

# Rainy days

An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain

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June 2020



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## Executive Summary

Families in Great Britain are faced with the most severe economic contraction in more than 100 years. Policy will play a crucial role in minimising the hardship that will follow the coronavirus crisis. In this context, much of the immediate focus among policy makers has been on the size and distribution of falls in families' incomes. But household wealth – the level of assets net of any debt – will also play a hugely important role in supporting families' living standards during the crisis.

This report is the first in a series of comprehensive, annual reports covering the state of wealth in Britain. In it we focus on: the scale and distribution of families' assets and debt prior to the coronavirus crisis, what that means for living standards, and how families' balance sheets have been affected in the early phase of the crisis. While wealth – and particularly wealth *inequality* – has been the subject of a number of recent studies, much of that work has focussed on documenting the size of wealth holdings at the top of the distribution, often taken to be the top 1 per cent. A key part of the contribution of this report is to take a broader perspective, including of those with little or no wealth. This is all the more important in the current crisis as a number of the sectors worst affected by the crisis disproportionately employ workers from low to middle income families. These same families are likely to have fewer savings, so drops in their incomes are more likely to result in immediate falls in living standards.

## The distribution of household wealth in the UK is very unequal

The total net wealth of UK households – their assets minus debts – is extremely unequally held: almost half of all wealth is owned by the richest tenth of families. But in this regard, the UK does not stand out when compared to other developed economies. Indeed, most measures of relative inequality – the proportionate difference between families' wealth – suggest that the UK has only become slightly more unequal in recent years: wealthier families have seen their share of total wealth rise by around one percentage point since 2006-08. Indeed wealth inequality was much higher through most of the 20<sup>th</sup> Century.

But simply focusing on such measures of inequality misses the real driver of concerns about the distribution of wealth in 21<sup>st</sup> Century Britain: the big rise in the absolute gaps between richer and poorer households. The total level of wealth has grown from around three times national income in the 1970s to more than seven times today. This means that even though relative gaps between households have only grown slightly, the actual pounds and pence gaps between the richest and poorest tenth of households has risen by close to £400,000 between 2006-08 and 2016-18 (from £1 million to £1.4 million). This compounds existing inequalities, for example making it all but impossible for someone without family wealth to become wealthy by being successful and saving from a high income. It has also increased regional wealth gaps, with southern England pulling further away from other parts of the UK. These growing wealth gaps may explain survey evidence showing that UK wealth inequality is perceived to be higher than desirable – with younger people much more likely to think that wealth inequality is high. An international comparison of absolute wealth gaps shows that only the US has bigger wealth gaps than the UK across 24 countries.

## Growing wealth levels and gaps are driven by falling interest rates and rising asset values

The marked rise in the value of total household wealth in the UK has also been seen across its component parts – financial wealth, property and pensions. The primary channel through which aggregate wealth has risen is increases in the prices of the underlying assets. Societal ageing (as older populations tend to hold more wealth), active saving, and repaying debt also play a role, but their contribution is small by comparison.

Our estimates suggest that the UK's ageing population has only had a limited impact on the size and distribution of wealth. Active saving also appears to have played only a minor role in rising wealth: over the past decade more than 80 per cent of the increase in financial wealth holdings have been driven by rises in asset prices rather than saving, with wealthier families more likely to have experienced faster increases in financial wealth.

Similarly, housing wealth has risen principally because of increases in house prices since the financial crisis, rather than a marked increase in paying down mortgage debt.

Pension wealth has increased faster than any other type of wealth but this has not directly translated into higher future pension incomes. Both defined benefit and defined contribution pensions have become more valuable but for slightly different reasons. The measured value of defined benefit pension wealth has risen by 70 per cent since 2006-08 without a rise in the retirement income guaranteed by these pensions. What has changed is that falling interest rates, increasing the price of annuities and reducing discount factors, have resulted in the measured value of wealth increasing. Interest rates have also had a profound effect on defined contribution pension wealth. The large cuts in central bank policy rates evident since the financial crisis have come with higher asset prices and therefore rapidly increasing pension pots. More recently there has been a sustained rise in the proportion of families with defined contribution pension wealth, reflecting the introduction of autoenrollment.

The connection between rising wealth levels and improved living standards is complex. Increasing financial wealth can easily be used to increase consumption but other wealth types are more complicated. Higher house prices only benefit family living standards if the increased wealth is released through asset sales or borrowing. The disconnect is even starker for pensions. For living standards, the most important aspect of defined benefit pensions is retirement incomes – which have not increased in the past decade. While the rise in defined contribution pensions can be realised at retirement, the fall in interest rates have meant that annuities are more expensive and so much of the rise in pension pots will not translate into higher retirement incomes.

### **Higher wealth boosts living standards through consumption smoothing, higher incomes and housing**

Despite these complexities it is clear that wealth matters for living standards in important ways: it boosts disposable incomes today, it allows families to sustain an even level of spending over their lifetimes (most obviously in retirement), and it allows people to insure against unexpected drops in their income (for example job loss). The presence – or absence – of a wealth buffer is particularly important for low-income households, who tend to hold little wealth, and for whom other indicators of precarity, such as insecure housing and jobs, are heightened.

Wealth can boost family incomes directly, since financial assets and rental property provide returns. Unsurprisingly, the revenue from these two income streams is skewed towards the top of the income distribution: the families in the top tenth of the net wealth distribution received 60 per cent of all financial investment income in 2016-18, and 32 per cent of all rental income. Income from wealth also plays a proportionally bigger role in the incomes of high-wealth families, with investment income providing 9 per cent of their total income in 2016-18, versus only 1 per cent for families in the middle. Income from employment, by contrast, is much more evenly shared.

Families can also use wealth to reduce their costs, for housing and borrowing in particular. This means low-wealth households can therefore face lower living standards today partly *because* of their lower wealth. In 2016-18 the lowest-wealth fifth of households paid more than a quarter of their income in housing costs, whereas the highest-wealth fifth paid very little at all. The difference is driven by disparities in housing cost to income ratios, which in 2017-18 were 32 per cent for private renters, 11 per cent for mortgagors and 5 per cent for outright owners. The use of consumer credit may be relatively evenly shared across the income distribution, but low-wealth households hold much larger stocks of debt as a proportion of gross assets, and face larger monthly repayments as a share of their income.

The role of wealth in avoiding big shocks to living standards is crucial for understanding the impact of a crisis on families, particularly those with low incomes and net worth. When looking at their situation, it is important to look at both assets and liabilities, rather than net wealth alone. Despite significant growth in net wealth across society as a whole, the balance sheets of families in the lowest wealth quintile actually deteriorated between 2012-14 and 2016-18: their net worth worsening by almost £1,000 in real terms because more families took on debt. Low-income families have also failed to share in the recent wealth boom, with their net worth changing little in the past six years with higher assets offset by higher debt.

### **The uneven impact of the coronavirus risks widening existing wealth gaps**

Many sectors of the economy have been effectively closed following the outbreak of coronavirus, and a third of private sector employees have been furloughed. For workers adversely affected by the crisis, financial savings have a key role to play in maintaining living standards: wealthier families can dip into their savings to make good lost income; but those without such buffers have to find other ways to make ends meet via the social security system, or family and friends.



The importance of savings in protecting families from hardship makes it crucial that policy makers look beyond the impact of coronavirus on jobs and pay, to understand its impact on household finances. This is difficult to measure, since detailed data on the size and distribution of the hit to families' finances will not be available until 2021 at the earliest. We address this data shortage in two ways. First, we use data from before the crisis to model how families' financial vulnerability during the lockdown depends on their job status. And second, we use timely survey evidence to build a picture of the impact of the crisis so far on family balance sheets.

Evidence on families' financial preparedness before the crisis indicates that the workers likely to be worst affected by the lockdown also had less wealth to fall back on in hard times. The typical worker able to work from home had £4,700 in net financial wealth in 2016-18 (on a family per-adult basis, in 2019-20 prices), two and a half times more than the typical worker in a shut-down sector (who had £1,900). Those able to work from home are also much less likely to worry about making ends meet in the event of their main income source drying up: 17 per cent were worried about a stoppage of a month, compared to 24 per cent of workers in shut-down sectors.

The early evidence from the impact of the coronavirus crisis on family wealth suggests that it has had a starkly different impact for those on lower and higher incomes. With much of the economy closed, high-income families have been unable to continue their previous consumption patterns. This has led to 'forced' saving, improving their net worth: over one-third of the richest fifth saw their savings increase in the first months of the crisis. By contrast, lower-income working-age families are more likely to have seen the amount they save each month fall during the lockdown, with one-third of those in the second income quintile doing so (and 22 per cent cutting their saving by more than 10 per cent). Concerningly, lower-income households are also more likely to have taken on extra debt to cope during the crisis, with a quarter of the second income quintile reporting taking on extra consumer credit, twice as many as among high-income families. Lower-income families are particularly likely

to have increased their use of high-cost products like credit cards and overdrafts. Lower-income families have also turned to informal loans and gifts from friends and family to make ends meet, which in many cases will not represent a sustainable income source.

It is already clear that the impact of coronavirus crisis will be with families for many years to come. The evidence in this report suggests policy makers should take note of how family balance sheets are being affected, and take action. The Government has a role to play in both strengthening the social security safety net via Universal Credit, and in helping more low to middle income households build up their private safety nets for the future.

## Section 1

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### Introduction

This is the first in a series of detailed, annual reports covering the state of wealth in Britain. It provides a comprehensive stocktake of recent trends, focussing on the scale and distribution of household wealth. It draws extensively on the latest official data on holdings of wealth and debt. While wealth – and particularly wealth *inequality* – has been the subject of a number of recent studies, much of that work has focussed on documenting the size of wealth holdings at the top of the distribution. A key part of the contribution of this report is to take a broader perspective, not limited to the top of the distribution.

The context for this report is dominated by the onset of the coronavirus crisis. That crisis has led to an unprecedented hit to the UK economy. In the face of the pandemic, holdings of wealth take on vital importance, allowing families to maintain spending levels during hits to their incomes. For those without holdings of wealth, this can mean economic hardship. So insuring families against such drops in income is a first-order issue for policy makers. This means a complete understanding of which families are vulnerable in the run up to the crisis, as well as who has been most exposed during the initial lockdown are vitally important.

### In this report we take stock of wealth in Britain, and how it is distributed

In this report we provide a comprehensive assessment of the state of wealth in Britain. It covers the scale and distribution of household wealth, and how it has changed over time. It draws heavily on the ONS's Wealth and Assets Survey (WAS), which is the most comprehensive source of detailed information on holdings of wealth.<sup>1</sup> But we also draw on a range complementary data sources to help provide a complete picture of the drivers of changes in wealth.

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<sup>1</sup> For recent ONS analysis of this data, see: [Household income inequality, UK: financial year ending 2019](#), Office for National Statistics, March 2020.

Much of the focus of recent work has been on the top of the wealth distribution. Indeed, attention has been heaped on increases in the number of individuals who have acquired extremely high levels of wealth. In many cases, this research has focussed on developments in the US.<sup>2</sup> Our approach is different. In part, that reflects the reality of size and distribution of wealth in the UK, where extremes of wealth holdings are less prevalent than elsewhere. To unpack that, we provide international comparisons of wealth distributions. But, more fundamentally, our work is focussed on what wealth means for living standards, and the economic realities faced by families with different levels of wealth. As we discuss below, these links are numerous and interact in complex ways with the other features of the economy. Understanding these links means looking right across the distribution of wealth.

## **The coronavirus crisis dominates the context to this report and is the main focus of the analysis, particularly its impact on those with low wealth**

The onset of the coronavirus crisis has fundamentally changed the backdrop to this report. While the pandemic is primarily a health crisis – the priority for policy makers remains minimising the number of people who become infected – it is also vital that action is taken to reduce the harm caused by the accompanying economic crisis. There is already clear evidence that the virus has led to an unprecedented shock to the economy. That threatens to create severe and widespread economic hardship. This is the reason why Governments across the world have acted on a massive scale to reduce the effects of the crisis on livelihoods.

But it is not possible for such action to protect everyone against the effects of the pandemic. This means families' financial buffers will play an important role in staving off the economic impact of the crisis. Indeed, policy should be directed towards those who need it most: those exposed to losses in income and who have low wealth. We use data on the family wealth holdings to build up a picture of who was vulnerable prior to the crisis. This is then combined with new original survey work to provide a timely picture of who has faced the most significant economic harm during the initial phase of the crisis.

With these research questions in mind, this report is structured as follows:

- Section 2 considers what the latest survey data can tell us about changes in the size and distribution of wealth in the UK in the run up to the coronavirus crisis;

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<sup>2</sup> Much of this work has been spurred by Thomas Piketty's classic contribution to this literature (T Piketty, *Capital in the 21<sup>st</sup> Century*, Harvard University Press, 2014). For a brief summary of relevant literature, see: G Zucman, [Global Wealth Inequality](#), Annual Review of Economics 11, August 2019.

- Section 3 focusses on what underlies changes to the level and distribution of wealth. This is important in understanding the economic realities facing families in the UK ahead of the pandemic. It also provides important context for policy makers as they respond to the challenges of the crisis;
- Section 4 unpacks the links between wealth and living standards, ahead of the crisis, focussing on lower-wealth households;
- Section 5 set out who was most vulnerable in the run up to the coronavirus crisis, and – using timely survey data – looks at how the initial lockdown has affected family balance sheets;
- Section 6 summarises our conclusions.

While this report considers some policy implications, in-depth policy analysis and conclusions will be the subject of forthcoming ‘deep-dive’ reports into specific policy areas related to household wealth in the UK.

## Section 2

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### How is wealth distributed in the UK?

UK wealth is distributed highly unequally. This is nothing new and, compared historically and internationally, standard measures of wealth inequality in the UK are not extreme. But this does not mean that wealth inequality has little relevance for living standards or for Government policy. Aggregate wealth levels have almost doubled over the past decade, meaning the real pound-terms gaps between rich and poor families has grown markedly. It now requires much higher income levels for a family to move up the wealth distribution than it did 10 years ago. Wealth gaps have been further stretched by small rises in the *share* of wealth at the top of the distribution. This all represents an intensification of the trends seen before the financial crisis.

#### Wealth is distributed unequally across households

Inequalities in the UK manifest themselves across a wide range of different economic outcomes. One of the most important, and lesser understood, areas is inequality in household wealth. Wealth plays an important role in defining our lifetime living standards and the opportunities available to us (see Section 4 for detailed discussion of this issue). And understanding who holds wealth, how it is held, and how wealth has changed over time has profound implications for Government policy. So, this section provides a descriptive stocktake of the distribution of household wealth in the UK.

