

# **What do we know about in-work poverty in Scotland?**

## **Interim findings**

Scottish Government  
Communities Analysis Division  
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## Summary

- ‘In-work’ or working poverty describes households who live in relative poverty even though someone in the household is in paid work. Working poverty is of particular concern in tackling poverty given that the majority of the working-age population in relative poverty now live in working households (59% in 2014-17 compared to 48% in 1996-99).
- A household is in relative poverty if the equivalised household income is below 60% of the UK median income in the same year.
- Low pay and the number of hours worked by households (‘work intensity’) have been identified by research as key factors that influence working poverty.
- Poverty is measured at the household level. This means that the relationship with low pay (measured at the individual level) is not straightforward. Additionally, in this paper work intensity is calculated at the household level – as the total hours worked by all adult household members divided by the number of working-age adults in the household.
- Around two thirds of working adults living in poverty were paid below the real living wage.
- Low-paid workers are more likely to work part-time (less than 30 hours) compared to all workers, and less likely to have a permanent contract.
- However, in almost 3 in 10 households in working poverty, no one in employment was low-paid.
- Households in working poverty work fewer hours per week than all working households. Moreover, almost three quarters of people in working poverty in Scotland live in a ‘low work intensity’ household.
- Households in working poverty are more likely to have young children than the general population. Parents’ ability to increase working hours is often dependent on the availability of flexible working and affordable childcare.
- Overall, 4 in 10 people (including pensioners and children) in working poverty live in households where all workers were in low pay and the household had a low work intensity, while around a quarter live in households with no worker in low pay but low work intensity.

People living in households in working poverty: numbers (and composition)	Regular work intensity	Low work intensity	All households
No worker in low pay	20,000 (4%)	120,000 (24%)	140,000
Some workers in low pay, some regular pay	40,000 (9%)	40,000 (9%)	80,000
All workers in low pay	70,000 (13%)	210,000 (41%)	280,000
All households	130,000	370,000	510,000

- This analysis highlights that addressing low pay and low work intensity are key in reducing working poverty. Possible interventions may include support to find better paid work or more hours of work, and addressing the barriers to entering work, taking on more hours of work or better paid work. Better understanding these barriers and the support households need to overcome them is vital and an area for further exploration.

## Introduction

1. 'In-work' or working poverty is of particular concern in tackling poverty. Previous research underlines that while there is a strong relationship between unemployment and poverty in the UK, paid employment is not a guaranteed route out of poverty.[1, 2] The majority of working-age adults (aged 16-64<sup>1</sup>) and children in relative poverty after housing costs (AHC) in Scotland are now living in households where at least one adult is in paid work.[3]
2. A Scottish Government report in 2015, based primarily on UK data and analysis, outlined how the hourly rate of pay, work intensity and income gained and lost through the welfare and tax systems contribute to working poverty.[4]
3. This paper builds on the 2015 report by presenting analysis exploring the characteristics of households in working poverty in Scotland.

## Data analysis and definitions

4. In this paper, poverty refers to 'relative poverty' after housing costs. Relative poverty is defined as having an equivalised household income below 60% of the UK median household income in the same year. This is a measure of whether the incomes of those in the lowest income households are keeping pace with the growth of incomes in the economy as a whole. The poverty rate (or poverty risk) of a population is the number of individuals (or families, or households, ...) of the population who are in poverty divided by the whole population.
5. Poverty is measured at the household level. If the household income is below the poverty threshold, we assume that all families and individuals within the household are in poverty. 'Families' is used here to refer to benefit units<sup>2</sup> instead of households.
6. Estimates of numbers or proportions of people in poverty in this report are based on data from the Family Resources Survey. This survey is the official source of information on household income and poverty in Scotland. Unless otherwise stated, all analysis from the Family Resources Survey is based on three-year averages. More information about how estimates are derived can be found in the annual poverty publication.[3]
7. When referring to 'working poverty' or 'in-work poverty', we are talking about households in poverty where at least one person is in paid employment or self-employment. Households where no-one is in paid or self-employment are referred to as 'non-working'. However, it is important to note that many households that are classified here as 'non-working' are nonetheless doing other forms of unpaid work (e.g. volunteering formally or informally, taking care of family, etc.).
8. In some cases, estimates are reported on a household level; in others, an individual level is more appropriate. Individuals can refer to either all working-age adults or only those who are currently in work, as indicated in each chart.

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<sup>1</sup> In the Family Resources Survey, the main data source for this report, the definition of working-age adults excludes 16-19 year-olds who are unmarried, in full-time non-advanced education and living at home. These are considered dependants, and count as children.

<sup>2</sup> As per this definition, a *family* is a couple or single person and any dependent children. Grandparents, lodgers, housemates, and non-dependent grown-up children are not included in the benefit unit; they form additional benefit units, or families, in the *household*.

Pensioners and pensioner households are excluded from all analysis apart from the tables, Figures 16a and 16b.

### In-work poverty over time

THE RISK OF POVERTY FOR WORKING HOUSEHOLDS HAS INCREASED SLIGHTLY OVER TIME, WHILE THE COMPOSITION OF HOUSEHOLDS IN POVERTY HAS CHANGED SIGNIFICANTLY.

