

Statistical bulletin

Household disposable income and inequality in the UK: financial year ending 2016

Initial insight into key estimates of household incomes and inequality in the UK, along with analysis of how these measures have changed over time accounting for inflation and household composition.



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1 . Main points

The median UK household disposable income was £26,300 in the financial year ending 2016 (2015/16); this was £600 higher than the previous year and £1,000 higher than the pre-downturn value of £25,400 in 2007/08 (after accounting for inflation and household composition).

Median disposable income for the poorest fifth of households rose by £700 (5.1%) between 2014/15 and 2015/16; in contrast the income of the richest fifth of households fell by £1,000 (1.9%) over the same period.

Overall, cash benefits and direct taxes led to income being shared more equally between households. Original income (before cash benefits and direct taxes) for the richest fifth of households was around 12 times higher than the poorest fifth (£85,000 and £7,000 per year respectively) while disposable income (after cash benefits and direct taxes) for the richest fifth was 5 times higher than the poorest fifth (£62,400 and £12,500 per year respectively).

There has been a gradual decline in income inequality in the last 10 years, with levels similar to those seen in the mid to late 1980s.

Looking separately at retired and non-retired households, the median income for retired households rose by 3.1% between 2014/15 and 2015/16, while the median income for non-retired households was broadly unchanged.

The economic downturn had a larger effect on non-retired households, with median income in 2015/16 still 1.2% lower than pre-downturn levels in 2007/08 while the income for retired households grew by 13.0% over the same period.

2 . Statistician's quote

"Household incomes are above their pre-downturn peak overall, but not everyone is better off. While retired households' incomes have soared in recent years, non-retired households still have less money, on average, than before the crash."

Claudia Wells
Head of Household Income and Expenditure Analysis

3 . Things you need to know about this release

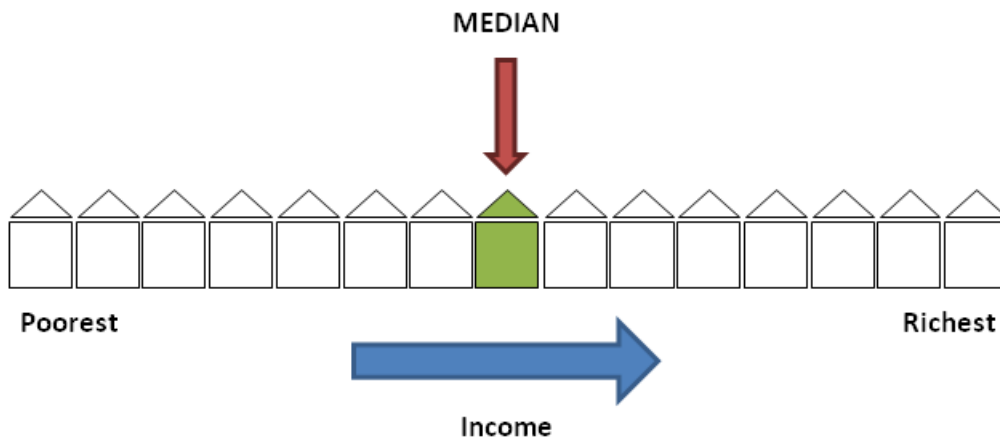
What is average household income?

This bulletin looks at the 2 main measures of average household income, the mean and the median. The median is used when looking at the average income of a particular group of households, while the mean is used when looking at the sources of earnings, benefits and taxes that make up the overall income measures.

The mean simply divides the total income of households by the number of households. A limitation of using the mean for this purpose is that it can be influenced by just a few households with very high incomes and therefore does not necessarily reflect the standard of living of the "typical" household.

Many researchers argue that growth in median household incomes provides a better measure of how people's well-being has changed over time. The median household income is the income of what would be the middle household, if all households in the UK were sorted in a list from poorest to richest. As it represents the middle of the income distribution, the median household income provides a good indication of the standard of living of the "typical" household in terms of income.

Median

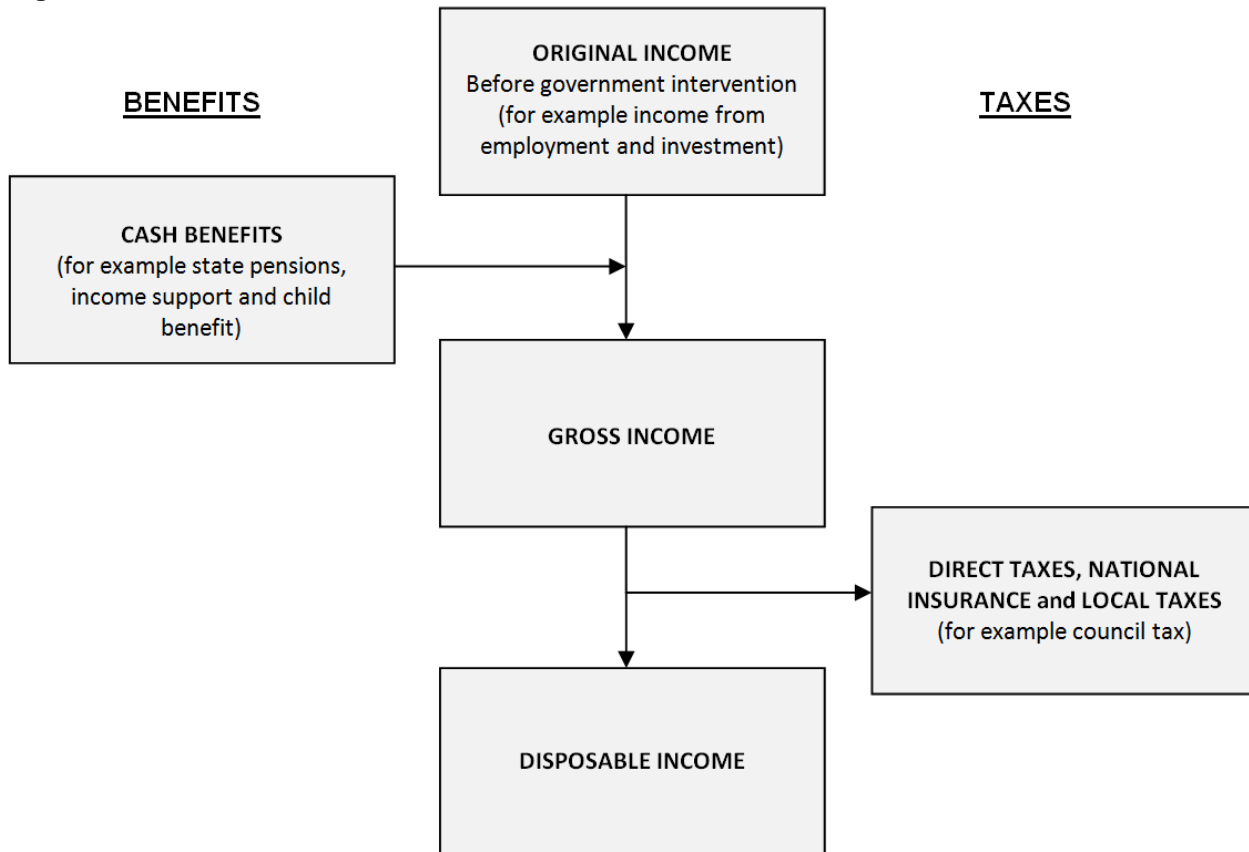


Source: Office for National Statistics

What is disposable income?

Disposable income is arguably the most widely used household income measure. 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.