Throughout this analysis we primarily rely on the Wealth and Assets Survey (WAS) produced by the Office for National Statistics since 2006 (with detailed data available up to March 2018). This survey provides a large sample of highly granular longitudinal data on households' holdings of assets and liabilities. Our primary measure of total net wealth includes property wealth net of mortgage debt, financial assets and liabilities and pensions (except where noted).<sup>3</sup>

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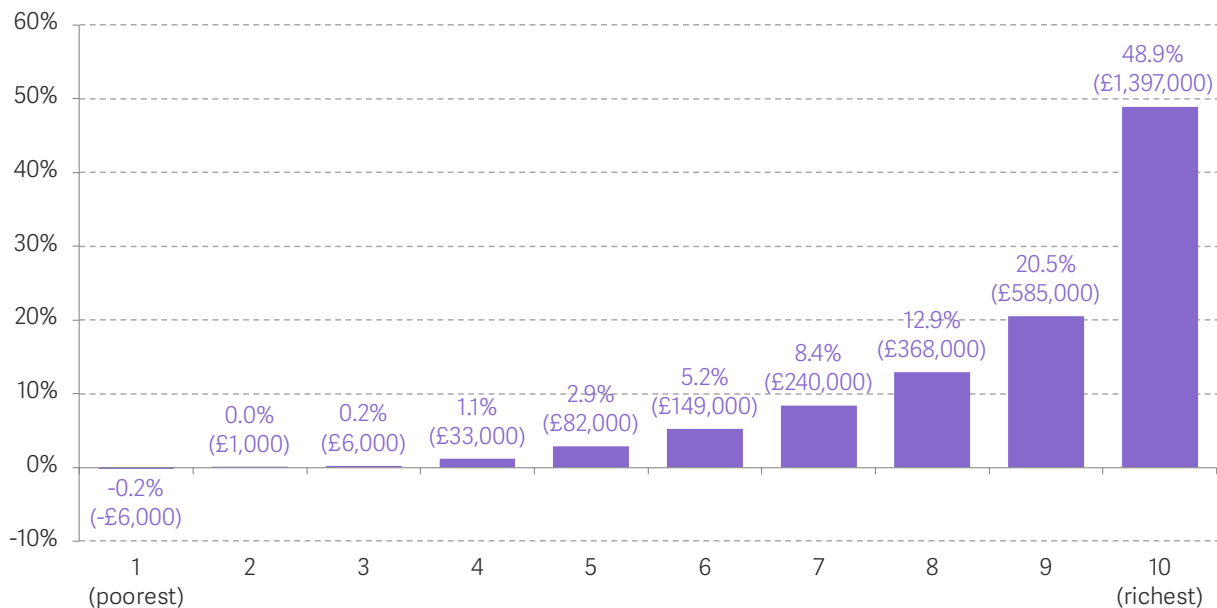
<sup>3</sup> In most of our analysis we measure wealth held by 'family units' rather than at the household level. This means that cohabiting adults who are not a couple are treated as separate economic units, and wealth owned by individuals in couples is combined and assumed to be equally shared. This ensures that couples do not appear significantly wealthier than single-person families, and that comparisons over time are less affected by changes in the composition of households. For further discussion see page 17 in C D'Arcy and L Gardiner, *The generation of wealth: asset accumulation across and within cohorts*, Resolution Foundation, June 2017.

The most striking feature of wealth held by families in the UK is that it is held very unequally. As Figure 1 shows, the richest 10 per cent of families hold around half of total net wealth, while the poorest tenth has negative net wealth – i.e. their debts exceed their measured assets.

One challenge for research in this area is that measuring the wealth of the very richest households is particularly difficult, and one which magnifies at the extreme top of the wealth distribution. This is driven by a range of factors, which include: differential survey response rates (partially addressed in the WAS by oversampling rich households by a factor of three), difficulty in measuring the value of the types of assets held by wealthier families, and deliberate steps taken by individuals to reduce their measured wealth for tax purposes. This means that an important caveat to the estimates of wealth inequality presented here is that they will tend to be biased downwards.<sup>4</sup> Nevertheless, the survey provides the best available information on the economic experience for the vast majority of UK households.

FIGURE 1: **Wealth in the UK is held very unequally**

Share of total net family wealth by net wealth decile: GB, 2016-2018



NOTES: Wealth includes net property wealth, pension wealth and financial wealth. It does not include physical wealth. Deciles are calculated on total net family wealth per adult.

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

To put wealth inequality in context, measures of inequality in wealth are consistently higher than measures of income inequality. For example, the richest 10 per cent of

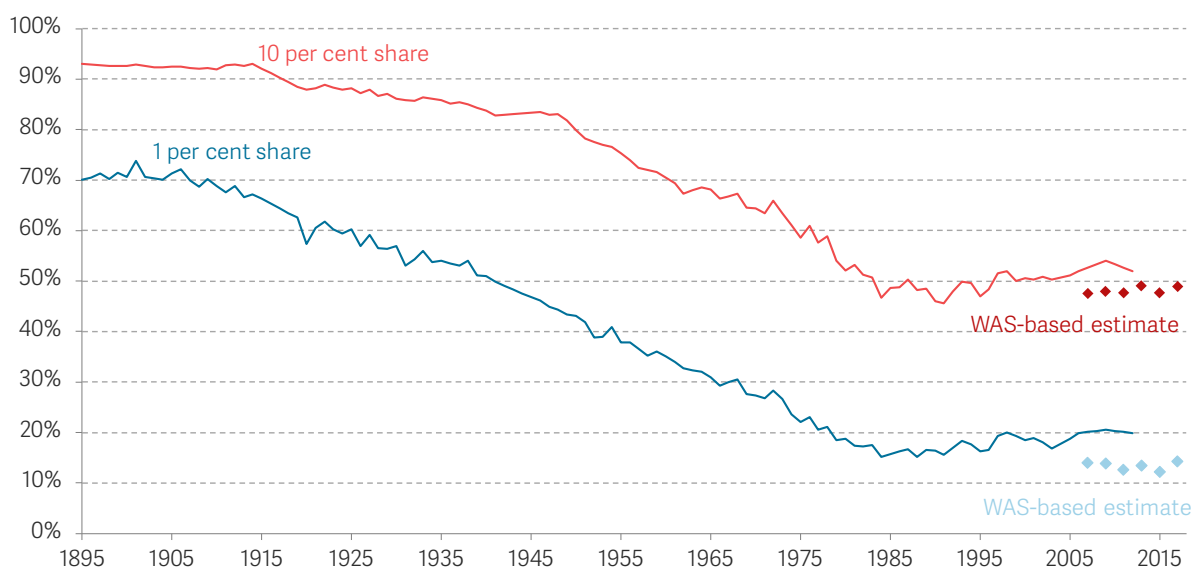
<sup>4</sup> For more detail on these challenges see F Alvaredo, AB Atkinson and S Morelli, [The Challenge of Measuring UK Wealth Inequality in the 2000s](#), Fiscal Studies 31(1), 2016, F Alvaredo, AB Atkinson and S Morelli, [Top wealth shares in the UK over more than a century](#), Journal of Public Economics 162, June 2018 and G Zucman, [Global Wealth Inequality](#), Annual Review of Economics, 11: 109–38, May 2019.

families, from an income perspective, have income equal to ‘just’ 28 per cent of total income before housing costs. This is only a little over half of the equivalent share of wealth.

While wealth inequality is very high, it has fallen dramatically over the past century. Figure 2 shows two consistent measures of wealth inequality: the share of wealth held by the top one and 10 per cent respectively. This is calculated using data on value of estates at death which provide a much longer time series than more modern survey-based estimates. At the start of the 20th Century, wealth was almost entirely held by the very richest households. Wealth became significantly more equally held throughout the early and mid-parts of the century before this trend stopped around 1980. Since then, these measures of wealth inequality suggest that it has been broadly unchanged. There is significant academic debate, particularly in the US, on what the correctly measured share of wealth for the top one per cent currently is.<sup>5</sup> But the general trends throughout the 20th century are widely accepted.

FIGURE 2: Inequality fell for much of the 1900s

Share of net personal wealth held by richest one and 10 per cent: UK and GB



NOTES: 10 per cent share values are extended using our primary definition of wealth in the WAS, this is not exactly equivalent to the long-run time series. As outlined, one per cent shares from the WAS will be biased downwards. Long-run estimates from World Inequality Database refer to the whole UK; WAS-based estimates cover Great Britain only. Long-run estimates derive from work in F Alvaredo, AB Atkinson and S Morelli, Top wealth shares in the UK over more than a century, *Journal of Public Economics* 162, 2018. SOURCE: World Inequality Database; RF analysis of ONS, Wealth and Assets Survey.

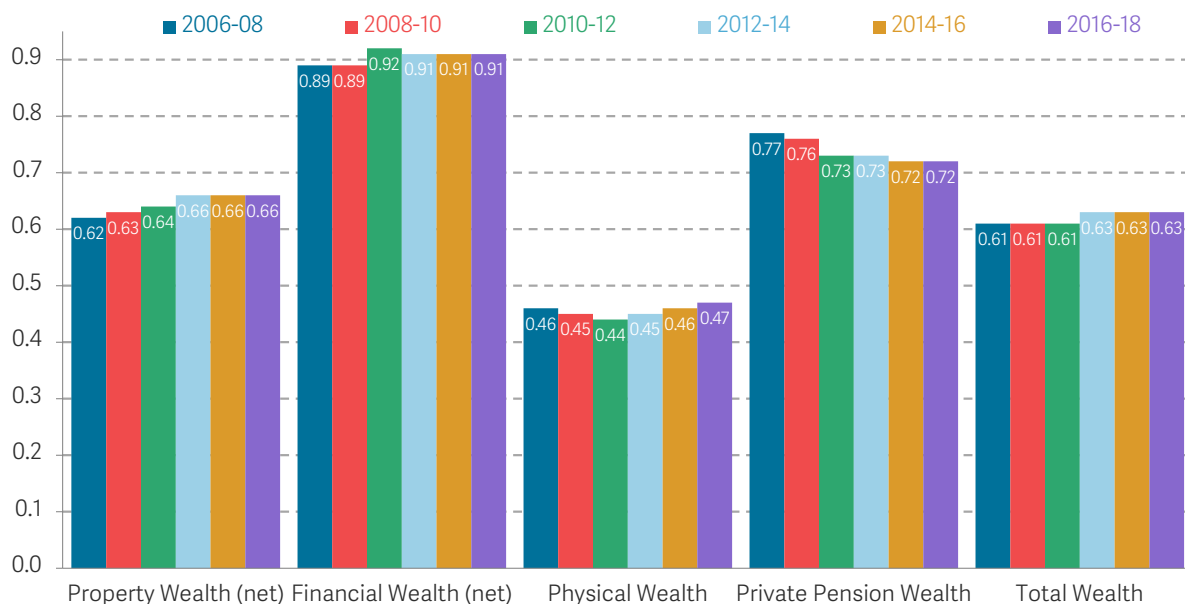
<sup>5</sup> For example, see M Smith, O Zidar & E Zwick, *Top Wealth in America: New Estimates and Implications for Taxing the Rich*, April 2020, and E Saez & G Zucman, *Comments on Smith, Zidar and Zwick (2020)*, May 2020.



Another aggregate measure of inequality, the Gini coefficient, also suggests that there has been limited change in wealth inequality since the inception of the WAS data in 2006.<sup>6</sup> However, single metrics of inequality are only part of the story. In fact, as Figure 3 shows, aggregate measures of inequality have masked changes within the various components of wealth.<sup>7</sup> For example, property wealth has become more unequal, coincident with the large rises in property prices in some areas of the UK since 2006. In contrast, pension wealth has gradually become more equal.<sup>8</sup>

**FIGURE 3: Measures of total wealth inequality have been fairly stable since 2006**

Gini coefficient for UK household wealth by wealth type



NOTES: Data from 2006 to 2014 is based on two-year samples running from July to June. From 2014 onwards, the sample runs from April to March. Physical wealth estimates are based on a half-sample in the 2006-2008 data. Total wealth here includes physical wealth.  
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

The headline stability in the Gini coefficient also masks shifts in the shape of the distribution. Figure 4 demonstrates that the share of wealth held by families in the middle of the distribution since 2006-08 has fallen while the share at the top has risen slightly. These changes have not affected the headline Gini substantially as there has

<sup>6</sup> The Gini coefficient is a summary of the shape of a distribution and varies from zero to one, with lower values indicating that the distribution is more equal; it is known to have some counterintuitive properties. See A B Atkinson, 'On the Measurement of Inequality', *Journal of Economic Theory*, 2, 244-263, 1970.

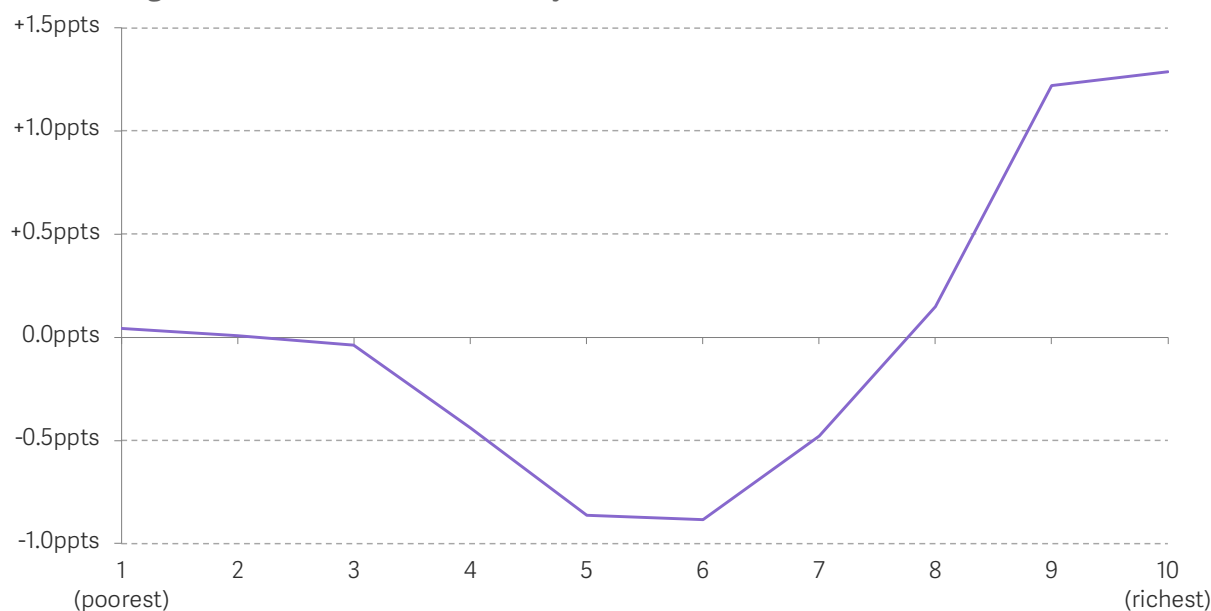
<sup>7</sup> The definition of net wealth here includes physical wealth (e.g. consumer durables like cars or appliances). In the analysis that follows, physical wealth is excluded. This is primarily because the measurement of physical wealth in the WAS is subject to much higher measurement error as it requires the respondent to estimate the value of possessions and the definition of the value is based on replacement cost which could overestimate the true value. Our approach is in line with that taken by other researchers, see for example, R Crawford, D Innes & C O'Dea, *Household Wealth in Great Britain: Distribution, Composition and Changes 2006-12*, March 2016.