9. While the poverty risk of the *overall* working-age population has remained constant at 19% over the last two decades, the risk has changed in different ways for those in working and those in non-working households. The risk of poverty for working households has increased slightly in the last two decades, from 10% to 13%, and decreased in non-working households, from 64% to 58% (Figure 1).
10. In addition to changes in the poverty risk, the composition of working-age households in general has changed slightly over time too, with more households in work now (87% in 2014-17) than in 1996-99 (85%).
11. As a result of these changes, the composition of the working-age population in poverty has changed significantly over time, and in particular in the last five years. Now, the majority of the working-age population in poverty live in working households (59% in 2014-17 compared to 48% in 1996-99) (Figure 2).[3]

Figure 1: Poverty risk of working-age adults, 1996-99 to 2014-17

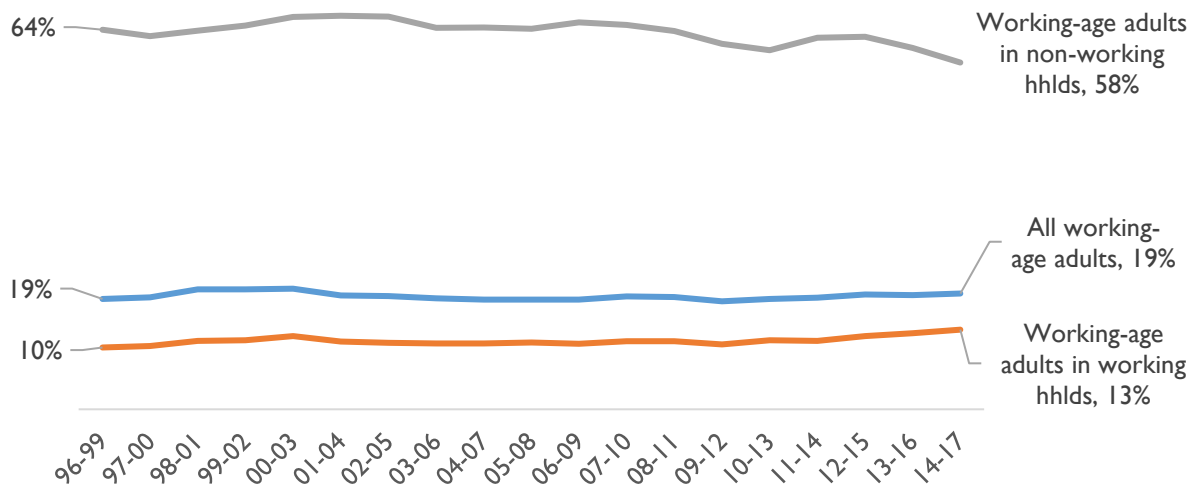
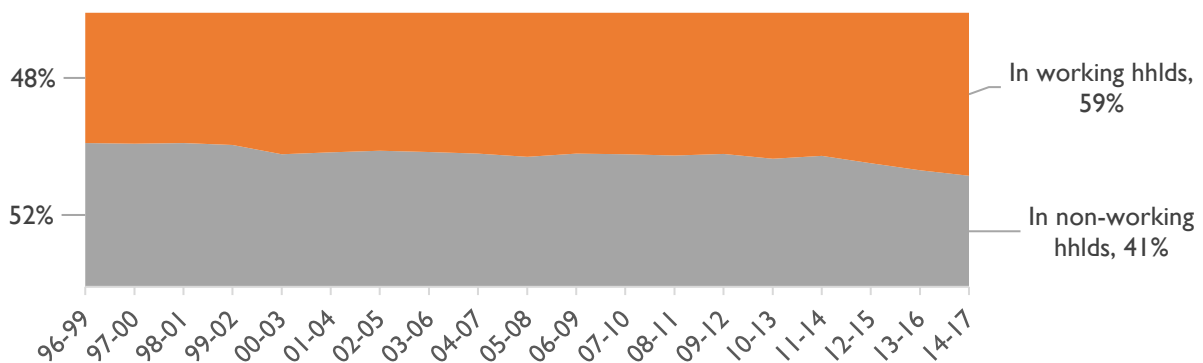


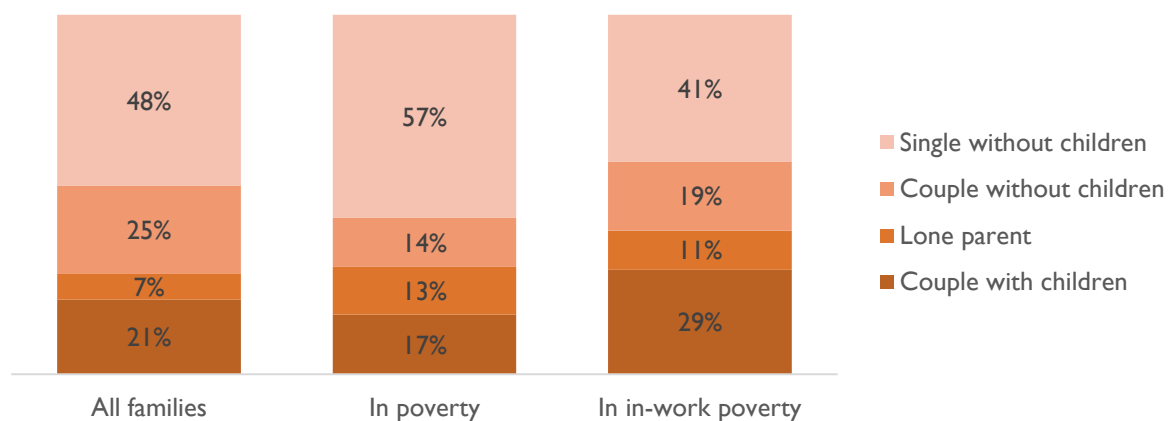
Figure 2: Composition of the working-age population in poverty, 1996-99 to 2014-17



