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## HOUSEHOLDS BELOW AVERAGE INCOME STATISTICS: ADOPTION OF NEW EQUIVALENCE SCALES

From 2007, new equivalence scales will be adopted for the main results presented in the Households Below Average Income low-income statistics. This release gives background information on equivalence scales, describes the nature of the change and presents results using the new equivalence scales alongside results using the previous equivalence scales.

- The Households Below Average Income series reports on two types of incomes, income Before Housing Costs (BHC) and income After Housing Costs (AHC) have been deducted. Incomes are *equivalised* as a proxy for standard of living. *Equivalisation* is where household income is adjusted for size and composition to take into account the fact that a larger household will have a lower standard of living than a smaller household with the same income. The most recent annual HBAI report was published on 30 March 2005 and reported results for 2003/04. As was the case in recent years, BHC and AHC incomes were equivalised using McClements BHC and AHC equivalence scales for main results, with results using Modified-OECD scale in an appendix.
- The Government's first Public Service Agreement target on child poverty employed the McClements scales. Future targets will employ the Modified-OECD scale. In the light of this, an issue arising for HBAI was whether its main results should switch to the new scale. Following user consultation, DWP statisticians have decided to switch the choice of equivalence scale for main results from McClements to Modified-OECD after results for the final year of the McClements-based current Child Poverty PSA measure are published in the report on 2004/05 results, scheduled for release in March 2006.
- The Modified-OECD scale is the standard scale used to adjust BHC incomes across other EU countries. Unlike McClements however, there is no comparable scale to adjust AHC incomes.
- DWP statisticians, following consultation with independent experts, have decided to adopt a new 'Companion scale' to equivalise AHC incomes, to accompany the use of the Modified OECD scale for BHC results. This Companion scale has a similar structure to the Modified-OECD scale, but takes into account the greater economies of scale that a couple experience – compared with two singles – for housing costs, compared to other expenses. The scale chosen broadly preserves the relationship between key BHC and AHC results from the McClements scales.
- The next HBAI publication, reporting results for 2004/5, will use the McClements scale for its main results; but more extensive results than hitherto will be presented using the Modified-OECD (and 'Companion') scales. The Modified-OECD and the 'Companion' scales will be the method of equivalising BHC and AHC results in the main part of subsequent HBAI publications; McClements results will be moved to an appendix.
- Further information on the change of equivalence scale consultation is available at the following URL: <http://www.dwp.gov.uk/asd/hbai.asp>
- AHC results are presented in this First Release for the new 'Companion' scale. One complication is that the income measure definition between results using McClements and results using Modified-OECD is not strictly identical. Insurance premia expenditure by households have been deducted from household income in recent years. However questions relating to payments of insurance premia will no longer appear on the FRS from 2005/06. DWP statisticians have decided to stop deducting these payments for all years for future Modified-OECD and 'Companion' series. The effect of this has been estimated as small; there are no revisions of more than one percentage point or 100,000, for children, working-age adults and pensioners.
- Three sets of results are presented in this release for the Before Housing Costs income. These are: previously published McClements results; previously published Modified-OECD results; and Modified-OECD results using the new income definition.
- Two sets of results are published for the After Housing Costs series. These are: previously published McClements results and results using the 'Companion' scale with the new income definition.

## TABLES

The following additional tables are included overleaf:

- **Table 1** - Percentage and number of individuals living in households with incomes below thresholds of contemporary median income 1994/5-2003/04: McClements (BHC)\*; Modified-OECD (BHC)\*; Modified-OECD (BHC) with insurance premia expenditure not deducted from income; McClements (AHC)\*; Companion scale (AHC) with insurance premia expenditure not deducted from income.
- **Table 2** - Percentage and number of children living in households with incomes below thresholds of contemporary median income 1994/5-2003/04: McClements (BHC)\*; Modified-OECD (BHC)\*; Modified-OECD (BHC) with insurance premia expenditure not deducted from income; McClements (AHC)\*; Companion scale (AHC) with insurance premia expenditure not deducted from income.
- **Table 3** – Percentage and number of working-age adults living in households with incomes below thresholds of contemporary median income 1994/5-2003/04: McClements (BHC)\*; Modified-OECD (BHC)\*; Modified-OECD (BHC) with insurance premia expenditure not deducted from income; McClements (AHC)\*; Companion scale (AHC) with insurance premia expenditure not deducted from income.
- **Table 4** - Percentage and number of pensioners living in households with incomes below thresholds of contemporary median income 1994/5-2003/04: McClements (BHC)\*; Modified-OECD (BHC)\*; Modified-OECD (BHC) with insurance premia expenditure not deducted from income; McClements (AHC)\*; Companion scale (AHC) with insurance premia expenditure not deducted from income.
- **Table 5** – McClements BHC and AHC equivalence scales, and Modified-OECD and 'Companion' scales.

NB: Results marked with an asterisk have been published previously and are unchanged.

**Table 1**

(BHC) Percentage and number of individuals below thresholds of contemporary median income using McClements, modified-OECD, and modified-OECD with the new income definition, Great Britain.

Source: FRS									
Below 50% median			Below 60% median			Below 70% median			
McClements	Modified-OECD	Modified-OECD with new income definition	McClements	Modified-OECD	Modified-OECD with new income definition	McClements	Modified-OECD	Modified-OECD with new income definition	
<b>Percentage of individuals</b>									
1994/5	9	10	10	18	19	19	27	28	28
1995/6	9	9	9	17	18	18	26	27	27
1996/7	10	11	11	18	19	19	27	28	28
1997/8	10	11	11	18	20	20	27	28	28
1998/9	10	11	11	18	19	19	27	28	28
1999/00	10	10	10	18	19	19	27	28	28
2000/01	10	10	10	17	18	18	26	27	27
2001/02	9	10	10	17	18	18	26	27	27
2002/03	10	10	10	17	18	18	26	27	27
2003/04	9	10	10	17	18	18	26	26	26
<b>Number of individuals (millions)</b>									
1994/5	5.2	5.4	5.4	9.8	10.4	10.4	14.9	15.4	15.4
1995/6	4.9	5.2	5.2	9.4	9.9	9.9	14.5	15.2	15.2
1996/7	5.5	5.9	5.9	10.2	10.8	10.8	15.2	15.6	15.6
1997/8	5.5	5.9	6.0	10.2	10.9	10.9	15.0	15.7	15.7
1998/9	5.6	5.9	5.9	10.2	10.8	10.8	15.1	15.6	15.6
1999/00	5.4	5.9	5.8	10.0	10.7	10.7	15.2	15.7	15.7
2000/01	5.5	5.8	5.9	9.6	10.3	10.4	14.6	15.3	15.4
2001/02	5.2	5.7	5.7	9.6	10.3	10.4	14.5	15.3	15.3
2002/03	5.4	5.8	5.8	9.7	10.3	10.3	14.6	15.3	15.3
2003/04	5.3	5.7	5.7	9.6	10.1	10.1	14.5	14.9	14.9

(AHC) Percentage and number of individuals below thresholds of contemporary median income using McClements, and modified-OECD 'Companion' scale with the new income definition, Great Britain.