Stages in the redistribution of income



Source: Office for National Statistics

Source: Office for National Statistics

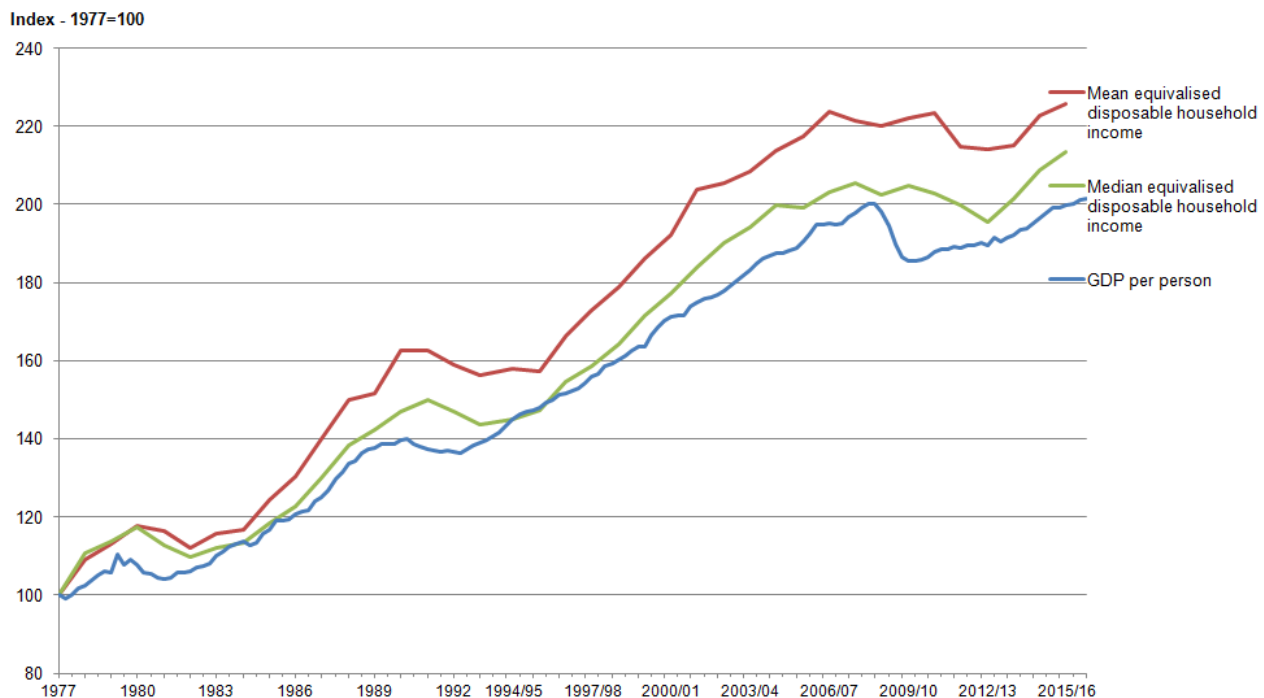
Comparisons over time

This bulletin looks at how main estimates of household incomes and inequality have changed over time. In order to make robust comparisons historic data have been adjusted for the effects of inflation and are equivalised to take account of changes in household composition. More information on the details of these adjustments can be found in the Quality and Methodology section of this bulletin.

4 . Median household disposable income £1,000 higher than pre-downturn level

The median equivalised household disposable income in the UK was £26,300 in the financial year ending 2016 (2015/16). After taking account of inflation and changes in household structures over time, the median disposable income has increased by £600 (or 2.2%) since 2014/15 and is £1,000 higher than the pre-economic downturn level observed in 2007/08. The year-on-year growth rate is broadly in line with the average growth rate per year for the past 40 years with median household income growing from £12,300 at an average rate of 2.1% per year between 1977 and 2015/16 (Figure 1).

Figure 1: Growth of median (and mean) household income and Gross Domestic Product per person, 1977 to 2015/16



Source: Office for National Statistics

Notes:

1. Income figures have been deflated to 2015/16 prices using the consumer prices index including owner-occupiers' housing costs (CPIH).

Figure 1 also shows the growth of gross domestic product (GDP) per person over the same timeframe. Growth in median household income closely mirrors growth in GDP per head for much of this time, rising during periods of economic growth and falling during or immediately after recessions.

The effect of the recent economic downturn on median incomes was delayed relative to the fall in GDP per person. Between 2007/08 and 2009/10, GDP per person fell by 6.7%, while median disposable income changed little. However, between 2009/10 and 2012/13, GDP per person grew by 2.7%, while median household income decreased by 4.5%. Since 2012/13, UK median household income has grown at a faster rate than GDP per person (9.1% and 4.9% respectively).

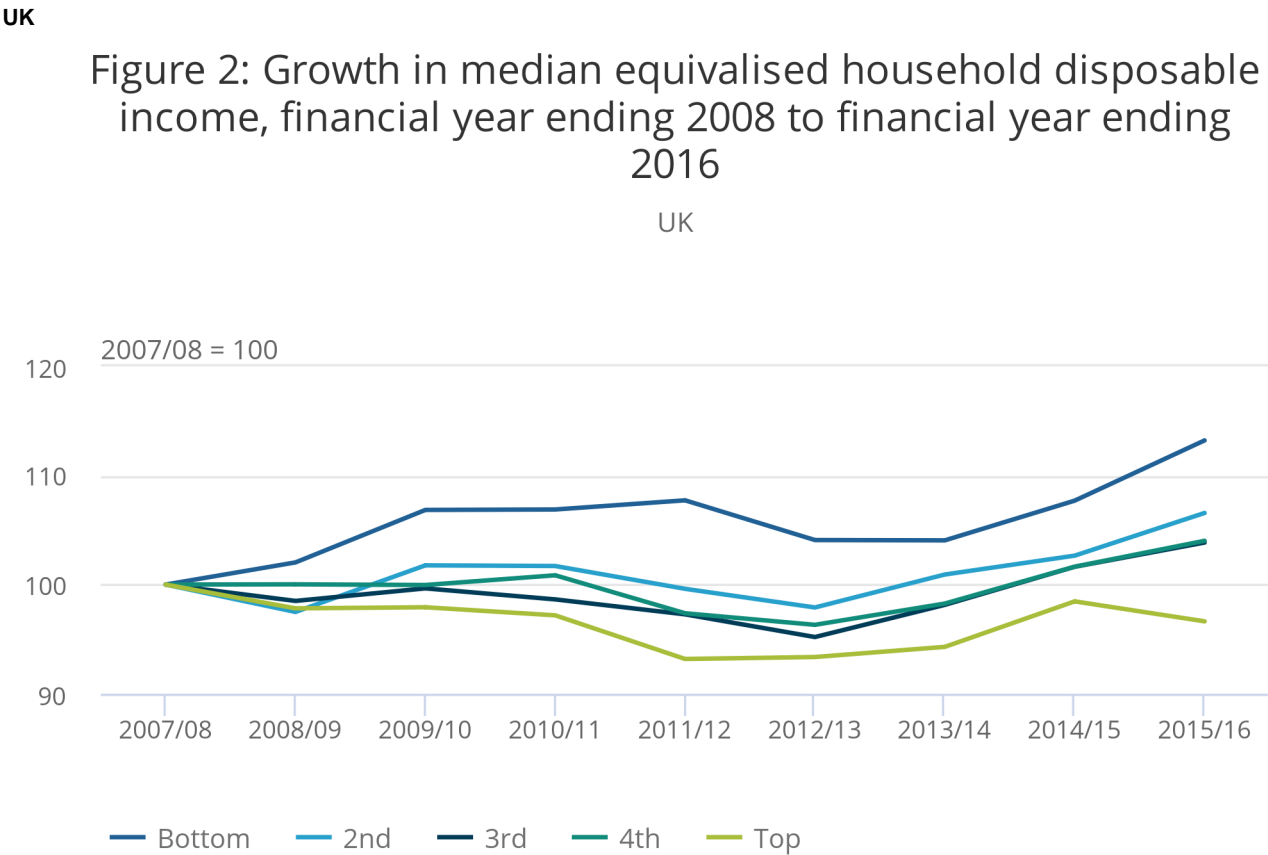
Preliminary estimates of main indicators such as median equivalised disposable income were released as [Experimental Statistics](#) in the bulletin [Nowcasting household income in the UK: financial year ending 2016](#) in August 2016. These preliminary estimates made use of "nowcasting" techniques in order to produce figures before full survey-based estimates are available. The preliminary estimates showed an increase of 2.7% in median incomes between 2014/15 and 2015/16, compared with a 2.2% increase in these final estimates, and an initial estimate for 2015/16 of £26,400 and a final estimate of £26,300.

5 . Median disposable income falls for the richest fifth of households over the past year

The growth in median income over time has not been experienced equally by all households. Over the past year, median disposable income for the poorest fifth of households rose by £700 (5.1%). In contrast the income of the richest fifth of households fell by £1,000 (1.9%) over the same period.

The effect of the recent economic downturn also varied considerably across the distribution. The growth of median income since before the economic downturn in the financial year ending 2008 (2007/08) by quintile group is shown in Figure 2.

