abrdn Financial Fairness Trust

CAUGHT IN THE MIDDLE?

Insecurity and financial strain in the middle of the income distribution

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Introduction

The 21st century is seeing growth in median household income grinding to a halt. In the last two decades of the 20th century, median income grew on average by 2.5% a year in real terms, in the 2000s by 1.5%, in the 2010s by 1% and the latest OBR projection suggests zero growth well into the present decade[1].

People near the middle of the income distribution face a range of pressures on their finances, contributing to a widespread sense of economic malaise that goes well beyond the privations felt by the worst off. Job insecurity among the middle third was highlighted nearly thirty years ago by Will Hutton (1995), and appears to have got worse since then (see Chapter 2). At the same time, working-age people are finding it hard to build up their own forms of security, whether by saving enough for a pension, building housing assets or putting aside money for a range of contingencies. Importantly, among people approaching mid-life, a majority have not been able to become homeowners. (In the middle income quintile, 55% of 25-34s owned their homes in 1989, falling to 28% in 2019/20 (Corlett and Odamtten, 2021)). And the help that middle income families can get from the state is limited, with little or no help from Universal Credit, and even previously universal support such as Child Benefit being withdrawn from some families in the middle of the income distribution.

In the present cost of living crisis, the vulnerabilities of people on modest but not very low incomes have become more apparent. Around one in five people close to the middle of the income distribution say that they struggle to afford food and other essentials, following sharp increases in the proportion reporting severe financial difficulties (Hirsch, 2023). Perhaps just as importantly, there is growing evidence that people are running down savings or running up debt in order to cover day to day expenses. A recent report by the Money and Pensions Service (2023) found that one in five people were using 'buy now, pay later' credit to pay for everyday essentials.

A key characteristic of people on middle incomes in any one year is that they have a significant risk of being on a low income in the future, due to unstable job markets and other uncertainties. For example, nearly one in three (32%) of people in the middle quintile (fifth) of the population by household income in 2019/20 were in a lower income bracket in 2020/21, including 10% who were in the bottom quintile[2]. With such volatility, people doing reasonably well on middle incomes need enough income flexibility to be able to save for a rainy day.

Much analysis of living standards has focused on the worst off, in particular with reference to the numbers living below 60% median income at a given point in time. Individual studies of how many people are affected by issues such as inadequate living standards, housing and job security do not tend to look specifically at the correlation between these outcomes and income levels. Some online surveys carried out by think tanks include rough estimates of respondents' incomes based on a limited number of survey questions (e.g. Brewer et al., 2023, p.23; Hirsch, 2023, technical appendix). These do not provide income measures that are as reliable as detailed, large scale household surveys such as the Family Resources Survey and Understanding Society do.

This research uses Understanding Society, the UK's main longitudinal household survey, to consider the multiple pressures faced by people in different income bands, and particularly those in the middle of the distribution, that affect their ability to maintain a decent standard of living.

Better understanding of the risks can help inform policy at a time when the issue of how narrowly to focus scarce public resources on the worst off is particularly relevant. The extent of targeting of such help is currently in flux. On the one hand, in 2023/24, cost of living support has been restricted to people on means-tested benefits, narrowing targeting from the previous year. On the other hand, the 2023 Budget announced greatly expanded free childcare to almost all working families, excluding only the best-off 4% with someone earning more than £100,000 a year. As we rethink what forms of support the state should be giving to households, we need to consider carefully which groups do need help and in what aspects of their lives.

[1] Specifically the March 2023 OBR forecast says overall real disposable household income will be at a similar level in 2027/8 as in 2019/20.
[2] DWP, Income dynamics movements between quintiles, table 6.2 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1144382/6_movement_between_quintiles.ods.

Such research could look at a very wide range of outcomes, but this analysis focuses on three key questions, considered in each of the following chapters:

- To what extent are people living in households in the middle of the income distribution able to access secure employment, or are living with partners who have secure work?
- What kind of housing outcomes are achieved by middle income households, in terms of its affordability, security and adequacy?
- How much are middle income households affected by a range of costs that reduce their disposable income: housing costs, payment of student loans, the need to save for a rainy day, pension contributions and childcare costs?

In looking at each of these factors, in addition to income level, two other crucial variables are considered. The first is household type, which plays a particularly important role because of the "protective" effect of living in a couple rather than as a single adult, in terms of not relying only on one person's earnings and prospects[3]. The second is age, since the experiences of younger and older adults vary greatly, particularly in relation to more severe insecurities faced by younger adults in jobs and housing. A brief description of Understanding Society data and some baseline definitions are summarised in Box 1. Details on the definitions of job security, housing outcomes and various costs measures and how they are analysed are given in the relevant chapters.

Box 1: Data, sample selection and baseline definitions

Understanding Society: The UK Household Longitudinal Study

The results are based on analysis of representative household survey data from the UK Household Longitudinal Study, known also as Understanding Society. This is a nationally representative household panel survey of approximately 26,000 households plus an Immigration and Ethnic Minority Boost sample of around 6,500 households. At the time this research was conducted there were 12 waves of data available for analysis covering the period from 2009 up to and including 2022. Understanding Society contains detailed information on a range of issues useful for economic and other circumstances of the population including incomes, earnings and detailed labour market of all adult sample members (over age 16 years old), along with data regarding the housing tenure, the household composition as well as other relevant household level information. All results in this report are produced using cross-sectional weights.

Sample

The sample included in this study includes men aged 16-65 and women aged 16-60 (excluding respondents in full-time education and those retired). For some parts of the analysis the sample is restricted to sample members who live in one-benefit unit households i.e. households that include only one family/benefit unit (see below).

Household and benefit units

In Understanding Society a household is defined as: "One person living alone or a group of people who either share living accommodation OR share one meal a day and who have the address as their only or main residence." Under this definition a household may consist of one or more family/benefit units where benefit units are defined as a single or couple with or without dependent children.

For the purpose of the analysis, benefit/family units are classified into five categories: single men/women; lone parents; couples with no dependent children and couples with dependent children.

Most of the analysis is restricted to the sample of individuals living in single-benefit unit households (representing around 83% of the total sample), unless specified otherwise).

[3] Most of the analysis here is based around households with single "benefit units" – a single adult or couple plus any dependent children, as explained below. This creates a simplified picture not taking account of the contribution to a household's living standard made by other adults in "multi-unit" households, other than where supplementary analysis of such households is specified.

Labour market security and household income

The erosion of employment security in recent decades has caused commentators from Will Hutton (1995) to Graeme Cooke (2023) to underline the importance of the stability of income and not just its level to the economic well-being of a large section of the population. Hutton proposed a simplified division of the population into three roughly equal sections, labelled as disadvantaged, insecure and privileged. In practice, though, labour market insecurity does not map neatly onto income: some relatively well-off people have insecure incomes and vice versa. This section investigates the extent of job security among people in different parts of the income distribution, finding a wide variety of experiences, varying in particular by age and household composition.

In order to get an overall profile of the population in these terms, the analysis uses a simplified definition of insecure employment. This classifies work as "insecure" if someone is either self-employed or has been working for their present employer for less than two years, or less than three years if working part time[4]. It also classifies as insecure very low-paid full-time jobs: where pay is less than half the full-time average.

This definition, adapted from criteria used by Hutton (1995) and by Gregg and Gardiner (2015) for the Resolution Foundation, is useful for the purpose of comparing the chances of different demographic and income groups of being in riskier forms of employment. Unlike more focused analysis recently carried out by the Living Wage Foundation (2023), it does not address the detail of the actual level of work security (such as guarantees of stable hours) faced by those in precarious employment.

While this wide definition classifies workers as "insecure" if they have only been in their jobs for a short time, not all such workers will face uncertainty about keeping their jobs. Indeed, some who change jobs frequently may be using this as a strategy to improve their pay and status, especially early in their career. However, two important points need to be made about short job tenure. First, whereas job mobility may be advantageous and voluntary for well-paid professionals, it is more likely to be a sign of involuntary instability for people in more modest jobs, with less agency over their employment options. Therefore, insecurity defined in this way is of specific concern to people on medium to low incomes, the focus of this study, unlike many with above-average income. Second, while the proportion of the working age population here defined as "insecure" is high (at 36.6% in 2020/21), it would be not very much lower (31.4%) if short tenure were measured in terms of current employment status (how long they have been classified as in full-time or part-time work), rather than how long they have worked for their current employer. In other words, most of the insecurity we measure is not about people established in the labour market who happen to change employers frequently. Further details of how job insecurity status is measured are given in Appendix 1.

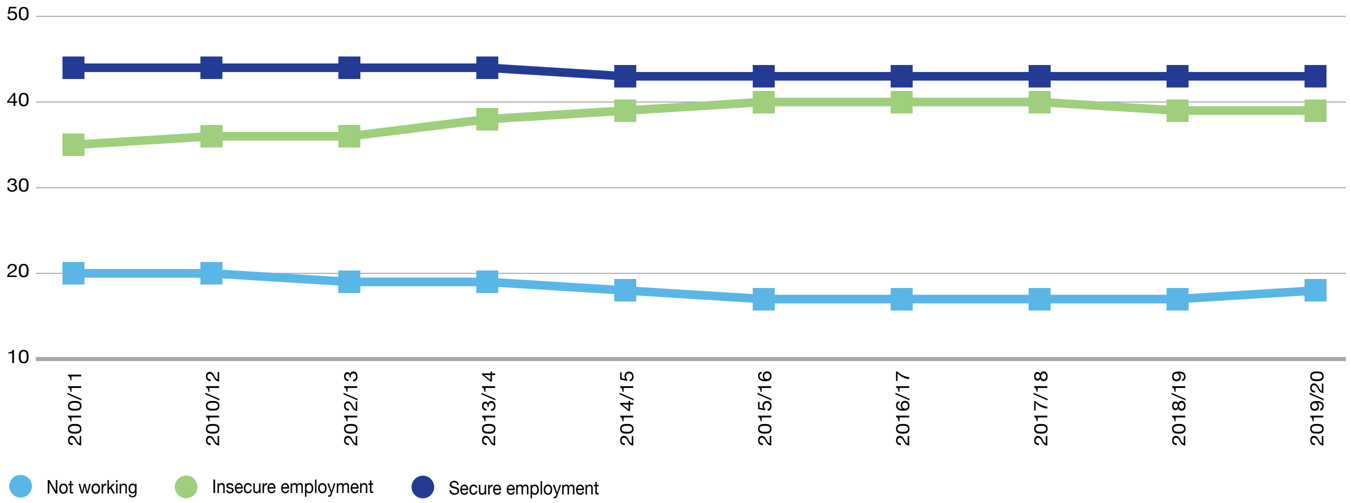
[4] See Appendix 3 for rationale for length of job tenure criteria. We also tested other definitions, varying the length of tenure thresholds and the stringency of the definition of job continuity, and found that the definition selected had only minor effects on the patterns reported here. For example, under all definitions, there was a modest increase in insecure employment between 2010 and 2020, ranging from just under 3 to just under 5 percentage points, with a 4-percentage point change in the definition used. Slightly higher change occurred in definitions that took a less stringent definition of job security (based on continuity in overall job status, regardless of employer) and slightly less change with more stringent definitions (where insecurity was based on any change in job roles or conditions, even with the same employer); the definition chosen was in between these, based on the time spent with the current employer, regardless of roles.

The following sections summarise the most significant results.

1. More people are in work, but fewer are in secure work

Figure 1 shows working-age adults became more likely to be in work, but less likely to be in secure work during the 2010s. These changes were not rapid, but gradual, and reflect a longer-term trend towards higher work participation but lower security; worklessness (combining unemployment and economic inactivity) fell from 20% to 18% over this period. At the same time, secure employment also fell, by 1.5 percentage points, while insecure employment rose by four percentage points. By our broad definition, there are now nearly as many people working in insecure as in secure types of employment. Even with an alternative definition looking at how long people have been in work rather than with the present employer, nearly two-thirds as many are insecure as secure. This shows that stable employment is no longer the prevailing norm dominating work in the UK.

Figure 1: Individual labour market status, 2010-2020



Source: Analysis of Understanding Society data, Waves 2-11. Note that Wave 12 (2020/2021) is excluded from our analysis of trends over time, because it shows an artificial decline in "insecure" work in the pandemic, most likely as a result of lower job turnover influenced by the furlough scheme.

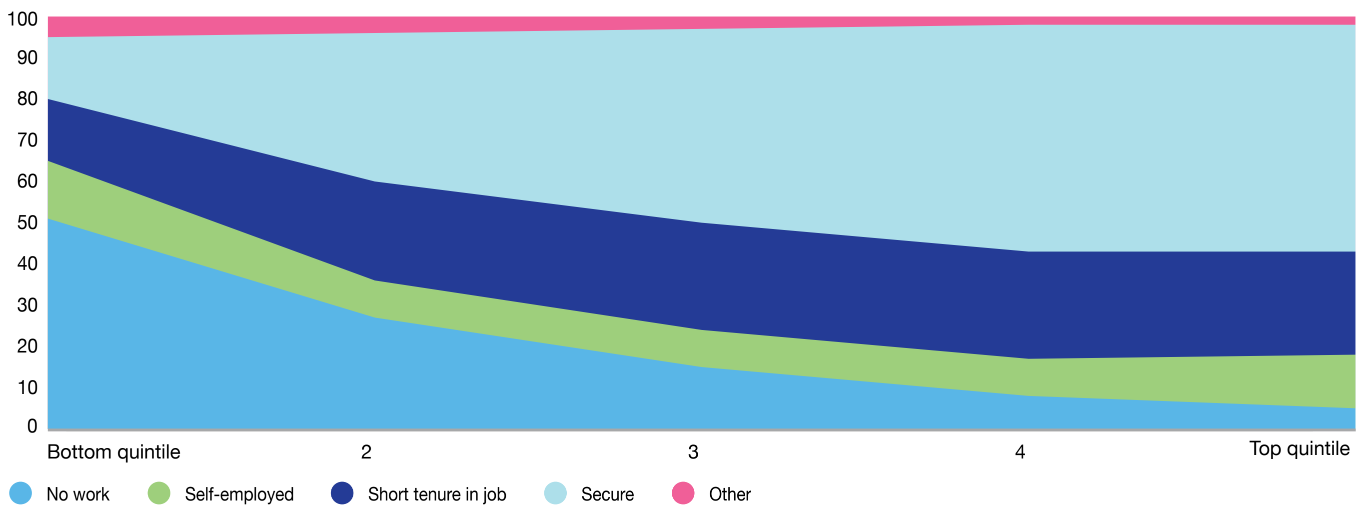
2. Job insecurity is not limited to any one part of the income distribution

A wide variety of people are in insecure work, ranging from those in low-paid jobs without guaranteed hours to highly-paid self-employed consultants. This section looks at the extent to which insecurity and different types of insecurity affect people with different levels of household income.

Figure 2 looks at the labour market status of individuals according to their household's equivalised income, divided into quintiles for the whole population. It shows that the principal difference by income is that, unsurprisingly, people with low household income are more likely to be out of work, and those with high household income are more likely to be in secure jobs.

