



A bleak future for families

Falling living standards under the coalition government

Introduction

This new TUC analysis, undertaken by Landman Economics, forecasts the impact of government economic and social policies on annual household disposable incomes¹ by 2015.² For the first time it draws together data on all government benefit and tax credit and tax policy changes, as well as looking into the impacts of slower than previously forecast wage growth, considering how the living standards squeeze will affect different household types and income groups. Considering family incomes compared to a 2010 baseline, the research enables analysis of the specific impacts of Government policy and economic management compared to the position that families would have been in had the Government maintained the economic and policy landscape it inherited in 2010.

¹ Disposable income refers to total income (from sources including earnings, social security and investments) after tax.

² The baseline system is the previous April 2010 system updated to April 2012 prices (by RPI) and then assumed constant in real terms from 2012 to 2015. The tax systems for 2013, 2014 and 2015 are deflated by RPI inflation so that they are equivalent to the April 2012 tax system in real terms. As most benefit and tax credit levels are falling in real terms this means that the levels used in the analysis of (e.g.) Child Benefit in the 2015 system are lower than in the 2012 system. Household data in the report is from the Family Resources Survey (FRS).

Impacts for different income groups

The analysis firstly considers varied outcomes for different households across the income distribution.

Benefit and tax credit changes

Since taking office the Government has introduced a multitude of cuts to benefits and tax credits, including reductions in the rate at which all benefits and tax credits are updated, freezes in the value of some elements and significant cuts to Housing Benefit, Council Tax Benefit and childcare tax credits.³

The analysis therefore firstly considers all benefit and tax credit changes that have been introduced since 2010/11, and sets out what they will mean for annual household disposable incomes by the 2015/16 financial year (compared to what the same households would have received under the policies the Government inherited in 2010 and previously forecast rates of wage growth).

Unsurprisingly the analysis shows that the Government's benefit and tax credit policies mean all income groups are net losers, and that those who are the poorest lose proportionally the most from these changes. By 2015 those in the highest decile will be 0.6 per cent worse off a year as a result of benefit and tax credit cuts. In contrast those in the lowest three deciles are set to experience income losses of 4.6 per cent a year. Those in the highest decile are not even the largest cash losers – households in the second, third, fourth, fifth, sixth and seventh deciles all lose more per year in cash terms than the very richest. The highest cash losses are felt by those in the middle (the fourth decile) who will be £710 worse off a year by 2015 (than would have been the case under previous policies) as a result of government tax credit and benefit policy alone.

³ A full list of benefit and tax credit changes that are included in the analysis is listed in Annex 1. Council Tax Benefit (CTB) cuts are included assuming a 26% real terms cut for working age households in receipt of it, while holding the amounts constant for pensioner households. The introduction of the Personal Independent Payment and the 'bedroom tax' cut in Housing Benefit for social housing tenants have not been included as they cannot be accurately modelled using the FRS. This means that for some household the impact of benefit cuts will be significantly greater than the totals included in this analysis.

Impact of benefit and tax credit changes (excluding Universal Credit) on weekly and annual disposable household income by 2015 compared to 2010 baseline, by household income decile⁴

Decile	Average disposable household income (weekly)	Benefit losses (weekly)	Tax credit losses (weekly)	Total benefit and tax credit losses (weekly)	Total benefit and tax credit losses (annual)	Loss as proportion of income
1 (poorest)	£53.81	-£1.64	-£0.82	-£2.46	-£127.92	-4.6%
2	£195.92	-£5.75	-£4.13	-£9.88	-£513.76	-5.0%
3	£270.89	-£5.50	-£7.05	-£12.55	-£652.60	-4.6%
4	£307.89	-£4.05	-£9.60	-£13.65	-£709.80	-4.4%
5	£348.03	-£3.59	-£9.72	-£13.31	-£692.12	-3.8%
6	£381.73	-£3.41	-£8.04	-£11.45	-£595.40	-3.0%
7	£444.58	-£3.42	-£6.13	-£9.55	-£496.60	-2.1%
8	£537.09	-£3.66	-£3.57	-£7.23	-£375.96	-1.3%
9	£678.00	-£4.23	-£0.85	-£5.08	-£264.16	-0.7%
10 (richest)	£1,272.36	-£7.78	-£0.06	-£7.84	-£407.68	-0.6%

All amounts are expressed in 2012/13 prices

But these results exclude the impacts of Universal Credit, which the Government often tells us will make the benefits system far fairer, and will mean that those on the lowest incomes are far better off. But our analysis considers the impact it will make for disposable household income, and finds that its introduction makes little difference to the overall impacts of benefit and tax credit reforms.

The analysis shows Universal Credit only leads to income gains for those in the lowest three income groups, with those on weekly incomes as low as £307.89 (just over £16,000 a year) losing out. In addition, only those in the very lowest decile will find that they will be better off overall as a result of the combine impact of UC along with wider tax and benefit changes, and even then only by £4.39 a week. The benefit and tax credit cuts families have faced in the years preceding Universal Credit, which impact upon UC's starting rates, and the overall design of UC itself will mean that in 2015 only households in the lowest three deciles benefit from it all. Some of the greatest losers from the combined policy impacts of all benefit and tax credit changes are those just below the middle, who find themselves over £740 a year worse off (an annual drop in incomes of 4.6 per cent) as a result of benefit and tax credit reforms including Universal Credit.

⁴ This table does not show the entitlements levels for each group, but documents the average impact of policies on disposable household incomes.