Source: FRS									
Below 50% median		Below 60% median		Below 70% median					
McClements	'Companion' scale with new income definition	McClements	'Companion' scale with new income definition	McClements	'Companion' scale with new income definition				
<b>Percentage of individuals</b>									
1994/5	15	15	24	24	31	31			
1995/6	14	15	23	24	31	31			
1996/7	16	17	25	25	32	32			
1997/8	16	17	24	24	31	31			
1998/9	16	16	24	24	30	31			
1999/00	15	16	24	24	31	31			
2000/01	15	15	23	23	30	30			
2001/02	14	15	22	23	29	30			
2002/03	14	15	22	23	29	30			
2003/04	14	15	21	21	29	29			
<b>Number of individuals (millions)</b>									
1994/5	8.2	8.4	13.1	13.5	17.1	17.2			
1995/6	7.7	8.2	12.9	13.5	17.1	17.3			
1996/7	9	9.4	13.8	14.0	17.6	17.7			
1997/8	8.8	9.2	13.3	13.6	17.0	17.1			
1998/9	8.7	9.1	13.2	13.6	17.0	17.2			
1999/00	8.6	9.1	13.2	13.4	17.1	17.2			
2000/01	8.3	8.6	12.7	13.0	16.7	16.9			
2001/02	8.1	8.3	12.3	12.8	16.5	16.7			
2002/03	8.1	8.4	12.2	12.8	16.7	16.9			
2003/04	8.2	8.2	12.0	12.2	16.4	16.5			

**Table notes:**

1. The new income definition presented does not deduct insurance premia payments from the definition of income (as was previously the case).
2. McClements results (BHC and AHC) are unchanged since they were last published. Figures using the new income definition are previously unpublished.

**Table 2**

(BHC) Percentage and number of children below thresholds of contemporary median income using McClements, modified-OECD, and modified-OECD with the new income definition, Great Britain.

Source: FRS

	Below 50% median			Below 60% median			Below 70% median		
	McClements	Modified-OECD	Modified-OECD with new income definition	McClements	Modified-OECD	Modified-OECD with new income definition	McClements	Modified-OECD	Modified-OECD with new income definition
<b>Percentage of children</b>									
1994/5	11	12	12	23	25	25	34	35	35
1995/6	11	11	11	22	24	24	34	35	35
1996/7	12	14	14	25	27	27	35	36	36
1997/8	13	14	14	25	27	27	35	37	37
1998/9	13	14	14	24	26	26	35	36	36
1999/00	12	13	13	23	26	26	35	36	36
2000/01	11	12	12	21	23	23	33	34	34
2001/02	10	11	11	21	23	23	33	35	35
2002/03	11	11	11	21	23	23	32	34	34
2003/04	11	11	11	21	22	22	32	33	33
<b>Number of children (millions)</b>									
1994/5	1.4	1.5	1.5	2.9	3.2	3.2	4.3	4.5	4.5
1995/6	1.4	1.4	1.4	2.8	3.0	3.0	4.3	4.5	4.5
1996/7	1.6	1.8	1.8	3.2	3.4	3.4	4.5	4.6	4.6
1997/8	1.6	1.8	1.8	3.1	3.4	3.4	4.5	4.7	4.7
1998/9	1.6	1.7	1.7	3.1	3.3	3.3	4.5	4.6	4.6
1999/00	1.5	1.6	1.6	3.0	3.3	3.3	4.5	4.6	4.6
2000/01	1.4	1.5	1.5	2.7	2.9	3.0	4.2	4.4	4.4
2001/02	1.3	1.4	1.4	2.6	2.9	2.9	4.2	4.4	4.4
2002/03	1.3	1.4	1.4	2.6	2.8	2.9	4.1	4.2	4.3
2003/04	1.3	1.4	1.4	2.6	2.8	2.8	4.0	4.1	4.1

(AHC) Percentage and number of children below thresholds of contemporary median income using McClements, and modified-OECD 'Companion' scale with the new income definition, Great Britain.

Source: FRS

	Below 50% median		Below 60% median		Below 70% median	
	McClements	'Companion' scale with new income definition	McClements	'Companion' scale with new income definition	McClements	'Companion' scale with new income definition
<b>Percentage of children</b>						
1994/5	20	21	31	33	39	40
1995/6	19	21	31	33	40	41
1996/7	23	25	33	34	41	42
1997/8	23	25	32	33	40	41
1998/9	23	24	33	34	40	41
1999/00	22	23	32	33	40	41
2000/01	20	21	30	31	39	40
2001/02	19	20	30	31	38	39
2002/03	19	20	28	30	38	39
2003/04	19	19	28	29	36	37
<b>Number of children (millions)</b>						
1994/5	2.5	2.7	4.0	4.1	5.0	5.1
1995/6	2.4	2.7	4.0	4.2	5.0	5.2
1996/7	2.9	3.2	4.2	4.3	5.2	5.3
1997/8	2.9	3.1	4.1	4.2	5.1	5.2
1998/9	2.9	3.0	4.1	4.3	5.1	5.3
1999/00	2.8	3.0	4.1	4.2	5.1	5.2
2000/01	2.5	2.7	3.8	3.9	4.9	5.0
2001/02	2.4	2.5	3.7	3.9	4.8	4.9
2002/03	2.4	2.5	3.6	3.8	4.7	4.8
2003/04	2.4	2.4	3.5	3.6	4.6	4.7

