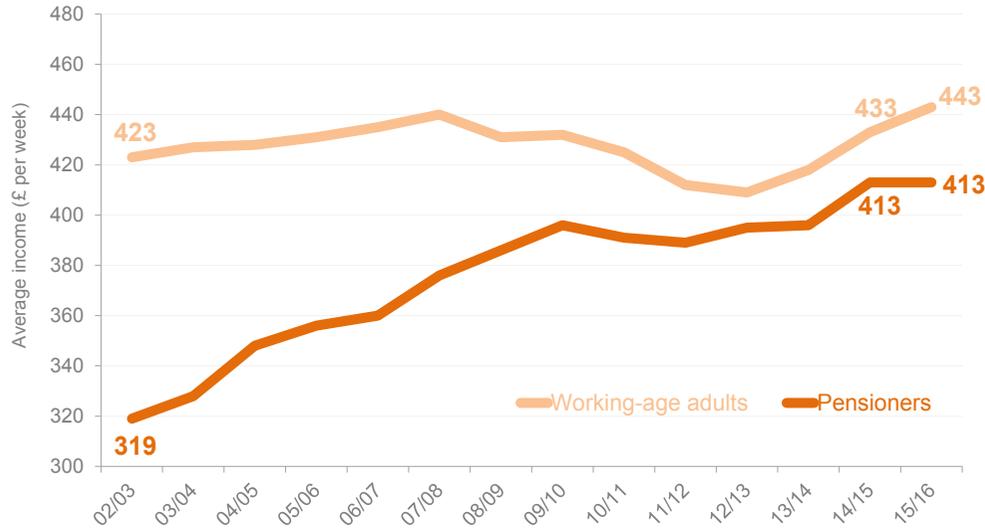
#### Main Findings

The percentage of pensioners falling below material deprivation indicators fell\* by 1 per cent between 2014/15 and 2015/16 (although due to rounding headline levels are given at 8 per cent for both years).

\*Not statistically significant

## There was no observed change in average household income for pensioners between 2014/15 and 2015/16

Average (median) net household disposable income AHC, in 2015/16 prices



### Main Findings

Average (median) pensioner household income was unchanged between 2014/15 and 2015/16, contrary to the working-age average income, which saw growth\* of around £10 per week.

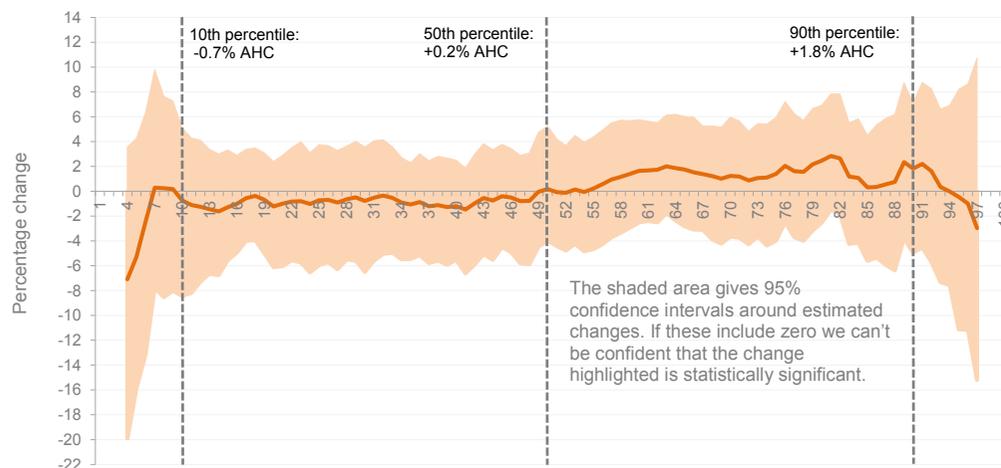
In 2015/16, working-age average income rose\* by 2 per cent whilst pensioner average income remained flat. This caused the average household income gap to rise\* to £30 per week.

For the first time since 2010/11 average pensioner income did not exceed the population median (£413). This implies that in 2015/16 a higher proportion of pensioners populated the bottom half of the income distribution.

The gap between average household income of working-age adults and pensioners has significantly narrowed over time. In 2012/13, the income gap narrowed to £14 per week which was driven by working age and pensioners' average incomes simultaneously reaching respective historic lows and highs.

See **Tables 9.7** for full data.

Change in real terms pensioner income AHC by percentile, 2014/15 to 2015/16



Percentiles 1-3 and 98-100 are excluded because of large statistical uncertainty. The percentiles refer to particular points of the pensioner income distribution.

