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Longer-term pensioner poverty and poverty transitions: A quantitative analysis of the Understanding Society survey (USoc)

Lay summary

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About the author

Dr Matt Barnes is a Senior Lecturer and Co-Director of the City Q-Step Centre in the Department of Sociology at City, University of London. He specialises in the secondary analysis of large-scale survey data and his research focuses on poverty, work, disadvantage and social exclusion.

Matt has undertaken a number of research projects on older people for various government and third-sector funders. In 2019/20 he led research that provided quantitative evidence for Independent Age's *In focus* project. He has also recently carried out research for Independent Age exploring poverty amongst the oldest old; and for the Scottish Government in *Poverty in Perspective* (which drew on a previous project with Demos). Matt's previous research *Child Poverty Transitions* (for the Child Poverty Unit) and his book *Social exclusion in Great Britain* both used longitudinal data to look at poverty transitions and poverty histories. Matt also teaches data analysis skills and a module on measuring poverty for third-year undergraduates.

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Introduction

Pensioner poverty is on the rise. While poverty in the overall population has remained relatively stable since 2012, pensioner poverty has increased by five percentage points and the latest estimates report that 18% of pensioners live in poverty (DWP, 2021a). Older people in poverty find it difficult to get by financially (Age UK, 2019) and there is a large volume of evidence on how living in poverty can be detrimental for older people and society more generally (Bramley et al, 2016) – something made even more challenging by the current pandemic (Age UK, 2020).

Much less is known about how the experience of poverty changes in older age. This new research seeks to explore how many pensioners enter poverty and how many escape poverty, and what the key drivers of poverty transitions are. It also looks at pensioners who do not escape poverty, and hence face a longer-term poverty experience. It uses data from a large-scale population survey that tracks individuals over time – the Understanding Society survey (USoc).

Data and definitions

USoc is repeated annually with 40,000 households from all four countries of the UK. The survey includes a large number of older people and covers many topics relevant in older age, including detailed information on household income and sociodemographic and economic characteristics of individuals and other members of their household. The first wave of the survey was carried out in 2009/10 and the latest data is from 2018/19 (wave 10).

This research focuses on the financial circumstances of pensioners[1] and, in particular, on those deemed to be living in poverty. Poverty is a complicated notion, and there are many different views on what poverty means and how it should be measured. When we talk about poverty in the UK we generally mean 'relative poverty', where an individual is said to be living in poverty if their household income, after housing costs are subtracted, is below 60% of the average (median) for the entire population. This poverty threshold is set at around £750 per month for a single pensioner and £1,300 per month for a couple pensioner for 2018/19.[2]

[1] Pensioners are defined as people of State Pension age, which takes into account the changing State Pension rules applicable since 6 April 2016.

[2] These amounts are taken from the Understanding Society survey data and are slightly higher than those reported in the Households Below Average Income (HBAI) series (DWP, 2020).

Constructing household income

To calculate a household's income, all sources of income from all household members are added together. These sources of income include (with the first three being particularly relevant in older age):

- **Social benefits**: such as State Pension, Pension Credit, Housing Benefit, Disability Living Allowance and Attendance Allowance
- **Pension income**: income from occupational pensions
- **Investment income**: private pensions/annuities, rents received and income (for example, interest) from savings and investments
- **Labour income**: net pay from employment, including second jobs and net self-employment earnings
- **Private benefit income**: includes trade union/friendly society payments, maintenance or alimony and sickness or accident insurance
- **Miscellaneous income**: educational grants, payments from family members and any other regular payment

The financial circumstances of pensioners

Pensioners generally receive their income from three main sources: social benefits, occupational pensions and income from savings and investments. Some younger pensioners also receive income from paid work.

- The average (mean) amount of income rises steadily across the income quintiles and particularly so for the richest quintile, which means that pensioners in the poorest quintile have incomes around three-and-a-half times lower than those in the richest quintile.
- The sources of income that vary most across quintiles are private pensions, which increases markedly for the richer quintiles. The richest quintile also receives markedly more investment income and income from work.
- This means that those in the poorest income quintile receive the vast majority of their income from social benefits (83%); the richest only receive a quarter (26%) of their income from social benefits.

Nearly one in seven (15%) pensioners is in poverty – their household income, after housing costs, is below 60% of the median.

- Older pensioners are more likely than younger pensioners to be in poverty. As older pensioners are more likely to be female, this means that single woman are particularly at risk of poverty (25%).
- Ethnic minority pensioners are at marked increased risk of poverty, particularly Black pensioners (35%).

Older pensioners are more likely than younger pensioners to be in poverty, and older pensioners in poverty can face the most extreme forms of poverty in older age.

- Two in five (42%) financially poor pensioners aged 80+ have income in the bottom decile compared to less than a third (29%) of poor pensioners aged SPA–69.

Longer-term poverty and material deprivation

Pensioners who are unable to exit poverty are at risk of experiencing longer-term poverty. A long duration of living on low income can have damaging effects on living standards as people are unable to afford the essentials in life. USoc tracks the same individuals over time and nine years of data (from 2010/11 to 2018/19) are used to identify the number of years an individual has been in poverty, from zero years (avoiding poverty completely over the period) to nine years (being in poverty in all years during the period). Poverty is again defined as being below 60% of the population median equivalised total net household income after housing costs.

