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Working hard(ship)

An exploration of poverty, work and tenure

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Executive Summary

Stubbornly high poverty has been a lasting feature of the UK, but as many (including us) have observed, there has been a fundamental change in its nature over the past twenty years. In 1996-97, 21 per cent of working-age adults in the UK were living in relative poverty (meaning they lived in a household with an equivalised income after housing costs below 60 per cent of the national median), half of whom were in a working household. By 2017-18, while working-age poverty rates were broadly unchanged, seven-in-ten adults in poverty were either working themselves or living with someone else in employment. Welcome to the age of in-work poverty.

This report explores the nexus between poverty, work and housing, adding to our knowledge of the topic in two distinctive ways. First, we look at in-work poverty not just as a static but also a dynamic condition. We analyse the effect that moving into work has on a household's income, and track their fortunes over a number of years. Specifically, we probe the common claim that record employment's coexistence with rising in-work poverty suggests that work does not pay.

Second, we investigate whether housing tenure plays a role in determining in-work poverty rates. The poverty differential between social renters and those in other tenures is larger for working households (34 per cent for social renters, compared to 13 per cent in other tenures) than for out-of-work households

(where the poverty rates are 66 per cent and 49 per cent respectively). This has led some to claim that social housing – intended to reduce poverty by cutting housing costs – has instead facilitated behaviours associated with poverty. Working with Clarion Housing Group, we examine the experience of social renters in depth, with the findings from our collaboration shedding new light on this controversial issue.

Entering work has a strong downward effect on rates and depth of poverty

We begin with a bald fact: despite rising rates of in-work poverty, entering work still has a strong poverty reduction pay-off. Looking at those who entered work in 2014-15 (having been unemployed or economically inactive the year before), we note that their poverty rates almost halved with job entry, falling from 35 per cent to 18 per cent. And when we focus on our group of special interest - social renters - we observe an even larger drop upon entering work, from 68 per cent to 31 per cent, a fall greater than one-half. Social renters' larger relative poverty reduction pay-off when entering work stems from the fact that they are more likely to be the first person in the household to do so, meaning they start out with a particularly high poverty risk which entering work reduces substantially in absolute terms.

When we examine the fortunes of those entering work in 2014-15 but not exiting poverty, we still observe an improvement in their living standards relative to the rest of the population. Close examination of this group shows that their average income rose from a level equivalent to 64 per cent of the poverty line before entering work, to 75 per cent after. While that remains a worrying low income on which to manage, work does mean their poverty depth decreased. Our conclusion? While in-work poverty is a real and growing problem, work indubitably reduces both the volume and depth of poverty, particularly in the tenure experiencing the highest risk of in-work poverty.

The poverty-reduction power of work is contingent on a number of factors

That said, some types of work clearly have a stronger poverty-reduction effect than others. Unsurprisingly, those who entered low-paid jobs (defined as paying below two-thirds of median hourly pay) in 2014-15 experienced a smaller drop in their poverty rate (40 per cent to 25 per cent) than those entering above the low-pay threshold (32 per cent to just 10 per cent). Likewise, the poverty-reducing effect of part-time work is weaker than that of full-time work. Individuals who entered a job at fewer than 30 hours per week in 2014-15 witnessed a fall in their poverty rate from 34 per cent to 22 per cent, compared to a fall from 36 per cent to 11 per cent for full-time workers.

Moreover, it matters whether or not the person entering work is the first or second earner in a household. First earners experience a decrease in their household poverty rate of 41 per cent (from 56 per cent to 33 per cent), compared to a 58 per cent fall for second or subsequent earners (from 25 per cent to 11 per cent). A second or subsequent earner entering work therefore has a greater relative (although smaller absolute) impact on a household's poverty risk than a first earner, but the biggest difference is the starting points of both groups. Unsurprisingly, those households in which someone is the first in that household to enter work are much more likely to be in poverty beforehand than those with another earner in the home.

The poverty rate does not improve any further after work entry, even for those who stay in work

It is important, then, not to understate the positive downward effect that moving into work has on a household's poverty status. But does this effect last, or even strengthen, over time? On any measure, the poverty rate of those who moved into work in 2014-15 increased slightly over the next three years. So what explains this dispiriting observation? To begin, not everyone who enters work stays in work over the period (over one-in-four dip in-and-out of employment over the next three years). But even

when we track the fortunes of the three-quarters who do remain in sustained employment, we still see no further reductions in poverty rates over time.

That is not to say that there are no living standards improvements for new work entrants. The cohort that entered work in 2014-15 had, on average, 3.6 per cent real pay growth each year over the next three years (and a cheerful 5.3 per cent for those in the lowest-paid roles thanks to uplifts in the minimum wage), compared to 1.5 per cent for all those in continuous work over that period. But despite a story of accelerated pay for recent entrants to the labour market (not least because they are more likely to be at or close to the wage floor), their in-work poverty rate still remains flat.

Taking a broader view, moving out of poverty is common, but poverty churn is widespread

What happens, though, when we look beyond those who were new to work in 2014-15, and broaden our analysis to all those living in in-work poverty in that year? At first glance, the news is positive: around half (52 per cent) of those living in a working household below the poverty line in 2014-15 had exited poverty three years on. Pay rises and longer hours play a role in explaining this picture, but increasing the number of earners is most key: 37 per cent of those in in-work poverty households in 2014-15 that had exited poverty three years later witnessed an increase in the number of earners in the household over the period.

This happier story still comes with a sting, however. Although half of those living in in-work poverty in 2014-15 had exited the condition three years later, an equivalent number of people had moved from being in-work but not in poverty to being in work and living below the poverty line. Underneath an essentially constant in-work poverty rate over this period is a tremendous amount of churn. Driving that churn back into poverty are, unsurprisingly, the opposite of the poverty 'escape routes' discussed above: low pay growth, reduced hours, or a reduced number of earners in a household.

There is some limited evidence to be slightly more positive about the chances of poverty escape when we look beyond someone's initial few years in work: individuals established in the labour market were more likely to spend at least one year out of poverty than new entrants (70 per cent compared to 63 per cent). This higher chance of moves out of poverty among those more established may reflect some progression as individuals get settled in the labour market and progress their careers. But it is also due to other household factors, in particular a higher likelihood of a second or subsequent earner in the household entering work for individuals who have not only recently entered employment themselves.

Even with the same number of earners, social renter households are more likely to be in working poverty than those in other tenures

These findings are especially relevant to social renters (SRs), given their higher-than-average in-work poverty risk. While this is not an artefact of poverty measurement (despite popular perceptions, SR households do not contain bigger families than live in other tenures, meaning their income is no more thinly spread), they do contain fewer adults and more children than those living in other tenures (the average SR household has 1.12 adults for every child, compared to 1.38 overall). Moreover, as well as the fact that SR households contain fewer potential earners than those in other tenures, we also note that they are less likely to be dual-earning when they contain a couple: 53 per cent of SR couple households have two earners compared to 79 per cent of those living in other tenures.

Given our previous observation that additional earners matter when it comes to poverty reduction, SR households clearly have an inherent disadvantage. However, the explanatory power of this finding should not be overstated: SRs' in-work poverty rates remain elevated compared to non-SRs even when we look at households with the same number of earners. Strikingly, we find that close to one-in-four of two-earner households in the SR

sector are in poverty, compared to one-in-ten in other tenures. Something beyond household size and the balance of adults and children is clearly at play.

Low pay and marginally lower hours increase social renters' poverty risk

So, what else could explain SRs' high in-work poverty risk? To start, we can reject the notion that SRs are workshy when it comes to the hours they work: not only did qualitative work suggest that SRs have a strong attachment to work, the data shows they work only marginally fewer hours on average than those living in other tenures (with weekly median hours per worker of 37 and 39 respectively). With fewer second earners, SRs will have lower hours of work compared to those in other tenures at the household level: with more dependent children and fewer adults per household, part-time or indeed no work is more often the only feasible option for many. Moreover, those on shorter hours are not always doing so by choice: almost one-in-four of SRs say they work part time because they cannot find a full-time job, compared to just over one-in-ten of those living in other tenures.

When we look to pay, however, we find far more striking disparities between SRs and those living in other tenures that could explain their higher poverty risk. Social renters were 2.5 times as likely to work in a minimum wage job (defined here as one paying at or below the wage floor-plus 5p), compared to non-SRs. In 2018, the average SR earned £8.70 an hour, compared to £13 for the average non-SR. In a large part this can be explained again by composition: SRs have lower level qualifications than the average, for example, and are more strongly clustered in part-time and contingent jobs that we know have a pay penalty attached. When we control for personal and job characteristics, this hourly pay gap reduces dramatically, by 70 per cent. Moreover, our qualitative work pointed to another brake on pay: it is clear that SRs often operate in small local labour markets, with poor (and/or expensive) transport limiting their options to move into better-paid work to a very large degree.

Cuts to in-work support have increased low-earning households' exposure to poverty

Whatever one's tenure, low pay and/or a low number of hours will often fail to generate earnings sufficient to enable a household to move over the poverty line. Enter the welfare state, which aims to support low to middle income families living standards. The introduction of Universal Credit (UC) over the past decade has had improving work incentives as one of its central objectives. When it comes to work incentives, social renters have an advantage, because they get less housing support via the benefits system (and more via reduced rents) than private renters. This means that all else equal, social renters will move off benefits – after which incentives to earn more strengthen significantly because benefits stop being tapered away – at a lower level of earnings. But all else is not equal: their characteristics mean working social renters are much more reliant on support from benefits than those in other tenures.

Without a doubt, adequate benefit levels have a critical role to play in protecting all households from in-work poverty. But benefits have become less adequate in recent years, as austerity ushered in an era of cuts to in- as well as out-of-work support. The attachment to the labour market for groups such as single parents may have increased significantly over the past decade, and policies such as the National Living Wage have given those at the bottom of the earnings distribution a massive boost, but benefit cuts have consistently run against this positive tide. We estimate, for example, that a single parent with two children in a National Living Wage job needs to work 23 hours per week today in order to live free of poverty, compared to the 16 hours that would have been required in the absence of the benefit cuts made post- 2010. For some larger families, the result is that today escaping poverty requires either high pay or very high hours. To be able to work 16 hours per week and live outside of poverty, a single parent with three children would need to earn almost £19 per hour; on the National Living Wage they would need to work 40 hours per week.

Interacting with the benefits system when in work can be problematic

One of the ways in which UC has sought to strengthen work incentives and support working families is through more generous support for childcare costs. In principle, families in receipt of UC can claim 85 per cent of their childcare costs back. In practice, however, the need to pay childcare costs upfront alongside problems arising from termly payments being out of sync with UC's monthly assessment cycle present major barriers to families using this support, and practical disincentives to entering work or increasing hours.

This is disappointing, not least because our survey of Clarion's residents suggested that childcare costs were the most significant barrier faced by poorer households keen to work additional hours. But this was not the only practical problem we uncovered. On the one hand, many working households had low knowledge of support to which they might be eligible, or how to access help with bills such as council tax. On the other, some were put off claiming benefits because of perceived stigma or the imperfect way the system interacts with fluctuating incomes. As a result, it is clear that many are not currently claiming their full in-work entitlement (although UC is expected to improve take up rates, which could improve the benefit system's in-work poverty reduction effect).

Pay progression, quality of work and benefits: an agenda for tackling in-work poverty

We end, then, with a number of key findings. First, the growing problem of in-work poverty should not lead us to belittle the importance of employment as a route of poverty; equally, we cannot treat work as a sure-fire solution to hardship. Second, even with the backstop of lower housing costs, social renters remain extremely exposed to in-work poverty as a group; however, their higher in-work poverty rates are largely explained by composition and not behaviour. And third, all low-earning households have been running against the tide in recent years as

cuts to vital in-work support have negated the gains they have made from increased hours and boosts to pay.

With public opinion strongly of the view that work and poverty should not go hand-in-hand, policy makers have a strong incentive to take action on this account. So where should their attention be directed? Enabling those on low pay to progress is critical, suggesting that training and upskilling are key. Relatedly, with contingent work (such as zero-hours contract and agency work) too often failing to provide the secure income needed to exit poverty sustainably, policy makers should ratchet up efforts to improve the quality of work. Finally, after ten years of austerity it is time to restore the value of benefits and ensure that all those entitled to in-work support are both aware of, and critically, not ashamed to make a claim.

Section 1

Introduction

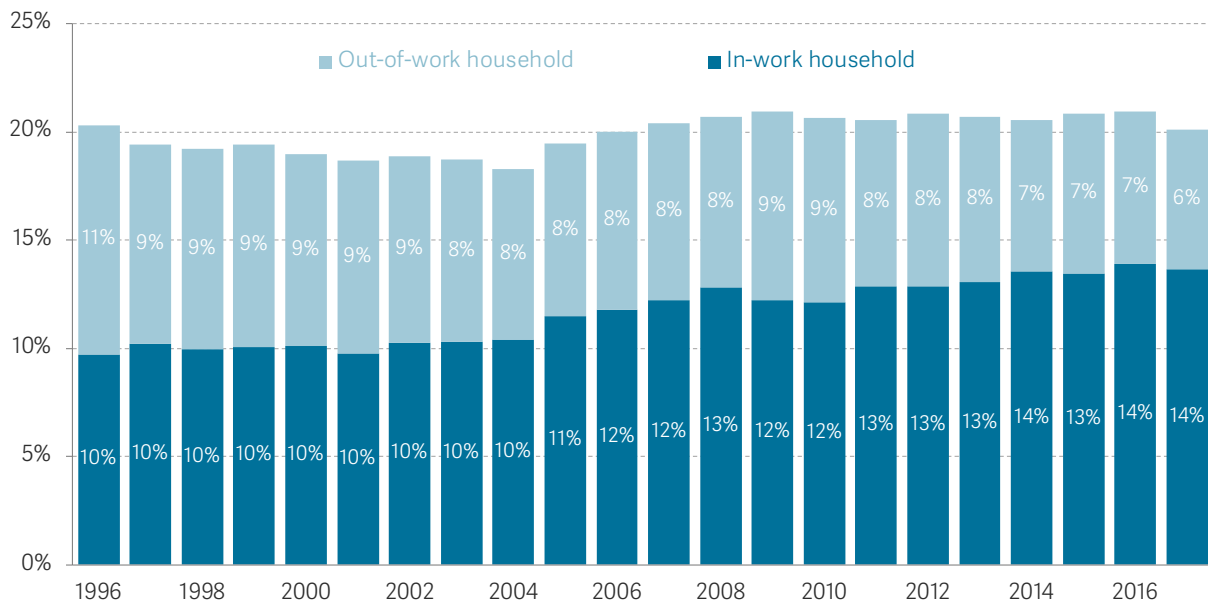
Poverty is far from unusual in the UK today: according to the latest data, one-in-five working-age adults is in a household without a sufficient income to live free from need. In this report we explore some of the most pertinent aspects of contemporary poverty. Given recent trends, we focus our attention largely on in-work poverty, and examine why social renters in particular find it difficult to exit the condition despite state support that both lowers their housing costs and boosts their incomes.

