

AN ADEQUACY STANDARD FOR BENEFITS

Navigating the evidence

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KEY FINDINGS

- The working-age benefit safety net in the UK has fallen to alarmingly low levels, putting those depending on it at risk of severe deprivation.
- Correcting this is made more difficult by the lack of agreement on what minimum level of benefits are adequate, and the lack of any evidence-based benchmarks informing current benefit levels.
- Objective benchmarks for adequate safety-net benefits are elusive:
 - The evidence-based Minimum Income Standard (MIS) shows what the public thinks people need for a decent life, but not the level they think benefits should support.
 - Expenditure benchmarks tell us about spending norms on different incomes, but not whether people lower down the income distribution are spending enough to meet their needs.
 - Public opinion is moving towards the view that benefits have become too low. This may help endorse a better minimum benefit level, but on their own, fluctuations in public opinion would be a problematic basis for establishing benefit entitlements.
- There is scope for looking more closely at the outcomes of living at benchmarks relative to MIS or spending levels, in terms for example of the increased risks of experiencing material deprivation faced by people on given income levels.
- One approach could be to combine these strands of evidence in an “alarm bell” system that prevents benefits from breaching a very “minimalist” level on any one criterion.
- A further step would be to move benefits towards a more ambitious target designed to enable people to escape poverty and get closer to a minimum acceptable standard of living.
- An independent commission considering these options could potentially make non-binding recommendations to government, showing what level of “adequacy” benefits should be moving towards.

Introduction: why it is important

For social security benefits to provide an adequate safety net, they must at least cover the basics of life to those unable to afford them through their own means. In practice, the UK has no evidence based system for ensuring that they do so.

This matters particularly today because by any measure, the value of standard non-pensioner benefits has been falling. The single adult's rate has halved as a percentage of earnings over the past half century (JRF and Trussell Trust, 2023a), and fallen to record low levels as a percentage of the Minimum Income Standard (MIS) (Davis et al., 2022). After three decades of being indexed to prices from the early 1980s, it was under-indexed and eventually frozen in the 2010s, bringing working age benefit rates to their lowest inflation-adjusted level in memory (while pension rates moved in the opposite direction).

The severe risks that this is creating for individuals and families are evidenced by record levels of destitution (JRF 2020) and food bank usage (Trussell Trust 2022). It is therefore not surprising that multiple bodies have been seeking the basis for a more solid guarantee, notably:

- The Joseph Rowntree Foundation and Trussell Trust (2022a), who propose an “essentials guarantee” which Universal Credit would need to conform to, established by legislation and calculated annually by an independent process to determine the cost of essentials;
- The New Economics Foundation (Tims and Stirling, 2022), who propose that all safety-net benefits should eventually be at least three quarters of MIS benchmarks;
- A process in Scotland to identify a Minimum Income Guarantee, with cross-party and Scottish Government support (Minimum Income Guarantee Expert Group, 2023).

One important aspect of these proposals is to ensure that a needs-based safety net becomes an income that nobody falls below, rather than being curtailed by features such as the benefit cap, the two-child limit, deductions to repay state loans or sanctions. This is important because such curtailments now appear to affect the majority of claimants, rather than being the exception (Hirsch 2020), so “safety net” has become a clear misnomer. However, the subject of this paper is not the coverage but the level of an improved safety net. Can a more adequate basis for providing enough to live on be objectively devised?

The underlying difficulty: what do we mean by adequate?

There is no single objective way of saying how much people need to live on, that the state ought to ensure that nobody falls below. In order to produce a definition or measure, a number of aspects need to be resolved, notably:

- Where is “adequacy” on a spectrum between, on the one hand, merely surviving and on the other, living with dignity and participating fully in society? Nobody in modern Britain would argue that state support is unnecessary beyond merely keeping people alive. On the other hand, there are a range of views about how frugal an income guarantee from the state should be. The MIS research shows what income members of the public consider that people require for a decent life yielding “choices and opportunities” as well as covering physical needs. This is not the same as agreeing that the state should guarantee such an income. The JRF and Trussell Trust argue that a consensus over minimum benefit levels is best built around meeting some very basic needs, which the great majority of people would not want anyone to be denied. But as argued later, finding a sound basis for such a compromise is tricky.

