Executive summary

Many people will experience income instability at some stage in their life

Changes in income are a routine part of life and often signify milestones like entering the labour market, career advancement, caring for children or retiring. While some income shifts can be beneficial, not all of them contribute to people's overall well-being. Income losses can have far-reaching negative consequences on people's lives and on society, especially when precipitated by unexpected events such as job loss or illness. Concerns about job losses and working hours rose recently with the onset of COVID-19 and even though labour markets are currently tight in most OECD countries, long-term structural changes – including digital transformation, globalisation and population ageing – mean that some people perennially face the risks of job insecurity.

People's circumstances change frequently in European OECD countries – with one-third of working-age people who changed their employment status in the 48-month reference period doing so multiple times a year. In many cases, employment statuses changed in ways that did not imply sustained income growth. For instance, across all European OECD countries, only 20% of individuals in working-age households experienced sustained, upward income growth of at least 25% in the 48-month reference period. In contrast, the majority of income instability comprised either volatile changes in income or a downward trend. These estimates are likely conservative, as they focus only on income instability linked to changes in employment status, rather than other sources of income shocks, like family breakdown.

Income instability is concentrated among people who are already susceptible to falling into poverty, such as those who are unemployed, workers on temporary or no employment contracts, or those in single-income or young households. As a consequence, people with unstable, low incomes have limited upward social mobility and tend to stay in the bottom of the income distribution (rather than moving into higher income brackets), and their children are more likely to face developmental delays and have poorer educational performance than children from families that do not experience income instability. Income instability is therefore likely to impede upward infra- and inter-generational social mobility.

More than one in six people in working-age households do not have sufficient financial buffers to manage their highly unstable incomes

Even when people experience income fluctuations, they may have the financial means to cope. People may be able to draw on liquid assets, take out loans, receive support from family and friends or reduce their consumption, at least in the short term. However, it is becoming increasingly difficult for some people to cut back on spending in the context of the cost-of-living crisis or to take out loans, given the already high levels of household debt and over-indebtedness. Financial buffers are low for large swathes of the income distribution. About 67% of people in lower-income working-age households, 50% of people in middle-income households, and even 20% of those in high-income households have insufficient liquid assets to stay above the poverty line for at least three months.

This lack of financial buffers often co-occurs with income instability. One in six people in working-age households in European OECD countries not only do not have sufficient liquid assets to stay out of poverty for at least three months, but also have highly unstable incomes. These households are considered to be economically insecure. The burden of economic insecurity falls predominantly on people who lack job security, are unemployed or are in single-income-earning households. Women face relatively high risks of economic insecurity, as they are more likely than men to be single-income-earners and have weaker attachments to the labour market. Nevertheless, anyone who has insufficient financial buffers is at risk if they experience a negative income shock.

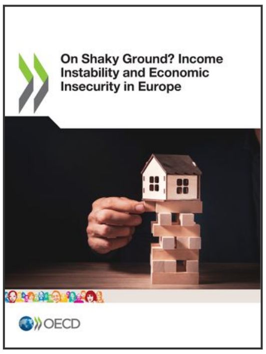
People who experience economic insecurity are more likely to believe themselves to be at risk in the future. Almost 70% of those who are economically insecure believe they have a high chance of losing their job in the next year compared to a quarter of those who are economically secure. They also tend to be in occupations that have a higher risk of automation (such as elementary workers) than those who are not economically insecure (professionals and managers). The risks of future economic insecurity are particularly high for elementary workers, since they have the fewest opportunities to transition into viable and desirable jobs, are less likely to benefit from emerging technologies such as artificial intelligence, and have fewer opportunities to build up financial assets, given their low wages.

A broad range of policies is needed to address economic insecurity

Given the consequences of economic insecurity, its concentration among disadvantaged groups, and the likelihood that it will remain a problem in the future, the need for government action is clear. Policies should target both the exposure, and the vulnerability, to economic insecurity – by reducing the likelihood of adverse economic shocks, helping people to smooth their incomes, and building their financial resilience.

The role of social protection systems in insuring against economic insecurity is increasingly being recognised, and this report finds that social benefits are tremendously important in reducing income instability. Across European OECD countries, unemployment benefits, old age pensions and education allowances reduce income instability by 42%. Other social benefits, such as child and housing allowances, can also help to reduce income instability. However, social protection systems are not always responsive to people's needs and circumstances. For example, in many European countries, people receive social benefits every four weeks, which can make it difficult for people on low incomes to make ends meet at the end of the month. Long periods between social benefits are associated with stress, difficulty paying bills and food insecurity. Similarly, it can take weeks to receive the first benefit payment, which can cause financial distress and increase the risk of poverty. Efforts should be made to increase the frequency of payments and to reduce waiting and processing times, including by simplifying means testing.

In addition, policies that promote financial literacy are important for boosting financial resilience and well-being, particularly in times of constrained fiscal environments when governments may have less capacity for largescale social expenditure. Matched savings schemes and effective financial education strategies, advisory services, and debt relief can help at-risk people to build up their financial buffers and smooth their incomes. Recent advances in data mining techniques and artificial intelligence can also be used to identify people before they become over-indebted, which can then help governments to direct services to those most vulnerable and to develop payment plans.



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