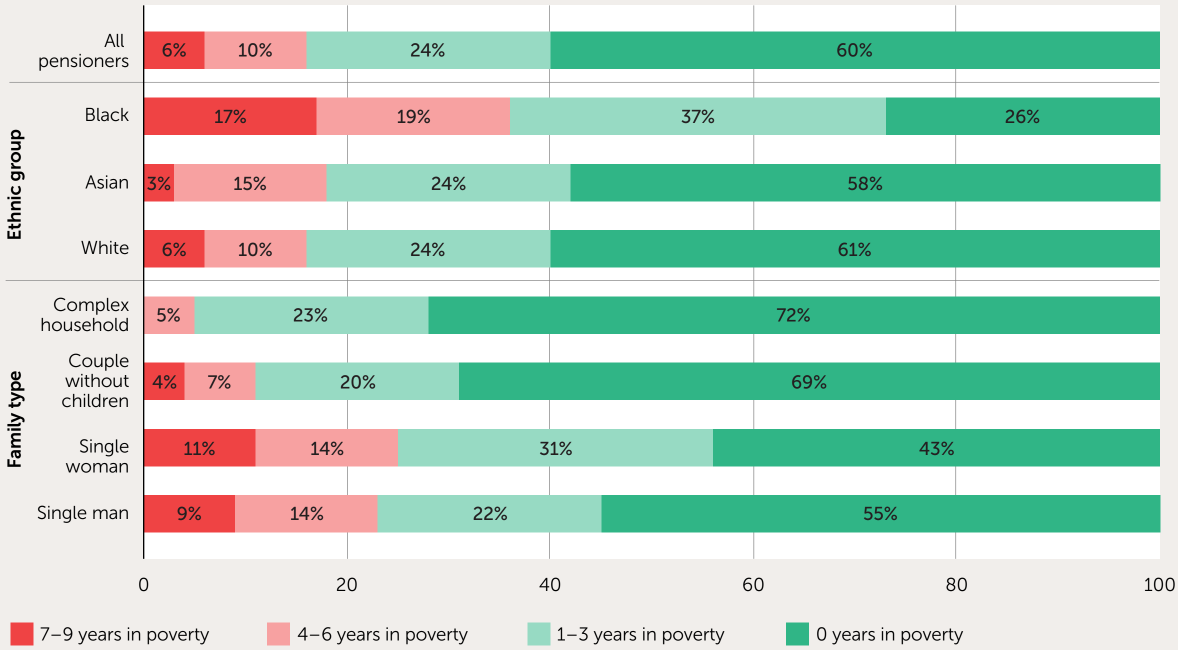
- Two in five (40%) pensioners experience poverty at least once during the nine-year period.
- Around one in 20 (6%) pensioners is longer-term poor, meaning they experience poverty for seven to nine years of the nine-year period.

Certain groups of pensioners are more likely to experience longer-term poverty (7–9 years), in particular:

- Single (11% of single women and 9% of single men experience longer-term poverty)
- Black (17%, although low sample sizes mean this is not statistically significant)
- Renters (private rent 25% and social rent 19%)

[1] This definition includes the changing State Pension rules applicable since 6 April 2016.

Figure A: Number of years in poverty (from 2010/11 to 2018/19) by sociodemographic characteristic



Base: Individuals of pension age.

Source: Understanding Society survey 2010/11–2018/19.

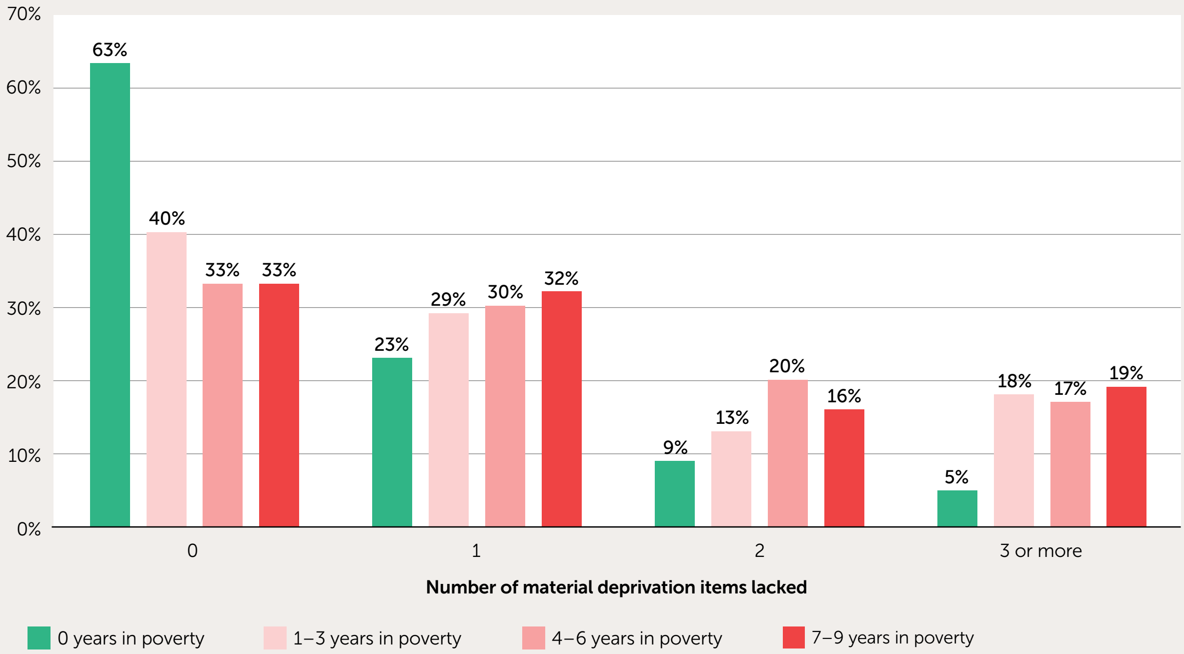
Note: Poverty measured as below 60% median equivalised total net household income after housing costs.

Pensioners who spend long periods living on low income are likely to have low living standards – their ability to buy goods and services is restricted by their financial constraints. The analysis presented below illustrates the proportion of pensioners who go without key items that many of the UK population take for granted, such as an annual holiday, going out socially with friends and family, and a regular haircut. Again, the analysis compares pensioners according to their duration in poverty, using the same categories as above.

The overarching message is that any experience of poverty during the nine-year period puts a pensioner at increased risk of experiencing material deprivation (compared to a pensioner who avoids poverty completely during that period). Pensioners with longer durations of poverty (4–6 years and 7–9 years) were more likely than pensioners with shorter durations of poverty (1–3 years) to experience some material deprivation.

- Two-thirds (67%) of pensioners who spent 4–6 years and 7–9 years in poverty lacked at least one of the 14 deprivation items used in the research.
- Nearly one in five pensioners who experienced poverty at least once during the period was deprived of three or more of the 14 items.
- The most common item that pensioners were without was a holiday away from home. Around one half of pensioners who experienced poverty lacked this compared to three in ten pensioners who avoided poverty.