- How do contemporary norms feed into such a calculation? There is wide agreement that we should consider needs in relation to the society in which people live. However, different people in our society live in different ways; some get by with very little, some have too little to meet their needs; others have much more than required as a minimum. Thus patterns of expenditure and consumption do not necessarily inform us of where contemporary needs lie.
- To what extent is a safety net providing for day-to-day or for long term expenditure requirements? The temptation to base adequacy only on day-to-day expenditures can be problematic. Some people may only require benefits for a few weeks, others for months or years. Even in a relatively short period of time, not being able to buy items such as clothes or household goods can be problematic; postponing expenditure to replace these things when they wear out can cause both current material hardship and future financial pressures through a backlog of unmet needs.

It is also worth noting here that a commonly cited criterion for setting benefit levels is to maintain adequate work incentives. The tapering of Universal Credit should in principle avoid “cliff edge” disincentives, although the higher the basic allowance the steeper the taper may need to be to maintain affordability. However, while this may create a case for keeping the safety net relatively low, it is not an argument for keeping it below what people can live on.

Four strands of evidence and their limitations

In planning its 2023 enquiry on benefit levels, the House of Commons Work and Pensions Committee has raised the issue of whether, in the absence of a current evidence base for benefit levels, an independent body should be presenting evidence on adequate living standards to government. In considering the potential value of such a process, it is important to be clear on what research can and can't tell us about how much income is sufficient to live on.

No single piece of evidence proposed as part of an adequacy measure fully resolves the issues raised in the previous section. However, the remainder of this paper starts by pointing to ways in which four types of evidence might be used, along with their limitations, before proposing a principle on which these strands of evidence might be combined, and then commenting on the potential role of an independent body.

1) “Consensual” budget standards

The most direct way of identifying minimum household needs is to list and then cost the items that need to be purchased on a regular basis to achieve an acceptable standard of living. Such “budget standards” have been researched in various ways over the past 30 years. Since 2008, the Minimum Income Standard has produced annual budgets for UK households, according to their composition, based on detailed consultation with members of the public about what should be included. These “consensually” derived budgets have become widely accepted in the UK as benchmarks for what income households require as a minimum for a decent living standard, allowing them to live in dignity.

Both those who produce this research and those who use it agree that MIS does not represent the minimum level that benefits should be set at. Members of the public constructing MIS budgets focused on people's needs, and were not asked about how these needs should be met, or the role of the state in meeting them. What society considers an “adequate” level of benefit entitlements would be harder if not impossible to get consensus on. Adequacy in this sense raises important political and practical issues including what the state can afford, work incentives and a variety of public views about what people have a right to expect in different circumstances.

Yet this does not mean that MIS is irrelevant to benefits adequacy. Calculating what proportion of MIS is covered by benefits at least gives a consistent metric, which at present suggests stark differences in benefit adequacy for different groups; safety-net benefits provide about a third of the MIS level for working age adults without children, about a half for families with children and about 90% for pensioners (Davis et al, 2022). The New Economics Foundation proposes (Tims and Stirling, 2022) that this proportion be raised to at least 75% for all groups over the long term, with staging post minimums of 42% immediately and 50% within one Parliament. Over time, this would move towards more consistent treatment of different groups in terms of benefit adequacy. The Scottish Minimum Income Guarantee Expert Group (2023) suggests that benefits should be between the relative poverty line and the MIS level, leaving open a MIS-referenced level in its final recommendations.

