

IFS

Proportion of families, and of individuals living in families, who have private incomes exceeding their net income from the state

Mike Brewer

The Institute for Fiscal Studies

IFS Briefing Note No. 81

Proportion of families, and of individuals living in families, who have private incomes exceeding their net income from the state*

Mike Brewer

Institute for Fiscal Studies

This Briefing Note examines what proportion of families have pre-tax private incomes exceeding net support from the state (see the Annex below for precise definitions of all these terms). The analysis was undertaken using the IFS tax and benefit microsimulation model, TAXBEN, and data from the Family Resources Survey and the Family Expenditure Survey.

Tables 1 and 2 analyse the situation in 1979, Tables 3 and 4 analyse the situation in 1988, Tables 5 and 6 analyse the situation in 1996–97 and Tables 7 and 8 analyse the situation in 2008–09.

In general terms, the tables show the following:

- The likelihood that a family has private income exceeding net state support generally rises as income rises, except (in years other than 1979) in the first two decile groups. Some families in the bottom decile group have a very low income because they are not entitled to any state support despite low private income, either because they have too many assets, or because they are working with low earnings / self-employment profits and are not entitled to working tax credit (WTC).
- Pensioners (if the basic state pension and SERPS are both counted as income from the state) and lone parents are particularly unlikely to have private income exceeding net state support. Couples without children where both adults are aged under 55 are particularly likely to have private income exceeding net state support.
- The proportion of families for whom private income exceeds net state support fell between 1979 and 1988 and between 1988 and 1996–97 but has risen since 1996–97. Although some entitlements to some benefits and tax credits (given real income) have risen since 1996–97 – which would tend to reduce the proportion of families for whom private income exceeds net state support – real rises in private income (due to real earnings growth, the

* Funding from Civitas is gratefully acknowledged. Data from the Family Resources Survey were provided by the Department for Work and Pensions and data from the Family Expenditure Survey were provided by the Office for National Statistics; all are available from the UK Data Archive.

growing proportion of pensioners with some private pension income, and the increased proportion of working-age adults and those over the state pension age in work¹) have outbalanced this, on average.

- This change over time masks some variation within the population. For example, the proportion of pensioners for whom private income exceeds net state support has risen continuously over this period, presumably reflecting an increased proportion with private pension income. Also, the proportion of lone parents for whom private income exceeds net state support fell between 1979 and 1988, and between 1988 and 1996–97, reflecting the fall in employment, before rising between 1996–97 and 2008–09. However, all family types shown here are more likely to have private income exceeding net state support in 2008–09 than in 1996–97.

Figure 1 shows the cumulative distribution of net state support as a percentage of total net income (values in excess of 100% have been set to 100%).² On the vertical axis, a value of 100% indicates that all of a family's income is from state benefits, a positive value indicates that receipt of state benefits exceeds taxes paid and a negative value indicates that the family is a net taxpayer. If one line lies to the 'north-east' of another, then that indicates a greater net generosity from the personal tax and benefit system.

Reading horizontally across from the 50% marker on the vertical axis, the graph shows that 25% of families in 1979 and 31% of families in 1996–97 had net state support that was greater than 50% of their total income (i.e. for these families, net state support was greater than private income), and therefore the remaining 75% and 69% of families in 1979 and 1996–97 respectively had private income in excess of net state support, as reported in Tables 1 and 5.

Figure 1 also shows that the percentage of families who are net beneficiaries from the personal tax and benefit system (i.e. have a value in excess of 0%) has risen over time, from 35% in 1979 to around 45% in 1996–97 and 2008–09.

¹ Estimates from the Labour Force Survey are that, in 1996, 7.8% of females aged over 60 and males aged over 65 were economically active, whereas in 2007 the figure was 11.3%.

