

# How do people exit in-work poverty and what prevents them from doing so?



***Rod Hick** examines the ways in which people move in and out of working poverty, as well as the impact that the UK's tax credit system has had on in-work poverty levels. He emphasises the need for researchers and policymakers to focus on the factors which prevent or enable people to exit working poverty, so that positive transitions can be supported.*

The issue of in-work progression has been getting a lot of attention in policy circles of late. This attention is due in no small part to rising concern with in-work poverty and the introduction of in-work conditionality as a component of Universal Credit. But what is in-work progression and how does it relate to in-work poverty? A [recent report](#) by the Social Security Advisory Committee equated it with earnings progression for low-paid workers. This focus on raising the earnings of a low-paid worker or, to a lesser extent, the earnings of their partner, is the primary focus of the emerging work on in-work progression.

Sometimes, and often in passing, one sees mention of structural factors preventing progression, such as the lack of availability and affordability of childcare and opportunities within local labour markets to take on extra hours of paid work. Social security tends not to get a look-in: indeed, one of the aims of Universal Credit is to incentivise claimants to 'graduate' from it by increasing their earnings.

A problem, then, with this emerging focus on in-work progression is that it is largely limited to the issue of low pay. And one thing we know from the literature on in-work poverty is that many low-paid workers are not poor, often because they are second or third earners in a household, while not all working households in poverty have a low-paid member. The latter may fall into poverty because, even if not technically low paid, their wage has to stretch too far, either in terms of the number of people who rely on it or because of other costs such as housing.

If we want to understand how people can leave in-work poverty then it is worth examining how this is achieved in practice. In two recent papers with my colleague Dr Alba Lanau, we have attempted to shed some light on the ways in which people move in and out of working poverty, and the extent to which the tax credit system has helped to reduce in-work poverty in the UK. Our measure of in-work poverty was when at least one person in the household was in paid work, but the household's total net income remained below the poverty line.

In the [first paper](#), we analysed in-work poverty transitions by following households over a four-year period – between 2010/11 and 2013/14. Our research found that almost seven in ten exits from in-work poverty were associated with an increase in earnings from employment. In about half of these cases, this increase was due to an increase in the *number* of workers in the household, while in the other half it was due to an increase in hourly pay or in hours of work for a fixed number of workers. So, progression from in-work poverty is about increasing the number of workers in a household as well as the pay of those already in work. But social security mattered too: in 45% of cases, an exit from in-work poverty coincided with an increase in social security income of at least 20%. Thus, social security increases as well as labour market events help to explain exits from in-work poverty.

While the focus of in-work progression is ostensibly positive, some in-work poverty exits are more concerning. We found that while most people who exited in-work poverty did so by remaining in work, the working poor were also three times more likely than non-poor workers to become workless. Preventing these negative trajectories should also be a focus for policy.

In a [second paper](#), we explored the significance of tax credits, and social security more broadly, in terms of their contribution to household income and the extent to which they reduce in-work poverty in the UK, using data from the Households Below Average Income (HBAI) survey.

While earnings from employment made up more than 80% of the income of all working households, this fell to two-thirds for households in working poverty. The proportion accounted for by social security (including tax credits) rose from 11% to 28%. Social security is thus an important component of the incomes of those experiencing working poverty.

A key question, then, is the extent to which this 28% is made up of tax credits. To examine this, we made use of the detailed information on social security receipt within the HBAI dataset to identify the specific payments received by working poor households. Of the total social security income received by working poor households, only about one-third came from tax credits. So where did the rest come from? About another third came from a combination of Housing Benefit and Child Benefit, and a final third accounted for by a complex mix of payments, including out-of-work payments, such as JobSeeker's Allowance and Employment and Support Allowance, for household members who were not working.

That tax credits account for a minority share of social security income of the working poor does not mean, however, that they are not vital in terms of lifting households above the poverty line. And this is where our attention turned next. We analysed the extent to which the receipt of Child Tax Credit and Working Tax Credit reduced the poverty gap – the distance that households experiencing working poverty fell below the poverty line. We found that tax credits reduced the poverty gap by 64% – a substantial proportion – for households who received them. But many households experiencing working poverty didn't, especially low-income working households without children, who made up almost half of those households who experienced working poverty, but for whom receipt is very low.

The recent focus on in-work progression seems, on the face of it, to provide a response to the growing problem of in-work poverty in the UK. But if progression to be meaningful, it must also lead to an escape from in-work poverty. Examining more closely how people do, in fact, exit in-work poverty, and the factors which prevent others from doing so, would be a good place to start. But we must also be clear about our goal, and this ought to be to ensure progression from in-work poverty.

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Note: the above draws on the author's [work](#) in the *Journal of Social Policy* and their [work](#) in *Social Policy and Society* (both with Dr Alba Lanau).

### About the Author



**Rod Hick** is Senior Lecturer in Social Policy at Cardiff University.

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