



Resolution Foundation

BRIEFING

The generation of poverty

Poverty over the life course for different generations

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Summary

Poverty is an age-old problem, but its prevalence has shifted greatly over time. As inequality grew rapidly throughout the 1980s, relative poverty grew with it, peaking at 25 per cent in the mid-1990s. At this time, poverty was the hot-topic issue. However, attention had since begun to decline as shifts in the economic and policy backdrop meant that circumstances were improving. But today, with expectations of rising child poverty, and a broader debate about inequality gaining traction, the issue has re-entered mainstream public discourse.

Discussions about poverty in the UK have largely focused on children and pensioners. Since these are the life stages at which relative poverty rates have been at their highest on average since 1961, and at which people are at their most vulnerable and least able to take actions to escape poverty, this concern is clearly warranted. But patterns of poverty through the life course have also changed over time, with lifetime experiences of relative poverty rates shifting by generation. This briefing note takes a step back to examine the incidence of poverty throughout the life course for different generations, and how this has changed over the past six decades. Our focus throughout is on relative poverty – the proportion of people with household incomes below 60 per cent of the median – accepting that economic growth has delivered huge declines in ‘absolute’ poverty through the generations.

The general life-course pattern of relative poverty is greatly influenced by the costs and incomes associated with certain life stages. The additional income required to meet the costs faced by larger families as children arrive (accounted for in income data by ‘equivalising’ for household size) means that child poverty rates are generally higher than rates at other life stages. In contrast, it is low incomes in retirement that have historically driven exceptionally high pensioner poverty rates. But overriding societal trends have implications for all generations above and beyond this. It was during big increases in inequality of the 1980s that all generations then alive experienced the highest rates of relative poverty in their lifetimes - be that in childhood for the millennials, mid-working life for the baby boomers and in later life for the greatest generation. This happened because middle-income households pulled away, living standards-wise, from poorer families of all ages.

Relative poverty rates have since diverged for children and pensioners. Almost half of pensioners aged above 75 were in poverty in the 1960s. Since then, and despite the pensioner-poverty uptick of the 1980s, relative poverty for pensioners (measured after housing costs) has fallen by over two-thirds to just 15 per cent for older members of the silent generation, born in the pre-war era. This is due to a combination of increased pensioner income from employment

and private pensions, lower relative housing costs and continued efforts by recent governments to support pensioner incomes via the social security system (for example in terms of State Pension uprating policy and the introduction of Pension Credit).

In contrast, child poverty declined from the mid-1990s onwards, falling by 10 percentage points from 35 per cent to 25 per cent at the age of eight for the eldest cohort of the latest generation (born in the first decade of this century) when compared to those born 10 years earlier. This was due in part to increases in the cash benefits offered to families with children. But cuts to the working-age benefit system have started to reverse some of these declines, leading to the divergence in child and pensioner poverty rates. Our projections show that the 2016-20 cohort are expected to face the highest rates of relative child poverty to date, at close to 40 per cent at the age of two.

Relative poverty rates are also expected to rise for working-age adults, who historically have escaped from high poverty rates. Millennial and generation X cohorts are likely to face the highest working-age poverty rates to date, with almost a quarter of the 1991-95 cohort expected to be in relative poverty in their late 20s. A key feature of these trends – relative poverty falling for pensioners while rising for children and working-age adults – is that the majority of people in poverty now live in a household in which someone works. This is a big shift in how we understand who experiences poverty and how policy can best seek to tackle it.

Alongside a shift towards in-work poverty, housing costs have been central to the resurgence of relative poverty among younger generations. This is evidenced by a divergence in their before- and after-housing-cost poverty rates. For millennials, at age 25, the after-housing cost poverty rate is 8 percentage points higher than the before-housing-cost rate, at 22 per cent. This is compared to a difference of 3 percentage points for the baby boomers at the same age. Key to this is the fact that housing costs have increased significantly since the 1980s, and have done so disproportionately for those on lower incomes who are increasingly more likely to be paying more to live in private-rented accommodation.

Lastly, a look at what households in poverty spend their money on demonstrates how the experience of poverty is changing. Comparing consumption patterns for in-poverty groups since the turn of the century shows that the share of non-housing spending that young adults (aged 18-29) in poverty devote to 'essentials' (which we define as food, fuel, clothing and transport) has increased by 16 per cent, while the share going to 'leisure' (hotels, restaurants, recreation and culture) has fallen by around 10 per cent.

This is a much stronger increase in the share of spending being devoted to essentials than that for all 18-29 year olds. In contrast, consumption patterns have barely changed for over-50s living in poverty, who are now spending around £45 more per week than they did almost 20 years ago.

Behind these changes in spending patterns is a fall in material deprivation between 2012 and 2016, as the impacts of the crisis have unwound. This improvement in living standards as a whole has affected all age-groups, but particularly those aged over 40 who now have material deprivation levels that are lower than they were pre-crisis.

This analysis of poverty across the life course and through the generations is an illuminating reminder of the drivers of poverty at different ages. The social security system has traditionally sought to mitigate against these, although its emphasis has been shifting away from the young in recent years. And housing costs have provided a headwind, but one that has not been felt equally across the age range given the different housing situations people at different life stages and in different generations find themselves in.

It is clear that the combination of societal changes and concerted policy effort has reduced pensioner poverty and gone a long way in improving living standards for this age group more generally. This is a great policy success, with lessons for how we approach the living standards of other age groups. Unless adequate solutions are found, our outlook for the coming years suggests that poverty rates will continue to increase for children and working-age adults. This note demonstrates that considerations of the shifting experience of poverty towards households in which someone works, of the role of housing costs, and of the functioning of the social security system will be essential to policy efforts to combat these outcomes.

Poverty ebbs and flows – over the course of people’s lives and over time

Poverty was a hot topic throughout the 1980s and 1990s, as income inequality grew rapidly and, along with it, the number of people living in relative poverty. However, as concerted efforts and wider factors led to reductions in both pensioner and child poverty, discussion of the issue began to subside. Similarly, political attention on poverty has waxed and waned, with the targets established by the Child Poverty Act 2010 partially abolished in 2016, and wider living standards stagnation over the past decade at times superseding the focus on the experiences of people in poverty in particular.

But today, with expectations of rising child poverty in coming years,^[1] and a broader debate about inequality gaining traction,^[2] the issue has re-entered mainstream public discourse.

To provide context for this debate, this briefing note takes a step back to look at the incidence of relative poverty through the life course, and how this has changed through the generations over the past six decades. Our contention is that to understand poverty is to recognise that it is not a static thing, but ebbs and flows along two key dimensions:

- First, poverty varies over an individual or cohort’s lifetime, as costs – such as those associated with having children – and income shifts – such as the loss of labour market income in retirement – put different pressures on the living standards of people of different ages.
- Second, broader societal changes, and changes in policy, drive differential experiences of poverty at different points in time, and therefore for different generations.

Exploring these ebbs and flows is the task of this paper, with the view that a granular picture of the extent to which poverty affects people at different stages of life, and how this has changed over time, aids understanding of poverty’s drivers and effects. This understanding is as relevant to policy makers today as it ever has been.

Throughout this note, we employ a relative poverty measure in order to determine poverty rates. On this measure, a person is in poverty in a particular year if their equivalised household income (our central focus is on after-housing-costs income) is below 60 per cent of the median, or typical, income in that year. But given the complexity of poverty as an issue there is no single metric for capturing it. Rather, there are a number of ways in which poverty can be measured with each offering different benefits. For a fuller discussion on definitions of poverty, see Box 1.

[1] A Corlett, *The Living Standards Outlook 2019*, Resolution Foundation, February 2019

[2] R Joyce & X Xu, *Inequalities in the twenty-first century: introducing the IFS Deaton Review*, Institute for Fiscal Studies, May 2019

i Box 1: Measuring poverty

In essence, poverty means falling short of a decent standard of living. But this can occur to varying degrees. Namely, there is a difference between being destitute, i.e. being unable to afford a home or to eat, and having a home and food but falling short of other basic needs such as heating or the ability to buy new clothes when needed. Further, there is the question of whether a household's income is sufficient when judged against living standards and social norms at the time. As such, the measures that we use to determine poverty are multiple and often disputed.

In this briefing note, we favour the use of the income-based relative poverty measure, under which a person is in poverty in a particular year if their equivalised household income is below 60 per cent of the median income in that year. This measure adjusts to the year in question such that the calculation of poverty reflects the level of income other members of society have at the time. In effect, the relative poverty rate captures the proportion of people who are financially left behind.