Figure 2: Growth in median equivalised household disposable income, financial year ending 2008 to financial year ending 2016



Source: Office for National Statistics

Notes:

1. Income figures have been deflated to 2015/16 prices using the consumer prices index including owner-occupiers' housing costs (CPIH). 2. Households are grouped by their equivalised disposable incomes, using the modified OECD scale.

While median income for the majority of households has recovered to pre-economic downturn levels, income for the richest fifth of households has fallen by £1,900 (or 3.4%) in real terms. This has been largely driven by a fall in average income from employment (including self-employment) for this group following the economic downturn.

By contrast, the average income of the poorest fifth has risen by £1,600 (or 13.2%) since 2007/08. This is mainly due to an increase in the average income from employment for this group, reflecting increases in both the wages and employment levels of people living in these households.

Taking a longer-term perspective, the median disposable income for the richest fifth of households in 2015/16 was 2.3 times higher than in 1977 (when comparable records began). The median income of the poorest fifth of households has also grown over this time, but the rate of growth has been slower (2.0 times higher in 2015/16 than 1977).

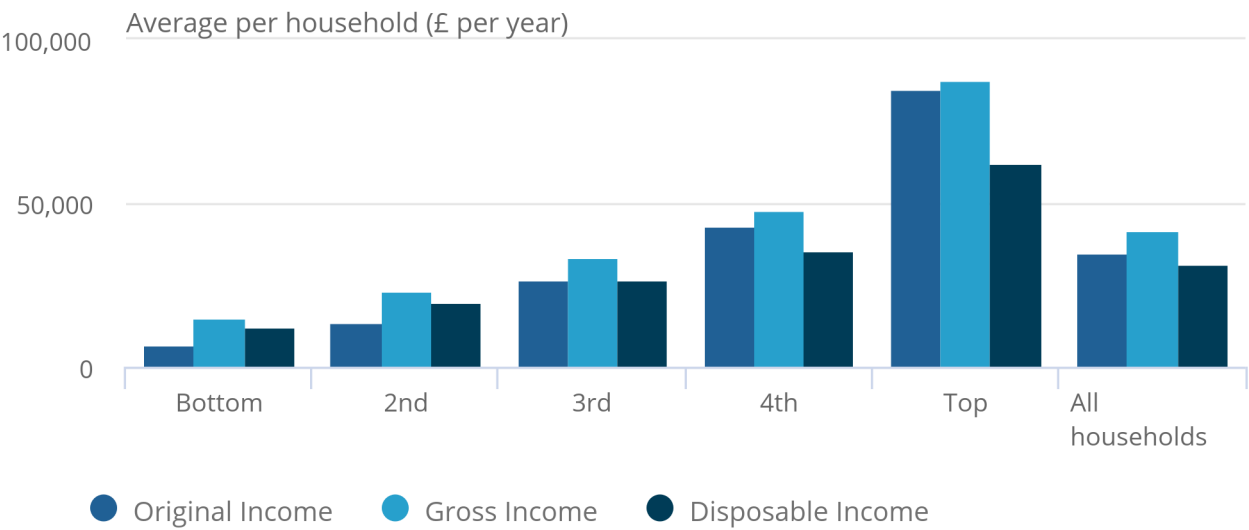
6 . How much do cash benefits and direct taxes reduce income inequality?

This section looks at the sources of earnings, benefits and taxes that make up the overall income measures and therefore the measurement of average household income used is the mean. For more information on the different measures of average household income see the ‘Things you need to know about this release’ section.

Overall, direct taxes and cash benefits lead to income being shared more equally between households (Figure 3). In the financial year ending 2016 (2015/16), before direct taxes and cash benefits, the richest fifth (those in the top income quintile group) had an average original income of £85,000 per year, compared with £7,000 for the poorest fifth – a ratio of nearly 12 to 1. This ratio has decreased since 2014/15 where the ratio was 14 to 1, indicating that inequality of original income has reduced slightly, according to this measure. Original income includes earnings, private pensions¹, and investments.

Figure 3: Original, gross and disposable income by quintile group, all households, financial year ending 2016

Figure 3: Original, gross and disposable income by quintile group, all households, financial year ending 2016



Source: Office for National Statistics

Notes:

1. Households are grouped by their equivalised disposable incomes, using the modified OECD scale.

Effect of cash benefits

In contrast to original income, the amount received from cash benefits such as tax credits, Housing Benefit and Income Support tends to be higher for poorer households than for richer households. The highest amount of cash benefits were received by households in the second quintile group, £9,600 per year compared with £7,600 for households in the bottom group, a trend that has remained unchanged from 1995/96. This is largely because more retired households are located in the second quintile group, compared with the bottom group, and in this analysis the State Pension is classified as a cash benefit.

The distribution of cash benefits between richer and poorer households has the effect of reducing inequality of income. After cash benefits were taken into account, the richest fifth had an average income that was roughly 6 times the poorest fifth (gross incomes of £87,600 per year compared with £14,800, respectively), a proportion that was broadly unchanged on the previous year.

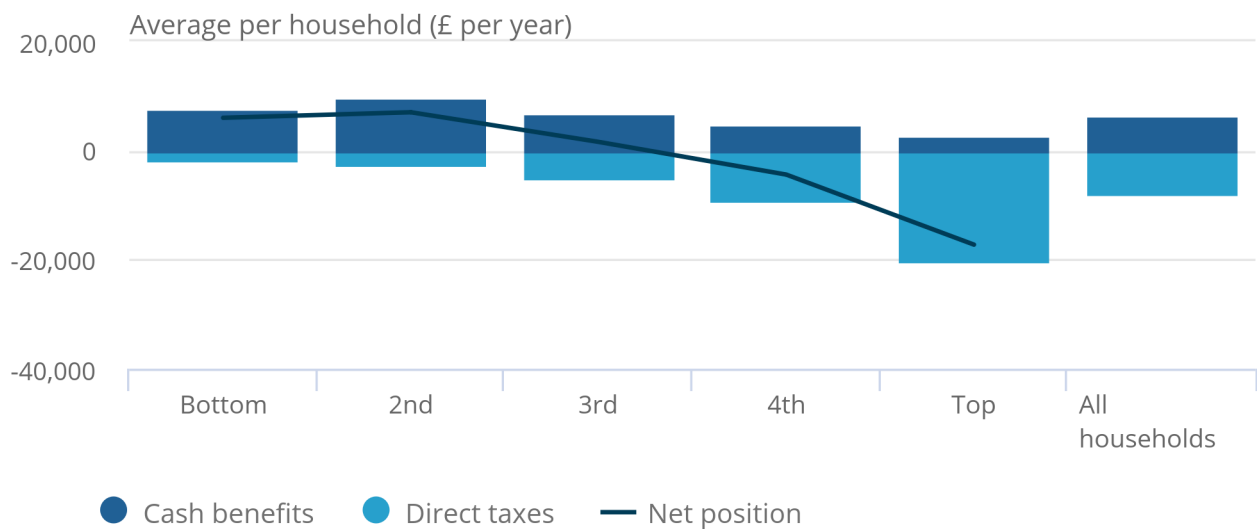
Looking at individual cash benefits, in 2015/16, the average combined amount of contribution-based and income-based Jobseeker's Allowance (JSA) received by the bottom 2 quintile groups decreased compared with 2014/15 (Reference Table 2 in the Household disposable income and inequality dataset). This is largely due to fewer households receiving this benefit, consistent with a fall in unemployment between these years, as well as the ongoing implementation of the Universal Credit (UC) system which, by April 2016, had been rolled out to almost 250,000 claimants¹.

Claimants of UC and JSA are subject to the [Claimant Commitment](#), which outlines specific actions that the recipient must carry out in order to receive benefits. This may also have impacted on the number of households in receipt of these benefits. JSA rates, along with other working age benefits, were increased by 1% in 2015/16, below the CPI rate of inflation.

The phasing out of Incapacity Benefit, Severe Disablement Allowance and Income Support paid because of illness or disability and transfer of recipients to Employment and Support Allowance (ESA) has seen average amounts received from the former benefits continue to fall in 2015/16, while average amounts received from ESA have risen, reflecting the increased number of claimants. The roll-out of Personal Independence Payment (PIP), which is replacing Disability Living Allowance (DLA) for adults aged under 65, also continued in 2015/16.