## Families with children, ethnic minority households and renters more likely to be in working poverty

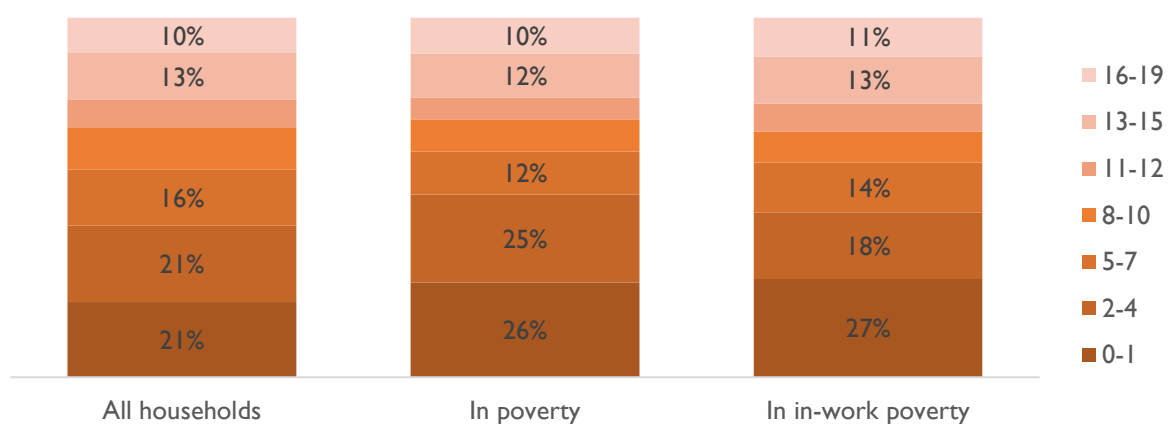
12. Figure 3 below compares the composition of all working-age families with those in poverty and working poverty. 'Families' is used here to refer to benefit units<sup>2</sup> instead of households. Compared to the general population as well as the population in poverty, families in *working poverty* are less likely to be single-person households and are more likely to be families with children. In addition, almost half (47%) of all working-age adults in working poverty were parents of dependent children.

Figure 3: Composition of working-age families in Scotland by family type, 2014-17



13. Figure 4 below compares the composition of all households by age of the youngest child with households in poverty and working poverty. It highlights that a higher proportion of households in poverty have pre-school-age children (aged 4 and under) compared to all households: 51% of all households in poverty and 45% of households in working poverty, compared to 42% of all households. But, it also highlights that in almost one in four households in working poverty the youngest child is 13 or older. In these households, childcare and the resulting lower work intensity may not be the reason for being in working poverty.

Figure 4: Composition of households with children in Scotland by age of the youngest child, 2014-17

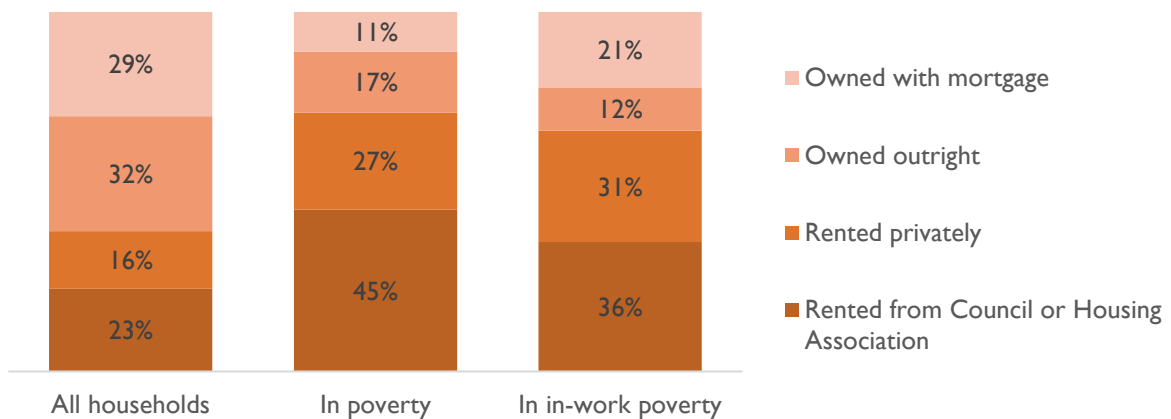


14. Working-age women are more likely to be in working poverty than men, and this is particularly the case when considering single adults only: 56% of working-age

adults in working poverty and 64% of *single* working-age adults in working poverty are women.

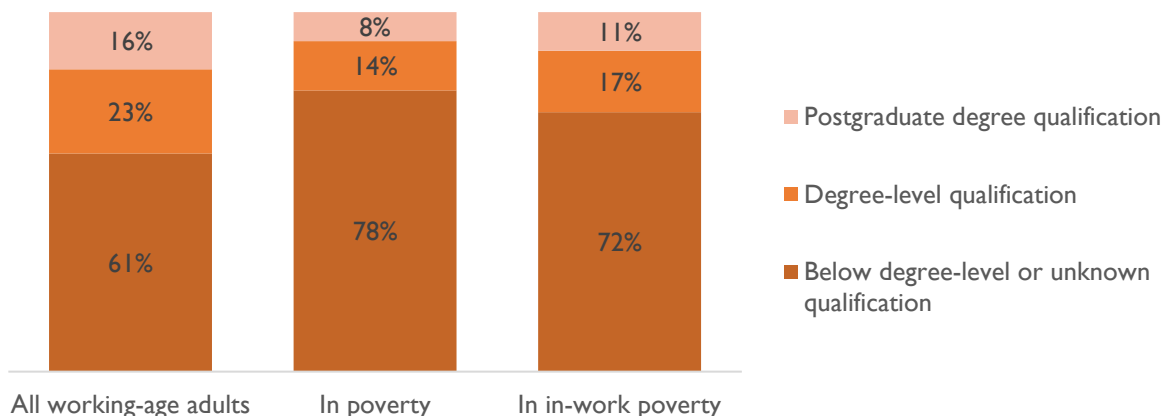
15. People in ethnic minority households account for 4% of the general population, but they make up 7% of all people in poverty and 10% of all people in working poverty.
16. Households in the social rental sector make up the largest group of those in poverty (45%) and working poverty (36%) (Figure 5). Households in the private rental sector make up the second largest group of households in working poverty (31%), a larger share compared to the general population (16%) and those in poverty (27%).

Figure 5: Composition of households in Scotland by tenure, 2014-17



17. On average, people in working poverty are better qualified than those who are in poverty, but less well qualified than the general working-age population (Figure 6).