Figure B: Number of material deprivation items lacked (in 2018/19) according to longer-term poverty status (from 2010/11 to 2018/19)



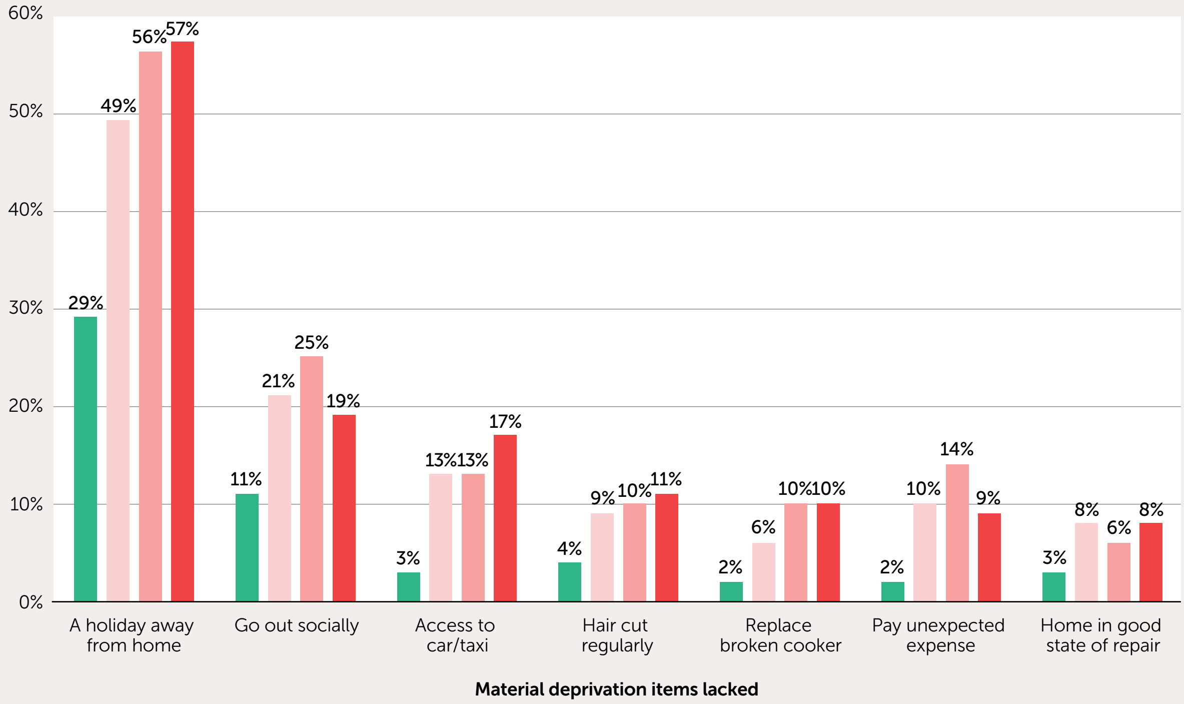
Base: Individuals of pension age.

Source: Understanding Society survey 2010/11–2018/19.

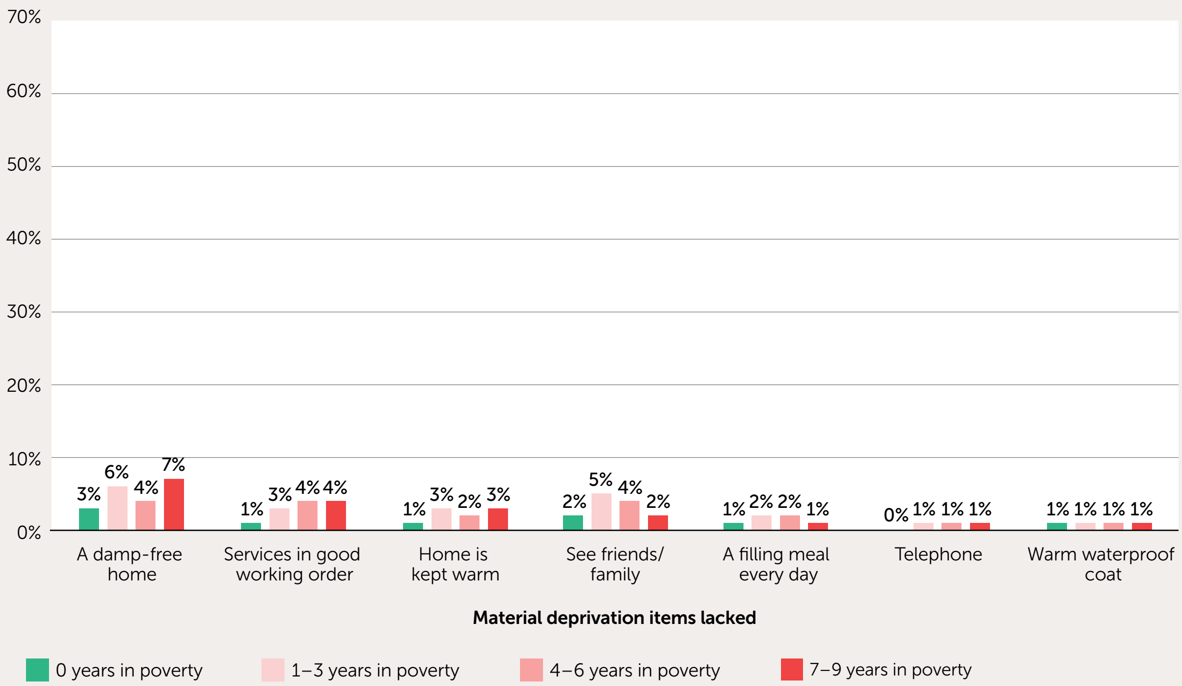
Note: Poverty measured as below 60% median equivalised total net household income after housing costs.

Note: Chart should be read as 63% of pensioners who spent 0 years in poverty lacked 0 deprivation items, 40% of pensioners who were in poverty for 1–3 years lacked 0 deprivation items, and so on.