Figure 4: Summary of the effects of direct taxes and cash benefits on all households, financial year ending 2016

Figure 4: Summary of the effects of direct taxes and cash benefits on all households, financial year ending 2016



Source: Office for National Statistics

Notes:

1. Households are grouped by their equivalised disposable incomes, using the modified OECD scale.

Effect of direct taxes

On average, households paid £7,800 per year in direct taxes, equivalent to 18.7% of their gross income. Richer households pay both higher amounts of direct tax and higher proportions of their income in direct taxes (Income Tax, National Insurance, and Council Tax and Northern Ireland rates). As a result, direct taxes also reduce inequality of income.

The richest fifth of households paid on average £20,100 per year in direct taxes, the vast majority of which was Income Tax. This corresponds to 23% of their gross income, broadly unchanged from other recent years.

The average direct tax bill for the poorest fifth was £1,600 per year, of which the largest component was Council Tax or Northern Ireland rates. This was equivalent to 11% of gross household income for this group, also broadly unchanged from other recent years.

The richest fifth of households had disposable incomes that were around 5 times that of the poorest fifth (£62,400 per year and £12,600, respectively), a similar ratio to 2014/15.

Indirect taxes and benefits in kind

Indirect taxes on expenditure (such as VAT and fuel and alcohol duties) and benefits in-kind provided by the state (such as education services and the NHS) also play a significant role in the redistribution of income. The full Effects of Taxes and Benefits on Household Income 2015/16 Statistical Bulletin, to be released May 2017, will provide further analysis of household income including the effect of both of these.

Notes for: How much do direct taxes and cash benefits reduce income inequality?

1. Private pensions include all non-state pensions whether occupational or personal.

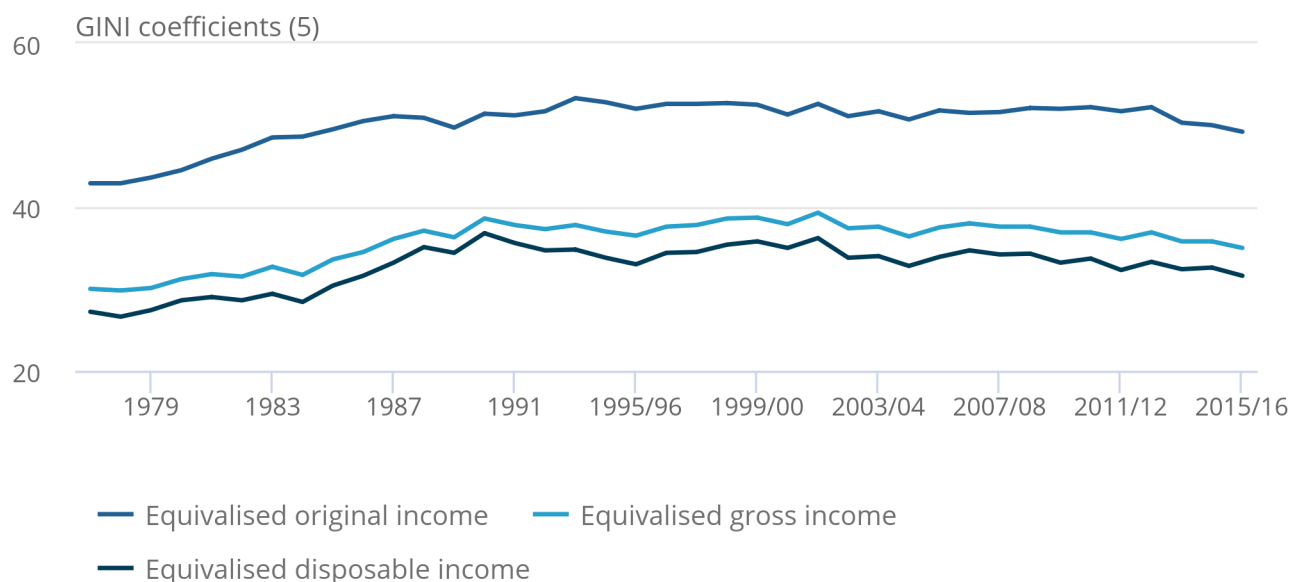
7 . Gradual decline in income inequality over the last decade

The Gini coefficient is a measure of income inequality. Gini coefficients can vary between 0 and 100 and the lower the value, the more equally household income is distributed.

Analysis of these data over time shows that, overall, income inequality, as measured by the Gini coefficient, increased considerably during the 1980s, but since then the changes have been smaller in scale.

Figure 5: Gini coefficients for the distribution of income at each stage of the tax-benefit system for all households, 1977 to financial year ending 2016

Figure 5: Gini coefficients for the distribution of income at each stage of the tax-benefit system for all households, 1977 to financial year ending 2016



Source: Office for National Statistics

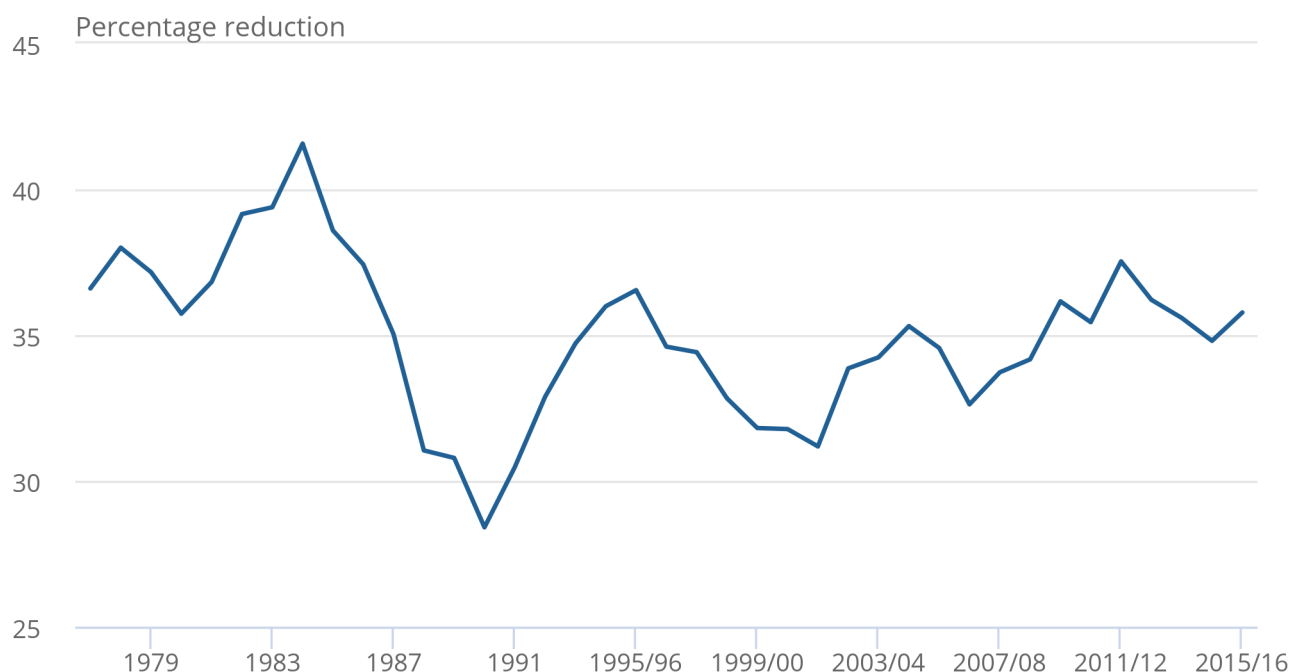
Notes:

1. Based on equivalised disposable income using the modified OECD scale.

There has been some variation in the extent to which cash benefits and direct taxes together work to decrease income inequality. In 1977, they had the effect of decreasing inequality by 36.6% (Figure 6). This impact increased during the early 1980s and by 1984 cash benefits and direct taxes together decreased the Gini coefficient by 41.6%. This increase in their impact meant that the rise in inequality of disposable income was not as large as that for original income over this period. However, during the late 1980s, their redistributive impact weakened, and by 1990, they reduced the Gini by only 28.4%, accelerating the growth in inequality of disposable income. Most recently, there has been a slight increase in the effect of cash benefits and direct taxes in reducing income inequality, with their impact on reducing the Gini rising from 32.6% in the financial year ending 2007 (2006 /07) to 35.8% in 2015/16.