Recent changes in poverty composition have brought the role of work into sharp focus

To begin, we note that the nature of poverty has changed considerably over time (see Box 1 for details on how poverty is best conceptualised and measured in the UK). As Figure 1 shows, while (stubbornly high) working-age poverty is similar to its level two decades ago, its composition has shifted in a radical way. In 1996-97, less than one-half (48 per cent) of adults in poverty lived in a working household; today, that figure stands at close to seven-in-ten (68 per cent). As a result, poverty is more likely to go hand-in-hand with work today than at any other time over the past two decades.

FIGURE 1: Today, seven-in-ten working-age adults in relative poverty live in a working household

Proportion of individuals in relative poverty (after housing costs), by household work status: UK, 1996-7 to 2017-18



NOTES: Working-age (19 to 64) only. Years are financial years, e.g. 2016 refers to the 2016-17 financial year.
SOURCE: RF analysis of DWP, Family Resources Survey

BOX 1: Defining and measuring poverty in the UK

While there has been some debate in recent years as to what constitutes poverty, most view the condition as characterised by a lack of adequate income given one’s time and place.¹ As a result, households are conventionally considered to be in relative poverty if their equivalised income falls below 60 per cent of the national median household income.

There are a number of important things to note about this definition.

First, poverty is measured at the household level: it is assumed (not

uncontroversially) that resources brought into the home are shared by all. Second, income is calculated by adding earnings net of taxes and income from other sources together with any benefits that those in the household may receive. And third, the household’s income is then ‘equivalised’, meaning that the number of people in the household that the income must be shared between is also factored into the poverty calculation.²

Finally, poverty is often measured on an ‘after housing costs’ basis as this

¹ See, for example: Social Metrics Commission, *Measuring poverty: A report of the Social Metrics Commission*, July 2019

² For more information on equivalisation and other aspects of poverty measurement, see: Department for Work and Pensions, *How low income is measured in households below average income*, September 2016

provides a better sense of a household's available resources after the fixed outlay for housing has been paid. As a result, in this report we present relative poverty rates after housing costs unless stated.

Beyond work, the state plays a crucial role in reducing poverty and alleviating its effects

Alongside big questions about how work interacts with poverty, the role of government in alleviating poverty and its impacts is crucial. While the issue falls in and out of favour at times (replaced, for example, by a focus on social mobility or on inequality writ large), poverty has always been a significant public policy concern. Policy can affect poverty or its impacts in all sorts of ways including via supporting people to progress and upskill in jobs, and through the provision of public services. But the two most important things that governments do to tackle poverty are reducing lower-income families' housing costs, and supporting their incomes.

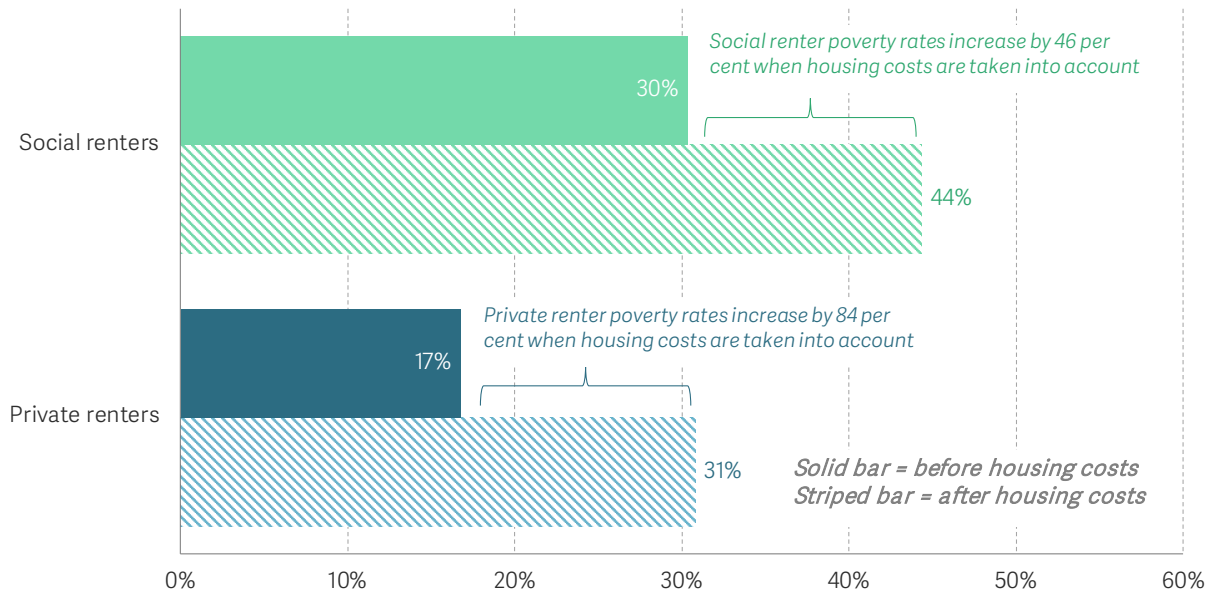
Turning to the former, the most visible way that government reduces housing costs for those at the bottom of the income distribution is through the provision of sub-market housing. We illustrate the poverty-reducing role of social housing in Figure 2, which compares the poverty rates of social and private renters (SRs and PRs) on a before housing costs (BHC) and after housing costs (AHC) basis. While the share of SR and PR households living in poverty both jump by 14 percentage points when housing costs are accounted for, in proportional terms this increase is almost twice as large for PRs as it is for SRs (84 per cent to 46 per cent respectively). Put differently, housing costs put greater upward pressure on the relative poverty risk of private renters (PRs) than social renters (SRs).

The second major way in which public policy alleviates poverty is by directly boosting households' resources through the benefits system. In- and out-of-work benefit receipt is strongly skewed towards the bottom-end of the income distribution: in 2017-18 cash benefits made up 55 per cent of the disposable income of individuals in the bottom income quintile, compared to only 3 per cent for those in the top quintile.³ So benefits play a big role in reducing income inequality, and therefore also the incidence of relative poverty.

³ Office for National Statistics, *Effects of taxes and benefits on UK household income: financial year ending 2018*, May 2019

FIGURE 2: By reducing housing costs, social housing protects those on low incomes

Proportion of households in relative poverty, before and after housing costs, by housing tenure: UK, 2017-18



NOTES: Working-age (19 to 64) head of household only.
SOURCE: RF analysis of DWP, Family Resources Survey

The focus of this report

This nexus between work, tenure, benefits and poverty has resulted, on occasion, in some troubling conclusions. Observing the fact that in-work poverty is on the rise, some have problematised work, for example.⁴ Likewise, the fact that SRs are so much more likely to be in poverty, even on an after-housing-costs basis, than those in other tenures has led others to question whether the tenure causes as many problems as it solves.⁵ And finally, the idea of benefit dependency has gained considerable traction in recent years, spurring the very significant cuts to benefits observed over the past decade that have diminished the social security system's poverty reduction power.⁶

In 2019, the UK's largest housing association – Clarion Housing Group – approached us with a question: why, when more of their tenants were working than ever before, did so many still seem to be struggling? The opportunity to work closely with a housing association has allowed us to explore the relationship between poverty, work, tenure and benefits as never before. We used data from a representative sample of Clarion residents;

⁴ See, for example: A Collinson, [Our broken economy has locked millions of workers in poverty – here's how to fix it](#), TUC March 2019

⁵ See, for example: N O'Brien, [Green, pleasant and affordable: why we need a new approach to supply and demand to solve Britain's housing problem](#), Onward, June 2018

⁶ L Gardiner, [The shifting shape of social security: Charting the changing size and shape of the British welfare system](#), Resolution Foundation, November 2019

heard more about tenants' lives directly in focus groups; and validated the findings from both these exercises through analysis of national datasets.

With Clarion providing such an excellent case study, we often zoom in throughout this report on the experience of those living in social housing. But the lessons we have learned through a close examination of SRs' lives have a far broader application. By uncovering the complex intersections between work, tenure and benefits, we identify a policy agenda that has relevance for all of those living in working households close to, or below, the poverty line.

To these ends, the remainder of this report is structured as follows:

- We begin in Section 2 with an in-depth look at poverty and employment over time, examining the effect that labour market transitions have on households' living standards;
- In Section 3, we consider how in-work poverty plays out for those living in different tenures, paying particular attention to the experience of social renters;
- In Section 4, we focus on how the benefits system supports working families and combats poverty, examining questions of both adequacy and administration;
- Finally, in Section 5 we summarise our conclusions and offer some policy recommendations, which our findings suggest are required if we want to get serious about tackling in-work poverty.

Section 2

Poverty and employment over time

Rising in-work poverty has raised questions about the extent to which work provides a route up and out for poor families. In this section, we explore this contention by tracking households' poverty and work statuses over time. We find that there is still a very large poverty pay-off from moving into work, with it reducing the risk that a family is in poverty and the depth of poverty for those that remain below the poverty line. Unsurprisingly, entering full-time or higher-paid work – and not being the first person in your household to be in employment – all increase the chance that moving into work leads to poverty exit.

There is no evidence of further reductions in this group's poverty rate in the three years after entering work, even for those who remain continuously employed. Below this headline, however, sits high levels of poverty churn. Half of people in poverty who live in working households find themselves out of poverty three years on, while an equivalent group that started out above the poverty threshold moves below it over the period.

Rising in-work poverty has some positive drivers, as well as many concerning ones

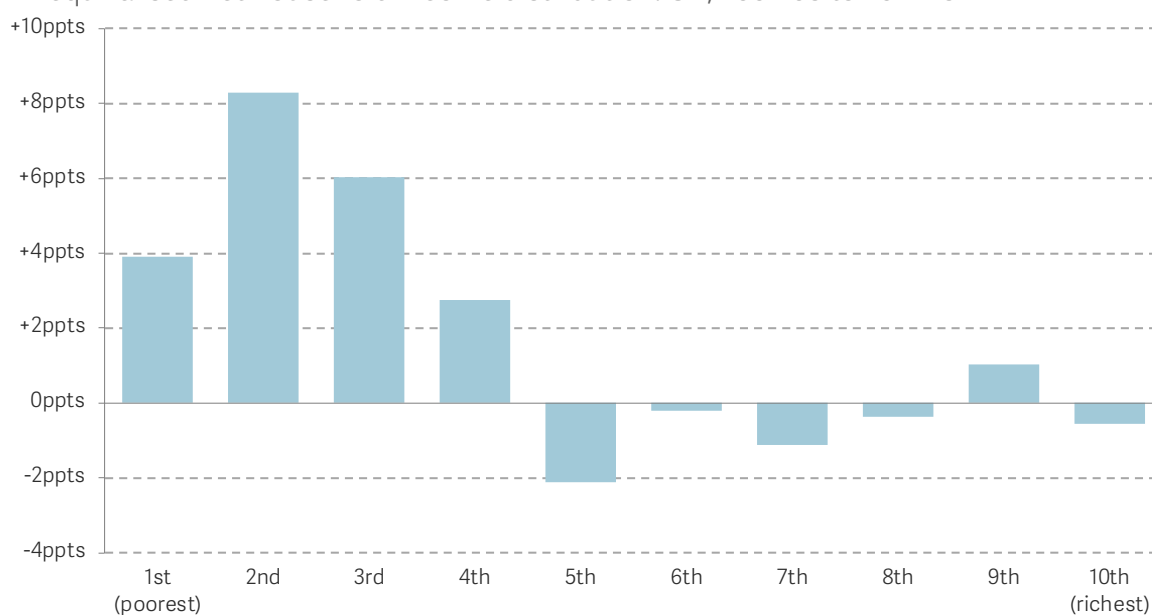
As noted in Section 1, working-age poverty over the past twenty years has been increasingly skewed towards people in working households. Today, nearly seven-in-ten adults in poverty live in a household in which someone works. Previous analysis has attempted to answer the question of why in-work poverty has risen, pointing to some positive drivers, as well as negative.⁷ Alongside rising pensioner incomes, the other positive reason in-work poverty has risen is the UK's record working-age employment rate, and concomitant declines in household worklessness. Given that poverty is determined in relation to the typical income across households, a greater share of the population working can result in more working households below the poverty line.

⁷ See, for example: P Bourquin et al., [Why has in-work poverty risen in Britain?](#), Institute for Fiscal Studies, June 2019

This is particularly the case given employment gains over the past decade have been concentrated in the bottom half of the working-age income distribution, as Figure 3 shows. This means that newcomers to the labour market are disproportionately those who were more likely to be in poverty in the first place.

FIGURE 3: Employment growth has been strongest in the lowest income deciles

Change in employment rate among 16-64 year olds, by decile of the working-age equivalised net household income distribution: UK, 2007-08 to 2017-18



NOTES: Distribution calculated on the basis of income after housing costs.

SOURCE: RF analysis of DWP, Households Below Average Income

But alongside this positive story, there are a number of more negative drivers of rising in-work poverty. These include rising housing costs for poorer households, sluggish weekly earnings growth, and sharp cuts to working-age benefits in recent years.⁸ Of course, none of these things operate in isolation. Housing costs for those on lower incomes have grown partly as a result of reduced support from benefits towards these costs.⁹ And previous Resolution Foundation research has demonstrated that the income shock from both weak earnings growth and benefit cuts is partly what has driven households to want to work more, resulting in the employment boom discussed above.¹⁰

But whatever the broad trends driving rising in-work poverty, the outcome begs the question: to what extent does work (still) provide a route up and out for poor families? Our analysis in this section seeks to answer that question using the UK's largest and broadest longitudinal household survey, Understanding Society. We examine the effect

⁸ P Bourquin et al., *Why has in-work poverty risen in Britain?*, Institute for Fiscal Studies, June 2019

⁹ D Tomlinson, *Inequality street: Housing and the 2019 general election*, Resolution Foundation, November 2019

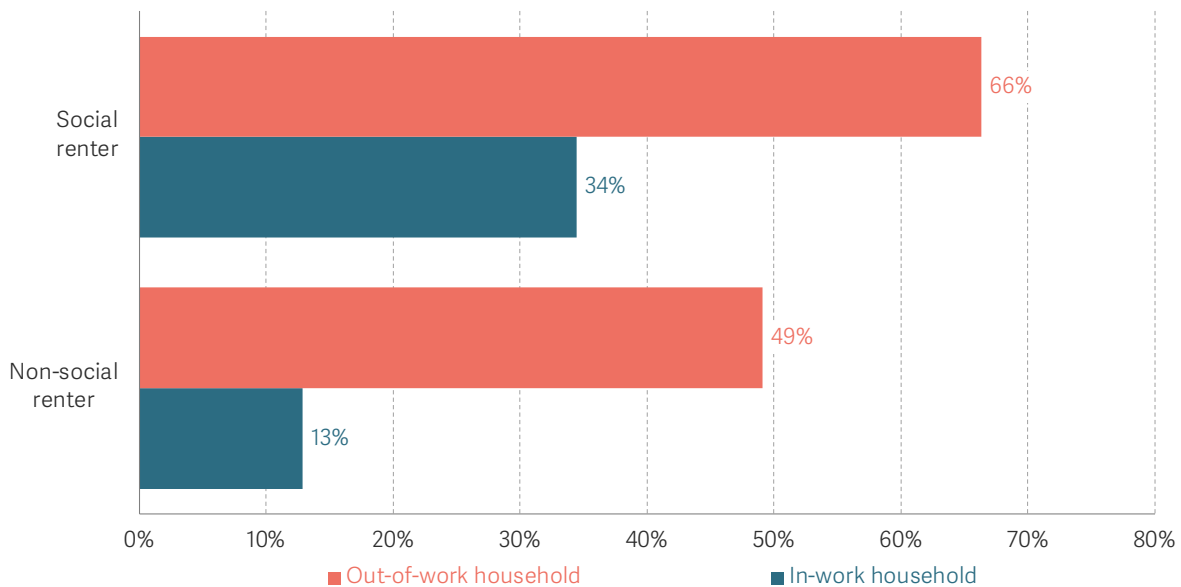
¹⁰ See: T Bell and L Gardiner, *Feel poor, work more: Explaining the UK's record employment*, Resolution Foundation, November 2019

that individuals entering different types of work has on poverty rates, and track their fortunes over a number of years.