On the other hand, "insecure" work in various forms is comparatively more evenly spread across the income distribution, in terms of the proportion of the population (although higher as a percentage of the workforce for less well-off groups). The two main forms of unstable work – short tenure and self-employment – in combination account for between 34% and 38% of the population in each of the top four quintiles. (In the bottom quintile it is lower, because more are out of work).

Figure 2: Types of insecurity, by household income quintile, 2020/21



Source: Understanding Society, Wave 12 "Other" category comprises workers in secure employment with very low earnings, those in temporary jobs, on furlough and missing data.

More specifically, short tenure work is particularly evenly spread, with between 24% and 26% in all of the top four quintiles. As noted earlier, short tenure is more likely to be a sign of insecurity for people in the middle and bottom of the income distribution than those with more control of their careers in the higher quintiles.

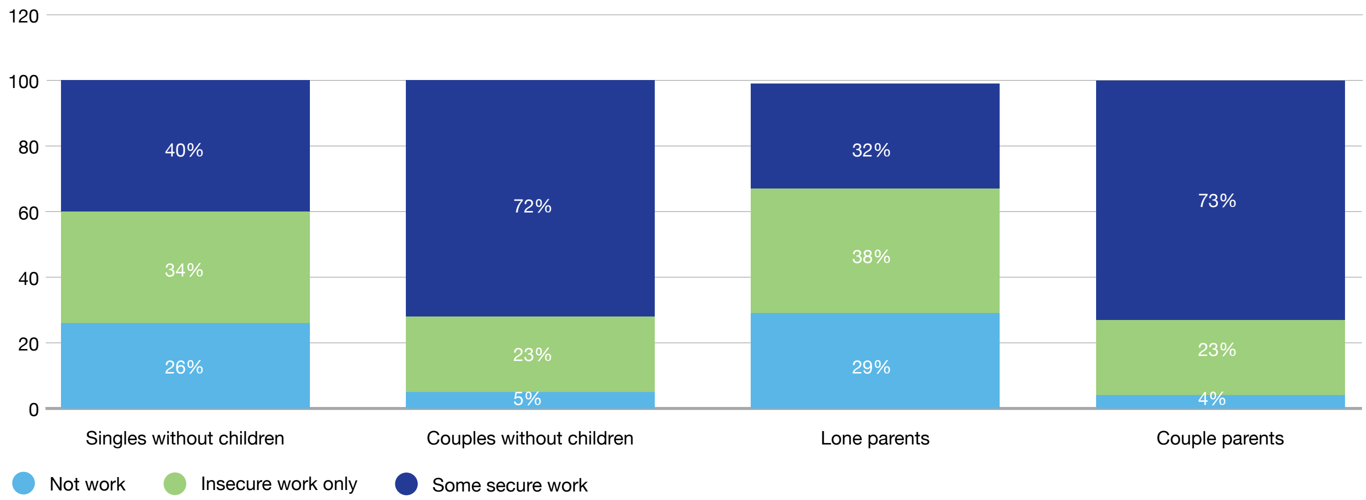
Self-employment, on the other hand, is significantly more common at each end of the income distribution than in the middle. Self-employed people comprise 9% of the population of each of the middle three income quintiles, but 14% of the bottom and 13% of the top quintile. This suggests that among those taking on the risk of self-employment, disproportionate numbers are either highly disadvantaged workers who do so from want of alternative or highly advantaged individuals who may be able to take on risk because they have other resources or options to fall back on – including in some cases savings that they are able to build up when self-employed in highly marketable roles.

3. Couples are much more likely to have some secure employment than singles

Observing individual labour market status does not tell us the extent to which people with insecure jobs are living with others whose employment may provide additional security or, conversely, who may not be working. It is therefore valuable to look at labour market status of each family unit – defined as a single person or a couple along with any dependent children, which statisticians describe as a “benefit unit” (see Box 1).

Figure 3 shows wide variations in the distribution of labour market status for different benefit unit types. Most strikingly, the proportion with some secure work is much higher for couples: over 70%, both with and without children, compared to under 40% for singles and under a third for lone parents. Both for those without work and those with only insecure work, a second adult can provide the secure employment that brings extra stability to people’s incomes. For lone parents, it is striking that only a third have secure work. Their difficulty in finding secure and stable work is linked to a range of systemic barriers, notably access to appropriate and affordable childcare and limited opportunities to work flexibly (Dewar and Clary, 2023).

Figure 3: Work status by benefit unit type, 2020/21



Source: Understanding Society Wave 12. NB Appendix 1 explains employment status classifications. Categories based on employment status of adults in benefit unit. The sample is restricted to single benefit unit households (i.e. excludes working age adults in multi-benefit unit households).

The patterns shown in Figure 3 are changing over time, and Figures A1 and A2 in Appendix 3 look more closely at combined labour market status and how it has changed over the past decade. The following breakdowns and changes stand out:

- For **singles without children**, the number in insecure work has risen to over a third (from 29% to 34%), with falls in both worklessness and secure work.
- For **couples without children**, only one in twenty lack any work at all, but the cases where both partners are in secure work has fallen, from 32% to 29%. The most common scenario is where one partner is in insecure work and the other in secure work, demonstrating how the consequences of individual insecurity can be mitigated by a partner with a secure job.
- For **lone parents**, there has been a particularly sharp fall in worklessness, by 15 percentage points. Most of this has been replaced by insecure work (up ten percentage points to 38%), although there has also been a small (4 percentage point) increase in secure work.
- For **couples with children**, a reduction in the numbers not working, including those whose partners have jobs, has been accompanied by a sharp growth in the numbers combining secure and insecure work, but no growth in families with two secure jobs. Secure and insecure work is combined in four out of ten such families, up from three in ten in 2010.

In summary, reduced worklessness is being matched by rising work insecurity, but also a contrast between those in insecure work who do and don’t have the benefit of a partner in secure work.

4. Low income and insecurity combine most commonly for single adults, especially single parents

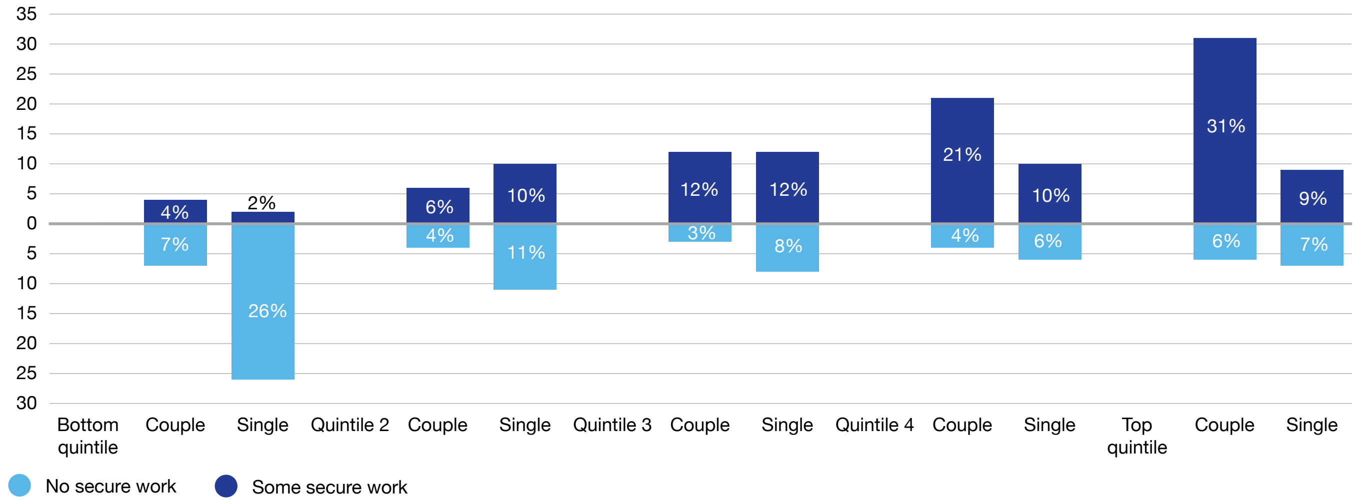
Despite insecurity occurring across the income distribution, patterns vary greatly across family types, as shown in Figures 4 and 5. These graphs show both how many people in each group fall in each income quintile and how in each case they are distributed between those with and without secure work.

At one extreme, 40% of lone parents are in the 20% poorest households, the vast majority of these having either no job or an insecure one, as a result of systemic barriers to stable employment (Dewar and Clery, 2023). In contrast, only 11% of couples without children are in the bottom quintile, and a third are in the top quintile with secure work. Singles without children are greatly over-represented at the bottom of the distribution, even after account has been taken for smaller households requiring less income, through equivalisation. This is partly linked to their relatively young profile, and partly to the fact that unlike couples they do not benefit from an additional income which helps spread risk and yields economies of scale. (A couple with identical earnings will have higher equivalised income than a single with the same earnings, since equivalisation assumes that it does not cost twice as much for a couple than a single to reach an equivalent living standard).

Looking at the middle of the distribution, these differences are less marked. Singles without children have about an average chance of being on a middle income, although lone parents have a below-average chance. In both cases, even if they attain a middle income, they are more likely than couples to have no secure work.

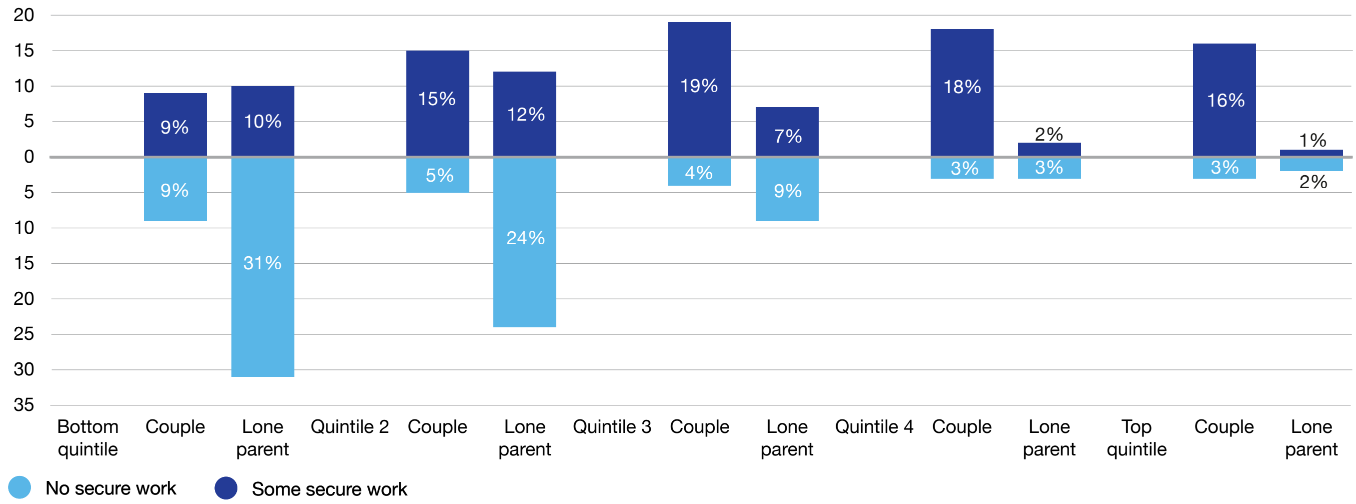
More detail on these results is shown in Figures A3 to A6 in Appendix 3. The following results are worth highlighting:

Figure 4: Summary labour market and parental status of families without children, by income quintile



Source: Understanding Society Wave 12. The sample excludes working age adults in multi-benefit unit households. Appendix 1 explains employment status categories. For each category in this and following charts, bars across all the quintiles sum to 100%, although due to rounding the percentage labels do not always add up to exactly 100.

Figure 5: Summary labour market and parental status of families with children, by income quintile, 2020/21



Source: Understanding Society Wave 12. The sample excludes working age adults in multi-benefit unit households. Appendix 1 explains employment status categories.

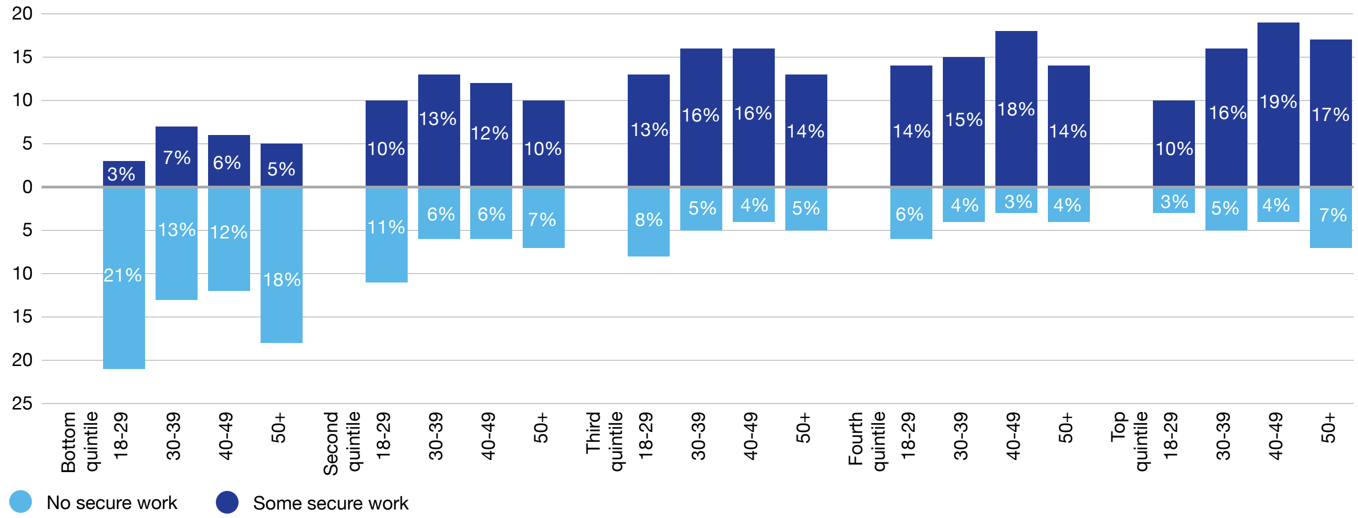
- The one-third of **singles** in insecure work are spread across the income distribution (Fig A4), although most likely to be in the bottom quintile, where singles are significantly over-represented. However, two-thirds of singles with insecure work are spread across the upper four quintiles.
- **Couples without children** enjoy significant security across the income distribution. These couples are primarily in the top half of the distribution. Three quarters of them have at least one member with a secure job, and even among those who only reach the second income quintile, this is a clear majority (60%) (Fig A3). Thus having a partner and no children is associated with significant security, regardless of income level.
- Even among the 32% of **lone parents** that have secure employment, two thirds are nevertheless in the lowest income quintiles (Fig A6). Thus, the particularly poor income profile of lone parents is both about labour market insecurity and low earnings.
- **Couples with children** are even more likely than couples without children to combine secure and insecure work, but this does not result in as favourable an income profile as for those without children. For larger families, particularly high earnings are needed to reach a high equivalised income. Over four couples in ten have at least some secure work, but do not get above the middle of the income distribution, partly because in only a quarter of couples with children do both adults have secure work, compared to nearly a third of those without children (Fig A5). Thus, couple parents avoid the concentration on the lowest incomes experienced by lone parents, because the great majority have at least one secure job, but they are not doing nearly as well as couples without children, because of the additional costs that having children brings. One aspect of this is that those on middle incomes have these costs compensated to a much lesser extent than low-income families receiving tax credits or Universal Credit.

