

Article

Poverty and employment transitions in the UK and EU: 2007-2012

An analysis of people in income poverty and the effect that moving from unemployment to employment has on their poverty status. Main findings show that in 2013, 8% of people in employment were classified as being in “in-work poverty” with 70% of those leaving “in-work poverty” following an increase in their hourly pay. The factors behind moving out of poverty after gaining employment are also examined.



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1. Main findings

This article provides analysis on people in income poverty and the effect that moving from unemployment to employment has on their poverty status.

It shows that:

- In the UK, 8% of people in employment were also in relative income poverty in 2013, equivalent to around 3 million people.
- Over the period 2007 to 2012, of people aged 18 to 59 who were not working and living in a household in poverty, 70% of those who entered employment left poverty.
- There are a number of employment-related factors which affect how likely it is people will move out of poverty after getting a job. This includes the level of pay, as well as whether the job is full-time or part-time (and if part-time the number of hours). Other factors, such as the composition of the household people live in may also have an impact.
- People taking up temporary roles are no less likely to leave poverty than those taking up permanent contracts. However, temporary workers are more likely to see their income fall below the poverty threshold the following year.
- 70% of those leaving in-work poverty did so following an increase in their hourly pay, including those taking up a new job, while an increase in average hours was associated with 38% of exits from in-work poverty.

2. Introduction

Participation in the labour market has a direct impact on household income and is therefore recognised as perhaps the most effective individual driver of movement in and out of poverty. Jenkins (2011) showed that over half of entries into poverty are associated with a fall in employment earnings, with losing a job the main reason for such a fall. Conversely, while the possible reasons are numerous and often complex, academic research has consistently shown that entering employment is the most common reason for leaving poverty (see e.g. Fourage & Layte, 2005; Jenkins, 2011).

However, as the European Commission (2009) noted, "jobs have not always succeeded in lifting people out of poverty". In the UK, around half (46%) of all people in poverty were living in working families in 2012/13, according to DWP's Households Below Average Income statistics (DWP, 2014). This is around 4.5 million people, an increase from 4.0 million in 2003/04.

This article analyses the relationship between income poverty and participation in the labour market in more detail. The initial section examines how in-work poverty rates have changed in the UK between 2005 and 2013, and compares these with those for the EU as a whole. The second section uses longitudinal data to look at the extent to which moving into employment is associated with moving out of poverty. This is analysed in terms of both the socio-demographic characteristics of individuals themselves and the type of employment they move into. The final section of the article looks at movements out of in-work poverty, and the labour market events that are associated with them.

All analysis in this article is based on the European Union Statistics on Income and Living Conditions (EU-SILC). EU-SILC is used due to its longitudinal nature, allowing analysis of movements into and out of poverty, as well as its comparable nature across EU countries.

Cross-sectional in-work poverty rates are presented for 2005 to 2013, with 2005 the first year of EU-SILC was carried out in the UK, and 2013 the most recent year for which data available.

The longitudinal analysis uses data for 2007 to 2012. Data was pooled across these years to ensure that a sufficient sample size was achieved, with 2012 being the most recently available longitudinal data.

Key definitions

Throughout this article, the measure of poverty used is relative low income. An individual is considered to be in poverty if their equivalised disposable income is below the poverty threshold.

Disposable income is the amount of money that households have available for spending and saving after direct taxes (such as income tax and council tax) have been accounted for, but before housing costs. It includes earnings from employment, private pensions and investments as well as cash benefits provided by the state. Equivalisation adjusts that income to take into account the size and composition of the household.

The poverty threshold used is 60 per cent of the national median equivalised disposable income. This is the most commonly used threshold in official UK and EU statistics. This type of relative indicator does not measure absolute wealth or poverty, but low income in comparison to other people, which in itself does not necessarily imply a low standard of living. In 2013, the median income was £15,877, meaning that the threshold was £9,526.

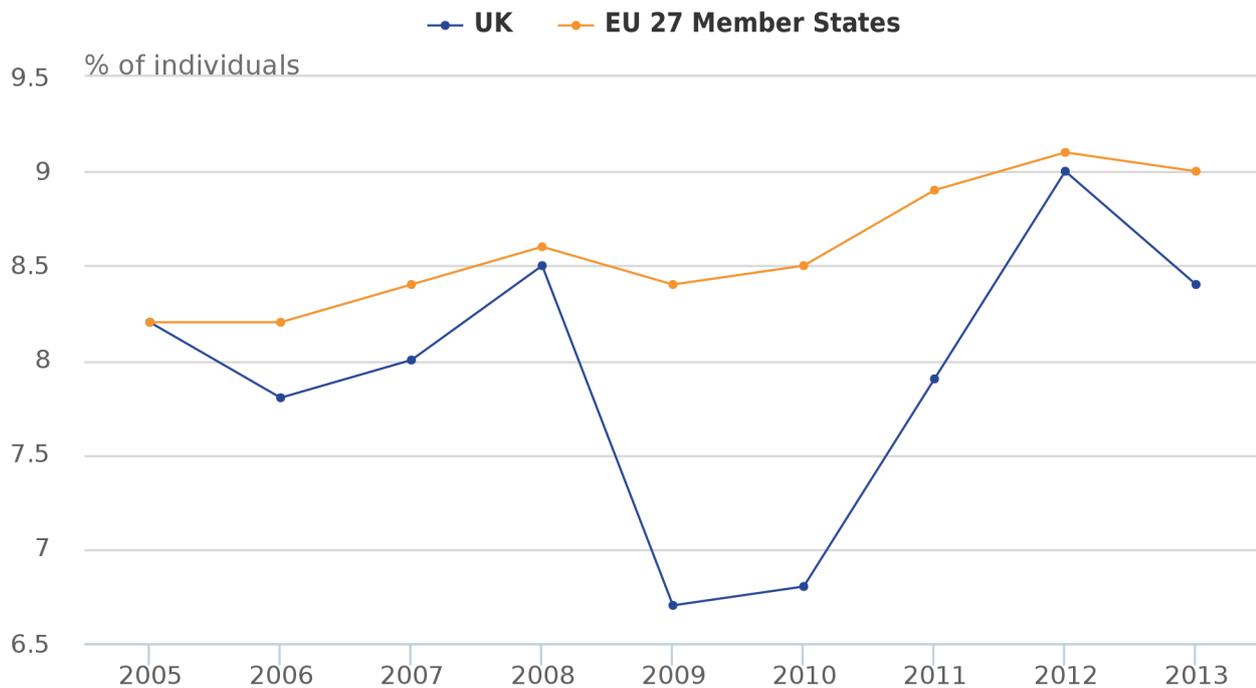
Someone is described as being in 'in-work poverty' if their equivalised disposable income is below the poverty threshold and they are in employment themselves. The in-work poverty rate reported by the European Commission and used in this article is based on people aged 18 to 64 inclusive.