Recent work by the Social Metrics Commission has sought to 'enhance' this relative poverty measure, for example by accounting for the extra costs of childcare and having a disability. We see merit in exploring these kinds of approaches to complement existing measures, but cannot do so in this report as these adjustments are not possible in the data stretching back to 1961.^[3]

For our central measure of poverty

we focus on incomes after housing costs, because, in line with other organisations,^[4] we think this better captures the lived experiences of households, particularly when comparing pensioner poverty to poverty at other ages. The data used throughout this report refers to the UK as a whole.

Because measuring poverty in relative terms, i.e. against the standard of living of the day, means that the poverty benchmark shifts over time in relation to the price of a fixed set of goods and services, a measure of absolute poverty is a common alternative. This holds the poverty line constant at 60 per cent of the median income in a specific year, uprated by inflation (currently the most widely used absolute poverty line is based in 2010).

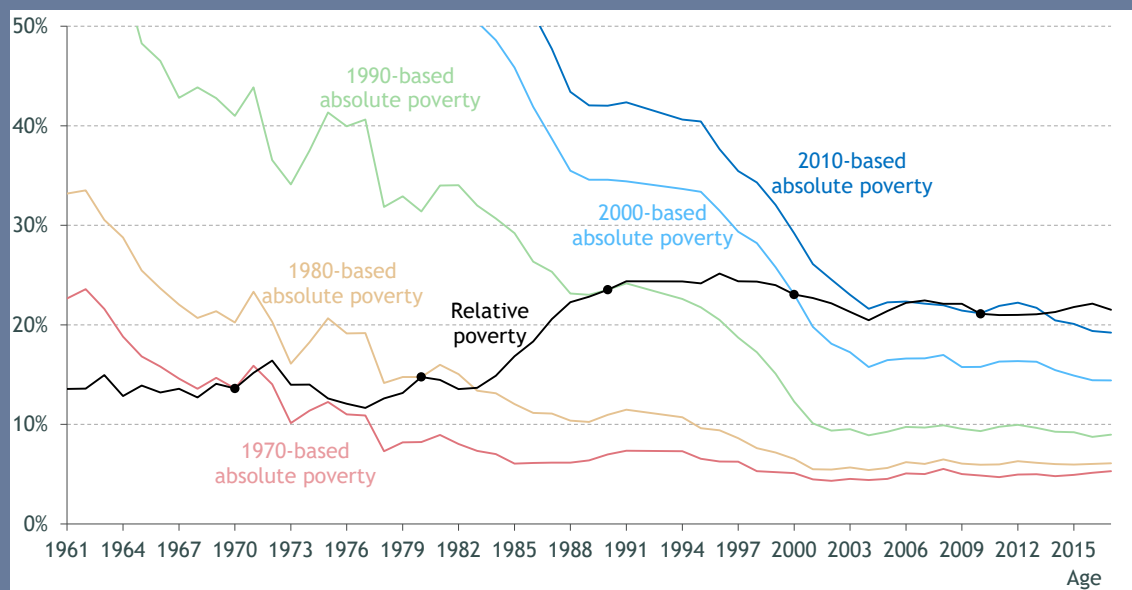
Figure 1, which shows poverty rates over time on different income-based measures of poverty, illustrates the contention between absolute and relative poverty measures. While poverty rates mostly decline over time on every absolute poverty measure, particularly during the 1980s when economic growth was at its highest, they fluctuate on the relative poverty measure. In contrast to the absolute measure, relative poverty increased most during the 1980s, indicating that although proportion of people in absolute poverty was declining, the proportion being left behind by the high growth of the time was increasing. Since then, there has been much more stability across measures.

[3] Social Metrics Commission, *A new measure of poverty for the UK: The final report of the Social Metrics Commission*, September 2018

[4] Joseph Rowntree Foundation, *UK Poverty 2018: A comprehensive analysis of poverty trends and figures*, December 2018

Figure 1: Absolute poverty has declined over time on all measures

Proportion of people living in absolute and relative poverty (after housing costs)



Notes: Data for 1992 and 1993 have been interpolated due to unavailability of actual data.
Source: RF analysis of IFS, Households Below Average Income; DWP, Family Resources Survey

A growing economy means we would always expect absolute poverty to decline over time. This is important context for the focus on shifting poverty rates through generations in this note. There is no doubt that even the poorest people today can afford a greater range of goods and services than people in the 1960s – any alternative would represent economic disaster. As such, relative poverty is a more appropriate metric when considering poverty experiences over long periods of time.

These statistics provide a useful indication of poverty rates over time, however some of the figures are likely to be overstated due to the underreporting of benefits in survey data. In 2016-17, research by the Resolution Foundation found a £37 billion gap in benefit spending reported by *Households Below Average Income*, when compared

to government spending figures.^[5] Nonetheless, the pattern of changes to poverty rates over the decades is likely to remain roughly similar. As such, the statistics do still enable us to draw an understanding of changes in poverty rates through the decades, as well as generational patterns of poverty. Moreover, it is likely that this underreporting will be revised in future data, however this is unlikely to happen for data back to 1961.

Naturally, income-based indicators of poverty as a whole have their limits; rather than directly measuring whether people are able to meet certain basic needs, they use incomes as a proxy for this. The Joseph Rowntree Foundation's social consensus-based *Minimum Income Standard* is one approach researchers have used to overcome this.^[6] Another is to directly measure the incidence of material deprivation, the subject of Box 2.

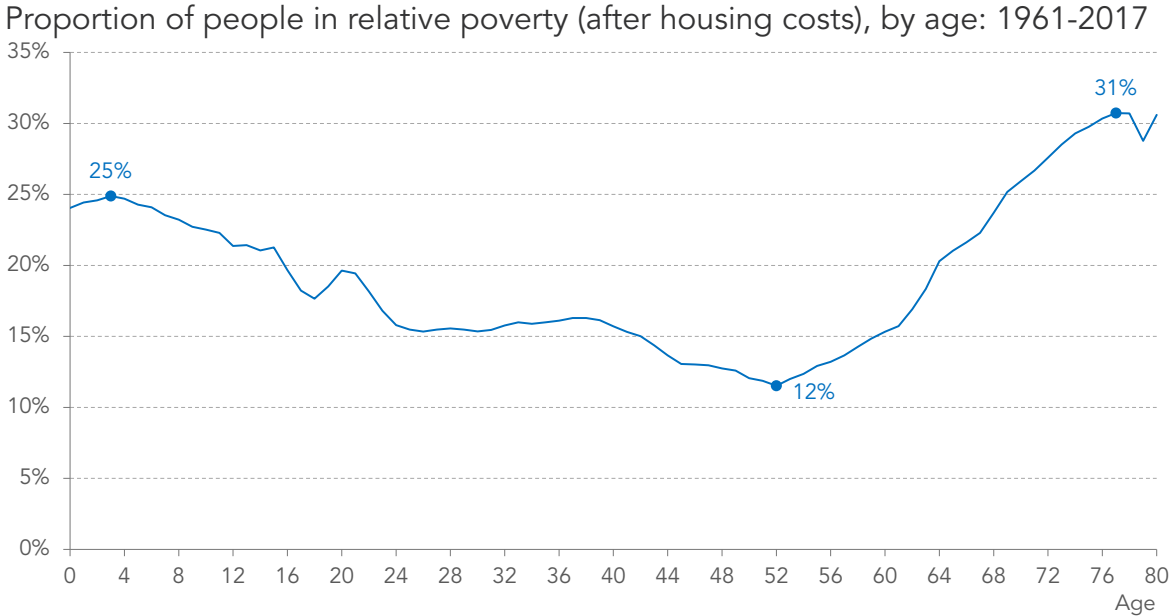
[5] For further detail, see: A Corlett et al., *The Living Standards Audit 2018*, Resolution Foundation, July 2018

[6] A Davis et al., *A Minimum Income Standard for the UK 2008-2018: continuity and change*, Joseph Rowntree Foundation, July 2018

On average, children and pensioners have had the highest rates of poverty over the past six decades

Discussions about poverty in the UK have largely focused on children and pensioners. Since these are the life stages at which relative poverty rates have been at their highest on average since 1961, this concern is evidently warranted. The general pattern of poverty over the life course is shown in Figure 2. In the period from 1961-2017, an average of 25 per cent of the population experienced poverty in early childhood (at age 3). These high rates of poverty have typically declined throughout working life to a low of 12 per cent around the age of 50, but risen again in old age, with almost a third of those in their late 70s (over the course of these six decades as a whole) living below the poverty line.

Figure 2: Poverty has been highest among children and the elderly over recent decades



Source: RF analysis of IFS, *Households Below Average Income*; DWP, *Family Resources Survey*

These patterns across the life course reflect different drivers of poverty. The additional incomes that people require when they have children (which are accounted for in poverty measures by ‘equivalising’ incomes to account for household composition), coupled with the fact that having children is often associated with reducing market income by reducing working hours or leaving the labour force, mean that child poverty rates are generally higher than rates at other life stages. Similarly, poverty rates are higher in the earlier half of working life, when compared to the latter half, as these are the ages at which more people will be raising their children.