5. The youngest and oldest working-age adults have worse incomes and security than the age groups in between.

The income distribution and labour market status vary not just by family type, but also by age. This is summarised in Figure 6, with further details in Appendix 3, Figures A7 to A10. The key findings are that:

- Half of under-30s do not have secure work or live with a partner who does. This compares to 40% of over-50s (below pension age) and about 30% of those aged between 30 and 50.
- This disadvantage in terms of work insecurity for people at either end of the working age range appears to have worsened slightly. For example, between 2010 and 2020, the overall proportion of people with some secure work in their household fell from 50% to 45% for under-30s and from 62% to 60% for over-50s, but rose from 65% to 67% for those in their 30s and from 66% to 67% in their 40s.
- In the middle of the income distribution, insecure work is much more common for younger age groups. For example, around four in ten under-30s in the middle quintile and their partners have work but none of it secure, compared to just one in six people in their 40s in the middle quintile.
- If you have insecure work and are under 30, on a middle income, the chance of having a partner with secure work is much lower than for older adults: about one in three for under- 30s compared to two in three for people in their 40s. This partly reflects the larger number of singles among younger adults. It shows that younger adults are vulnerable not just because of their own labour market status but also because their insecurity is less likely to be compensated by a partner with secure work.

Figure 6: Labour market status by age and income quintile, 2020/21



Source: Understanding Society Wave 12. The sample excludes working age adults in multi-benefit unit households. Appendix 1 explains employment categories.

Household income and access to affordable, secure and adequate housing

As typically the largest single cost for working-age adults, housing plays a key role in influencing living standards of middle income households. High housing costs, relative to incomes, can result both in households having to devote a disproportionate amount of disposable income to rent or mortgage payments and to unsatisfactory housing outcomes, because of the inability to afford a home that is adequate to meet the household's needs. These needs include having a home in good condition, having an appropriate amount of space and having the security of knowing that they can continue to live there.

In recent years two big trends have profoundly influenced housing options for many UK households. The first is that rises in house prices has put home ownership out of reach of many, especially younger adults. The second is that the scarcity of social renting has made private renting the only alternative, especially for those on middle incomes, causing a sharp rise in a sector in which variable housing quality, high rental prices and lack of security have all been issues. The generational effect of this trend has been well documented, for example Corlett and Odamtten (2021) showed that only a third of people are homeowners by their early 30s, down from nearly two thirds in 1990, and that for 25-34 year olds homeownership had dropped from a half to a quarter in the same period. Some of the strains that this has created during the current cost of living crisis have been picked up in abrdn Financial Fairness Trust's Financial Impact Tracker (Evans and Collard, 2023), showing that people in the private rented sector in particular are financially stressed by high housing costs relative to income.

To what extent have affordability, security and adequacy have been issues for households in different parts of the income distribution? The following analysis focuses on how these three dimensions of housing outcomes interact for different income quintiles as well as age groups and household types. It looks in turn at each dimension, and then at how affordability, security and adequacy interact. While each of these dimensions is hard to measure with precision, the contribution of the following analysis is to consider how some broad-brush indicators of housing outcomes vary according to households' position in the income distribution, as well as how this interacts with household type and with age. Detailed definitions about how we have categorised housing outcomes are set out in Appendix 2.

Living in "unaffordable" housing is most pronounced among private renters, but set to rise sharply for owner occupiers

High rents and house prices can make suitable housing unaffordable to people on low to middle incomes. One outcome of this is to constrain people's housing choices. Another, considered here, is for people to have to spend a high proportion of their income on housing, leaving less for non-housing expenditures and therefore impacting living standards.

There is no single measure of affordability, and many conceptual difficulties in defining it[5], but a commonly accepted starting point, adopted by the Affordable Housing Commission (2019), is that if you need to spend more than a third of your income on renting or purchasing housing, it is unaffordable. Even such a simple measure is hard to operationalise because many low-income households have their gross incomes boosted by Housing Benefit and Universal Credit, but may be reduced by an income taper, making it almost impossible to distinguish from survey results the net effect of a household's rent levels on their disposable income. The definition used here is based primarily on spending a third of post-tax income on housing costs, but also assumes that all private renters receiving Housing Benefit or Universal Credit now have unaffordable housing costs (unless their net rent i.e. the rent including Housing Benefit is zero). This is because, as confirmed in a recent survey, the Local Housing Allowance on which entitlements are based is rarely sufficient to cover actual private rents. This shortfall has to be made up from other sources, eating into non-housing expenditures. To some extent the realignment of LHA rates with 30th percentile rents in 2024 will help address this, but the decision to freeze the rates thereafter will recreate the problem (Clegg, 2023).

[5] The underlying problem is that neither a figure based on percentage of income devoted to housing, nor one based on the extent to which high housing costs crowds out other expenditure, can give the full picture. The problem with the percentage indicator is that some better-off people choosing to devote a large proportion of their income to a high quality home may still have plenty left to meet other needs. The alternative is therefore to look at residual income – ie how much is left after housing costs – but here the problem is that some people with low overall income could end up with low residual income even where housing costs are very low, and are therefore not the primary cause of not being able to afford non-housing essentials. A hybrid measure could be helpful, but has not been developed in the UK.

At present, about one in nine non-retired individuals (11%) have unaffordable housing costs, on our conservative measure[6]. Private renters have by far the greatest risk of being in unaffordable housing, with 40% paying more than a third of their income in rent. For local authority tenants it is 12%, and among owner occupiers paying mortgages, 10% have mortgage costs above a third of income.

It is important to note that affordability issues do not just affect those devoting high proportions of their incomes to housing, but also to those whose housing options are constrained by affordability of properties – often influenced by benchmarks set by landlords and lenders that limit the amount that people are allowed to commit, relative to their incomes.

Since the latest data available predate recent sharp rises in interest rates, as well as rent increases, it is forecast that the incidence of high housing costs will be rising sharply now and in the near future – with one forecast estimating that the numbers spending more than a third on housing will increase from 3.1 million to 4.8 million of England's 24 million households by 2030[7]. We have estimated that if mortgage interest payments increase by 50% from 2020/21, the year covered by our main results, the number of owner occupiers in unaffordable housing will almost double, from 10% to 19%, based on the current proportion of income allocated to these payments.

Unaffordability is more than three times as high (37%) for people in the lowest income quintile as for the average household (11%). Thus, the risk of housing unaffordability is greatest among low-income renters with no alternative to living in private accommodation, with high rents which housing-related benefits do not sufficiently cover. But even among middle income households, a significant and growing proportion are spending more than a third on housing. This affects 30% of private renters in the middle income quintile, and 7% of mortgage payers in the middle quintile in 2020/21– rising to 13% if interest payments increase by 50%.

Behind this overall picture are important variations by age and family type. Figure 7 shows that lone parents have easily the highest risk of living in unaffordable housing. This is in particular associated with their high chance of having low incomes. Singles also are at significant risk of spending more than a third of their income on housing cost if they are on low to middle incomes, although these figures are dampened by the fact that they include singles living with parents and other relatives, who do not face such costs. On an alternative measure, looking only at singles living independently, their overall risk of having unaffordable housing doubles to nearly a third.

Figure 7: Percentage of each family type in unaffordable housing and income quintiles - all working age, 2020/21

Figure 7a: Percent of all **single men** in each quintile of overall income distribution.
Broken down by whether in **unaffordable housing**

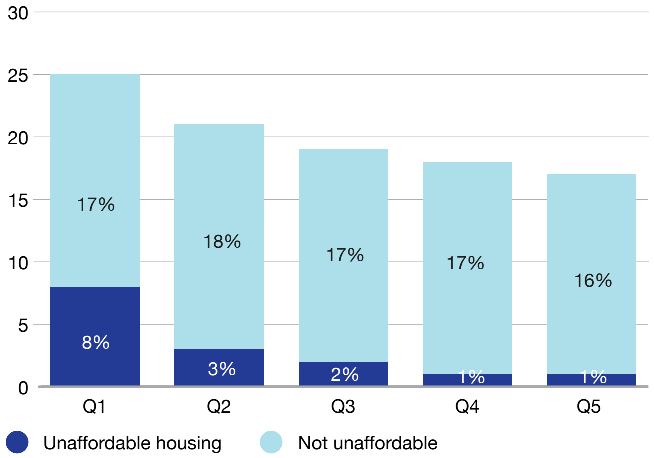
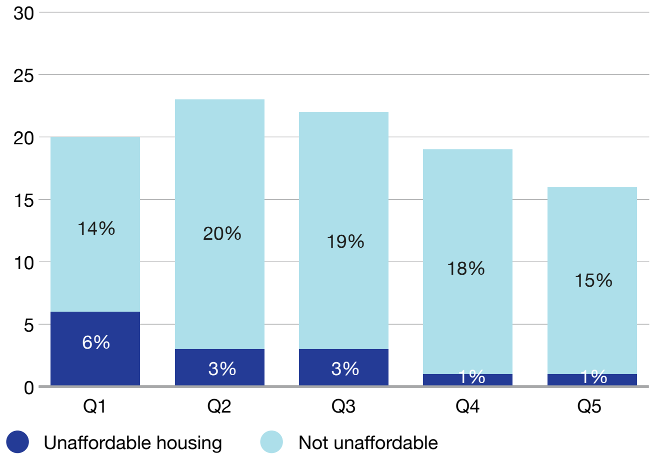


Figure 7b: Percent of all **single women** in each quintile of overall income distribution.
Broken down by whether in **unaffordable housing**



[6] This estimate is slightly lower than some other estimates using the one-third of income benchmark. This is due to different approaches to measuring income and housing costs. For example, the Affordable Housing Commission (2019) suggests that incomes but not housing costs should be "equivalised" when making these calculations. This means that, for example, a single person without children would need to spend half their actual income on housing for these costs to be considered unaffordable, whereas a couple without children would have to spend only a third. Given that couples benefit from economies of scale, both in housing and non-housing expenditures, this seems counter-intuitive, and we have not equivalised, which causes the number considered to have unaffordable housing to be lower.

[7] https://www.housing.org.uk/news-and-blogs/news/nearly-five-million-households-will-live-in-unaffordable-homes-by-2030/

Figure 7c: Percent of all **lone parents** in each quintile of overall income distribution.
Broken down by whether in **unaffordable housing**

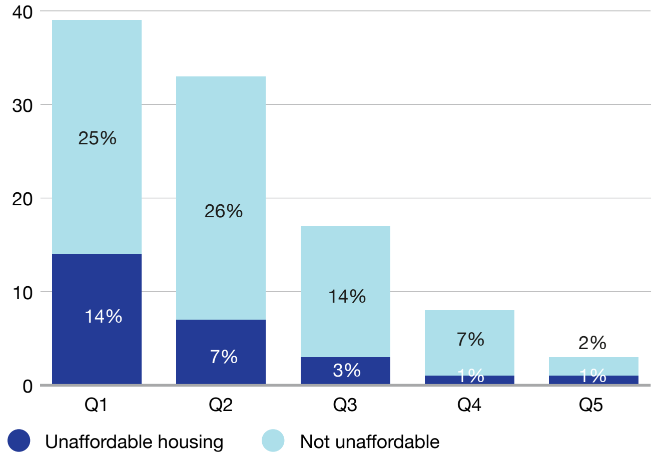


Figure 7d: Percent of all **couples without children** in each quintile of overall income distribution.
Broken down by whether in **unaffordable housing**

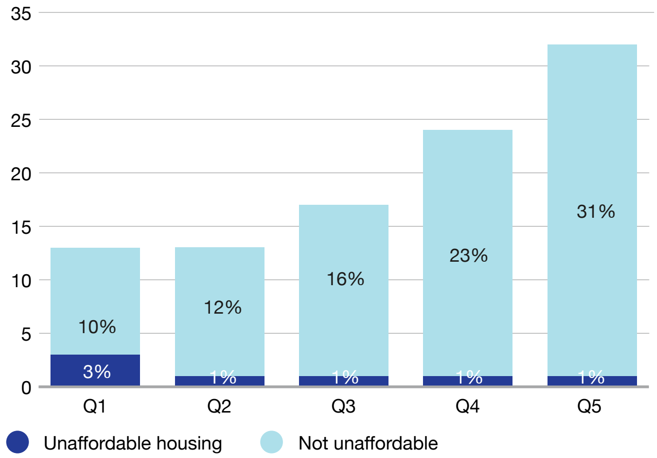
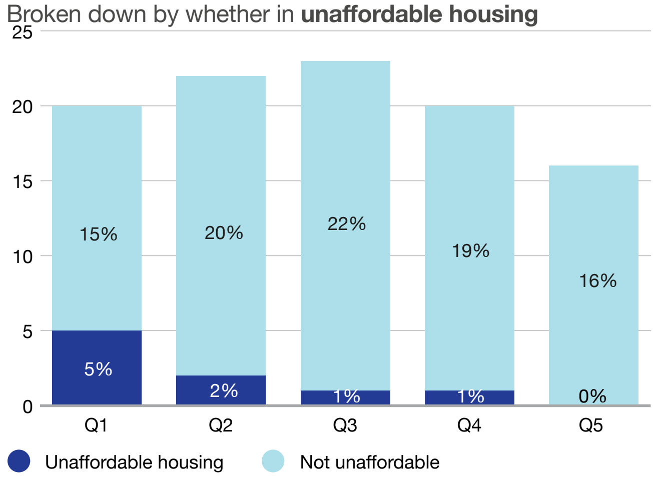


Figure 7e: Percent of all **couples with children** in each quintile of overall income distribution.
Broken down by whether in **unaffordable housing**



Source: Understanding Society Wave 12. On this and following graphs, bars in each section total 100%, although due to rounding, labelled percentages do not always exactly add up to 100.

Unaffordable housing occurs across the age range, influenced by the relatively lower incomes of the youngest adults, but also the growing housing needs of those in mid-life who have started families. As shown in figure 8, the highest rate of unaffordability is for people in their 30s, with 14% spending more than a third of their income on housing, followed by the under 30s, at 10%. However, this again includes young adults living with parents. Among under-30s who are living independently, the risk of unaffordable housing costs is much higher: 27% of this group must spend more than a third of income on housing, and a third of these have incomes in the middle quintile or higher.