Impact of benefit and tax credit policy including Universal Credit on weekly and annual disposable household incomes by 2015 compared to 2010 baseline, by household income decile⁵

Decile	Average disposable household income (weekly)	Benefit losses (weekly)	Tax credit losses (weekly)	Universal Credit impact (weekly)	Total impact (weekly)	Total impact (annual)	Change as proportion of income
1 (poorest)	£53.81	-£1.64	-£0.82	£6.85	£4.39	£228.28	8.2%
2	£195.92	-£5.75	-£4.13	£0.13	-£9.75	-£507	-5.0%
3	£270.89	-£5.50	-£7.05	£0.55	-£12.00	-£624	-4.4%
4	£307.89	-£4.05	-£9.60	-£0.65	-£14.30	-£743.6	-4.6%
5	£348.03	-£3.59	-£9.72	-£1.87	-£15.18	-£789.36	-4.4%
6	£381.73	-£3.41	-£8.04	-£3.27	-£14.72	-£765.44	-3.9%
7	£444.58	-£3.42	-£6.13	-£2.77	-£12.32	-£640.64	-2.8%
8	£537.09	-£3.66	-£3.57	-£1.46	-£8.69	-£451.88	-1.6%
9	£678.00	-£4.23	-£0.85	-£0.58	-£5.66	-£294.32	-0.8%
10 (richest)	£1,272.36	-£7.78	-£0.06	-£1.79	-£9.63	-£500.76	-0.8%

All amounts are expressed in 2012/13 prices

Tax changes

The analysis also looks at the impact of changes in tax policy – the increase in the Personal Allowance for income tax⁶, the 1 per cent increase in employee and self-employed national insurance contributions, the increase in the rate of VAT from 17.5 to 20 per cent, the alignment of the primary threshold for national insurance contributions with the personal allowance, the abolition of the 50p tax rate and the freeze in higher income tax rate thresholds.

Again, all income groups are net losers from the Government’s tax policy, with those in the lowest decile set to lose the most by 2015. While changes in the personal allowance have brought some benefits for nearly all income groups these are more than offset by changes in VAT. In addition, even if this policy is considered in isolation those who gain the most from the personal allowance increases are in the higher income groups (deciles seven and eight).⁷ In contrast

⁵ As with other tax credit and benefit changes, this table does not show the entitlements (of benefits, tax credits or Universal Credit) for each group, but documents the average impact of Universal Credit on disposable household incomes.

⁶ The allowance is currently (financial year 2012/13) £9,440. We have assumed it will then be CPI uprated for 2014/15 and 2015/16 as per current policy.

⁷ Those in the top decile gain from the reduction in the top rate of income tax from 50p to 45p, but these gains are outweighed by the freeze in the higher rate threshold and the new child benefit tax charge from 2013.

those on the lowest incomes see little cash benefit relative to those higher up the income distribution. Overall the Government's tax policy has by far the most negative impact on those with the lowest incomes, who gain practically nothing from the increased personal allowance but lose significantly from increased VAT. Tax policy overall costs them 6.3 per cent of their disposable household income by 2015, the greatest proportion and also a cash loss that is higher than those in deciles two to five.

Impact of government tax policy on weekly and annual disposable household incomes by 2015 compared to 2010 baseline, by household income decile

Decile	Average disposable household income (weekly)	Income tax and NICs changes (weekly)	VAT increase (weekly)	Total impact of tax changes on income (weekly)	Total impact of tax changes on income (annual)	Loss as proportion of income
1 (poorest)	£53.81	£0.01	-£3.38	-£3.37	-£175.24	-6.3%
2	£195.92	£1.09	-£4.26	-£3.17	-£164.84	-1.6%
3	£270.89	£2.90	-£5.46	-£2.56	-£133.12	-0.9%
4	£307.89	£4.16	-£6.68	-£2.52	-£131.04	-0.8%
5	£348.03	£5.14	-£8.48	-£3.34	-£173.68	-1.0%
6	£381.73	£5.87	-£10.46	-£4.59	-£238.68	-1.2%
7	£444.58	£6.53	-£11.24	-£4.71	-£244.92	-1.1%
8	£537.09	£6.78	-£13.69	-£6.91	-£359.32	-1.3%
9	£678.00	£5.42	-£14.53	-£9.11	-£473.72	-1.3%
10 (richest)	£1,272.36	-£4.58	-£19.92	-£24.50	-£1,274.00	-1.9%

All amounts are expressed in 2012/13 prices

Wage growth

Our research also takes into account the impact of slower than forecast wage growth. Wages have already stagnated for over three years, and even by the OBR's forecasts are not set to recover until 2014. It is not unreasonable to attribute slow wage growth to government economic policy. Slower than forecast growth in the economy has meant weak demand and reduced scope for immediate wage rises compared to the Treasury's forecasts in May 2010. In addition, workers in the public sector have experienced two years of frozen pay (three for local government workers) and now face a further two years with pay rises arbitrarily capped at 1 per cent. If our economy was growing more strongly, and if a different public sector pay policy was in place, the rate of pay growth since 2010 would be better.

The analysis considers the impacts of the pay squeeze by considering the difference between 2010 and current forecasts for pay growth across the economy to 2015, and by then analysing the additional impact of the government's current

public sector pay policy for those defined as working in public service occupations in the Family Resources Survey⁸.

The analysis shows that those most affected by slower than expected wage growth have been those on higher incomes, with households in the ninth decile experiencing an annual 4.5 per cent fall in income as a result.⁹ The largest cash losers are those who are already the richest, who will be over £2,300 worse off a year by 2015 as a result of poor pay growth. But households across the distribution are badly affected, with those around the middle set to lose several hundreds of pounds and finding themselves over £200 worse off a year than they would have been had wages grown at previously forecast rates, and had public sector pay continued to rise in line with wages across the rest of the economy.

Impact of slower than forecast wage growth and public sector pay policy on weekly and annual disposable household incomes by 2015 compared to 2010 baseline, by household income decile

Decile	Average disposable household income (weekly)	Losses due to reduced wage growth (weekly)	Additional losses due to public sector pay freeze and cap (weekly)	Total losses due to reduced wage growth (weekly)	Losses due to reduced wage growth (annual)	Additional losses due to public sector pay freeze and cap (annual)	Total losses due to reduced wage growth (annual)	Losses as proportion of income
1 (poorest)	£53.81	-£0.37	-£0.08	-£0.45	-£19.24	-£4.16	-£23.40	-0.8%
2	£195.92	-£0.73	-£0.21	-£0.94	-£37.96	-£10.92	-£48.88	-0.5%
3	£270.89	-£1.02	-£0.40	-£1.42	-£53.04	-£20.80	-£73.84	-0.5%
4	£307.89	-£1.81	-£0.64	-£2.45	-£94.12	-£33.28	-£127.40	-0.8%
5	£348.03	-£3.09	-£1.21	-£4.30	-£160.68	-£62.92	-£223.60	-1.2%
6	£381.73	-£4.67	-£2.31	-£6.98	-£242.84	-£120.12	-£362.96	-1.8%
7	£444.58	-£7.30	-£4.81	-£12.11	-£379.60	-£250.12	-£629.72	-2.7%
8	£537.09	-£10.86	-£9.14	-£20.00	-£564.72	-£475.28	-£1,040.00	-3.7%
9	£678.00	-£15.38	-£14.96	-£30.34	-£799.76	-£777.92	-£1,577.68	-4.5%
10 (richest)	£1,272.36	-£23.61	-£21.96	-£45.57	-£1,227.72	-£1,141.92	-£2,369.64	-3.6%

All amounts are expressed in 2012/13 prices

Cumulative impact of government policy and slow wage growth

⁸ For the purpose of this analysis pay growth in line with current public sector pay policy has been assumed for employed adults working in 'public sector' occupations while pay growth in line for actual and forecast annual increases in average earnings have been assumed for all other employed adults included in the analysis. The analysis models the impact of a two year pay freeze followed by a 1 per cent pay rise in 2014/15. It does not take account of the three year freeze in local government, nor the £250 increase for some of the lower paid workers.