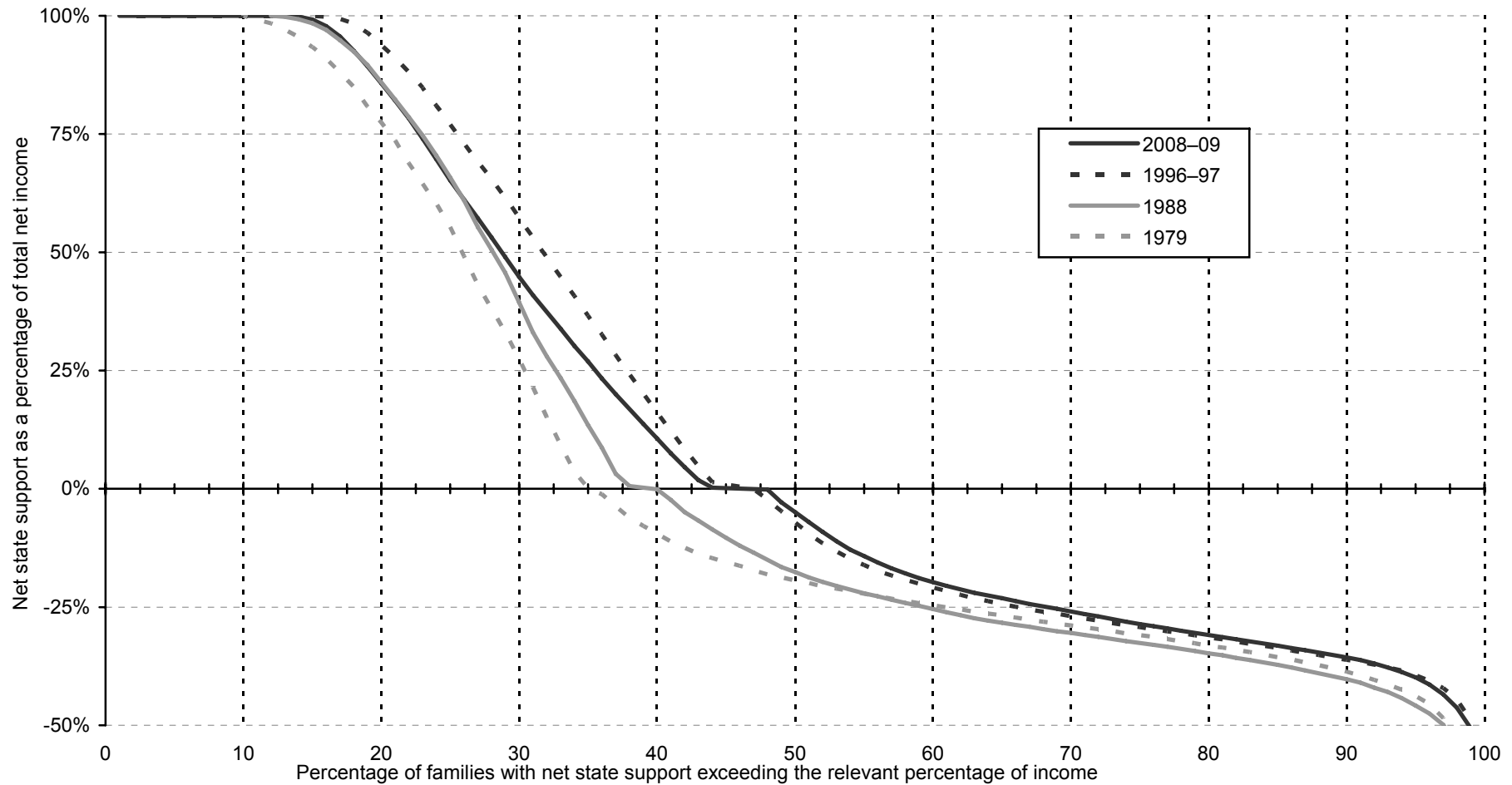
² This is a slightly different statistic from those in the tables, which count families whose private income exceeds their net state support, but note that families whose private income exceeds their net state support are those for whom net state support is less than 50% of their total income (because total income is equal to private income plus net state support).

Annex: Definitions, assumptions and methods

- The analysis was undertaken using the IFS tax and benefit microsimulation model, TAXBEN, and data from the Family Resources Survey (FRS) and the Family Expenditure Survey (FES). The data cover Great Britain only.
- Estimates for 2008–09 are based on the 2005–06 FRS, suitably updated, and include the impact of the £600 rise in the personal income tax allowance announced on 13 May 2008.
- ‘Net state support’ is defined as income from all benefits and tax credits plus income from the State Earnings-Related Pension Scheme (SERPS) or the State Second Pension (S2P) less income tax, employee National Insurance and council tax. This can take a positive or negative value.
- All estimates assume full take-up of benefits and tax credits.
- All comparisons of private income with net state support are at the family level, but the tables also report how many adults live in the families.
- The definition of a family is an adult, their partner/spouse (if any) and their dependent children (if any). Non-dependent children living in the family home will be in a different family unit from their parents.
- In multi-family households, the council tax bill is allocated to the person who in the survey is classified as the head of the household.
- Families are allocated into 10 equal-sized groups, called decile groups, on the basis of their equivalised family income;³ this can mean that there are different numbers of adults in each decile group.