But while 100% of MIS provides a clearly defined living standard^[1], the meaning of living at, say, half or three quarters of the MIS level is harder to pin down. If a family has to forego some of the necessities included in MIS, the degree of hardship that this entails is not readily determined. Certainly it is not possible to identify some items within MIS that are “more necessary than others”, since all have been identified as part of a minimum requirement. And in practice, research has shown that households unable to afford all material and social necessities set priorities in a variety of ways. In some cases this can focus on material essentials such as “putting food on the table”. In others, people make material sacrifices in order to maintain social participation (for example a parent skipping a meal to enable a child to attend a birthday party). Listing a subset of items that are more necessary than others would inevitably involve arbitrary and subjective choices, and would be highly unlikely to produce consensus. Even using a subset of expenditure categories deemed “essential” is problematic, since even a category such as food includes a mix of what is needed for healthy survival and what is required to meet social expectations. And a distinction between meeting “immediate” needs and longer-term ones is not straightforward. For example, the JRF/Trussell Trust (2023) illustrative basis for an essentials guarantee provides for clothing but not household goods. Neither has to be replaced weekly, yet the failure to replace such items, whether worn out clothes or broken crockery or furniture, can affect living standards.

Despite these obstacles to specifying a standard that partially meets people’s needs, it is possible at least to observe some consequences of having incomes that fall short of MIS by particular proportions. These consequences vary from one household to another, but lower income makes negative consequences more likely. For example, how does income relative to MIS affect the chance that a family will use a food bank, or that it will suffer material deprivation (see below)? The relationship between income and such evidence of hardship has not been extensively documented in recent years, but if it were, more tangible statements could be made about the consequences of falling a certain amount short of having income sufficient to meet one’s needs. Qualitative research can also make a contribution to this: a five-year study of families with incomes below MIS found that hardship was more consistent and severe where they had around half the MIS level than when it was three quarters or above (although even reaching the full MIS level is no guarantee against hardship since individual households’ needs vary) (Hill and Webber, 2021).

2) Expenditure levels

Regular household surveys provide data on the spending levels of people in different income groups, both overall and broken down by expenditure category. Such data can give useful information on what the “norms” of spending are in our society, but this needs to be interpreted with care.

One approach to expenditure benchmarks is to observe what is normal for people with modest incomes to spend on various items, and to take this as representing a reasonable level of spending. For example, the JRF/Trussell Trust (2023a and 2023b) illustrative calculation uses average spending of the second and third income decile groups in certain expenditure categories as the benchmark (the data for the lowest decile being unreliable).

[1] Specifically, what groups of members of the public believe is needed according to the following definition: “A minimum standard of living includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.”

However, this assumes that households in these groups are meeting essential needs through these expenditures. Since 22% of people currently live in households below the poverty line (represented by 60% of median income after housing costs), it is probable that the majority of the households between the 10th and 30th percentiles on which this expenditure average is based are classified as being in poverty[2]. This begs the question of whether the amount spent on essentials by people in poverty is considered adequate to meet their needs. A related point is that if the expenditures by people on the lowest incomes help determine minimum incomes, the result can be circular. In a highly unequal society in which the poorest have too little income to meet their essential needs, partly because of an inadequate income safety net, and this results in low expenditures becoming the “norm” against which income adequacy is measured, this risks perpetuating low safety net levels.

One alternative may be to start with expenditure benchmarks for people higher up the distribution, for example in the fourth decile group or at the median, to define norms to which an essentials guarantee refers. For example, if basic benefits were set as a proportion of median expenditures, their level would have little effect on the benchmark used to set them. This would be a more direct criterion than a proportion of median income, since it more closely relates to what people are consuming, disregarding the effect of saving and borrowing. It also makes it possible to exclude certain spending areas, including those where people on benefits receive other help from the state (such as free prescriptions). What is more controversial is to exclude certain “discretionary” categories such as leisure or social participation, given that these can be considered as part of what is needed to live in dignity.

As with a budget standard, decisions about where to set an expenditure threshold covered by benefits are not easy. Again, they could become more tangible if based on evidence about outcomes for people whose incomes allow given expenditure levels. For example, for people with incomes equal to half of median expenditure across a range of categories, how high is the risk of material deprivation?

3) Material deprivation levels

Surveys of material deprivation assess what proportion of the population are unable to afford various items that most members of the general public think that everyone should be able to afford. A series of academic surveys of deprivation carried out between 1983 and 2011 established this type of measure, which is now incorporated into the annual Family Resource Survey. Respondents are asked about a small set of representative goods and services, ranging from keeping their home warm to taking an annual holiday, in terms of whether they lack them because they cannot afford them. Deprivation scores are assigned according to households being unable to afford items, with greater weight given to those that more members of the population have. Households with scores above 25 out of a possible 100 are classified as deprived.