3. In-work poverty in the UK & EU

In the UK, 8% of people in employment aged 18 to 64, were in relative income poverty in 2013, equivalent to around 3 million people (Figure 1). By contrast, the poverty rate for those in the same age group and not working was 31%.

Some care needs to be taken in interpreting changes in the level of in-work poverty over time in the UK, due to a change in the data source used in 2012. However, it appears that the UK rate has been largely stable for most years since 2005. The exception is 2009 and 2010, when there was a slight fall in the level of in-work poverty, to just below 7% of working people. There is evidence to indicate that the fall in in-work poverty for these years was related in part to the fall in employment rates that was experienced at this time: People who were in employment and in poverty in 2008 were more likely to be no longer working in 2009 than those whose incomes were above the poverty threshold (23% and 9% respectively). This possibly suggests that the nature of their employment was more vulnerable. Additionally, the overall poverty rate for the UK fell slightly in 2009, itself partly explained by a decrease in the poverty threshold due to the falling median income.

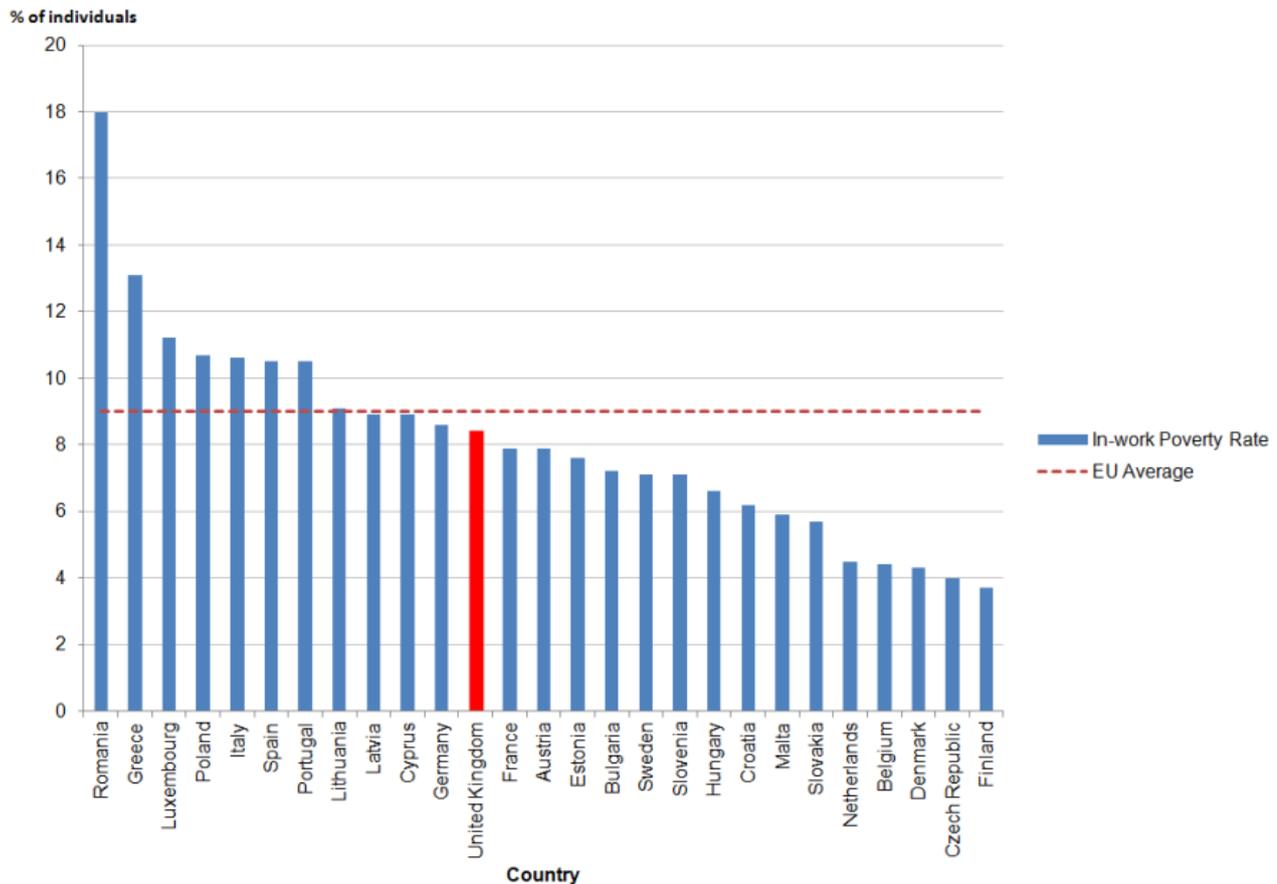
Figure 1: UK and EU average in-work poverty rates for people aged 18 to 64: 2005-2013