³ Equivalised income is equal to income divided by an equivalence scale which is a function of the number of adults and children in the household. The McClements equivalence scale was used in this instance.

Figure 1. Cumulative distribution of net state support as a percentage of total net income, various years



Source: Author's calculations using the IFS tax and benefit microsimulation model, TAXBEN, and various data sources as described in the text.

Table 1. 1979, decile group analysis

<i>Income decile group</i>	<i>Total number of families</i>	<i>Number of families for whom all private income is greater than net state support</i>	<i>Percentage of families for whom all private income is greater than net state support</i>	<i>Total number of adults</i>	<i>Number of adults in families for whom all private income is greater than net state support</i>	<i>Percentage of adults in families for whom all private income is greater than net state support</i>
Poorest	2,656,062	561,247	21.1	3,317,367	707,708	21.3
2	2,656,558	594,726	22.4	3,692,588	918,996	24.9
3	2,655,818	1,037,625	39.1	3,628,686	1,572,081	43.3
4	2,656,216	1,894,182	71.3	3,940,677	2,818,774	71.5
5	2,655,341	2,531,836	95.3	4,111,971	3,943,901	95.9
6	2,653,364	2,599,730	98.0	4,157,737	4,078,466	98.1
7	2,656,644	2,643,078	99.5	4,270,810	4,250,260	99.5
8	2,653,945	2,650,453	99.9	4,330,443	4,323,459	99.8
9	2,656,668	2,656,668	100.0	4,442,282	4,442,282	100.0
Richest	2,654,023	2,654,023	100.0	4,417,309	4,417,309	100.0
All	26,554,639	19,823,568	74.7	40,309,870	31,473,236	78.1

Notes: Income decile groups are derived by dividing all families into 10 equal-sized groups according to income adjusted for family size using the McClements equivalence scale. See text for details and key assumptions.

Source: Author's calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on data from the 1979 Family Expenditure Survey.

Table 2. 1979, family type analysis

<i>Family type</i>	<i>Total number of families</i>	<i>Number of families for whom all private income is greater than net state support</i>	<i>Percentage of families for whom all private income is greater than net state support</i>	<i>Total number of adults</i>	<i>Number of adults in families for whom all private income is greater than net state support</i>	<i>Percentage of adults in families for whom all private income is greater than net state support</i>
Single <25, no kids	4,435,539	3,948,377	89.0	4,435,539	3,948,377	89.0
Single 25–55, no kids	2,825,931	2,447,800	86.6	2,825,931	2,447,800	86.6
Single >55 but <SPA, no kids	759,766	559,787	73.7	759,766	559,787	73.7
Couple either <25, no kids	687,924	670,464	97.5	1,375,848	1,340,928	97.5
Couple neither <25, one <55, no kids	3,020,580	2,961,216	98.0	6,041,160	5,922,432	98.0
Couple both >55 but <SPA, no kids	1,550,448	1,354,896	87.4	3,100,896	2,709,792	87.4
Couple with kids	6,213,474	5,925,620	95.4	12,426,948	11,851,240	95.4
Lone parent	851,868	433,940	50.9	851,868	433,940	50.9
Single pensioner	3,926,304	783,996	20.0	3,926,304	783,996	20.0
Couple, at least one over SPA	2,282,805	737,472	32.3	4,565,610	1,474,944	32.3
All	26,554,639	19,823,568	74.7	40,309,870	31,473,236	78.1

Note: See text for details and key assumptions.

Source: Author's calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on data from the 1979 Family Expenditure Survey.

Table 3. 1988, decile group analysis

<i>Income decile group</i>	<i>Total number of families</i>	<i>Number of families for whom all private income is greater than net state support</i>	<i>Percentage of families for whom all private income is greater than net state support</i>	<i>Total number of adults</i>	<i>Number of adults in families for whom all private income is greater than net state support</i>	<i>Percentage of adults in families for whom all private income is greater than net state support</i>
Poorest	2,922,509	1,257,427	43.0	3,492,740	1,382,391	39.6
2	2,920,298	566,221	19.4	3,905,538	734,589	18.8
3	2,921,667	1,020,296	34.9	3,950,071	1,491,486	37.8
4	2,921,371	1,583,568	54.2	4,030,832	2,301,204	57.1
5	2,922,630	2,569,057	87.9	4,326,429	3,809,253	88.0
6	2,921,616	2,695,004	92.2	4,382,408	4,097,884	93.5
7	2,918,908	2,834,507	97.1	4,506,435	4,400,445	97.6
8	2,921,176	2,871,622	98.3	4,621,782	4,556,845	98.6
9	2,921,918	2,918,815	99.9	4,690,122	4,683,916	99.9
Richest	2,919,830	2,916,314	99.9	4,787,318	4,783,802	99.9
All	29,211,923	21,232,831	72.7	42,693,675	32,241,815	75.5