Figure 8: Percentage of each age group in unaffordable housing and income quintiles - all working age, 2020/21

Figure 8a: Percent of all **aged 16-29** in each quintile of overall income distribution.
Broken down by whether in **unaffordable housing**

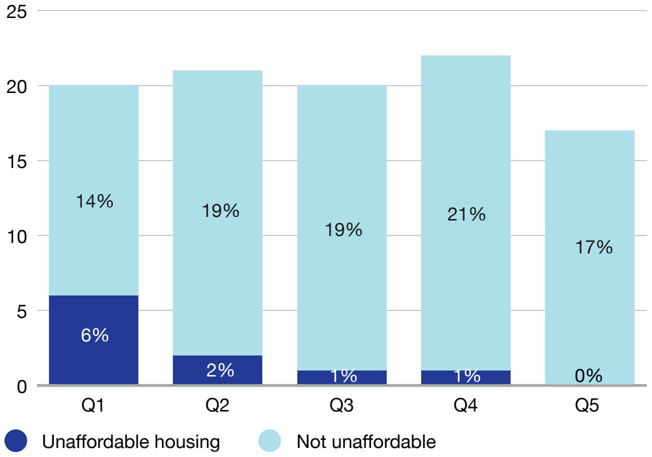


Figure 8b: Percent of all **aged 30-39** in each quintile of overall income distribution.
Broken down by whether in **unaffordable housing**

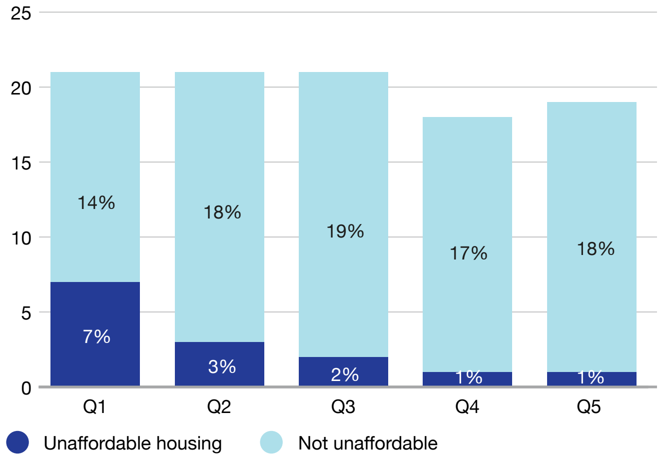


Figure 8c: Percent of all **aged 40-49** in each quintile of overall income distribution.
Broken down by whether in **unaffordable housing**

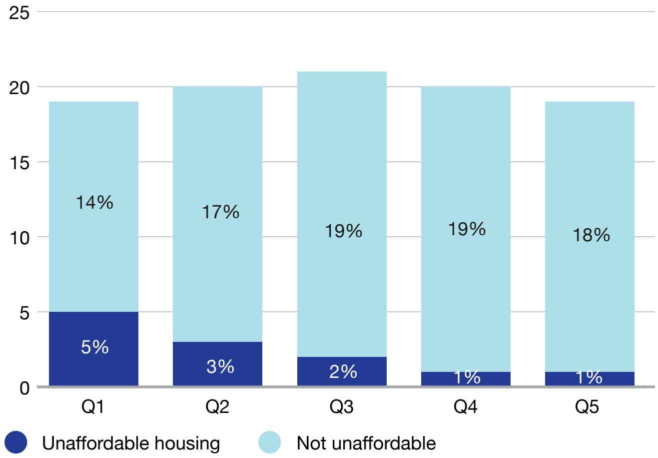
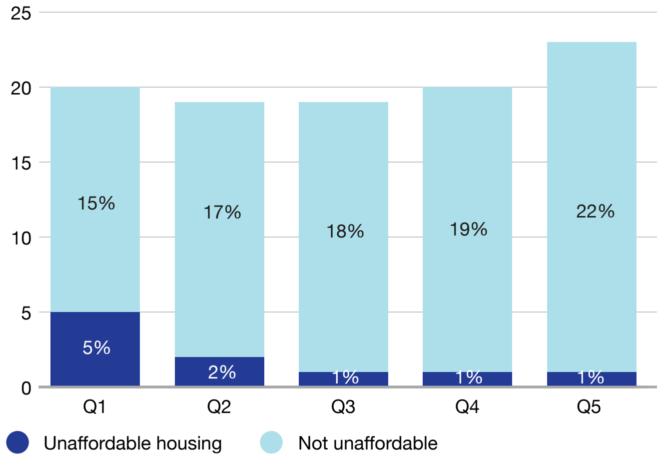


Figure 8d: Percent of **all aged 50-65** in each quintile of overall income distribution.
Broken down by whether in **unaffordable housing**



Source: Understanding Society Wave 12.

Overall, then, while unaffordable housing is highly concentrated among those with low incomes, it has not been affecting all low income households, but largely single parents in private rentals and young singles who are not living with their parents. Among the latter, it is not only hitting the lowest income group, but remains significant even where they attain reasonable working incomes.

Housing insecurity, for private tenants, affects many people on middle incomes, especially those without a partner and those in their 30s

In the great majority of cases, the security of housing is determined by the housing sector. Most council tenants have secure tenancies, and housing association tenancies, while not always fully secure, offer much greater stability than the private sector. The vast majority of owner occupiers are not forced to leave their homes against their will. Private renters, on the other hand, typically have contracts under which they can be required to leave their homes on two months' notice. On this basis, the following data classify people as having housing insecurity if they rent privately, and to be secure in their housing if not.

In the past 20 years, the proportion of households renting privately has increased from 10% to nearly 20% - although all this increase came before 2013, and over the past decade the proportion appears to have stabilised. Nevertheless, the number of households facing insecurity in the private sector is much higher than a generation ago. It had not previously been at this level since 1970, long before the introduction of assured shorthold tenancies in the 1990s greatly reduced security in this sector.

Figure 9 shows that households across the income spectrum and family types are facing the insecurity of the private rented sector. Nearly a quarter of lone parents are in this situation, and, reflecting their overall income profile, they are mainly in the bottom half of the income distribution. For other household types, between 10% and 16% are renting privately, including substantial numbers in the middle and upper half of the distribution. Figure 10 shows that private renting is particularly likely among under 40s: 21% of people in their 30s, compared to only 8% in their 50s have this status. (Note that because this graph includes people living with their parents, in many cases in owner-occupied housing, the rate is lower for people in their 20s than those in their 30s, more of whom live independently.) Moreover, for this group, as many people near the middle as at the bottom of the income distribution rent privately. Thus, housing insecurity is a particular issue for those with middle incomes who are under 40.

It is also worth noting a considerable overlap between housing insecurity and job insecurity. Where an adult, and their partner if they have one, is in insecure work, they have a 26% chance of also facing the insecurity of living in the private rented sector. Conversely, for those with only secure work it is 16%. These two aspects of life insecurity reinforce each other, with those in insecure work finding it hard to get a mortgage, and those with insecure housing potentially having to move jobs if they move home.

Figure 9: Percentage of each family type in insecure housing and income quintiles - all working age, 2020/21

Figure 9a: Percent of all **single men** in each quintile of overall income distribution.
Broken down by whether in **insecure housing**

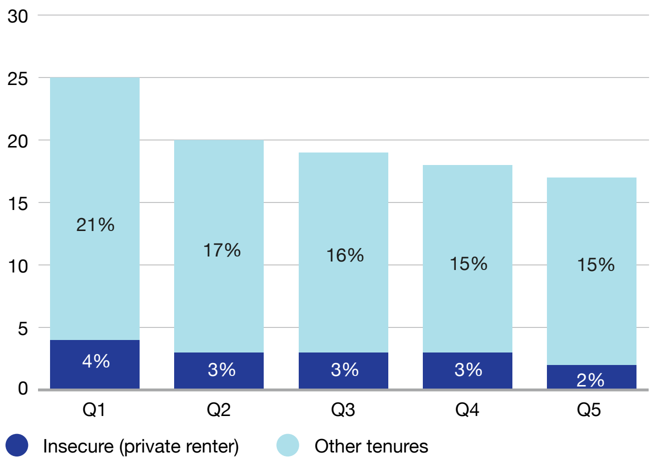


Figure 9b: Percent of all **single women** in each quintile of overall income distribution.
Broken down by whether in **insecure housing**

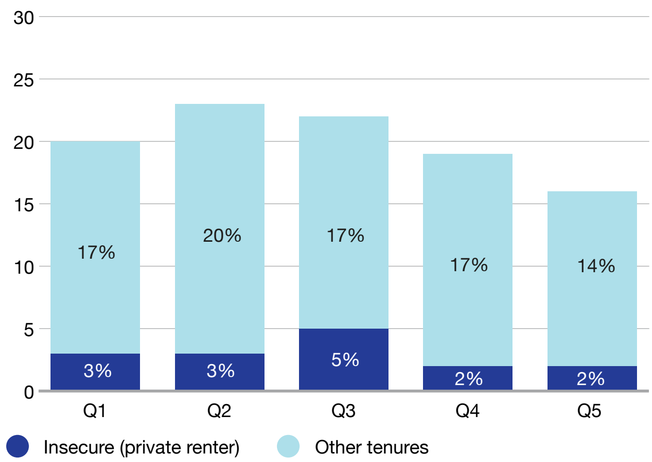


Figure 9c: Percent of all **lone parents** in each quintile of overall income distribution.
Broken down by whether in **insecure housing**

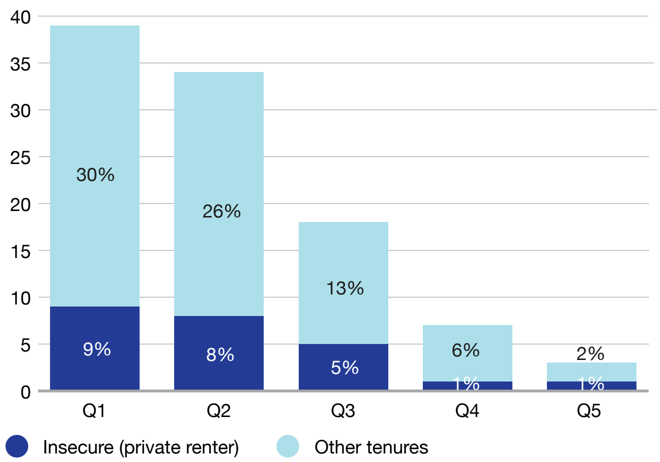


Figure 9d: Percent of all **couples without children** in each quintile of overall income distribution.
Broken down by whether in **insecure housing**

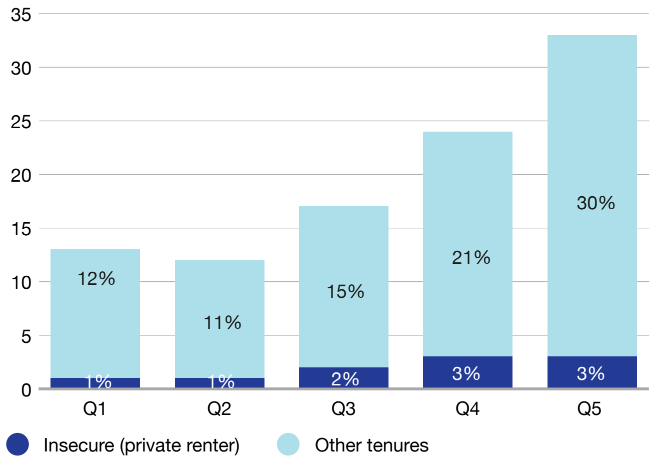
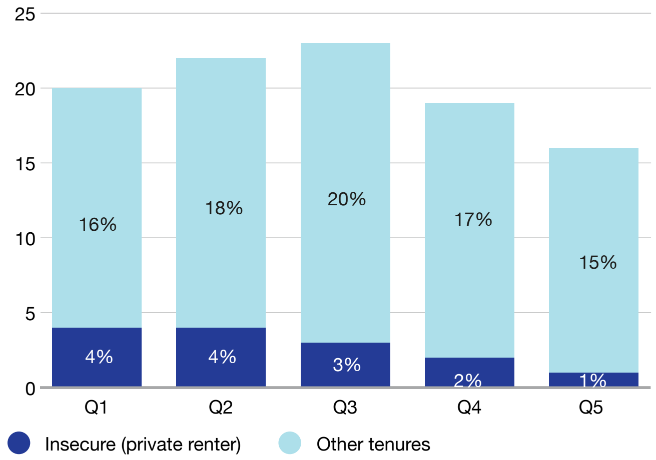


Figure 9e: Percent of all **couples with children** in each quintile of overall income distribution.
Broken down by whether in **insecure housing**



Source: Understanding Society Wave 12.

Figure 10: Percentage of each age group in insecure housing and income quintiles - all working age, 2020/21

Figure 10a: Percent of all **aged 16-29** in each quintile of overall income distribution.
Broken down by whether in **insecure housing**

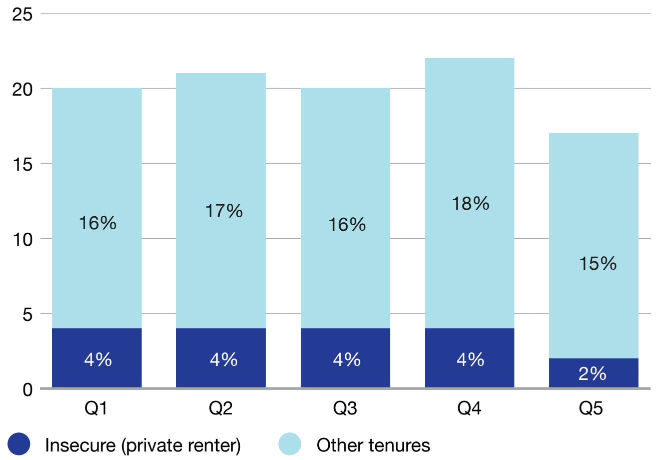


Figure 10b: Percent of all **aged 30-39** in each quintile of overall income distribution.
Broken down by whether in **insecure housing**

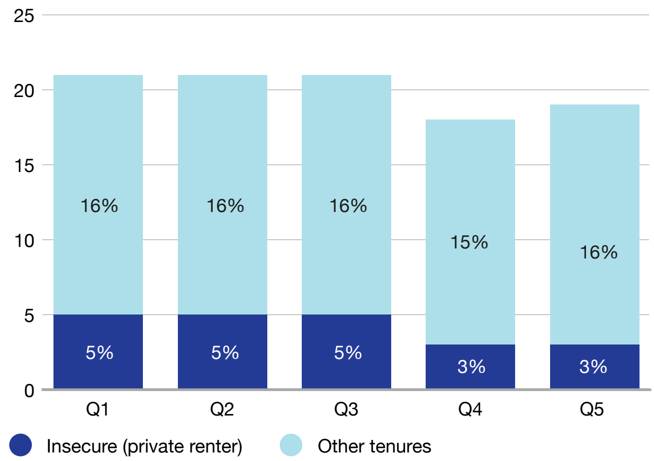
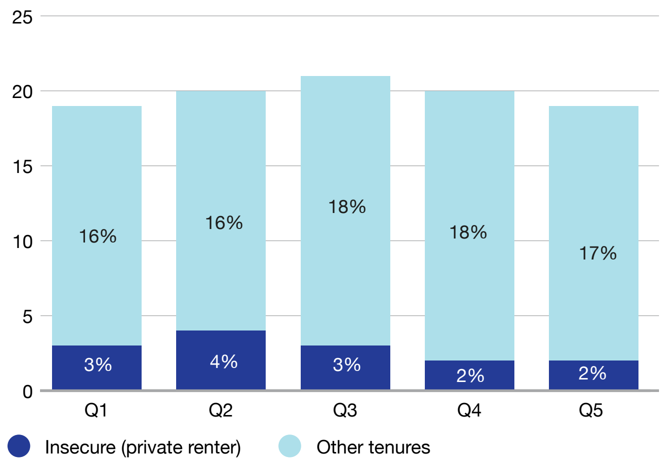
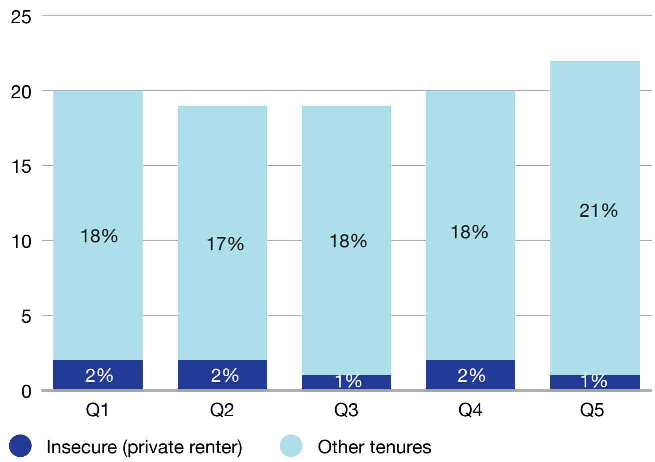


Figure 10c: Percent of all **aged 40-49** in each quintile of overall income distribution.
Broken down by whether in **insecure housing**



Source: Understanding Society Wave 12.