Source: Office for National Statistics, Eurostat

Levels of in-work poverty in the UK are relatively close to the EU average, which was 9% in 2013, having risen slightly from 8% in 2005. The overall figure masks some considerable variation within the EU. Romania and Greece had the highest levels of in-work poverty in 2013 with rates of 18% and 13% respectively. By contrast, only 4% of working people in both Finland and the Czech Republic were in relative income poverty (Figure 2).

Figure 2: In work poverty rates by EU country for people aged 18-64, 2013



Source: Office for National Statistics, Eurostat

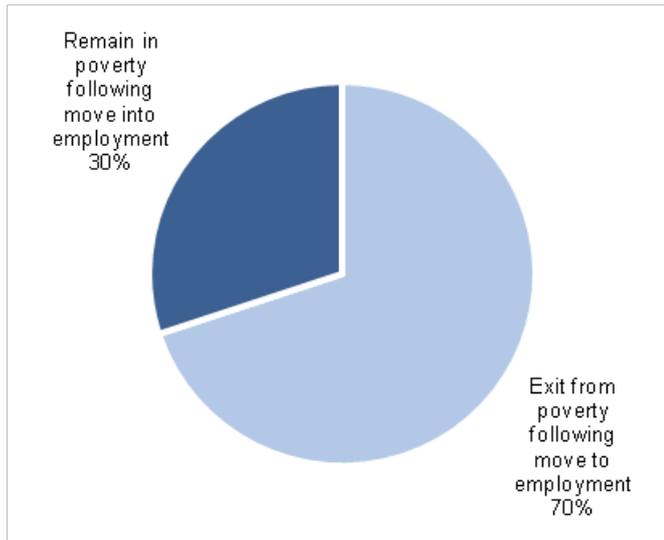
Notes:

1. Click on the chart image to view a larger version
2. No 2013 data available for Ireland

4. The impact of moving into employment on poverty status

To what extent is getting a job associated with moving out of poverty? Over the period 2007 to 2012, of people aged 18 to 59 who were not working and living in a household in poverty, 70% of those who moved into employment left poverty. The other 30% remained in relative income poverty despite entering employment (Figure 3).

Figure 3: Proportion of people leaving poverty when entering employment for the UK, 2007-2012