<sup>8</sup> Property wealth includes residential and non-residential property and land, net of mortgage debt. Financial wealth includes formal and informal financial assets net of non-mortgage debt. Physical wealth is all non-property physical wealth. And pension wealth represents the value of assets in pension schemes and pensions in payment.

been a small increase in net wealth at the very bottom – highlighting the difficulty in summarising an entire distribution with a single figure.

FIGURE 4: **Wealth shares of those near the top have been increasing**

Change in share of net wealth held by each wealth decile since 2006-2008: GB



NOTES: Wealth includes net property wealth, pension wealth and financial wealth. It does not include physical wealth. Wealth decile is based on net wealth per adult within family units.

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

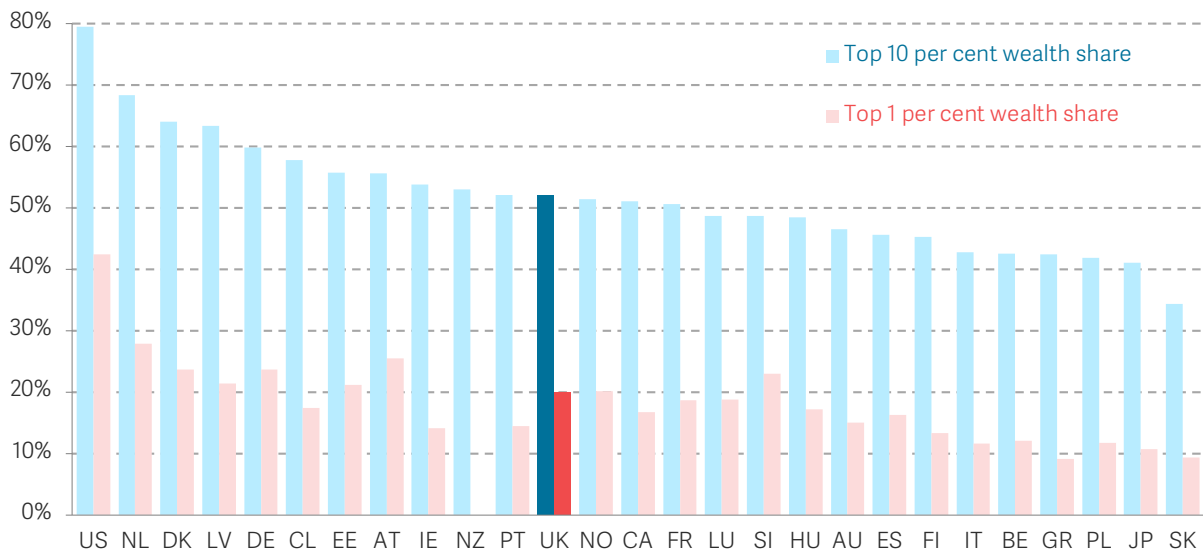
## Measures of wealth inequality in the UK are not extreme by international standards

The UK's level of wealth inequality is in line with many international peers. Indeed, Figure 5 shows that some European countries (e.g. Denmark) have more wealth concentration at the top of the distribution. This is in contrast to international comparisons of income inequality, where the UK has higher concentration in incomes. One possible driver for this is that stronger welfare systems and higher state pension entitlements in these other countries lead to lower demand for precautionary and retirement saving.<sup>9</sup> UK wealth inequality is also well below that of the US, which tends to be an outlier on any measure of economic inequality. An important caveat to comparing wealth distributions across countries is that data definitions, collection methods and quality vary widely.

<sup>9</sup> This explanation has been analysed in a number of academic papers, for example in the case of Sweden, see: D Domeij & P Klein, *Public Pensions: To What Extent Do They Account for Swedish Wealth Inequality?*, *Review of Economic Dynamics*, 5(3): 503-534, July 2002.

FIGURE 5: The UK has relatively high wealth inequality, in line with many international peers, though it is much lower than in the US

Top household wealth shares across OECD countries



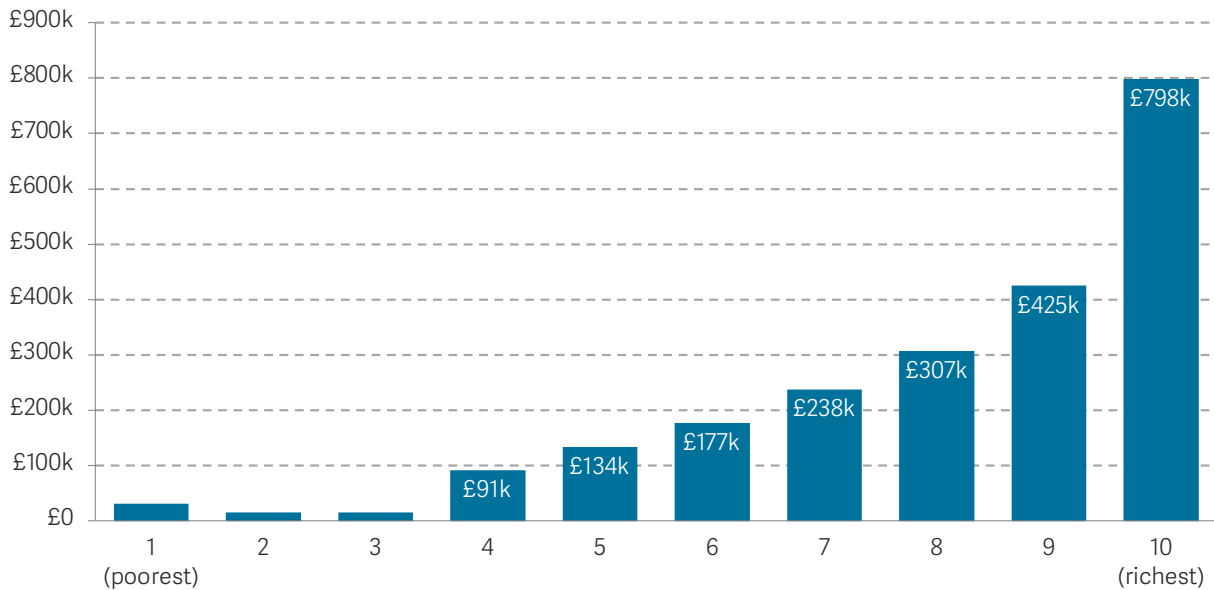
NOTES: Data is based on the latest available year and varies across countries. Wealth share of the top one per cent is not available for New Zealand. Wealth is compared on a per-household basis.  
SOURCE: OECD statistics.

Wealth inequality is also high across the income distribution. Figure 6 shows that families in the highest income decile have almost £800,000 of net wealth per adult – more than five times higher than the typical household. It is important to note that wealth holdings along the income distribution are less unequal than the wealth distribution as the correlation between the two is not perfect; there are low-income and high-wealth households – for example pensioner households are likely to have lower income and higher wealth.

Another important aspect for how wealth is distributed in the UK is variation across different parts of the country. Figure 7 shows that measures of inequality within regions and countries does not vary particularly widely, with the ratio of average wealth in the ninth decile to the fifth decile is between 6.9 and 7.4 in every region/country. A measure which captures variation lower in the distribution, the ratio of average wealth between the third and seventh decile varies somewhat more widely but is still relatively consistent.

FIGURE 6: Families with higher income also tend to have higher wealth

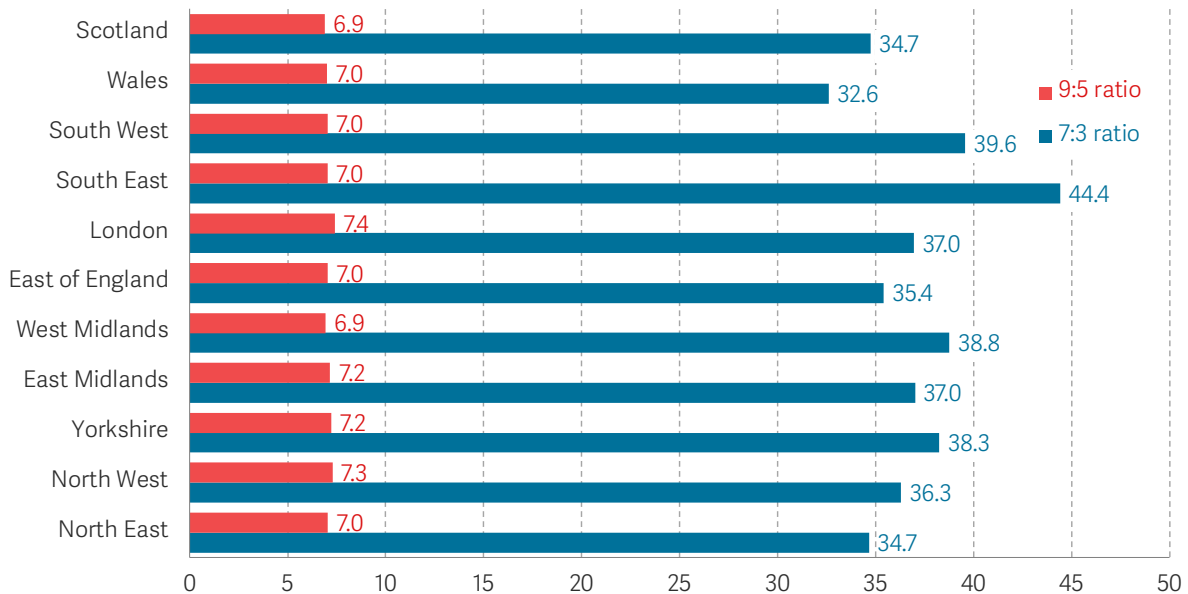
Net family wealth per adult by income decile: GB, 2016-18



SOURCE: RF analysis of ONS, Wealth and Assets Survey.

FIGURE 7: Within-region inequality is reasonably similar around the UK

Ratios of family net wealth at different deciles by region and country: 2016-18



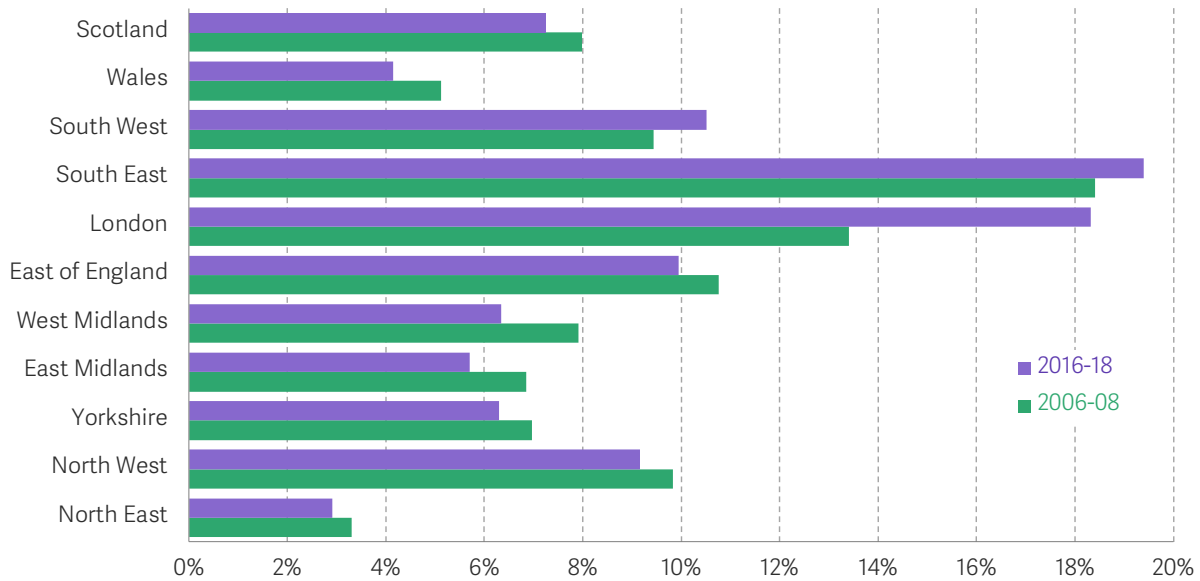
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

But inequality across regions/countries has been increasing in the past decade, as demonstrated by Figure 8. The share of wealth held in London rose from 13 per cent of total household wealth in 2006-08 to more than 18 per cent in 2016-2018, while the share of the UK population living in London rose by around 1 percentage point. Only three regions experienced an increase in the share of total wealth, London, the South East

and South West of England, while declining elsewhere. These regions also tend to have better performing labour markets and higher wages, compounding these advantages. When looking at the data using medians rather than averages, similar patterns emerge – median wealth rose fastest for those living in London and slowest in the West Midlands.<sup>10</sup>

FIGURE 8: **Across-region wealth inequality has risen**

Share of total wealth by region and country



SOURCE: RF analysis of ONS, Wealth and Assets Survey.