Getting to the bottom of the extent to which transitions into and out of work provide a route out of poverty is particularly important for those – such as our partner in this analysis, Clarion Housing Group – concerned with the fortunes of social renters (SRs). In Figure 4 we show that the poverty differential between SRs and those in other tenures is even larger among working households than among out-of-work households: while SRs living in an out-of-work household are almost twice as likely to be in poverty than those from other tenures, social renting working households are more than three-and-a-half times as likely to be in in-work poverty as their counterparts in other tenures. So does this mean that work offers a particularly poor escape route from poverty for social housing residents?

FIGURE 4: The poverty differential between SRs and those in other tenures is greater among working households

Proportion of individuals in relative poverty (after housing costs), by housing tenure: UK, 2017-18



NOTES: Working-age (19 to 64) only.

SOURCE: RF analysis of DWP, Family Resources Survey

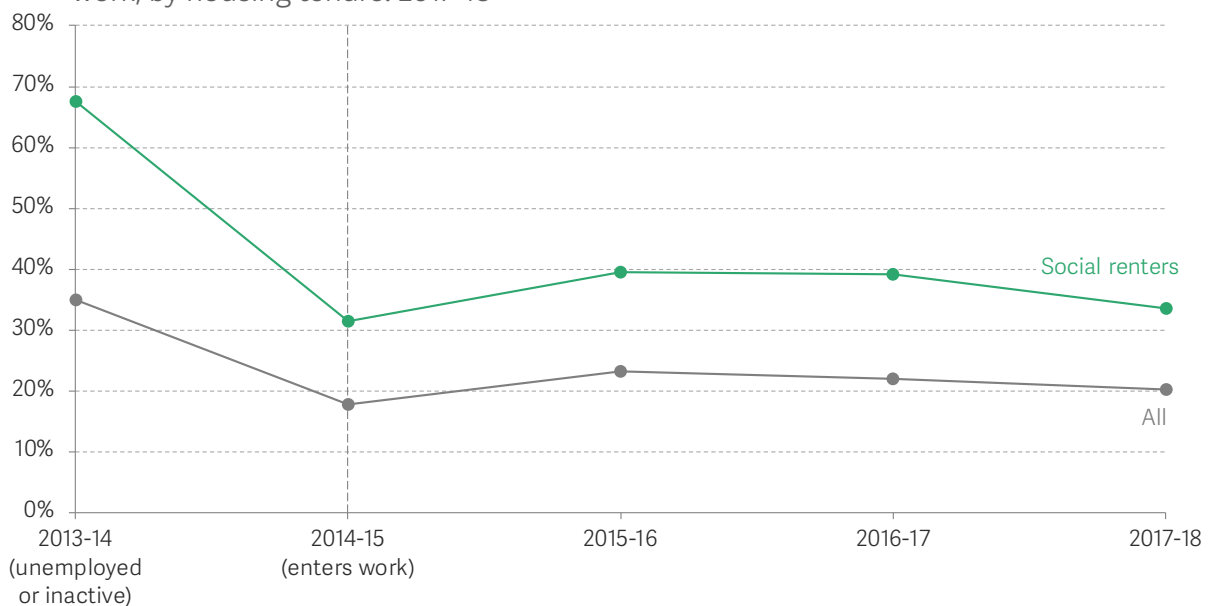
Working lifts about half of new entrants out of poverty

To answer this question, we start by examining individuals' poverty risk in the year before and years after they enter work. In Figure 5, we track the poverty status of individuals

entering work in 2014-15 for the following three years.¹¹ Focusing first on all housing tenures together, we find that entering work has a strong downward effect on the poverty rate: those who entered work in 2014-15 experienced a decline in poverty from 35 per cent to 18 per cent. While the latter figure remains above the risk of poverty across all individuals in work (11 per cent), a poverty reduction of almost half provides clear evidence that getting into work has a strong poverty pay-off.

FIGURE 5: **Poverty falls by half when people enter work**

Proportion of people in relative poverty (after housing costs) before and after entering work, by housing tenure: 2017-18



NOTES: Working-age (19 to 64) only.

SOURCE: RF analysis of ISER, Understanding Society

Looking more closely at our group of special interest, SRs, Figure 5 shows an even bigger drop in poverty when people enter work. More than half of SRs who got a job in 2014-15 were lifted out of poverty, with the rate falling from 68 per cent to 31 per cent. For SRs, work entry therefore has a particularly strong poverty-reduction effect.

But how does this square with Figure 4, above, which shows that SRs' relative risk of poverty (compared to those in other tenures) is greater among working households than workless ones? This paradox is explained mainly by the starting points of the two groups in Figure 5, and the fact that this chart tracks individuals' work statuses rather than households'. Across tenures, the poverty rate in the year before the individual enters work is lower in Figure 5 than among SRs specifically, because more of these people start out in households in which someone else works. In 2013-14, 73 per cent of the overall

¹¹ Specifically, we look at people who were not in work (unemployed or economically inactive) in 2013-14 and in employment in 2014-15. We choose this period for two reasons: first, by 2014-15 the employment effects of the 2008 crisis had largely unwound, and second, this three-year period provides us with a sufficient sample size to draw robust conclusions.

group in Figure 5 is in a working household, compared to 46 per cent of the SR group. In other words, more of the work entrants among SR are the only earner in their household. This means they start out with very high poverty risk, which entering work reduces substantially in absolute terms.

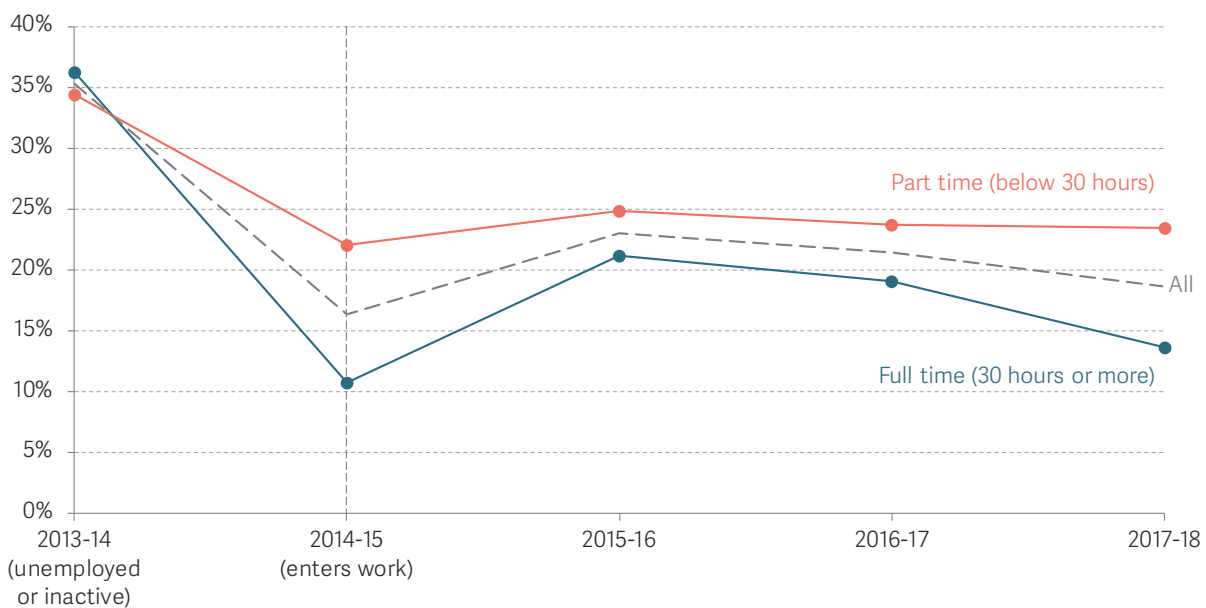
Even those who do not exit poverty when entering work experience a clear living standard uplift as a result of the transition. The incomes of those that remain in poverty when they move into work increase from an average of 64 per cent of the poverty line before entering work, to 75 per cent after getting a job. In other words, poverty depth for those entering work does decrease, although they still remain well below the poverty threshold. So the first clear conclusion from our analysis is that while in-work poverty is a real and growing problem, work indubitably reduces both the volume and depth of poverty, particularly among SRs.

Second earners and those who enter full-time or high-paid jobs have the greatest chances of exiting poverty

Unsurprisingly, a move into certain types of work have a stronger poverty-reducing effect than others. First, Figure 6 tells us that the higher the hours in the job entered, the more likely it is that the household income becomes sufficient to move above the poverty line.

FIGURE 6: Moving into full-time work increases the chance of escaping poverty

Proportion of people in relative poverty (after housing costs) before and after entering work, by whether they enter a full- or part-time job: 2013-14 to 2017-18



NOTES: Working-age (19 to 64) only.

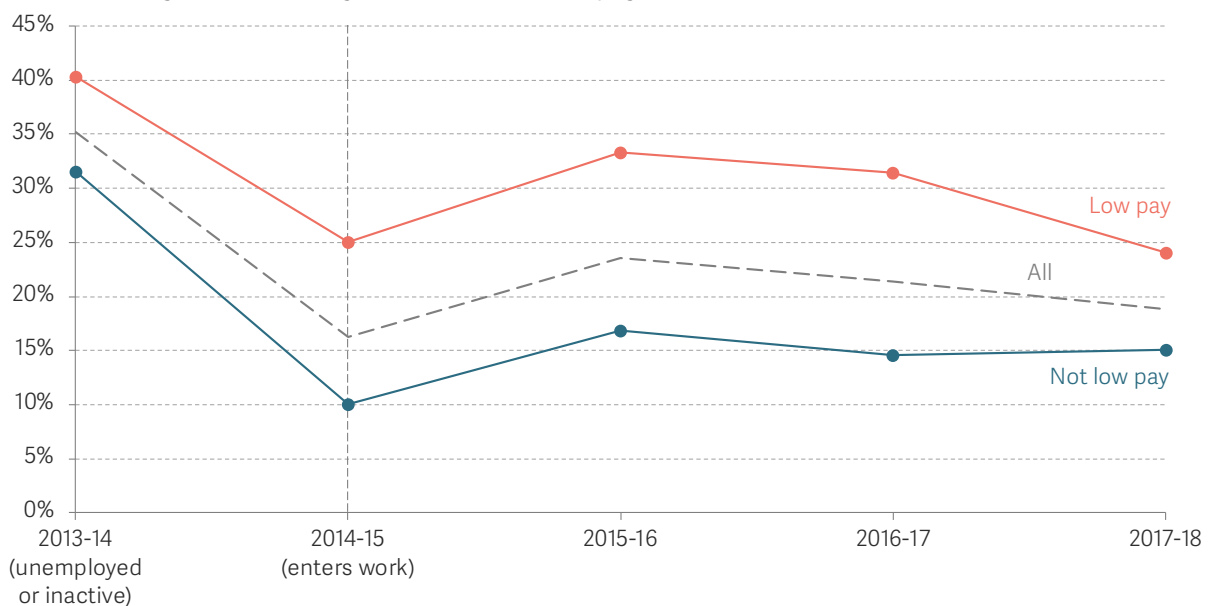
SOURCE: RF analysis of ISER, Understanding Society

People entering full-time work (here defined as over 30 hours per week) experience a reduction in their poverty risk from 34 per cent to 11 per cent. This is twice the fall in poverty risk for those who enter part-time work (34 per cent to 22 per cent).

We next turn to pay. Again unsurprisingly, low-paid jobs (defined as paying below two-thirds of the hourly median) are much less likely to lift people out of poverty – and the difference here is greater than the disparity between full- and part-time workers. As Figure 7 shows, people who moved into a low-paid job experienced a reduction in their poverty rate of 15 percentage points, or 38 per cent (from 40 per cent to 25 per cent). This compares to 21 percentage points, or 68 per cent, for those entering higher-paying jobs (a fall from 32 per cent to 10 per cent).

FIGURE 7: People who move into low-paid work are less likely to exit poverty

Proportion of people in relative poverty (after housing costs) before and after entering work, by whether they enter work in low pay: 2013-14 to 2017-18



NOTES: Working-age (19 to 64) only. Low pay is defined as hourly earnings below two-thirds of the median across all workers.

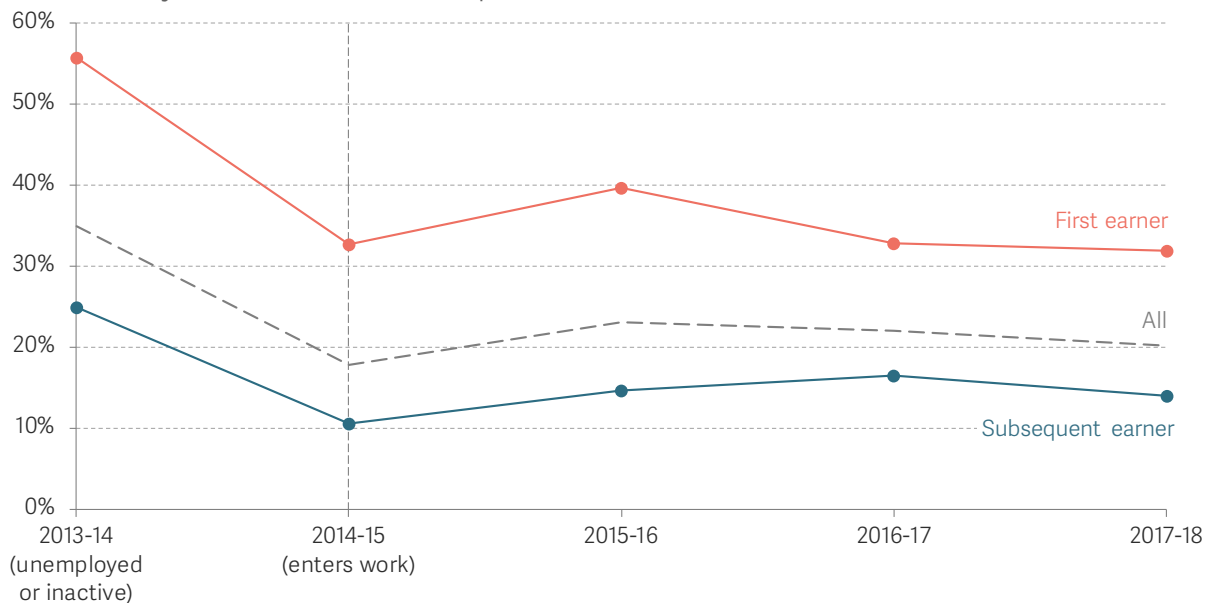
SOURCE: RF analysis of ISER, Understanding Society

Finally, it matters whether or not the person entering work is the first earner in the household. Figure 8 shows that first earners experience a decrease in their household poverty rate of 41 per cent (from 56 per cent to 33 per cent) upon entering work, compared to a 58 per cent fall for second or subsequent earners (from 25 per cent to 11 per cent). A second or subsequent earner entering work therefore has a greater relative (although smaller absolute) impact on a household’s poverty risk than a first earner. The reason for the smaller absolute impact is the big difference in the starting points of both groups. People who are the first in their household to enter work are much more likely to

be in poverty beforehand than those with another earner in the home. The large absolute fall in poverty rates as they enter work still leaves them at a very high risk of poverty.