In contrast, it is low incomes in retirement rather than the costs (or, more specifically, the household-size-adjusted income requirement) of larger families that drive increases in relative poverty at older ages. As well as mitigating the effects on unemployment and ill-health across the life course, it is these risks of higher costs when having children and

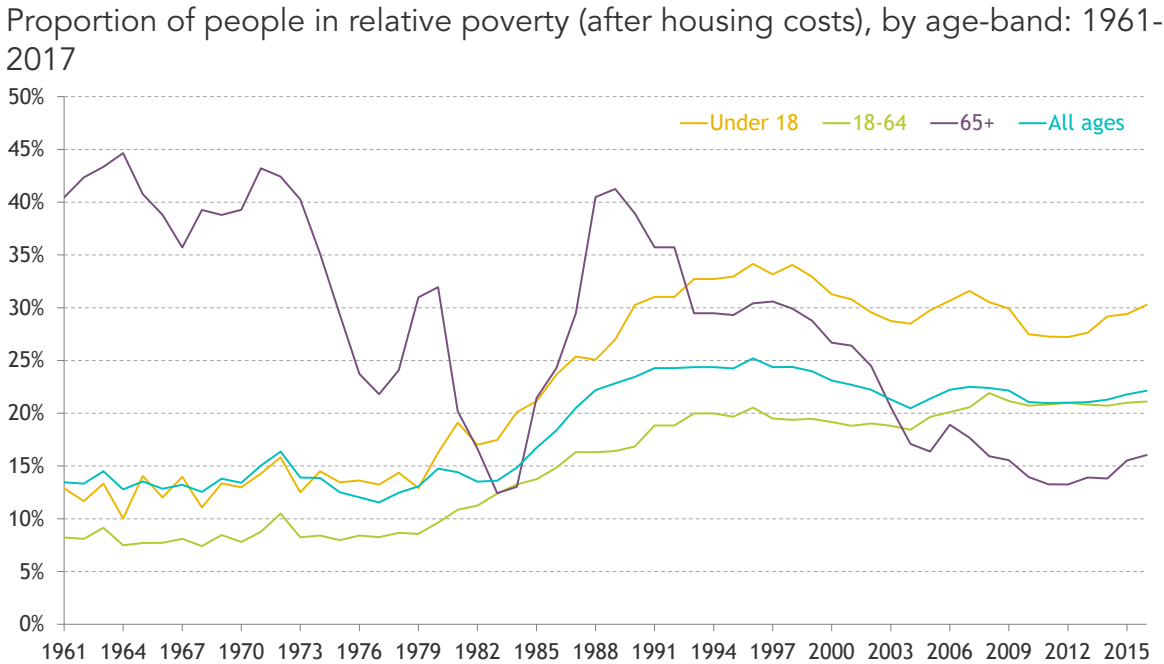
lower incomes when in retirement that the social security system is, in general terms, designed to counteract. This reflects both traditionally higher poverty incidence, and the fact that children and the very old are the most vulnerable members of our society and the least able to take actions to escape poverty.

However, the fact that this life-cycle pattern is true on average since the 1960s does not mean it is true for every cohort. Each individual cohort or generation has their own life-cycle poverty picture, with the differences between them driven by the ebbs and flows of policy and wider societal and economic changes.

The incidence of poverty at different ages has shifted dramatically since the 1960s

One of the most important determinants of how people’s living standards vary over time is those big societal trends that affect all of society in a given period. When it comes to the jobs market, the financial crisis and its after-effects dominate the story of the past decade, for example. When it comes to relative poverty, the most important big trend of the post-war period was the overall increase in inequality in the 1980s, which was driven by a number of factors including unequal earnings growth, changes to the tax and benefit systems, and changing household structures and employment patterns.^[7] As a result, the Gini coefficient for after-housing-costs household income increased from 25 in 1978 to 38 in 1998.^[8]

Figure 3: The relative poverty rates of children and pensioners have diverged since the 1980s



Notes: Data for 1992 and 1993 have been interpolated due to unavailability of actual data. Source: RF analysis of IFS, *Households Below Average Income*; DWP, *Family Resources Survey*

[7] J Cribb, *Income Inequality in the UK*, Institute for Fiscal Studies, February 2013
[8] Institute for Fiscal Studies, *Inequality, Poverty and Living Standards Data*, 2017-18

In turn, as shown in Figure 3, the after-housing-costs relative poverty rate for people of all ages increased from 12 per cent in 1978 to 24 per cent in 1991. These changes fed through across the age range, as middle-income households saw much faster income growth than their lower-income counterparts. In 1961, the child poverty rate was roughly in line with the average, at just 13 per cent, but the rising inequality of the 1980s meant that, in the three decades to 1991, this figure increased to a high of 31 per cent. For very young children (aged 3) this increase was even higher, almost tripling from 13 per cent to 36 per cent - and far exceeding the average poverty rate.

For pensioners (aged 65 and above), rates of relative poverty after housing costs increased from 24 per cent in 1979 to 41 per cent in 1989. This inequality-driven relative poverty surge did much to unwind welcome developments for pensioners in the preceding decade. For the very old (in their late 70s), around half experienced poverty in the 1960s, a shockingly high figure and the highest incidence of relative poverty recorded for any age group over the six decades we analyse. Pensioner poverty then fell throughout the 1970s and early 1980s to below 15 per cent, before rising again to over 40 per cent in the late 1980s.

Since the big increase in relative poverty at all ages in the 1980s, the experiences of different age groups have diverged. At first, poverty fell for both children and pensioners, driven in part by concerted efforts to reduce it via the social security system, including the introduction of tax credits and Pension Credit in the 1990s and 2000s. But since then, relative poverty rates for these groups have gone in opposing directions. For pensioners, poverty has fallen significantly, reaching below 15 per cent by 2010. In contrast, child poverty had started to fall in the early 2000s, but has recently resurged to 30 per cent in 2016-17.

Part of this divergence relates to relatively stronger underlying income growth at older ages, driven by strong employment growth up to and above pension age and improving private pension incomes.^[9] These trends have run alongside relative improvements in housing costs for pensioners (which we discuss in detail below). Coming on the back of earlier improvements, the result of these trends has been that while pensioners used to be concentrated at the bottom of the overall household income distribution, they are now roughly equally spread across it: in 1961, over 30 per cent of pensioners were in the bottom decile, falling to just 4 per cent in 2014-15. In contrast, the proportion at the third decile and above has grown from 51 per cent to 87 per cent.^[10]

In addition, the divergence of relative poverty trends at different ages reflects recent welfare cuts for working-age families with children via policies like the benefits freeze – cuts that in the main do not affect pensioners.

These trends highlight the fact that the social security system has, over the past decade, protected pensioners while reducing support for children and working-age adults. One

[9] For a fuller discussion of the drivers of falling pensioner poverty, see: D Finch & L Gardiner, *As good as it gets? The adequacy of retirement income for current and future generations of pensioners*, Resolution Foundation, November 2017

[10] A Corlett, *As time goes by: shifting incomes and inequality between and within generations*, Resolution Foundation, February 2017

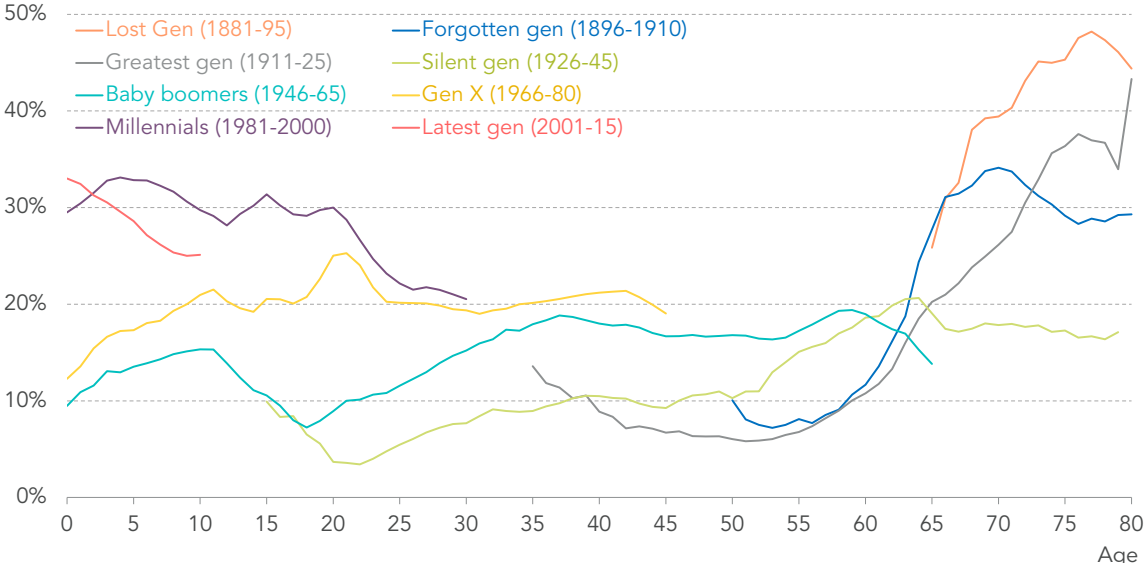
important caveat to this conclusion is in relation to childcare. Government spending on (in-kind) support towards childcare costs has increased in recent years via policies such as additional free childcare hours and the introduction of the tax-free childcare scheme. As essentially cost-reduction measures, our income-based poverty measures do not capture this increased support. Nonetheless, the big picture on shifts in overall state spending in recent years (i.e. beyond measures that directly boost incomes via the social security system) is of a shift towards those at older ages.^[11]

