

# NERI Research inBrief

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## Household Income in Northern Ireland

### Is there a generational divide?

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#### SUMMARY

As the UK economy begins to recover, questions are being asked as to whether the recovery is being felt at household level. The fall in incomes over the recession has been dramatic and nowhere more so than in Northern Ireland.

This inBrief seeks to explore household incomes in Northern Ireland over the recession and furthermore to ask whether there has been a generational divide in that experience. There is a perception that older households have done well at the expense of younger cohorts. A cursory glance at headline figures may support this proposition, but the truth is more complex.

#### KEY POINTS

- In real terms median gross household income for those aged 18-29 has declined by nearly 18% since 2006/07.
- For pension age households, median gross household income has decreased by only 2.3%.
- Median income from employment has fallen by 20% for 18-29 age group.
- Employment income accounts for over 70% of household income for 18-29 age group – it only accounts for 11% of 65+
- Only a resurgence in wages and employment can restore living standards across the board.

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## Introduction

As the UK economy begins to experience consistent economic growth attention has turned to the fate of living standards and the perception of a growing disparity between the growth of the National Income, or GDP, and that of household income. Median household incomes are a useful if imperfect measure of living standards, but they do provide a more accurate picture than most macroeconomic statistics.

Previous research from the Resolution Foundation (2015) has unearthed two key divides in incomes in the UK over the last number of years, a regional one and a generational one. A regional divide in income is nothing new and is a feature to be expected of most large, developed economies. However, the divide is getting wider and the growth of London in particular has raised concerns about the development of a two speed economy.

A regional divide is clearly of interest to Northern Ireland as a small low income region of the United Kingdom. Research to date has found that household incomes in Northern Ireland experienced the largest fall and are presently the lowest of all UK regions. The generational divide is also of great interest for Northern Ireland, and while previous reports have alluded to a generational divide at UK level, no research to date has measured the extent of the divide in Northern Ireland.

## Data

Data on household incomes in Northern Ireland can be found in the Households Below Average Income Survey. A subset of the Family Resources Survey, the HBAI provides measures of all household income along with key demographic and socio-economic characteristics of households.

Looking at Gross Household Income across different age groups shows a clear divergence in their experience since 2006. For the 18-29 age cohort Gross Incomes declined by 20.2% whereas they decreased by only 2.3% for those aged 65 and over.

The age cohorts 30-44 and 45-64 saw similar decreases of 13% and 11% respectively. Gross income figures hide interesting trends within the components of income and how they have changed over the past 6 years.

**Table 1.1: Gross Household Income by Age Cohort 2006/07 & 2013/14 (2013/14 prices)**

Age Cohort	2006/07	2013/14	% change
18-29	821	671	-18.3%
30-44	754	654	-13.3%
45-64	680	603	-11.3%
65+	352	344	-2.3%

**Source:** Households Below Average Income Survey 2002/03-2013/14

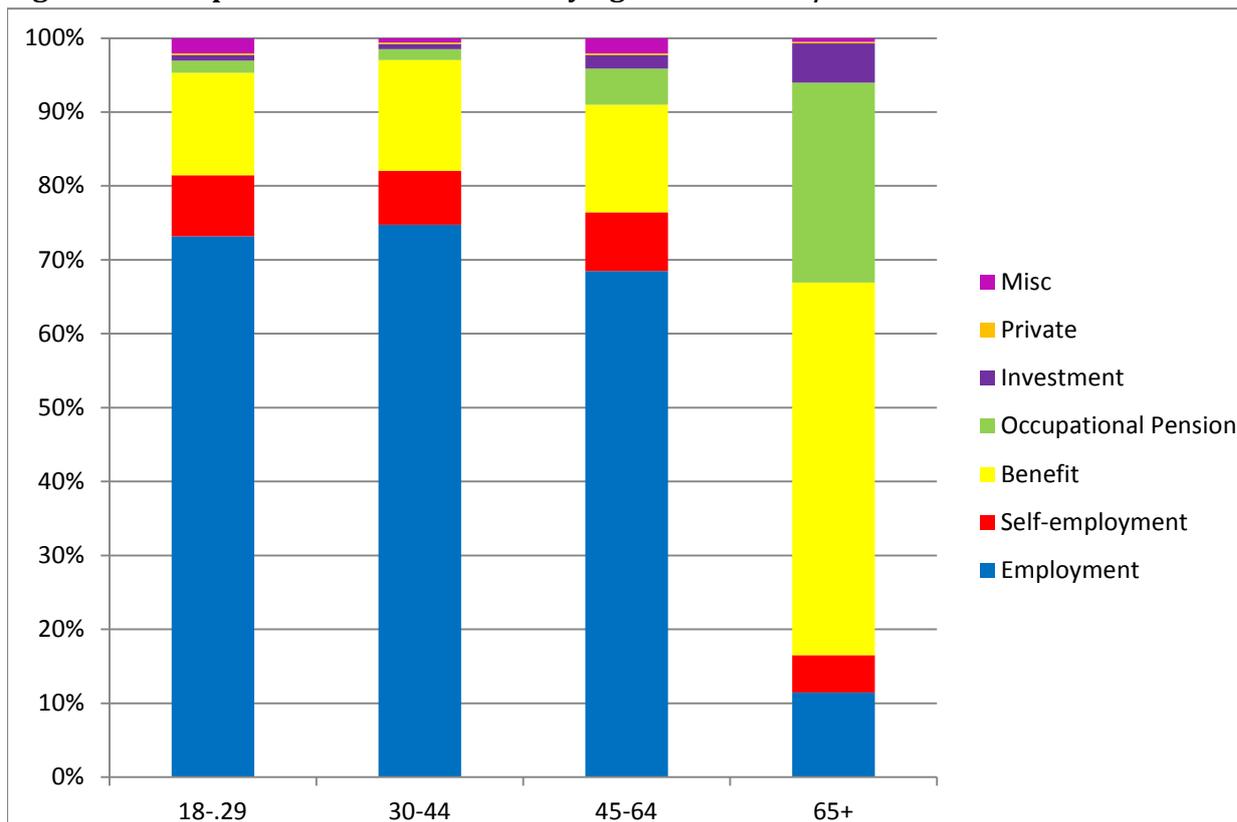
The theory of a generational divide in incomes stems from two trends, falling labour income for younger generations coupled with relatively protected pension income for older generations. To take labour income first, table 1.2 shows the percentage change in median employment income by the age cohort of the head of the household. Two things are immediately obvious, firstly in 2006/07 the 18-29 age group was comparatively well paid and the median employment income of households over 65 was very modest. Interestingly it is these age groups which saw the largest drop in employment income over the recession with employment income for 18-29 group falling by 20% and nearly 40% for the 65+ group.