FIGURE 8: A second or subsequent earner entering work causes a greater relative decline in poverty risk

Proportion of people in relative poverty (after housing costs) before and after entering work, by whether first or subsequent earner in household: 2013-14 to 2017-18



NOTES: Working-age (19 to 64) only.

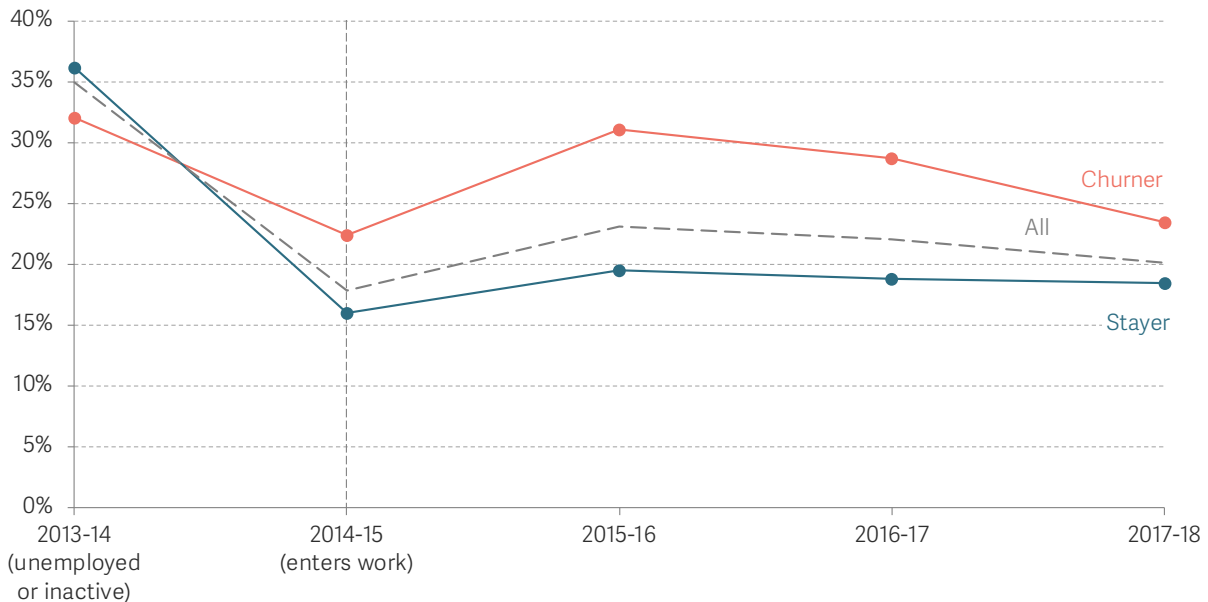
SOURCE: RF analysis of ISER, Understanding Society

The poverty rate does not improve any further for those who stay in work – and one-quarter move out of work

Another question arises from the analysis thus far: although work goes some way to alleviating poverty, why do poverty rates not fall any further after the initial point of entering work? A partial explanation for this outcome is that employment is sometimes not sustained. Figure 9 shows that ‘churners’ (people who left employment at some point over the three years following 2014-15, accounting for just over a quarter of our sample) have higher poverty rates across the period shown here. The poverty rate of churners reached 31 per cent a year after entering work – barely below the 32 per cent poverty rate before they entered work. And churners end up with a poverty rate of 23 per cent in 2017-18, compared to 18 per cent for people who stayed in employment over the whole period.

FIGURE 9: People who churn in and out of the labour market don't see the same poverty reduction as those who stay in work

Proportion of people in relative poverty (after housing costs) before and after entering work, by whether stayed in work or not: 2013-14 to 2017-18



NOTES: Working-age (19 to 64) only. 'Stayers' are those observed in employment in 2014-15 and in each of the three subsequent years. 'Churners' experience unemployment or inactivity in at least one of the three years following 2014-15.

SOURCE: RF analysis of ISER, Understanding Society

But even for the 'stayers' who remain in sustained employment over the three years following 2014-15, we see no further reduction in poverty rates over time. While it is at least some consolation that poverty doesn't rise substantially, it remains a cause for concern that continuous employment over a number of years does not appear to drive down the poverty rate for this group.

However, it is not all bad news: those who stayed in work did experience faster-than-average pay progression. The cohort who entered work in 2014-15 had, on average, 3.6 per cent real annual pay growth over the next three years,¹² compared to a figure of 1.5 per cent for everyone in our dataset who was continuously in work over that period. But this pay growth wasn't enough to reduce the poverty rate for this group. This may be in part because pay growth is concentrated among the lowest paid (people who entered low-paid jobs had pay growth of 5.3 per cent over the three-year period, compared to a figure of 2.7 per cent for non-low-paid new entrants).

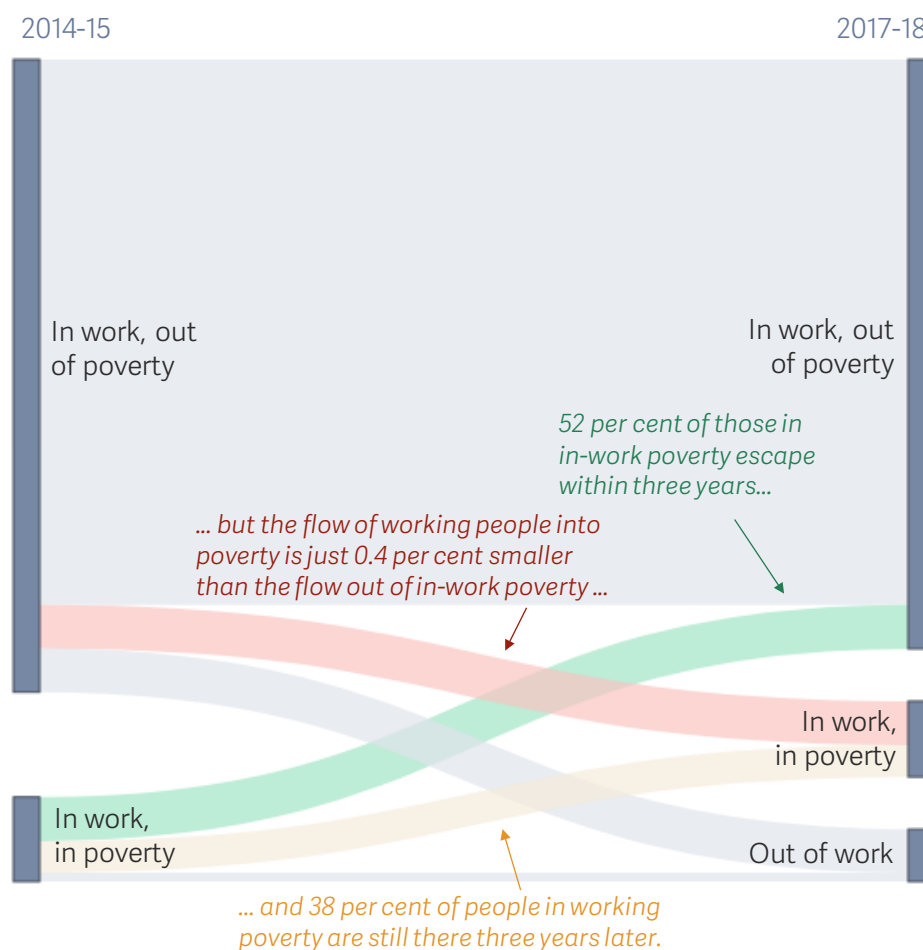
¹² Compound annual growth rate comparing pay at the point of entering work to pay three years later, adjusted for CPIH inflation. Source: RF analysis of ISER, Understanding Society

Taking a broader view, moving out of poverty is common, but poverty churn is widespread

The charts above show no further improvement in the average poverty rate across the new entrant group over three years, but this may hide individuals within that group moving out of poverty (and others back in). To examine the chances of individuals who are in work moving out of poverty, we now look at everyone in in-work poverty in 2014-15, regardless of whether they were new entrants into work or not. At first glance, the evidence is positive. The green link in Figure 10 shows that of everyone in in-work poverty in 2014-15, over half were still in a working household and had escaped poverty by 2017-18. Likewise, less than two-fifths of this group were still in in-work poverty three years later.

FIGURE 10: Over half of those who began in in-work poverty had flowed out of poverty three years later

Share of individuals living in in-work households in 2014-15, by work and poverty status in 2017-18: UK

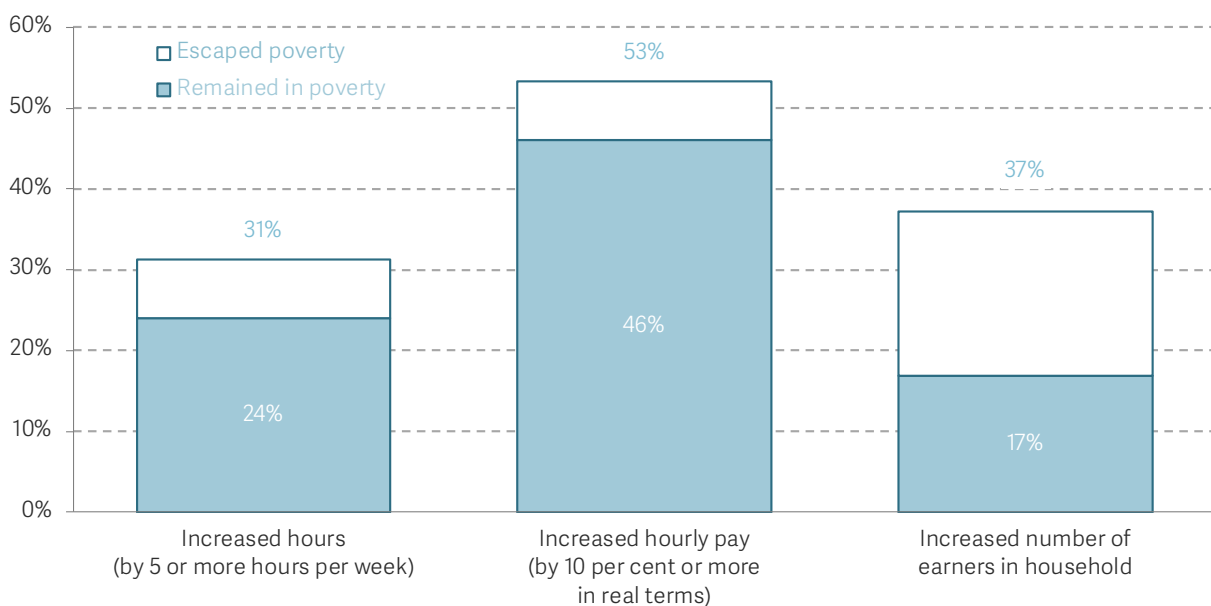


NOTES: Working-age (19 to 64) only. Work status refers to that of the household, not the individual.
SOURCE: RF analysis of ISER, Understanding Society

So what distinguishes those that escape in-work poverty over the period and those that do not? In Figure 11 we split out the two groups by the factors we have already identified as increasing one's chance of exiting poverty: increased working hours, increased hourly pay and increased household earners. While those who escaped poverty were 6 percentage points more likely to have substantially increased their hours and 7 percentage points more likely to have increased their pay, they were 20 percentage points more likely to have experienced an increase in the number of earners in their household. Put another way, poverty escapers were over twice as likely to have experienced an increase in their household's number of workers than those who stayed in poverty.¹³

FIGURE 11: The biggest factor driving an escape from in-work poverty is an increase in the number of earners in the household

Proportion of people in in-work poverty households in 2014-15 who experienced an increase in hours, pay, and number of earners, by whether they remained in poverty in 2017-18: UK



NOTES: Working-age (19 to 64) only. Sample only includes those who were still in working households in 2017-18.

SOURCE: RF analysis of ISER, Understanding Society

So far, so good but the success of our poverty escapers is only part of the story. As the red link in Figure 10 shows, the flow of people in working households moving into poverty is an almost identical size to the group moving out of in-work poverty over the three-year period that we analyse. These two flows balance out, meaning that the overall in-work poverty rate remains roughly flat over the three-year period. The longer-term

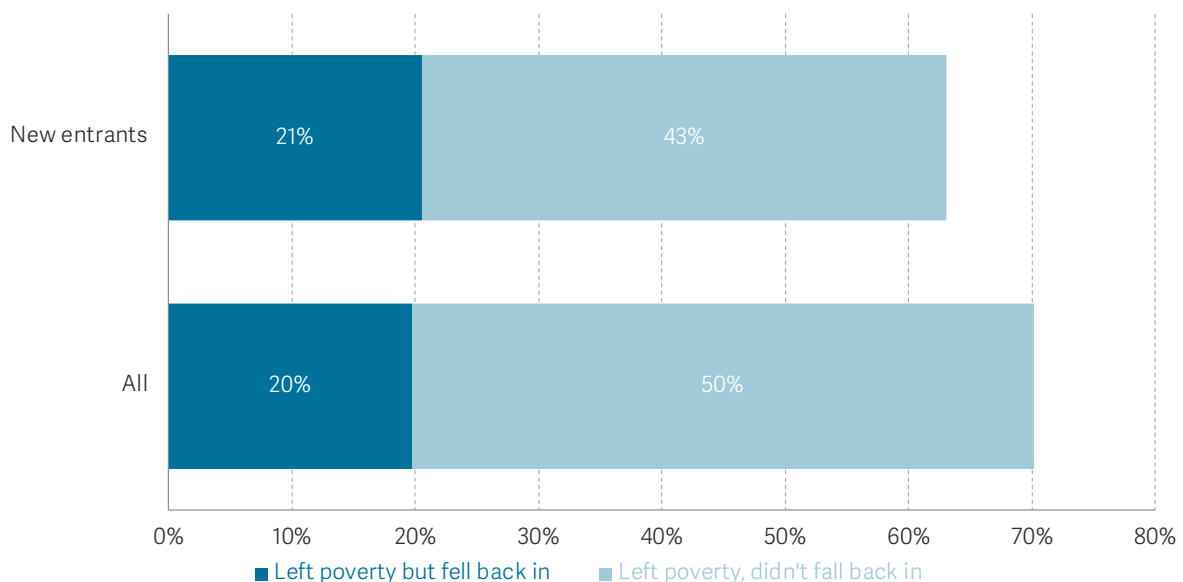
¹³ This finding is supported by past research, which similarly showed that boosting the number of earners in a household is the surest route to poverty escape. See, for example: R Hick, [How do people exit in-work poverty and what prevents them from doing so?](#), LSE British Politics and Policy, August 2018

picture, then, is one of poverty ‘churn’. As we showed above, the initial move into work helps almost half of people leave poverty. But once people are in work, as many people move into poverty as leave it. Driving that churn back into poverty are, unsurprisingly, the opposite of the ‘escape routes’ shown in Figure 11: low pay growth, reduced hours, or a reduced number of earners in a household.