While there is no single income threshold below which people are inevitably deprived, using this measure, there is strong correlation between low income and high deprivation risk. Although the initial development of the measure was motivated in large part by the desire to establish new income poverty thresholds, this aspect was never followed through in a way that provided clear answers. Early comparisons showing the relationship between deprivation and income did not produce an obvious poverty threshold[1], and there has been little comparison between these variables in recent years.

[2] Since the JRF/Trussell Trust calculation looks only at the expenditure levels of working age adults without children, according to their distribution within the overall equivalised income distribution, the exact proportion of this group who are below the poverty line is not predetermined, but it is likely to be at least around half.

[3] Peter Townsend, who first developed this measure of deprivation, suggested that the poverty line should be set at the level below which falling income started to have a disproportionate effect on deprivation. However, such a phenomenon was never identified, with analysis tending to show deprivation risks increasing steadily with falling income rather than more rapidly after it reached a given point. See especially Berthoud and Bryan, 2011.

While deprivation data do not therefore in themselves suggest what income is adequate, they can be potentially be used in combination with other measures such as MIS or expenditure data, to show the outcomes associated with having budgets that are too low overall. For example, Hirsch et al. (2016) analysed the greater risks of deprivation associated with having incomes below MIS. Notably, this comparison found that a household with an income below three quarters of the MIS level had about three times the risk of being deprived, in terms of lacking key necessities, as a household with income above MIS. The New Economics Foundation's recent suggestion of aiming for benefits that provide at least three quarters of MIS was based on that calculation.

4) Informed public opinion

Public opinion about what level of income the state should support is complex, and clearly relates not only to levels of need but also to the people's demographic and working situations. A recent Fabian Society review (Abey and Harrop, 2021), supported by abrdn Financial Fairness Trust, found stronger support for improved benefits for disabled people, for families with children and for households in work than for unemployed adults without children. Nevertheless, it also found support for keeping the £20 uplift in Universal Credit that was in place at the time, suggesting a more general view that basic adult benefits are too low. These findings were supported by a citizen's jury and opinion polling and also showed high levels of support across the political spectrum (both Labour and Conservative voters).

Analysis by JRF and Trussell Trust (2023b) also suggests that there is currently strong public support for adult benefits that guarantee essentials at a higher level than at present. This evidence is based on their focus group and survey research, which seems to confirm broader survey evidence (for example from the British Social Attitudes Survey) that attitudes to welfare entitlements have "softened" over the past decade after having become more hostile to claimants in the previous 20 years (Orton and Sarker, 2023).

There is clearly potential for public opinion to influence what are the minimum essentials that a public safety net should seek to guarantee, but this evidence too needs to be considered with caution. It would be neither practical nor just to allow entitlements to fluctuate with the public mood, translated into crude surveys of whether people think benefits are too high or too low. A more productive role of public opinion is to help identify the types of goods and services that benefits should, as a minimum, be sufficient to pay for. The JRF/Trussell research illustrates how such public consultation can make a contribution. This includes focus groups allowing people to make informed comment about what things benefits should at least cover, as well as polling showing nearly three quarters supporting an Essentials Guarantee at a level much higher than current benefits. It is likely to be easier to find strong support for improving the current level of working-age benefits, which so clearly do not pay for the most modestly-defined set of material essentials, than to use public opinion to determine what benefit levels would be fully adequate. Any future role for public opinion in defining benefit adequacy needs to be considered in that context.

The scope for combining evidence to set benchmarks

This paper has shown how no single strand of evidence produces a clear-cut answer about what level of benefits can be considered adequate to prevent hardship and material deprivation. Yet taken together, these strands of evidence point clearly to a safety net that does not fulfil this purpose. Some people receive benefits worth as little as a third of what they need for a decent standard of living. Working age benefits are set well below what people even on relatively low incomes are spending on average to meet their everyday needs. The safety net for families with children is slightly less frugal relative to need, but still set at a level which creates a severe risk of material deprivation. Significant public support has been identified for a safety net more adequate than the present one.