Notes: Income decile groups are derived by dividing all families into 10 equal-sized groups according to income adjusted for family size using the McClements equivalence scale. See text for details and key assumptions.

Source: Author's calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on data from the 1988 Family Expenditure Survey.

Table 4. 1988, family type analysis

<i>Family type</i>	<i>Total number of families</i>	<i>Number of families for whom all private income is greater than net state support</i>	<i>Percentage of families for whom all private income is greater than net state support</i>	<i>Total number of adults</i>	<i>Number of adults in families for whom all private income is greater than net state support</i>	<i>Percentage of adults in families for whom all private income is greater than net state support</i>
Single <25, no kids	5,380,173	4,766,715	88.6	5,380,173	4,766,715	88.6
Single 25–55, no kids	4,199,274	3,374,876	80.4	4,199,274	3,374,876	80.4
Single >55 but <SPA, no kids	812,583	537,882	66.2	812,583	537,882	66.2
Couple either <25, no kids	654,733	623,703	95.3	1,309,466	1,247,406	95.3
Couple neither <25, one <55, no kids	3,400,888	3,171,266	93.2	6,801,776	6,342,532	93.2
Couple both >55 but <SPA, no kids	1,427,380	1,141,904	80.0	2,854,760	2,283,808	80.0
Couple with kids	5,483,449	5,002,775	91.2	10,966,898	10,005,550	91.2
Lone parent	1,097,140	400,904	36.5	1,097,140	400,904	36.5
Single pensioner	4,241,001	1,143,470	27.0	4,241,001	1,143,470	27.0
Couple, at least one over SPA	2,515,302	1,069,336	42.5	5,030,604	2,138,672	42.5
All	29,211,923	21,232,831	72.7	42,693,675	32,241,815	75.5

Note: See text for details and key assumptions.

Source: Author's calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on data from the 1988 Family Expenditure Survey.

Table 5. 1996–97, decile group analysis

<i>Income decile group</i>	<i>Total number of families</i>	<i>Number of families for whom all private income is greater than net state support</i>	<i>Percentage of families for whom all private income is greater than net state support</i>	<i>Total number of adults</i>	<i>Number of adults in families for whom all private income is greater than net state support</i>	<i>Percentage of adults in families for whom all private income is greater than net state support</i>
Poorest	2,891,173	1,224,356	42.3	3,448,294	1,374,340	39.9
2	2,891,734	783,433	27.1	4,072,404	1,214,073	29.8
3	2,891,044	979,278	33.9	3,935,861	1,463,613	37.2
4	2,891,100	1,439,973	49.8	3,960,897	2,124,489	53.6
5	2,891,352	2,065,474	71.4	4,231,249	3,113,627	73.6
6	2,890,709	2,405,590	83.2	4,434,744	3,786,963	85.4
7	2,890,908	2,507,561	86.7	4,480,057	4,019,457	89.7
8	2,891,752	2,768,888	95.8	4,695,759	4,542,288	96.7
9	2,890,649	2,865,761	99.1	4,755,398	4,725,286	99.4
Richest	2,890,753	2,883,652	99.8	4,841,750	4,832,913	99.8
All	28,911,174	19,923,966	68.9	42,856,413	31,197,049	72.8

Notes: Income decile groups are derived by dividing all families into 10 equal-sized groups according to income adjusted for family size using the McClements equivalence scale. See text for details and key assumptions.

Source: Author's calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on data from the 1996–97 Family Resources Survey.