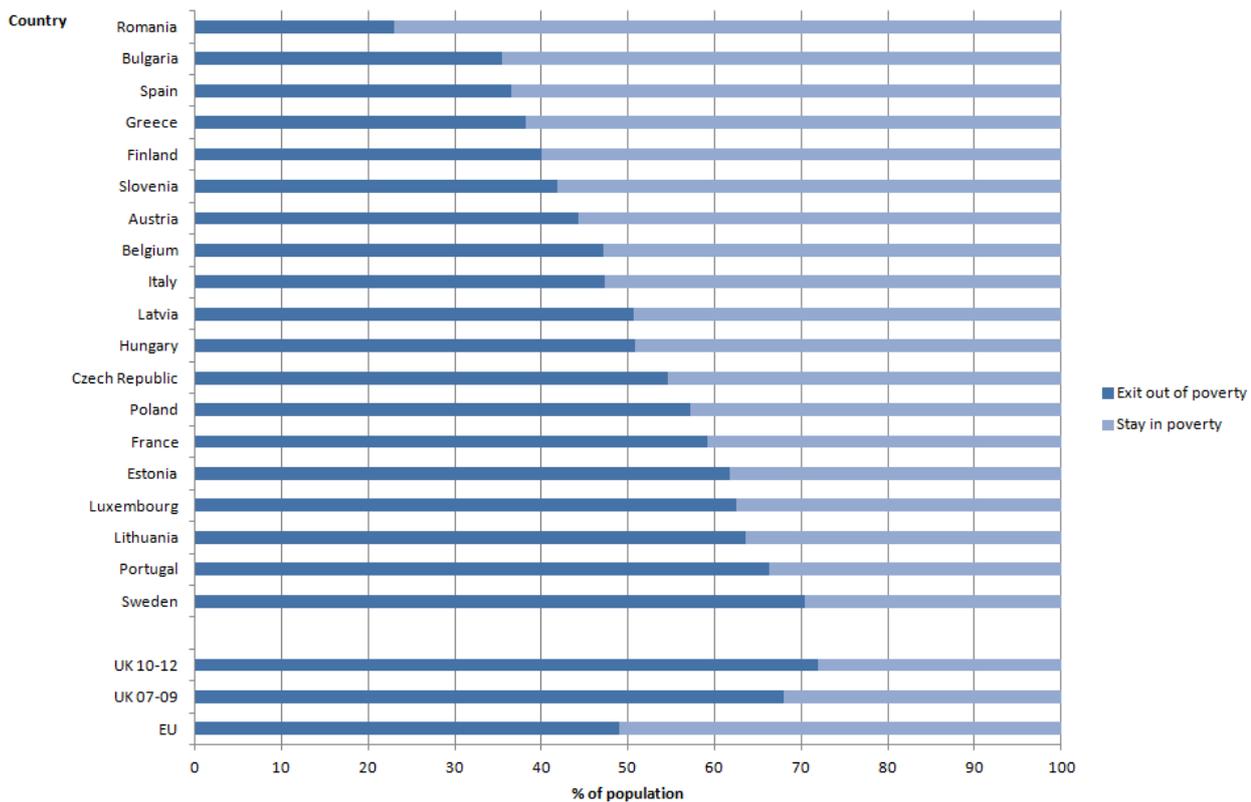


Source: Office for National Statistics

Comparable analysis carried out by the European Commission for 2009 showed that, for the EU overall, only around half (49%) of people left poverty when entering employment (Figure 4). The European Commission also produced figures for individual countries, though care needs to be taken in interpreting these figures, as they are based on a relatively small number of people. However, based on this analysis, it appears that the UK has a higher poverty exit rate for those entering employment than almost any other country examined. The poverty exit rate was lowest in Romania and Bulgaria, where just 23% and 35% of people respectively left poverty upon entering employment.

The percentage of people who moved out of poverty when entering employment in the UK was relatively stable and well above the EU average throughout the period 2007 to 2012, with an exit rate of 68% in 2007 to 2009, compared with 73% in 2010 to 2012.

Figure 4: Poverty exit rates for people moving into employment for the EU (2009) and UK (2007-2009 and 2010-2012), ages 18-59



Source, Office for National Statistics, European Commission

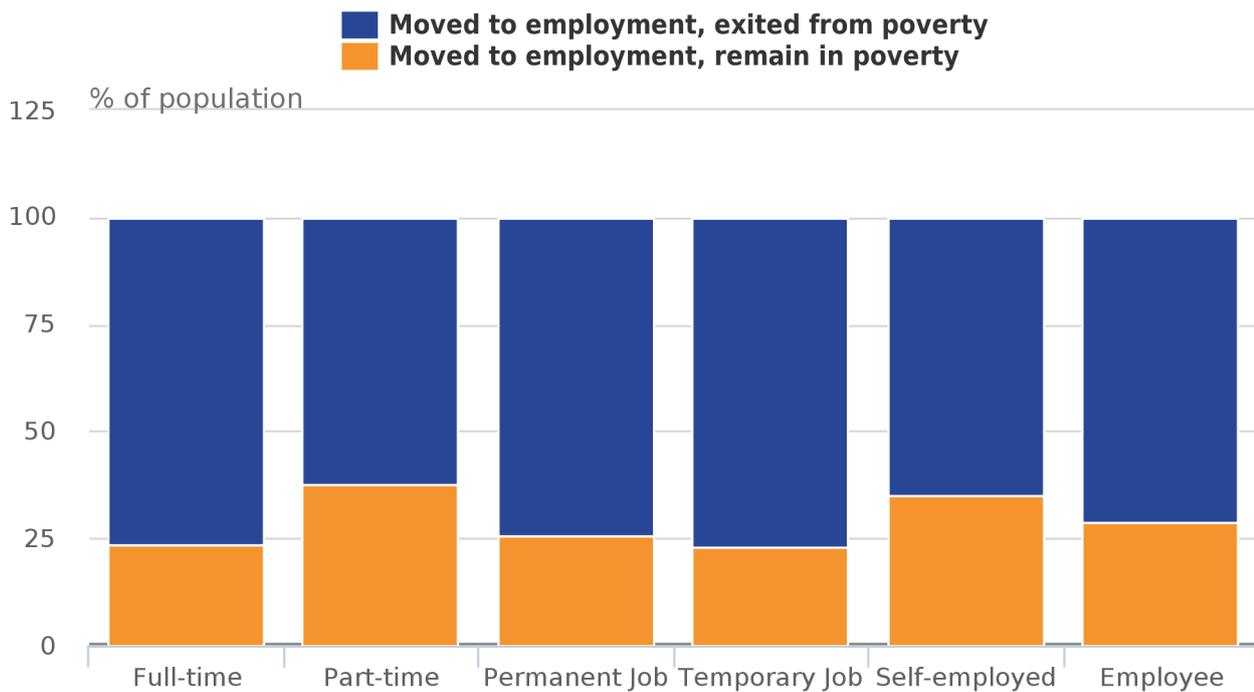
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1. Click on the chart image to view a larger version

Employment characteristics

There are a number of factors relating to the characteristics of the employment that may potentially affect how likely it is people will move out of poverty after getting a job. These obviously include the level of pay, as well as whether the job is full-time or part-time (and if part-time, the number of hours), and whether someone is employed on a temporary or permanent contract.

Figure 5: Poverty exit rates for people moving into work by characteristics of employment in the UK, 2007-2012



Source: Office for National Statistics

Those taking up full-time jobs (30 or more hours per week) are more likely to move out of poverty when entering employment (76%) than those who move into part-time employment (62%). This difference in exit rates is reflected in the average number of hours worked per week by those leaving poverty compared with those whose income remains below the poverty threshold. On average, those leaving poverty worked 32 hours a week, compared with 25 hours for those remaining in poverty. A similar pattern is observed when just looking at people working part-time, with those exiting poverty more likely to work longer hours (18 hours) than those who remain in poverty (15 hours).