These diverging trends in recent years for different age groups – relative poverty falling for pensioners while rising for children and working-age adults – combined with strong employment increases and poor pay growth, have meant that the majority of people in relative poverty now live in households in which someone works.^[12] While not a central focus of this note, understanding and addressing the household and job characteristics associated with in-work poverty must be a central task of policy makers.

These trends feed through to very different life-cycle poverty patterns for different generations

Figure 4: Poverty in later life has fallen significantly through the generations

Proportion of people in relative poverty (after housing costs), by generation: 1961-2017



Source: RF analysis of IFS, Households Below Average Income; DWP, Family Resources Survey

Given these changing rates of relative poverty over time, generational experiences of relative poverty have rarely mirrored the average life-cycle pattern shown in Figure 2. Figure 4 charts generational experiences of relative poverty, by age, since 1961. Although the general U-shape life-course pattern from Figure 1 is apparent, patterns for individual

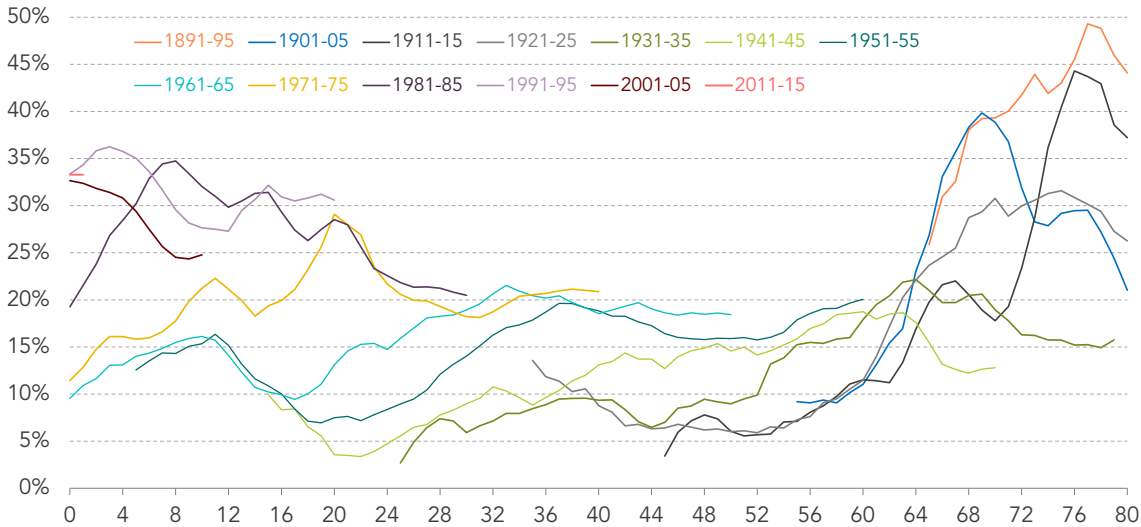
[11] M Whittaker, A Corlett & D Finch, *Shape shifting: the changing role of the state during fiscal consolidation*, Resolution Foundation, November 2015
[12] In 2017-18, 56 per cent of people in poverty lived in working households. Source: Department for Work and Pensions, *Households Below Average Income: An analysis of the income distribution 1994/95 to 2017/18*, March 2019

generations are hugely varied, with no individual generation actually experiencing the U-shaped life-course poverty pattern themselves so far. For instance, the baby boomers and generation X both had comparatively low child poverty rates in relation to millennials. For instance, at the age of five the poverty rate was just 13.5 per cent for baby boomers and 17 per cent for generation X, while around a third of millennials and the latest generation experienced poverty at the same age. In addition, contrary to the general pattern shown above, poverty was as high around later working life for both baby boomers and generation X as it was during their childhoods. Furthermore, the boomers show little sign of seeing rising poverty rates in old age.

Despite the comparatively high working-age poverty rates for the baby boomers, lifetime relative poverty profiles have been lower and flatter on average for both the baby boomers and the silent generation. This is because they avoided the high rates experienced by other generations, not only in childhood, but also in retirement. For instance, pensioner poverty was exceptionally high in the 1960s, reaching close to 50 per cent for the lost generation when aged between 76 and 80. While, overall, since then relative poverty rates at this age have fallen by an average of 30 percentage points, that fall was interrupted by the increase in pensioner poverty following the 1980s. Generationally, that meant that the silent generation have pensioner poverty rates as low as 17 per cent on average, and that this figure is likely to fall further for the baby boomers. However, their predecessors, the greatest generation, actually saw higher poverty rates in their late 70s than their own predecessors, the forgotten generation. Pensioner poverty has fallen over the decades, but not without ebbs and flows that left some generations with high poverty rates in retirement.

Figure 5: The latest generation are experiencing a resurgence of child poverty

Proportion of people in relative poverty (after housing costs), by five-year cohort: 1961-2017



Source: RF analysis of IFS, *Households Below Average Income*; DWP, *Family Resources Survey*

These fluctuating patterns of relative poverty become more apparent when looking at the experiences of smaller five-year cohorts, shown in Figure 5. While the greatest generation did experience higher pensioner poverty rates than the forgotten generation, it was the earlier cohort of this generation, born 1911-15, that bore the brunt of this, with rates reaching almost 45 per cent at the age of 76. For the cohort 10 years younger than them (born 1921-25), this figure dropped back down to around 30 per cent. As such, the lifetime pattern of relative poverty differed greatly for both cohorts despite being part of the same broader generational grouping.

It is clear from the patterns shown above that while there may be a general propensity for poverty to be higher at certain life stages, the wider factors such as economic circumstances and policy choices discussed above also play a large part and often trump life-cycle effects. This is most apparent in the fact that most extreme instances of high (or increasing) poverty rates occur around the time of the big increases in inequality in the 1980s and early 1990s, which fell during the childhood years of the millennials, mid-working life for the baby boomers and in later life for the greatest generation (particularly its older members).

In a similar vein, the biggest reductions in relative poverty from one cohort to the next appear to coincide with concerted efforts to tackle the issue. For instance, by the time the silent generation had reached later life, improved market incomes and continued efforts by recent governments to support pensioner incomes via the social security system (brought on by the incredibly high pensioner poverty rates experienced by earlier cohorts) meant that poverty fell by two-thirds from almost 45 per cent to 15 per cent for the 1931-35 cohort, when compared to those born 20 years earlier. The implication is that although we should never lose focus on supporting lower-income pensioners, on average, pensioner incomes are less of a poverty driver than they once were.

The effect of concerted efforts to tackle poverty is just as apparent in relation to child poverty rates. Relative poverty grew rapidly throughout the childhood years of generation X and early millennial cohorts in the 1980s and early 1990s. In effect, poverty rose because child-related benefits were not increased in response to rising inequality. But a turning point in the mid-1990s, due in part to increases in the cash benefits offered to families with children, meant that it started to fall for the first time in two decades just as the latest cohort of millennials were being born (1995-00). As a result, poverty fell by 10 percentage points from 35 per cent for the 1981-85 cohort to 25 per cent for the eldest cohort of the latest generation (born 2001-05) at the age of 8.

