

The poverty premium – poor people pay more for essential goods and services

December 1 2016



Credit: University of Bristol

In the UK, the poverty premium—the idea that poorer people pay more for essential goods and services—is an important and relevant social policy concern for low-income families.

A timely new study from the Personal Finance Research Centre (PFRC) at the University of Bristol revisits and advances earlier research

conducted in 2010 by Save the Children.

The 2016 study reflects markets and household behaviour as it exists today, and, for the first time, explores how many low-income households are actually affected by the poverty premium, and by how much.

The new research reveals:

- The average cost of the poverty premium is £490 per household each year. This is lower than the previous estimate of around £1,300 per year and this difference largely derives from the way that the average premium for each of the eight poverty premium components takes into account the proportion of households incurring it.
- Not all low-income households experience all components of the premium. The research identifies seven distinct groups (or clusters) representing the most dominant combinations of poverty premiums experienced by low-income households. This exposure ranges from experiencing an average of only three types of premiums, to an average of eight. Based on these combinations of exposure, the cost incurred ranged from an average of £350 among the 'premium minimisers' to £750 among the more 'highly exposed'.
- The largest share of the average premium incurred by low-income households related directly to low-income households that had not switched household fuel tariff. This was compounded by other smaller premiums associated with households' fuel payment methods. And even a household that had switched to the best prepayment meter tariff could still expect to incur an estimated premium of £227 compared to the best deals available to those who pay by monthly direct debit.
- The new research suggests that there is still scope for the poverty premium to be reduced, and there is clearly role for providers,

government and regulators to help address it. Central to the solution may be striking a better balance between cost-reflective pricing and cross-subsidy (where cross-subsidy is possible) and roles for greater partnerships and involvement of trusted intermediaries. The clearest priorities for action relate to insurance, higher-cost credit, and fuel.

Sara Davies, Research Fellow at PFRC, said: "This study provides an important and timely update to previous research.

"While the average poverty premium we have calculated is lower than the previous estimate, it is important to bear in mind that averages mask significant variation in the lived experience of the poverty premium. For example, one highly exposed family is estimated to incur a premium of over £1,600 each year, considerably more than the average premium of £750 for their cluster."

Yvette Hartfree, Research Fellow at PFRC, added: "It is also important to remember that the poverty premium only reflects the additional costs low-income households pay compared to higher-income households. It doesn't take into account the extent to which low-income [households](#) avoid paying poverty premiums simply because they can't afford to and instead go without."

More information: The key findings from the research and the full report and appendices are available online:

www.bristol.ac.uk/geography/research/pfrc/

Provided by University of Bristol

Citation: The poverty premium – poor people pay more for essential goods and services (2016,

December 1) retrieved 17 April 2024 from <https://phys.org/news/2016-12-poverty-premium-poor-people-essential.html>

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