Figure 10d: Percent of all **aged 50-65** in each quintile of overall income distribution.
Broken down by whether in **insecure housing**



The greatest risk of overcrowding is for lone parent families on low incomes. But for young adults, including singles living with their parents, there are also significant risks on middle incomes.

Where people do not have access to housing that meets their needs, they live in homes that are inadequate in terms of size and/or conditions. abrdn Financial Fairness Trust's Financial Impact Tracker has drawn attention to widespread reporting of damp and condensation issues (Evans and Collard, 2023). The Understanding Society survey on which the present study is based does not directly study house conditions, and asks only pensioners about whether their homes suffer from damp. However, information on the size of home and the number of people living in it makes possible an indicator of housing adequacy: whether it is overcrowded, in terms of standard definitions of how many bedrooms are needed according to the number, age and gender of residents (see Appendix 2).

Figures 11 and 12 show a profile of who lives in housing that is overcrowded. Once again, it is lone parents in the bottom 40% of the income distribution and younger adults at the bottom and middle of the income distribution who are most affected. Almost a quarter of both lone parents and 16-29 year olds have housing that is too small for them. This result for younger adults is particularly striking because inadequacy as defined here is less likely to affect singles living alone, who do not usually have to share a bedroom. Rather, this affects young adults who have either formed their own families or are in overcrowded accommodation as a result of living with their parents or others.

Figure 11: Percentage of each family type in inadequate (overcrowded) housing and income quintiles - all working age, 2020/21

Figure 11a: Percent of all **single men** in each quintile of overall income distribution.
Broken down by whether in **inadequate housing**

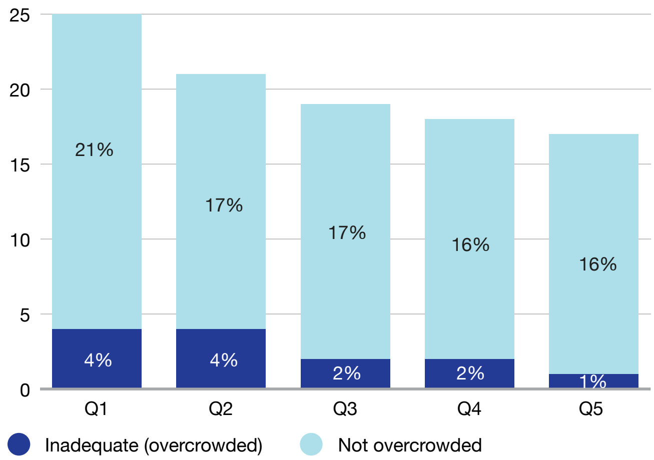


Figure 11b: Percent of all **single women** in each quintile of overall income distribution.
Broken down by whether in **inadequate housing**

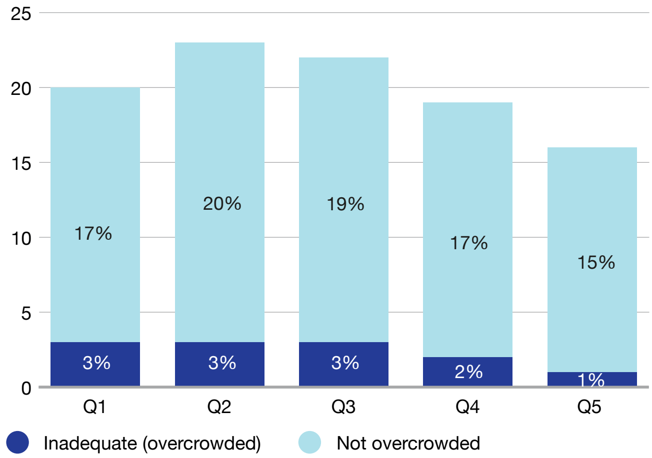


Figure 11c: Percent of all **lone parents** in each quintile of overall income distribution.
Broken down by whether in **inadequate housing**

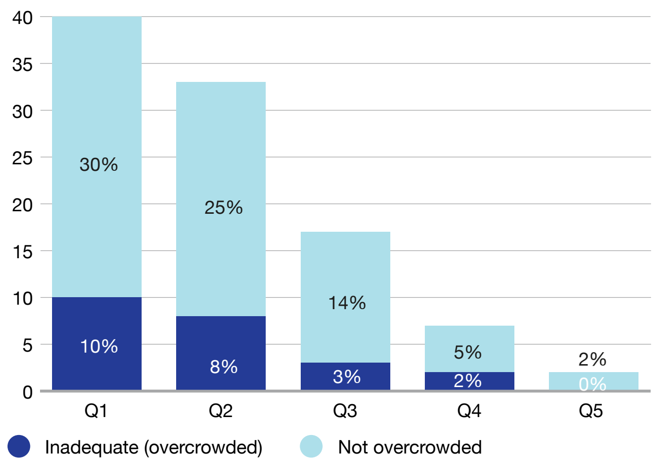


Figure 11d: Percent of all **couples without children** in each quintile of overall income distribution.
Broken down by whether in **inadequate housing**

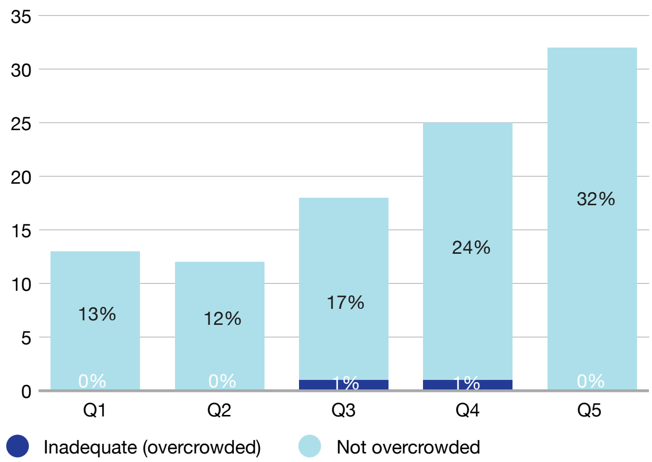
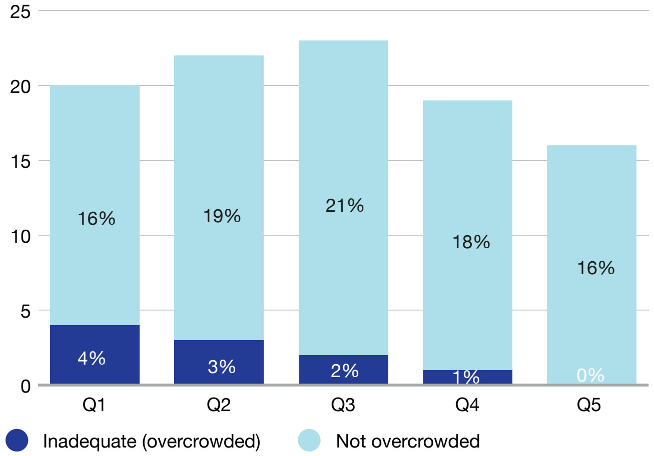


Figure 11e: Percent of **couples with children** in each quintile of overall income distribution.
Broken down by whether in **inadequate housing**



Source: Understanding Society Wave 12.

Figure 12: Percentage of each age group in inadequate (overcrowded) housing and income quintiles - all working age, 2020/21

Figure 12a: Percent of all **aged 16-29** in each quintile of overall income distribution.
Broken down by whether in **inadequate housing**

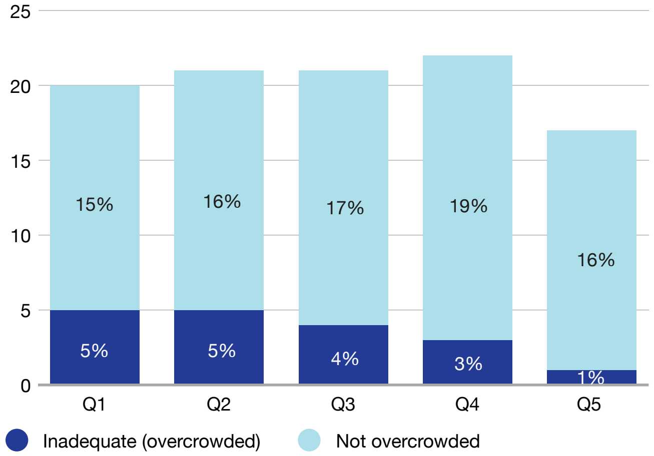


Figure 12b: Percent of all **aged 30-39** in each quintile of overall income distribution.
Broken down by whether in **inadequate housing**

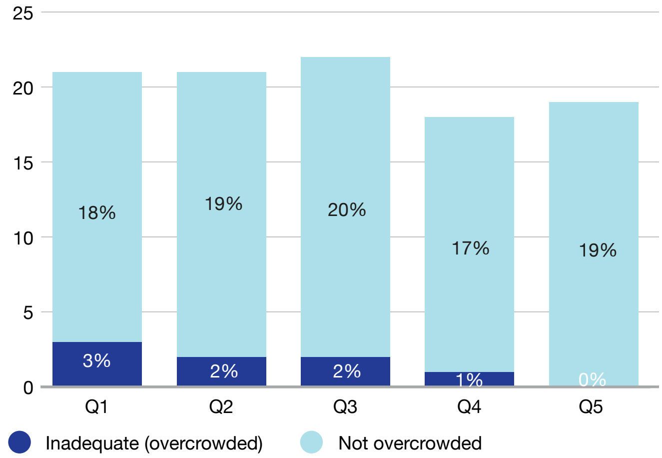


Figure 12c: Percent of all **aged 40-49** in each quintile of overall income distribution.
Broken down by whether in **inadequate housing**

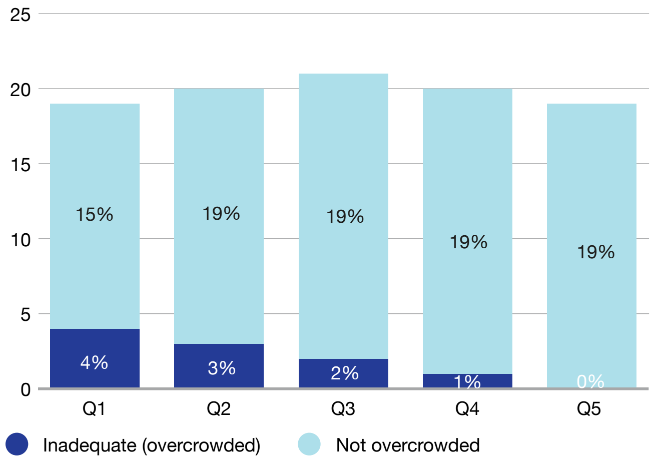
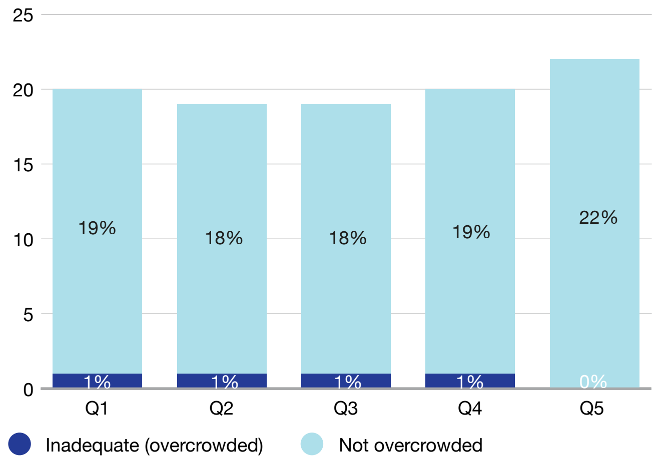


Figure 12d: Percent of all **aged 50-65** in each quintile of overall income distribution.
Broken down by whether in **inadequate housing**



Source: Understanding Society Wave 12.

Some households face multiple housing disadvantages, especially insecurity and unaffordability

To what extent are households facing a combination of the three types of housing disadvantage outlined above (affordability, security and adequacy)? To some extent the problems described here are separate. For example, most people who are paying large proportions of their income on housing are not overcrowded; many will have committed more to housing spending precisely to avoid having to live somewhere too small.

The greatest overlap, associated with the private rented sector, is between insecurity and unaffordability. Of the 16% who face the insecurity associated with renting privately, the majority (9% of the total) also commit over a third of income to their rents, or are on Universal Credit or Housing Benefit which almost always falls short of full rent coverage. Of those in the middle quintile, about 14% rent privately, one in five of whom (3% of the total) also spend over a third of income on housing – a figure set to increase sharply with rising rents. This shows that a small but growing number of people on middle incomes are facing the double disadvantage of insecure and unaffordable housing.

As we have seen, lone parent families face higher risks of all three housing disadvantages, which can often overlap. Almost half such families (46%) have at least one of these housing disadvantages, 15% have at least two, and 3% have all three.

For young adults aged 16-29, the situation is more complex – with differences between those living on their own or with others. Figures 13 and 14 explore this theme across all three dimensions. They show that among this age-group:

- Security and affordability particularly affect those living independently, whereas having inadequate housing space hits those living with others including their parents (Fig 13); overcrowding occurs here if the young adult needs to share with a parent or sibling.
- One in six of those living on their own are in accommodation considered unaffordable and without security, but very few young adults who live with others experience this combination (Fig 14). Source: Understanding Society Wave 12.