Figure 6: Composition of the working-age population in Scotland by qualification, 2014-17



### Low pay and low work intensity major reasons for working poverty

18. We know from the literature on in-work poverty that a number of employment characteristics are associated with higher rates of relative poverty, including low pay<sup>3</sup>, part-time employment, self-employment and 'work duration' (not remaining

<sup>3</sup> Typically defined in studies as less than 60% of full-time, median hourly pay, excluding overtime.

in employment for a full year e.g. seasonal workers) which is linked to temporary and insecure employment.[1, 2, 4]

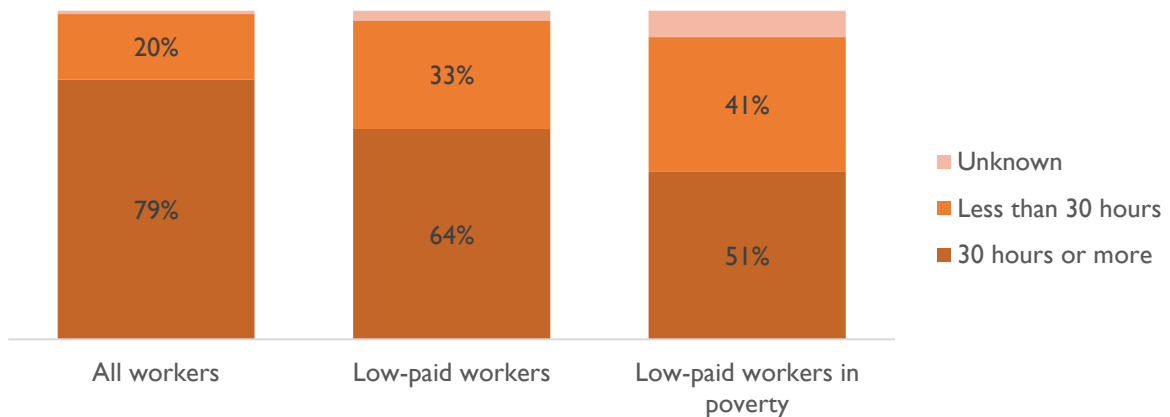
## Low pay

19. UK-level analysis finds that low-paid workers face a higher risk of poverty than workers who are not on a low hourly rate of pay.[2] Among full-time, full-year employees in the UK, the low-paid are twice as likely to be in relative poverty as all employees.[2, 5]
20. For the following analysis, we defined low pay as gross hourly pay below the real living wage in each year.<sup>4</sup>
21. Sixty six per cent of working adults living in poverty were low paid, compared to 27% of all working adults. Low-paid workers are more likely to be in poverty (21%) than higher paid workers (11%).

## Characteristics of low-paid workers in Scotland

22. A large share of low-paid workers have a qualification below degree level (85%). This is a larger share compared to all workers (70% of all working adults have a qualification below degree level).
23. Low-paid workers are more likely to work part-time (working less than 30 hours per week, 33% of low-paid workers), compared to all workers (20%). Additionally, low-paid workers who were in poverty were more likely to work part-time (41%) than all workers in low pay (Figure 7).

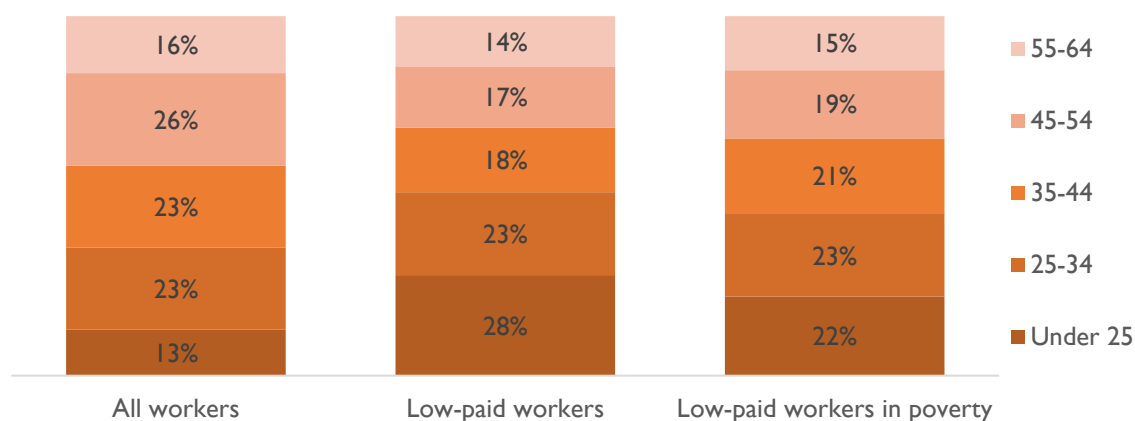
Figure 7: Composition of the working population in Scotland by working hours, 2014-17



24. Low-paid workers are also less likely to have a permanent contract: 16% (compared to 9% for all working adults) had a non-permanent contract or other working arrangement.
25. As we would expect, low-paid workers are younger (on average (median) 34 years old) compared to the general working population (41 years old). However, low-paid workers *in poverty* (38 years old) are slightly older, and a third of low-paid workers in poverty are aged over 44.