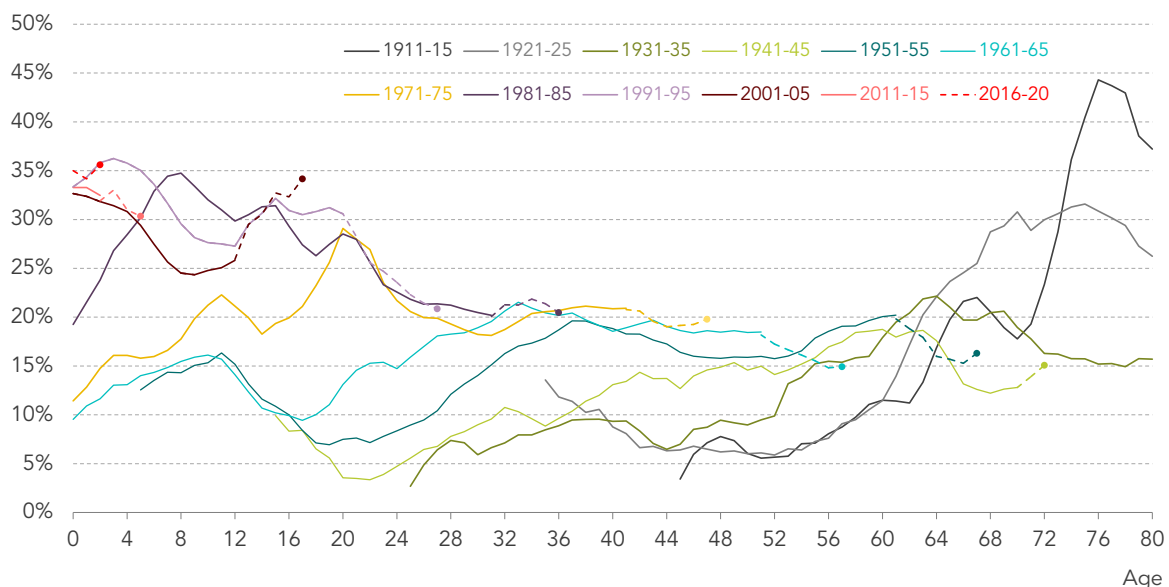
In more recent years, however, the cuts to the working-age benefit system discussed above have started to reverse some of these falls, resulting in an uptick in child poverty rates such that the 2011-15 cohort are being born with slightly higher rates of relative poverty than their predecessors.

Child poverty is set to increase in the coming years

Our projections for the future, shown in Figure 6, suggest that this recent uptick in child poverty is set to continue. The 2016-20 cohort are expected to face the joint-highest rates of child poverty to date, at above 35 per cent by the age of two. Moreover, poverty will continue to grow for the latest generation such that the 2011-15 cohort is expected to have a poverty rate 4 percentage points higher than that of the cohort 10 years their senior, at the same age.

Figure 6: Poverty is set to rise significantly for the newest generation of children

Actual and projected proportion of people in relative poverty (after housing costs), by five-year cohort: 1961-2024



Notes: Solid lines show outturn, dashed lines show projections. For detail on method used for projections, see: A Corlett, *The Living Standards Outlook 2019*, Resolution Foundation, February 2019

Source: RF analysis of IFS, *Households Below Average Income*; DWP, *Family Resources Survey*; RF nowcast and forecast

These projections are based on current policy choices and economic forecasts, both of which are likely to change in coming years. Nonetheless, with the continuation of cuts to benefits for parents, the likelihood is that their incomes will fall further behind relative to others.

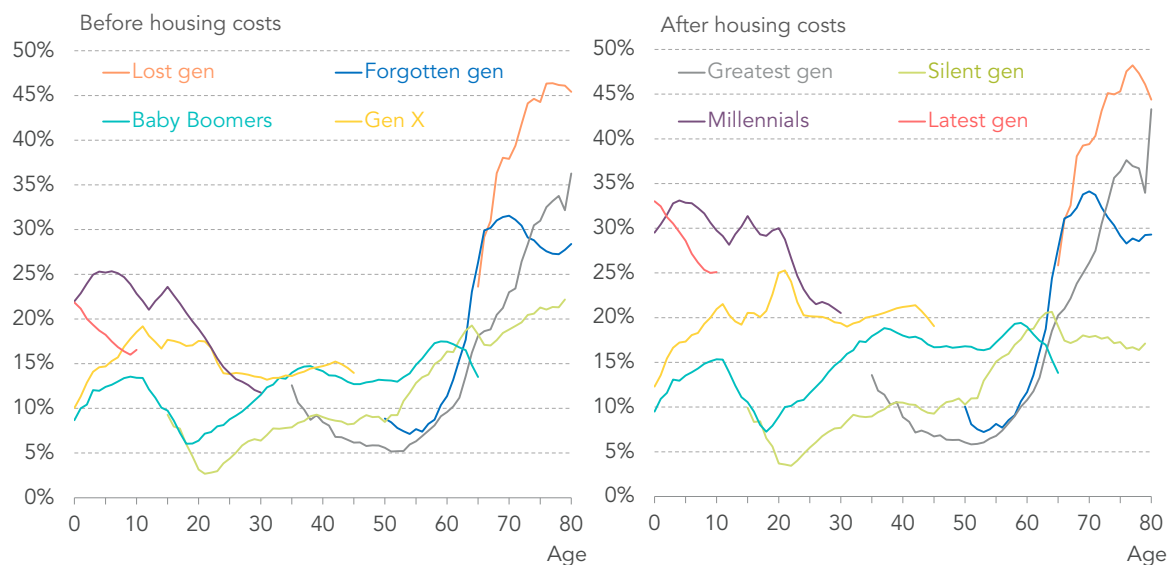
Relative poverty rates are also expected to rise for working-age adults, such that millennial and generation X cohorts are likely to face among the highest working-age poverty rates to date. We project that more than one-fifth of the younger millennial cohort (born 1991-95) will be in relative poverty in their late 20s as they begin to raise children of their own. This is the result of a deterioration of younger adults' relative earnings and housing costs compared to older groups, and significant cuts to working-age benefits. In contrast to child and working-age poverty rates, poverty in later working life and early retirement is set to continue falling in the near-term, indicating the continuing strength of both underlying incomes and efforts to support them via the social security system.

Increases in poverty rates are in part down to higher housing costs for younger generations and renters

While pensioner incomes have been largely protected, housing costs have chipped away at the incomes of younger generations. This has led to much higher rates of after-housing-costs (AHC) poverty for millennials and the latest generation, when compared to before-housing-costs (BHC) poverty rates. For instance, the AHC poverty rates, shown above and in the right-hand panel of Figure 7 below, average 32 per cent for millennials and 29 per cent for the latest generation from birth to the age of 10. However on a BHC measure, shown in the left-hand panel of Figure 7 below, they average 24 per cent for millennials and just 18 per cent for the latest generation. Growing gaps between BHC and AHC poverty mean people in lower-income households (particularly those in younger generations) are facing higher housing cost increases (relative to their incomes) than those in the typical household.

Figure 7: Before-housing-costs poverty has grown at a slower rate than after-housing-costs poverty for younger generations

Proportion of people in relative poverty, by generation and poverty measure: 1961-2017



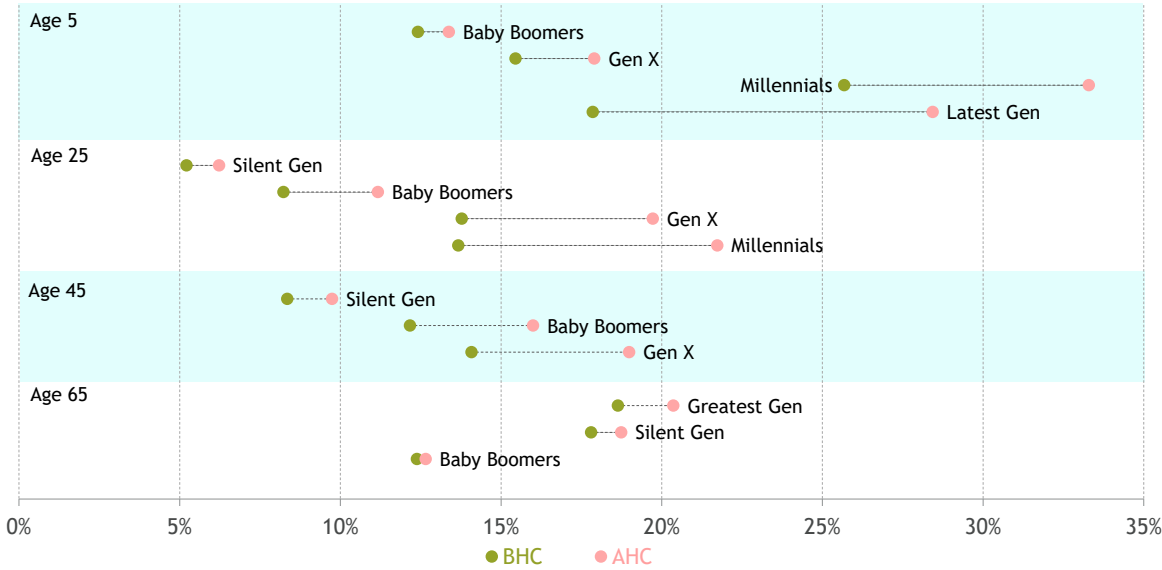
Source: RF analysis of IFS, *Households Below Average Income*; DWP, *Family Resources Survey*

In contrast, both AHC and BHC poverty levels are roughly similar for generations older than the baby boomers in later life. The differences in AHC and BHC poverty rates can be seen more clearly in Figure 8. These differences have grown for successive generations since the silent generation at ages five and 25. For instance, at age five, there is an 11

percentage point difference for the latest generation and an 8 percentage point difference for millennials. This is compared to differences of 2.5 and 1 percentage point for generation X and the baby boomers, respectively.