Fig 13: 16-29s housing outcomes by household status, 2020/21

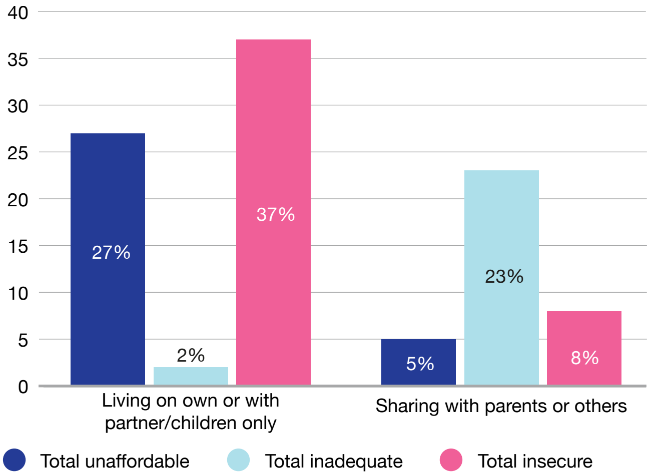
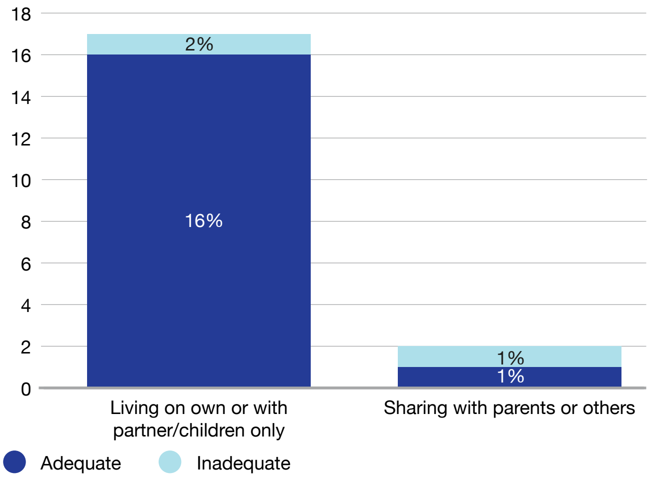


Fig 14: 16-29s living in unaffordable AND insecure housing, by household status, 2020/21



Source: Understanding Society Wave 12.

Deductions from income and their impact on living standards

The distribution of incomes gives only a partial picture of how much households are able to devote to the day-to-day spending that influences their living standards. They face a range of deductions, some compulsory and others more discretionary but not readily changed. Taxation and benefits are taken into account in income data, and the "after housing costs" measure also deducts expenditures on some housing-related items, notably rent and mortgage interest payments. But standard income distribution data do not take account of deductions such as student loan repayments, other debt repayments, pension contributions, savings or childcare costs.

Loan repayments are largely unavoidable. Savings for the future are discretionary, as are pension contributions. However, those on middle incomes who do not save or invest in their pensions, risk having low disposable income in the future as a result. And not being able to pay for childcare can have a direct effect on current income, by limiting parents' ability to work, helping to explain the low chances for lone parents having secure work referred to earlier. It is notable that during the cost of living crisis, the ability to save has been constrained, and many households have had to access savings for short-term spending (Hirsch, 2023), although some people had been able to save for the first time during the pandemic due to constrained spending, and were still feeling the benefit of this (Tunstall, 2022; Broome et al., 2023). Public policy and government messaging encourages families to save for the future (including through ISAs, LISAs and tax breaks on pension contributions). But people on modest incomes often find it very hard to do so.

It is problematic to measure the impact on living standards of costs that are not incurred (such as unaffordable childcare, or the inability to make regular savings) and therefore do not directly reduce disposable income, even though they may indirectly do so (for example by constraining employment). Nevertheless, as a starting point, it is worth looking briefly at who is incurring such costs at different points in the income distribution, before considering what costs a median income household could incur, and the effect this would have on disposable income.

Differences in deductions by income quintile

The data from **Understanding Society** give some indication of differences in costs incurred across the income distribution, despite considerable imperfections that appear to be related to incomplete data and misreporting[8]. Above all, they show an enormous amount of heterogeneity in costs across different households on similar incomes.

As expected, housing costs (as defined in Appendix 2) are on average higher as a percentage of income in lower than in higher income households, although the impact of this is difficult to measure given that the effect of help with housing costs through Universal Credit is not readily captured (see previous section). Before this help, households in the lowest quintile pay on average 35% of their gross income on housing, those in the middle quintile pay 14% and those in the top quintile pay 10%. For those in the middle quintile, the percentage falls with age from 19% for the under-30s to 13% for the over-50s (not including pensioners). This is likely to reflect the benefits to the older group of having repaid their mortgages. It understates the impact of rising housing costs on younger cohorts insofar as they avoid living independently or choose to live in suboptimal conditions as a result of high prices.

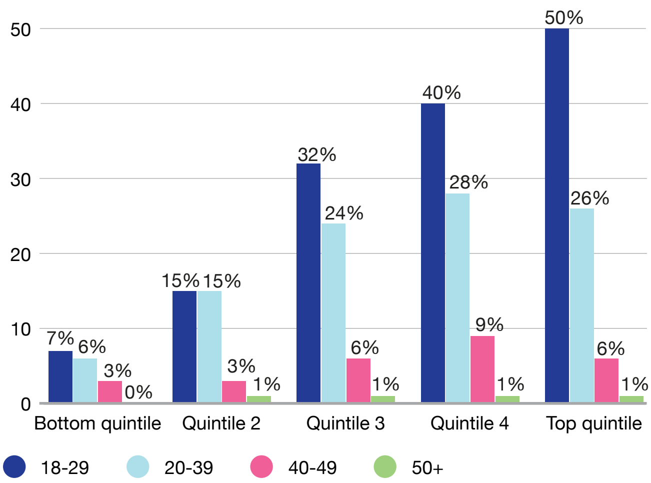
[8] There are several limitations for measuring the various income deductions of interest in Understanding Society. For childcare costs the main limitation is that **Understanding Society** does not record expenses on childcare. To derive estimates of childcare cost we summed up the weekly hours of formal childcare use of all children in the household and multiplied them by average hourly childcare costs based on the estimates derived using an estimate from the Institute for Fiscal Studies. The resulting estimates were uprated to 2021/22 prices. While appropriate for estimating average childcare costs this methodology is less suitable for estimating differences in childcare costs by income quintile as they do not account for variation in hourly childcare costs across the income distribution. Understanding Society collects data on current membership in, and contributions to, workplace and private pensions. Assessments of data quality shows that these data are pretty good (O'Brien, 2023) Data on private pension saving in UK surveys (ifs.org.uk). However, one limitation of the current study is that private pensions contributions estimates are derived based on information.

Student loan repayments have the potential to hit middle income households particularly hard – with lower earners paying proportionately less because of disregarded earnings and higher earners being able to pay off loans more quickly, thus accumulating less interest. On the other hand, higher earners are more likely to have been to university and thus incurred student debt. Figure 15 shows the proportion of working age adults paying off student debt in each income quintile and by age. This shows that most are in middle to high income groups, in their 20s or 30s. At present (2020/21), between a quarter and a third of middle income people in these age groups pay student debt, which (among those middle income under-40s repaying) pre-empts an average of 4.5% of income. For the best-off quintile, the number paying declines most rapidly with age, so that similar numbers in their 30s are repaying student debt in the fifth as in the third quintile. As the cohort who took out student loans ages, and the best-off graduates complete their payments, we can expect this burden to face more middle income people than higher income people into their 40s and above. The cohort that first incurred income-contingent student loans in 1998 are typically now in their mid-40s, although those facing the largest loans that that include fees of around £9000 introduced in 2012 are typically around 30.

Another cost, pension contributions, has become more common with the auto-enrolment system that encourages all workers to put money aside for retirement through employer schemes. Figure 16 shows the proportion making occupational or private pension contributions, by income and age. While most low income people are not making them (in many cases because they are not working), nearly two in three people (65%) in the middle of the distribution make pension contributions, and the majority do so at all ages.

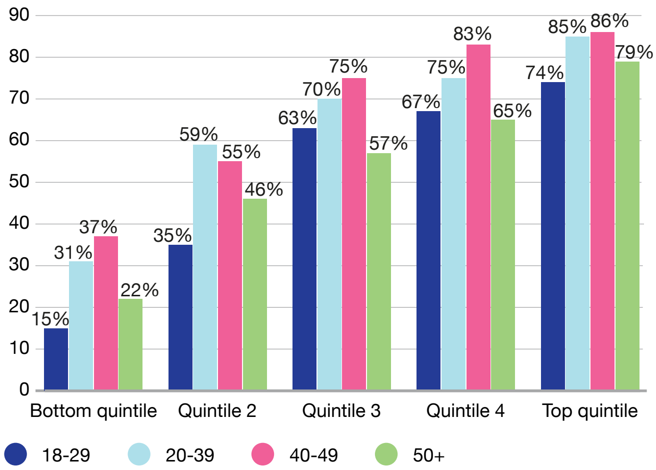
It is also notable that three in five households (61%) in the middle fifth of the income distribution report making regular savings, and among those who save, the median savings level is £173 a month, about 6% of average disposable income of middle income households. This compares with just over two in five (44%) of those in the second quintile but three quarters (75%) in the fourth quintile reporting regular savings.

Fig 15: Percent paying off student loans, 2020/21



Source: Understanding Society Wave 12.

Fig 16: Percent making pension contributions, 2020/21



Source: Understanding Society Wave 12.

Childcare costs also hit people across the distribution. In all but the bottom income quintile, about one in ten adults of working age are in a family paying for childcare. However, income variations are more stark when considering only families with young children. One in three lone parents with children under five pay for childcare, and this rises to 96% of those in the middle income quintile. This very high figure suggests that the minority of lone parents who overcome employment barriers and reach the middle of the income distribution almost all need to use paid childcare in order to do so, but these costs in turn reduce their disposable income, making it very rare for a lone parent to achieve the living standards normally associated with middle incomes.

Illustrative deductions faced by households on median income

If people on median incomes sometimes feel "squeezed", it is because multiple demands are being made on their incomes which, if all were met, would substantially reduce their living standards to not much more than if they had lower incomes and more help from the state. While this report has shown that the lowest income groups face much more severe disadvantages than those in the middle, the latter are therefore potentially subject to disappointed expectations. The state expects them to provide more for themselves, including paying back the cost of their education, putting money aside for retirement, paying to live in unsubsidised housing and in some cases covering a much higher proportion of childcare bills than those with lower earnings.

How much difference would such costs make to the disposable income to a household in the middle of the income distribution, if fully met? Figure 19 envisages scenarios for a range of family types.

The left-hand bar in each case in the figures immediately below gives a baseline scenario with a modest rent (a cheap private rental for a single or a social rent for a family). It assumes that household members do not save or contribute to pensions, have not been to university so have no student loan deductions and manage to avoid childcare contributions by accessing informal, free childcare where needed (the family examples assume one child of preschool and one of primary school age).
As a comparison the second bar assumes that they:

- Are unable to access low-cost housing but instead pay a median rent in the private sector;
- Have been to university so are paying off student loans;
- Are auto-enrolled in an employer pension scheme;
- Save 5% of their post-tax earnings, to protect themselves against a period of lower earnings;
- Pay for childcare (for which the costs shown are net of any Universal Credit contribution to these costs).

The results show that in the baseline scenarios represented by the left-hand bars, a single person loses 30% of their income through rent, and families with children lose 12-16%. The difference is due to the fact that it is assumed that a single person cannot access social housing, but in practice this will also be true of many families on middle incomes (although some may have obtained a social rental when their income was lower). The right-hand bars show a much larger loss of disposable income where all the deductions apply: as much as 50% for the single person and 35-40% for the families.

Figure 17 - Potential deductions on median income (estimates for 2023/24)

Figure 17a: **Single person:**

- Earnings of £29,000 a year produce £1,890 a month after state transfers
- Bars show breakdown of selected deductions

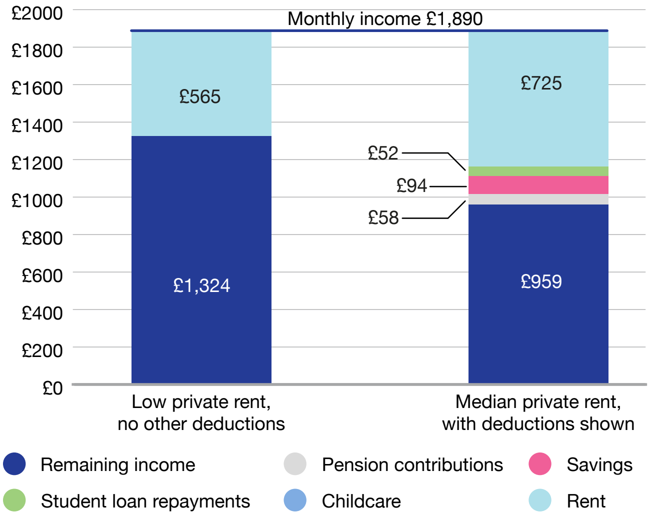


Figure 17b: **Lone parent working full time:**

- Earnings of 45,000 a year produce £3,000 a month after state transfers
- Bars show breakdown of selected deductions

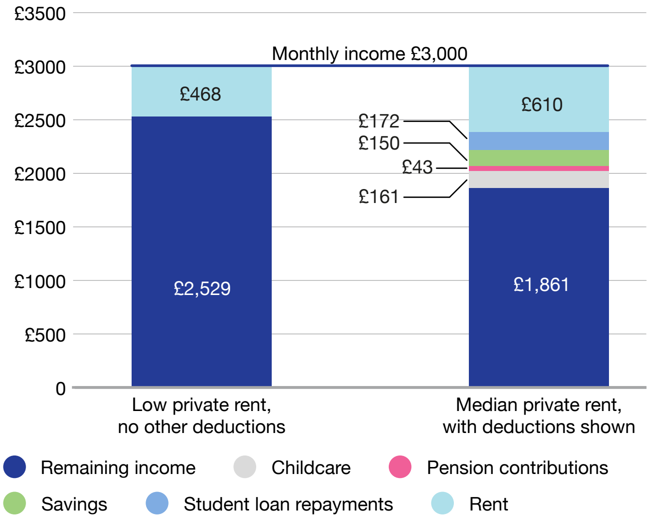


Figure 17c: **Couple 2 children, single earner:**

- Earnings of 65.500 a year produce £3,907 a month after state transfers
- Bars show breakdown of selected deductions

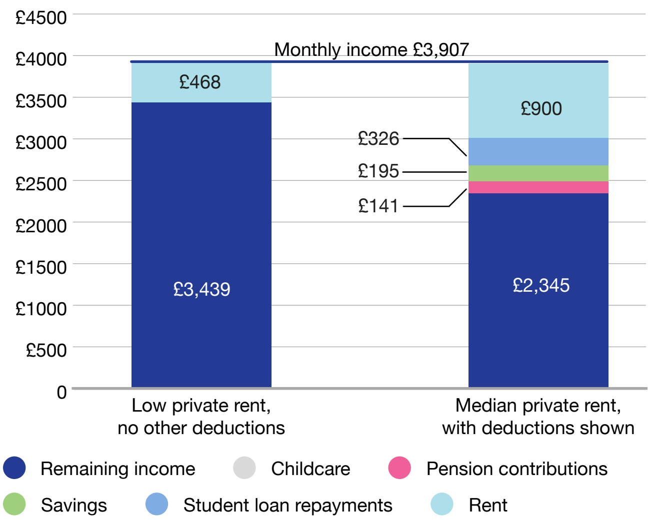


Figure 17d: **Couple + 2 children, one full time one part time earner:**

- Earnings of £38.000 and £19,000 a year produce £3,935 a month after state transfers
- Bars show breakdown of selected deductions