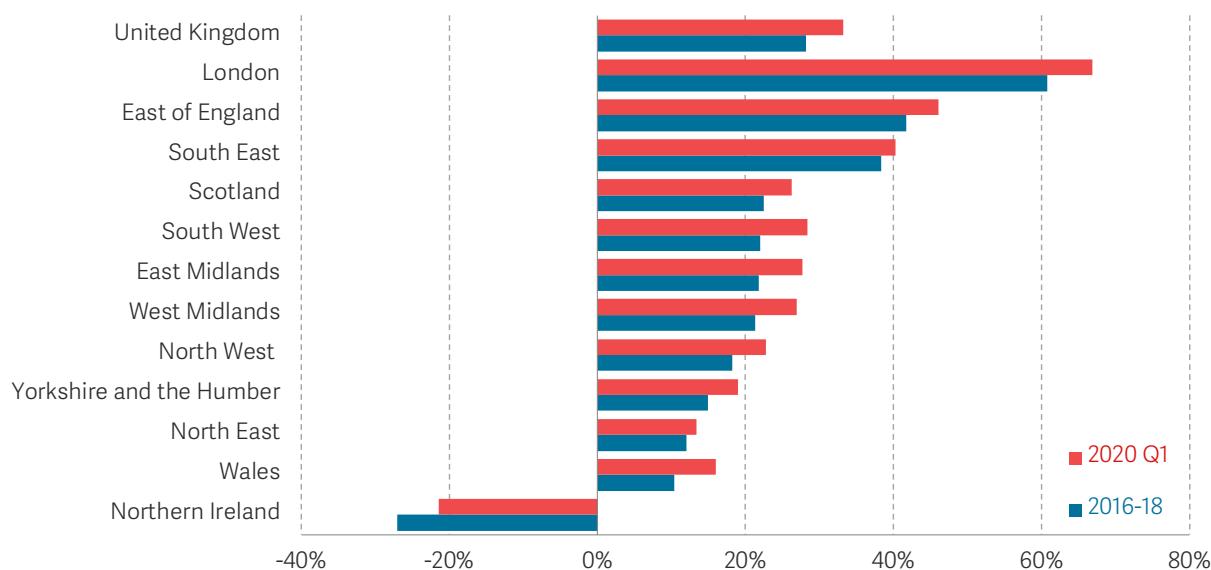
As might be expected, the most important factor accounting for the change in wealth shares across regions and countries has been the differential in property price changes. As Figure 9 shows, since 2006-08, real average property prices in London have risen by over 60 per cent while in Wales have only risen by around 10 per cent. In some areas, the gaps in average prices have closed slightly over the past two years. These are, however, relatively minor compared to the change seen over the preceding decade.<sup>11</sup>

<sup>10</sup> It is also worth noting, that the relationship between means and medians does vary by region; London in particular has high mean wealth relative to the median.

<sup>11</sup> For more detail on the regional differences in housing and recent trends, see C Pacitti & D Tomlinson, [Housing Outlook Q1 2020](#), Resolution Foundation, January 2020.

FIGURE 9: House prices have driven differential wealth changes across region

Real change in house prices by region since 2006-08



NOTES: Average nominal house prices were deflated using quarterly CPIH index.  
SOURCE: RF analysis of ONS.

## Absolute wealth gaps have grown markedly

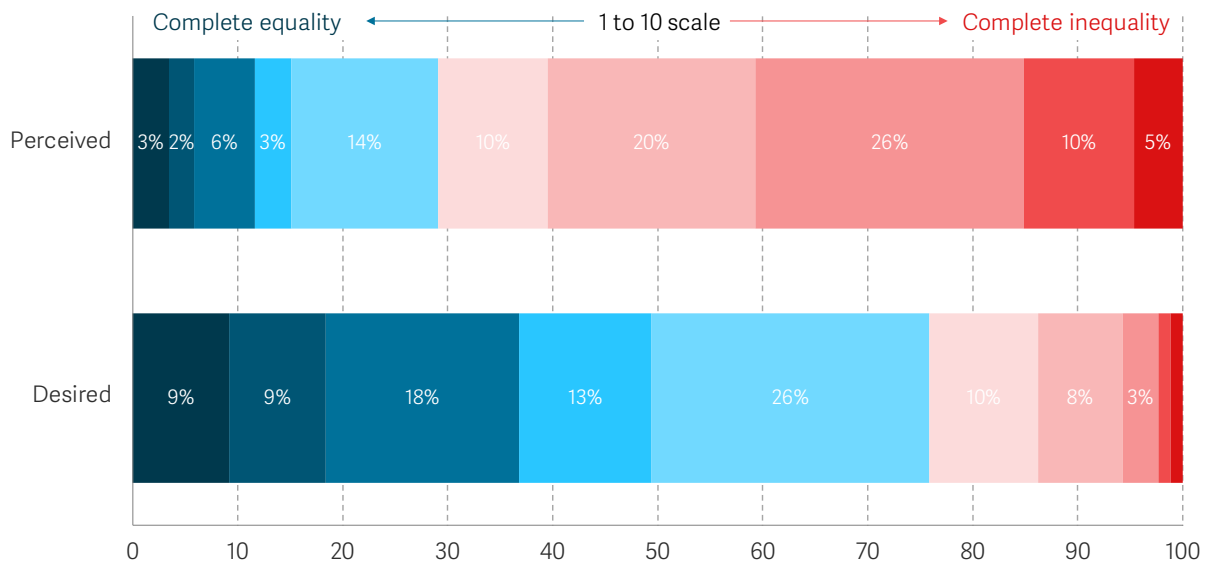
Much of the evidence above suggests that UK wealth inequality is moderate and has not increased substantially in recent years. But this does not mean that there is no problem with wealth inequality in the UK. This is for two main reasons: first, there is clear evidence that people think UK wealth inequality is higher than socially desirable, and second, because the absolute gaps in wealth between the richest and poorest have increased dramatically in recent years.

Turning to the first point, survey evidence suggests that wealth inequality is higher than socially desirable in the UK. This comes despite the fact that there is no clear evidence of a worsening in aggregate relative wealth inequality in recent years.<sup>12</sup> Figure 10 shows responses to a survey asking people to rate how unequally wealth is held in the UK on a range of one to 10 where one equated to perfect equality and 10 to perfect inequality. This compares to responses for the desired level of wealth inequality which show a clear preference for a more equal distribution of wealth.

<sup>12</sup> Where relative wealth inequality is the proportional difference between families' wealth (e.g. one family has twice the wealth of another) rather than *absolute inequality* which is the pound difference in family wealth.

FIGURE 10: Perceptions of wealth inequality are high

Perception of UK wealth distribution and desired wealth distribution: UK, December 2016

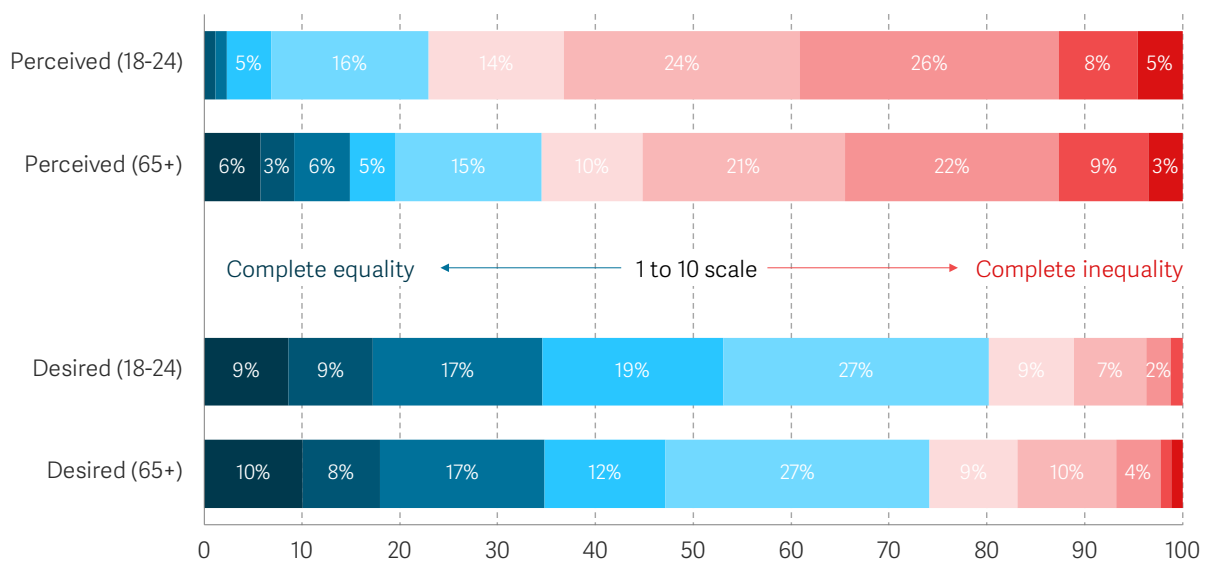


SOURCE: YouGov, for YouGov-Cambridge Centre. Available here.

Importantly, evidence suggests that there are big disparities in the perception of wealth inequality by age groups. Figure 11 highlights that younger people (18 to 24-year olds) are much more likely to think that wealth inequality is high compared to older age groups (the over 65s).

FIGURE 11: Younger people are more likely to think wealth inequality is high

Perception of UK wealth distribution and desired wealth distribution: UK, December 2016



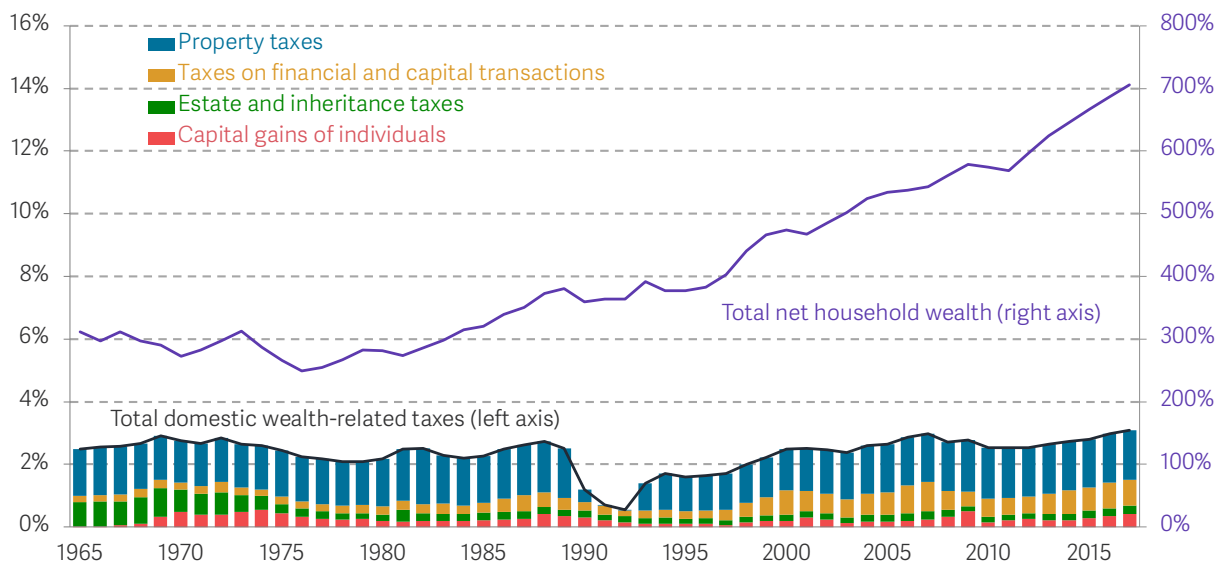
SOURCE: YouGov, for YouGov-Cambridge Centre. Available here.

Both age groups reported similar views on the desirable level of wealth inequality. This suggests that the driver of the gap in perceived wealth inequality is the real economic experiences of younger families facing higher absolute wealth gaps. This is the difference between wealth holdings in pounds terms rather than in relative percentage terms.

This brings us to the second key reason wealth inequality is a problem in the UK: the most profound change in the distribution of wealth over the past decade is that absolute wealth gaps, both in pounds terms and relative to income, have risen markedly. This is because the value of total household wealth has rapidly increased since the turn of the century (as shown by Figure 12), rising from about four times national income to over seven times national income today.<sup>13</sup> So, despite the share of wealth only rising slightly for the top wealth decile, the actual gap between poorer and richer households will have almost doubled over this time. The detailed data from the WAS shows that between 2006-08, well after the point aggregate wealth started rising, and 2016-18, the average gap between the richest and poorest 10 per cent of households grew from £1,030,000 to £1,400,000 (adjusted for inflation).

FIGURE 12: **Wealth levels have risen dramatically**

Household wealth and wealth taxes as a share of national income



SOURCE: RF analysis of OECD; D Blake & J Orszag, 'Annual estimates of personal wealth holdings in the United Kingdom since 1948', Applied Financial Economics 9, 1999; ONS, UK National Accounts; ONS, Wealth in Great Britain; ONS, Gross Domestic Product at market prices: Current price: Seasonally adjusted £m.

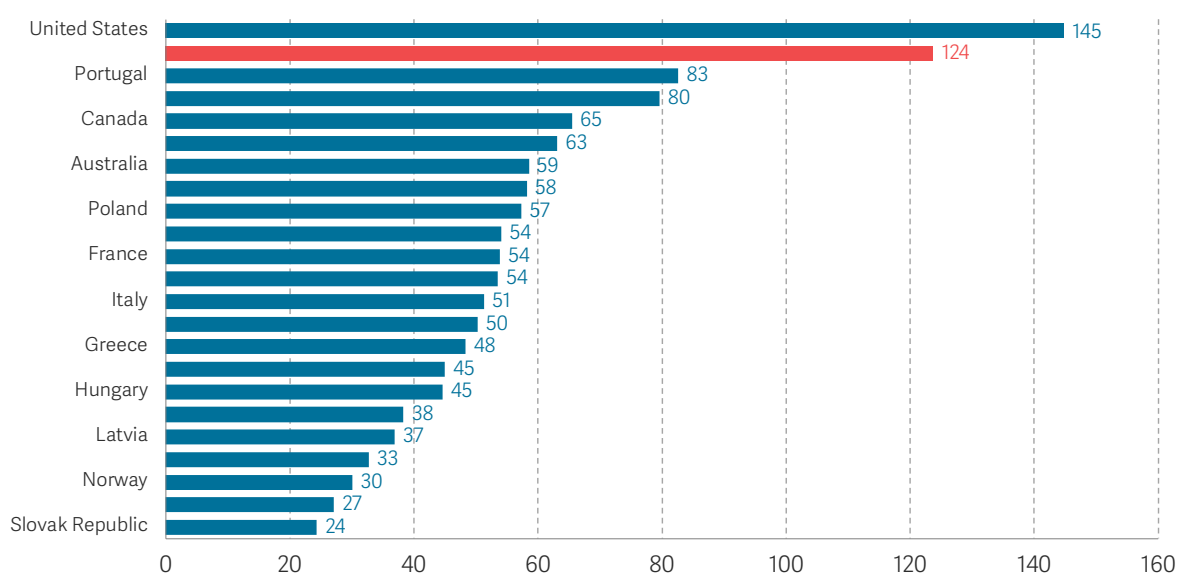
<sup>13</sup> For a longer timeseries, see J. B. Madsen, *Wealth and inequality over eight centuries of British capitalism*, Journal of Development Economics, 138: 246-260, May 2019.