Figure C: Material deprivation (in 2018/19) according to longer-term poverty status (from 2010/11 to 2018/19)



Material deprivation (in 2018/19) according to longer-term poverty status (from 2010/11 to 2018/19)



Base: Individuals of pension age.

Source: Understanding Society survey 2010/11–2018/19.

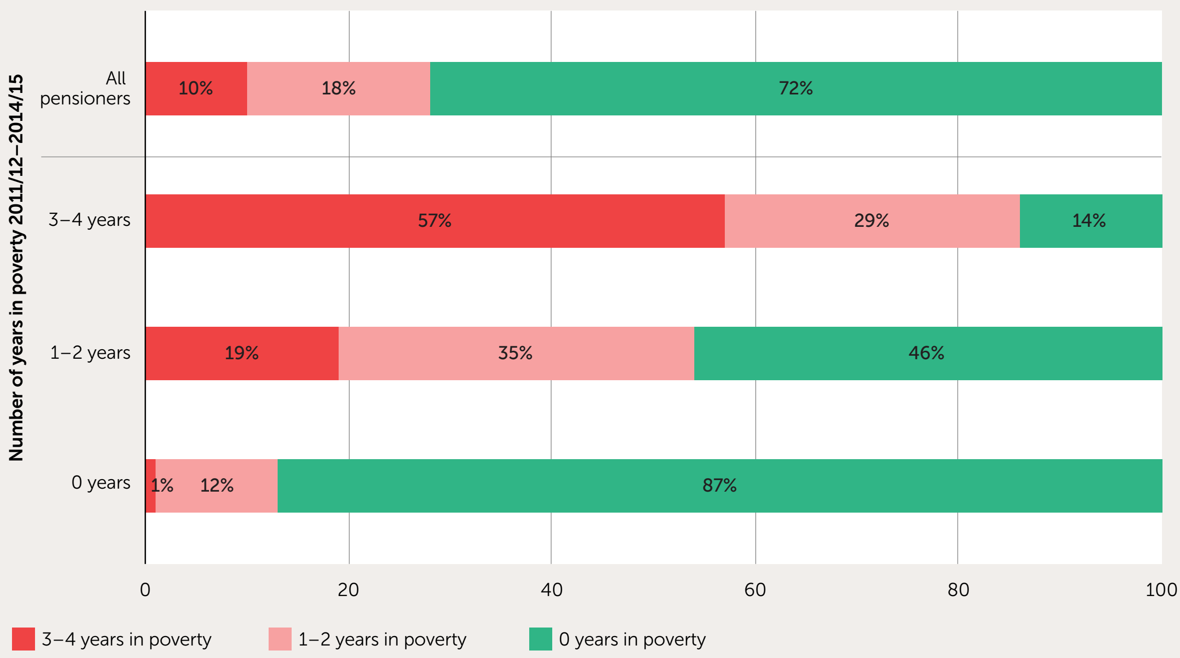
Note: Poverty measured as below 60% median equivalised total net household income after housing costs.

Note: Charts should be read as 29% of pensioners who spent 0 years in poverty did not have a holiday, 49% of pensioners who were in poverty for 1–3 years did not have a holiday, and so on.

The link between past and present poverty duration is explored by comparing two consecutive four-year periods (2011/12–2014/15 and 2015/16–2018/19). Here, persistent poverty is defined as being poor for three or four years across a four-year period.

- Pensioners who experienced persistent poverty in the first period (2011/12–2014/15) were more likely than not to continue to experience a further period of poverty. For example, over half (57%) of pensioners aged SPA–69 who experienced persistent poverty in the first period also experienced persistent poverty in the second period (2015/16–2018/19).
- Very few pensioners (less than 2%) who experienced no poverty in the first period (2011/12–2014/15) went on to experience persistent poverty in the second period (2015/16–2018/19).

Figure D: Number of years in poverty (2011/12–2014/15) according to poverty status in previous period



Base: Individuals of pension age.

Source: Understanding Society survey (2011/12–2014/15).

Note: Poverty measured as below 60% median equivalised total net household income after housing costs.

Changes in income in older age: Poverty entry and exit

The longitudinal nature of the Understanding Society survey – tracking individuals from one year to the next – allows us to explore how pensioners' lives change, including how their income can go up or down, sometimes resulting in an entry to, or exit from, poverty.

In terms of how pensioner incomes vary from one year to the next, the general picture is of income stability, or low-range income movements. It is relatively rare for pensioner incomes to make a dramatic fall or rise. Clearly, income stability is not good for pensioners in poverty, because it implies being unable to increase household income enough to exit poverty, and consequently could lead to periods of persistent poverty. Furthermore, when pensioner incomes do rise, the likelihood is that they will not increase by so much to vastly improve their living standards.

- Around half of pensioners remain in the same income quintile[3] from one year to the next, and this is particularly common for pensioners in the richest quintile (73% of those in the richest quintile remained in the richest quintile a year later – the equivalent figure of those in the poorest quintile was 59%).
- The majority of pensioners who do move quintiles only move one quintile: for example, of those in quintiles 2–4 (who can move up or down quintiles), around two in five move one quintile (with around half staying in the same quintile).
- Three in five (59%) pensioners in the poorest quintile remained so in the following year. A further quarter (23%) moved only to the second poorest quintile.

Despite this, it is not uncommon for pensioners to experience a change in a particular source of income. As stated earlier, pensioners tend to receive income from social benefits, private pensions, investment income and, for younger pensioners, labour income.

- Around half (51%) of pensioners saw a change in investment income, an equal number seeing it increase (26%) or decrease (25%). There was little variation by age.
- Around a third (32%) of pensioners saw a change in social benefit income, and a similar proportion saw a change in private pension income (29%).
- Younger pensioners were most likely to see a change in labour income, with 15% of those aged SPA–69 seeing a decrease and 10% seeing an increase.