⁹ Those in this decile see a higher proportional fall in income than those in the top decile as families in the latter group derive a greater share of their disposable income from investments.

When all recent changes are considered together the cumulative impact is that those on low and middle incomes are hit far harder than those at the top (even then the impacts of slower than forecast wage growth, which as we showed above hits those on higher incomes more, are included).

The only overall gainers – as a result of Universal Credit - are those in the lowest decile who will be 57p a week (or around £30 a year) better off than under the previous Government’s policies and forecast rates of wage growth by 2015.

But every other group will have lost. Those in the second decile will lose the most, with incomes worth 7.1 per cent a year less than would have been the case under the previous Government’s policies and forecast rates of wage growth. Those in the middle (sixth decile) are next worst affected, experiencing falls in income of 6.9 per cent, over £1,300 a year worse off. Those at the top experience one of the smallest proportional falls, a drop of 6.3 per cent a year.

Cumulative impact of benefit (including Universal Credit), tax credit and tax policy along with slower than forecast wage growth and public sector pay policy on annual and weekly households disposable income by 2015 compared to 2010 baseline, by household income decile

Decile	Benefit reforms (weekly)	Tax credit reforms (weekly)	Universal Credit (weekly)	Income tax and NI (weekly)	VAT (weekly)	Reduced wage growth (weekly)	Additional impact of public sector wage policy (weekly)
1 (poorest)	-£1.64	-£0.82	£6.85	£0.01	-£3.38	-£0.37	-£0.08
2	-£5.75	-£4.13	£0.13	£1.09	-£4.26	-£0.73	-£0.21
3	-£5.50	-£7.05	£0.55	£2.90	-£5.46	-£1.02	-£0.40
4	-£4.05	-£9.60	-£0.65	£4.16	-£6.68	-£1.81	-£0.64
5	-£3.59	-£9.72	-£1.87	£5.14	-£8.48	-£3.09	-£1.21
6	-£3.41	-£8.04	-£3.27	£5.87	-£10.46	-£4.67	-£2.31
7	-£3.42	-£6.13	-£2.77	£6.53	-£11.24	-£7.30	-£4.81
8	-£3.66	-£3.57	-£1.46	£6.78	-£13.69	-£10.86	-£9.14
9	-£4.23	-£0.85	-£0.58	£5.42	-£14.53	-£15.38	-£14.96
10 (richest)	-£7.78	-£0.06	-£1.79	-£4.58	-£19.92	-£23.61	£21.96

All amounts are expressed in 2012/13 prices

Decile	Total benefit changes (weekly)	Total tax changes (weekly)	Total wage change (weekly)	Total impacts (weekly)	Total impacts (annual)	Total impacts as proportion of income
1 (poorest)	£4.39	-£3.37	-£0.45	£0.57	£29.64	1.1%
2	-£9.75	-£3.17	-£0.94	-£13.86	-£720.72	-7.1%
3	-£12.00	-£2.56	-£1.42	-£15.98	-£830.96	-5.9%
4	-£14.30	-£2.52	-£2.45	-£19.27	-£1,002.04	-6.3%
5	-£15.18	-£3.34	-£4.30	-£22.82	-£1,186.64	-6.6%
6	-£14.72	-£4.59	-£6.98	-£26.29	-£1,367.08	-6.9%
7	-£12.32	-£4.71	-£12.11	-£29.14	-£1,515.28	-6.6%
8	-£8.69	-£6.91	-£20.00	-£35.60	-£1,851.20	-6.6%
9	-£5.66	-£9.11	-£30.34	-£45.11	-£2,345.72	-6.7%
10 (richest)	-£9.63	-£24.50	-£45.57	-£79.70	-£4,144.40	-6.3%

All amounts are expressed in 2012/13 prices

This means that those in the lowest income groups will see a 1.1 per cent annual households disposable income increase by 2015, but all other groups will lose, with those just above the bottom seeing the biggest proportional fall (7.1 per cent). After the bottom decile, those who see one of the smallest proportional losses are the richest, who will see a 6.3 per cent annual income drop by 2015.

Cumulative proportional impact of benefit, tax credit and tax policy along with slower than forecast wage growth and public sector pay policy on weekly and annual households disposable income by 2015 compared to 2010 baseline, by household income decile

Decile	Benefit reforms	Tax credit reforms	UC	Income tax and NI	VAT	Slower wage growth	Public sector pay	Total impact
1 (poorest)	-3.0%	-1.5%	12.7%	0.0%	-6.3%	-0.7%	-0.1%	1.1%
2	-2.9%	-2.1%	0.1%	0.6%	-2.2%	-0.4%	-0.1%	-7.1%
3	-2.0%	-2.6%	0.2%	1.1%	-2.0%	-0.4%	-0.1%	-5.9%
4	-1.3%	-3.1%	-0.2%	1.4%	-2.2%	-0.6%	-0.2%	-6.3%
5	-1.0%	-2.8%	-0.5%	1.5%	-2.4%	-0.9%	-0.3%	-6.6%
6	-0.9%	-2.1%	-0.9%	1.5%	-2.7%	-1.2%	-0.6%	-6.9%
7	-0.8%	-1.4%	-0.6%	1.5%	-2.5%	-1.6%	-1.1%	-6.6%
8	-0.7%	-0.7%	-0.3%	1.3%	-2.5%	-2.0%	-1.7%	-6.6%

9	-0.6%	-0.1%	-0.1%	0.8%	-2.1%	-2.3%	-2.2%	-6.7%
10 (richest)	-0.6%	0.0%	-0.1%	-0.4%	-1.6%	-1.9%	-1.7%	-6.3%