There was no evidence that people entering permanent employment are more likely to leave poverty, with similar poverty exit rates for those in temporary (77%) and permanent (75%) roles. However, there is some evidence to suggest that those employed on temporary contracts are more likely to re-enter poverty the following year. Between 2007 to 2012, 10% of people aged 18 to 64 employed on temporary contracts the previous year were in poverty the next, compared with 6% of those who were on permanent contracts. Those on temporary contracts were also more likely to not be working the next year (21%, compared with 8% of those with permanent contracts).

The small observed difference between exit rates for self-employed people and employees is not statistically significant. This is due to the relatively small number of self-employed people in the sample.

Unsurprisingly, those moving out of poverty have a substantially higher rate of hourly pay than those who remain below the poverty threshold (Table 1). This is the case for both full-time and part-time workers. The exact values of pay should be treated with considerable caution, as EU-SILC is not designed for the purpose of measuring hourly pay. A measure of hourly pay has been created for the purposes of this analysis, by dividing weekly earnings by the average number of hours worked. However, it is known that such approaches tend to underestimate hourly pay compared with direct measures. This is likely to be for a variety of reasons, including the presence of unpaid overtime in the hours variable (see e.g. Skinner, Stuttard, Beissel-Durrant & Jenkins, 2002).

Table 1 Average hourly pay of those exiting poverty and remaining in poverty in the UK

	Full-time	Part-time	Overall
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Moved to employment, exited from poverty	£11.30	£8.50	£10.20
Moved to employment, remain in poverty	£5.10	£5.20	£5.20

Source: Office for National Statistics

Personal characteristics

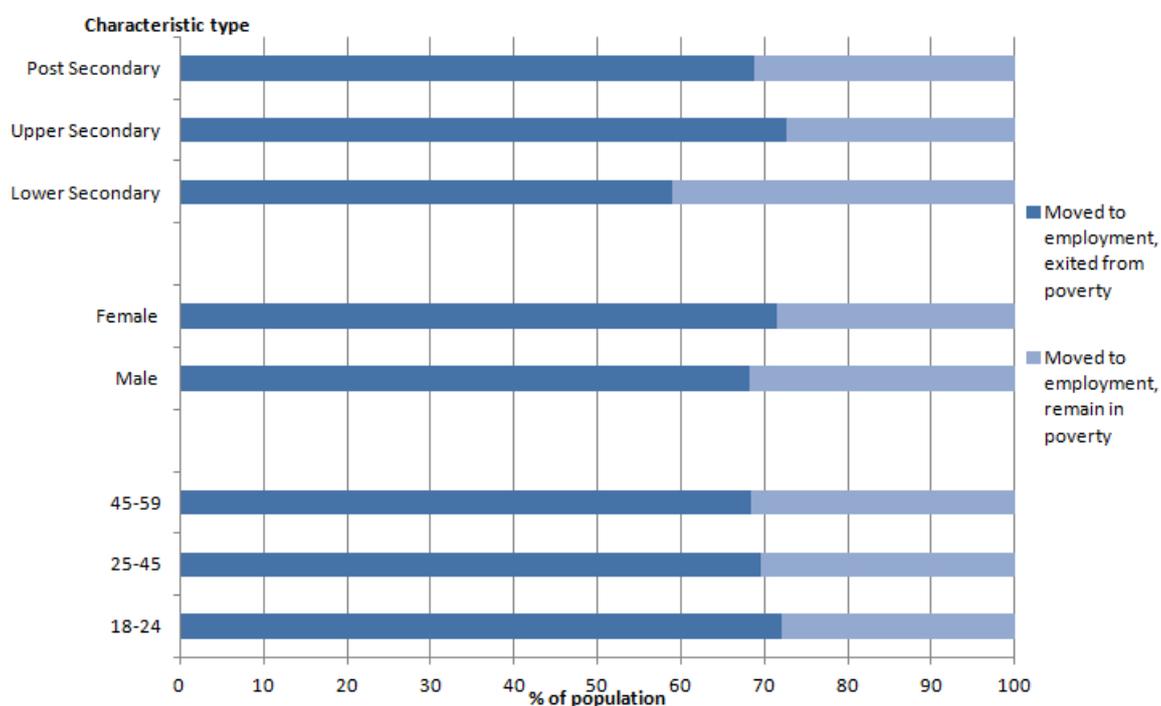
Whether moving into employment is likely to be enough to leave poverty may also depend on household composition. Overall, single adult households without children are least likely to leave poverty when entering employment, with a poverty exit rate of 57% (Figure 6). By comparison, 73% of people living in two adult households left poverty when they started work.

Figure 6: Poverty exit rates for people moving into work by household type, UK, 2007-2012

Source: Office for National Statistics, Eurostat

In contrast to household composition, there is relatively little variation in the extent to which getting a job is associated with leaving poverty across other individual characteristics, with very little difference in exit rates across age groups or between men and women (Figure 7).

Figure 7: Poverty exit rates for people moving into work by personal characteristics of individual, UK, 2007-2012



Source: Office for National Statistics, Eurostat

Notes:

1. 'Post secondary' includes: Post secondary non-tertiary education, First stage of tertiary education, Second stage of tertiary education.