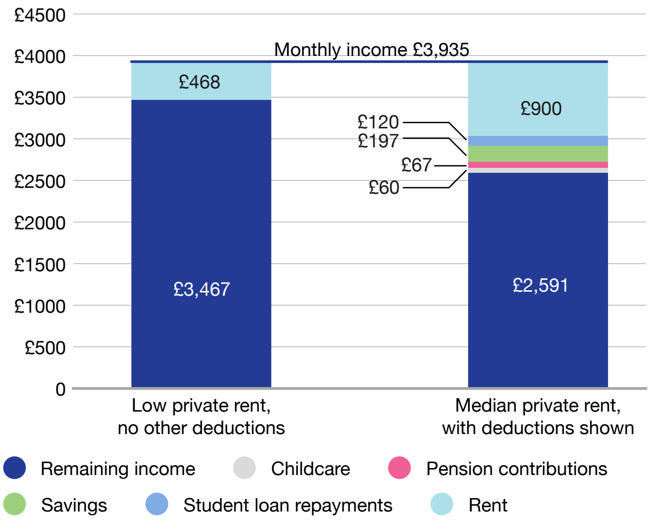
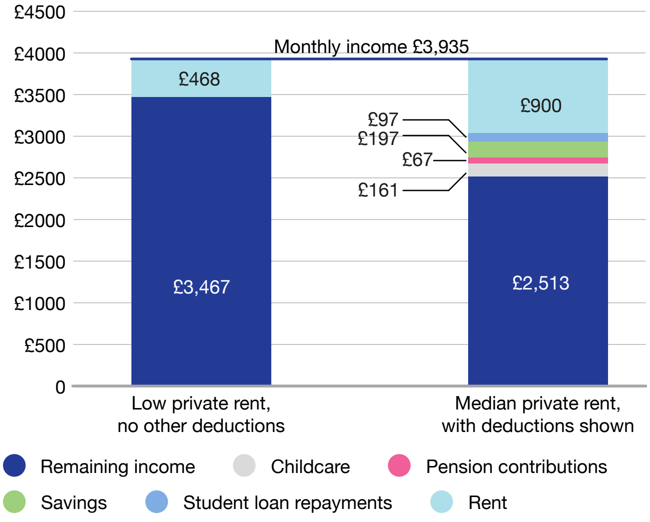


Figure 17e: **Couple 2 children, parents work full time:**

- Earnings of £29,500 per parent a year produce £3,935 a month after state transfers
- Bars show breakdown of selected deductions



Author calculations: see Appendix 4.

How serious are these losses in terms of living standards? As a benchmark, the Minimum Income Standard, calculated by Loughborough University from public consensus about a minimum acceptable standard of living, shows that in 2023:

- A single person needs **£1,343 a month** net, after covering rent and childcare, to reach this minimum. Thus, a single person on a median income with a low private rent and none of the other deductions falls just short of reaching a minimum acceptable income (with £1324 net), but with all the additional deductions shown falls nearly 30% short (with £959 a month).
- A lone parent needs **£2,256** a month, and gets about 10% above this level with a social rent and no other deductions (with £2,529 net), but falls nearly 20% short with all the additional deductions (to £1,861).
- A couple with two children requires **£2,752** a month, comfortably achieving this with a social rent and no additional deductions, but in all the cases shown falling at least 15% short if all the deductions apply.

This shows, alarmingly, that even people classified as being on middle incomes risk not meeting minimum requirements in some scenarios. While not many families are likely to have all the deductions shown in the right-hand bars, this illustrates the potential for frustration for those who earn enough to put them on a middle income, but still risk having not enough income for a decent living standard if they incur certain costs that might be expected for middle income groups, including taking on student loans to acquire qualifications, saving for the future and working before children reach school age.

Note that the deductions shown are net of any additional benefits the families would expect to help them with these additional costs. In practice, in the baseline scenarios, in-work benefits apply only to the lone parent; in the other cases earnings are too high to be eligible. On the other hand, for the dual-earner couples with children, the combination of higher rents and the incursion of childcare costs trigger eligibility for some Universal Credit. Nevertheless, since only a small entitlement is left after the income taper is applied, the additional cost must in these cases be born primarily by the family.

It is also worth highlighting why the earnings required for a single-earner family to reach median income (which is measured after taxes and benefits) is very high, £65,500 a year. If such a family earns, say, £50,000 a year, well above median earnings, they will still not reach median income, adjusted for their family size, which is larger relative to their earning power, since one earner is having to support four people. They will be earning too much to receive Universal Credit, and once they earn above £50,000 a year, Child Benefit starts being withdrawn, reducing the amount that each extra £1,000 in earnings increases disposable income. The tapering of Child Benefit has become a much more serious issue for middle income families: it now affects over one in four families, due to rise to nearly one in three in the next two years, compared to only one in eight when Child Benefit stopped being universal in 2013 (IFS, 2022).

Conclusion

This report has considered the extent to which households in the middle of the income distribution are facing insecurities and costs that affect their ability to thrive economically, and reduce their resilience during difficult times, such as the present cost of living crisis.

The results are mixed. On the one hand, on most of the measures considered above, people at the bottom of the distribution are far worse off than those in the middle. On the other hand, the evidence shows that many households on median income continue to face economic struggles. Above all, it shows that they are a heterogeneous group, about whom generalisations are difficult.

Four particular conclusions about this group stand out:

- Having a median income does not make people secure. Over one in four people currently in the middle of the income distribution are not in secure employment, and one in seven are not in secure housing. One in three of those in the middle quintile in a given year have slipped down to a lower quintile the following year.
- Having a median income can have a wide range of outcomes in terms of living standards, depending to a large extent on how much of this income is pre-empted by housing costs, by pension contributions and saving, by repayments due on student loans and other forms of debt and by childcare costs. For a family with children, for example, these costs can pre-empt anything from about 12% to about 40% of post-tax income.
- While financial pressures on middle income families are not new, some of the costs identified have become more important over time. Childcare costs have outstripped other prices and earnings; housing has in many cases become less affordable; student debt has increased greatly since fees increased 15 years ago; pension savings are becoming more important to retirement security.
- Some groups are clearly more vulnerable than others. Single adults and lone parents have less security and resilience than couples. People in privately rented accommodation face the double disadvantage of high housing costs and low security. Younger adults are more likely than older ones to have insecure work, higher housing costs and be repaying student debt.

Policy responses to these issues need to be selective, focusing on those most at risk. In particular, they need to address employment and housing insecurity. They also need to consider more actively which groups are most vulnerable because they lack backup of other family members, with much more attention being given to singles. In addition, governments need to build on the support it gives to people who are willing to spend money on pensions and other savings, and on childcare, to avoid these becoming an unaffordable burden.

It is beyond the scope of this study to propose specific policies across each of these wide-ranging areas. However, this analysis strengthens the case, made by others, for particular policies including:

- New legislation on employment protection. Measures to improve predictability, stability and the right to flexible working had been promised for the present Parliament, but were not delivered. In the coming Parliament, this should be a priority.
- Protection for private tenants that will improve their security. The Renters Reform Bill currently going through Parliament makes an important start in this direction, after more than three decades in which the private rented sector has offered weak protection for tenants, and has continued to grow.
- Greater help in accessing childcare, giving greater access to secure employment, and avoiding a situation where the benefits of improving earnings to reach a middle income are largely cancelled out for families by childcare costs. While current plans to extend free childcare hours are welcome, government needs to do more to address the crisis in childcare supply (Guillaume, 2022).
- Greater support for adequate pensions. The current 8% combined contribution under auto-enrolment rules is not enough to provide long-term security. Higher contributions by employers and/or government would contribute significantly to long term security for middle income households (Nest Insight, 2022).

Appendix 1: How we measure economic activity and job insecurity status

Status defined at individual level

We classify working age adults into three categories based on their activity status and the extent to which their job can be considered as secure. Job security is defined in terms of respondents' employment status (i.e. being employed or self-employed), job tenure (defined in terms of the time the respondent has been with the same employer) and by whether he/she is working full-time or part-time. In particular, the conditions we used to classify respondents under each of the three categories are described below:

1. Not working: Unemployed and economically inactive adults, and on maternity leave[9]; unpaid family workers; those engaged with government employment and training schemes.
2. Insecure work: part-time workers who held their jobs for less than 3 years; self-employed workers; full-time employees who have held their jobs for fewer than 2 years; all other full-time workers who earn less the 50% of average FT monthly earnings; all workers working fewer than 16 hours; workers in temporary posts; on furlough (Wave 11/12 specific) and those temporarily laid off/short-term working.
3. secure work: part-time workers who have held their jobs for 3 years or more; full-time workers earning over 50% the average full-time earnings and in their job for 2 years or more.

We use the 'two years with the same employer' threshold to define job security for full-time employees given that employment rights are acquired after 2 years of service. Although there is no distinction in the years needed to establish employment rights between part-time and full-time employees we use a slightly higher threshold for part-timers than for full-timers (3 years instead of 2) in order to have a slightly longer criterion for part time, which is inherently less secure.

Status defined at benefit unit level

To take into account the fact that employment (and other) risks are pooled within households we aggregate the individual labour market and security status at the benefit unit level. For this aggregation each working age individual is classified according not only by their own activity and job security status but also the activity/job security of his/her partner if he/she has one. This results into the following six-level categorisation:

1. No work: A single or couples both out of work
2. Insecure work: Singles or couple both in insecure work
3. Secure work: Singles or couple both in secure work
4. Insecure work & no work: Couples, one in insecure work and the other out of work
5. Secure work & no work: Couples, one in secure work and the other out of work
6. Secure and insecure work: Couples, one in secure work and the other in insecure work.

For ease of exposition, we further aggregate these categories in two further simplifications.

In the appendix charts below, we classify couples into four categories: Not working (category 1 above), some work but not secure (2 and 4) "secure work for one partner only" (5 and 6) and "both in secure work" (3); and singles into no, insecure and secure work (1, 2 and 3). In the main text charts, we further simplify by classifying singles and couples according to whether they have no work (category 1), insecure work only (2 and 4) or at least some secure work (categories 3, 5 and 6). For some comparisons, we also combine the no work and insecure work categories, showing only whether or not they have any secure work; this makes it easier to observe broad employment security patterns across multiple family types and income quintiles.

[9] We have classified people on maternity leave under the no work group for two reasons. The first was data driven as many off the respondents on maternity leave had maternity leave durations much longer than one would expect given the maternity leave rules (which probably reflects a potential misreporting of maternity leave and family caring responsibilities status categories).

The second was most substantive and relates to evidence which suggest that mothers have high chances of withdrawing from full-time employment or employment altogether after childbirth (see Employment pathways and occupational change after childbirth - GOV.UK (www.gov.uk))

Appendix 2: How we measure housing affordability, security and adequacy

We measure housing outcomes in terms of housing affordability, housing security and housing adequacy.

Housing affordability: In line with the standard approach in the literature we measure housing affordability by the housing cost to income ratio. This categorises people as being in unaffordable housing if they spend more than a third of their disposable income on housing (either on rent or mortgage payments). In operationalising the housing affordability used in this report we also take into account the Housing Benefit and Universal Credit receipt status. In particular under our definition, working age individuals are classified as being in unaffordable housing if they live in:

- a private rented accommodation and receive HB but the amount the HB that they receive does not cover the full amount of their rent;
- a private rented accommodation and receive UC (for UC recipients we cannot disentangle the housing benefit element from the rest of their UC payment and thus are assigned as being in unaffordable housing);
- a private rented accommodation and they do not receive HB and the rent that they pay is more than a third of the total equivalised household disposable income;
- a social rented accommodation and their rent is more than a third of their equivalised household income;
- an owner-occupied accommodation with mortgage where the mortgage payment (both interest and capital repayment) is more than a third of their equivalised household income.

Housing security: Working age adults are classified as being in secure housing conditions if they live in an owner-occupied accommodation (with or without a mortgage), in social rented accommodation (through local council or housing association) while they are classified as being in insecure housing if they live in private rented accommodation.

Housing adequacy: The *Understanding Society* survey includes information on the size of home and the number of people living in it that makes possible an indicator of housing adequacy: whether it is overcrowded, in terms of standard definitions of how many bedrooms are needed according to the number, age and gender of residents. The overcrowding measure used here is a modification of the bedroom standard approach (BS) (Shelter, 2006). According to this we allocate a bedroom for: each couple and each single person aged 16 and over and for each pair of same-sex adolescents (defined as aged 10-15 years – as opposed to 10-20 years old in the original BS measure) and each pair of the same or opposite sex children (under 10 years old – as opposed to 9 years or under in the original BS measure). For any adolescents and children who remain after these pairings, sharing a bedroom is allowed as long as they are of same sex (i.e. if their sex is different, a separate bedroom is required for each child). Overcrowding is then determined by summing up the number of bedrooms needed according to the conditions above and comparing the resulting sum to the actual number of bedrooms. If the resulting number is higher than the number of bedrooms available, it counts as overcrowded. The modified bedroom standard (MBS) approach (Shelter, 2006) applies the same rules but with children under 8 years old, adolescents 8–17 years old, and adults 18 years old and over. This allows unlimited numbers of children to live in the same room if they are same sex or under 10.