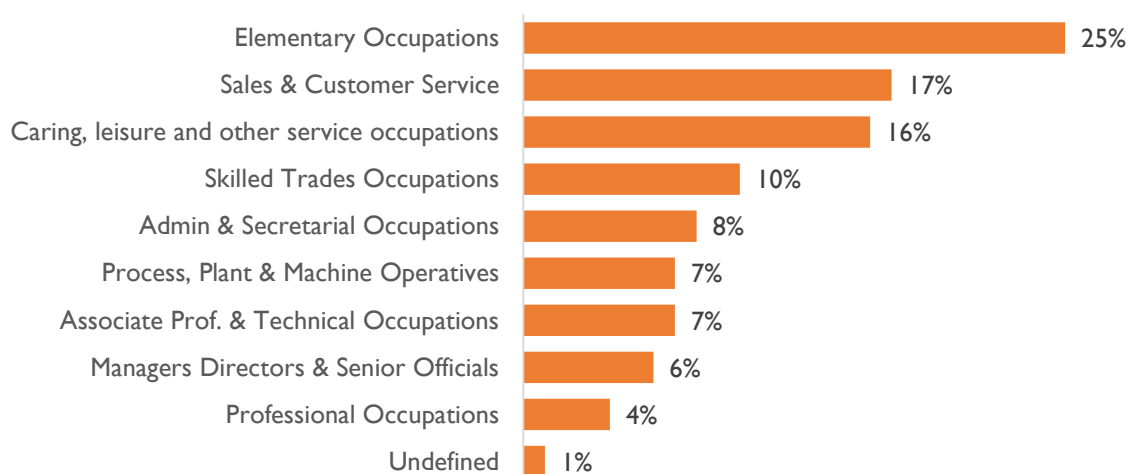
<sup>4</sup> The real living wage was £7.65 in 2014/15, £7.85 in 2015/16, and £8.25 in 2016/17, see <https://www.statista.com/statistics/280076/national-living-wage-compared-to-national-minimum-wage-in-the-uk/>. The analysis considered each year separately and then averaged the proportion of workers in low pay over three years.

Figure 8: Composition of the working population in Scotland by age, 2014-17



26. Figure 9 shows that well over half of low-paid workers are in either ‘elementary’<sup>5</sup> (25%), sales and customer service (17%), or caring, leisure and other service occupations (16%).

Figure 9: Occupations of low-paid workers, 2014-17



## Low pay at a household level

27. The relationship between low pay and poverty is not straightforward. While labour market statistics look at individuals, poverty is generally experienced and measured at a household level. The assumption is that earnings go into a ‘household pot’, together with income from a range of other sources (although it should be noted that looking only at overall income hides who has power over resources within a family). If a low-paid person lives with a much higher-paid person, they are unlikely to live in poverty. UK-level analysis underlines that not

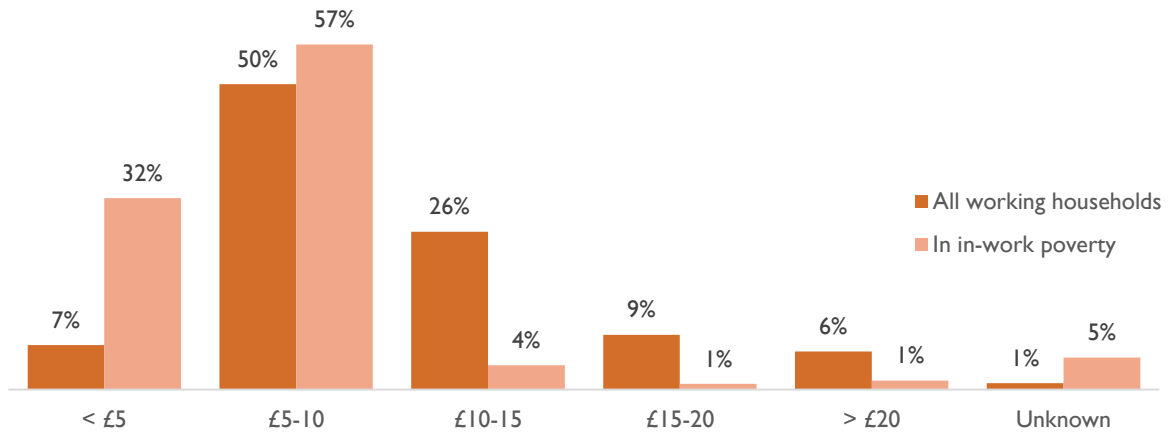
<sup>5</sup> From Standard Occupational Classifications 2010: ‘Elementary occupations’ covers occupations which require the knowledge and experience necessary to perform mostly routine tasks, often involving the use of simple hand-held tools and, in some cases, requiring a degree of physical effort. Most occupations in this major group do not require formal educational qualifications but will usually have an associated short period of formal experience-related training. Source: <https://www.ons.gov.uk/methodology/classificationsandstandards/standardoccupationalclassifications/oc/soc2010/soc2010volume1structureanddescriptionsunitgroups>



all low-paid workers live in low-income households, while not all those in working poverty live in households where someone is low-paid.[1, 4]

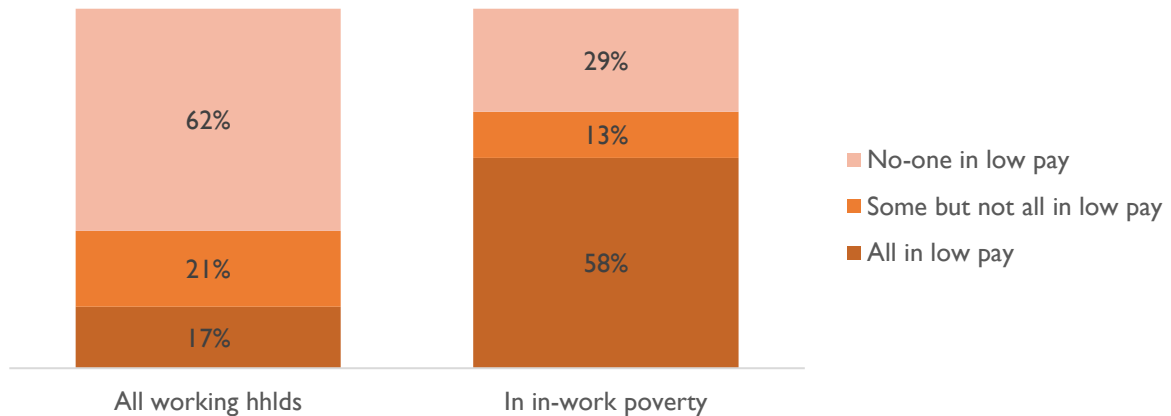
28. Figure 10 shows that households in working poverty in Scotland are more likely to have an average (median) hourly pay of £10 per worker or less (89%) than all working households (57%).