All amounts are expressed in 2012/13 prices

Cumulative proportional impact of overall benefit (including Universal Credit), tax credit and tax policy along with slower than forecast wage growth and public sector pay policy on weekly and annual households disposable income by 2015, compared to 2010 baseline, by household income decile

Decile	Total benefit changes	Total tax changes	Total wage change	Total impact
1 (poorest)	8.2%	-6.3%	-0.8%	1.1%
2	-5.0%	-1.6%	-0.5%	-7.1%
3	-4.4%	-0.9%	-0.5%	-5.9%
4	-4.6%	-0.8%	-0.8%	-6.3%
5	-4.4%	-1.0%	-1.2%	-6.6%
6	-3.9%	-1.2%	-1.8%	-6.9%
7	-2.8%	-1.1%	-2.7%	-6.6%
8	-1.6%	-1.3%	-3.7%	-6.6%
9	-0.8%	-1.3%	-4.5%	-6.7%
10 (richest)	-0.8%	-1.9%	-3.6%	-6.3%

Impacts for different family types

The analysis also considers how different types of families have been affected.

Benefit and tax credit changes

The benefit and tax credit changes have had the greatest proportional impact on working lone parents (5.7 per cent income loss by 2015) and workless couples with children (6.3 per cent income loss). These groups are closely followed by one-earner couples with children (5.4 per cent loss) and workless lone parents (5.0 per cent loss). Those least affected are two earner couples with no children (0.3 per cent loss) followed by pensioners (1.5 and 1.1 per cent losses for single and couple pensioners respectively).

The cash losses for the groups most affected are significant. With working lone parents set to lose over £1,300 a year by 2015 as a result of the Government's changes, single earner couples with children set to lose over £1,700 over the same time period and dual earner couples with children facing losses of over £1,200 a year.

Impact of benefit and tax credit changes on weekly and annual disposable household income by 2015 excluding Universal Credit compared to 2010 baseline, by household type

Household type	Average disposable household income (weekly)	Benefit losses (weekly)	Tax credit losses (weekly)	Total benefit and tax credit losses (weekly)	Total benefit and tax credit losses (annual)	Loss as proportion of income
single adult, no children, not working	£114.31	-\$4.08	£0.00	-\$4.08	-\$212.16	-3.6%
single adult, no children, working	£316.75	-\$0.26	-\$3.17	-\$3.43	-\$178.36	-1.1%
lone parent, not working	£316.91	-\$13.00	-\$2.71	-\$15.71	-\$816.92	-5.0%
lone parent, in work	£459.54	-\$5.32	-\$20.90	-\$26.22	-\$1,363.44	-5.7%
couple, no children, not working	£300.52	-\$9.95	£0.00	-\$9.95	-\$517.40	-3.3%
couple, children, not working	£388.49	-\$21.33	-\$3.03	-\$24.36	-\$1,266.72	-6.3%
couple, no children, 1 earner	£522.59	-\$3.70	-\$5.97	-\$9.67	-\$502.84	-1.9%
couple, children, 1 earner	£624.86	-\$8.92	-\$25.10	-\$34.02	-\$1,769.04	-5.4%
couple, no children, 2 earners	£758.82	-\$0.19	-\$2.15	-\$2.34	-\$121.68	-0.3%
couple, children, 2 earners	£809.39	-\$9.39	-\$14.33	-\$23.72	-\$1,233.44	-2.9%
single pensioner	£287.39	-\$4.05	-\$0.23	-\$4.28	-\$222.56	-1.5%
couple pensioner	£506.25	-\$4.65	-\$1.13	-\$5.78	-\$300.56	-1.1%

All amounts are expressed in 2012/13 prices

Universal Credit fails to fully offset the negative impacts of other policy choices, with all household types still losing as a result of the net impact of Government social security and tax credit policy, even when Universal Credit is included. The analysis shows that once UC is introduced workless single adults and couples will see the greatest annual losses in their disposable income, but that working lone parents also still see significant losses of over £1,300 a year (5.5 per cent of disposable income), as will single earner couples with children (losses of over £680 a year or 2.1 per cent of their disposable income) and dual earner couples with children (losses of over £1,250 a year or 3.1 per cent of disposable income).

Impact of benefit and tax credit changes on weekly and annual disposable household income by 2015 including Universal Credit compared to 2010 baseline, by household type

Household type	Average disposable household income (weekly)	Benefit losses (weekly)	Tax credit losses (weekly)	Universal Credit impact (weekly)	Total impact (weekly)	Total impact (annual)	Change as proportion of income
single adult, no children, not working	£114.31	£-4.08	£0.00	£-1.13	£-5.21	£-270.92	-4.6%
single adult, no children, working	£316.75	£-0.26	£-3.17	£0.38	£-3.05	£-158.60	-1.0%
lone parent, not working	£316.91	£-13.00	£-2.71	£1.73	£-13.98	£-726.96	-4.4%
lone parent, in work	£459.54	£-5.32	£-20.90	£0.73	£-25.49	£-1,325.48	-5.5%
couple, no children, not working	£300.52	£-9.95	£0.00	£-14.97	£-24.92	£-1,295.84	-8.3%
couple, children, not working	£388.49	£-21.33	£-3.03	£-0.14	£-24.50	£-1,274.00	-6.3%
couple, no children, 1 earner	£522.59	£-3.70	£-5.97	£4.84	£-4.83	£-251.16	-0.9%
couple, children, 1 earner	£624.86	£-8.92	£-25.10	£20.84	£-13.18	£-685.36	-2.1%
couple, no children, 2 earners	£758.82	£-0.19	£-2.15	£-1.64	£-3.98	£-206.96	-0.5%
couple, children, 2 earners	£809.39	£-9.39	£-14.33	£-1.00	£-24.72	£-1,285.44	-3.1%
single pensioner	£287.39	£-4.05	£-0.23	£-0.30	£-4.58	£-238.16	-1.6%
couple pensioner	£506.25	£-4.65	£-1.13	£-9.20	£-14.98	£-778.96	-3.0%

Tax changes

All family types are also worse off as a result of the Government's tax policy. Single workless adults are the worst affected, losing over £500 a year, equivalent to 9.1 per cent of their income (a result of seeing very little benefit from the increased personal allowance at the same time as being hit hard by higher VAT). Although those in work see some benefits from the increased personal allowance these are again more than offset as a result of VAT rises. As single pensioners¹⁰ gain little benefit from income tax and NICs changes they are some of the greatest

¹⁰ Couple pensioners gain more than single pensioners in the analysis as households in the former group include those where one partner is above state pension age and the other remains below it. These families are classified as pensioner couples but the partner who is below 65 gains from the increase in the income tax personal allowance (and, in many cases, the increased employee NICs primary threshold).

losers from Government tax policy, with this group seeing a 3.6 per cent fall in their income as a result of the Government's policy changes.