Figure 6: Percentage reduction in the GINI coefficient between original and disposable household income, 1977 to financial year ending 2016

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Source: Office for National Statistics

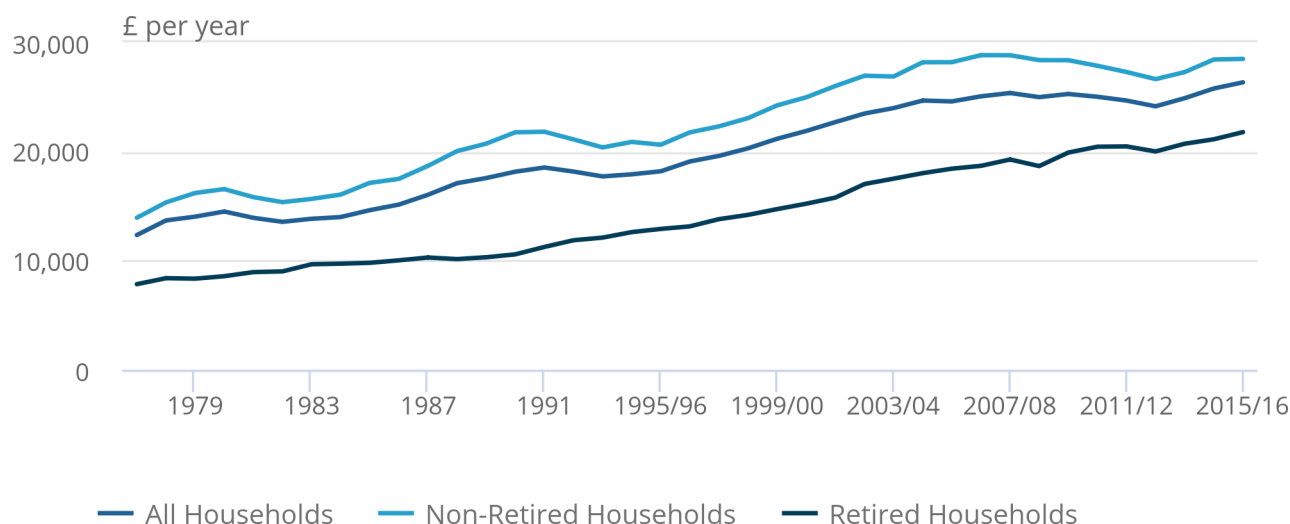
8 . How do incomes for retired and non-retired households compare?

Retired households are those where the income of retired household members accounts for the majority of the total household gross income (see the Background note for the definition of a retired household). Retired households have different income and expenditure patterns to their non-retired counterparts.

Figure 7 compares growth in the median equivalised disposable income of retired and non-retired households with all households. While the income of retired households remains considerably lower than that of non-retired households, retired households have seen faster income growth over the period covered. After adjusting for inflation, in 1977 the median income of retired households was £7,800 while the figure for non-retired households was £13,900. By the financial year ending 2016 (2015/16), the income of retired households had grown 2.8 times to £21,800 while the income of non-retired households doubled from its 1977 level to £28,500.

Figure 7: Median Equivalised Disposable Income by household type

Figure 7: Median Equivalised Disposable Income by household type



Source: Office for National Statistics

However, the pattern of change since the start of the economic downturn has been very different for retired and non-retired households. While incomes of non-retired households have remained higher than retired households, since 2007/08, the median income for retired households has increased by 13.0% and is now £2,500 higher than in 2007/08. By contrast, the median income for non-retired households decreased by 1.2% over the same period resulting in a median income that was £300 lower in 2015/16 than in 2007/08.

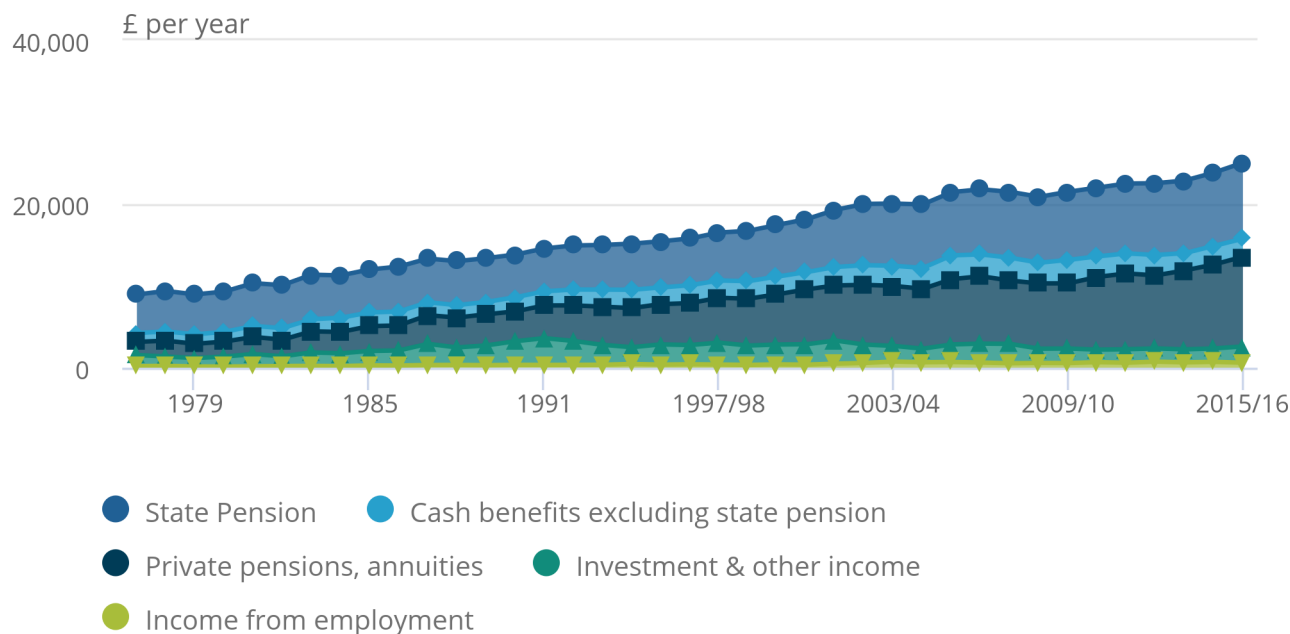
The growth in the incomes of retired households since 2007/08 has been driven by a number of factors. One is a rise in both the amounts received and the number of households reporting receipts from private pensions or annuities. Another is an increase in average income from the State Pension, due in part to the effect of the "triple lock"¹. The fall in average disposable income for non-retired households after the economic downturn reflected largely a fall in income from employment (including self-employment).

Figure 8 shows how the sources of retired households' incomes have changed over time. Overall, the proportion of retired households' income coming from cash benefits (including the State Pension) have fallen significantly, from 64.7% in 1977 to the current level of 45.9%. This has been mainly due to the growth in the percentage of retired households receiving income from private pensions, which rose from 44.5% in 1977 to 78.8% in 2015/16 and an increase in income from these pensions. In 1977, the average income received by retired households from private pensions was £1,600, accounting for 18% of the gross income of this group. By 2015/16, the average income received by retired households from private pensions increased to £11,000, or 43.8%, of their gross income.

The State Pension was the second largest source of income for retired households in 2015/16 and was the second largest source of growth, nearly doubling from an average of £4,700 in 1977 to £9,300 in 2015/16.

Figure 8: Gross Income of retired households by component, 1977 to financial year ending 2016

Figure 8: Gross Income of retired households by component, 1977 to financial year ending 2016



Source: Office for National Statistics

Notes:

1. Private pensions includes all workplace pensions, individual personal pensions and annuities.

9 . Inequality rose for retired households but fell for non-retired households in recent years

As with previous sections the Gini coefficient is used as a measure of inequality in the distribution of household income, which can vary between 0 and 100 (the lower the value, the more equally household income is distributed).

Taxes and benefits have a particularly significant redistributive effect on the income of retired households, meaning that disposable income inequality is much lower for retired households than for non-retired households. Cash benefits play by far the largest part in bringing about this reduction, due principally to the state retirement pension, reducing the Gini coefficient by 29.9 percentage points. As a result, retired households' Gini coefficient for disposable income was 28.1% in the financial year ending 2016 (2015/16), compared with 31.7% for non-retired households.