### Interpretation

Percentiles divide the population (in this case, pensioners), when ranked by household income, into 100 equal sized groups. The chart opposite indicates the amount of weekly net equivalised household income a pensioner requires to sit at each percentile of the income distribution.

### Main Findings

Real terms growth in household income remained flat in 2015/16 for those with average income (£413) but differed for pensioners falling above and below this level.

Pensioners in the bottom half of the distribution saw negative growth between 2014/15 and 2015/16. This implies pensioners in households with less than average income had slightly lower living standards (based on a household income measure) compared to 2014/15. In 2014/15, pensioners in the 10<sup>th</sup> percentile had net income of around £219 compared to those in the 10<sup>th</sup> percentile in 2015/16 who had around £218.

Pensioners with above average income saw real increases in household income in 2015/16. Contrasting growth patterns for those at the top and bottom of the distribution affects inequality amongst pensioners.

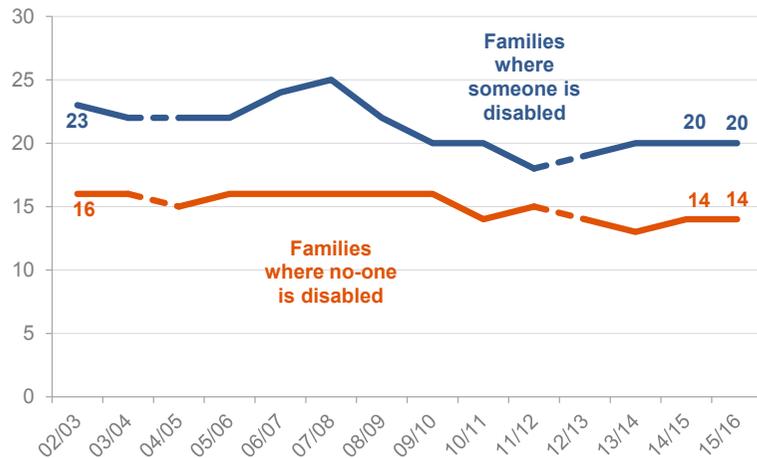
Income growth across the pensioner distribution differs from changes observed for the overall population (page 4) which show positive real terms income growth across the distribution. See **Tables 9.8** for full data.

# Disability

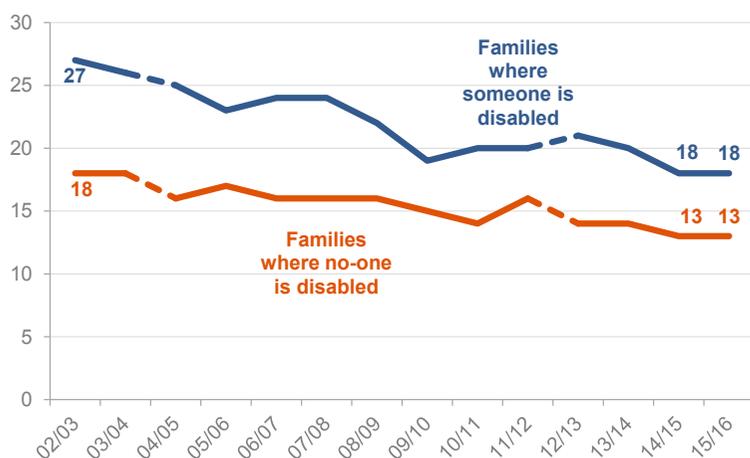
## Headline low income indicators are stable in 2015/16, in line with long-term trends

### Percentage of individuals below headline low income indicators BHC, by family disability

#### Relative low income, BHC



#### Absolute low income, BHC



#### 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 the 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 changes 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 with earlier years should be made with caution.**

#### 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 low income measures, those living in a family with a disabled member are more likely to be in low income than non-disabled families.

Between 2014/15 and 2015/16 headline low income measures were unchanged for individuals in families with disabled members and those without. For individuals in families with at least one disabled member, the percentage in relative and absolute low income remained at 20 per cent and 18 per cent respectively.