**Table notes:**

1. The new income definition presented does not deduct insurance premia payments from the definition of income (as was previously the case).
2. McClements results (BHC and AHC) are unchanged since they were last published. Figures using the new income definition are previously unpublished.

**Table 3**

(BHC) Percentage and number of working-age adults below thresholds of contemporary median income using McClements, modified-OECD, and modified-OECD with the new income definition, Great Britain.

Source: FRS

	Below 50% median			Below 60% median			Below 70% median		
	McClements	Modified-OECD	Modified-OECD with new income definition	McClements	Modified-OECD	Modified-OECD with new income definition	McClements	Modified-OECD	Modified-OECD with new income definition
<b>Percentage of working-age adults</b>									
1994/5	8	8	8	14	15	15	21	21	21
1995/6	8	8	8	14	14	14	20	21	21
1996/7	8	9	9	15	15	15	22	21	21
1997/8	8	9	9	15	15	15	21	21	21
1998/9	8	8	8	14	14	15	21	21	21
1999/00	8	9	9	14	15	15	21	21	21
2000/01	9	9	9	14	15	15	21	21	21
2001/02	8	9	9	14	15	15	20	21	21
2002/03	9	9	9	14	15	15	21	21	21
2003/04	9	9	9	14	15	15	21	21	21
<b>Number of working-age adults (millions)</b>									
1994/5	2.7	2.7	2.7	4.8	4.8	4.8	6.9	6.9	6.9
1995/6	2.5	2.6	2.6	4.5	4.6	4.6	6.7	6.8	6.8
1996/7	2.8	2.8	2.8	4.9	5.0	5.0	7.1	7.1	7.1
1997/8	2.7	2.8	2.9	4.8	5.0	5.0	6.9	7.0	7.1
1998/9	2.7	2.8	2.8	4.7	4.8	4.8	6.8	6.9	6.9
1999/00	2.8	2.9	2.9	4.8	5.0	5.0	7.1	7.1	7.1
2000/01	2.9	3.0	3.0	4.7	4.9	4.9	6.9	7.1	7.1
2001/02	2.8	2.9	2.9	4.6	4.9	4.9	6.8	7.0	7.0
2002/03	3.0	3.0	3.0	4.8	4.9	5.0	7.0	7.1	7.1
2003/04	3.0	3.1	3.1	4.8	5.0	5.0	7.1	7.0	7.0

(AHC) Percentage and number of working-age adults below thresholds of contemporary median income using McClements, and modified-OECD 'Companion' scale with the new income definition, Great Britain.

Source: FRS

	Below 50% median		Below 60% median		Below 70% median	
	McClements	'Companion' scale with new income definition	McClements	'Companion' scale with new income definition	McClements	'Companion' scale with new income definition
<b>Percentage of working-age adults</b>						
1994/5	14	14	20	20	25	25
1995/6	13	14	19	20	25	25
1996/7	15	15	21	21	26	26
1997/8	14	15	19	20	24	25
1998/9	14	14	19	19	24	25
1999/00	14	14	20	20	25	25
2000/01	14	14	19	19	24	25
2001/02	13	14	19	19	24	24
2002/03	14	14	19	19	24	24
2003/04	14	14	19	19	24	24
<b>Number of working-age adults (millions)</b>						
1994/5	4.6	4.7	6.5	6.6	8.2	8.2
1995/6	4.3	4.5	6.4	6.5	8.1	8.2
1996/7	4.8	5.0	6.8	6.8	8.4	8.5
1997/8	4.6	4.8	6.4	6.5	8.1	8.1
1998/9	4.6	4.7	6.3	6.5	8.0	8.1
1999/00	4.7	4.8	6.5	6.5	8.2	8.3
2000/01	4.6	4.8	6.4	6.4	8.2	8.3
2001/02	4.5	4.6	6.3	6.3	8.0	8.0
2002/03	4.6	4.7	6.4	6.5	8.2	8.3
2003/04	4.8	4.8	6.4	6.5	8.3	8.3