Figure 10: Composition of working households in Scotland by median net hourly earnings per worker in household, 2014-17



29. In almost 6 in 10 households in working poverty, everyone in paid employment is in low pay, compared to less than 2 in 10 of all households in Scotland – as highlighted in Figure 11 below. However, in almost 3 in 10 households in working poverty no one in paid employment was in low pay.

Figure 11: Composition of working households in Scotland by how many workers in the household are low paid, 2014-17

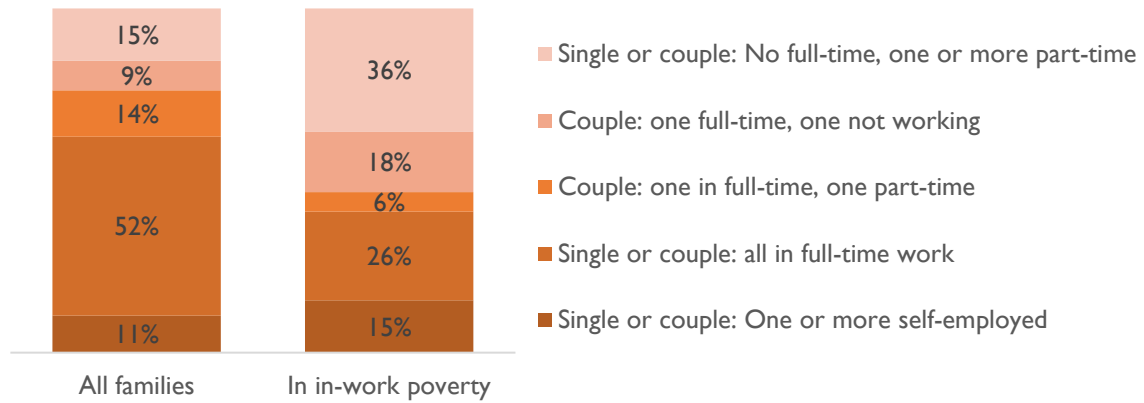


## Work intensity

30. As demonstrated above, in a significant minority of households in working poverty no workers are in low pay. Therefore, for many households it is the 'work intensity' that seems to matter instead of, or as well as, pay. Work intensity is the number of hours of paid work done by household members. Previous research finds that low pay is a stronger predictor of poverty than part-time work, but both are important.[2] On average, part-time workers in the UK face almost double the relative poverty rate of those who work full-time.[2]

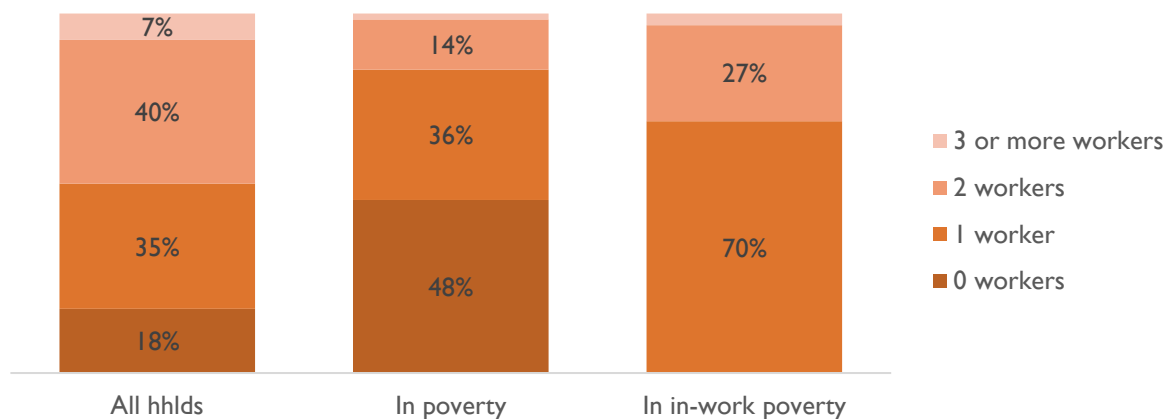
31. In Scotland, families (as in benefit units, see paragraph 5) in part-time employment only and couples where one is in full-time employment and one is not in employment make up over half of families in working poverty (Figure 12).

Figure 12: Composition of working families in Scotland by family economic status, 2014-17



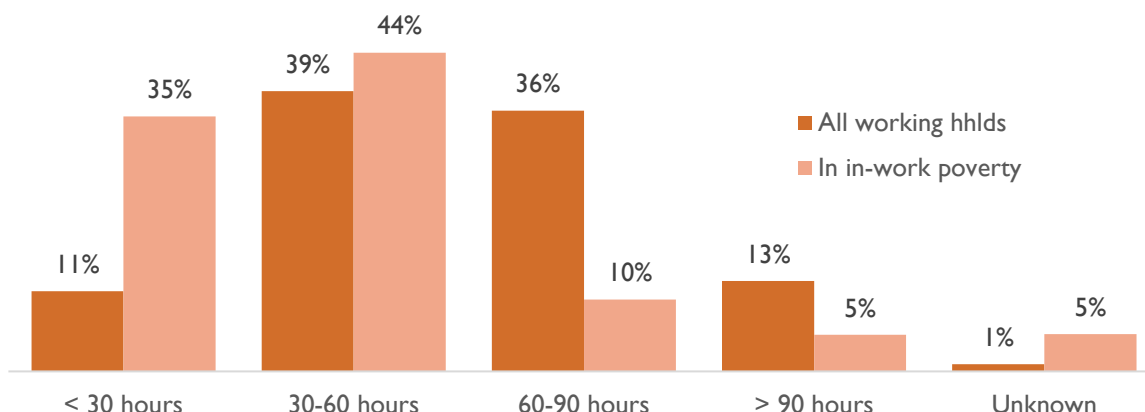
32. Figure 13 shows that more than two thirds of households (70%) in working poverty have one worker in the household, while less than a third (27%) have two workers.