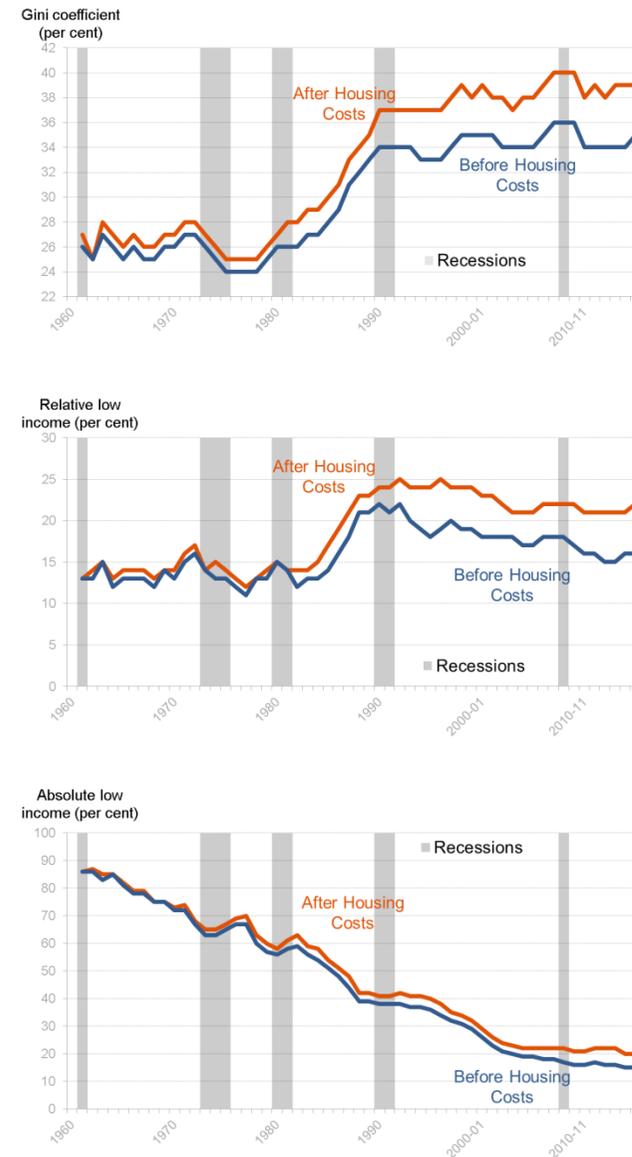
Since 2012/13 the gap between families where someone is disabled and families where no-one is disabled in absolute low income has narrowed. See **Tables 7.1ts** for full data.

\*Not statistically significant

# Long-term Trends (data prior to 1994/95 are not National Statistics)

## Work undertaken by IFS to extend HBAI trends back to 1961 shows large increases in inequality over the 1980s

### Headline low income indicators



All results reported prior to 2002/03 are for Great Britain only

### Main Findings

Looking at trends over the past 50 years, incomes across the population have increased dramatically in real terms over time, driving falls in **absolute low income** measures. This pattern has held fairly consistently over time, with rises in absolute low income relatively rare.

Over the 1980s, however, incomes for those further up the income distribution grew more quickly than for those at the bottom, driving large increases in income inequality (**Gini**) and in **relative low income** measures.

From the early 1990s to date, income inequality measures in the UK have remained relatively stable, although analysis by Atkinson, Piketty et al, held at the World Wealth & Income Database (<http://wid.world/>) suggests that increasing inequality has continued with incomes for those within the top 1 per cent continuing to grow faster than for the rest of the distribution. Changes this far up the distribution will not be captured well in HBAI data.

### Interpretation

The increase in income inequality (and in relative low income) over the past 40 years or so has been driven in part by a significant increase in individual earnings inequality over the same period. Partial explanations for wider trends are as follows:

From the **late-1970s** there was a large rise in unemployment following the recession, accompanied by increasing inequality in earnings – driven in part by factors like increases in part-time working.

From the **mid-1980s** increasing income inequality was further driven by incomes of those in employment pulling away from those who are economically inactive (including pensioners) as growth in employment income rose faster than for other sources such as benefits.

In the **late-1980s** the widening of the income distribution was driven further by increases in earnings inequality, with increasing differences between wages for different occupations.

By the **early 1990s** the picture began to stabilise with incomes of those economically inactive starting to catch up to those in employment.

In the **early 2000s** falls in low income measures were driven by increasing relative incomes for pensioners and families with children.

See [https://www.ifs.org.uk/uploads/publications/bns/bn19figs\\_2016.xlsx](https://www.ifs.org.uk/uploads/publications/bns/bn19figs_2016.xlsx) for full data and [http://www.ifs.org.uk/uploads/publications/docs/Accounting\\_for\\_changes\\_in\\_inequality.pdf](http://www.ifs.org.uk/uploads/publications/docs/Accounting_for_changes_in_inequality.pdf) for detailed decomposition analysis of trends.

# 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 over 19,000 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.