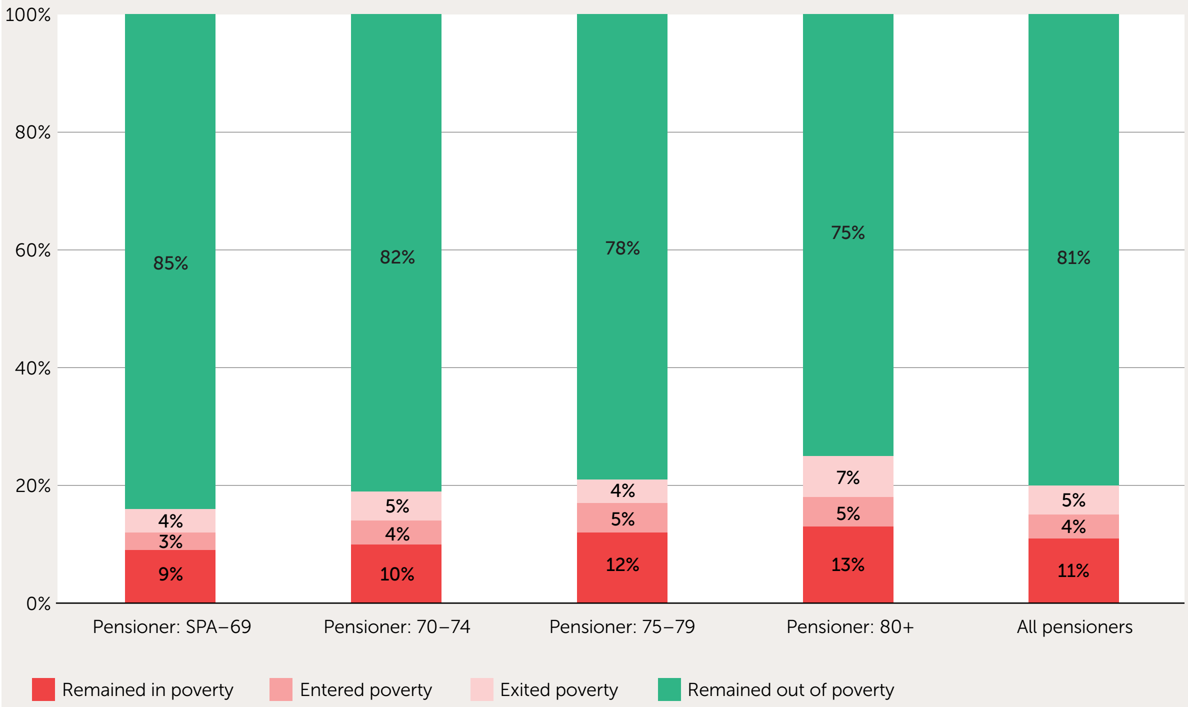
[3] Quintiles divide the population (not just pensioners) into five equal groups based on household income, from the bottom (poorest) quintile to the top (richest) quintile.

Poverty entry and exit

Some pensioners experience longer-term poverty in older age, which brings an increased risk of material deprivation so, preventing pensioners entering poverty, and helping those already in poverty to exit, is paramount. The research identifies pensioners who make a move into, or out of, poverty from one year to the next, and identifies which pensioners this is particularly likely to happen to. Only 'clear' poverty transitions are counted. To enter poverty, an individual has to move from being above the low-income threshold (60% of the median household income) in 2017/18, to at least 10% below the low-income threshold in 2018/19. The opposite rule applies for poverty exits.

- A similar proportion of pensioners enter poverty (4%) and exit poverty (5%).
- Four in five (81%) pensioners remain out of poverty and one in ten (11%) remains in poverty in both years.
- Poverty transitions do not vary considerably by age, although older pensioners were more likely to remain in poverty as they age.
- The majority (three in five) of pensioners who entered poverty were in the second poorest income quintile a year earlier, and a further quarter were in the middle quintile.
- When pensioners exit poverty they tend not to move too far up the income distribution. Around half of those who exited poverty moved into the second poorest income quintile and a further two in five moved to the middle quintile.

Figure E: Percentage of pensioners who make poverty transitions 2017/18 to 2018/19



Base: Individuals of pension age.

Source: Understanding Society survey 2017/18–2018/19.

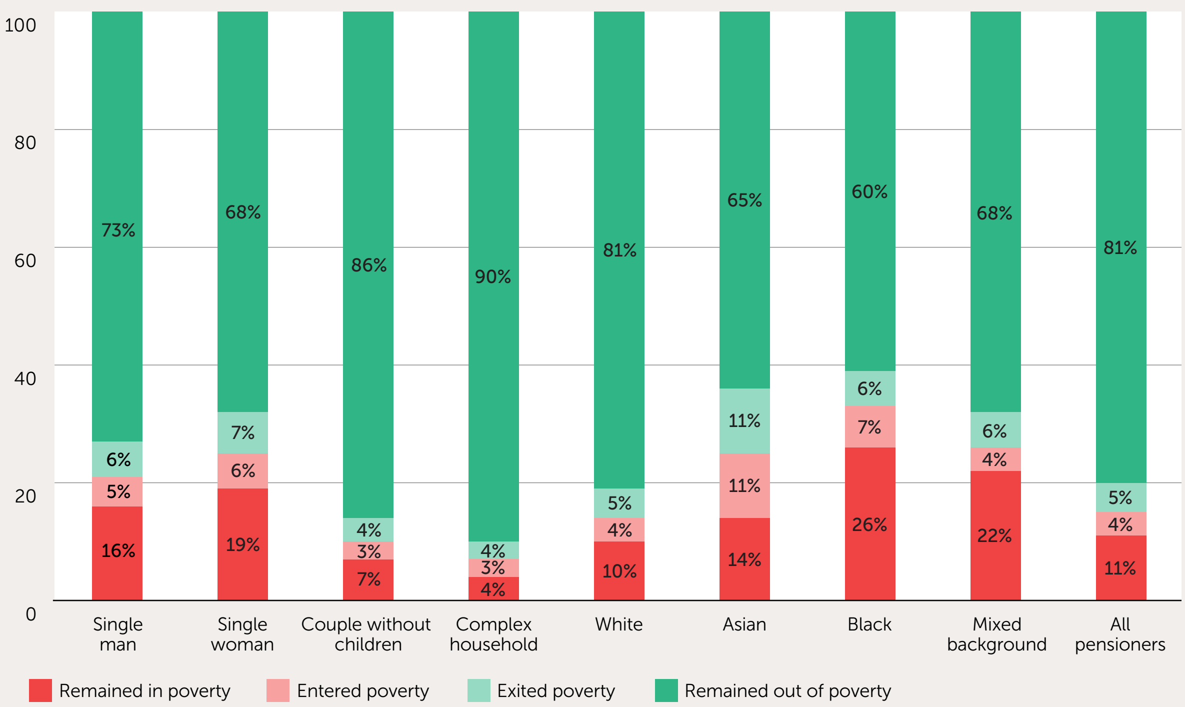
Note: Income is measured as equivalised total net household income after housing costs.

