

Life on low pay during a cost-of-living crisis

Sakinah Abdul Aziz and Joe Richardson, Living Wage Foundation, September 2022

With sky-high inflation becoming increasingly commonplace, the UK is facing the worst cost-of-living crisis in half a century. The crisis shows few signs of slowing any time soon, with significant drops in inflation not expected until 2023.¹ While workers across the income distribution are feeling the squeeze, the picture is particularly bleak for the UK's 4.8m workers earning a wage which doesn't meet actual living costs.

This is the third time we have ran the 'Life on Low Pay' survey to track the real-life impact of being paid less than the Living Wage. The results are concerning. The nation's low paid are going without essentials and falling behind on bills at a greater rate than ever before, including during the Covid-19 pandemic.

Not surprisingly, the areas most impacted by the current bout of inflation are also the areas workers are making the most severe cutbacks. Energy bills – a key driver of the current cost-of-living crisis – are a key example of this, with the rate of workers falling behind on household bills and being unable to heat their homes over the past 12 months increasing dramatically.

Food is another area in which low paid workers are struggling. They are more likely to report skipping meals regularly for financial reasons than ever before – with 42 per cent saying they had done this, which has increased by ten percentage points in the last six months alone. Meanwhile, over half (56 per cent) had used a foodbank at least once over the past 12 months, with 63 per cent of those who had used foodbanks saying their usage had increased.

While many have expressed concern about households having to make 'heat or eat choices' in the coming months, the findings from our survey suggest low paid workers are already having to cut back on both. These findings make the looming threat of higher living costs in the months and years ahead an even scarier prospect.

With living costs spiralling, earning a wage that is based on the actual cost-of-living has never been more important. While the Living Wage alone cannot solve the cost-of-living crisis, these findings suggest that providing a wage based on living costs is the best way employers can provide long-term security and stability for workers.

How the cost-of-living crisis is impacting the UK's low paid:

Increased rate of financial hardship:

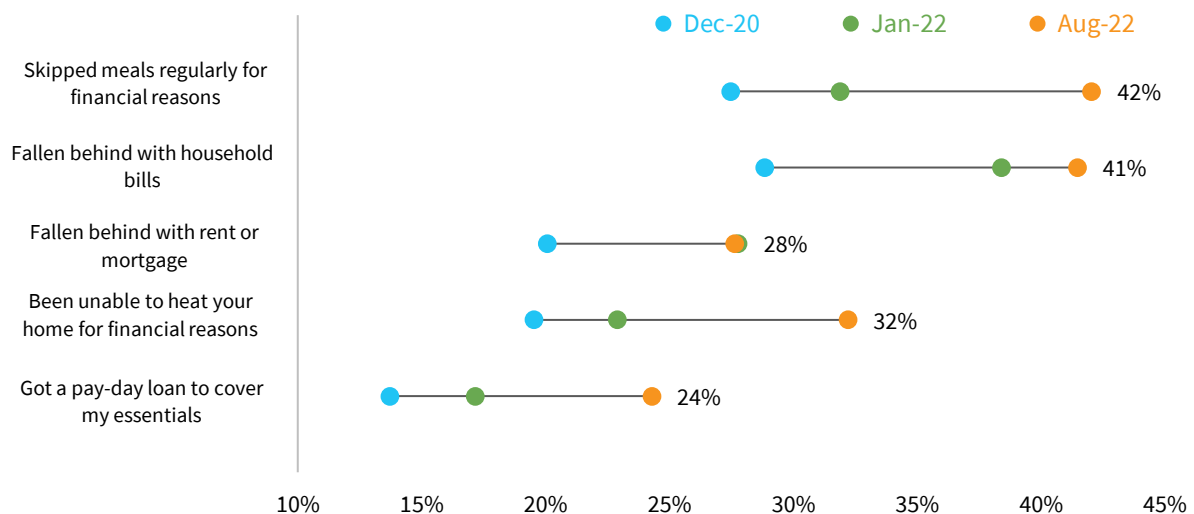
The cost-of-living crisis is making the experience of low pay – as defined by being paid less than the Living Wage - worse. As shown in Graph 1, low paid workers are more likely to be in financial