**Table 1.2: Gross Employment Income by Age Cohort 2006/07 & 2013/14 (2013/14 prices)**

Age Cohort	2006/07	2012/13	% change
18-29	780	617	-20.9%
30-44	675	634	-6.1%
45-64	700	588	-16.0%
65+	438	265	-39.5%

**Source:** Households Below Average Income Survey 2002/03-2013/14

**Figure 1.1: Components of Gross Income by Age cohort 2013/14**



Whilst this may at first imply a certain level of generational solidarity, employment income is a far less important component of income for the over 65 group than it is for the 18-29 group as Figure 1.1 shows.

The fall in mean employment incomes for was broadly similar for all age cohorts except 65+. For this group the fall in the mean measure was only 11.8% implying a large distributional shift in that age cohort over the same time period.

**Table 1.3: Percentage Real Change in Mean and Median Gross Self Employment Income by Age Cohort 2006/07 -2013/14**

Age Cohort	Mean	Median
18-29	8.0%	-13.8%
30-44	-33.7%	-39.3%
45-64	-32.9%	-34.3%
65+	8.8%	-28.6%

Source: Households Below Average Income Survey 2002/03-2013/14

The experience of self-employment income has been quite variable, reflecting the experience of self-employment more generally. Mean incomes increase for both the upper and lower age cohorts, while median incomes declined significantly. On this occasion the increase in self-employment income is highly skewed for both the 18-29 and the 65+, whilst the decrease has been more uniformly distributed amongst the two middle age cohorts.

**Table 1.4: Percentage Real Change in Mean Total Benefit & Occupational Pension Income 2006/07-2013/14**

	2006/07	2013/14	% change
Total Benefit	136	132	-2.9
Occ. Pension	30	41	-37%

Source: Households Below Average Income Survey 2002/03-2013/14

As figure 1.1 shows benefit income is a much larger component of over 65 incomes and that is unsurprising due to the state pension and other universal benefits that

people of pension age receive. As Table 1.4 shows overall, average total benefit income for households in 2013/14 is roughly at the same level it was in 2006/07. That has obviously benefited average gross incomes for the over 65s much more than that of younger cohorts as figure 1.1 shows. As table 1.5 shows, benefit income has decreased only slightly in real terms for over 65s. There was an increase for the youngest age cohort along with significant reductions in the 30-44 group.

**Table 1.5: Median Total Benefit Income by Age Cohort 2006/07 & 2013/14 (2013/14 prices)**

Age Cohort	2006/07	2013/14	% change
18-29	127	139	9.4
30-44	128	112	-12.5%
45-64	138	138	0.0%
65+	223	222	-0.4%

**Source:** Households Below Average Income Survey 2002/03-2013/14

Occupational pension income forms a far larger component of the over 65 income. Average household income from occupational pensions has increased by well over a third in real terms from 2006/07 to 2013/14. While a significantly smaller component of average income than benefit income, occupational pensions do provide a large portion of household incomes for the over 65s and have cushioned incomes throughout the last 6 years.

For younger households, no other component of income has emerged to soften the blow from the collapse in income from employment. Younger households and the 18-29 age groups rely on employment income most and modest increases in benefit income have not compensated for this. For the two middle cohorts the fall in employment income has not been as severe, but there has been no appreciable rise in any other component of income either. The main components 65+ income have survived the recession mostly intact.

## Conclusion

There is a clear generational divide among age groups in terms of gross household income and this stems from the collapse in income from employment, the relative stability of benefit income and the real terms increase in occupational pension income. The composition of income for different age cohorts has left the younger generation significantly exposed and the older age group relatively protected. This has significant implications for policy on many fronts.

In the first instance the key to restoring living standards is to restore both wages and employment across the economy, but particularly among those in the youngest cohort. In the short term, benefit income to those of working age needs to be maintained rather than scaled back. Working age households receive far less in total benefit income and have seen the largest drop in gross income.

It would be misleading to draw from this analysis that pension age households have improved their incomes at the expense of younger households. Incomes for 65+ households remain far below those of working age despite recent trends. Their incomes have been protected, not enhanced. For working-age households employment income and self-employment income have enormous ground to make up in order to restore living standards to pre-recession levels.

## References

This Research *inBrief* summarises an accompanying NERI *Working Paper* which provides further details. That paper includes details of the references cited above and is available on the institute's website. Its reference is: Mac Flynn, Paul, (2015) 'Incomes on Northern Ireland; What's driving the change' *NERI Working Paper*, 2015/29.

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