Impact of tax policy on weekly and annual disposable household incomes by 2015 compared to 2010 baseline, by household type¹¹

Household type	Average disposable household income (weekly)	Income tax and NICs changes (weekly)	VAT increase (weekly)	Total impact of tax changes on income (weekly)	Total impact of tax changes on income (annual)	Loss as proportion of income
single adult, no children, not working	£114.31	£0.35	-£10.75	-£10.40	-£540.80	-9.1%
single adult, no children, working	£316.75	£5.09	-£9.91	-£4.82	-£250.64	-1.5%
lone parent, not working	£316.91	£0.24	-£10.20	-£9.96	-£517.92	-3.1%
lone parent, in work	£459.54	£5.12	-£10.19	-£5.07	-£263.64	-1.1%
couple, no children, not working	£300.52	£3.04	-£11.42	-£8.38	-£435.76	-2.8%
couple, children, not working	£388.49	£0.89	-£9.41	-£8.52	-£443.04	-2.2%
couple, no children, 1 earner	£522.59	£4.42	-£9.53	-£5.11	-£265.72	-1.0%
couple, children, 1 earner	£624.86	£3.43	-£9.55	-£6.12	-£318.24	-1.0%
couple, no children, 2 earners	£758.82	£7.78	-£9.53	-£1.75	-£91.00	-0.2%
couple, children, 2 earners	£809.39	£5.30	-£10.06	-£4.76	-£247.52	-0.6%
single pensioner	£287.39	-£1.01	-£9.37	-£10.38	-£539.76	-3.6%
couple pensioner	£506.25	£2.38	-£9.81	-£7.43	-£386.36	-1.5%

All amounts are expressed in 2012/13 prices

Wage growth

Dual earner couples (who are most likely to have the highest household incomes) with and without children are the greatest losers from poorer than expected wage rises and the impacts of the government's public sector pay policy, seeing falls of £1,830 and £1,740 respectively (relative to the 2010 baseline). Pensioners, least likely to be in households with no earners, are unsurprisingly the least likely to experience losses as a result of wage stagnation.

¹¹ Households without adults in work are still affected by tax changes as a few people in the income bracket will have investment income. In particular people who have retired early but are not yet at state pension age and are living off private pensions will be affected by these tax changes.

Impact of slower than forecast wage growth and public sector pay policy on weekly and annual disposable household incomes by 2015 compared to 2010 baseline, by household type¹²

Household type	Average disposable household income (weekly)	Losses due to reduced wage growth (weekly)	Additional losses due to public sector pay freeze and cap (weekly)	Total losses due to reduced wage growth (weekly)	Losses due to reduced wage growth (annual)	Additional losses due to public sector pay freeze and cap (annual)	Total losses due to reduced wage growth (annual)	Losses as proportion of income
single adult, no children, not working	£114.31	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	0.0%
single adult, no children, working	£316.75	-£7.36	-£5.05	-£12.41	-£382.72	-£262.60	-£645.32	-3.9%
lone parent, not working	£316.91	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	0.0%
lone parent, in work	£459.54	-£3.61	-£3.58	-£7.19	-£187.72	-£186.16	-£373.88	-1.6%
couple, no children, not working	£300.52	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	0.0%
couple, children, not working	£388.49	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	0.0%
couple, no children, 1 earner	£522.59	-£8.92	-£5.65	-£14.57	-£463.84	-£293.80	-£757.64	-2.8%
couple, children, 1 earner	£624.86	-£7.33	-£4.10	-£11.43	-£381.16	-£213.20	-£594.36	-1.8%
couple, no children, 2 earners	£758.82	-£18.97	-£16.26	-£35.23	-£986.44	-£845.52	-£1,831.96	-4.6%
couple, children, 2 earners	£809.39	-£17.02	-£16.43	-£33.45	-£885.04	-£854.36	-£1,739.40	-4.1%
single pensioner	£287.39	-£0.38	-£0.48	-£0.86	-£19.76	-£24.96	-£44.72	-0.3%
couple pensioner	£506.25	-£2.26	-£2.07	-£4.33	-£117.52	-£107.64	-£225.16	-0.9%

All amounts are expressed in 2012/13 prices

¹² Pensioner groups (who are defined in the FRS according to whether or not they are above state pension age) see small effects from wages freezes as a result of the impacts felt by people who are above state pension age but still in work.

Cumulative impact of government policy and slow wage growth

All family types are net losers from the Government's policies. The greatest losers are single workless adults with no children, who will see their incomes fall by 13.7 per cent a year (over £810) in 2015 compared to the disposable income levels they would have seen had previous policy assumptions and wage forecasts remained constant. This is a result of the significant welfare cuts this group are set to experience. Workless couples with no children see the next largest loss (an annual fall of 11.1 per cent, or around £1,730 a year, and again driven by benefit cuts), and workless couples with children also see large income falls (an 8.5 per cent cut equivalent to over £1,700 a year) but the group next most badly affected are lone parents who are in work (over £1,900 a year), who will see an 8.2 per cent disposable income fall by 2015. This is a result both of welfare cuts and significant cuts from tax changes, driven by VAT cuts. Two earner couples with children are also particularly badly affected, and are set to see a 7.8 per cent fall in income, a loss of over £3,270 a year. In cash terms, households with children lose the most.