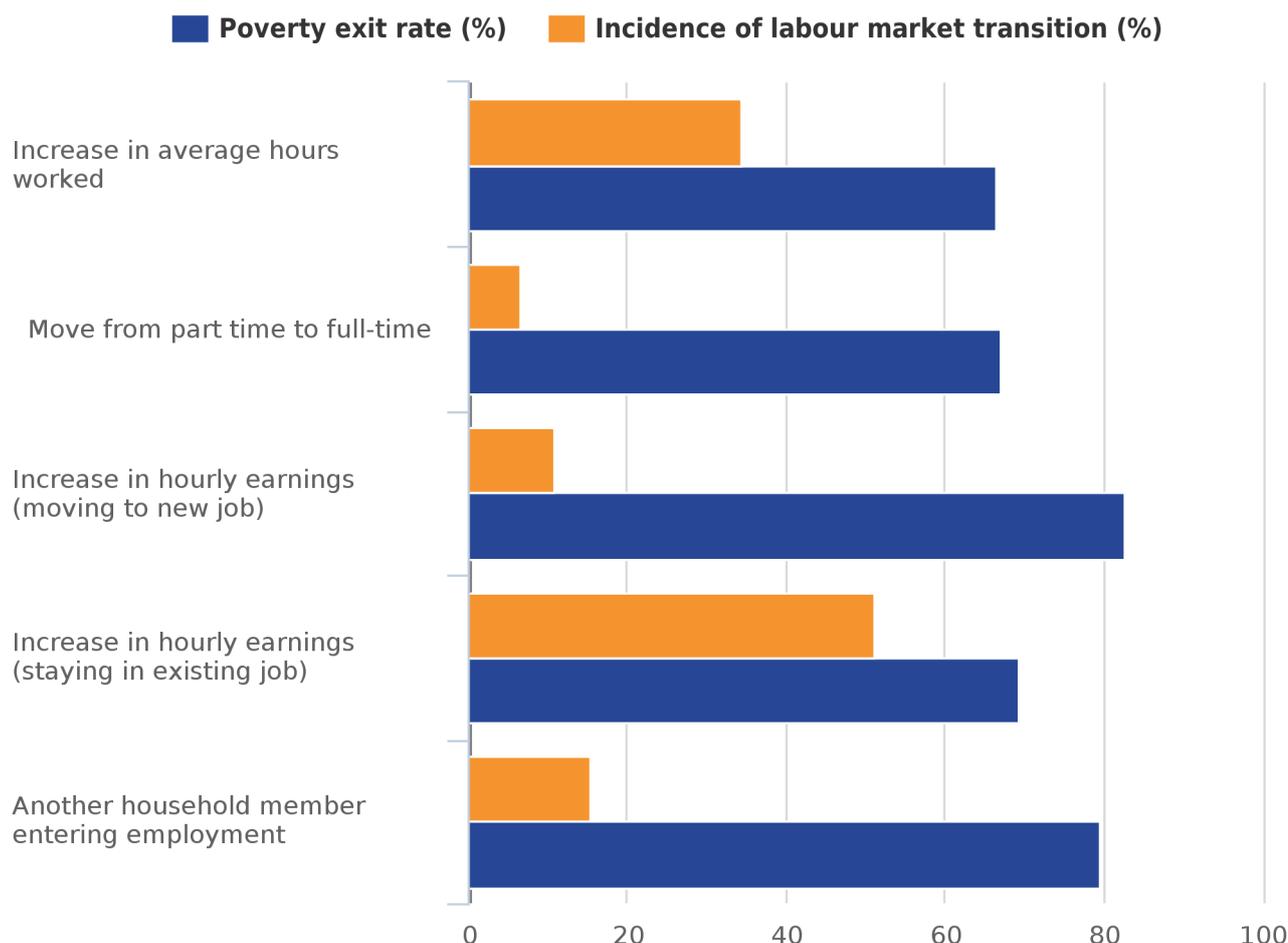
- Education level is coded according to the International Standard Classification of Education (ISCED). Examples of qualifications are: Lower Secondary: GCSE's, GNVQ foundation level, NVQ level 1, BTEC certificate, SCOTVEC modules, Youth Training. Upper Secondary: HE Access course, A level, AS level, SCE Higher, International Baccalaureate, NVQ level 3, GNVQ Advanced. Post Secondary: Doctorate, Masters Degree/PGCE/Other Postgraduate/First Degree, NVQ levels 4 and 5, HND/HNC, Nursing/Teacher Training.

The level of qualifications that an individual holds is related to their likelihood of exiting poverty when entering employment, probably through its effect on the types of roles that they are able to enter. Only 59% of people whose highest level of qualifications was at GCSE or equivalent level or below left relative income poverty when taking up a job, compared with exit rates of 73% and 69% for those with the upper secondary and post secondary level qualifications respectively.

5. Exiting from in-work poverty

The ways in which people can leave in-work poverty are complex, with many factors potentially having an impact simultaneously. There are number of employment-related events which may contribute to people leaving in-work poverty. These include increases in hours or pay, possibly associated with taking up a new job, as well as having another member of the household starting work. In addition, people can also leave in-work poverty for other reasons, including changes to the composition of the household or in the level of income from sources other than employment.