Wealth inequality, as viewed through the perspective of absolute wealth gaps, is also much higher in the UK compared to international peers. The gap between the mean level of net household wealth for the wealthiest tenth of households and the poorest 60 per cent of households, was 124 times median disposable income in the UK in 2015. On this metric, only the US had higher absolute wealth gaps, of those countries with data available. Notably, some countries with higher relative wealth inequality, like Denmark, do much better under this metric because median disposable income is higher. Again, an important caveat to international comparisons is that data consistency can vary widely.<sup>14</sup>

FIGURE 13: **Wealth gaps in the UK are high compared to other countries**

The gap between mean net household wealth for the wealthiest 10 and poorest 60 per cent of households as a multiple of median disposable income, by country



NOTES: The chart displays the latest available data: 2016 for Canada and the US; 2015 for Denmark, Netherlands, Norway and the UK; 2014 for Australia, Austria, Belgium, France, Germany, Greece, Hungary, Italy, Latvia, New Zealand, Poland, Slovak Republic and Slovenia; and 2013 for Estonia, Finland, Ireland and Portugal. Wealth and disposable incomes are all measured at current prices in local currencies.

SOURCE: RF analysis of OECD.

The rise in absolute wealth gaps – in particular relative to income – has important implications for household opportunities and living standards. It means for example that achieving home ownership is harder for younger people: in the 1980s almost half of 25 to 34-year olds owned a house, while that proportion has since fallen to below three-in-10 younger people.<sup>15</sup> Equally, as incomes have not risen in line with wealth over this period, it has become harder to accumulate wealth through saving and therefore to move up the wealth distribution. This plays a role in the clear gap in perceptions of wealth inequality across age groups.

<sup>14</sup> For more detailed comparison across countries using OECD data, see C Balestra & R Tonkin, *Inequalities in household wealth across OECD countries: Evidence from the OECD Wealth Distribution Database*, OECD working paper no. 88, June 2018.

<sup>15</sup> See A Corlett & L Judge, *Home Affront: housing across the generations*, Resolution Foundation, September 2017.

Government policy has failed to keep up with the changing nature of household wealth over this period of rising absolute wealth gaps. The UK does not have a direct wealth tax but some taxes are closely related to wealth levels: council tax is dependent on property values; financial transactions taxes typically scale with asset values; inheritance taxes depend on the value of estates at death; and capital gains taxes should reflect the rising return to investments. But, as Figure 12 demonstrates, the revenue from these wealth-related taxes has not kept pace with the rising level of wealth. This means that while tax levels, as a share of GDP, have remained broadly stable over the past 50 years, the revenue of wealth related taxes has fallen markedly as a share of total wealth.

The tax regime is just one aspect of Government policy; the rising absolute wealth gaps are important context for a wide-range of other economic and social policies. But understanding why wealth levels have changed so dramatically in recent decades, not just that wealth has increased, is needed to help inform how Government policy should adapt to this new economic reality. That is the subject of the next section.

## Section 3

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# Why has the level of wealth and absolute gaps between rich and poor increased?

The value of UK household wealth has risen markedly in recent years. The associated rise in absolute wealth gaps is important context for understanding the social changes in the UK over the past decade, as well as for thinking about how policy makers should respond to these developments. 'To fully understand these changes it is also vital to explain the drivers of rising wealth and of changes in its distribution.

Wealth rises have been felt across the various sub-categories of wealth – financial, property and pension. Typically, people tend to think of wealth as the accumulation of saving from income over time. But the key driver of the recent trends has been passive accumulation arising from increases in asset prices. There is little evidence increased saving has made a material difference to household wealth. These facts have important implications for government economic policy.

The value of household wealth has risen significantly over the past two decades, leading to large rises in the absolute gap between rich and poor households. As outlined in Section 2, there has been comparatively little change in the overall *relative* wealth distribution. So, in this section, we primarily focus on exploring changes in *absolute* wealth, particularly since 2006 (Box 1 provides a summary of the most important driver of the changes we have seen in the relative wealth distribution).

The level and distribution of wealth can, in principle, be affected by a wide range of factors. So, ultimately, it is an empirical question as to which factor or factors have been most important in accounting for higher wealth levels. In principle, wealth levels could be pushed up by any of the following:

- Demographic trends. Older families typically have higher wealth levels and so, as the UK ages, aggregate wealth increases. As families are not evenly distributed

along the wealth distribution by age, ageing could have an impact on relative wealth inequality too.

- **Saving.** If families choose to increase savings rates or financial yields rise with returns being reinvested, aggregate wealth will increase. Similarly, families could choose to pay down debt, particularly mortgage debt, instead of accumulating financial assets – with the same result of increasing household net wealth.
- **Asset appreciation.** If existing assets become more valuable due to asset price inflation, then wealth levels rise without any changes to savings.
- **Pension valuation changes.** Pension valuation changes depend on a range of financial market variables and will affect the level of measured pension wealth. Shifting trends in which families have pension wealth are important for measures of inequality.

The rest of this section outlines the empirical evidence for each of these factors.

### BOX 1: Shifts in wealth composition and relative inequality

While overall relative wealth inequality has remained broadly unchanged over the past decade, there are two important related trends worth detailing. First, there has been a compositional change in how wealth is held. And second, there has been a small fall in wealth in the middle of the distribution. These two trends are two sides of the same coin, and of themselves have important implications for Government policy. This box explores them further.

Wealth can be divided into three main categories: financial wealth, property wealth and pension wealth. As Figure 13 shows, while wealth increased across the board in pound terms, the relative importance of property wealth

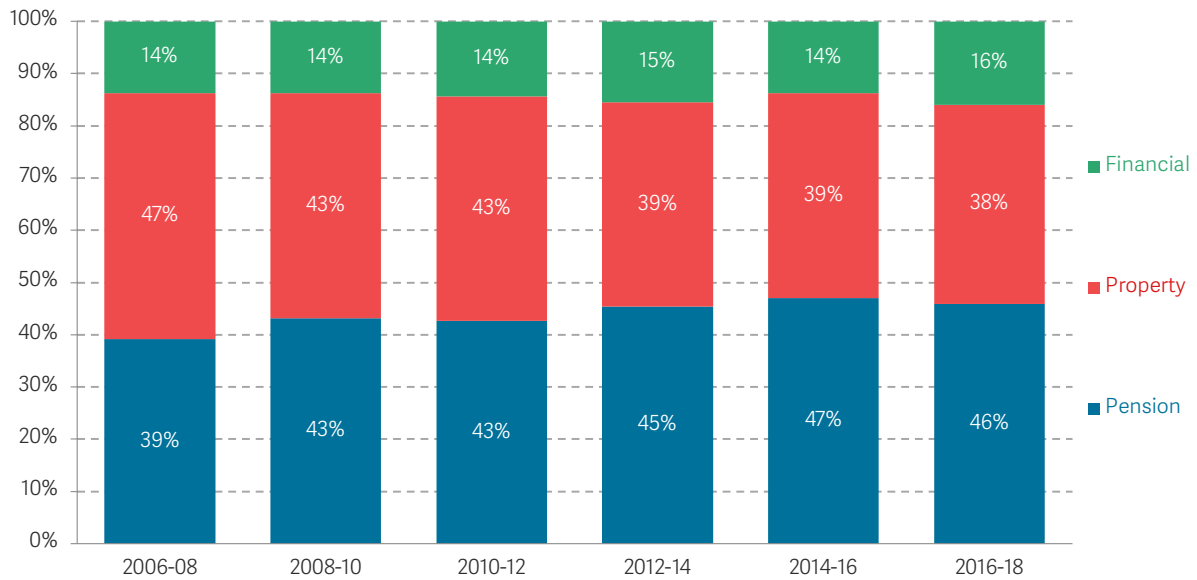
declined after 2006-08 – falling from 47 per cent of total wealth to 38 per cent in 2016-18. In parallel, pension wealth rose by around the same amount, while financial wealth remained broadly stable as a share of total wealth. This change has important implications for Government policy – for example, if the Government wanted to introduce a net wealth tax, excluding pension wealth would leave out the component of wealth which has increased fastest in recent years.

One implication of the change in total wealth composition is demonstrated clearly by Figure 14. Families in the middle of the wealth distribution typically have a much greater share of their wealth in property, meaning the

relative decline in property wealth is the key driver of the decline in the share of total wealth in the middle of the distribution.

FIGURE 13: Pension wealth is becoming relatively larger

Composition of net household wealth: GB

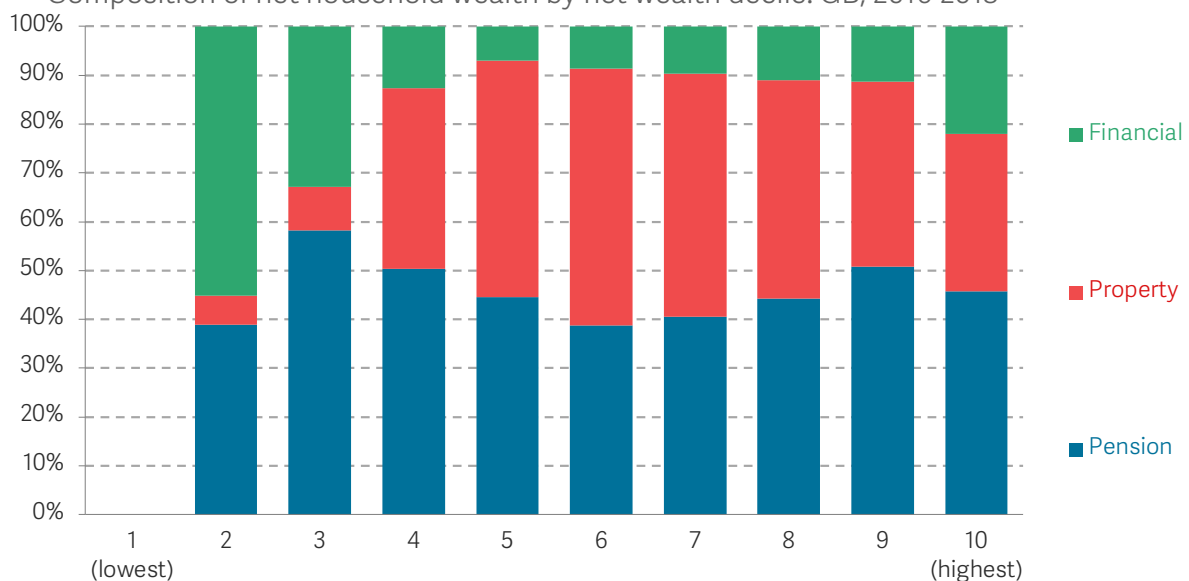


NOTES: Property wealth is calculated net of mortgage debt and financial wealth is net of other forms of debt.

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

FIGURE 14: The middle of the wealth distribution has a much higher prevalence of property wealth

Composition of net household wealth by net wealth decile: GB, 2016-2018



NOTES: Property wealth is calculated net of mortgage debt and financial wealth is net of other forms of debt. The lowest decile has been excluded because net wealth is negative.

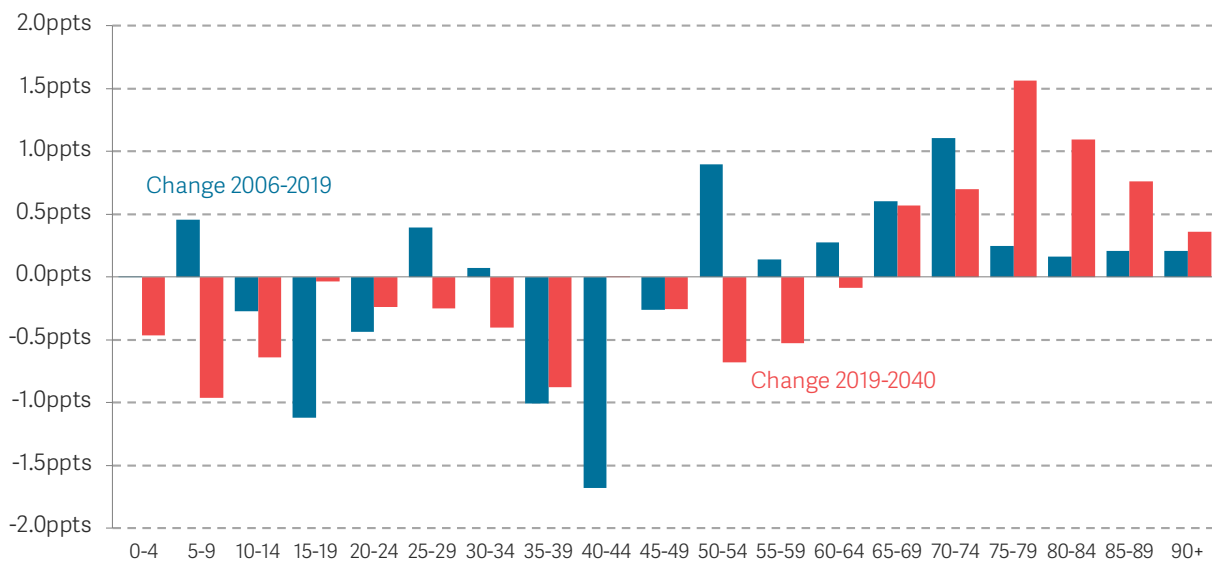
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

## Demographic trends

The UK's demographic mix has changed since 2006, with relatively fewer children and younger working age people and commensurately more older workers and pensioners. Figure 15 shows the change in the share of each five-year age group since 2006 and the predicted change up until 2040. These demographic trends will, all else being equal, push up on aggregate household wealth. This is because there are strong lifecycle effects where families tend to accumulate wealth during working age and then at retirement dissave leading to falling wealth levels. Simple econometric estimates suggest that an additional year of age is associated with family wealth increasing by a little under £11,000 for each working age adult, on average between 2006 and 2018.<sup>16</sup> But the average age of working adults in the UK has only risen from 41.8 to 42.2 between 2006 and 2019.<sup>17</sup> This means that the ageing of the working population only accounts for between 1 and 2 per cent of the total rise in aggregate wealth.