Figure 8: Differences between BHC and AHC poverty rates have increased by generation since the silent generation

Before- and after-housing costs relative poverty rates at selected ages, by generation: 1961-2017



Source: RF analysis of IFS, *Households Below Average Income*; DWP, *Family Resources Survey*

Likewise, in early adulthood (aged 25) the difference between BHC and AHC poverty rates is 8 percentage points for millennials compared to a slightly smaller difference of 6 percentage points for generation X. And the differences for baby boomers and the silent generation are much smaller at 3 and 1 percentage points respectively.

In contrast, these differences are near to non-existent in later life, and have shrunk over time due to higher home ownership among older adults protecting them from much of the housing cost increases that confronted renters or those becoming owners in later years. For example, at age 65, AHC poverty rates are just 0.2 percentage points higher than BHC rates for baby boomers, and 1 percentage point higher for their predecessors, the silent generation.

These generational shifts in the effects of housing costs on poverty rates, especially for younger generations, are largely due to changes to the nature of the housing market over the past few decades. Housing costs for all tenures have increased since rent-setting and mortgage availability was liberalised in the 1980s, leading to significant rent and house price rises. We have also seen the value of housing benefit deplete over time relative to housing costs.^[13] The result has been that housing costs have risen more for the bottom half of the income distribution than the top half. They have risen by 8 per cent relative to

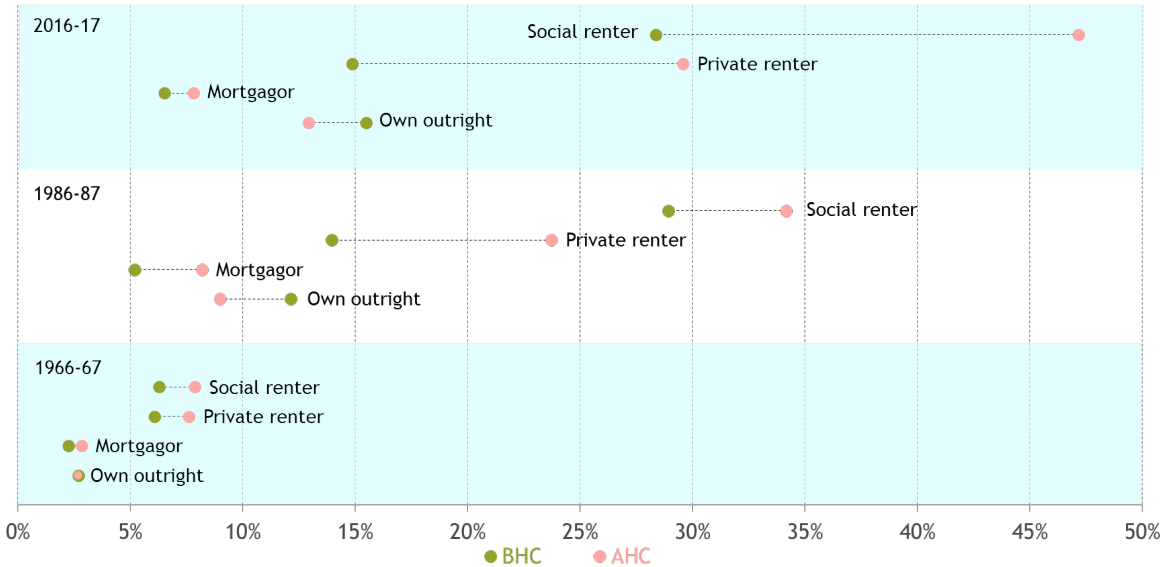
[13] A Corlett & L Judge, *Home Affront: Housing across the generations*, Resolution Foundation, September 2017

incomes for the bottom half of the working-age population, compared to a fall of 1 per cent for those with incomes above the median in the period from 1994 to 2016. And housing costs have fallen by 25 per cent relative to incomes for pensioner households. Together, this is what explains the divergence in BHC and AHC poverty rates over time, and the ways this has played out differently over the life course.

The effects of these changes for young adults (aged 18-35) are illustrated by Figure 9, which shows differences in AHC and BHC poverty rates by housing tenure over time for this group. It shows that the largest differences occur in the private and social rented sectors and that they have grown significantly since the 1960s.

Figure 9: The differences in BHC and AHC poverty rates for young adults are driven by lower home ownership and higher renting rates

Before- and after-housing costs relative poverty rates of 18-35 year olds, by tenure: 1966-2017



Source: RF analysis of IFS, *Households Below Average Income*; DWP, *Family Resources Survey*

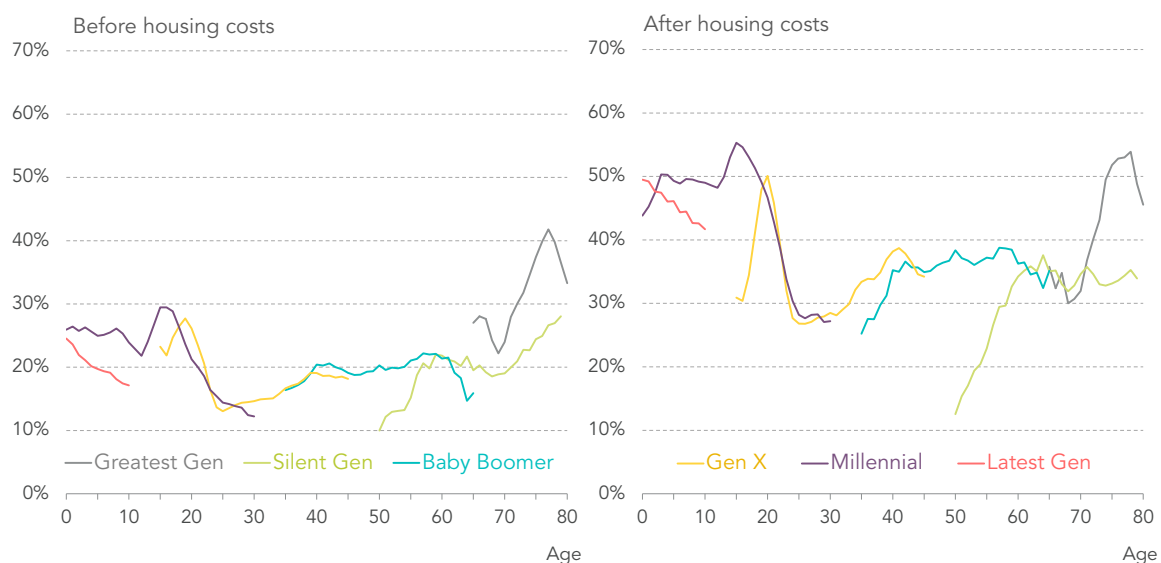
For instance, in 2016-17 young adults in social- and private-rented accommodation were 19 and 15 percentage points more likely to be in AHC poverty than in BHC poverty, respectively. In contrast, those in mortgaged homes were just 1 percentage point more likely to be in AHC poverty and those in homes owned outright were less likely to be in AHC poverty than BHC poverty. This is vastly different to the picture 50 years prior, in 1966-67, when the differences in poverty rates were still larger for renters than property owners, but much more marginally at just 1.6 per cent compared to 0.6 per cent for mortgagors and no difference for those that owned outright.

Given that younger generations are most likely to live in rented accommodation, it is no surprise that they are most affected by the rising costs of housing. However, around one-in-six families headed by over 65-year-olds still live in the social-rented sector

and around one-in-sixteen live in the private-rented sector (PRS).^[14] As such, these issues evidently remain pressing across the age distribution. Figure 10, which shows generational poverty rates by age in the PRS, affirms this. Patterns of generational poverty rates are roughly similar on both the BHC and AHC measures, however, unlike the overall generational poverty rates shown in Figure 7, rates in later life are much higher on the AHC measure than the BHC measure.