¹ Bank of England (2022) When will inflation start to come down? Accessible here: <https://www.bankofengland.co.uk/knowledgebank/will-inflation-in-the-uk-keep-rising>

hardship than at any point over the past few years, with most measures getting progressively worse over the course of 2022 (ie, during the cost-of-living crisis). Since January 2022, there have been particularly sharp increases in low paid workers skipping meals regularly for financial reasons (up ten percentage points - to 42 per cent) and being unable to heat their homes for financial reasons (up nine percentage points - to 32 per cent). Meanwhile, low paid workers having to get a pay-day loan to cover essentials is also up seven percentage points from January 2022, with 24 per cent of low paid workers reporting this.

It is unsurprising to see such sharp increases in financial hardship during a period of historically high living costs. While all households suffer from higher levels of inflation, those on low incomes are usually hardest hit given they have less to spend in the first place, and thus higher costs take a bigger dent out of their household budgets. Additionally, the current bout of inflation is particularly punishing for those on low incomes, with these households spending a larger proportion of their household budgets on items particularly impacted by inflation such as gas, electricity and food.²

Graph 1: Proportion of below Living Wage workers experiencing negative life situations as a result of low pay, UK, December 2020 - August 2022:



Source: Living Wage Foundation analysis of Survation surveys. Data for December 2020 comes from 2,128 respondents aged 18+, who live in the UK and earn under the real Living Wage. Data for January 2022 comes from 1,702 respondents aged 18+, who live in the UK and earn under the real Living Wage. Data for August 2022 comes from 2,054 respondents aged 18+ who live in the UK and earn under the real Living Wage. All samples were asked: In the past year, have you experienced any of the following life situations? Please select all that apply.

Relying on foodbanks:

Among low paid workers, reliance on foodbanks has grown sharply through the cost-of-living crisis. According to our survey, over half (56 per cent) of low paid workers in the UK have used the services of a foodbank in the past 12 months. Additionally, among those who had used the services of a foodbank, 63 per cent said their use of foodbanks had increased over the past year,

² Karjalainen, H & Levell, P (2022) Inflation hits 9% with poorest households facing even higher rates. London: Institute for Fiscal Studies. Accessible here: <https://ifs.org.uk/news/inflation-hits-9-poorest-households-facing-even-higher-rates>

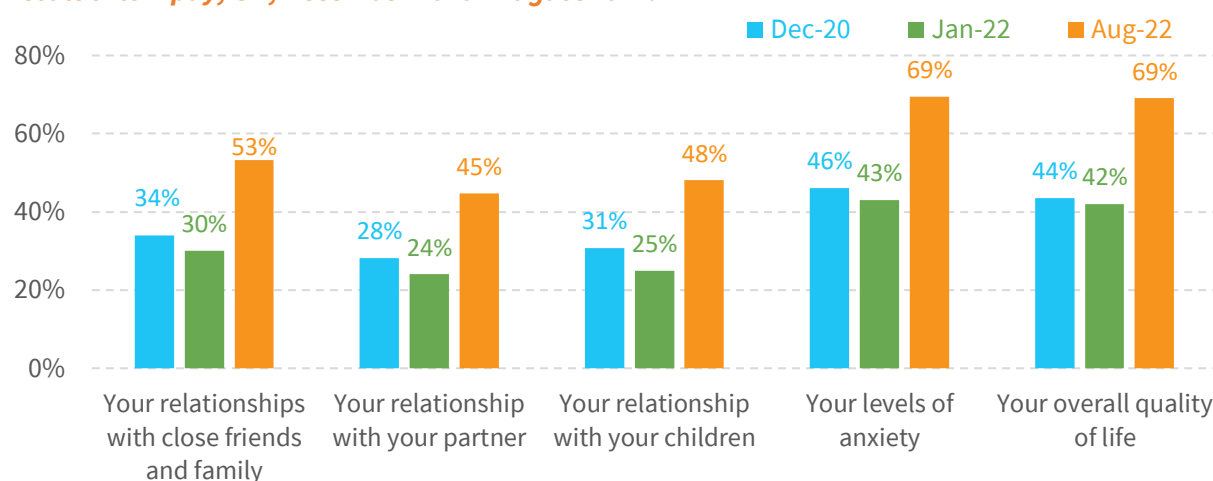
while just 7 per cent said it had decreased. This chimes with previous research into the use of foodbanks during the cost-of-living crisis, with research by the Independent Food Aid Network (IFAN) showing that 93 per cent of foodbank providers reported an increase in the need for their services since the start of 2022, with 95 per cent saying the cost-of-living crisis was the reason for the increase.³