**Table notes:**

1. The new income definition presented does not deduct insurance premia payments from the definition of income (as was previously the case).
2. McClements results (BHC and AHC) are unchanged since they were last published. Figures using the new income definition are previously unpublished.

**Table 4**

(BHC) Percentage and number of pensioners below thresholds of contemporary median income using McClements, modified-OECD, and modified-OECD with the new income definition, Great Britain.

Source: FRS

	Below 50% median			Below 60% median			Below 70% median		
	McClements	Modified-OECD	Modified-OECD with new income definition	McClements	Modified-OECD	Modified-OECD with new income definition	McClements	Modified-OECD	Modified-OECD with new income definition
<b>Percentage of pensioners</b>									
1994/5	10	12	12	22	24	24	37	40	40
1995/6	10	12	12	22	24	24	36	40	40
1996/7	11	13	13	22	25	25	36	40	40
1997/8	12	13	13	23	25	25	37	40	40
1998/9	12	14	14	24	27	27	38	41	41
1999/00	12	14	13	23	25	25	36	39	40
2000/01	11	13	13	22	25	25	35	39	39
2001/02	11	13	14	23	25	25	35	39	39
2002/03	11	13	13	22	24	25	35	39	39
2003/04	10	12	12	21	23	23	34	37	37
<b>Number of pensioners (millions)</b>									
1994/5	1.0	1.2	1.2	2.1	2.4	2.4	3.6	4.0	4.0
1995/6	1.0	1.2	1.2	2.2	2.4	2.4	3.6	3.9	3.9
1996/7	1.1	1.3	1.3	2.2	2.4	2.4	3.6	4.0	4.0
1997/8	1.2	1.3	1.3	2.3	2.5	2.5	3.6	4.0	4.0
1998/9	1.2	1.4	1.4	2.4	2.7	2.7	3.8	4.1	4.1
1999/00	1.2	1.4	1.4	2.3	2.5	2.5	3.6	4.0	4.0
2000/01	1.1	1.3	1.3	2.2	2.5	2.5	3.5	3.9	3.9
2001/02	1.2	1.4	1.4	2.3	2.5	2.5	3.5	3.9	3.9
2002/03	1.1	1.3	1.3	2.3	2.5	2.5	3.5	3.9	4.0
2003/04	1.0	1.2	1.3	2.2	2.4	2.4	3.5	3.8	3.8

(AHC) Percentage and number of pensioners below thresholds of contemporary median income using McClements, and modified-OECD 'Companion' scale with the new income definition, Great Britain.