Can we be slightly more positive about the chances of poverty escape when we take a longer view? Figure 12 tells us that for those more established in employment, positive moves out of poverty are more common: 70 per cent of this group who remain in employment spend at least one of the following three years out of poverty, compared to 63 per cent of new entrants who also remain in employment. This higher chance exiting poverty among those more established may reflect some progression as individuals get settled in the labour market and progress their careers. But it is also due to the different household characteristics of the group, in particular a higher likelihood of a second or subsequent earner in the household entering work for individuals who have not only recently entered employment themselves.

FIGURE 12: New entrants to the labour market are less likely to exit poverty than more established workers

Proportion of people in work and in poverty in 2014-15 who stay in work for the following three years, by whether they had left poverty at some point over the following three years and whether they were new entrants to work at the outset: UK



NOTES: Working-age (19 to 64) only.

SOURCE: RF analysis of ISER, Understanding Society

All that said, the fact that close to one third of the two groups shown in Figure 12 fall back into poverty during this three-year period – alongside the high rates of switching between the in-work and out-of-work poverty groups shown in Figure 10 – tells us that churning in and out of poverty is a fact of life for many working families. In the following section we look more closely at the experience of a group that we have already shown is especially at risk of in-work poverty: social renters.

Section 3

In-work poverty and tenure

Work, poverty and tenure interact in complex ways. In this section we look more closely at the experience of social renters, drawing on both quantitative and qualitative sources. We unpack the factors that lie behind social renters' higher in-work poverty rates, and critically explore the extent to which social renters' characteristics, the jobs they do and the opportunities they can access help us to understand their higher risk of working poverty. We find that the number of earners in a household matters, but even when social renter households have two members working their poverty rates remain elevated. We turn then to look at pay and hours, and show that social renters are much more likely to be in low-pay work than those in other tenures, as well as be in shorter hours jobs, often not by choice.

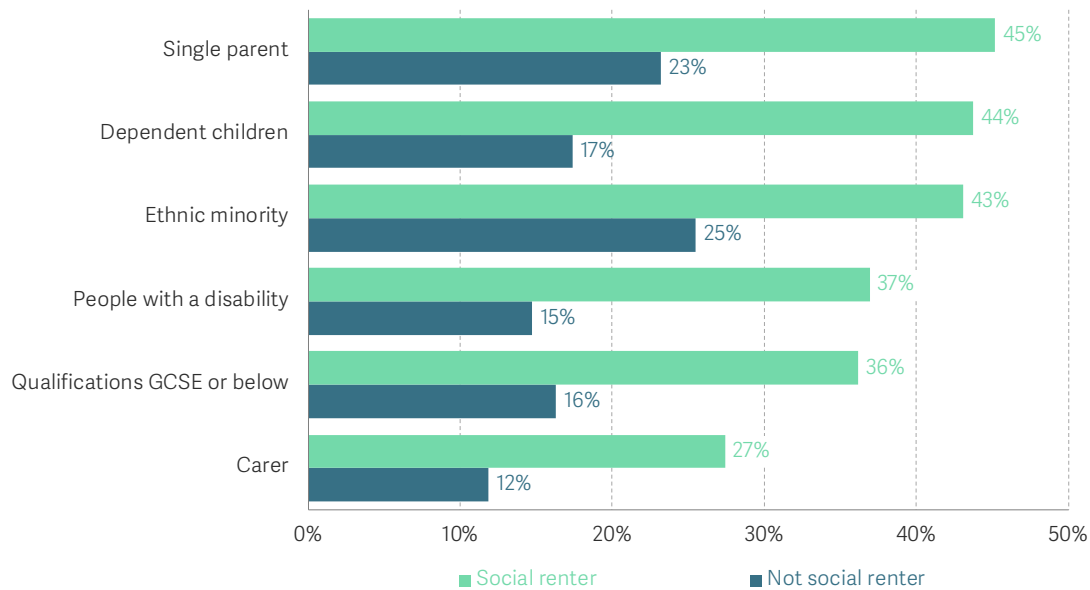
Those living in the social rented sector have characteristics associated with higher in-work poverty

We start with a restatement of the problem set out in the previous section: poverty rates are significantly lower for working households than workless ones regardless of tenure, but the difference is much smaller for social renters (SRs) than it is for those who live in the private rented sector or owner occupy (from this point on, described as non-social renters – non-SRs). In many respects, the fact that SRs have higher in-work poverty rates is unsurprising given that the groups with priority for social housing (single parents, or those with health conditions, for example) have higher poverty rates overall.¹⁴ But even when we look at those living in working households within these groups, SRs have a much higher risk of in-work poverty than their counterparts living in other tenures, as Figure 13 shows.

¹⁴ See, for example: R Tunstall & N Pleace, [Social Housing Evidence Review](#), University of York, September 2018

FIGURE 13: **Social renters are at greater risk of poverty**

Proportion of individuals in working households in relative poverty (after housing costs), by personal characteristics and housing tenure: UK, 2017-18



NOTES: Working-age (19 to 64) only.
SOURCE: RF analysis of DWP, Family Resources Survey

So, what can explain the far higher poverty risk of working SR households? To answer this question, we draw not just on national datasets but also a rich set of findings from a collaboration with Clarion Housing Group (see Box 2 for further details). In particular, we explore how the three key factors we identified in Section 2 as ratcheting up the poverty-reduction power of work - the number of earners, pay and hours – play out for SRs.

BOX 2: Exploring in-work poverty with Clarion Housing Group

In 2019, the UK’s largest housing association Clarion Housing Group approached the Resolution Foundation with a question: why, when more of their tenants were working than ever before, did many still seem to be struggling? We were given the chance to explore this question by utilising the housing association’s annual customer survey, as well via three focus groups

with selected survey respondents from working households.¹⁵

We started, however, with a problem: how could we identify those of Clarion’s residents living in poverty in the absence of good data on their incomes? Conveniently, the customer survey already included a number of questions on material deprivation. By

¹⁵ Clarion Housing Group, *The Clarion Index: summary findings from Clarion’s annual behavioural insights survey*, December 2019

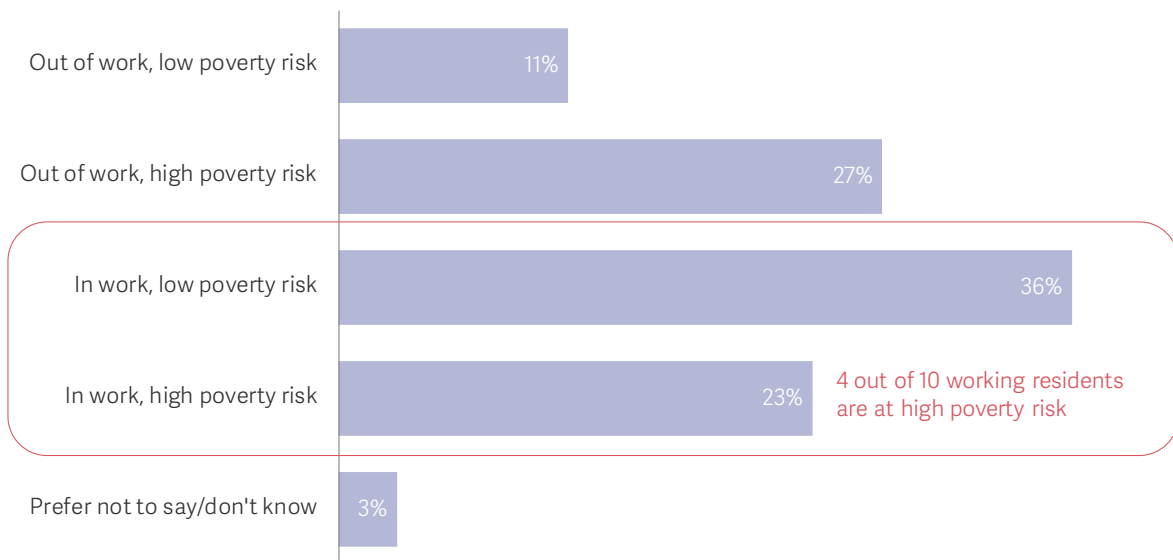
supplementing these questions with others that matched (either exactly or broadly) those asked in the Family Resources Survey, and were most strongly linked to poverty, we were able to identify those Clarion households at high poverty risk.

In 2019, close to 60 per cent of Clarion residents lived in a household in which at least one person was in paid employment, as Figure 14 shows. However, for many this was

not sufficient to ensure a life free of hardship, with four-in-ten of these working households at a high risk of poverty. This picture broadly mirrors the national social renter population’s in-work poverty incidence. On this basis, we have been able to use Clarion’s customer survey to further explore social renters’ experience of in-work poverty. Supplemented with the focus groups, this provides added richness to the quantitative analysis in this section and beyond.

FIGURE 14: Six-in-ten Clarion residents live in a working household, but that is no guarantee against poverty

Share of Clarion residents, by household’s employment status and poverty risk, working-age only: 2019



NOTES: n=1571
SOURCE: RF analysis of Clarion Customer Survey, 2019

One-quarter of social renters are in poverty even when all adults in the household work

One theory we can dismiss at the outset is that SRs' higher in-work poverty rates are an artefact of household size. If working SRs lived in larger-than-average households, their income would be spread more thinly (or put more formally, their equivalised income would be smaller, driving up their poverty rates as a result). In fact, working SR households are only slightly bigger than households in other tenures.¹⁶ But while household composition does not drive SRs' in-work poverty rates in a statistical sense, in practice the differences we observe between tenures can be instrumental.

Critically, while overall family size does not differ significantly between SRs and non-SRs, the numbers do show that working SR households contain more children but fewer adults, on average, than non-SR households. To begin then, there are fewer potential earners in SR households (26 per cent of SR households contain a couple, for example, compared to 56 per cent of non-SR). But in addition, and importantly, fewer of the potential second earners are in work in SR households compared to non-SR households: all adults are working in 53 per cent of couple households living in the social rented sector, compared to 79 per cent of non-SR households.¹⁷

However, significant differences remain between the poverty rates of working SR and non-SR households even when we split them out by the number potential earners who are working, as shown in Figure 15. We find that 46 per cent of SRs in households with one but not all adults earning are in poverty, compared to 24 per cent of such non-SRs. Even in households where all potential earners work, one-quarter of SRs are in poverty, compared to just 9 per cent of households living in other tenures.¹⁸ In sum, the fact that SR households are first, more likely to have only one potential earner, but second, are less likely to have all potential earners in work than households living in other tenures partly, but far from wholly, explains their higher in-work poverty rates.

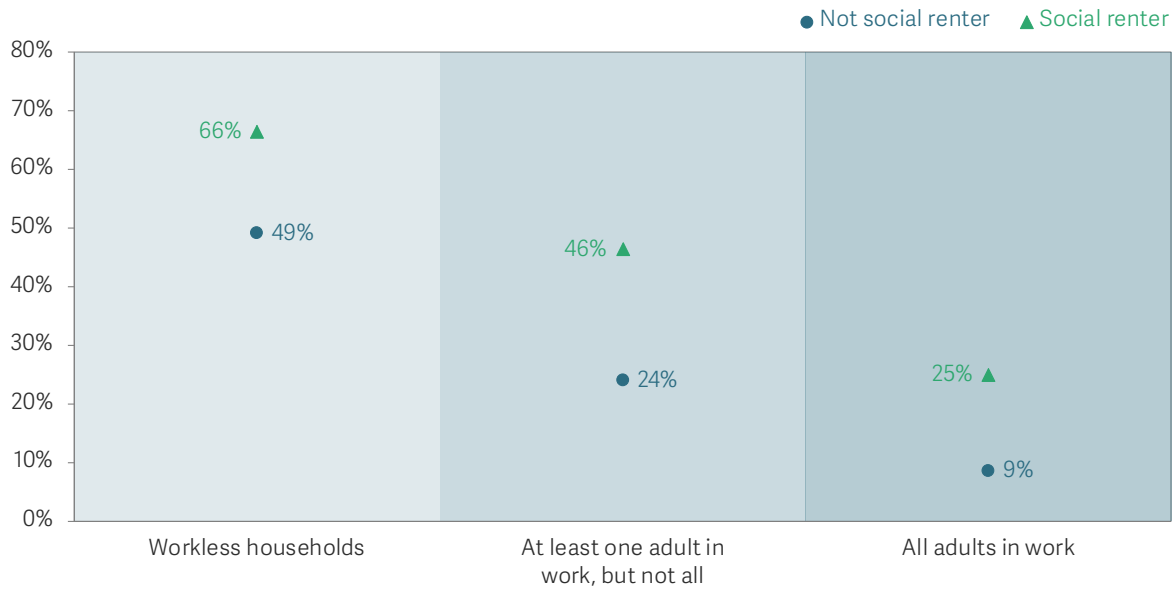
¹⁶ On average, SR households contain 1.8 adults and 0.9 children, compared with non-SR households' 1.9 adults and 0.6 children. This means that the average working SR household has only a very slightly larger equivalence factor than one living in another tenure.

¹⁷ See also: L Judge, *Social renting: a working hypothesis*, Resolution Foundation, April 2019 for a more detailed exploration of the employment gap between social renters and those in other tenures.

¹⁸ The figures are similar when we look at poverty rates of individuals split out by the actual number of earners in the household, rather than actual earners as a share of potential earners (this avoids mixing dual-earner couples with single adults/single parents, for example). Social renters in a one-earner household have a poverty rate of 53 per cent, compared to 29 per cent for those in other tenures. The rates for two-earner households are 23 per cent and 9 per cent respectively.