Quality of life:

As shown in Graph 2, low paid workers are more likely to say the level of pay they receive has a negative impact on their lives than ever before. This is true across every aspect of their lives measured in the survey. As a result, there are particularly large proportions of low paid workers which say the pay they receive negatively impacts both their levels of anxiety and their overall quality of life (both 69 per cent respectively).

Data from the survey also suggests that, when it comes to both levels of anxiety and overall quality of life, women are more likely to be negatively impacted by their levels of pay than men. For example, 75 per cent of low paid women said the levels of pay they receive negatively impacts their anxiety, compared to 65 per cent of low paid men. Similarly, 72 per cent of low paid women said their overall quality of life is negatively impacted by the pay they receive, compared to 66 per cent of low paid men. Such findings resonate with previous research on the impact of inflation by gender, which shows women are more likely to be impacted both financially and psychologically during periods of high inflation. Two key reasons for this are that women are more likely manage household shopping and budgets, and are therefore more aware of rising prices and how it impacts household finances. Secondly, women’s products generally more expensive than men’s, leaving them more exposed to the pressures of inflation.⁴

Graph 2: Proportion of below Living Wage workers experiencing negative life situations as a result of low pay, UK, December 2020 - August 2022:



Source: Living Wage Foundation analysis of Survation surveys. Data for December 2020 comes from 2,128 respondents aged 18+, who live in the UK and earn under the real Living Wage. Data for January 2022 comes from 1,702 respondents aged 18+, who live in the UK and earn under the real Living Wage. Data for August 2022 comes from 2,054 respondents aged 18+ who live in the UK and earn under the real Living Wage. All samples were asked: To what extent does the payment you receive for your work impact the following, if at all?

³ IFAN (2022) Independent Foodbanks in the UK. Accessible here: <https://www.foodaidnetwork.org.uk/ifan-data-since-covid-19>

⁴ New Statesmen (2022) How inflation is worse for women. Accessible here: <https://www.newstatesman.com/business/economics/2022/08/uk-inflation-rate-higher-for-women>

Financial resilience during a cost-of-living crisis:

Around two thirds (62 per cent) of low paid workers said they are worse off than they were a year ago, while just 18 per cent said they were better off. When asked the main reason for them being worse off, 64 per cent said, ‘increased cost-of-living’, while a further 18 per cent said ‘level of pay not keeping up with inflation’ – meaning a total of 83 per cent of those worse off cited inflation, and/or pay not matching inflation, as the key reason for being worse off.