Source: FRS

	Below 50% median		Below 60% median		Below 70% median	
	McClements	'Companion' scale with new income definition	McClements	'Companion' scale with new income definition	McClements	'Companion' scale with new income definition
<b>Percentage of pensioners</b>						
1994/5	11	11	27	28	40	40
1995/6	10	10	26	28	39	40
1996/7	12	13	28	29	39	39
1997/8	13	13	27	29	38	38
1998/9	13	13	27	29	38	38
1999/00	12	13	26	28	37	37
2000/01	11	11	24	26	36	36
2001/02	11	11	23	26	37	37
2002/03	11	11	22	25	37	37
2003/04	10	10	20	21	34	35
<b>Number of pensioners (millions)</b>						
1994/5	1.1	1.1	2.7	2.8	4.0	3.9
1995/6	1.0	1.0	2.6	2.8	3.9	3.9
1996/7	1.2	1.2	2.8	2.9	3.9	3.9
1997/8	1.3	1.3	2.7	2.9	3.8	3.8
1998/9	1.3	1.3	2.7	2.9	3.8	3.8
1999/00	1.2	1.3	2.6	2.8	3.7	3.8
2000/01	1.1	1.1	2.5	2.6	3.6	3.7
2001/02	1.1	1.1	2.3	2.6	3.7	3.7
2002/03	1.1	1.1	2.3	2.5	3.7	3.8
2003/04	1.0	1.0	2.0	2.2	3.5	3.6

**Table notes:**

1. The new income definition presented does not deduct insurance premia payments from the definition of income (as was previously the case).
2. McClements results (BHC and AHC) are unchanged since they were last published. Figures using the new income definition are previously unpublished.

**Table 5**  
**Modified OECD and new 'Companion' scales, along with McClements BHC and AHC**

<b>Equivalence scales</b>					
	<b>Modified OECD</b>	<b>Modified OECD rescaled to couple without children=1<sup>2</sup></b>	<b>Companion scale</b>	<b>McClements BHC</b>	<b>McClements AHC</b>
First Adult	1	0.67	0.58	0.61	0.55
Spouse	0.5	0.33	0.42	0.39	0.45
Other Second Adult	0.5	0.33	0.42	0.46	0.45
Third Adult	0.5	0.33	0.42	0.42	0.45
Subsequent Adults	0.5	0.33	0.42	0.36	0.40
Children aged under 14yrs <sup>1</sup>	0.3	0.20	0.20	0.20	0.20
Children aged 14yrs and over	0.5	0.33	0.42	0.32	0.34

**Notes**

1. The McClements scale varies by age within these groups; appropriate average values are shown in the table.
2. Factors are shown here to two significant figures.

## Notes for editors:

1. Households Below Average Income (HBAI) is an annual National Statistics publication. HBAI statistics rank individuals by income, by taking the income of their household and adjusting this for household size and composition; this is consistent with international conventions. The adjustment factors are known as 'equivalence scales.' Since its inception, HBAI has used the McClements scales. In recent years, HBAI has also presented – in an appendix - some key results calculated on an alternative, 'Modified OECD,' scale.
2. Results are presented here in order to publish figures resulting from methodology changes in advance of the main publication cycle. This is in line with National Statistics good practice. HBAI statistics based on income thresholds based on the mean income of the population are not presented in this first release, but will be presented in future HBAI publications. They have not been included here because conclusions drawn from the median-based thresholds will also apply to the mean-based thresholds.
3. Two variables had to be determined in order to define the 'Companion' scale. The first was the factor for children under 14, which was set as the same ratio used in Modified OECD. This is broadly consistent with the approach used in McClements. The second factor to be determined was the equivalence factor for 'other adults' in the household, i.e. those other than the head of household. This was fixed in such a way as to broadly preserve the relationship between key BHC and AHC McClements results.
4. Questions relating to payments of insurance premia will no longer appear on the FRS from 2005/06. It was decided to drop the block of questions to make time on the survey for new material deprivation questions (too many questions affect response rates). For consistency in the time series, when presenting results on the new scales this expenditure will no longer be deducted from income. This change will be applied for all years. Rather than wait until 2005/6 to implement the change, resulting in an entirely new set of further revisions to the historic series, experts agreed that it was sensible to introduce the change in 2004/05 along with the introduction of the new equivalence scale. This change does not affect results prior to 1997/8 as insurance premia payments were recorded only from 1997/8.
5. The 2003/4 HBAI publication included – on a provisional basis - AHC incomes adjusted using the modified-OECD scale, traditionally reserved for adjusting BHC incomes. No further results will be provided on this basis.
6. The HBAI series is sourced from the Family Resources Survey, which is commissioned by the Department for Work and Pensions.