Figure 8: Incidence levels of labour market transitions and exiting in-work poverty, UK, 2007-2012



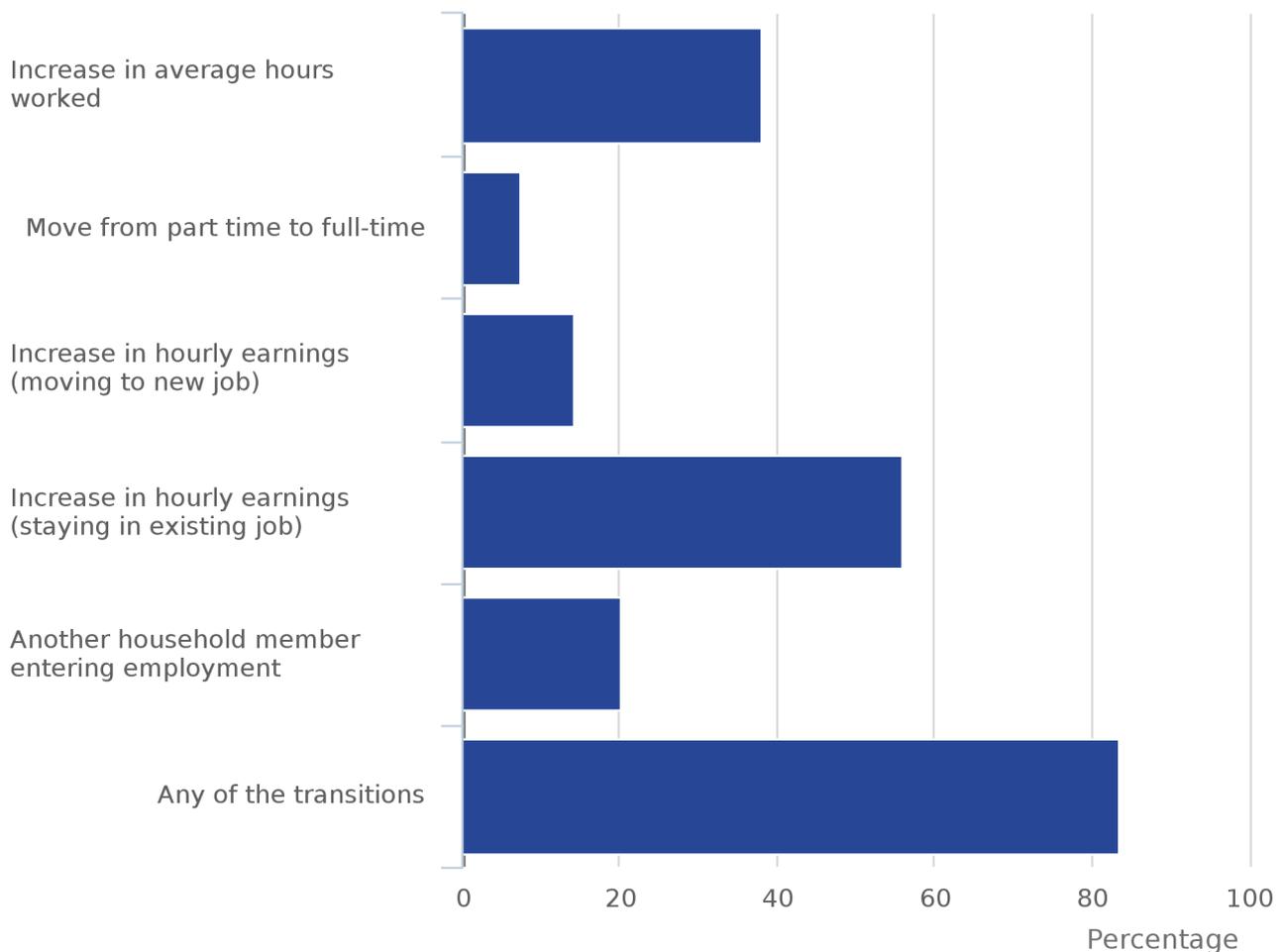
Source: Office for National Statistics, Eurostat

Notes:

- Increase in hourly earnings refers to nominal increase of 5% or more

Figure 8 shows both how common different types of labour market transitions are amongst those experiencing in-work poverty and the extent to which those transitions are associated with leaving in-work poverty. As might be expected, there is a relatively high poverty exit rate for those experiencing an increase in hourly pay of 5% or more. However, this exit rate is higher for those whose hourly pay increases as a result of moving to a new job (83%) compared with those whose pay increases whilst staying in the same role (69%). This may be because those whose pay increases when they change role are more likely to be experiencing a substantial increase in earnings. However, this kind of transition is relatively uncommon, with only 11% of people experiencing it on average. Although also relatively uncommon, having another member of the household enter employment is also very likely to see people move out of in-work poverty, with an exit rate of 80%.

Figure 9: Frequency of labour market transitions experienced among those leaving in-work poverty, UK, 2007-2012



Source: Office for National Statistics

Figure 9 shows the labour market transitions experienced by those leaving in-work poverty between 2007 and 2012. The percentages add up to more than 100% as it is possible for an individual to experience more than one of these events. An increase in hourly earnings of 5% or more was experienced by 70% of people who exited from in-work poverty, either as a result of a change in job or experiencing an increase through their current employment. An increase in the average number of hours that somebody works was also a factor in 38% of cases. Overall, 83% of those leaving in-work poverty experienced at least one of these transitions.

