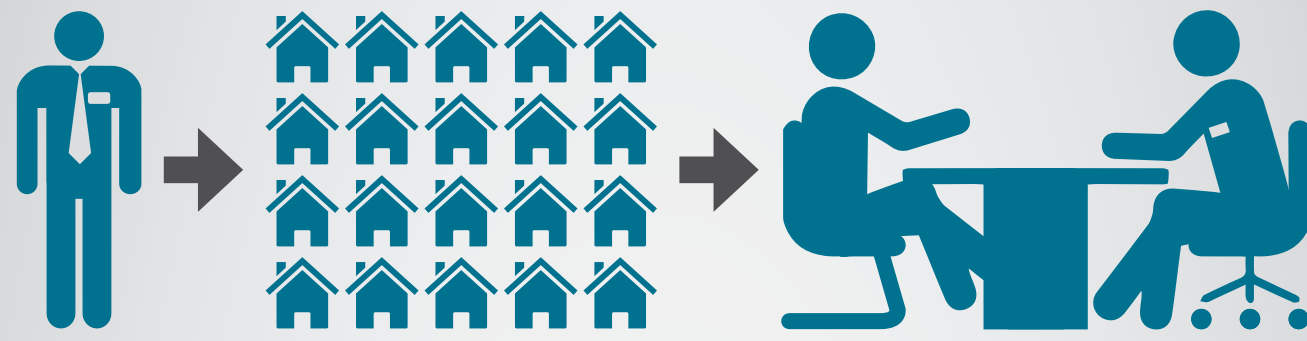


LOW INCOME

How is it measured in Households Below Average Income?

1. The **Family Resources Survey** is carried out with a **sample** of approximately **20,000 households** around the UK



QUESTIONS

Questions on household characteristics, earnings, benefits and housing costs are asked in an interview.

SAMPLE

A selection of the overall population. 20,000 households give results we can be confident reflect the whole population without surveying everyone in the UK.

KEY DEFINITIONS:

HOUSEHOLD

One person living alone or a group of people (not necessarily related) living at the same address who share cooking facilities and share a living room, sitting room, or dining area. A household will consist of one or more benefit units/families.

VS

FAMILY or BENEFIT UNIT

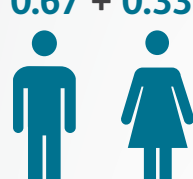
A single adult or a couple living as married and any dependent children.

2. Income data undergoes **equivalisation**

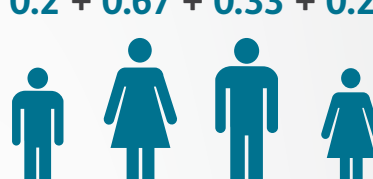
Equivalisation allows comparisons to be made of individuals of different ages from different sized **households**.

Each household member is given a standard **weighting** which is **summed together**

$$0.67 + 0.33 = 1$$



$$0.2 + 0.67 + 0.33 + 0.2 = 1.4$$



$$0.67$$



Weekly net income **before** equivalisation

£300

÷ 1

£300

£300

÷ 1.4

£214

£300

÷ 0.67

£448

Weekly net income **after** equivalisation

A couple with **no children** is the **reference point**.

Income has **decreased** as a couple with children need a higher income to enjoy the same living standard.

Income has **increased** as a single person needs a lower income to enjoy the same living standard.

	Score value
First adult	0.67
Other adult	0.33
Children 14 yrs and over	0.33
Children under 14 yrs	0.2

3. **Housing costs** can be considered



HOUSEHOLD INCOME

This includes benefits and earnings, and after tax deductions.

BEFORE HOUSING COSTS (BHC)

Housing costs (e.g. rent and mortgage interest payments) have not been deducted.

AFTER HOUSING COSTS (AHC)

Housing costs (e.g. rent and mortgage interest payments) have been deducted.

4. The **median household income** is used to find the number of people in **low-income households**

LOWEST HOUSEHOLD INCOME

MEDIAN HOUSEHOLD INCOME

HIGHEST HOUSEHOLD INCOME



LOW-INCOME THRESHOLD = 60% of MEDIAN

RELATIVE VS ABSOLUTE LOW INCOME

Relative low income: comparison to median of the **current year**.

Absolute low income: comparison to median of the **2010/11 year** which allows comparisons over time as well as being a baseline for measuring progress against the Child Poverty Act 2010.

THRESHOLD

A threshold for low income is used for **comparing** sections of the income distribution **over time**.

WHY NOT THE MEAN AVERAGE?

Mean: sum of all incomes, divided by the number of people whose incomes were included.

The **median income** is the amount which divides the income distribution into two equal groups, half having income above that amount, and half having income below that amount.

In unequal distributions, the mean is likely to be influenced by high values, so it does not reflect the experience of most individuals. The median is not affected by a few very high values.

5. **Inequality** measures are produced

INEQUALITY: It is important to measure inequality as it shows how income is distributed across the population of the UK



If every household had an equal share of the total income the Gini coefficient would be 0.

The **Gini coefficient** measures **inequality**: the distribution of household income across the population of the UK.

THE HIGHER THE NUMBER, THE GREATER THE INEQUALITY.



A higher Gini coefficient indicates greater inequality (the maximum Gini coefficient is 100).

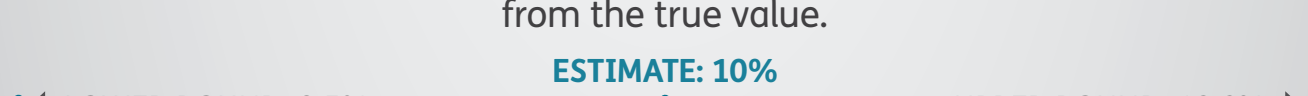
6. Confidence intervals show the **uncertainty** around the estimates

As a **sample** of the population is used, **estimates** of **household income** are produced. As a result, there is **uncertainty** around these figures.

The results from the **20,000** households around the UK are scaled up to represent UK results



A **confidence interval** indicates the extent to which an estimate may differ from the true value.



BIG CONFIDENCE INTERVAL = less precise estimate

SMALL CONFIDENCE INTERVAL = **more precise estimate**



More information can be found at:

<https://www.gov.uk/government/collections/households-below-average-income-hbai--2>

For enquiries please contact the HBAI team at: team.hbai@dwp.gsi.gov.uk