Note: To exit or enter poverty an individual's household income has to cross the poverty line and change by at least 10%.

The chances of entering or exiting poverty can vary according to the sociodemographic characteristics of pensioners.

- Overall, 4% of pensioners entered poverty from one year to the next. Pensioners at increased risk of entering poverty are:
  - Single women (6%)
  - Asian (11%)
  - Social and private renters (9% and 8%)
- Overall, 5% of pensioners exited poverty from one year to the next. Pensioners at increased probability of exiting poverty are:
  - Single women (7%)
  - Asian (11%)

Figure F: Poverty transition by sociodemographic characterisics



Base: Individuals of pension age.

Source: Understanding Society survey 2017/18–2018/19.

Note: Income is measured as equivalised total net household income after housing costs.

Note: To exit or enter poverty an individual's household income has to cross the poverty line and change by at least 10%.

Note: Sociodemographic characteristic measured in first year (2017/18).

Changes in sources of income associated with poverty entry and exit

To make a poverty entry or exit, a pensioner would experience one or more of a change in household income, a change in housing costs or a change in household size[4] (which affects how many people a household income needs to be 'shared' around). The former of these is particularly interesting to look at in detail to understand which changes in sources of income occur alongside a poverty transition.

Pensioners who enter poverty:

- Three in five (61%) pensioners who enter poverty experience a reduction in social benefit income. The average decrease in social benefits for a couple who enters poverty is £542 per month.[5]
- A quarter (27%) of pensioners who enter poverty experience a reduction in private pension income. The average decrease in private pension income for a couple who enters poverty is £153 per month.
- One in five (21%) pensioners who enters poverty experience an increase in housing costs.

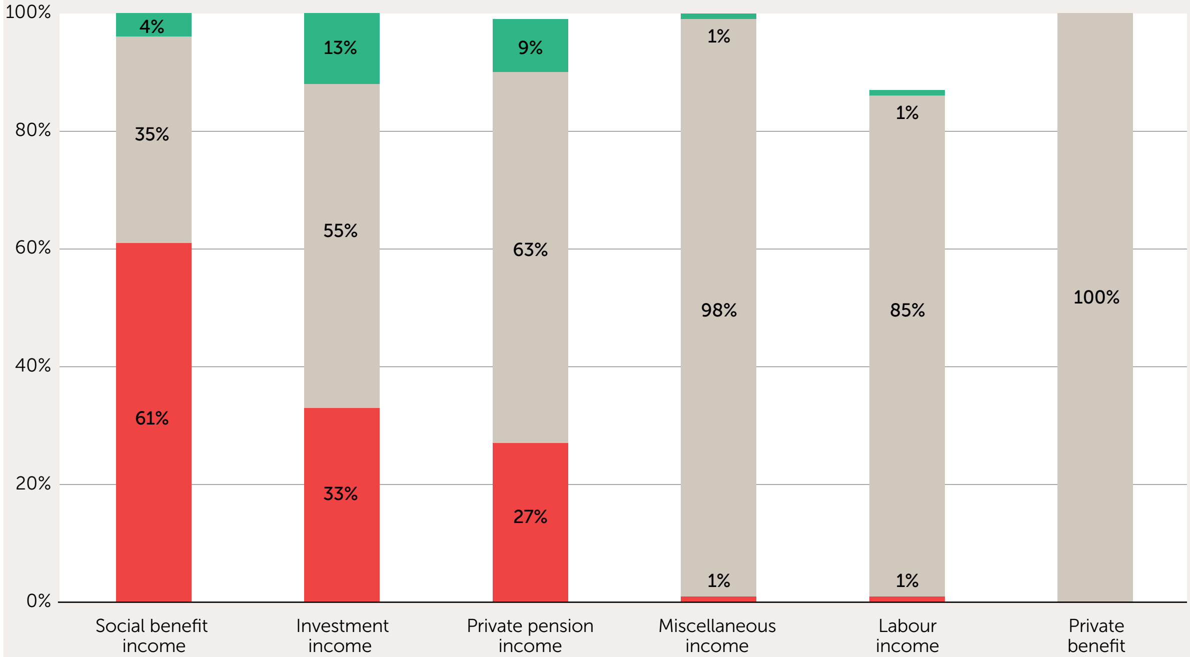
Pensioners who exit poverty:

- Seven in ten (70%) pensioners who exit poverty experience an increase in social benefit income. The average increase in social benefits for a couple who exits poverty is £571 per month.
- Two in five (42%) pensioners who exit poverty experience an increase in private pension income. The average increase in private pension income for a couple who exits poverty is £397 per month.
- A third (36%) of pensioners who exit poverty experience an increase in investment income. The average increase in investment income for a couple who exits poverty is £105 per month.
- One in ten (10%) pensioners who exits poverty experiences an increase in earnings. The average increase in earnings for a couple who exits poverty is £122 per month.
- One in ten (9%) pensioners who exits poverty experiences a decrease in housing costs.