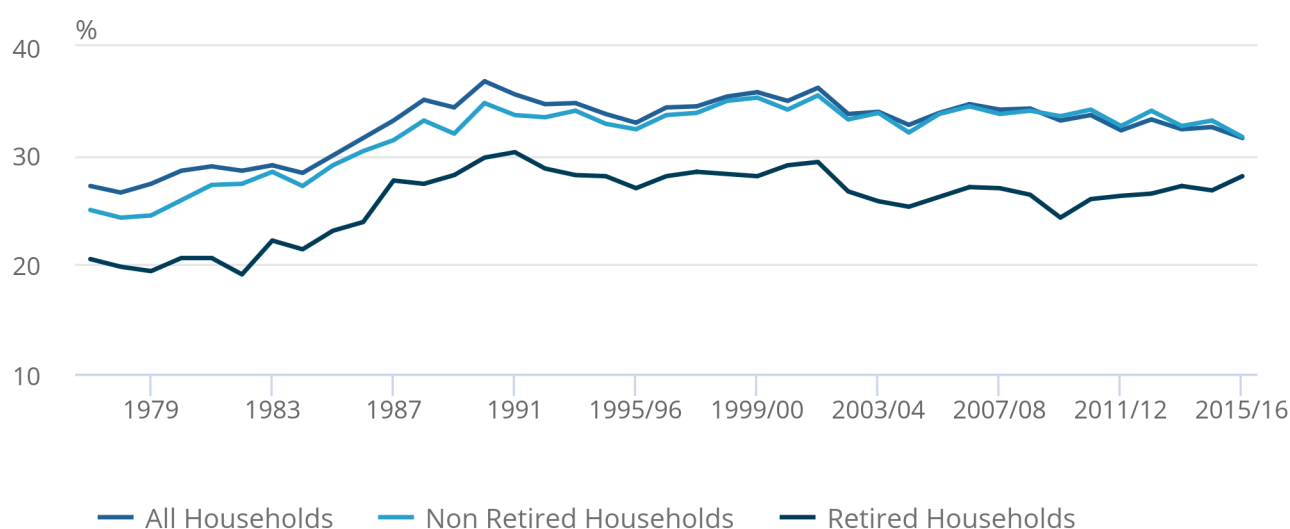
Inequality of disposable income for both retired and non-retired households has followed a similar trend to that for all households, increasing significantly during the 1980s (Figure 9). Since then the broad trend has been downwards, though income inequality levels remain above those seen in the late 1970s and early 1980s.

In recent years, there is evidence of an increase in inequality for retired households, with the Gini coefficient for disposable income amongst retired households up by 3.8 percentage points since the recent low point in 2009 /10. In contrast, the Gini for non-retired households has fallen slightly (by 1.9 percentage points) over the same time period.

There has been more year-on-year variation in the Gini coefficients for retired households than for the overall population, though this is primarily a consequence of the smaller sample size on which these estimates are based.

Figure 9: Gini coefficients for disposable income by household type 1977 financial year ending 2016

Figure 9: Gini coefficients for disposable income by household type 1977 financial year ending 2016



Source: Office for National Statistics

10 . Policy context: Changes to taxes and benefits during the financial year ending 2016

This section provides information and analysis on both the main changes to taxes and benefits in the financial year ending 2016 (2015/16) and the wider economic trends over this period.

Some of the main tax and benefit changes occurring during 2015/16 included the following.

Child Tax and Working Tax Credit

The basic element of Working Tax Credit (WTC) rose by £20 (around 1%) to £1,960 a year. The family element of Child Tax Credit (CTC) was frozen at £545 a year, while the child element rose by £30 (around 1%) to £2,780.

Benefit uprating

Benefits for working age people, including Universal Credit, Jobseeker's Allowance and Income Support increased by 1% in April 2015. Benefits received by disabled people and pensioners (including Personal Independence Payments, Attendance Allowance and Incapacity Benefit) were increased by 1.2%. The State Pension also increased by 2.5% due to the "triple lock", which guarantees to increase the basic State Pension by the higher of CPI inflation, average earnings or a minimum of 2.5% every year.

Personal Independence Payment

The roll-out of Personal Independence Payment (PIP) continued. PIP is replacing Disability Living Allowance (DLA) for adults aged under 65 in England, Wales and Scotland. PIP is made up of 2 components and is paid at a standard and enhanced rate which both increased by 1.2% in 2015/16. Eligibility for PIP is assessed using different criteria than for DLA. The assessment for PIP includes a review of an individual's ability to participate fully in society as opposed to the severity of impairment. All new claimants were assessed for PIP from June 2013.

Child Benefit

The rate for a first child rose by £0.20 (around 1%) to £20.70, while the rate for second and subsequent children rose by £0.15 (around 1%) to £13.70 per week. Guardian's Allowance increased by £0.20 per week to £16.55.

Maternity and Paternity Pay

The statutory rate of Maternity and Paternity Pay increased to £139.58 a week, from £138.18 a week in 2014/15.

Income Tax

For the first time since the decision to phase out age-related personal allowances, those born between 6 April 1938 and 5 April 1948 received the same tax-free personal allowance as those born after 5 April 1948, increasing to £10,600 for both groups. There was no change to the personal allowance for those born before 6 April 1938, which stayed at £10,660. There was a reduction in the higher rate band for Income Tax, from £31,866 to £31,786. Combined with the personal allowance, this meant that people paid the higher rate of 40% on any taxable income above £42,385, up from £41,865 in 2014/15.

Council Tax

The average band D dwelling Council Tax set by local authorities in England for 2015/16 was £1,484, an increase of £16 or 1.1% on 2014/15. Council Tax levels were frozen in all local authorities in Scotland. However, in Wales, the average band D Council Tax increased by 4.1% compared with 2014/15.

11 . Economic context

In the financial year ending 2016 (2015/16), outcomes in the UK labour market were likely to have directly affected household incomes. In the 3 months to March 2016, both the number of people in employment (31.6 million) and the headline employment rate (74.2%) were at their highest levels since records began. Over the same period, the unemployment rate was 5.1%, lower than a year earlier (5.6%).

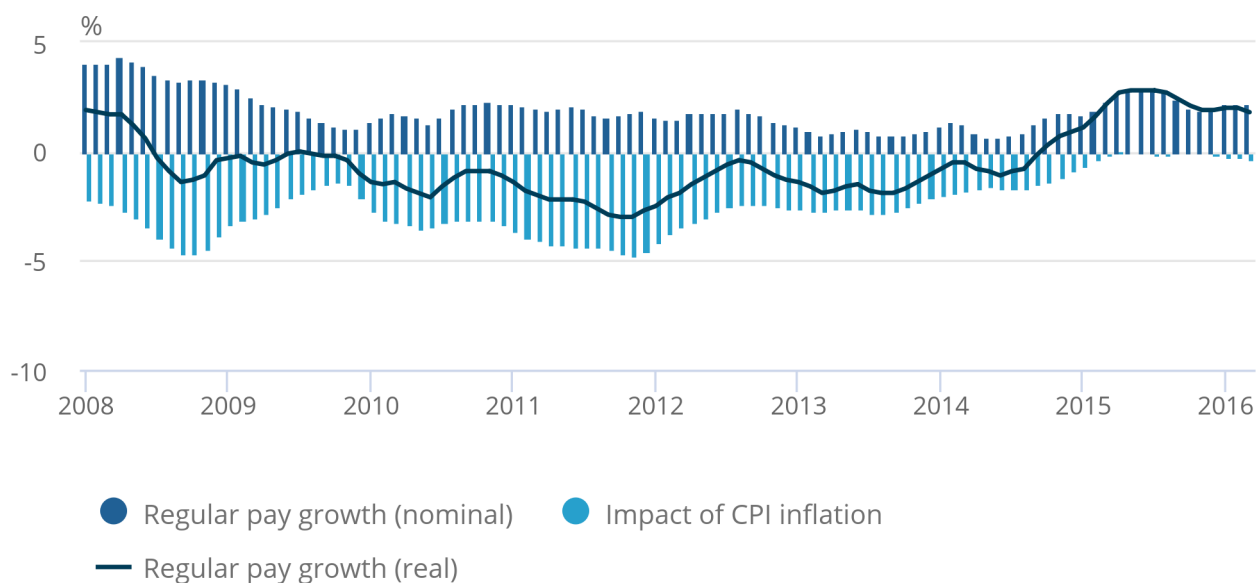
Other headline indicators in the [May 2016 Labour Market release](#) suggested the labour market has been performing strongly in the latter months of the financial year 2015/16, which typically correlates with increasing nominal earnings growth. However, after increasing growth in early 2015, nominal regular pay growth eased and stood at 2.2% in the 3 months to March 2016.