FIGURE 15: One-quarter of social renters in households in which all adults are in work are living in poverty'

Proportion of individuals in relative poverty (after housing costs), by household employment status and housing tenure: UK, 2017-18



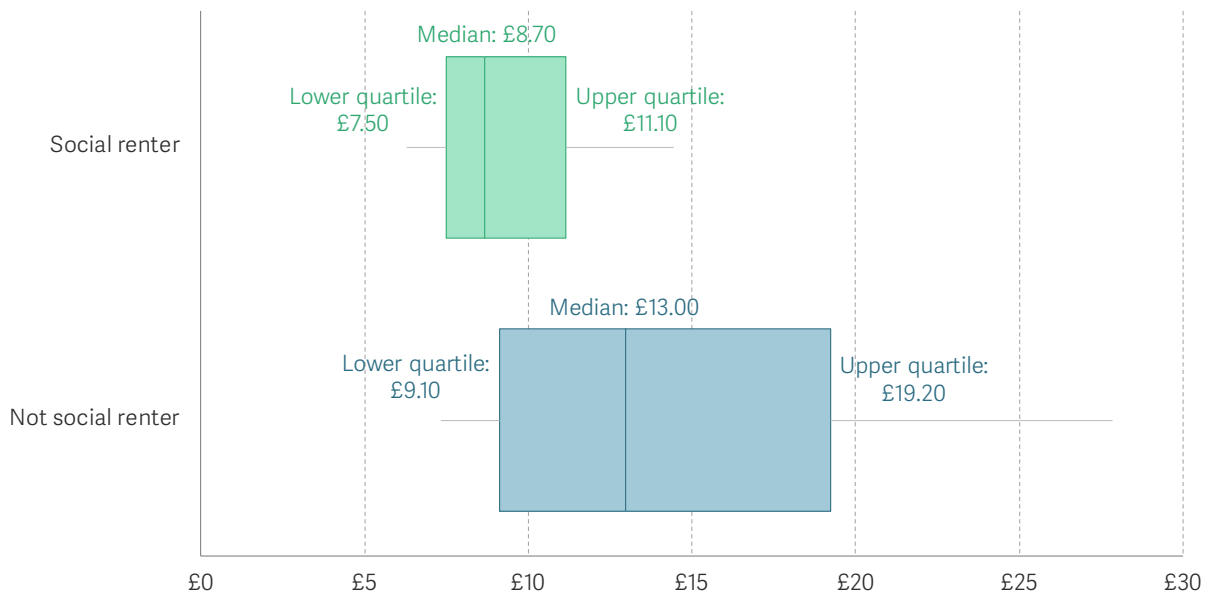
Note: Working-age (19 to 64) only.
 SOURCE: RF analysis of DWP, Family Resources Survey

Social renters are in lower-paid jobs than non-social renters, but this is largely explained by their composition

Given their personal characteristics, it is perhaps not surprising that SRs are, on average, in lower-paid jobs than those living in other tenures: as Figure 16 shows, in 2018 the average SR earned £8.70 an hour, compared to £13.00 for the average non-SR. When we look at the distribution of pay, a non-SR at the 25th percentile earns £9.10 per hour, still well above the median SR hourly rate. At the other end of the spectrum, an SR at the 75th percentile earns £11.10 per hour, well below the median for non-SRs.

FIGURE 16: More than three-quarters of social renters have hourly pay below the average of other tenures

Distribution of average gross hourly pay, by housing tenure: UK, 2018



NOTES: Working-age (19 to 64) only. Whiskers end at 10th and 90th percentiles.
SOURCE: RF analysis of ONS, Annual Population Survey

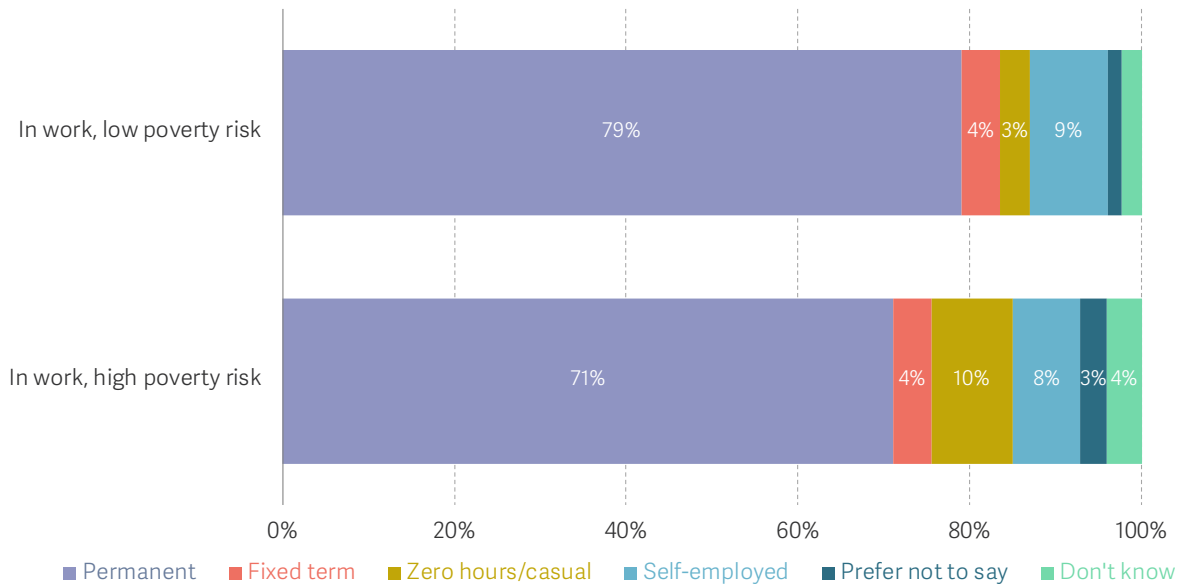
In 2018, we estimate that SRs were 2.5 times as likely to work in a minimum wage job (defined here as one paying at or below the wage floor-plus 5p), compared to non-SRs.¹⁹ Why might this be the case? Personal characteristics that we know are more prevalent for SRs, such as lower qualification levels, will clearly play a role. But as Figure 17 shows, the Clarion residents survey also indicates that significant numbers of SRs with high poverty risk are in casual, zero-hours contract or part-time work, all types of jobs which we know go hand-in-hand with a pay penalty.²⁰

¹⁹ Source: RF analysis of ONS, Annual Population Survey. The Annual Population Survey is drawn from Labour Force Survey (LFS) data. LFS earnings data is lower quality than sources such as the Annual Survey of Hours and Earnings (ASHE) because it is self-reported or given by proxy and so may be prone to recall error. Hourly pay is known to be underestimated on the LFS, but while the levels reported are generally regarded as high, its usefulness in comparing different tenures and other personal characteristics is not in question. For more information, see: ONS, [A guide to sources of data on earnings and income](#), December 2019

²⁰ L Gardiner, [A typical year?](#), Resolution Foundation, December 2016 and M Costa Dias, R Joyce and F Parodi, [Wage progression and the gender wage gap: the causal impact of hours of work](#), Institute for Fiscal Studies, February 2018

FIGURE 17: One-in-ten Clarion residents at high risk of poverty are in a casual or zero-hours job

Share of Clarion residents in working households by contract type and poverty risk status, working-age only: 2019



NOTES: n=975

SOURCE: RF analysis of Clarion Customer Survey, 2019

Controlling for the personal and job characteristics of SRs compared to non-SRs, Figure 18 shows that the hourly pay gap between the two falls substantially, from 32 per cent to 10 per cent. But a gap does remain, suggesting that an individual with the same personal characteristics working in the same type of job suffers a £1-plus hourly pay penalty for other reasons connected to being a SR.

FIGURE 18: The large majority of the pay gap between social renters and those in other tenures can be explained by observed personal and job characteristics

Average gross hourly pay controlling for personal and job characteristics, by housing tenure: UK, 2018



NOTES: Working-age (19 to 64) only. Personal characteristics are: gender, age and age-squared, ethnicity, household type, number of children, region, qualification level, whether has disability. Job characteristics are: temporary/permanent, public/private sector, occupation, industry, whether apprentice, years since left education (proxy for labour market experience), hours worked per week.
 SOURCE: RF analysis of ONS, Annual Population Survey

This finding begs the question: what other explanations could there be for the remaining differential pay rates we observe here? Our focus groups with Clarion residents suggested one key reason which would not be picked up well in the data. Many operated within very small local labour markets, with poor (or expensive) transport links limiting their scope to find different and better-paid work.²¹

For me it would be the transport [biggest barrier to a better paid job]. As I don't drive, public transport is just not good enough to get you to places like the retail park. ... The bus stops at like 3 o'clock in the afternoon, [and] it's a lot more expensive than in London.

Woman in zero-hours contract job, Tonbridge

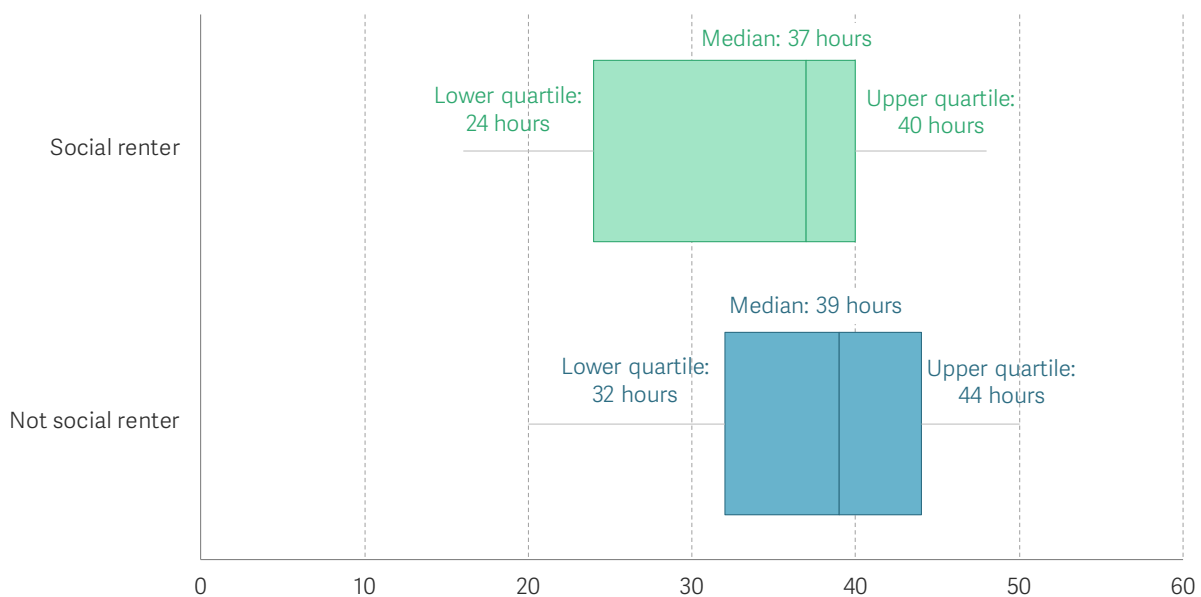
²¹ See also: L Judge, *Social renting: a working hypothesis*, Resolution Foundation April 2019, which shows that social renters are more likely to live in weaker job markets.

While social renters are more likely to work lower hours than those in other tenures, at least part of this is not through choice

While we observe large differences between the average hourly pay of SRs and non-SRs, our findings with respect to hours are not so stark. In Figure 19 we show that the typical SR works marginally fewer hours than the typical non-SR, with both squarely in the full-time bracket (37 and 39 hours a week respectively). Moreover, this chart may understate the actual hours of SRs given it plots main job hours only, and SRs are marginally more likely than those in other tenures to work an additional job.²² On the other hand, the greater prevalence of households in which some but not all adults work within the SR population, discussed above, means that hours per adult in the household will differ more than the hours per worker measure shown in Figure 19.

FIGURE 19: The median social renter works only two hours fewer than the median non-social renter

Distribution of usual weekly hours worked in main job (including overtime), by housing tenure: 2018



NOTES: Working-age (19 to 64) only. Whiskers end at 10th and 90th percentiles.
SOURCE: RF analysis of ONS, Annual Population Survey

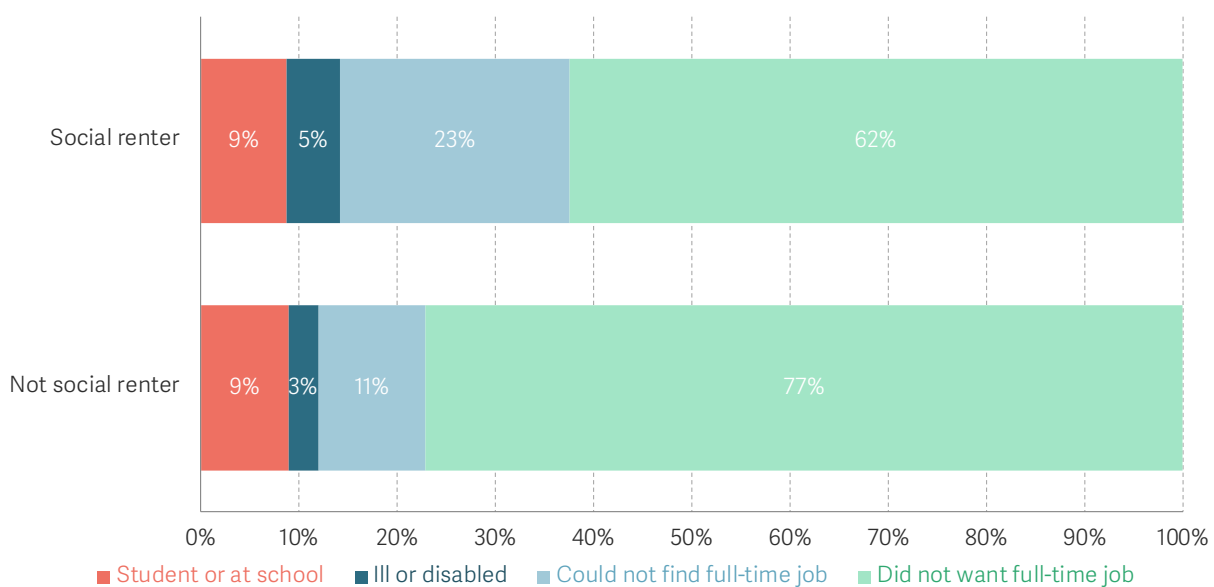
Figure 19 also gives a sense of how the distribution of working hours differ between tenures. For example, the bottom quarter of SRs work 24 hours a week or fewer, compared to up to 32 hours a week for non-SRs. At the other end of the scale the differences are not as large: SRs in the upper quartile work 40 hours-plus a week, compared to 44 hours or more for those in other tenures.

²² According to ONS, Annual Population Survey, 2.4 per cent of SRs and 2.1 per cent of non-SRs have a second job.

Once again, the composition of working SRs is likely to, at least in part, explain this picture: combining work with parenting is a natural reason to work shorter hours, for example, as is managing a long-term health condition.²³ But the evidence also suggests there are structural reasons for SRs' lower hours of work. As Figure 20 makes clear, almost one-quarter of SRs say they work part time because they cannot find a full-time job, compared to just over one-in-ten non-SRs.

FIGURE 20: Social renters are more than twice as likely to work part time because they cannot find a full-time job

Reason for working part time, by housing tenure: UK, 2017-18



NOTES: Working-age (19 to 64) part-time workers only. 'Did not want full-time job' may be because of childcare or other caring responsibilities as well as simply preference.

SOURCE: RF analysis of ONS, Annual Population Survey

Decisions over how many hours to work can be complex, as households seek to balance the money they would get for an extra hour worked with constraints including childcare, health, and the availability of extra hours. Our focus groups with Clarion residents provided us with one final insight in this respect. When questioned as to whether they would cut down the hours they worked if another member of their family brought in more money, the majority of participants said that they would maintain their hours to maximise household income. Indeed, given low rates of pay, working long hours was often a way that social-renter households managed to achieve financial stability.