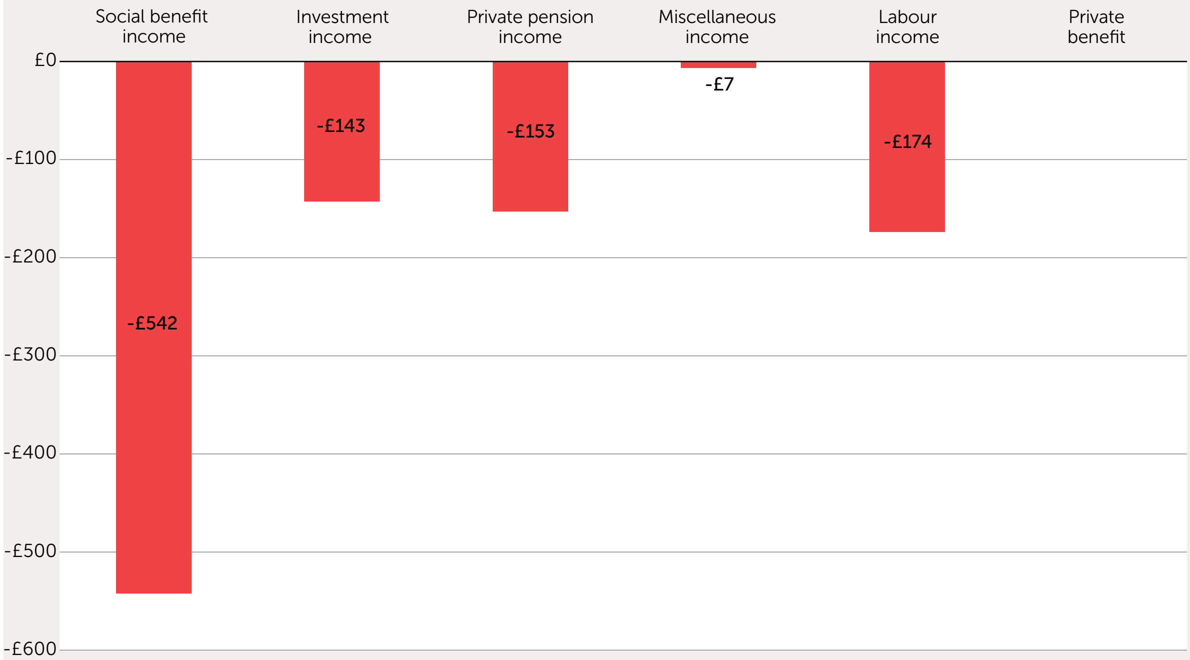
[4] A change in household size, and other life events, are explored in detail in research to be published in early 2022.

[5] Income is equivalised and the amounts presented in this report are for a couple household.

Figure G: Percentage of pensioners who had a change in amount of broad income source alongside exiting poverty



Average (mean) amount of income fall per month for pensioners exiting poverty

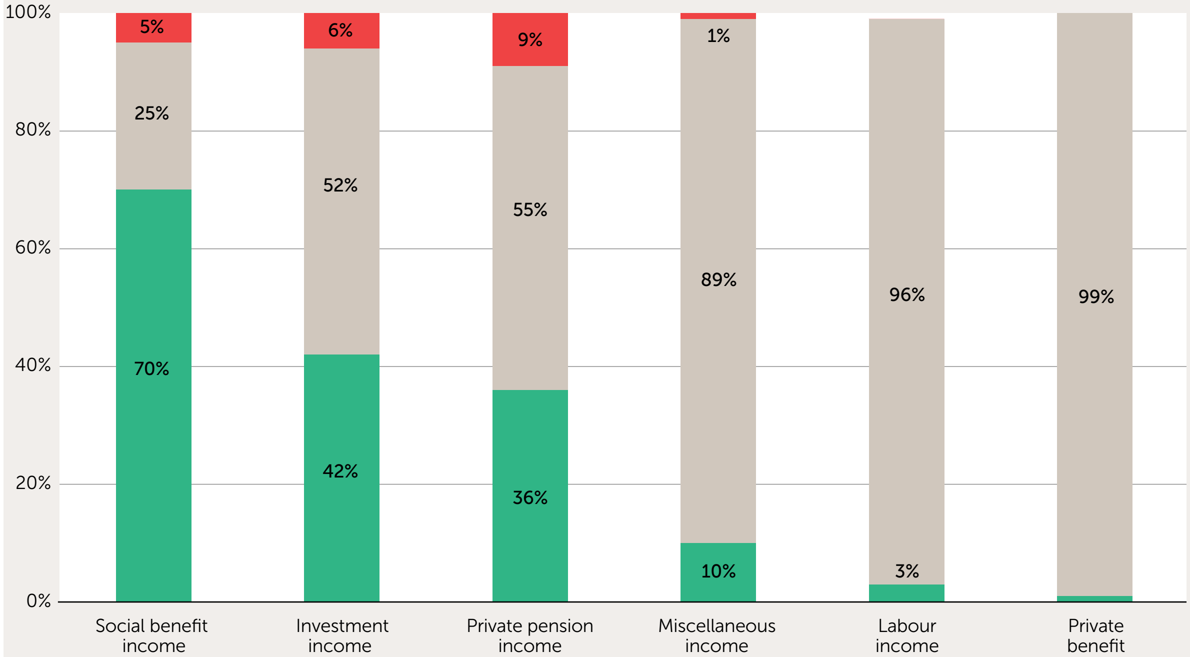


Base: Individuals of pension age who exited poverty.