Table 6. 1996–97, family type analysis

<i>Family type</i>	<i>Total number of families</i>	<i>Number of families for whom all private income is greater than net state support</i>	<i>Percentage of families for whom all private income is greater than net state support</i>	<i>Total number of adults</i>	<i>Number of adults in families for whom all private income is greater than net state support</i>	<i>Percentage of adults in families for whom all private income is greater than net state support</i>
Single <25, no kids	3,580,695	2,973,904	83.1	3,580,695	2,973,904	83.1
Single 25–55, no kids	4,662,442	3,447,463	73.9	4,662,442	3,447,463	73.9
Single >55 but <SPA, no kids	838,676	487,024	58.1	838,676	487,024	58.1
Couple either <25, no kids	529,428	490,395	92.6	1,058,856	980,790	92.6
Couple neither <25, one <55, no kids	3,991,431	3,699,772	92.7	7,982,862	7,399,544	92.7
Couple both >55 but <SPA, no kids	1,439,493	1,150,025	79.9	2,878,986	2,300,050	79.9
Couple with kids	5,383,577	4,712,968	87.5	10,767,154	9,425,936	87.5
Lone parent	1,601,453	459,108	28.7	1,601,453	459,108	28.7
Single pensioner	4,282,669	1,283,384	30.0	4,282,669	1,283,384	30.0
Couple, at least one over SPA	2,601,310	1,219,923	46.9	5,202,620	2,439,846	46.9
All	28,911,174	19,923,966	68.9	42,856,413	31,197,049	72.8

Note: See text for details and key assumptions.

Source: Author's calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on data from the 1996–97 Family Resources Survey.

Table 7. 2008–09, decile group analysis

<i>Income decile group</i>	<i>Total number of families</i>	<i>Number of families for whom all private income is greater than net state support</i>	<i>Percentage of families for whom all private income is greater than net state support</i>	<i>Total number of adults</i>	<i>Number of adults in families for whom all private income is greater than net state support</i>	<i>Percentage of adults in families for whom all private income is greater than net state support</i>
Poorest	3,073,231	1,678,308	54.6	3,477,803	1,832,178	52.7
2	3,071,461	1,042,140	33.9	4,248,815	1,516,217	35.7
3	3,071,502	1,499,487	48.8	4,429,453	2,329,862	52.6
4	3,072,085	1,878,329	61.1	4,316,728	2,802,718	64.9
5	3,072,444	2,183,402	71.1	4,411,154	3,220,030	73.0
6	3,072,314	2,348,731	76.4	4,494,698	3,583,876	79.7
7	3,072,037	2,522,664	82.1	4,622,234	3,968,165	85.8
8	3,071,637	2,873,120	93.5	4,918,600	4,685,590	95.3
9	3,071,664	3,047,659	99.2	4,987,698	4,959,466	99.4
Richest	3,071,903	3,069,435	99.9	5,109,478	5,107,010	100.0
All	30,720,278	22,143,275	72.1	45,016,661	34,005,112	75.5

Notes: Income decile groups are derived by dividing all families into 10 equal-sized groups according to income adjusted for family size using the McClements equivalence scale. See text for details and key assumptions.

Source: Author's calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on data from the 2005–06 Family Resources Survey, suitably updated.

Table 8. 2008–09, family type analysis

<i>Family type</i>	<i>Total number of families</i>	<i>Number of families for whom all private income is greater than net state support</i>	<i>Percentage of families for whom all private income is greater than net state support</i>	<i>Total number of adults</i>	<i>Number of adults in families for whom all private income is greater than net state support</i>	<i>Percentage of adults in families for whom all private income is greater than net state support</i>
Single <25, no kids	4,076,736	3,509,426	86.1	4,076,736	3,509,426	86.1
Single 25–55, no kids	5,025,320	3,904,048	77.7	5,025,320	3,904,048	77.7
Single >55 but <SPA, no kids	1,114,197	752,230	67.5	1,114,197	752,230	67.5
Couple either <25, no kids	518,621	496,353	95.7	1,037,242	992,706	95.7
Couple neither <25, one <55, no kids	4,022,809	3,823,248	95.0	8,045,618	7,646,496	95.0
Couple both >55 but <SPA, no kids	1,638,418	1,430,539	87.3	3,276,836	2,861,078	87.3
Couple with kids	5,170,606	4,616,549	89.3	10,341,212	9,233,098	89.3
Lone parent	1,879,899	791,020	42.1	1,879,899	791,020	42.1
Single pensioner	4,327,743	1,324,714	30.6	4,327,743	1,324,714	30.6
Couple, at least one over SPA	2,945,929	1,495,148	50.8	5,891,858	2,990,296	50.8
All	30,720,278	22,143,275	72.1	45,016,661	34,005,112	75.5

Note: See text for details and key assumptions.

Source: Author's calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on data from the 2005–06 Family Resources Survey, suitably updated.