²³ In the Clarion residents' survey, the most popular reasons advanced for not working more hours despite wanting or needing them were caring for children or others, followed by the challenge of finding full-time work, and then health conditions.

I work all day, every day. I work weekends, I work nights. ... It's only because I'm working so many hours [that I'm financially stable], which I'd rather not do.

Woman, self-employed, Norfolk

Overall, it is clear that characteristics (both personal and job-related) go a long way to explaining the far higher in-work poverty risk of SRs. The many single parents living in social rent do not have the option of harnessing the earnings power of a partner; a higher ratio of children to adults in the tenure means that potential second earners may have more responsibilities that impinge on their availability to work; the lower qualification levels of SRs, combined with out-of-the-way locations and poor transport links, mean better paid jobs are often out of reach; and the types of jobs available are often those that do not provide either enough or steady hours.

But low numbers of earners, low pay and low hours can all leave social renter households without sufficient earnings to enable them to escape poverty. So what can the state do beyond supporting them with their housing costs? In our next section we turn to look at the role played by the benefits system in protecting working households from all tenures from poverty.

Section 4

In-work poverty and the benefits system

In the previous two sections we have shown that in-work poverty is both a difficult condition to escape from on a sustained basis, and one to which social renters are especially exposed. In this section, we explore the role that benefits play in supporting household incomes, and consider the extent to which they protect working families in all tenures against poverty. We show that cuts made to benefits over the last decade have left many in-work families needing to work significantly more hours than they would have in the absence of austerity in order to escape poverty. Moreover, those with childcare costs and fluctuating incomes often found engaging with the system challenging, while lack of knowledge and stigma leaves others not claiming their full entitlement.

Social renters have the potential to escape the benefits system more quickly than private renters

In one respect, social renters (SRs) start from a position of advantage over non-SRs: they receive direct support with housing costs in the form of lower rents, while comparable private renters (PRs) are more reliant on housing benefit (HB). While the savings from this largely accrue to the state in the form of a lower HB bill, many focus group participants acknowledged that a below-market rent helped them stay afloat, especially in areas where prices were high.

I'm alright, but only because comparatively my rent's cheap. ... If I had to pay a full market rent, I'd be absolutely scuppered.

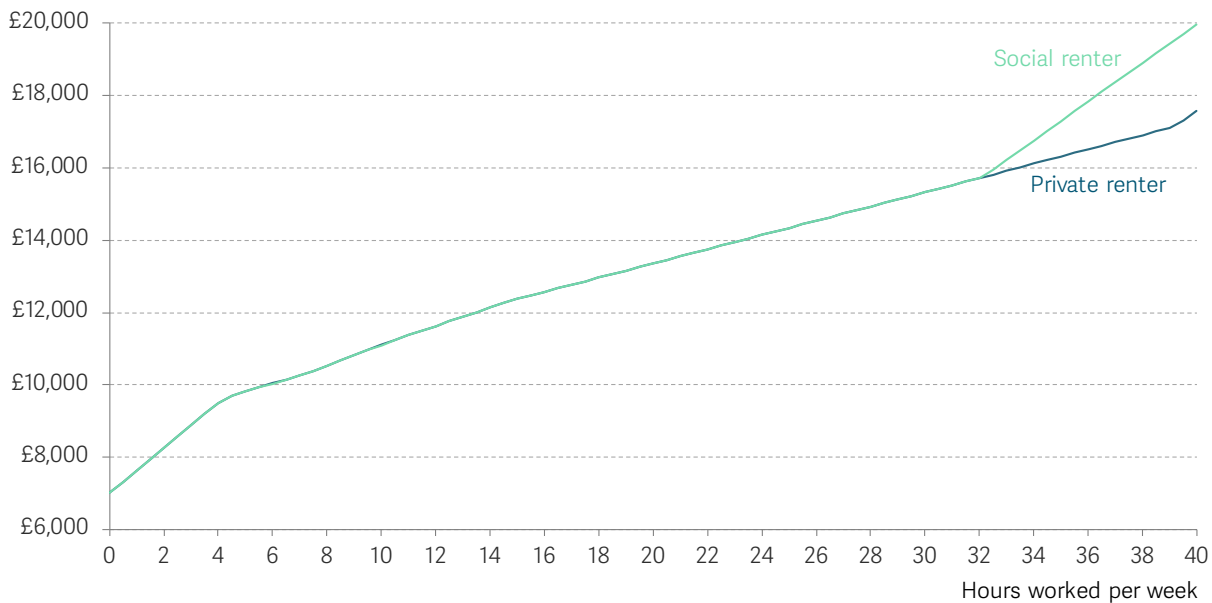
Woman in full-time work, London

Alongside the boost it gives their living standards, housing subsidy in the form of bricks means that SRs require less support from the benefit system as their earnings increase. This has an important and positive implication for the group: because benefits are withdrawn as earnings rise, those in receipt of state support do not experience the same

increase in income from working an extra hour than those who are not on benefits. But with their lower rents, SRs will float off benefits sooner than equivalent PRs, thereby more quickly escaping the 'poverty trap', as Figure 21 illustrates.

FIGURE 21: Floating off benefits sooner than private renters gives social renters' incomes an earlier boost

Annual household income after housing costs for an example single parent with one child earning £15 per hour, by hours and tenure: UK, 2017-18



NOTES: This analysis assumes that Universal Credit is fully rolled out. Rent is based on average rents for a two-bedroom property in the social and private rented sectors, respectively.
SOURCE: RF analysis using the RF microsimulation model

All things being equal, then, SRs are less reliant on benefits than PRs to protect them from in-work poverty. But of course, all things are not equal: given their lower earnings levels, higher number of children and greater propensity to have a health condition, working SR households are almost twice as likely to be in receipt of benefits as working non-SR households.²⁴ As a result, SRs look to the benefit system for more support than non-SRs do, implying that any change in the adequacy of support will affect their households more acutely than those living in other tenures.

Reductions in welfare generosity have increased the level of earnings required to escape poverty

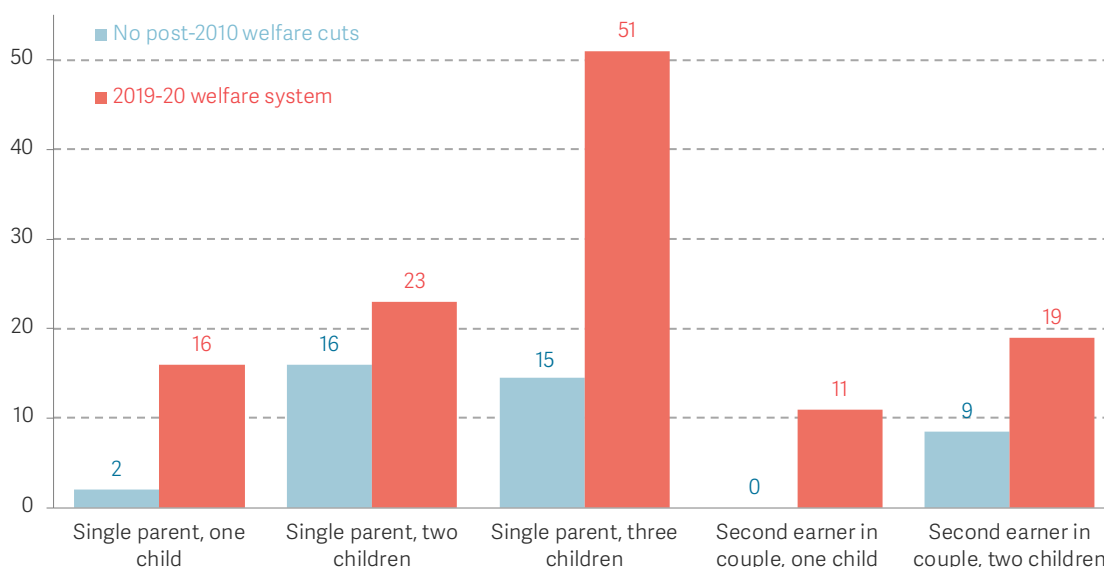
This is material, because levels of in-work support have changed dramatically over the

²⁴ RF analysis of DWP, Family Resources Survey, 2017-18, gives figures of 70 per cent and 37 per cent, respectively.

past decade as a result of austerity.²⁵ Benefit cuts mean that today, households on the wage floor need to work more hours to lift themselves out of poverty than they would have needed to if levels of in-work support had not been reduced. Figure 22 proves this point. If benefits were as adequate today as they were in 2010, a single parent with two children would need to work 16 hours per week on the National Living Wage (NLW) to exit poverty; with current levels of in-work support, the hours requirement rises to 23. Likewise, a second earner in a couple (with the first earner working full-time on the NLW) would have to work 19 hours today in a NLW job in order to no longer be living in poverty, compared to the 9 hours they would need to have worked in the absence of benefit cuts.

FIGURE 22: A decade of benefit cuts leaves households having to work more hours to exit in-work poverty

Number of weekly hours of work required by earners on NLW to exit relative poverty before housing costs, by family type and benefit regime: UK, 2017-18



NOTES: To fairly compare the 2010 welfare system to today's, we assume that families receive tax credits rather than Universal Credit in both scenarios. Modelling is carried out for 2017-18 because this is the latest year for which poverty lines are available, however we model the policy system as in 2019-20 in the second scenario, i.e. accounting for the effects of the final two years of the benefits freeze. In the second scenario we assume that reforms that are progressively being rolled out (the removal of the family element and application of the two-child limit) are fully in place. Families are assumed to pay typical rents for a two-bedroom social rented property (three bedrooms in the case of the families with three children). The National Living Wage is its 2017-18 level - £7.50 – in both scenarios, to isolate the impact of benefit cuts. First earners in couples are assumed to work full time on the National Living Wage. The first and third child are assumed to be aged under 14, the second child is over 14.

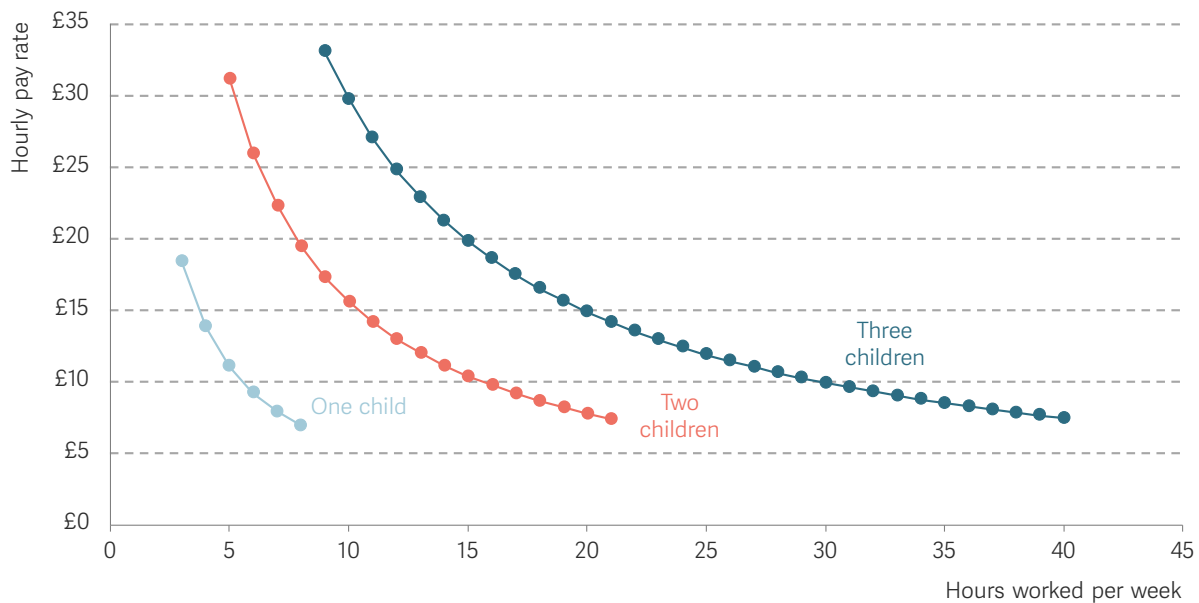
SOURCE: RF analysis using the RF microsimulation model

²⁵ See, for example: A Corlett, *Living Standards Outlook 2019*, Resolution Foundation, February 2019, which shows that the benefit freeze since 2015 alone is expected to cut the real value of many working-age benefits by 6 per cent by the end of the 2019-20 fiscal year, leaving lower-income households £4.4 billion worse off than they would otherwise have been.

Cuts to in-work support mean, then, that the hours and pay combinations that are required to exit poverty have become increasingly stretching, especially for larger families. In Figure 23, we plot the hours and earnings levels that single parents with different numbers of children would need to work in order to exit poverty, given the level of benefits the household can now access (within the Universal Credit system, as opposed to the tax credits system modelled in Figure 22). As this makes plain, our hypothetical single parent with one child must work 7 hours or more a week to be free of poverty if in a minimum wage job (paying £7.50 per hour in 2017-18) compared to the full-time 40 hours for a single parent with three children. Looked at a different way, this single parent with three children would need a job paying nearly £19 per hour if they were to work the 16 hours that is generally regarded as reasonable for those with parenting commitments, while their equivalent with two children would need an hourly rate of £9 per hour-plus.

FIGURE 23: Single parents with more than two children need to find well-paid jobs to escape in-work poverty, or work considerable numbers of hours

Combinations of hourly pay and hours worked by single parent household needed to cross before-housing-costs poverty threshold, by number of children: UK, 2017-18



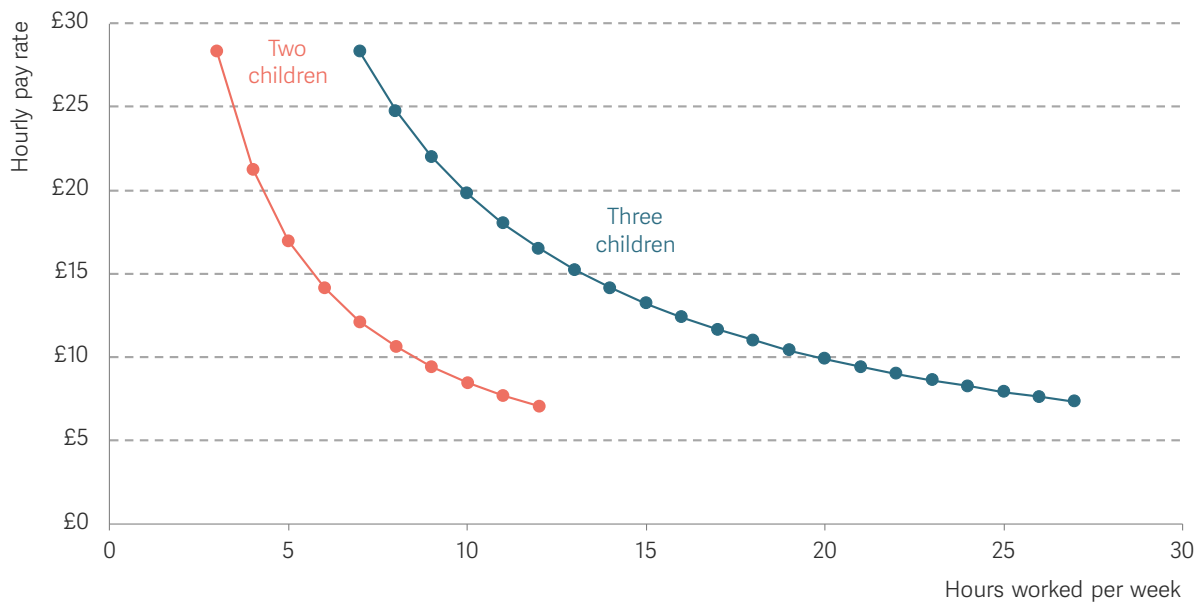
NOTES: This analysis assumes that Universal Credit is fully rolled out. Modelling is carried out for 2017-18 because this is the latest year for which poverty lines are available, however we model the policy system as in 2019-20, i.e. accounting for the effects of the final two years of the benefits freeze, and the increase in Universal Credit work allowances announced in the 2018 Autumn Budget. We assume that reforms that are progressively being rolled out (the removal of the family element and application of the two-child limit) are fully in place. Families are assumed to pay typical rents for a two-bedroom social rented property (three bedrooms in the case of the families with three children). The first and third child are assumed to be aged under 14, the second child is over 14.