6. Background notes

1. The figures in this article are based on [European Union Statistics on Income and Living Conditions \(EU-SILC\)](#). EU-SILC is coordinated by [Eurostat](#) (the European Commission's statistical agency) under EU

regulation and provides cross sectional and longitudinal data on income, poverty and living conditions across Europe. Until 2011, in the UK, [EU-SILC](#) was collected by the Office for National Statistics (ONS) using the General Lifestyle Survey (GLF).

2. Since 2012, cross-sectional [EU-SILC](#) data has been produced from the Department of Work and Pension's (DWP) Family Resources Survey (FRS), with longitudinal data produced using a follow-up survey known as the Survey on Living Conditions (SLC).
3. The data for other EU countries is collected by their National Statistical Institutes (NSIs). Overall EU figures are calculated by Eurostat and are computed as the population-weighted averages of the national figures.
4. The estimates for the [EU-SILC](#) cross-sectional comparison were extracted from [Eurostat's online database](#) on 22nd January 2015. Eurostat update their online database on a regular basis.
5. The figures on the proportion of people leaving poverty after entering employment for the EU as a whole and other countries are taken from Employment and Social Developments in Europe 2013, published by the European Commission.
6. The [EU-SILC](#) data are weighted to take into account different probabilities of selection and levels of response for different types of household and individual.
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7. Supporting information

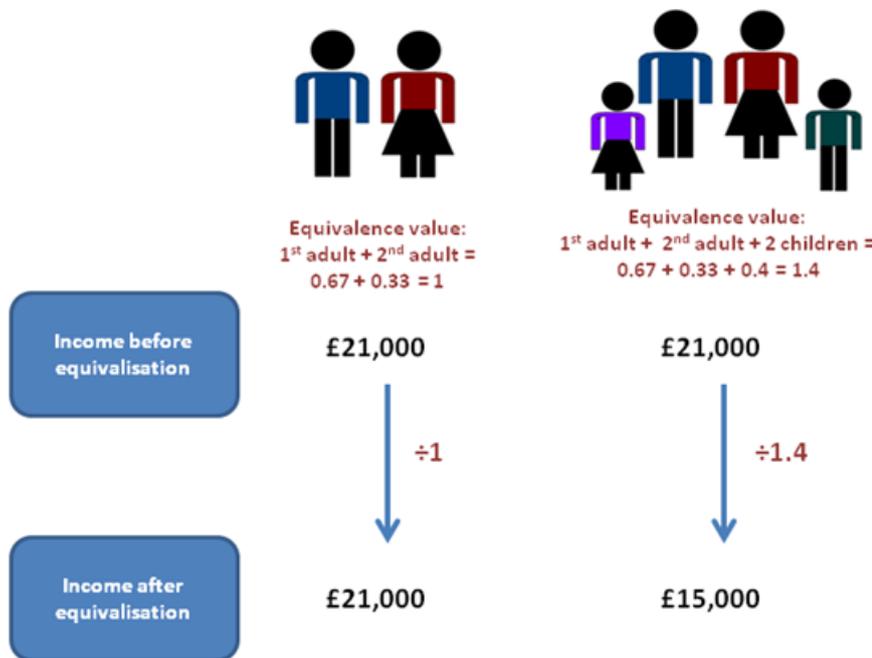
Glossary

Disposable income

Disposable income is the amount of money that households have available for spending and saving after direct taxes (such as income tax and council tax) have been accounted for. It includes earnings from employment, private pensions and investments as well as cash benefits provided by the state.

Equivalisation

Equivalisation is the process of accounting for the fact that households with many members are likely to need a higher income to achieve the same standard of living as households with fewer members. Equivalisation takes into account the number of people living in the household and their ages, acknowledging that whilst a household with two people in it will need more money to sustain the same living standards as one with a single person, the two person household is unlikely to need double the income.



This analysis uses the [modified-OECD equivalisation scale \(165.7 Kb Pdf\)](#).

Relative income poverty

People are deemed to be in relative income poverty if they live in a household with an equivalised disposable income below the poverty threshold. This threshold is set at 60 per cent of the national median equivalised disposable income. This type of relative indicator does not measure absolute wealth or poverty, but low income in comparison to other residents in that country, which does not necessarily imply a low standard of living.

In-work poverty rate

Someone is described as being in 'in-work poverty' if their household equivalised disposable income is below the poverty threshold and they are in employment themselves. The in-work poverty rate reported by the European Commission and used in this article is based on people aged 18 to 64 inclusive.

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Related Statistics and Analysis

Related publications produced by ONS include:

- [Intergenerational Transmission of Disadvantage in the UK & EU, 2014 Release](#)
- [Poverty and Social Exclusion in the UK & EU, 2005-2011](#)

Eurostat produce a number of new releases and articles based on EU-SILC. More figures for all EU countries are also available through their online database.

The [Households Below Average Income \(HBAI\)](#) series is an annual publication by the Department for Work and Pensions (DWP) which uses Family Resources Survey data. HBAI data are used to measure existing UK government targets to reduce poverty. The publication analyses the income distribution generally, and the numbers and characteristics of low income households using equivalised disposable income. The publication covering the period 2012 to 2013 was released by DWP on 1 July 2014. HBAI poverty estimates are not directly comparable with those produced for EU-SILC. This is primarily because the two indicators use different definitions of disposable income. HBAI is the preferred UK policy measure, due to its larger sample size, though the EU-SILC indicator is used for this article due to its cross-European comparability.

Both EU-SILC and HBAI are described in the [guide to earnings and income data sources](#) published on the ONS website.