FIGURE 15: **Demographic ageing is set to continue**

Historic and projected changes in age-group share of the total population: UK



SOURCE: RF analysis of ONS, Wealth and Assets Survey.

It is worth noting that there are also macroeconomic implications from an ageing population where a higher proportion of savers (for example those near or in retirement)

<sup>16</sup> The main underlying regression specification is based on an estimate with family and time fixed effects, controlling for employment status, whether the household contains one or two adults, the presence of children, and education level. The sample only included adults between the ages of 20 and 65. The relationship between age and wealth may be non-linear, even for working age adults, but alternatively specified models allowing for this produced quantitatively similar results. Wealth is measured in real terms, deflated by CPIH to 2019-20 prices.

<sup>17</sup> Working age defined as 20 to 65 years.

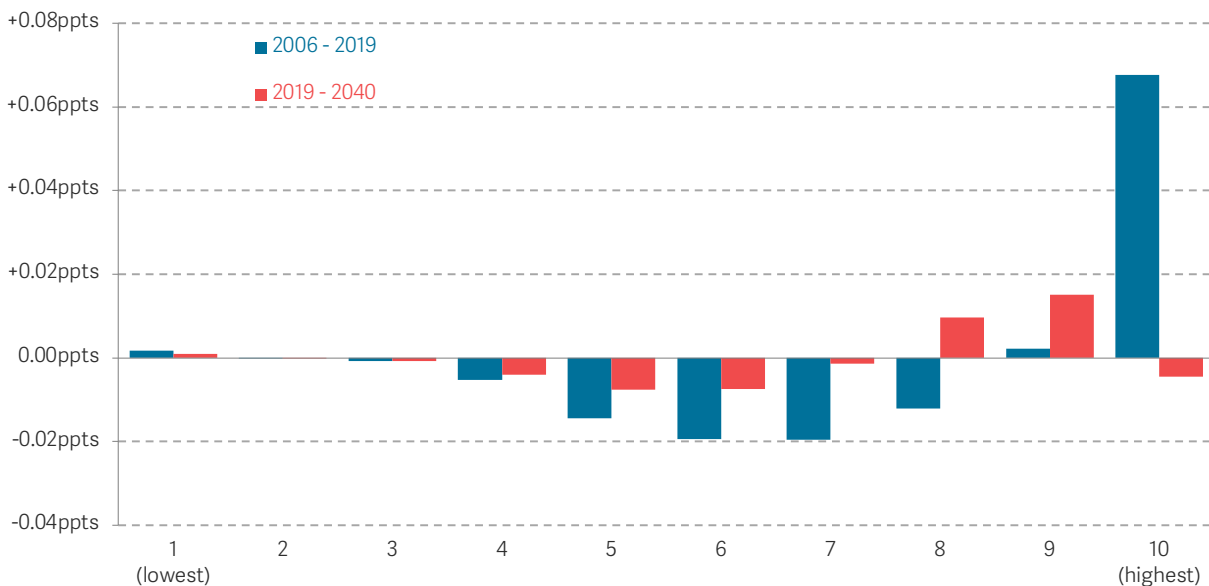
will tend to exert downward pressure on interest rates.<sup>18</sup> This has important effects for changes in asset prices, discussed further below.

Despite minimal effect on aggregate wealth levels, ageing could be responsible for some of the more minor relative shifts in the wealth distribution. Figure 16 shows the results of an empirical estimate of the impact of demographic ageing since 2006 on the wealth shares of families as well as a projection through to 2040. This is constructed by uniformly reweighting the 2006-08 WAS survey microdata to match the 2019 age distribution (shown in blue) and similarly reweighting the 2016-18 survey data to match the 2040 age distribution.

The results of this exercise suggest that demographic ageing has modestly reduced the share of wealth in the middle of the distribution and raised it in the highest wealth decile. This matches the overall pattern laid out in Figure 4, but, again, the scale of the effect is small, explaining a low proportion of the overall aggregate changes.

**FIGURE 16: Shifting age distributions have relatively limited effect on the aggregate wealth distribution**

Estimate of the historic and projected impact of the change in the UK’s age distribution on net wealth share by wealth decile



NOTES: The estimated impact of the change in demographics between 2006 and 2019 is based on a linear re-weight of the 2006-8 wealth distribution to match the five-year age shares in the 2019 age distribution. The forecast from 2019 to 2040 is based on the 2016-18 wealth distribution, similarly linearly reweighted to match the 2040 age distribution.

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

<sup>18</sup> See C Carvalho, A Ferrero & F Nechio, *Demographics and Real Interest Rates: Inspecting the Mechanism*, Federal Reserve Bank of San Francisco working paper 2016-05, March 2016.

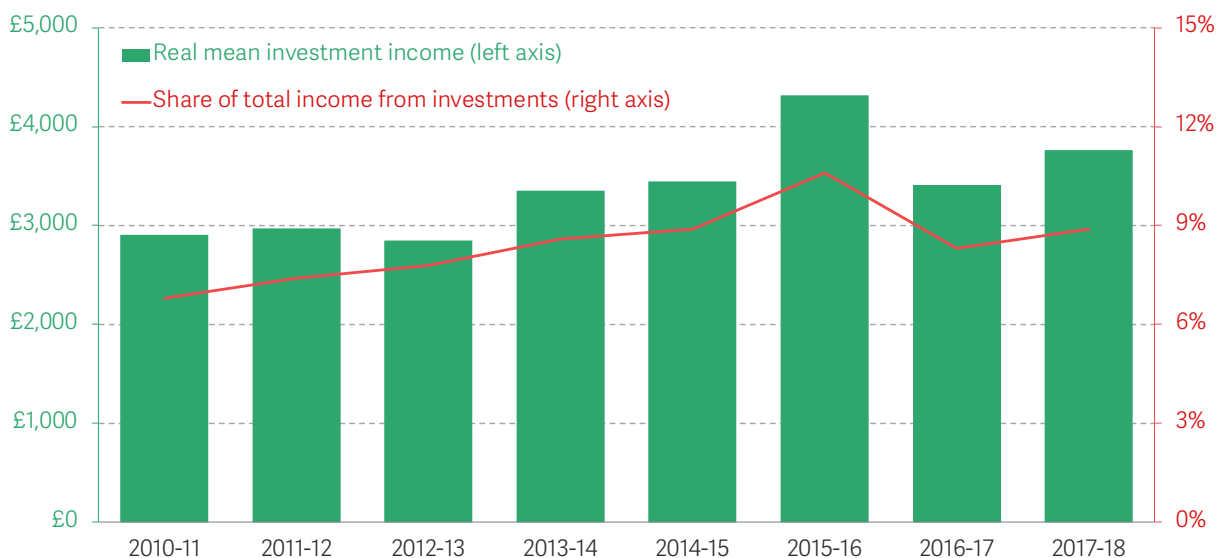
## Savings behaviour

The most typical view of how wealth is acquired is as the accumulated stream of income saved over time. This will naturally depend on household savings rates and income levels. Given that labour income has stagnated since the financial crisis and savings rates have not risen, these are not the source of increased wealth.<sup>19</sup>

One additional possibility here is that direct income from investment has been fed back into asset accumulation, raising the level of financial wealth (if reinvested rather than used for household consumption), which would also disproportionately accrue to wealthier families due to higher levels of financial wealth (Figure 29). But, there has not been a particularly large change in the average real value of investment income since 2010, as shown by Figure 17. This is true both in levels terms and as a share of total income reported to HMRC.

FIGURE 17: Investment income has not risen dramatically

Real mean investment income for taxpayers and share of total reported income from investments: UK



NOTES: Investment income is deflated using the CPI to 2017-18 prices.  
SOURCE: RF analysis of Survey of Personal Incomes, HMRC; ONS.

An important additional route for net wealth accumulation, for mortgage holders, is via paying down mortgage debt – families can effectively choose to save either by paying off a larger proportion of their mortgage debt or increasing financial asset holdings.

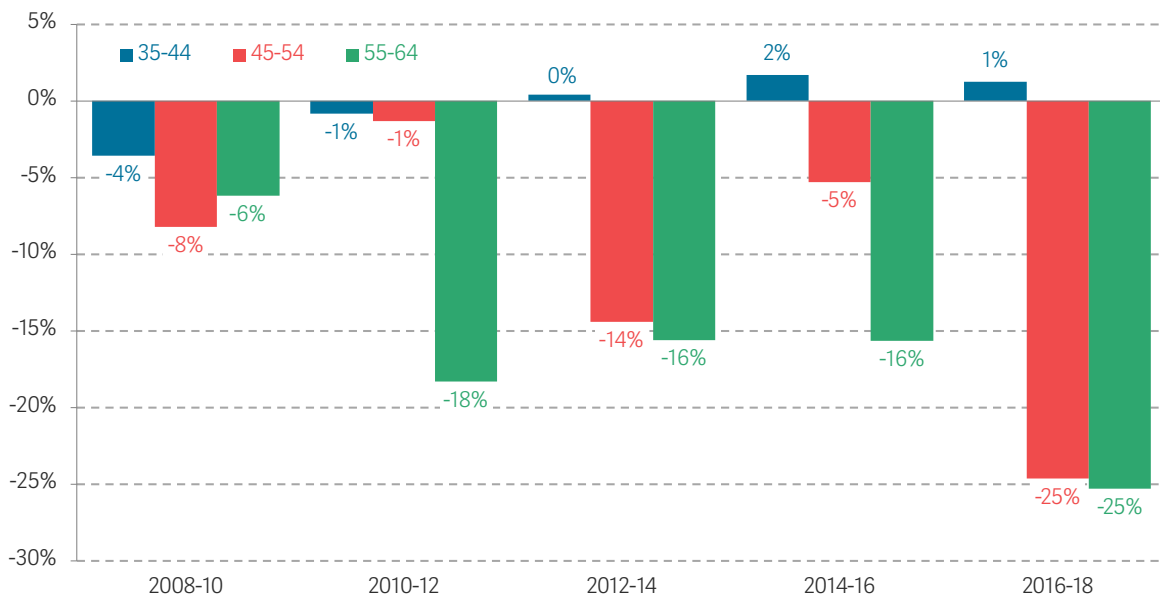
<sup>19</sup> On the decade of lost wage growth, see N Cominetti, *Never had it so good? Almost back to peak pay*, Resolution Foundation, November 2019. And, on savings rates, they have tended to fall since 2010 after rising during the financial crisis, see Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2020.



Figure 18 shows the average proportion of mortgage debt that was paid off over each two-year period. This is split by age group as there are significant life-cycle effects as older families are more likely to try to reduce housing debt before entering retirement. Unsurprisingly, reductions in mortgage debt are an important driver of increasing net wealth for individual households. But there are large gaps between age groups. Younger households are naturally more likely to increase mortgage debt over time (reflecting the higher likelihood of moving to more expensive properties). In contrast, older age groups pay off larger proportions of mortgage debt and that pattern has increased in recent years.<sup>20</sup> Interestingly, the age disparity has risen over the past decade: younger owner-occupiers are now more likely to increase mortgage debt while older families are more likely to reduce debt. But the key takeaway is that there has not been a major trend towards faster mortgage pay-down, particularly for younger households, meaning this does not appear to be the major source of rising wealth over this period. In real pounds terms, the average level of mortgage pay-down across this group was slightly lower in 2016-18 than in 2008-10.

**FIGURE 18: Property debt pay-down is an important driver of wealth accumulation**

Average proportion of mortgage debt paid down by age group over two years: GB



NOTES: First time buyers are excluded from this analysis in order to abstract from increases in mortgage debt from families moving tenure to become owner-occupiers. Mortgage debt rises therefore primarily reflect the fact that younger families are more likely to move to more expensive properties (i.e. upsize) than older families. Age groups are defined for each individual sample period; for example, 35-44 year olds in 2008-10 are matched to the mortgage debt value in 2006-08 to calculate the change in mortgage debt. Observations are reweighted to reflect differential sample attrition based on household characteristics. SOURCE: RF analysis of ONS, Wealth and Assets Survey.

<sup>20</sup> The differential pattern across age-groups is partially as a result of younger households being more likely to have higher mortgage debt and so a fixed nominal amount of debt reduction is smaller proportionally for that age group than for older age groups. However, the pattern holds even when considering the nominal values of mortgage debt paid off by each age group; in nominal terms, 44-54 year olds pay off a higher amount of mortgage debt than the 55-64 year olds (other than in 2010-2012).

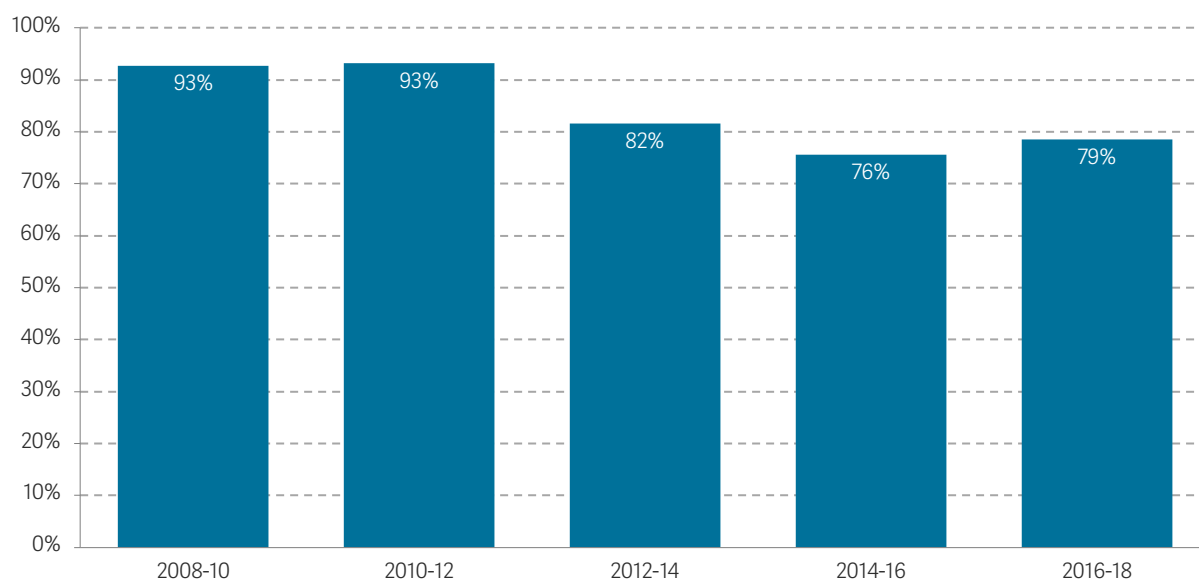
## Changes in asset prices

As the change in wealth levels are not driven primarily by increased saving, the key remaining factor is changes in the value of the existing wealth. Total returns to financial investments – the combination of investment income, capital gains and unrealised increases in asset prices – have represented the vast majority of the increase in the level of financial wealth since 2006. As have increases in house prices for the overall increase in property wealth.