Appendix 3: Detailed labour market results

Figures A1-A2: Change in labour market status by family type, 2010-11 to 2019/20, based on Understanding Society, Waves 2 and 11

Figure A1: Labour market status, without children

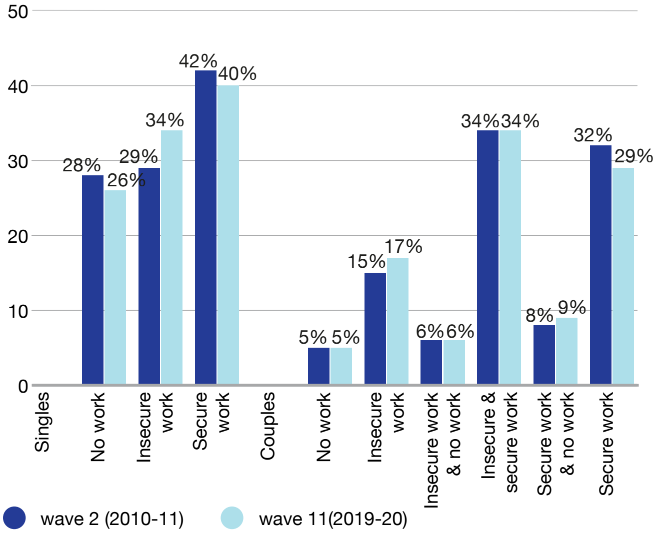
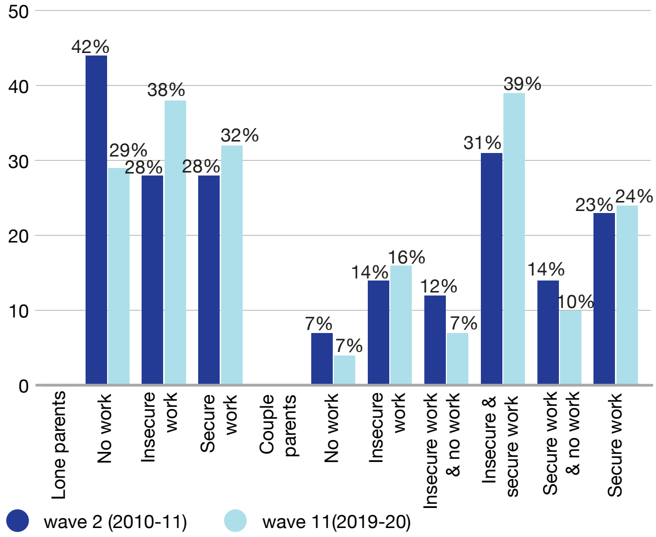


Figure A2: Labour market status, with children



Figures A3-A6: Distribution of work and income status, by family status, 2020/21, based on Understanding Society, Wave 12

Figure A3: Distribution of work and income status, couples no children

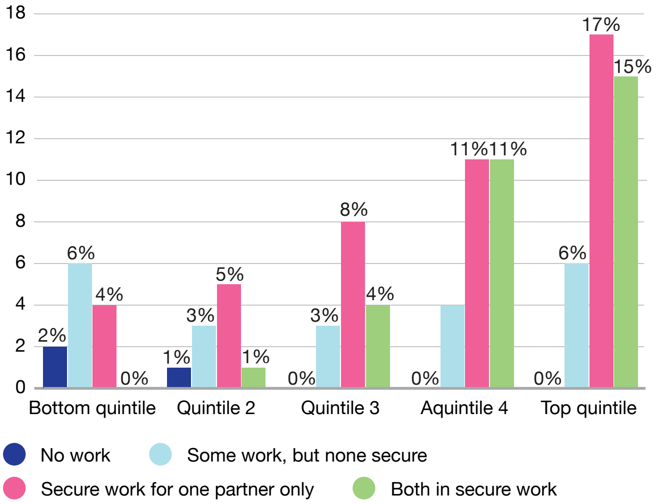


Figure A3: Total, all couples without children

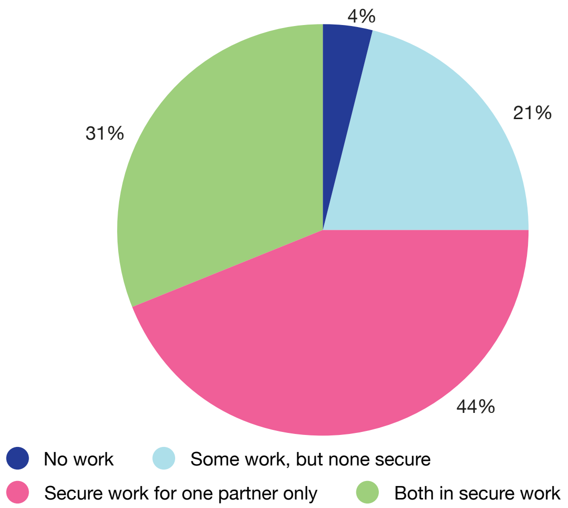


Figure A4: Distribution of work and income status, singles

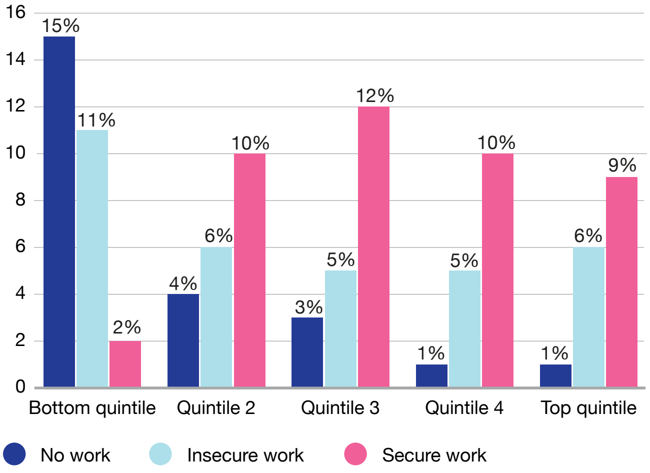


Figure A4: Total, all singles

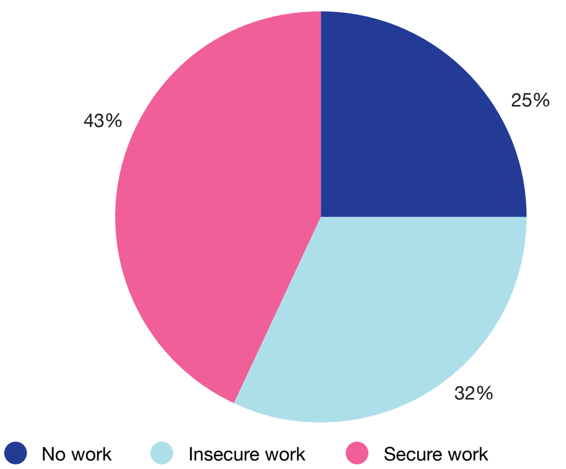


Figure A5: Distribution of work and income status, couples with children

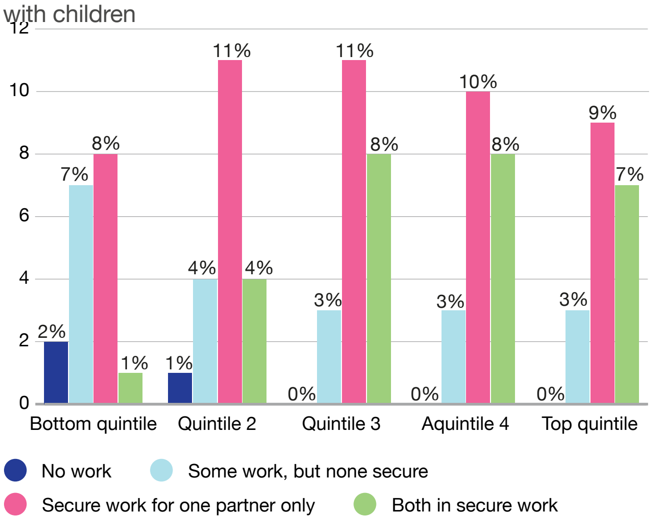


Figure A5: Total, all couples with children

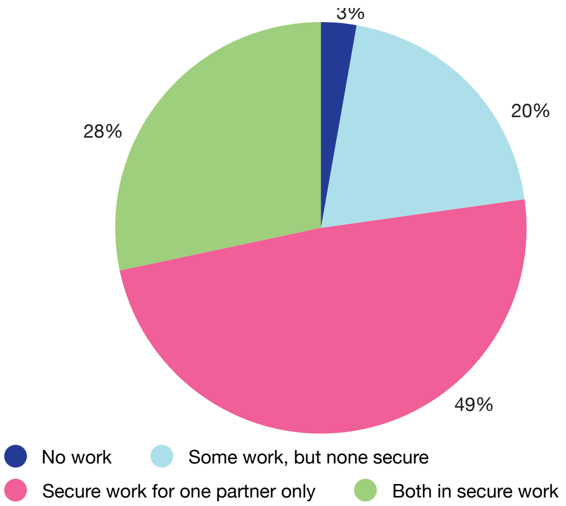


Figure A6: Distribution of work and income status, lone parents

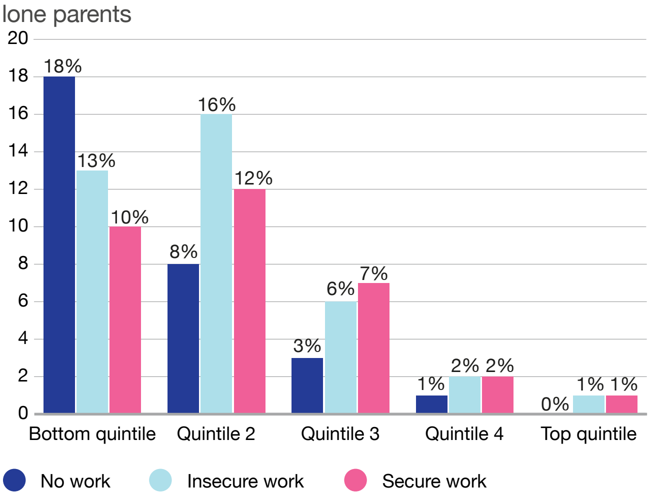
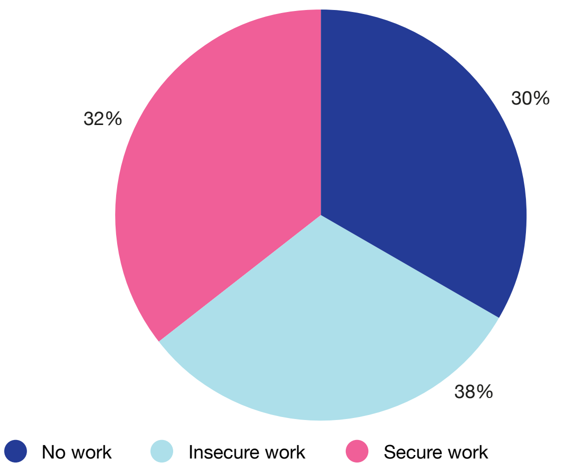


Figure A6: Total, all lone parents



Figures A7-A10: Distribution of work and income status, by age, 2020/21, based on Understanding Society, Wave 12

Figure A7: Distribution of work and income status, aged 18-29

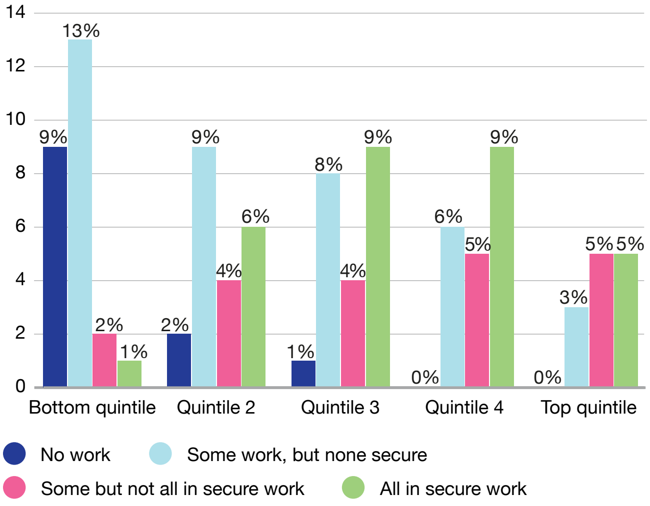


Figure A8: Distribution of work and income status, aged 30-39

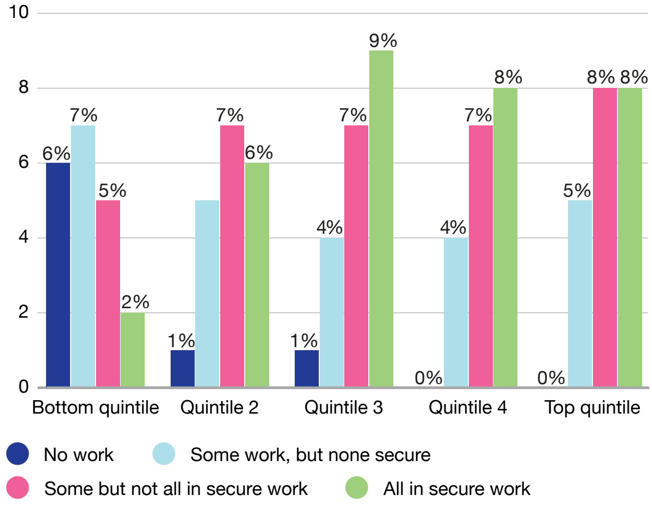


Figure A9: Distribution of work and income status, aged 40-49

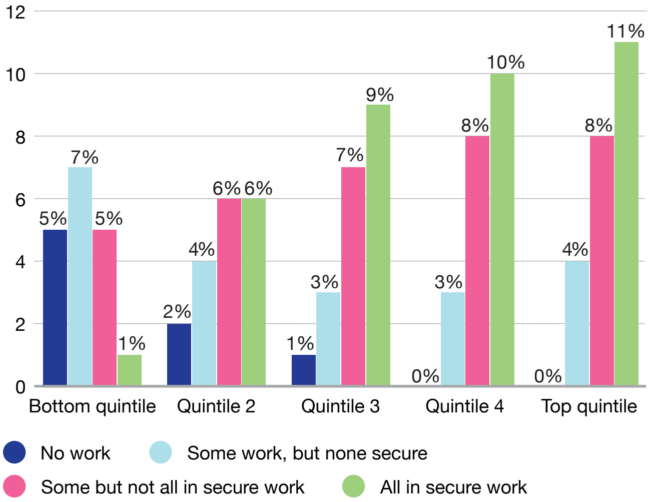
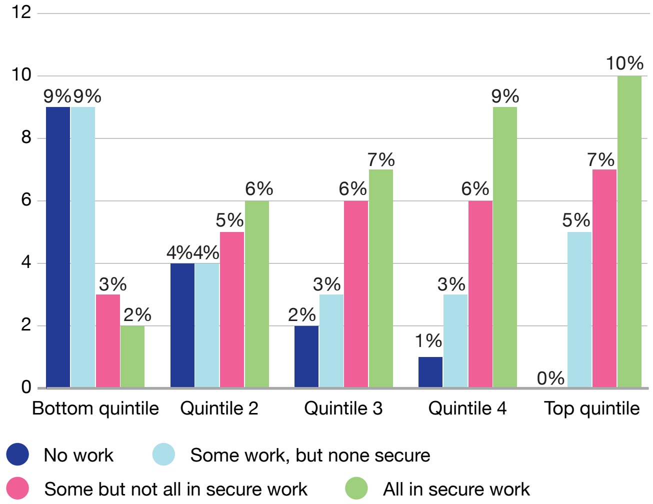


Figure A10: Distribution of work and income status, aged 50+ (below pension age)



Appendix 4: Basis of income calculations in Figure 19

The calculation starts with an estimate of monthly income required to have median earnings before housing costs in 2023/24. This calculation uses households below average income (HBAI) median for 2021/22, with an estimated increase based on the growth in average weekly earnings over two years (ONS). Information on tax and benefits is used to translate this into an earnings requirement in each case.

Valuation Office Agency data is used to estimate private rents ("low" = lower quartile). Student loan repayments are based on income schedule using latest student loan repayment terms. Savings assume 5% of income before housing costs. Pension contributions are calculated from schedule of auto-enrolled contributions at 4% of eligible earnings. Childcare costs for lone parent are based on the Minimum Income Standard estimate of cost of full-time childcare for a family with a preschool and primary school aged child.

The net effect of each deduction is worked out cumulatively, starting from the top segment of each bar – i.e. the effect of a deduction on remaining income uses a comparison assuming the deductions above it have been made, since the effects of some deductions interact.

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