Cumulative impact of benefit (including Universal Credit), tax credit and tax policy along with slower than forecast wage growth and public sector pay policy on weekly and annual households disposable income by 2015 compared to 2010 baseline, by household type

Household type	Benefit reforms (weekly)	Tax credit reforms (weekly)	Universal Credit (weekly)	Income tax and NI (weekly)	VAT (weekly)	Slower wage growth (weekly)	Additional impact of public sector wage policy (weekly)	Total impacts (weekly)
single adult, no children, not working	-£4.08	£0.00	-£1.13	£0.35	-£10.75	£0.00	£0.00	-£15.61
single adult, no children, working	-£0.26	-£3.17	£0.38	£5.09	-£9.91	-£7.36	-£5.05	-£20.28
lone parent, not working	-£13.00	-£2.71	£1.73	£0.24	-£10.20	£0.00	£0.00	-£23.94
lone parent, in work	-£5.32	-£20.90	£0.73	£5.12	-£10.19	-£3.61	-£3.58	-£37.75
couple, no children, not working	-£9.95	£0.00	-£14.97	£3.04	-£11.42	£0.00	£0.00	-£33.30
couple, children, not working	-£21.33	-£3.03	-£0.14	£0.89	-£9.41	£0.00	£0.00	-£33.02
couple, no children, 1 earner	-£3.70	-£5.97	£4.84	£4.42	-£9.53	-£8.92	-£5.65	-£24.51
couple, children, 1 earner	-£8.92	-£25.10	£20.84	£3.43	-£9.55	-£7.33	-£4.10	-£30.73

couple, no children, 2 earners	-£0.19	-£2.15	-£1.64	£7.78	-£9.53	-£18.97	-£16.26	-£40.96
couple, children, 2 earners	-£9.39	-£14.33	-£1.00	£5.30	-£10.06	-£17.02	-£16.43	-£62.93
single pensioner	-£4.05	-£0.23	-£0.30	-£1.01	-£9.37	-£0.38	-£0.48	-£15.82
couple pensioner	-£4.65	-£1.13	-£9.20	£2.38	-£9.81	-£2.26	-£2.07	-£26.74

Household type	Total benefit changes (weekly)	Total tax changes (weekly)	Total wage change (weekly)	Total impacts (weekly)	Total impacts (annual)	Impacts as proportion of income
single adult, no children, not working	-£5.21	-£10.40	£0.00	-£15.61	-£811.72	-13.7%
single adult, no children, working	-£3.05	-£4.82	-£12.41	-£20.28	-£1,054.56	-6.4%
lone parent, not working	-£13.98	-£9.96	£0.00	-£23.94	-£1,244.88	-7.6%
lone parent, in work	-£25.49	-£5.07	-£7.19	-£37.75	-£1,963.00	-8.2%
couple, no children, not working	-£24.92	-£8.38	£0.00	-£33.30	-£1,731.60	-11.0%
couple, children, not working	-£24.50	-£8.52	£0.00	-£33.02	-£1,717.04	-8.5%
couple, no children, 1 earner	-£4.83	-£5.11	-£14.57	-£24.51	-£1,274.52	-4.7%
couple, children, 1 earner	-£13.18	-£6.12	-£11.43	-£30.73	-£1,597.96	-4.9%
couple, no children, 2 earners	-£3.98	-£1.75	-£35.23	-£40.96	-£2,129.92	-5.4%
couple, children, 2 earners	-£24.72	-£4.76	-£33.45	-£62.93	-£3,272.36	-7.8%
single pensioner	-£4.58	-£10.38	-£0.86	-£15.82	-£822.64	-5.5%
couple pensioner	-£14.98	-£7.43	-£4.33	-£26.74	-£1,390.48	-5.3%

All amounts are expressed in 2012/13 prices

Across family types benefit reform tend to hit workless working age households the hardest, while tax credit cuts hit those of working age who are in work and have children. Most households see small proportional benefits from the increased personal allowance, which are more than offset by VAT rises. Across all family types none see a proportional rise in their annual 2015 income relative to the 2010 baseline, instead all see losses. While working age adults with no children lose the most, working lone parents are the next greatest losers, followed by two earner couples with children.

Cumulative proportional impact of distinct benefit, tax credit and tax policy along with slower than forecast wage growth and public sector pay policy on annual households disposable income by 2015, compared to 2010 baseline, by household type

Household type	Benefit reforms	Tax credit reforms	Universal Credit	Income tax and NI	VAT	Slower wage growth	Public sector wage policy	Total impacts
single adult, no children, not working	-3.6%	0.0%	-1.0%	0.3%	-9.4%	0.0%	0.0%	-13.7%
single adult, no children, working	-0.1%	-1.0%	0.1%	1.6%	-3.1%	-2.3%	-1.6%	-6.4%
lone parent, not working	-4.1%	-0.9%	0.5%	0.1%	-3.2%	0.0%	0.0%	-7.6%
lone parent, in work	-1.2%	-4.5%	0.2%	1.1%	-2.2%	-0.8%	-0.8%	-8.2%
couple, no children, not working	-3.3%	0.0%	-5.0%	1.0%	-3.8%	0.0%	0.0%	-11.1%
couple, children, not working	-5.5%	-0.8%	0.0%	0.2%	-2.4%	0.0%	0.0%	-8.5%
couple, no children, 1 earner	-0.7%	-1.1%	0.9%	0.8%	-1.8%	-1.7%	-1.1%	-4.7%
couple, children, 1 earner	-1.4%	-4.0%	3.3%	0.5%	-1.5%	-1.2%	-0.7%	-4.9%
couple, no children, 2 earners	0.0%	-0.3%	-0.2%	1.0%	-1.3%	-2.5%	-2.1%	-5.4%
couple, children, 2 earners	-1.2%	-1.8%	-0.1%	0.7%	-1.2%	-2.1%	-2.0%	-7.8%
single pensioner	-1.4%	-0.1%	-0.1%	-0.4%	-3.3%	-0.1%	-0.2%	-5.5%
couple pensioner	-0.9%	-0.2%	-1.8%	0.5%	-1.9%	-0.4%	-0.4%	-5.3%

Household type	Total benefit change	Total tax change	Total wage change	Total impacts
single adult, no children, not working	-4.6%	-9.1%	0.0%	-13.7%
single adult, no children, working	-1.0%	-1.5%	-3.9%	-6.4%
lone parent, not working	-4.4%	-3.1%	0.0%	-7.6%
lone parent, in work	-5.5%	-1.1%	-1.6%	-8.2%
couple, no children, not working	-8.3%	-2.8%	0.0%	-11.1%
couple, children, not working	-6.3%	-2.2%	0.0%	-8.5%
couple, no children, 1 earner	-0.9%	-1.0%	-2.8%	-4.7%
couple, children, 1 earner	-2.1%	-1.0%	-1.8%	-4.9%
couple, no children, 2 earners	-0.5%	-0.2%	-4.6%	-5.4%
couple, children, 2 earners	-3.1%	-0.6%	-4.1%	-7.8%
single pensioner	-1.6%	-3.6%	-0.3%	-5.5%
couple pensioner	-3.0%	-1.5%	-0.9%	-5.3%

Changes by region

Some of the regions where average household disposable income is already lowest are those set to experience the worst impacts of the ongoing living standards squeeze. Households in Wales have the lowest incomes on average, yet are set to experience the highest falls (7.2 per cent, equivalent to over £1,400 a year by 2015). Households in Yorkshire and the Humber are the next worst affected with a 6.9 per cent fall, followed by those in Scotland and then Northern Ireland (6.8 per cent falls each). These effects seem to be partly driven by regional variations in concentrations of public sector workers.