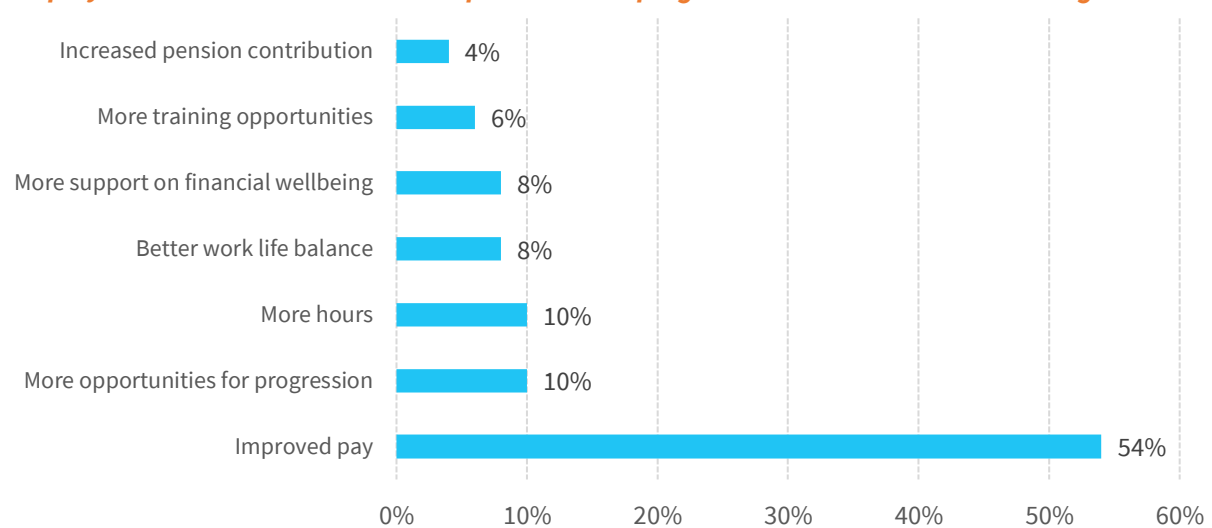
Unsurprisingly, facing a real term pay cut has drastically impacted the weekly budgets of the nation’s low paid. When asked how much money is leftover each week once essential outgoings (rent/food/bills etc) are paid, six per cent of low paid workers reported having a negative budget (i.e., having to use a loan to cover essentials), while 21 per cent said they have nothing left over. This means that around a quarter (27 per cent) have no money left over after paying for essentials. Further to this, around half (47 per cent) have less than £10 and two thirds (66 per cent) have less than £20. Such findings would suggest the majority of low paid workers will be unable to keep up with the rising tide of inflation in the months ahead.

Improving financial resilience during a cost-of-living crisis:

Receiving better pay and tackling inflation ranked top priority to tackle cost-of-living crisis:

In the survey, low paid workers were asked to rank a range of measures that either their employer or the government could provide to help them deal with increased living costs. Unsurprisingly, increasing rates of pay was the most likely to be seen as the most important for both government and employers among low paid workers (see Graph 3 and Graph 4).

Graph 3: Proportion of below Living Wage workers ranking the following measures their employers could take as the most important in helping them deal with increased living costs:



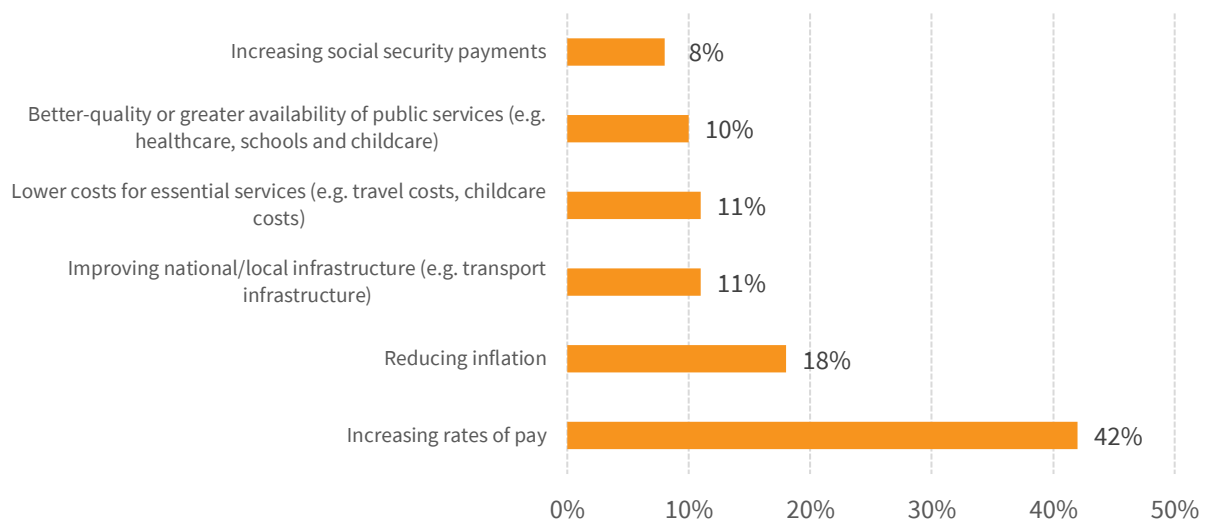
Source: Living Wage Foundation analysis of Survation survey. Sample of 2,054 UK adults aged 18+ and earning under the Living Wage. Survey respondents were asked: If given the following options by your employer, which of the following measures would be most effective in helping deal with increased living costs? Please rank the following measures in order of which would be most important for you in navigating the increased cost-of-living, with 1 being the most important and 7 being the least important.