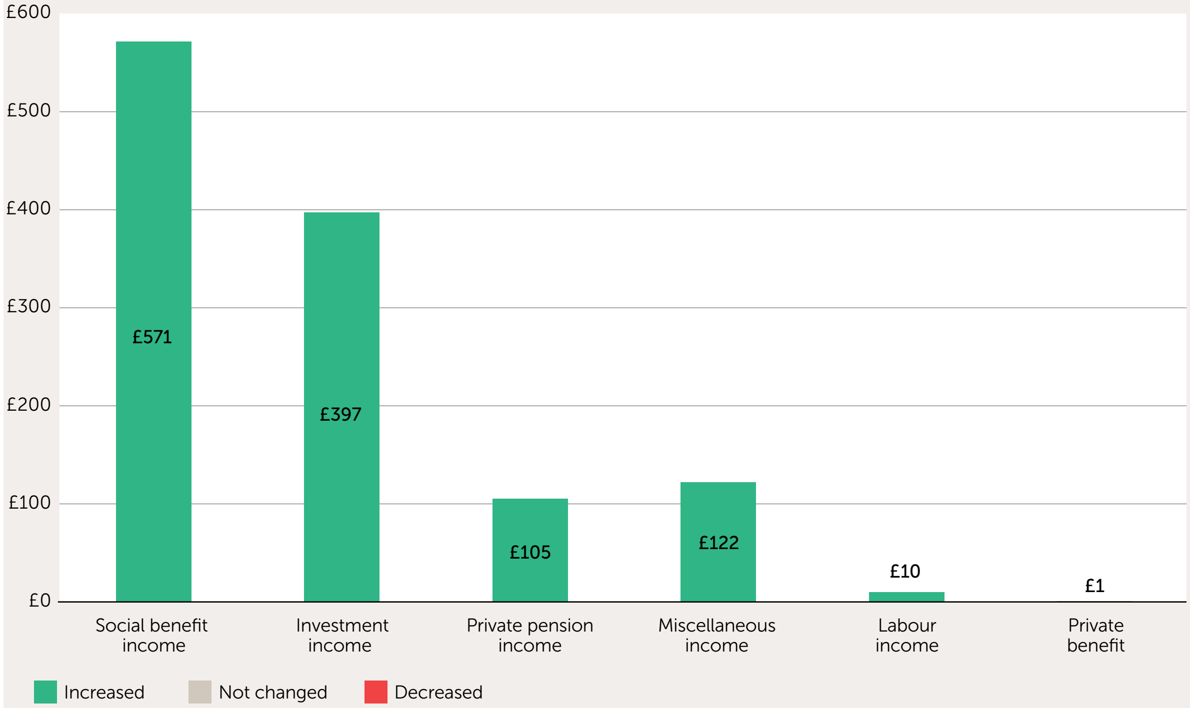
Source: Understanding Society survey 2017/18–2018/19.

Note: Income is equivalised. Values presented are for a pensioner couple per month.

Figure H: Percentage of pensioners who had a change in amount of broad income source alongside exiting poverty



Average (mean) amount of income fall per month for pensioners exiting poverty



Base: Individuals of pension age who exited poverty.

Source: Understanding Society survey 2017/18–2018/19.

Note: Income is equivalised. Values presented are for a pensioner couple per month.

Clearly, a change in social benefit receipt has the strongest link to a poverty transition, both in terms of the number of pensioners who experience it and the amount of income that the household loses when entering poverty or gains when exiting poverty. Logistic regression analysis identifies factors that remain associated with poverty entry (or exit) when other factors are taken into account. Given the relatively small sample sizes of pensioners who enter (and exit) poverty, these analyses can be regarded as experimental, but they very much support the patterns seen throughout the research.

Pensioners who enter poverty:

- Pensioners living in a household where social benefit income decreases have 14 times more chance of entering poverty than households where social benefit income does not change.
- Pensioners living in a household where housing costs increase have 19 times more chance of entering poverty than households where housing costs did not change.
- Living in a household where private pension income or labour income decreased also had a significant impact on poverty entry, but to a lesser magnitude.

Pensioners who exit poverty:

- Pensioners living in a household where social benefit income increases have 20 times more chance of exiting poverty than households where social benefit income does not change.
- Pensioners living in a household where labour income increases have more than 16 times more chance of exiting poverty than households where labour income does not change.
- Pensioners living in a household where private pension income increases have nine times more chance of exiting poverty than households where private pension income does not change.
- Pensioners living in a household where investment income increases have more than three times more chance of exiting poverty than households where private pension income does not change.
- Pensioners living in a household where housing costs decrease have two times more chance of exiting poverty than households where housing costs did not change.

Conclusion

This report has shown that a sizeable proportion of pensioners – nearly one in five – currently lives in poverty in the UK – and this has been rising in recent times. Any spell of poverty can be troubling and this new research has highlighted that more pensioners experience poverty when a longer time window is used than snapshot statistics may imply. Two in five pensioners experienced poverty in at least one year of the nine-year period from 2010/11 to 2018/19. Longer durations of poverty are likely to have an even more detrimental effect on living standards, and around one in 20 pensioners has lived in poverty for seven or more of the past nine years. Furthermore, the evidence suggests that pensioners who experience poverty continue to do so through older age; hence, understanding poverty transitions can help protect pensioners from entering poverty in the first place, and help those already in poverty to escape.

To make a poverty transition, a pensioner would experience a change in household income – or a change in housing costs or in household size. According to the Understanding Society data, a decrease in social benefit income and an increase in housing costs is particularly associated with poverty entry; and an increase in social benefit, labour and private pension income is particularly associated with poverty exit. Hence, much of the focus on why a pensioner enters poverty, and what happens to help them escape, shifts to understanding which sources of income change and by how much: for example, only younger pensioners tend to work, and retirement from the labour market can be an example of such a change in circumstances. But this is less relevant for the majority of pensioners, whose main source of income is from the State Pension and other social benefits – particularly for pensioners lower down the income distribution. Three in five pensioners who enter poverty see a reduction in social benefit income, and a similar proportion see an increase when exiting poverty, pointing to the need to understand the intricacies of changes in benefit receipt in older age.

Further research, due to be published in early 2022, will explore in more detail the reasons that pensioners make a poverty transition. This will include identifying the particular benefits that households receive and any changes to this – amounts going up or down, benefit receipt starting or stopping – that coincide with a poverty transition. The research will also investigate whether life events – such as illness, separation and bereavement – are associated with a poverty transition. It is such life events that may trigger a change in income source.

Alongside this forthcoming research, Independent Age will also be carrying out in-depth interviews with pensioners to understand the lived experience of poverty in more detail. The research will ask pensioners about their experiences of fluctuations in household income, how long these changes last and how they impact their living standards. The research will seek to understand what circumstances lead to social benefit receipt changing – and whether this change is due to a life event, such as the onset of illness, separation or bereavement, or because of other reasons, such as the administrative process of benefit receipt.

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