Figure 19 shows the estimated proportion of increases in average families’ financial wealth resulting from asset returns – rather than active saving – between each two-year sample of the WAS. This estimate is produced by creating counterfactual financial wealth values by applying average two-year returns across a range of individual financial asset types for each sample period. These counterfactual wealth values are then compared to the observed level in each period. This shows that active accumulation of financial assets – i.e. saving – only explains a minority of financial wealth growth. Box 2 explores the distributional implications of increasing financial asset prices.

**FIGURE 19: Returns from financial assets explain the vast majority of the increase in wealth**

Share of change in gross financial wealth resulting from passive gains from asset returns over two years: GB



NOTES: The growth in financial wealth deriving from financial returns (yields and asset price inflation) are measured by applying average returns to different asset classes, specifically: cash ISAs, investment bonds, UK bonds, savings accounts, national savings products, non-UK bonds, UK equities, non-UK equities, and non-interest-bearing assets (e.g. cash). These estimates exploit the longitudinal aspects of the WAS which allows for matching of families between each sample period of the survey. Observations are reweighted to account for differential survey attrition by household characteristics.

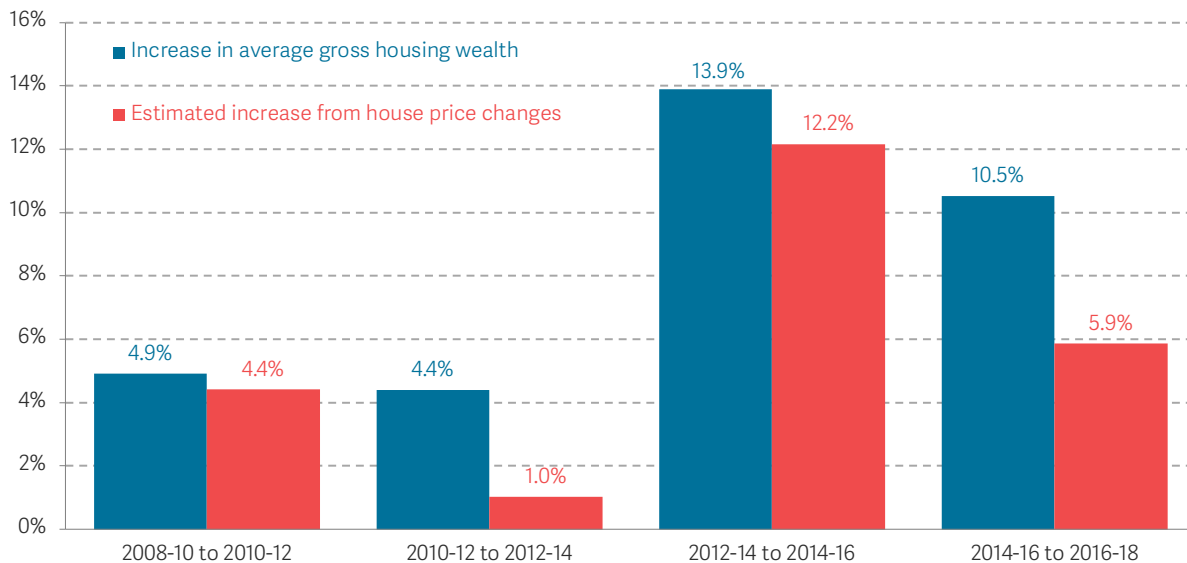
SOURCE: RF analysis of ONS, Wealth and Assets Survey; Bankstats, Bank of England; National Savings and Investments; MSCI; S&P.

Similarly, increases in housing wealth also largely appear to reflect these same trends in financial asset prices. Figure 20 compares the survey-derived change in average gross property wealth between each two-year sample to the estimated change based on movements in regional property prices. House price growth reflect a range of interrelated factors including property rents, interest rates, housing supply – all of which have pushed up house prices over our sample period.<sup>21</sup>

An important additional factor affecting housing wealth is the transfer of wealth from the government sector to the household sector through sales of social housing. This was an important feature of the UK housing market from the 1980s through to the early 2000s – social renting made up 29 per cent of all families in 1981 which fell to 14 per cent in 2017, with little change in the share of social renters since 2006.<sup>22</sup>

**FIGURE 20: House price rises explain most of the change in average property wealth rather than investment**

Average changes in gross property wealth and estimated changes based on changes in house prices: GB



NOTES: Estimated changes in property wealth are based on regional house price indexes. The definition of property wealth in the WAS extends beyond residential property and so the change in prices used in the estimate will be approximate.

SOURCE: RF analysis of ONS, Wealth and Assets Survey and Regulated Mortgage Survey.

<sup>21</sup> For more analysis see L Judge & D Tomlinson, *Home improvements: action to address the housing challenges faced by young people*, April 2018, Resolution Foundation.

<sup>22</sup> See A Corlett & L Judge, *Home Affront: housing across the generations*, Resolution Foundation, September 2017.

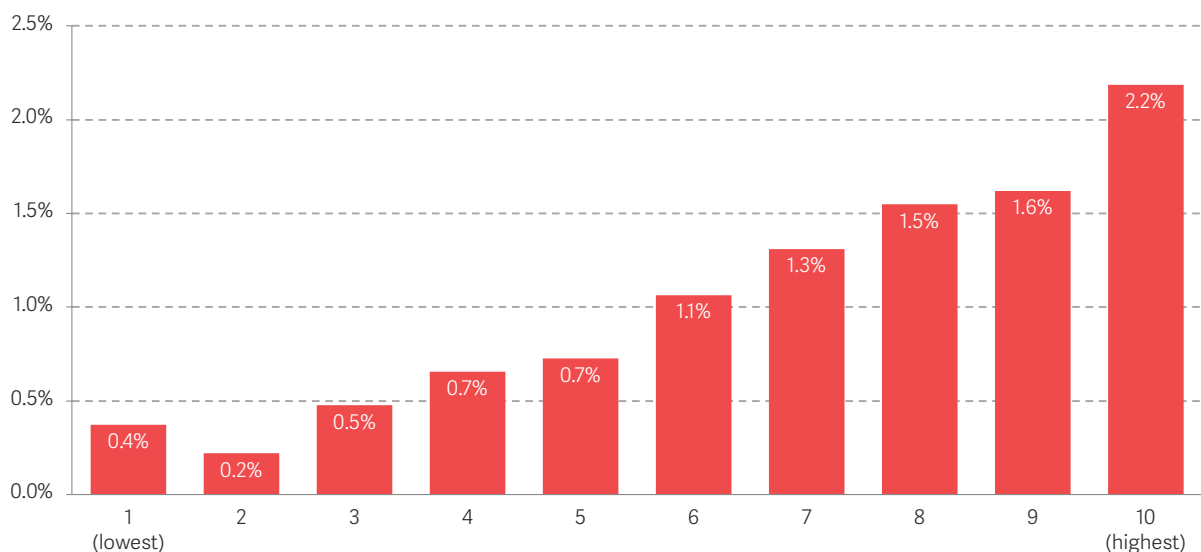
## BOX 2: Distributional effects of asset returns

One important feature of rising financial asset prices is that average returns vary by the wealth of households and this will mean, all else equal, that inequality increases over time.<sup>23</sup> Unfortunately, there is no data in the UK that allows direct estimation of the actual returns received by individuals from their financial wealth.<sup>24</sup> Figure 21 however presents an estimate of the average

total return on the financial assets held by each net wealth decile based on the types of financial assets that each group holds. There is a clear differential whereby the top wealth decile received an average annual return of more than 2 per cent, more than four times higher than those in the lowest three wealth deciles.

FIGURE 21: **Wealthier families naturally receive higher returns to their assets**

Mean annual financial asset return based on differences in portfolio composition, by net wealth decile: GB, 2016-2018



NOTES: Weighted asset returns for each family are derived from combining average financial returns (yields and asset price inflation) and the financial asset portfolio holdings of each family across different asset classes, specifically: cash ISAs, investment bonds, UK bonds, savings accounts, national savings products, non-UK bonds, UK equities, non-UK equities, and non-interest-bearing assets (e.g. cash).

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

In simple terms, the estimate of the differential returns to financial assets

is driven by the fact that lower-income families hold their financial wealth

<sup>23</sup> This argument is similar to a key theme in T Piketty, *Capital in the 21st Century*, Harvard University, 2014.

<sup>24</sup> This is not possible in the WAS data because, while we have detailed information about financial asset holdings of individuals over time, the data does not record consumption and so it is impossible to identify whether changes in wealth are due to returns on assets or consumption.

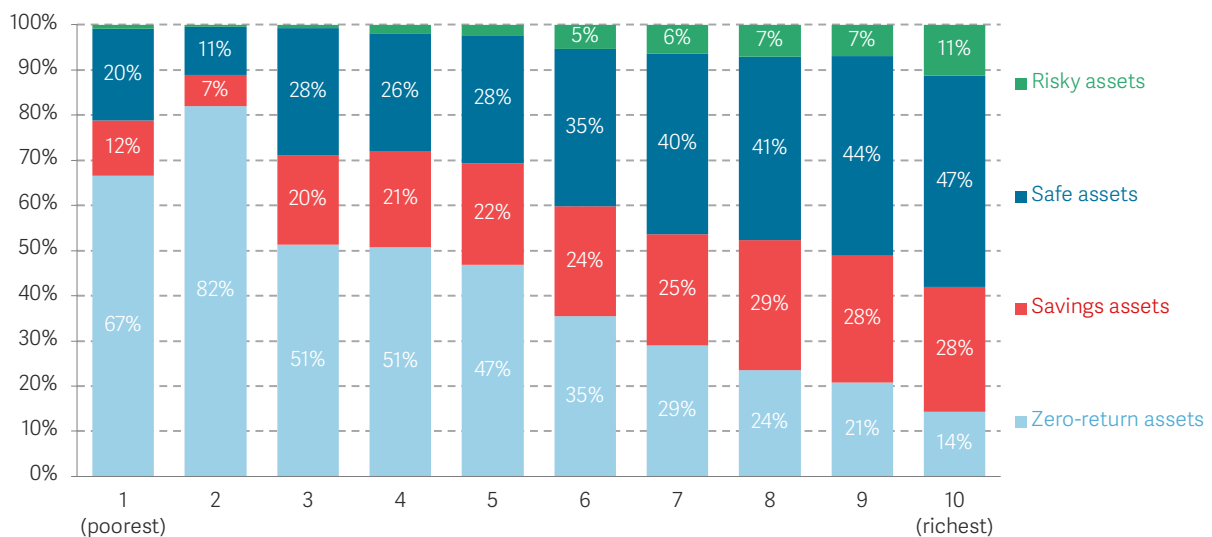
in lower yielding assets compared to those at the top of the distribution (Figure 22). A major driver of this difference will be the need for a given level of liquid assets – i.e. cash, current accounts, easy-to-access savings, which all have lower returns than financial assets like savings bonds or equities. It is also possible that differences in financial education or minimum level of financial resources

limit the ability of poorer households to receive higher financial returns.

In practice, the variation in returns across the wealth distribution are likely to be larger than those presented here. Previous research has found that financial asset returns are only partially explained by asset-class allocation and that significant heterogeneity exists within asset classes.<sup>25</sup>

**FIGURE 22: Poorer households hold lower yielding assets**

Portfolio contribution of financial assets by net wealth decile: UK, 2016-18



NOTES: Financial assets are grouped into four categories reflecting the typical level of risk associated with the asset. For example, zero-return assets include cash and current accounts, safe assets include ISAs and savings bonds, while risky assets include UK and domestic equities.

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Figure 23 compares the returns on property via house price increases to returns on key financial asset classes. There have been two key trends. First, since 2006, financial returns

– particularly for riskier asset types (equities and bonds) – have tended to outpace returns to housing. And second, returns to financial assets which are more likely to be held by

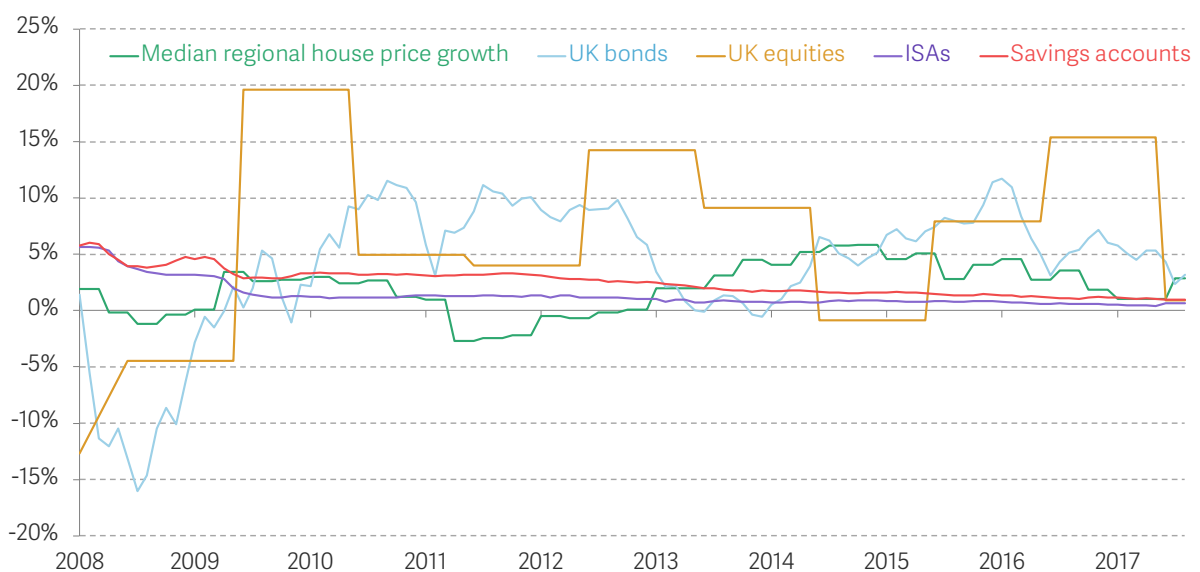
<sup>25</sup> A Fagereng, L Guiso, D Malacrino & L Pistaferri, *Heterogeneity and Persistence in Returns to Wealth*, February 2020, *Econometrica*, 88:1, p115-170.

poorer households (ISAs and fixed term savings accounts), have fallen while other financial asset returns have not. This means that it is harder for poorer households to access the wealth accumulation benefits of financial asset returns. It is important to note that

housing returns here do not include the value of the rents that owner occupiers would have received had they let out their property or the rents paid on buy-to-let properties. This means that the effective returns to housing will be higher than presented here.