SOURCE: RF analysis using the RF microsimulation model

In Figure 24 we repeat the exercise, this time for couple households. Here, we assume that the first earner works full-time at the minimum wage and plot the hours and earnings levels the second earner must achieve to increase the family’s income to a level sufficient to exit poverty. While the strain placed on second earners is far less than that on single parents (although it is worth noting the second earner in a family with three children would still need to work 28 hours per week in a minimum wage job for the household to clear the poverty line), only those households with one or no child do not require a second earner at all in order to escape in-work poverty.

FIGURE 24: For many households with a low-paid first earner, a second earner is essential if they are to exit poverty

Combinations of hourly pay and hours worked by second earner in couple household needed to cross poverty threshold, by number of children: UK, 2017-18



NOTES: This analysis assumes that Universal Credit is fully rolled out. Modelling is carried out for 2017-18 because this is the latest year for which poverty lines are available, however we model the policy system as in 2019-20, i.e. accounting for the effects of the final two years of the benefits freeze, and the increase in Universal Credit work allowances announced in the 2018 Autumn Budget. We assume that reforms that are progressively being rolled out (the removal of the family element and application of the two-child limit) are fully in place. Families are assumed to pay typical rents for a two-bedroom social rented property (three bedrooms in the case of the families with three children). The first earner in the couple is assumed to work full time on the National Living Wage (£7.50 in 2017-18). The first and third child are assumed to be aged under 14, the second child is over 14.

SOURCE: RF analysis using the RF microsimulation model

Social renters highlighted practical challenges presented by the benefits system to working more or boosting incomes

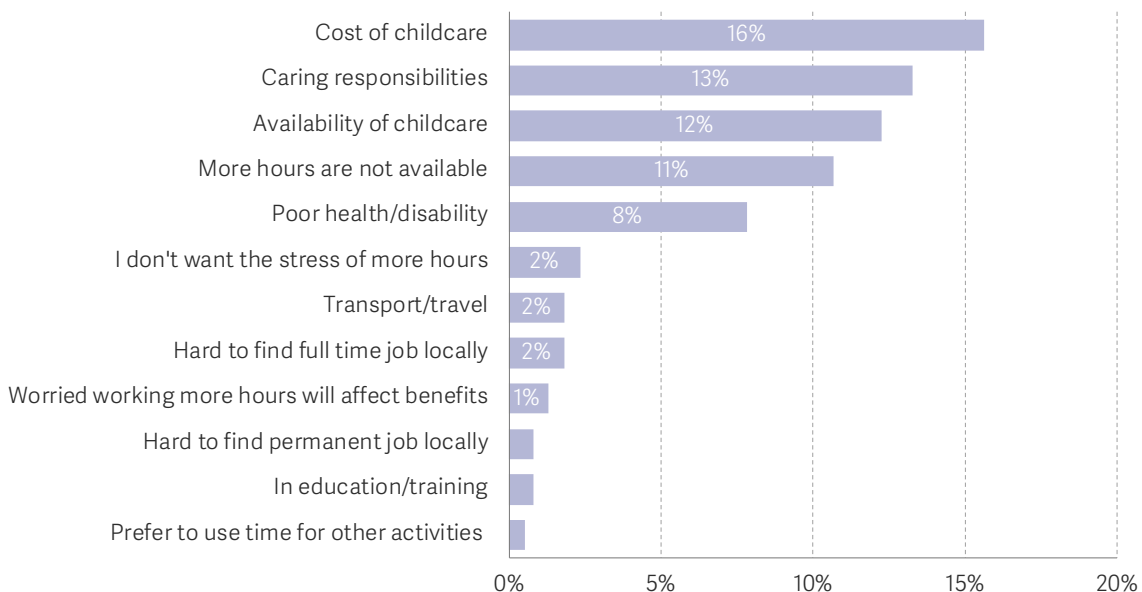
This exercise graphically illustrates how the current level of benefit entitlement is not sufficient to protect many working households from poverty given their low rates of pay, and the natural tendency of many to restrict their hours of work given parenting (or

indeed other caring) responsibilities. One way the benefits system has sought to provide additional help to low-earning working families in recent years, however, is through more generous support towards childcare costs. Families in receipt of Universal Credit (UC) can claim 85 per cent of their upfront childcare costs back. In practice, however, the need to recoup childcare costs in arrears, alongside problems arising from termly payments being out of sync with UC's monthly assessment cycle, often create problems for low-earning families.²⁶

This is dispiriting, not least because the Clarion residents' survey suggested that childcare costs were the most significant barrier experienced by those in poorer households wanting to work additional hours, as Figure 25 shows. One issue that respondents did not seem overly concerned about, however, was how working more hours would affect their benefits.

FIGURE 25: Childcare costs were the single biggest barrier to working more hours encountered by Clarion residents

Barriers identified by Clarion residents to working more hours, in-work respondents with high poverty risk only: 2019



NOTES: n=808.

SOURCE: RF analysis of Clarion Customer Survey, 2019

Focus group participants confirmed this view: work was valued as much for its intrinsic purpose and social element as it was for the additional income it brought in. While those with fluctuating incomes did find the benefits system cumbersome and time-consuming, this was seen more as an irritation than a reason not to take on additional hours.

²⁶ There is a discretionary Flexible Support Fund that does provide one month of childcare support upfront. But for more information on problems this and other aspects of the UC childcare offer, see L Gardiner and D Finch, [The long and winding road](#), Resolution Foundation January 2020

If I work more than [my usual weekly hours], then I've got to phone up everywhere – the benefits people, the council tax people and everything – and it's a big long palaver to get it sorted out.

Woman, self-employed, part time, Norwich

One final but pertinent issue raised in the focus groups was the question of take-up. On the one hand, many working families clearly had a low knowledge of support to which they might be entitled, or how to access help with bills such as council tax. On the other, some were put off claiming benefits because of perceived stigma. Taken together, this suggests that many in-work households may not be claiming their full entitlement: according to the last available data, the central estimate of Working Tax Credit (WTC) take-up was 63 per cent.²⁷ While there is a widespread expectation that by combining housing support with other in and out of work benefits, UC will increase take-up across the board, there is a risk that UC's current negative image in public debates may act as a further disincentive to claiming in-work support.

I could technically go on sick [benefits] because of my health conditions, but I wouldn't really want to because I've seen people that are on that, how degrading they get treated. ... It's awful and I'd hate to go through that.

Woman in part-time work, London

To conclude, working households' interactions with benefits are often fraught, with elements of the system such as childcare support not mindful of the realities of many people's lives. But even when households do take up their full entitlement, the support that they receive from the state is sometimes insufficient to protect them against poverty, and has become less sufficient in recent years. In the final section, we consider what the findings from this and our previous two sections mean for policy makers.

²⁷ HMRC, *Child benefit, child tax credit and working tax credit: take-up rates 2015-16*, December 2017

Section 5

Conclusions and policy recommendations

We end this report with the firm conclusion that work may be a necessary, but is often not a sufficient, condition to enable some types of households to move out of poverty. While the downward effect on poverty of entering employment is significant – and it would certainly be wrong to claim that entering work does not pay – in-work poverty is not only a more widespread condition today than it has been in the past, but also one that can be very difficult to escape from for the long term.

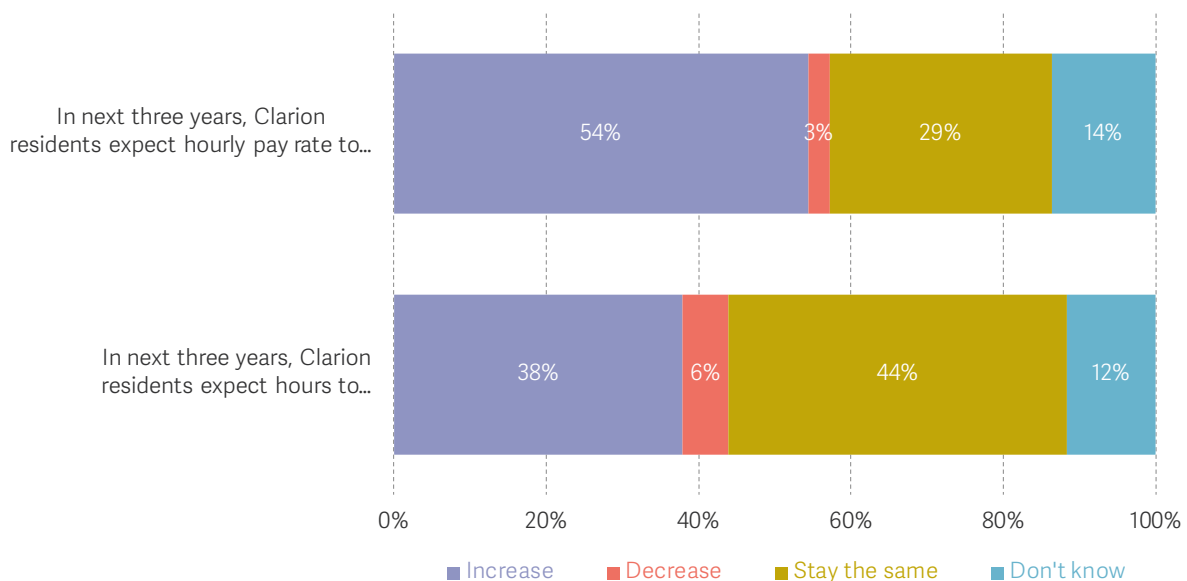
Our focus on social renters (SRs) has also been illuminating. Although working SRs have far higher rates of poverty than non-SRs, it is their personal characteristics and not their tenure which are most determinative. Critically, SRs are more likely to live in single-earner households; more likely to be in the lowest-paid jobs; and more likely to work shorter hours, often not by choice. These three characteristics continue to produce earnings that are often not sufficient to enable households to move above the poverty line, even with the backstop of lower housing costs.

Finally, we note that in the same period that many households have moved into employment, benefits cuts have taken a toll. In-work support has been reduced to such an extent that for large families with earners at the minimum wage, the number of hours they would need to work to escape from poverty are often unreasonable. Combine this with the practical problems often are encountered when claiming in-work support – how the system deals with volatile incomes, for example, or reimburses childcare costs – and the benefit system looks to be doing an increasingly poor job at its essential poverty-reduction role.

This is not to say that those living in in-work poverty are pessimistic about the future. As Figure 26 shows, more than half of Clarion residents were buoyant about their pay prospects and anticipated receiving a pay rise over the next two years. Likewise, just over one-third anticipated that their hours would rise in the foreseeable future, although close to a majority expect their hours to stay the same over the period.

FIGURE 26: Clarion residents have mixed expectations for the future

Clarion residents' expectations for pay and hours in next two years, in-work respondents with high poverty risk only: 2019



NOTES: n=808. Questions asked of working residents only.
SOURCE: RF analysis of Clarion Customer Survey, 2019

With public opinion strongly of the view that work and poverty should not go hand-in-hand, policy makers have every incentive to address in-work poverty.²⁸ So where does our research suggest their attention should be directed? We identify three areas that in our view deserve a renewed policy focus:

We commend the government's plans to increase the National Living Wage to two-thirds of median earnings by 2024 (and extend the rate downwards over time to those aged 21 and over), but far more emphasis needs to be placed on pay progression. For example:

- Few on low earnings can afford to give up work and re-train, suggesting that on-the-job training is key. The government should develop sector deals with low-paying industries like care, retail and hospitality, which support firms to design clearer progression paths for workers;
- Consideration should also be given to extending UC childcare support to parents attending training programmes run by a recognised training provider.
- Housing providers and others should be funded to extend their into-work programmes to focus both on helping second earners connect with the labour market and on helping all to progress;

²⁸ See, for example, Social Mobility and Child Poverty Commission, *Public attitudes towards social mobility and in-work poverty*, June 2013

- Government should act to enable households to work an adequate but reasonable number of hours. For example:
- Contingent work (such as zero-hours contract and agency work) too often fails to provide the secure hours needed to exit poverty. Government should continue to advance its 'good work' agenda, and the Department for Business, Energy and Industrial Strategy should move forward with consideration of the Low Pay Commission's recommendations that all workers have a right to predictable hours, minimum notice periods for shifts and fines for late cancellation. Likewise, firms must be encouraged not to rely overly on restrictive short-hours contracts;
- The Department for Work and Pensions (DWP) should work to improve the flexibility of childcare support within UC, ideally with costs covered up-front as standard (as in the Tax-Free Childcare system), rather than funds being repaid in arrears;
- Proximity to well-paid jobs matters, especially for those in the least mobile of tenures – social rent. Improving transport links for those already living in social homes is key, alongside action to ensure transport is affordable. Moreover, government should ensure that grant levels and land provision are sufficient to enable social housing providers to build new homes close to job and transport hubs.

Reforms should be introduced to ensure that the benefits system successfully protects working households from poverty. For example:

- The generosity of UC should be improved, and work incentives strengthened especially for single parents and second earners. The work allowance for single parents should be increased to the equivalent of at least 15 hours on the wage floor, a second-earner work allowance for couples with children should be introduced, initially equivalent to seven hours on the wage floor;
- DWP should explore ways of cushioning income volatility within UC's structure, such as granting individuals already in work the flexibility to move their UC assessment period in order that it better reflects the dates on which they are paid;
- More should be done to raise awareness about in-work support available through the benefits system. Piloting of in-work conditionality should prioritise progression and the need to consider moving occupations and/or sectors, and the evaluation of approaches should include an assessment of whether they place downward pressure on take-up rates for in-work benefits.

In-work poverty is a complex phenomenon, and tackling it will demand change from government, firms and bodies like housing providers. But without concerted action on all parts, the lives of large numbers of working families will continue to be blighted by poverty.

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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