Figure 13: Composition of working-age households in Scotland by number of workers in household, 2014-17



33. On average, households in working poverty work fewer hours per week (38 hours median) than all working households (60 hours), as also illustrated in more detail in Figure 14.

Figure 14: Composition of working households in Scotland by total number of hours worked per week in household, 2014-17

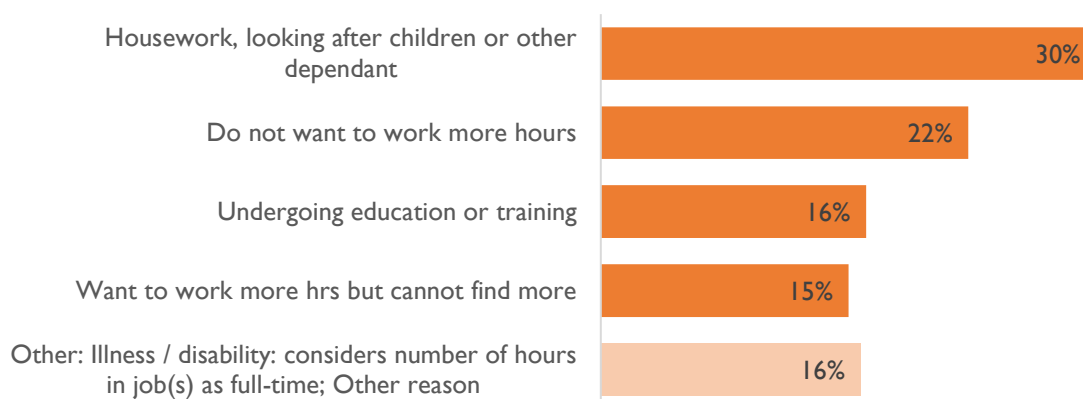


34. Household work intensity was calculated as the total hours worked by household members, divided by number of working-age adults in the household. A 'low work intensity household' was defined as a household in which work intensity was less than 30 hours per working-age adult (e.g. less than 30 hours with one working-age adult, less than 60 hours for two working-age adults etc.). Almost three quarters of people in working poverty in Scotland live in a 'low work intensity' household – 370,000 people. This is likely to be related to the higher proportion of households in working poverty who have children, meaning that there are additional barriers to all adults in the household working or working full-time.

### Are households able to increase their work intensity?

35. Figure 15 looks at reasons for working less than 30 hours per week among all part-time workers: only 15% of those who responded reported they wanted to work more but cannot find more hours. Thirty percent said this was due to caring responsibilities and housework. Of those who said that they didn't work more hours due to caring responsibilities and housework, 95% were women.

Figure 15: Reasons part-time workers give for not working more than 30 hours, 2014-17



36. Of the 150,000 households in working poverty in Scotland in 2014-17 with low work intensity, 70,000 had children and 50,000 of these had children aged under 13. In 60,000 households there was someone disabled in the household.

37. UK-level analysis estimated in 2011/12 that 42% of children in households in working poverty live with adults who might be considered to "have potential to work more hours" under Universal Credit<sup>6</sup>.<sup>[6]</sup>
38. However, parents' ability to increase their hours, or to enter and/or remain in work at all, is dependent on the availability of flexible working and affordable childcare.

### Relationships between low pay, work intensity and working poverty

39. The tables below consider the relationships between poverty, low pay and work intensity, and how many individuals are affected by each. They highlight that a large number of people in working poverty live in households where all workers are in low pay and the household has a low work intensity (210,000 people – 41% of those in working poverty). The risk of poverty is also particularly high for this group of people (54%).
40. People who live in households with regular work intensity where all workers are in low pay also have a relatively high risk of poverty (32%). However, there is also a fairly large group of people in working poverty that live in households with no worker in low pay, but low work intensity (120,000 – 24% of those in working poverty).

Figure 16a: Number and composition of people (including pensioners) in working poverty by household work intensity and pay status, Scotland 2012-17 (5-year average)

People living in households in in-work poverty: number (and composition)	Regular work intensity	Low work intensity	All households
No worker in low pay	20,000 (4%)	120,000 (24%)	140,000
Some workers in low pay, some regular pay	40,000 (9%)	40,000 (9%)	80,000
All workers in low pay	70,000 (13%)	210,000 (41%)	280,000
All households	<b>130,000</b>	<b>370,000</b>	510,000 (100%)

Figure 16b: Proportion of people (including pensioners) in working poverty (poverty risk) by household work intensity and pay status, Scotland 2012-17 (5-year average)

People living in households in in-work poverty: poverty risk	Regular work intensity	Low work intensity	All households
No worker in low pay	2%	15%	6%
Some workers in low pay, some regular pay	7%	14%	9%
All workers in low pay	32%	54%	46%
All households	6%	25%	19%

