

Poverty in later life

April 2018

Introduction

This briefing looks at what we mean by poverty, levels of pensioner poverty in the UK and how this has changed, and the risk of being in poverty for different groups. It also looks at material deprivation and what life is like for older people living on a low income.

What do we mean by poverty?

We consider people to be living in poverty when their resources are not enough to meet their basic needs and also to allow them to take part in society.¹ This could mean struggling to cover food and energy bills, watching every penny spent, worrying that nothing is set aside for a sudden emergency such as the cooker breaking down, or being unable to afford the cost of transport needed to visit a friend or go to a social club.

Poverty and low income can be defined and measured in a number of ways and people's individual needs and circumstances vary. However, the most commonly used definition is to say that someone living in the UK is in poverty if they live in a household with an income below 60 per cent of the current median (or typical) household income, taking into account the number of people living in the household and, for children, their age. This can be measured before and after housing costs. We generally use the after housing costs figures because this is what people are left to live on after meeting their essential accommodation costs.

A wide range of information about poverty and low income is produced in the annual DWP report *Households below average income* (see box below).ⁱⁱ

Households below average income (HBAI)

This DWP report provides a great deal of information about low income among different households in the UK which we draw on in this briefing. Unless otherwise stated we use a definition of relative poverty whereby people are considered to be in poverty if they live in a household with an income of less than 60 per cent of contemporary household income. HBAI also looks at 'absolute poverty' using 2010/11 household income, as a baseline.

While 60 per cent is the threshold generally considered as the poverty line, figures are also given on the numbers and proportion of people with incomes below 50 per cent and 70 per cent of household income.

Income is net of taxes such as income tax, National Insurance and council tax, and can be measured before or after housing costs (BHC or AHC). If income is on an 'after housing costs' basis this is the income remaining once people have paid certain costs such as rent, mortgage interest and water charges.

To compare living standards of different size households, income is adjusted to take into account people living in the household using an agreed scale – described as 'equivalisation'.

The DWP gives this example:

Consider a single person, a couple with no children, and a couple with two children aged twelve and ten, all having unadjusted weekly household incomes of £300 (BHC). The process of equivalisation, as conducted in HBAI, gives an equivalised income of £448 to the single person, £300 to the couple with no children, but only £214 to the couple with children.ⁱⁱⁱ

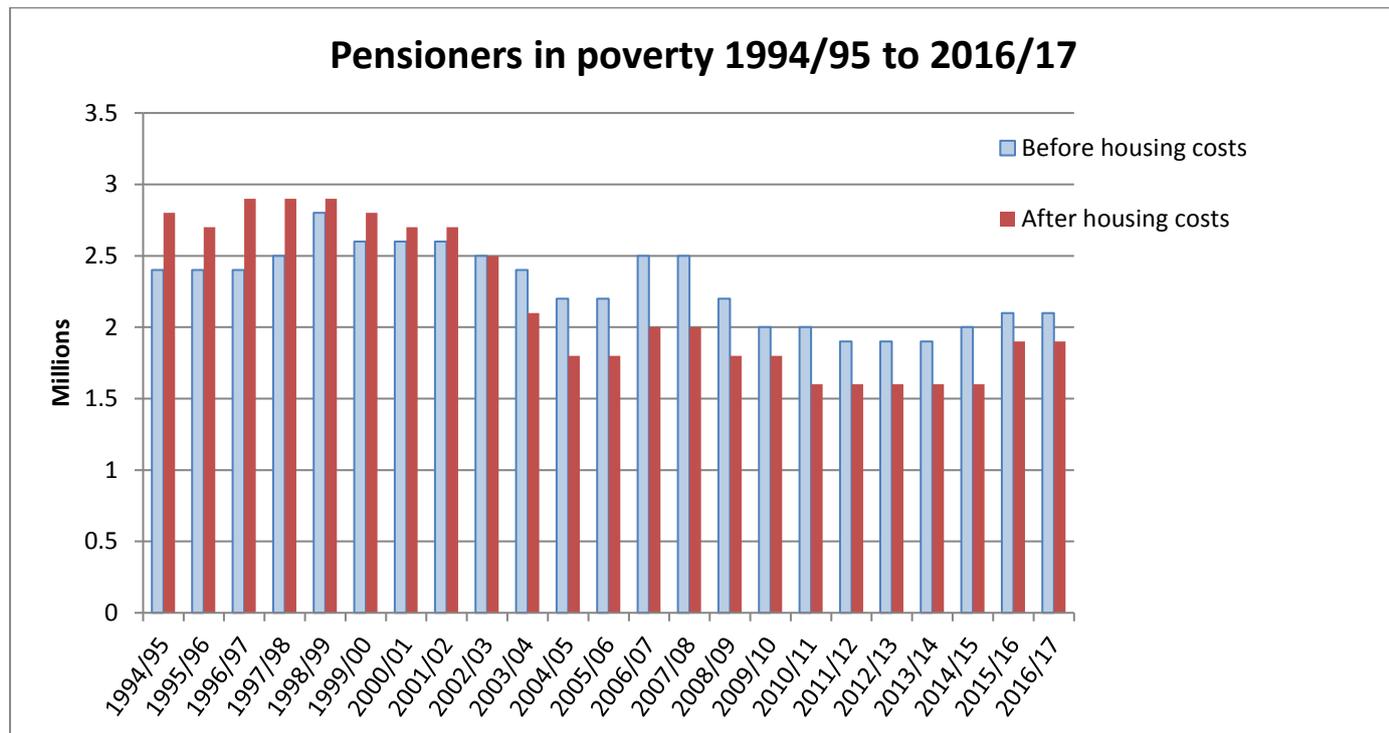
Other ways to look at poverty include:

- Material deprivation, which is measured by asking if people lack certain goods and services and is also covered in the HBAI report (see below).
- Minimum income standards – these look at the cost of goods and services required by different households in order to reach an acceptable standard of living, as seen in the extensive work by Joseph Rowntree Foundation.^{iv}
- Self-reported measures - people are asked how well off they consider themselves.

Levels of pensioner poverty in the UK and changes over time

Using the most commonly used definition set out above (that is, income of less than 60 per cent typical household income after housing costs) 1.9 million pensioners (16 per cent) are living in relative poverty.

The chart below shows poverty rates before, and after, housing costs. It can be seen that the numbers of pensioners in poverty has fallen over the last 20 or so years. Looking at the after housing costs measure, the main reduction occurred in the first decade of this century. Since 2010/11 the numbers have remained more or less the same until 2015/16 when, worryingly, numbers rose with the figures unchanged in the latest year (2016/17).



Source: *Households below average income 1994/95 to 2016/17*, DWP 2018.

A similar picture is found if we look at the percentage of people in poverty rather than the numbers. After housing costs, 28 per cent of pensioners were in poverty in 1998, falling to between 13 and 14 per cent in the first half of this decade (2010 to 2014/15) rising to the current figure of 16 per cent in 2015/16.

The risk of being in poverty

As stated above in 2016/17, 16 per cent of pensioners in the UK had incomes, after housing costs, of less than 60 per cent median household income.

- Of these, over half (or 9 per cent of all pensioners) had incomes of less than 50 per cent median income (sometimes described as 'severe poverty').
- 9 per cent of pensioners had incomes above 60 per cent, but less than 70 per cent, of median income (sometimes described as 'just above the poverty line').

Some groups of pensioners are at greater risk of living in poverty^v:

- Older pensioners: 19 per cent of those aged 80-84 and 17 per cent of those aged 85 compared to 13 per cent of 65-69 year olds.
- Women: 14 per cent of women compared to 17 per cent of men.
- Single older women: 23 per cent of single women pensioners, compared to 18 per cent of single men and 13 per cent of couples.
- Tenants: 36 per cent of private tenants and 31 per cent of social rented tenants, compared to 12 per cent of older people who own their home outright.
- BME pensioners: 29 per cent of Asian or Asian British pensioners and 33 per cent of Black or Black British, compared to 14 per cent of white pensioners.^{vi}

Material Deprivation

The annual DWP HBAI report also includes a measure of 'material deprivation' among people aged 65 and over. This is based on questions asking if people have access to 15 basic items or services that research has shown to be a good indication of quality of life among older people: for example - having a damp free home, being able to pay regular bills, and seeing friends or family at least once a month. People are considered to be in material deprivation if they reach a certain threshold which links to lacking 3 or 4 items or more. The latest figures from DWP, found that around 800,000 pensioners aged 65 or over (7 per cent) were in material deprivation in 2016/17.

In the survey, if respondents do not have the item, or do not take part in the activity, they are asked why not. They can say that they do not have money for the item, or they can choose other options, such as their health prevents them, or it is too much trouble.

The table below gives the responses to some of the items and the main reason people give for saying no. For example, it shows that nine per cent of people aged 65+ say they would not be able to replace their cooker if it broke with the main reason being lack of money. On the other hand, health or disability is the most common reason why a fifth (20 per cent) of people do not go out socially at least once a month.

Material Deprivation selected items and services lacking among pensioners aged 65 and over: and the most common reason for ‘no’ response, 2015/16^{vii}

Item of Material Deprivation	Percentage 65+ responding no	Most common reason for ‘no’ response
Being able to replace cooker if it broke down	9	No money for this
Able to pay regular bills	2	No money for this
Having a damp free home	6	Other reason
Keeping the home adequately warm	2	No money for this
Have access for a car or taxi, whenever needed.	10	Not something I want
Go out socially at least once a month	20	Health/disability prevents me
Take a holiday away from home	37	Health/disability prevents me

In addition 9 per cent of people aged 65+ said they would not be able to meet an unexpected expense of £200.