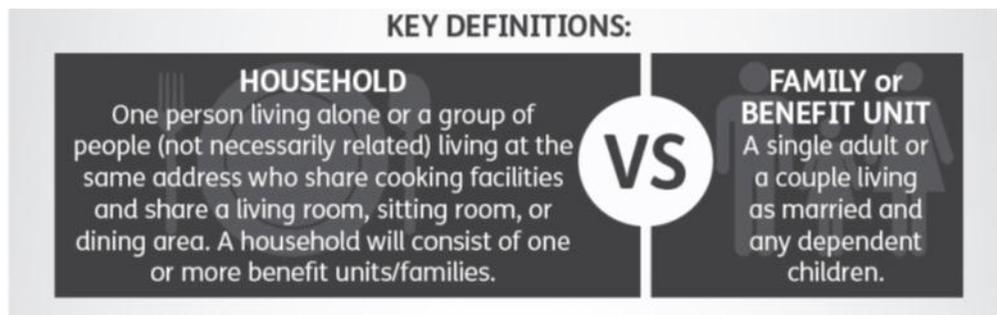
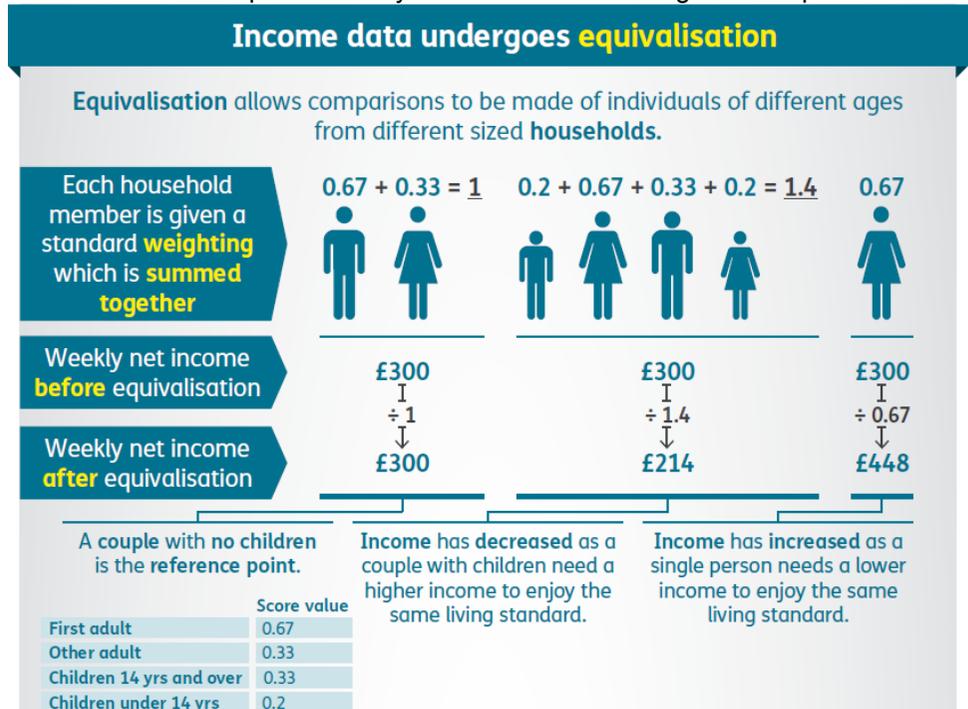
**Sampling Error** Results from surveys are estimates and not precise figures - in general terms the smaller the sample size, the larger the uncertainty. Confidence intervals help to interpret the certainty of these estimates, by showing the range of values around the estimate that the true result is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

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** measuring income from all sources from all household members including:

- 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.

Income **After Housing Costs** 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.

### 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/aguidetosourcesofdataonearningsandincome>

### 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 with a schedule of statistical releases over the next 12 months and a list of the most recent releases at: <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 at: <https://www.gov.uk/government/statistics/announcements>.

A closely-related source of key information on Income & Earnings is ONS's Effects of Taxes and Benefits on Household Income National Statistics release. Both HBAI and ONS statistics are based on survey data and so subject to statistical uncertainty. As such there will naturally be areas where headline results appear inconsistent, without this indicating error in either release. Where this is the case, users are encouraged to take a holistic view across the full suite of results available:

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/theeffectsoftaxesandbenefitsonhouseholdincome/financialyearending2015/>

### 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.

**National Statistics Status:** 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.

National Statistics status means that official statistics meet the highest standards of trustworthiness, quality and public value. All official statistics should comply with all aspects of the *Code of Practice for Official Statistics*. They are awarded National Statistics status following an assessment by the Office for Statistics Regulation who consider whether the statistics meet the highest standards of Code compliance, including the value they add to public decisions and debate.

It is DWP's responsibility to maintain compliance with the standards expected of National Statistics. If we become concerned about whether these statistics are still meeting the appropriate standards, we will discuss any concerns with the Office for Statistics Regulation. National Statistics status can be removed at any point when the highest standards are not maintained, and reinstated when standards are restored.