Figure 10: Differences in AHC and BHC poverty rates are large across generations in the private rented sector

Proportion of people in the private-rented sector in relative poverty (before- and after-housing costs), by generation: 1961-2017



Source: RF analysis of IFS, *Households Below Average Income*; DWP, *Family Resources Survey*

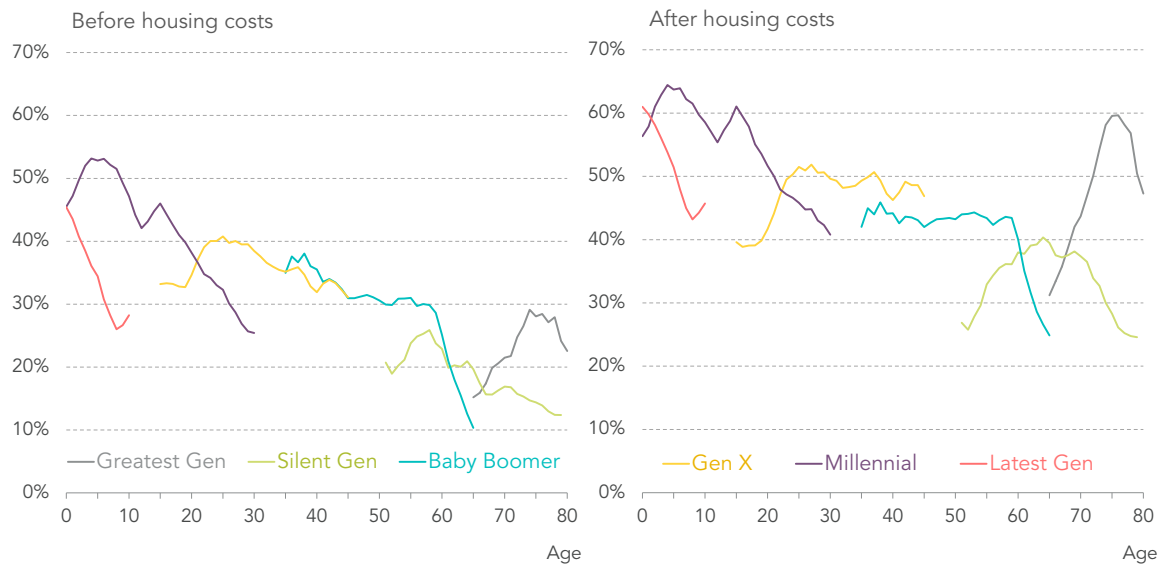
For instance, at the age of 65 the difference in poverty rates between the two measures is roughly 18 percentage points for members of the baby boomer and silent generations in the PRS. This is compared to differences of between 0.2 and 1 percentage points overall. Moreover, the AHC and BHC differences at older ages in the PRS are actually larger than for young adults. At the age of 25 millennials and generation X were just 13 percentage points more likely to be in poverty on the AHC measure than on the BHC measure, if they lived in privately rented homes. Of course it is important to remember that, while this figure is smaller than PRS differences in later life, it is much higher than the average figures for young adults shown in Figure 8.

While generational differences in the PRS have remained roughly stable for recent generations, they have widened at younger ages in the social-rented sector. This is shown in Figure 11. For millennials in social housing, at the age of five poverty rates are 11.5 percentage points higher on an AHC measure when compared to a BHC measure. For the latest generation, this difference has grown to 18 percentage points. Likewise, the difference at age 25 has increased from 10 percentage points for generation X to 15 percentage points for millennials.

[14] Source: RF analysis of ONS, *Family Expenditure Survey*; ONS, *Labour Force Survey*

Figure 11: AHC and BHC differences have widened for younger generations in the social rented sector

Proportion of people in the social-rented sector in relative poverty (before- and after-housing costs), by generation: 1961-2017



Source: RF analysis of IFS, Households Below Average Income; DWP, Family Resources Survey

In comparison, differences AHC and BHC poverty rates have decreased between generations at older ages, reducing from 19 percentage points for the silent generation to 15 percentage points for the baby boomers. Nevertheless, the impacts of housing costs on the relative poverty rates of older generations in the social-rented sector remain bigger than the overall averages presented above.

Overall spending has declined for younger 'in-poverty' age groups, but spending on essentials has grown

The income-based poverty measures above give a useful indication of the extent of poverty in the UK, and who is most affected. But on their own they offer far from a complete insight into the actual experiences of those in poverty. To overcome this, the Department for Work and Pensions has devised a set of material deprivation indicators, which directly measure whether people are able to afford certain basic needs. These provide an illustration of some of the worst incidences of poverty, and tell us a little more about how different age groups are affected by low household incomes. Furthermore, they highlight important improvements in living standards as a whole, between 2012 and 2016, as the impacts of the crisis have unwound. Box 2 explores these measures.

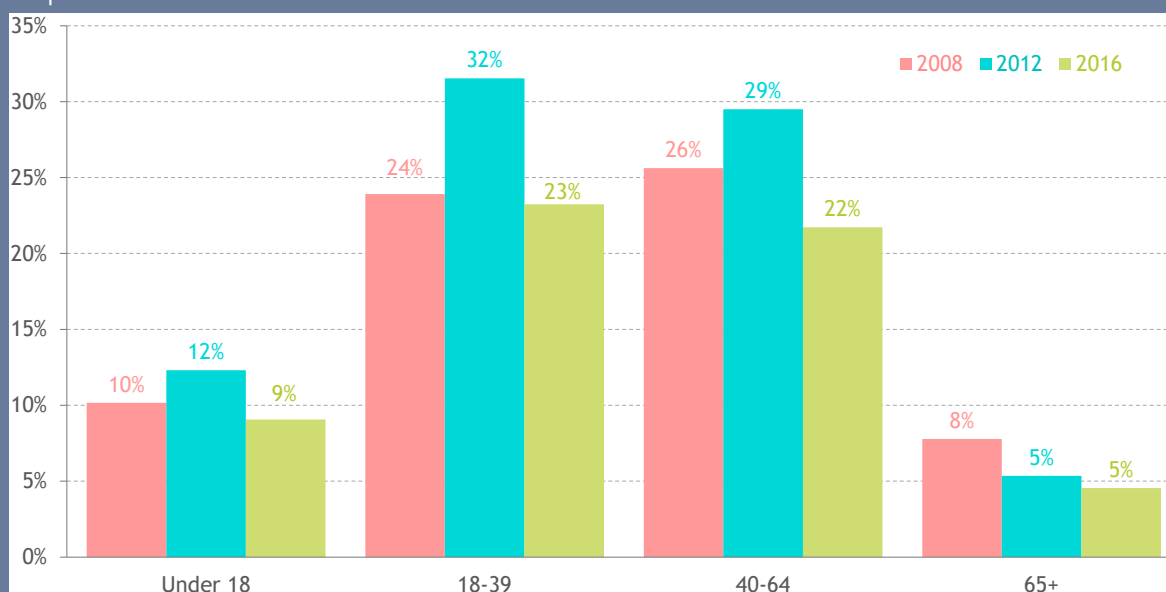
i Box 2: Material deprivation

An alternative to income-based measures of poverty is the prevalence of material deprivation. The concept of material deprivation uses a number of indicators, such as whether people can afford to heat their homes, engage in hobbies or leisure activities, or to save money, among others, to determine the extent of poverty experienced by members of a society. Figure 12 shows

the proportion of people unable to afford three or more of the items listed as material deprivation indicators for their age group over time. While poverty rates on the income-based measures are typically highest for children and pensioners, material deprivation is highest among working-age adults.

Figure 12: Material deprivation has consistently fallen for pensioners in the past decade

Proportion of people reporting that they 'cannot afford' three or more material deprivation indicators



Notes: Indicators used differ for children, working-age adults and pensioners to account for differing needs. For further detail see: DWP, *Households Below Average Income (HBAI) Quality and Methodology Information Report, 2016-17*
Source: RF analysis of IFS, *Households Below Average Income*; DWP, *Family Resources Survey*

In terms of the relationship between children and adults, Figure 12 indicates that while children are more likely to live in households with incomes below the poverty line, it is adults that are more likely to go without. As such, younger working-age adults have been most affected by changes over recent

years, which saw material deprivation increase by 8 percentage points for 18-39 year olds in the wake of the financial crisis. In contrast, it increased by just 2 percentage points for under-18s. By 2016, material deprivation had returned to pre-crisis levels for children and younger adults, but fallen below

this for those aged over 40.