Cumulative impact of benefit (including Universal Credit), tax credit and tax policy along with slower than forecast wage growth and public sector pay policy on weekly household disposable income by 2015 compared to 2010 baseline, by region

Region	Average household disposable income	Benefit changes	Tax credit reforms	Universal Credit	VAT	Income tax and NICS	Slow wage growth	Public sector wages
England:								
North East	£393.31	-£3.94	-£5.00	-£0.97	-£7.80	£3.76	-£5.83	-£4.39
North West	£407.00	-£4.14	-£5.27	-£1.04	-£8.60	£3.83	-£5.97	-£4.89
Yorks and Humberside	£415.91	-£3.71	-£5.54	-£1.42	-£10.02	£3.79	-£6.38	-£5.51
East Midlands	£427.58	-£3.79	-£5.57	-£1.50	-£8.65	£4.00	-£6.52	-£5.06
West Midlands	£401.91	-£4.18	-£5.61	-£0.98	-£9.72	£4.03	-£5.63	-£4.17
East of England	£510.42	-£4.55	-£5.06	-£0.70	-£10.22	£3.47	-£7.82	-£6.02
London	£505.78	-£5.11	-£4.20	£2.04	-£11.27	£1.53	-£8.25	-£4.56
South East	£522.97	-£4.98	-£4.41	£0.14	-£10.42	£2.32	-£8.36	-£5.82
South West	£446.28	-£4.03	-£5.04	-£0.69	-£10.43	£4.12	-£6.57	-£5.45
Wales	£395.11	-£4.14	-£5.17	-£0.95	-£10.48	£3.52	-£5.73	-£5.36
Scotland	£423.72	-£3.73	-£4.79	-£1.03	-£10.47	£3.61	-£6.84	-£5.38
Northern Ireland	£408.13	-£4.18	-£5.90	-£2.37	-£9.07	£5.20	-£5.72	-£5.54

Cumulative impact of benefit (including Universal Credit), tax credit and tax policy along with slower than forecast wage growth and public sector pay policy on annual household disposable income by 2015 compared to 2010 baseline, by region

Region	Total benefits	Total tax	Total wages	Total change (weekly)	Total (annual)	Total proportional change
England:						
North East	-£9.91	-£4.04	-£10.22	-£24.17	-£1,256.84	-6.1%
North West	-£10.45	-£4.77	-£10.86	-£26.08	-£1,356.16	-6.4%
Yorks and Humberside	-£10.67	-£6.23	-£11.89	-£28.79	-£1,497.08	-6.9%
East Midlands	-£10.86	-£4.65	-£11.58	-£27.09	-£1,408.68	-6.3%
West Midlands	-£10.77	-£5.69	-£9.80	-£26.26	-£1,365.52	-6.5%
East of England	-£10.31	-£6.75	-£13.84	-£30.90	-£1,606.80	-6.1%
London	-£7.27	-£9.74	-£12.81	-£29.82	-£1,550.64	-5.9%
South East	-£9.25	-£8.10	-£14.18	-£31.53	-£1,639.56	-6.0%
South West	-£9.76	-£6.31	-£12.02	-£28.09	-£1,460.68	-6.3%
Wales	-£10.26	-£6.96	-£11.09	-£28.31	-£1,472.12	-7.2%
Scotland	-£9.55	-£6.86	-£12.22	-£28.63	-£1,488.76	-6.8%
Northern Ireland	-£12.45	-£3.87	-£11.26	-£27.58	-£1,434.16	-6.8%

Impacts for the number of families living on a low income

Our analysis also consider what the cumulative impact of the Government's policies and slower than forecast wage growth will be on the number of children and families¹³ who will find themselves below the Minimum Income Standard.

The Minimum Income Standard¹⁴ was established by Joseph Rowntree Foundation sponsored research (conducted by the Centre for Research in Social Policy (CRSP) at Loughborough University in partnership with the Family Budget Unit at the University of York) in 2008. The study seeks to set out how much income is needed to achieve a minimum acceptable standard of living in the United Kingdom, developing standards for different household types based on detailed research into what ordinary people think should go into a minimum household budget. This is supported by expert knowledge on certain physical

¹³ We have defined families using the benefit unit definition of one or two adults plus children. This means that in the case of an adult couple living with their children and also a grandparent, the grandparent would be a separate "family". Likewise young single people living in shared rented accommodation are counted as separate "families" for MIS purposes.

¹⁴ Further information about the most recent MIS research is available here: http://www.minimumincomestandard.org/downloads/2012_launch/mis_report_2012.pdf.

living requirements such as nutrition. The final standard is calculated by specifying baskets of goods and services required by different types of household in order to meet their basic needs and to participate in society. The figures are updated annually to take account of inflation and changes in minimum income needs.

The rates that we have used for this analysis are provided in the Annex, and vary by family type. For example the MIS income level for a couple with one child is £473.90 a week (or £24,643 a year) while the level for a single pensioner is £242.74 a week or £12,622 a year.

The analysis is shocking. It shows that had the policies the Government inherited continued completely unchanged, and had wages grown at the rate that was forecast in 2010 when the Government took office (without the imposition of the Government’s public sector pay policy), there would be over one million fewer families living below the minimum income standard by 2015 than is currently forecast to be the case.