The link between low income and material deprivation

As set out above, 16 per cent of pensioners are in relative income poverty and 7 per cent of those aged 65+ are in material deprivation. However, only three per cent of people aged 65+ are in both relative poverty and material deprivation.^{viii} This may partly reflect the different responses that people can give to the material deprivation questions – for example, people can say they do not carry out an activity due to health reasons. Having said that, even if money is not the main reason for a ‘no’ response, information provided in the HBAI tables shows this still has an impact. For example, health or disability is given as the main reason why a fifth of all aged 65+ say they do not go out socially at least once a month. However, among the poorest fifth of people aged 65+ the proportion who do not go out once a month is much higher (30 per cent) than among the richest fifth (8 per cent).

Qualitative research conducted for the DWP^{ix} explored the links between income poverty and material deprivation. This found that although income level influences material circumstances, a much wider range of factors contribute to 'pulling up' or 'pushing down' the position of a person living on a low income. These factors are:

- Social support networks
- Health
- Financial management
- Area and housing support
- Attitudes and priorities

Having informal support from family and friends, as well as support from government in the form of welfare payments, free bus passes, free prescriptions and support from local authorities, had a significant positive impact on the material circumstances of those living on low incomes. Health was an important factor and those with poor health were more likely to face material deprivation as this limited independence as well as imposing additional costs of living. The research also points to the importance of financial management approaches and notes that attitudes shaped how people felt about their material circumstances and organised their spending. In terms of housing and area, negative aspects included: high rents, high transport costs, and poor access to local amenities. Living in a peaceful safe area with nearby amenities helped offset the impact of low income, as did having a good housing situation.

Further information about people's day to day experiences are described in the Age UK report '*Living on a Low Income in Later Life*^x', which documents the daily struggles of coping on a low income. Our report found that participants worked hard to manage financially. They kept a close eye on their budget and managed their resources very carefully. This involved effort, discipline and resourcefulness. However, the constant need for restraint and 'existing' with little prospect of a situation improvement could be emotionally draining and have an impact on their mental health.

More recently Age UK has produced an 'Index of Wellbeing in Later Life' which shows how a wide range of factors contribute to overall feelings of wellbeing in later life. Financial resources are important but so are other factors including personal circumstances, social and cultural participation, health, and satisfaction with local services and facilities.^{xi}

The impact of an unexpected expense

People may manage day to day on a low income by budgeting carefully but have problems when they face extra costs or an unexpected expense as seen in the examples of calls to Age UK advice line below.

- We were asked if there was any help for a woman in her mid-80s who is housebound and whose central heating had broken down. A small private pension means she is just above the income level for benefits and she has no savings. The family provides a lot of support but aren't able to meet the cost of a new boiler.
- We were contacted on behalf of a woman in her 70s whose husband had died. Although she was entitled to help towards the funeral from the DWP this did not meet the full cost and she still had over £1000 left to pay with no means to do so.
- An older couple, both of whom have health problems had moved to a new sheltered housing property and needed to buy a cooker and have some decorating done. They had no savings and were looking for help.

Conclusions

Some people can look forward to a comfortable retirement, and it is good news that poverty levels are considerably lower than they were a couple of decades ago. However, there are still 1.9 million (16 per cent) pensioners living in poverty and we are concerned that the downward trend seems to have stopped. The impact on current and future poverty should be considered in all policy decisions which are likely to affect retirement income, and while income poverty is easiest to measure and track, it is important to continue to look at other measures, such as material deprivation and the JRF Minimum Income Standard, which provide a broader picture of the experience of older people.

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ⁱ This is based on the definition used by the Joseph Rowntree Foundation.

<https://www.jrf.org.uk/report/we-can-solve-poverty-uk>

ⁱⁱ *Households below average income: an analysis of the income distribution 1994/95 – 2016/17*, DWP, 2018. <https://www.gov.uk/government/statistics/hbai-199495-to-201617-population-data-tables>

ⁱⁱⁱ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/691919/households-below-average-income-quality-methodology-2016-2017.pdf

^{iv} <https://www.jrf.org.uk/report/minimum-income-standard-uk-2017>

^v *Households below average income: an analysis of the income distribution 1994/95 – 2016/17*, DWP, 2018. Tables 3.5db, 6.3db and 6.4db. <https://www.gov.uk/government/statistics/hbai-199495-to-201617-population-data-tables>.

^{vi} Due to the small number of older people in non-white groups this is based on a three year average

^{vii} *Households below average income 1994/95 – 2016/17*, table 611db, DWP, 2018.

^{viii} Information from DWP HBAI team.

^{ix} Kotecah, M. Arthur, S and Coutinho, S (2013) *Understanding the relationship between pensioner poverty and material deprivation*. DWP

^x *Living on a low Income in Later Life* (2011). Age UK. https://www.ageuk.org.uk/documents/en-GB/For-professionals/Research/Living_on_a_low_income_full_report.pdf?dtrk=true

^{xi} <http://www.ageuk.org.uk/professional-resources-home/research/health-wellbeing/wellbeing-research/>