A systematic attempt to set an evidence-based adequacy standard for benefits could involve constructing one or both of two different kinds of benchmark. A lower, very basic benchmark would be one that avoids the severe hardship, bordering on destitution, that causes people to visit foodbanks or seek other emergency assistance because they cannot afford the most fundamental requirements of daily life. A higher more genuinely “adequate” benchmark would allow households to escape poverty, limit the risk of material deprivation and live at a level that society considers that everyone should be supported to reach, if they cannot do so through their own means.

The first, highly “minimalist” benchmark could be useful in relation to a cast-iron guarantee that ensures that nobody is left with insufficient weekly income to live even frugally, whatever their current circumstances. This could be judged to be the case if any one of a number of conditions applied. For example, it could prevent income from falling below either a percentage of MIS or a percentage of median expenditure associated with a very high risk of deprivation, or falling below a level sufficient to cover average expenditures by low income households in categories identified by the public as essential for benefits to cover. Failure to meet any one of these criteria could be considered evidence that a benefit was too low. Such a “triple alarm bell” system would embody the assumption that being below any one of these frugal levels is highly undesirable, but being above it does not guarantee an adequate income.

An advantage of such a minimalist benchmark, particularly under present conditions, is that it would at least create a solid floor limiting how low benefits can fall, relative to the cost of necessities. It would almost certainly require basic adult benefits to be raised substantially from their present levels, reversing decades of erosion relative to prices and incomes.

On the other hand, there is always the risk that, despite best intentions, this floor becomes seen also as a ceiling. This makes the status and level of the second benchmark, corresponding more fully to the living standard that society thinks that people depending on benefits should be able to achieve, crucial to establish from the start. It is likely to be a harder level to specify, in particular in terms of agreeing on which areas of expenditure it should cover. However, a benchmark such as 75% of MIS (specified as a target by the New Economics Foundation) can produce a simplified metric, especially where it can be shown that living above this line reduces substantially the risk of material deprivation.

Anti-poverty campaigners have understandably resisted producing “minimalist” definitions of basic needs, which can undermine the now well understood concept that an adequate living standard in modern Britain is about more than just having enough food on the table and keeping warm. Yet with some benefits having fallen to levels that do not even cover the most fundamental material necessities, it is also understandable that a new floor sufficient to cover this subset of needs is being sought as an urgently needed guarantee. Ultimately, getting beyond such a minimalist approach and raising guaranteed incomes towards more adequate levels enabling households to escape poverty, depends on the strength of political will. As shown in the period 1999-2010, when a commitment to end child poverty was eventually enshrined in legislation, it is possible for high political priority to be given to such targets. Thus, new benchmarks of income adequacy may have a role to play both to combat immediate hardship and to move towards more decent minimum incomes over the longer term.

Postscript: an independent review body on benefit adequacy?

At present the Social Security Advisory Committee advises on new benefit regulations, but not on the general level at which benefits should be set. A new independent body could thus potentially focus on producing the best possible estimates of what levels of benefits could be considered adequate. In light of the issues raised in the present paper, it could potentially propose both a floor below which benefits should never fall and targets that they should aim eventually to reach.

The role of such a body has sometimes been compared to the Low Pay Commission, which makes annual recommendations on the National Minimum Wage which so far have always been accepted by Governments. However, two important differences with the LPC need to be noted. First, the empirical question that the LPC advises on is more clear-cut than whether benefits are adequate: it is principally concerned with the scope for raising the NMW without harming labour demand, based on technical economic calculations. Second, the implications for the public finances of raising the minimum wage are much less substantial than raising benefits, since most minimum wage employees are in the private sector, and only about 1% of public sector employees are affected. An independent body advising on benefits may more aptly be compared to independent pay review bodies, which propose remuneration rates that are considered fair, with government usually but not always accepting them where they do not think this is affordable.

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