Figure 10: Contributions to the growth of real regular pay: Consumer Price Index (CPI) inflation and the growth of average regular weekly earnings, 2008 to 2016

UK

Figure 10: Contributions to the growth of real regular pay:
Consumer Price Index (CPI) inflation and the growth of average
regular weekly earnings, 2008 to 2016

UK



Source: Office for National Statistics

Notes:

1. The data for regular pay presents the 3 months on 3 months a year ago growth rate for the month at the end of the period (the final data is for January to March 2016).

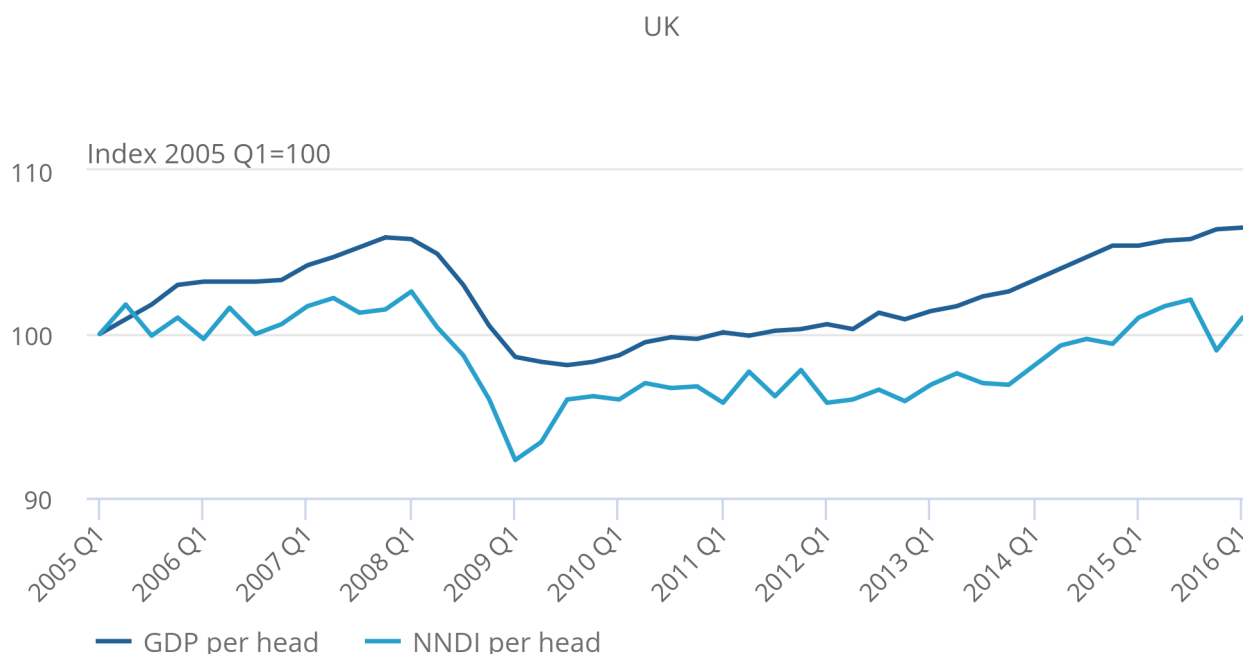
The rate of price inflation in the economy is also an important component that determines households' real income growth. There was persistent low inflation in the 2015/16 financial year, driven partly by a fall in oil prices. This low inflation combined with nominal pay increases has meant that real wages continued to grow in the 2015/16 financial year as they did towards the end of the second half of the previous financial year, following several years of falling real wages after the economic downturn.

Alongside positive signs in the labour market in the financial year 2015/16, real output in the UK economy increased 1.9% on the preceding 12 months, continuing a period of growth following the 2008/09 economic downturn. By the end of the period, the UK had recorded 13 quarters of consecutive economic growth. While aggregate real GDP surpassed its pre-downturn peak in Quarter 3 (July to September) 2013, GDP per head took until Quarter 4 (October to December) 2015 to overtake its pre-downturn peak.

Figure 11: Measures of economic well-being: GDP per head and net national disposable income per head, chained volume measure Quarter 1 2005 to Quarter 1 2016

UK

Figure 11: Measures of economic well-being: GDP per head and net national disposable income per head, chained volume measure Quarter 1 2005 to Quarter 1 2016



Source: Office for National Statistics

Notes:

1. Q1 = Quarter 1 (Jan to Mar), Q2 = Quarter 2 (Apr to June), Q3 = Quarter 3 (July to Sept) and Q4 = Quarter 4 (Oct to Dec).

Figure 11 presents 2 alternative measures of economic well-being – gross domestic product per head and net national disposable income (NNDI) per head. NNDI per head makes 2 adjustments to GDP per head: (a) subtracts the consumption of capital – the wear and tear resulting from assets being used in production – from GDP, capturing the net value of production and (b) includes a measure of net international investment income.

Despite the indicators tracking reasonably well until 2011, NNDI per head has followed a slightly weaker growth path than GDP per head since late 2011. This continued into the 2015/16 financial year. Between Quarter 1 (Jan to Mar) 2015 and Quarter 1 2016, GDP per head increased by 1.1% while NNDI per head remained unchanged. These relatively marked differences reflect some of the more detailed developments in the UK economy. In particular, the unchanged NNDI per head over the financial year partly reflects the fall in the UK's balance on income with the rest of the world: over this period, UK earnings overseas have grown less strongly than the earnings of overseas agents in the UK. Between Quarter 1 2015 and Quarter 1 2016, the balance of earnings on foreign direct investment (FDI) (the difference between earnings from direct investment abroad and from foreign direct investment in the UK) decreased from a surplus of £2.5 billion to a deficit of £2.0 billion. This trend is largely accounted for by the fall in the relative rate of return on UK assets held overseas.

More information on the divergence of GDP per head and NNDI per head since late 2011 can be found in our [Economic Well-being: Quarter 3, July to Sept 2016](#) bulletin.

Overall, these 2 measures compare relatively well with the strong growth observed in median household disposable income since 2013/14, based on the Effects of taxes and benefits on household income (ETB) and nowcast estimates. More recently, growth in median household income more closely resembles GDP per head growth rather than NNDI per head growth. This possibly reflects that the fall in balance on income with the rest of the world has not impacted greatly upon the household sector.

12 . What's changed in this bulletin?

Deflator

From the financial year ending 2016 (2015/16), where income comparisons are made over time, estimates have been deflated to 2015/16 prices using the Consumer Prices Index including owner-occupiers' housing costs (CPIH) deflator. This is following a recommendation in the Johnson Review that CPIH be the main measure of inflation. Previous publications have used the implied expenditure deflator for the household final consumption expenditure (HHFCE).

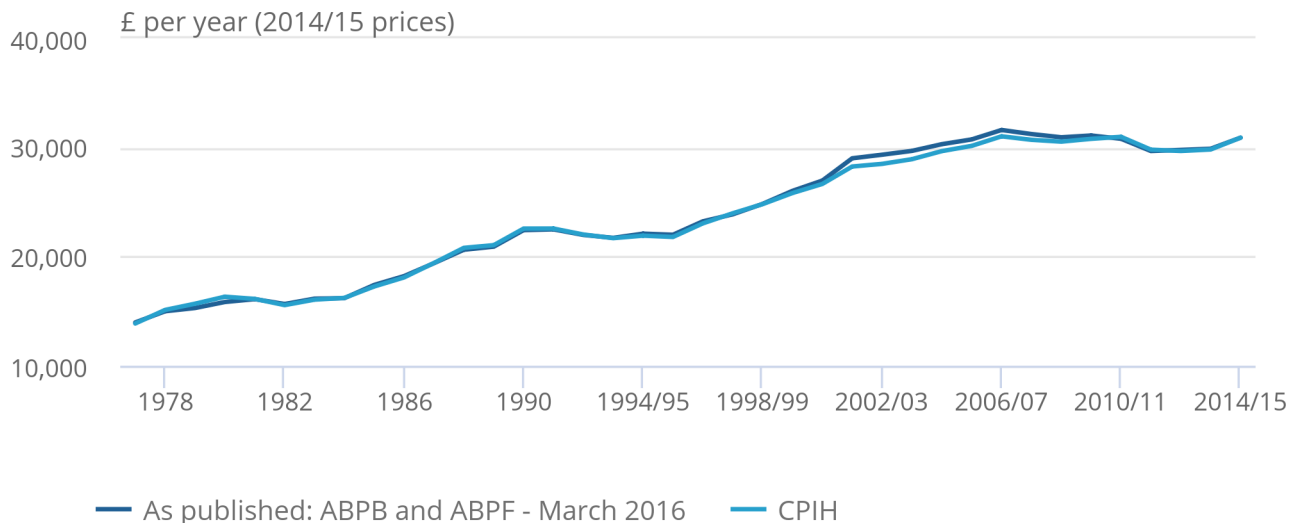
In calculating the CPIH deflator, the owner-occupiers' housing (OOH) component has been estimated using the actual rental series available from the Retail Prices Index (RPI). The OOH component was factored into the CPI (and modelled CPI prior to 1996) using the average OOH weight between 2005 and 2016. This is an experimental series.