The cumulative impact of the Government’s tax and benefit policies (including the increases in the personal allowance) is to push 370,000 more households below the MIS than would have been the case had there been no policy changes. Slower than forecast wage growth means a further 320,000 households are struggling and the additional impact of the public sector wage squeeze means that 160,000 more households fall below the MI standard. Overall, Universal Credit does nothing to ease the pain as although the policy brings benefits for the lowest income families the reduced entitlements it leads to for families above the very bottom income deciles and for single adults means that its net impact is to push a further 180,000 families fall below the MIS.¹⁵

This means that by 2015 half of all families in the UK (over 16 million families) are set to be living on a low income.

Number of families under Minimum Income Standards by 2015 compared to 2010 baseline

	Number of families under MIS	Percentage of all families	Change from baseline
Baseline: Policies Government inherited in 2010	15,240,000	46.7%	
Reform: Government tax, tax credit and benefit reforms April 2015 (except Universal	15,610,000	47.9%	+ 370,000

¹⁵ In addition, even where the lowest income families do benefit they are already so far below the MIS, in part as a result of wider cuts, that even when they gain from UC they remain below the MIS threshold.

Credit)			
2 + wage growth to 2015 as set out in 2012 Autumn Statement	15,930,000	48.8%	+ 690,000
3 + wage growth restrictions for public sector workers	16,090,000	49.3%	+ 850,000
4 + Universal Credit	16,270,000	49.9%	+ 1,030,000

There are similarly severe effects for the number of children¹⁶ who will be under the MIS as a result of the Government's policy changes and slower than forecast wage growth. The analysis shows that as a combined result of the Government's tax and benefit policies 460,000 more children will be below the MIS. An additional 170,000 fall below the minimum as a result of slower than forecast pay growth and 80,000 more see their family income drop as a result of public sector pay restrictions. Although Universal Credit does a little to offset the worst impacts for families overall it only leads to 20,000 fewer children living in lower income household meaning that 690,000 more children than would otherwise have been the case will be living on low incomes by 2015 – over half (54%) of all children in the UK.

Number of children under Minimum Income Standards by 2015 compared to 2010 baseline

	Number of children under MIS	Percentage of all children	Change from baseline
Baseline: Policies Government inherited in 2010	6,390,000	49.1%	
Reform: Government tax, tax credit and benefit reforms April 2015 (except Universal Credit)	6,850,000	52.6%	+460,000
2 + wage growth to 2015 as set out in 2012 Autumn Statement	7,020,000	53.9%	+630,000
3 + wage growth restrictions for public sector workers	7,100,000	54.5%	+710,000
4 + Universal Credit	7,080,000	54.4%	+690,000

¹⁶ Children are defined as 0-16 year olds plus 17-18 year olds in full time education.

Annex 1

List of benefit and tax credit changes included in mode

Tax/benefit/tax credit	Tax year	Description
Income tax	2011-2013	successive above-inflation rises in the personal allowance from £6,475 to £9,440
Income tax	2013	freezing of over-65 personal allowances and non-availability to new cohorts of over-65s
Income tax	2013	Removal of 50p tax rate
Income tax	2011-2013	adjustments to higher rate tax thresholds
Employee NICs	2011-2013	successive above-inflation rises in the primary threshold from £110 to £149
Self-employed NICs	2011-2013	successive above-inflation rises in the lower profits limit from £5,715 to £7,755
employee and self-employed NICs	2011	1% increase in contribution rates
VAT	2010	Increase from 17.5 per cent to 20 per cent
All working age benefits (unless otherwise specified)	2011	Benefit and tax credit uprating formula changed from RPI or Rossi index to CPI
Working age benefits (except DLA and disability premia)	2013-2015	Benefits and tax credits uprated by 1% nominally for three years
All working age benefits & tax credits	2013	Benefit cap: £500 per week for couple/lone parent, £350/week for single people. Does not apply to people on DLA or WTC.
Child Benefit	2011-2015	frozen for three years, 1% nominal increases thereafter
Child Benefit	2013	progressively withdrawn from families where the highest earner receives more than £50,000 of income (completely withdrawn at £60,000)
Child Tax Credit	2011	Baby element abolished
Child Tax Credit	2011	Above-inflation increases in the child element of CTC (however note that the child element is subject to real-terms reductions from 2013 onwards through the 1% nominal uprating decision)
Working Tax Credit	2011	Childcare cost element cut from 80% to 70% of childcare costs
Working Tax Credit	2011-2012	High income threshold progressively abolished
Working Tax Credit	2012	Change to hours condition - most couples with children now required to work at least 24 hours a week to qualify for WTC
Working Tax	2011-2013	Basic and 30-hour elements of WTC frozen for three years

Credit		
Working Tax Credit	2011	WTC premium for over-50s abolished
Council Tax Benefit	2013	Replaced by localised Council Tax Support system with 10% drop in overall funding; pensioner households protected from reductions, which therefore fall disproportionately on working age households.
Universal Credit	2013	Universal Credit starts to replace income-based benefits and tax credits for new working age claimants. In this report we have modelled the additional impact of UC if all families were moved off the current benefit/tax credit system and on to UC in 2015. We have modelled the 'long-run' effects without transitional protection.

Annex 2

Minimum Income Standard¹⁷ weekly rates for different family types

	Basic (incl Council Tax)	Rent	TOTAL
Family type			
single no children	£192.59	£69.66	£262.25
couple no children	£301.74	£77.43	£379.17
single pensioner	£158.74	£69.66	£228.40
couple pensioner	£231.48	£77.43	£308.91
single parent 1 child	£275.59	£77.43	£353.02
single parent 2 children	£361.99	£82.67	£444.66
single parent 3 children	£457.66	£92.80	£550.46
single parent 4 children	£553.33	£92.80	£646.13
single parent 5 children	£601.58	£92.80	£694.38
single parent 6 children	£649.83	£92.80	£742.63
single parent 7 children	£698.08	£92.80	£790.88
couple 1 child	£374.17	£77.43	£451.60
couple 2 children	£454.52	£82.67	£537.19
couple 3 children	£557.55	£92.80	£650.35
couple 4 children	£605.80	£92.80	£698.60
couple 5 children	£654.05	£92.80	£746.85
couple 6 children	£702.30	£92.80	£795.10
couple 7 children	£750.55	£92.80	£843.35

All amounts are expressed in 2012/13 prices

¹⁷ We have forecast MIS rates for 2015 by uprating rates by RPI (which includes housing costs) for the years beyond 2012/13. Over the period 2008 – 2012 the MIS increased slightly faster than RPI, so we assess that this is a conservative estimate.