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BRIEFING:

THE POVERTY IMPACT OF UPRATING BENEFITS IN LINE WITH INFLATION

March 2022

CONTEXT

This March 2022 briefing presents original analysis from the Legatum Institute using the Social Metrics Commission's approach to poverty measurement. It considers the uprating of benefits for the 2022-23 financial year, in April 2022. At time of writing, benefits are scheduled to be uprated by 3.1% - the rate of inflation (CPI) in September 2021. Inflation has since risen, and is projected to reach 7% by April 2022.[i] Accordingly, the scheduled uprating represents a real-terms cut in benefit levels. The poverty impact of this real-terms cut is assessed in Q2 2022.

The poverty impact is evaluated by comparison to a set of hypothetical scenarios. The scenarios modelled in this briefing note are:

- ***A.*** Uprating of all benefits, including the state pension, by 7%.
- ***B.*** Uprating of working-age benefits by 7%. The state pension, and other benefits for those of pensionable age, are uprated by 3.1%.
- ***C.*** Uprating of benefits related to disability or caring, by 7%. All benefits that are not related to disability or caring are uprated by 3.1%.

This briefing builds on our previous work,[ii] which provides detailed methodological notes. These should be regarded as our best assessment of the likely impact of the changes.

The need for this analysis is clear; the survey data that underpins the measurement of poverty in the UK and covers the pandemic period will not be available until 2022. However, important decisions on the future of social security policy are currently being taken without a full understanding of the potential poverty impacts.

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SUMMARY OF FINDINGS

Uprating all benefits in line with inflation (by 7%) including the state pension, would reduce the number of people in poverty in Q2 2022 by 450,000, relative to current uprating plans. 200,000 of those protected are in working families, and 260,000 are in families that include a disabled person.

Uprating working-age benefits in line with inflation (by 7%) would reduce the number of people in poverty in Q2 2022 by 300,000, relative to current uprating plans. 200,000 of those protected are in working families. 140,000 of the affected are children, and 150,000 are in households that include a disabled adult or child.

Uprating benefits related to disability or care in line with inflation (by 7%) would reduce the number of people in poverty in Q2 2022 by 100,000, relative to current uprating plans. 60,000 of those protected are working-age adults, and 30,000 are in a working family. 30,000 are in a family in which someone is disabled, while 70,000 are in a family that does not include a disabled person – this is due to the impact of uprating benefits related to caring, including Carer’s Allowance.

Uprating all benefits in line with inflation (by 7%) will cost £7.4bn more than current uprating plans. Uprating working-age benefits by 7% will cost £4.0bn more than current uprating plans, and uprating benefits related to disability and caring by 7% will cost £1.3bn more than current uprating plans.

Table 1: Poverty impact (numbers of people) of benefit uprating, relative to current plans (3.1% uprating of all benefits).

	Uprating all benefits by 7%	Uprating working-age benefits by 7%	Uprating disability and caring benefits by 7%
Overall	-450,000	-300,000	-100,000
By age			
Working-age adults	-170,000	-170,000	-60,000
Children	-130,000	-140,000	-20,000
Pensioners	-150,000	+10,000	-20,000
By family work status			
People in working families	-200,000	-200,000	-30,000
People in (working age) non-working families	-130,000	-120,000	-50,000
People in retired families	-120,000	+10,000	-30,000
By disability			
People in families that include a disabled person	-260,000	-150,000	-30,000
People in families that do not include a disabled person	-190,000	-150,000	-70,000

Source: Legatum Institute, Family Resources Survey and HBAI dataset (1998/99 – 2019/20), IPPR tax and benefit model.

Table 2: Cost of benefit uprating, relative to current plans (3.1% uprating of all benefits).

	Uprating all benefits by 7%	Uprating working-age benefits by 7%	Uprating disability and caring benefits by 7%
Cost	+£7.4bn	+£4.0bn	+£1.3bn

Source: Legatum Institute, Family Resources Survey and HBAI dataset (1998/99 – 2019/20), IPPR tax and benefit model.

ANNEX 1: THE SOCIAL METRICS COMMISSION'S MEASURE OF POVERTY

This briefing uses the Social Metrics Commission's measure of poverty as the basis of its analysis. The SMC was established in 2016, as a response to the fact that the UK no-longer has official poverty measures agreed and used by Government. It is hosted by the Legatum Institute and is dedicated to helping policymakers understand and take action to tackle poverty and build prosperity. Its membership includes people from across the political spectrum as well as poverty and measurement experts. The Commission's primary goals have been to develop new poverty metrics for the UK which both:

- Have long-term political support; and
- Effectively identify both those who are in poverty and their experiences of poverty.

The SMC's landmark report in 2018 outlined a new approach to measuring poverty. As well as looking at incomes, this approach allows us to account for a range of inescapable costs that reduce people's spending power, and the positive impact of people's liquid assets on alleviating immediate poverty. These inescapable costs include rent or mortgage payments, childcare and the extra costs of disability. Liquid assets include savings, stocks and shares. The measure also takes account of overcrowding in accommodation. As well as a more accurate reflection of a family's ability to make ends meet, the SMC's poverty measure tracks:

- The degree to which a family is below the poverty line
- The length of time that a family is below the poverty line
- The experience of living in poverty.

Following the 2018 report, and an update in 2019, the Commission's approach received support from across the political spectrum and from a wide range of experts and people involved in taking action to tackle poverty.

In the summer of 2019, the Government committed to establishing Experimental Statistics for poverty based on the SMC's approach; this is the first step to developing new national statistics on poverty.

Data used in this briefing:

Family Resources Survey: Department for Work and Pensions, Office for National Statistics, NatCen Social Research. (2021). *Family Resources Survey, 2019-2020*. [data collection]. UK Data Service. SN: 8802, DOI: 10.5255/UKDA-SN-8802-1

Households Below Average Income: Department for Work and Pensions. (2021). *Households Below Average Income, 1994/95-2019/20*. [data collection]. *15th Edition.* UK Data Service. SN: 5828, DOI: 10.5255/UKDA-SN-5828-13

SMC methodology

More details of the SMC's approach to poverty measurement can be found here:
http://socialmetricscommission.org.uk

[i] Bank of England, Monetary Policy Report – February 2022. See: https://www.bankofengland.co.uk/monetary-policy-report/2022/february-2022 Accessed 07/03/2022

[ii] Legatum Institute, (2020). Poverty during the Covid-19 crisis. See: https://li.com/reports/poverty-during-the-covid-19-crisis/ Accessed 07/03/2022.