The prioritisation of pay over other measures is made even more clear when considering both the benefits of receiving a cost-of-living pay rise, and the potential consequences of going without one. For instance, 75 per cent of low paid workers said a cost-of-living pay rise would improve their overall happiness, while a similar proportion said the same for their mental health (76 per cent) and their/their families financial situation (75 per cent). The ramifications of not having a cost-of-living pay rise were dire, 76 per cent of workers said they would be more likely to cut back on essentials, while 71 per cent said they would be more likely to fall behind on household bills. Similarly, more than half of low paid workers said they would be more reliant on both debt and on foodbanks (65 per cent and 62 per cent respectively).

Calls for government intervention on pay and inflation:

Our survey results also reflect the areas low paid workers think government should prioritise to help workers navigate the cost-of-living crisis. Once again, increasing rates of pay was ranked the most important, followed by reducing inflation (see Graph 4). More long-term measures, such as improving public services or improving national infrastructure, were less likely to be seen as a priority. Once again, this is to be expected. Periods of economic crisis typically result in an increased focus on immediate priorities, with families more likely to consider navigating through present financial pressures rather than planning for the future.⁵

Graph 4: Proportion of below Living Wage workers ranking the following measures government could take as the most important in helping them deal with increased living costs:



Source: Living Wage Foundation analysis of Survation survey. Sample of 2,054 UK adults aged 18+ and earning under the Living Wage. Survey respondents were asked: Which of the following measures do you think should be the priority for Government in helping people deal with increased living costs? Please rank the following measures in order of which would be most important for you in navigating the increased cost-of-living, with 1 being the most important and 6 being the least important.

Conclusion

The findings in this briefing underline the harsh reality of being on low pay during the worst cost-of-living crisis⁷ in almost half a century. Our findings show that the experience of earning less than

⁵ Niculescu-Aron, I and Mihaescu, C (2012) Determinants of Household Savings in EU: What Policies for Increasing Savings? Available here: <https://www.sciencedirect.com/science/article/pii/S1877042812044874>

the real Living Wage is harder now than ever before, with the last six months seeing sharp increases in low paid workers skipping meals, falling behind on bills and falling into debt.

This crisis is predicted to get worse before it gets better, with the Bank of England forecasting inflation to reach 13 per cent during Q4 2022 and to remain elevated through much of 2023.⁶ That in mind, it is perhaps not surprising that surveyed workers regarded increased rates of pay as the most important priority for both employers and the government, reinforced by the view that they will have to make further cutbacks if they don't receive a cost-of-living pay rise. This highlights the critical importance of the real Living Wage as a lifeline to workers right now.

⁶ Bank of England (2022) When will inflation start to come down? Accessible here: <https://www.bankofengland.co.uk/knowledgebank/will-inflation-in-the-uk-keep-rising>