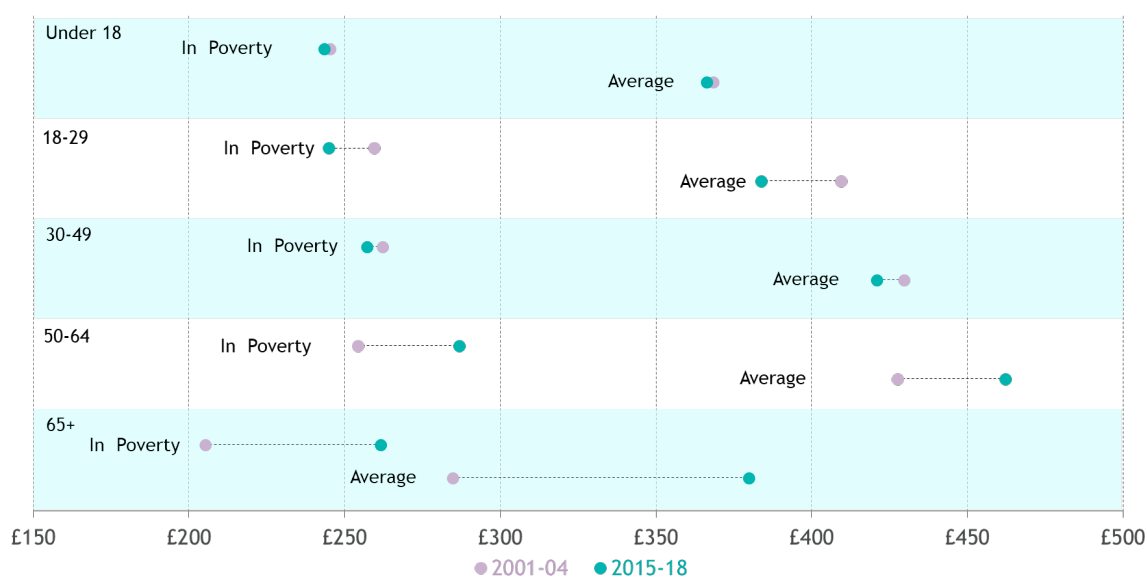
It is important to note that the indicators of deprivation used vary for children, working-age adults and pensioners. This is to account for the varying needs and general social attitudes of these different age groups. As a

result, the cross-age comparisons are not quite like for like.^[15] Nonetheless, they provide a useful illustration of what life is actually like for those on low incomes, as well as highlighting positive growth in living standards as a whole, in recent years.

Moving beyond the question of whether people can afford to meet their basic needs, data on consumption provides an insight to how people spend their money and, in turn, how much they are prioritising certain areas of spending over others. In doing so, they enable us build a picture, not only of the experience of poverty over recent years, but also of how far the living standards for those in poverty differ in relation to the average.

Figure 13: Spending has increased for older 'in-poverty' age groups but declined for younger ones

Mean real weekly equivalised household non-housing consumption expenditure (CPIH-adjusted to 2017-18 prices), by age of each individual



Notes: Household consumption expenditure is equivalised to account for differences in household size. All expenditures deflated using the all-items CPIH, to give an indication of 'real' consumption expenditure changes over time.
Source: RF analysis of ONS, *Living Costs and Food Survey*

Figure 13 shows that spending on non-housing goods and services has fallen for younger age groups since 2001-04. On average, 18-29 year olds now spend £26 less per week than they did 15 years ago. In contrast, those aged 65 and over are spending around £95 more per week, representing a move away from average spending levels that are much closer to the levels of younger in-poverty age groups. These diverging trends ring true for in-

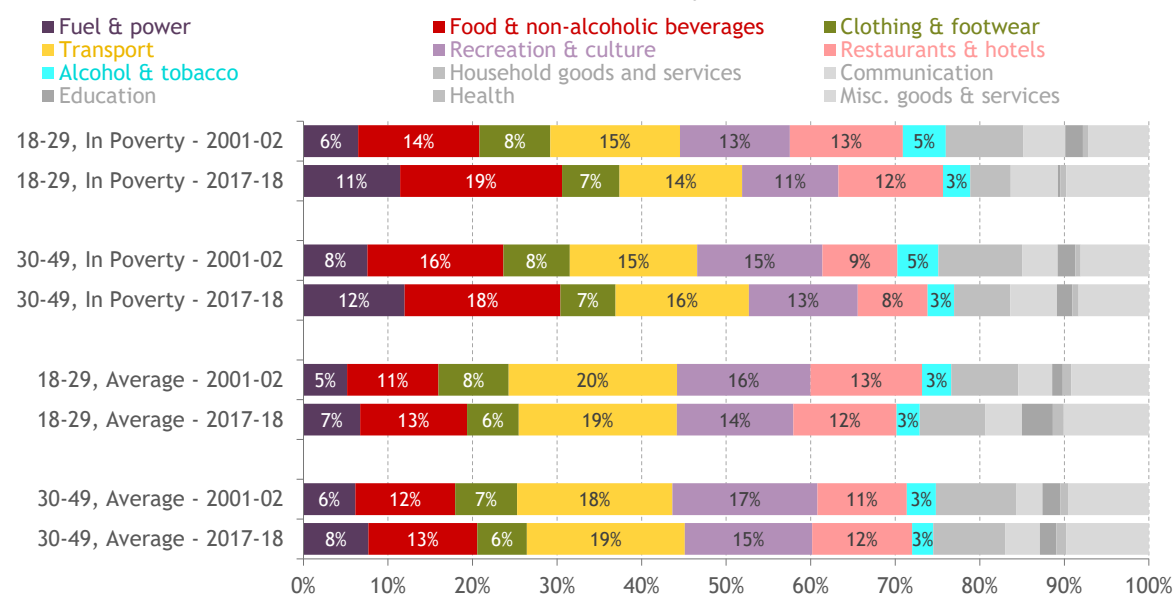
[15] For detail on the material deprivation methodology see: Department for Work and Pensions, *Households Below Average Income, (HBAI) Quality and Methodology Information Report*, 2016-17

poverty groups, albeit with smaller changes; the fall for 18-29 year olds in poverty was £11 smaller than the average at £15, and the rise in spending for those aged 65 and over was much smaller at just £56.

While overall spending has fallen for young adults in poverty, the share of spending directed to ‘essentials’ (which we define as food, fuel, clothing and transport) has grown, with knock on effects on the amount that members of these groups are spending on non-essential goods and services. For example, between 2001-02 and 2017-18, the share of spending on essentials for 18-29 year olds in poverty grew by 16 per cent, from 45 to 52 per cent, and for 30-49 year olds by 13 per cent from 47 to 53 per cent. In contrast, the average share of spending on essentials is the same for all 18-29 year olds (i.e. including those not in relative poverty) in 2017-18 as it was in 2001-02, and is 1 percentage point higher for all 30-49 year olds.

Figure 14: The proportion of spending devoted to ‘essentials’ has grown for adults aged under 50

Share of equivalised non-housing household consumption in each spending category, by age of each individual and relative poverty status



Notes: Household consumption expenditure is equivalised to account for differences in household size. Relative poverty is measured after housing costs.
Source: RF analysis of ONS, *Living Costs and Food Survey*

As a result of these increases in spending on ‘essentials’, in-poverty young adults, aged 18-29, are now spending 10 per cent less on recreation, culture, restaurants and hotels, i.e. things that indicate a good quality of life. And those aged 30-49 are spending 11 per cent less.

In comparison to the trends for younger adults, the share of spending devoted to essentials and non-essentials has remained roughly the same for people aged 50+ living in relative poverty. This does stand in contrast to the overall averages for over-50s, for whom spending on essentials fell by 4 per cent, while spending on non-essentials grew by 12 per

cent. But given that overall non-housing consumption has grown significantly for this age group, there is clear evidence of an increase in quality of life when compared to the experience of adults in poverty aged under 50.

The policy successes that have improved outcomes in later life must be replicated for children and working-age adults

This analysis of poverty across the life course and through the generations is an illuminating reminder of the drivers of poverty at different ages: poverty results from the additional income requirements associated with the arrival of children, and the risk of low incomes in old age – albeit a diminishing risk given the strong performance of underlying pensioner incomes in recent decades. The social security system has traditionally sought to mitigate against both these drivers of poverty, although its emphasis has been shifting away from the young in recent years. And housing costs have provided a headwind, but one that has not been felt equally across the age range given the different housing situations people at different life stages and in different generations find themselves in.

It is clear that concerted efforts to reduce pensioner poverty, along with improvements in employment and pension incomes, and reductions in relative housing costs have gone a long way in improving living standards for this age group. Pensioners are no longer the group most likely to be in poverty, as they historically have been, and incomes have improved such that average non-housing spending levels are now in line with those of other age groups. These are great successes that now need to be replicated across the age distribution. As housing costs have gone up and incomes have been squeezed, poverty rates have increased for children and working-age adults. The majority of people in poverty now find themselves in a household in which someone is working. Unless adequate solutions are found, our outlook for the coming years suggests that poverty rates will continue to increase for these groups, and living standards for those in poverty may continue to be squeezed.

Resolution Foundation

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 economic 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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