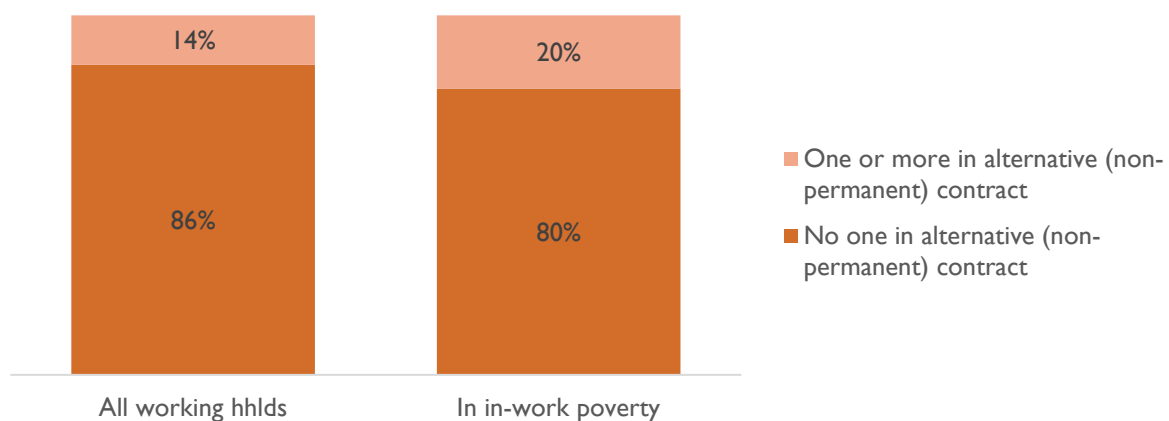
<sup>6</sup> The analysis was based on the expectation at that time that: one adult in a couple is in full-time work, while lone parents, or the second adult in a couple: work full-time if the youngest child is aged 13+, work part-time if the youngest child is aged 5-12, are not expected to work if the youngest child is under 5 years old. The current expectations can be found here: <https://www.gov.uk/government/publications/universal-credit-and-your-family-quick-guide/universal-credit-further-information-for-families> (section 7).

41. Previous research has demonstrated that low pay and part-time work are both associated with lack of pay progression.[4] Low-paid workers are less likely to be offered training by their employer, limiting their opportunities for progression. Further, many organisations and sectors, especially those characterised by a high proportion of part-time work, lack clear career pathways or ‘ladders’.[7] In the UK, workers who are low-paid in one period are much more likely to be low-paid later in life, regardless of other factors like skill level or gender. Over a quarter of UK low-paid workers in 2002 remained in persistent low pay over the whole decade to 2012, while just less than half moved out of low pay at some point only to move back into it.[8]

### Contractual status and insecure work

42. Temporary and insecure employment is also related to relative poverty because it reduces work duration. Data from 2012 found that having a temporary rather than permanent contract increased the risk of poverty among UK employees.[2] Low-paid workers are also less likely to stay in employment than employees on higher wages.[2, 9] In the UK, households where workers lack year-round work are almost three times more likely to be in poverty than those in continuous employment – this is partly related to contractual status.[2] Analysis exploring the ‘low-pay no-pay’ cycle found that almost a quarter (24%) of low-paid workers in the UK cycle in and out of work repeatedly in a four-year period.[9]
43. In 2014-17, households in working poverty in Scotland were more likely to have one or more workers with an ‘alternative’ contract (20%) than those in the general working population (14%). For this analysis, an alternative contract includes all non-permanent contractual statuses, such as fixed term or temporary jobs, work without contract, or other working arrangements.

Figure 17: Composition of households in Scotland by contractual status of workers in the household, 2014-17



### Discussion

44. This paper has used data from the Family Resources Survey to explore in more depth the characteristics of households in working poverty in Scotland, in order to better understand how policy can target these households.
45. Over the last two decades, the risk of poverty for working households has increased slightly, and decreased in non-working households. In addition to changes in the poverty risk, the composition of working-age households in

general has changed slightly over time too, with more households in work now, than two decades ago. As a result of these changes, the composition of the working-age population in poverty has changed significantly over time, and in particular in the last five years. Now, the majority of the working-age population in poverty live in working households.

46. Households and individuals in working poverty have distinct features compared to the general population in Scotland as well as all those in poverty. Those in working poverty are more likely to be women, non-white, living in the private rental sector and to have children, compared to both the general population and all those in poverty. The analysis underlines that there are a combination of circumstances that contribute to households where someone is in work being in poverty, involving pay, work intensity and the reasons for them. Moreover, low pay, low work intensity and non-permanent contractual status are often overlapping factors for households in working poverty.
47. Low pay plays a key role in working poverty. Around two thirds of working adults living in households in poverty were low paid. Low paid adults are more likely to work part-time and have a non-permanent contract than all working adults. Well over half of low-paid workers are in either 'elementary' (see paragraph 26), sales and customer service, or caring, leisure and other service occupations. At the household level, in almost 6 out of 10 households in working poverty everyone in paid employment is in low pay.
48. However, in a significant minority of households in working poverty no workers are in low pay. So for many households it is the 'work intensity' that seems to matter instead of, or as well as, pay. More than half of households in working poverty are in part-time employment only or are couples where one is in full-time employment and one is not. Moreover, three quarters of people in working poverty in Scotland live in a 'low work intensity' household. A large proportion of households in working poverty that had low work intensity had either children or someone disabled living in the household. Three in ten part-time workers said they work 30 hours or less due to caring responsibilities.
49. Overall, 4 in 10 people in working poverty live in households where all workers were in low pay and the household had a low work intensity, while around a quarter live in households with no worker in low pay but low work intensity. People in households in working poverty are better qualified compared to all households in poverty, but less well qualified than the general population. Having a qualification below degree level is also overrepresented in low-paid workers. Previous research shows that low pay and part-time work are associated with lack of pay progression.
50. In conclusion, this analysis underlines that there are a range of different groups of households and individuals in working poverty who will require different interventions to move them out of poverty. These may include support to find better paid work or more hours of work; support accessing training or gaining qualifications; or addressing the barriers to entering work, taking on more hours of work or better paid work, such as the availability of flexible working and affordable care. Continued action to increase the availability of high quality jobs with a decent rate of pay, and enough hours of work and opportunities to progress, is also crucial, although the Scottish Government does not hold all of the relevant powers in this agenda.

51. An area for further exploration identified by this analysis is better understanding the barriers to increasing work intensity and the support households need to overcome these. For example, the analysis presented here shows that a quarter of all part-time workers work no more than 30 hours because they don't want to work more, rather than because of caring responsibilities, illness or disability etc. This may be because of the interaction between working more hours and the level of benefits they would receive, or that they volunteer, or have stress-related issues that they do not consider to be a disability, etc. A proposed next stage is to undertake qualitative research to better understand these issues.

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