See the [statement on future of consumer inflation statistics](#) for further information.

Figure 12 shows the impact on the time series for mean equivalised disposable income between 1977 and 2014 /15. The pre-downturn peak of mean household income in 2007/08 is estimated to be approximately £1,000 lower when deflated using CPIH, however, the longer-term trend since 1977 remains broadly consistent with the series deflated using HHFCE.

Figure 12 Timeseries of mean equivalised disposable income 1977 to financial year ending 2015, UK (2014/15 prices deflated by HHFCE and CPIH)

Figure 12 Timeseries of mean equivalised disposable income 1977 to financial year ending 2015, UK (2014/15 prices deflated by HHFCE and CPIH)



Source: Office for National Statistics

See the [reconciliation of differences](#) between the Consumer Price Index and the Implied Price Deflator for more information on the difference between the inflation measures.

New datasets

The Living Costs and Food Survey annual publication [Family Spending](#) contains a number of tables with a breakdown by income, however, the definition of income used is not consistent with the definitions and concepts set out in the [Canberra Handbook](#). In order to improve the coherence of income statistics across our publications, tables containing income figures with no expenditure breakdown previously included in Family Spending up to the 2015 edition will be published with this release from 2015/16 using definitions more consistent with the Canberra Handbook.

13 . Quality and methodology

The [Effects of taxes and benefits upon household income Quality and Methodology Information document](#) contains important information on:

- the strengths and limitations of the data
- the quality of the output, including the accuracy of the data and how it compares with related data
- uses and users
- how the output was created

Analysis in this bulletin, based on our long-running Effects of taxes and benefits on household income (ETB) series. The role of this bulletin is to provide an earlier release of statistics on main indicators relating to the distribution of household income and inequality, ahead of the main article, which will be published in May 2017 once the full dataset is available.

The ETB series has been produced each year since the early 1960s. Historical tables, including data from 1977 onwards are also published today, along with an implied deflator for the household sector, which can be applied to adjust for the effects of inflation. Differences in the methods and concepts used mean that it is not possible to produce consistent tables for the years prior to 1977 and only relatively limited comparisons are possible for these early years. All comparisons with previous years are also affected by sampling error.

Glossary

Equivalisation: Income quintile groups are based on a ranking of households by equivalised disposable income. 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 while a household with 2 people in it will need more money to sustain the same living standards as one with a single person, the 2-person household is unlikely to need double the income.

This analysis uses the [modified-OECD equivalisation scale](#).

Gini coefficients: The most widely used summary measure of inequality in the distribution of household income is the [Gini coefficient](#). The lower the value of the Gini coefficient, the more equally household income is distributed. A Gini coefficient of 0 would indicate perfect equality where every member of the population has exactly the same income, while a Gini coefficient of 100 would indicate that one person would have all the income.

Income quintiles: Households are grouped into quintiles (or fifths) based on their equivalised disposable income. The richest quintile is the 20% of households with the highest equivalised disposable income. Similarly, the poorest quintile is the 20% of households with the lowest equivalised disposable income.

Equivalised Disposable Income



Source: Office for National Statistics

Household income: This analysis uses several different measures of household income. Original income (before taxes and benefits) includes income from wages and salaries, self-employment, private pensions and investments. Gross income includes all original income plus cash benefits provided by the state. Disposable income is that which is available for consumption, and is equal to gross income less direct taxes.

Retired persons and households: A retired person is defined as anyone who describes themselves (in the Living Costs and Food Survey) as “retired” or anyone over minimum National Insurance pension age describing themselves as “unoccupied” or “sick or injured but not intending to seek work”. A retired household is defined as one where the combined income of retired members amounts to at least half the total gross income of the household.

14 . Users and uses of these statistics

The effects of taxes and benefits on household income (ETB) statistics are of particular interest to HM Treasury (HMT), HM Revenue and Customs (HMRC) and the Department for Work and Pensions (DWP) in determining policies on taxation and benefits and in preparing Budget and pre-budget reports. Analyses by HMT based on this series, as well as the underlying Living Costs and Food (LCF) dataset, are published alongside the Budget and Autumn Statement. A dataset, based on that used to produce these statistics, is used by HMT in conjunction with the Family Resources Survey (FRS) in their Intra-Governmental Tax and Benefit Microsimulation Model (IGOTM). This is used to model possible tax and benefit changes before policy changes are decided and announced.

In addition to policy uses in government, the ETB statistics are frequently used and referenced in research work by academia, think tanks and articles in the media. These pieces often examine the effect of government policy, or are used to advance public understanding of tax and benefit matters. The data used to produce this release are made available to other researchers via the UK Data Service.

These statistics play an important role in providing an insight to the public on how material living standards and the distributional impact of government policy on taxes and benefits have changed over time for different groups of households. This new release was developed in response to strong user demand for more timely data on some of the main indicators and trends previously published in the Effects of Taxes and Benefits on Household Income statistical bulletin and associated ad hoc releases.

15 . Related statistics and analysis

A guide to official sources of income and earnings data, including the strengths and weaknesses of the different sources, is available through our website. Two other important sources of income data are the main [Effects of Taxes and Benefits on Household Income](#) (ETB) release and [Households Below Average Income](#) (HBAI) release, which is produced by the Department for Work and Pensions (DWP).

Effects of Taxes and Benefits on Household Income: As highlighted, this bulletin is based on the same dataset as the main ETB release. ETB provides an extension of the analysis provided in this bulletin, by including data on indirect taxes (such as VAT and fuel and alcohol duties) and benefits in-kind provided by the state (such as education and NHS services). All definitions and concepts are also fully consistent between the 2 releases. The data presented in this bulletin are not revised on a scheduled basis, meaning that the figures in this release should be fully consistent with those in the full ETB publication.

Households Below Average Income: DWP's annual HBAI release is based on data from the Family Resources Survey (FRS) and focuses on the lower part of the income distribution. The next edition of this publication, including data for the financial year ending 2016 (2015/16), will be released in February/March 2017. The methodologies and concepts used for HBAI are broadly comparable, though there are some small but important differences. For example:

- ETB includes benefits in kind provided by employers (for example, company cars) within income, but these are not included within HBAI
- HBAI includes certain benefits in kind provided by the state (such as free school meals and Healthy Start vouchers) within Before Housing Costs (BHC) income, which is otherwise equivalent to the ETB measure of disposable income; in ETB, these are included with other benefits in kind as part of final income
- HBAI makes an adjustment for “very rich” households using data from HMRC's Survey of Personal Incomes
- ETB measures inequality on a household basis, whereas HBAI measures inequality on an individual basis

Due to HBAI being based on a different survey, along with the differences described previously, HBAI and ETB estimates can differ slightly from each other. However, historical trends are broadly similar across the 2 sources.

This release adds to the evidence base amassed as part of the ONS Measuring National Well-being programme. The programme aims to produce accepted and trusted measures of the well-being of the nation – how the UK as a whole is doing.

Measuring National Well-being is about looking at “GDP and beyond”. It includes headline indicators in areas such as health, relationships, job satisfaction, economic security, education, environmental conditions and measures of “personal well-being” (individuals' assessment of their own well-being).

Find out more on the [Measuring National Well-being](#) website pages.