**FIGURE 23: Financial returns have tended to exceed housing returns**

Annual asset price returns



NOTES: Returns for bonds and equities includes any yield/dividend income and asset price appreciation. 'Savings accounts' are based on fixed rate bond deposits and do not include sight deposits. UK equity returns are based on an annual series. Returns match the inputs into the calculations of passive wealth accumulation, which are two-year returns to be consistent with the two-year WAS sample frequency, but here they are transformed into annualised returns.

SOURCE: RF analysis of Regulated Mortgage Survey, ONS; Bankstats, Bank of England; MSCI; S&P.

The rise in asset prices since the 2007-08 financial crisis reflects broader trends in global financial markets, most obviously the secular decline in global interest rates. Figure 24 shows the decline in long-term interest rates across countries. These have been falling since the 1960s but the 2008 financial crisis accelerated the trend significantly as central banks around the world cut policy rates and conducted quantitative easing.<sup>26</sup> Lower interest rates put upward pressure on asset prices in number of ways. For relatively

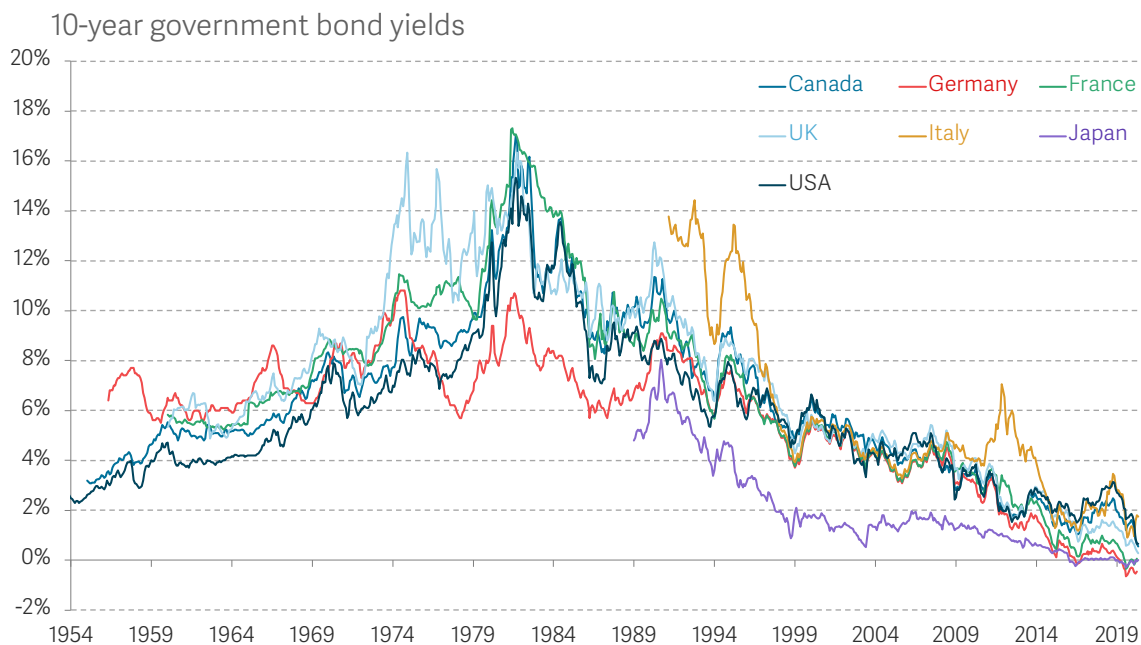
<sup>26</sup> For analysis of the direct impact of quantitative easing policies on UK wealth inequality, see J Gagnon, J Leslie, F Rahman & J Smith, *Quantitative (dis)pl)easing?: Does QE work and how should it be used next time?*, September 2019, Resolution Foundation.

risk-free bonds, for example, there is an inverse relationship between prices and yields or interest rates – falling yields simply reflects higher prices, perhaps because of greater demand for safe assets.<sup>27</sup>

Interest rates are unlikely to rise in the near future. Equilibrium interest rates tend to move slowly over time which means a fast reversion to the averages seen in the second half of the 20th century is unlikely. But, more importantly, the current economic crisis has led central banks to further ease monetary conditions and the crisis will require accommodative monetary policy to remain in place for some time.

With interest rates staying low for the foreseeable future, government economic policy needs to adapt to the new reality of high financial asset prices and the commensurately high household wealth and wealth gaps. This provides opportunities as well as challenges. There is, for example, the potential to broaden the tax base through new and better designed wealth taxes. But there is also a challenge in the form of needing to find policies that are effective in reducing absolute wealth gaps. Clearly, the immediate impact of the current economic crisis has been falls in some asset values, which will at least temporarily reduce the current levels of absolute wealth gaps.

FIGURE 24: There has been a secular fall in longer-term interest rates



SOURCE: OECD.

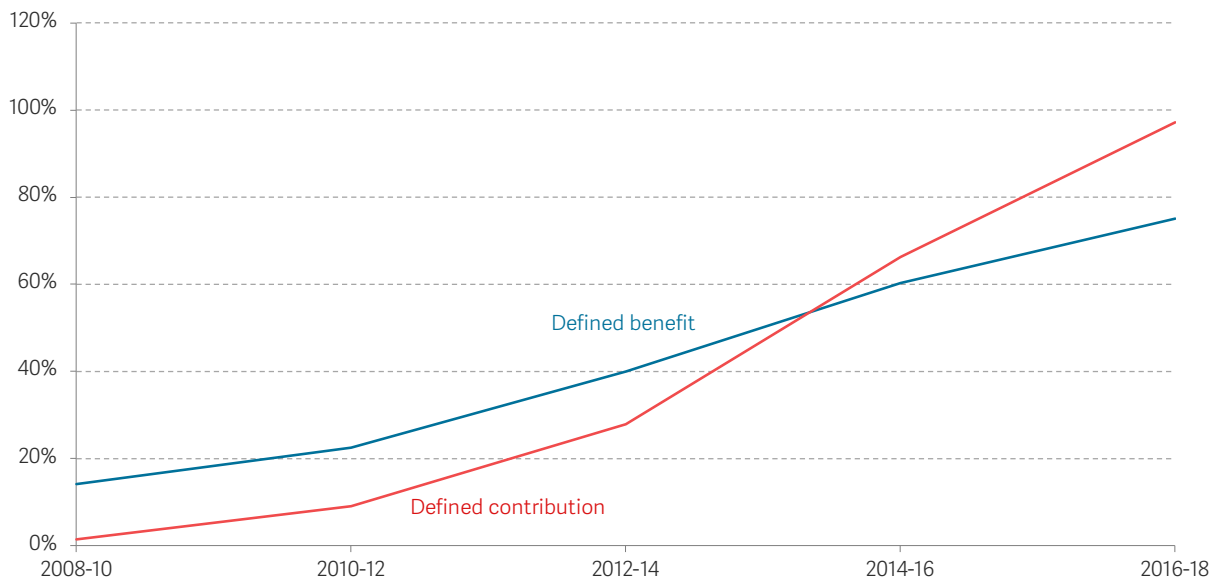
<sup>27</sup> For a discussion of the possible drivers of low interest rates, see: R J Caballero, E Farhi & P-O Gourinchas, 'Safe Asset Scarcity and Aggregate Demand', American Economic Review, vol. 106 (5), pages 513-518, May 2016.

## Pension valuations

Pension wealth has seen the largest overall rise in value. The measured value of defined benefit pensions rose by 75 per cent between 2006-08 and 2016-18 while defined contribution pension pots almost doubled over the same period (Figure 25).

**FIGURE 25: Pension wealth has risen substantially**

Percentage real increase in aggregate pension wealth per adult by type since 2006-2008: GB



NOTES: Pension values are measured for working age adults 65 years old and younger.  
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

The values of defined benefit pensions and defined contribution pensions are measured very differently and so this analysis takes each in turn. For defined contribution pensions, it is relatively easy to observe the financial value of the assets within a pension pot. It is, however, more complicated for defined benefit pensions. This is because defined benefit pensions are set in terms of a promised income stream at some point in the future lasting for a conditional number of years (and may also include a lump sum value to be paid out at retirement).

So, starting with defined benefit pensions, the approach taken by the ONS, and replicated in this analysis, is to measure the value of defined benefit pensions based on what it would cost to purchase an equivalent stream of income through the contemporaneous annuity market. This is then discounted based on the number of years until the income stream will be realised – i.e. the age until retirement. The specific discount rate is known as the superannuation contributions adjusted for past experience (SCAPE) discount rate which is the Government’s long-term expectation for GDP growth plus current annual



consumer price inflation.<sup>28</sup> This is the discount rate the Government uses to calculate the value of its unfunded public sector pension liabilities. Some argue that this discount rate is too high and using bond yields would be a fairer reflection of pension values.<sup>29</sup> But using an alternative discount rate would add additional volatility and would merely amplify the existing trends and increase pension wealth further.

Aggregate defined benefit pension values will depend upon four key inputs: the level of retirement income (and any lump sum payments), the annuity rate (the price of purchasing the income on the annuity market), the discount rate, the number of families with defined benefit pensions.

The WAS data shows that the driver of the rise in defined benefit pension wealth is primarily the fall in annuity rates and falls in discount rates. In effect, a fall in annuity rates means that it would be more expensive to purchase a given level of income in retirement, and so the defined benefit pension income is now 'worth' more. The fall in discount rates mean that the present value of the future pension income is also 'worth' more. Figure 26 presents an estimate of the increase in defined benefit pension wealth from a decrease in annuity rates and the effect of reductions in discount rates, based on the number of years left until retirement. Offsetting the aggregate impact of annuity rates and discount rates, is the fact that the average real level of family income provided by defined benefit pensions has fallen by 11 per cent since 2006-2008.<sup>30</sup> The proportion of families with any defined benefit pension wealth has stayed broadly flat at around 28 per cent.

Given the importance of the impact of the change in the measurement of wealth (rather than changes in incomes), the obvious question is what has driven the changes in annuity rates and discount rates. Annuity rates have been pushed down by the general fall in interest rates, discussed above. This is because providers of annuities need to be able to cover the purchaser's income stream through the investment returns on the price of the annuity. If interest rates fall, financial returns would typically be expected to fall and therefore annuity rates will fall commensurately. The SCAPE discount rate has fallen as the Government has updated its view on average long-run GDP growth and consumer inflation has tended to be lower in recent years than immediately following the financial crisis when exchange rate depreciation increased inflation.

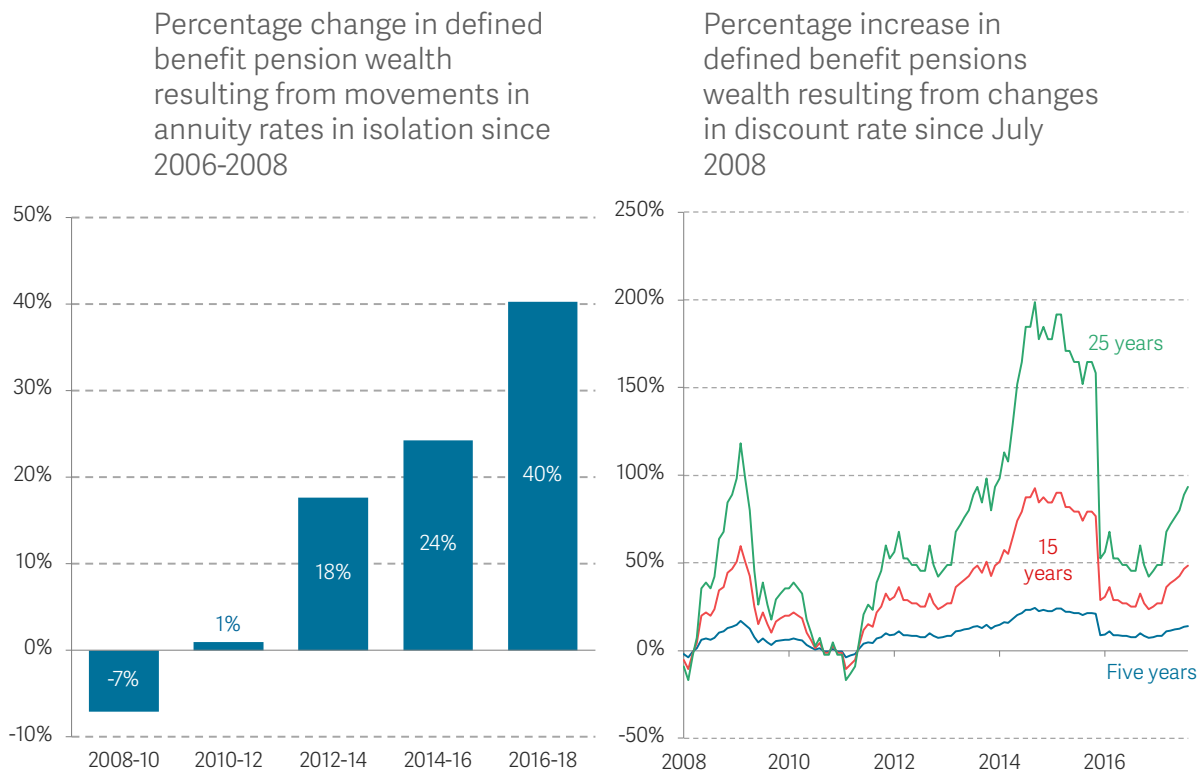
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<sup>28</sup> The long-term growth element of the SCAPE discount rate was planned to be cut from 3 per cent to 2.8 per cent in the 2016 Budget, with a further cut to 2.4 per cent announced in September 2018 – both due to apply from April 2019.

<sup>29</sup> For example, see J Ralfe, [UK public sector pension costs understated by £15bn a year](#), February 2017, Financial Times.

<sup>30</sup> Lump sum entitlements have fallen by roughly the same amount.

FIGURE 26: Annuity rate falls have pushed up on defined benefit pension wealth



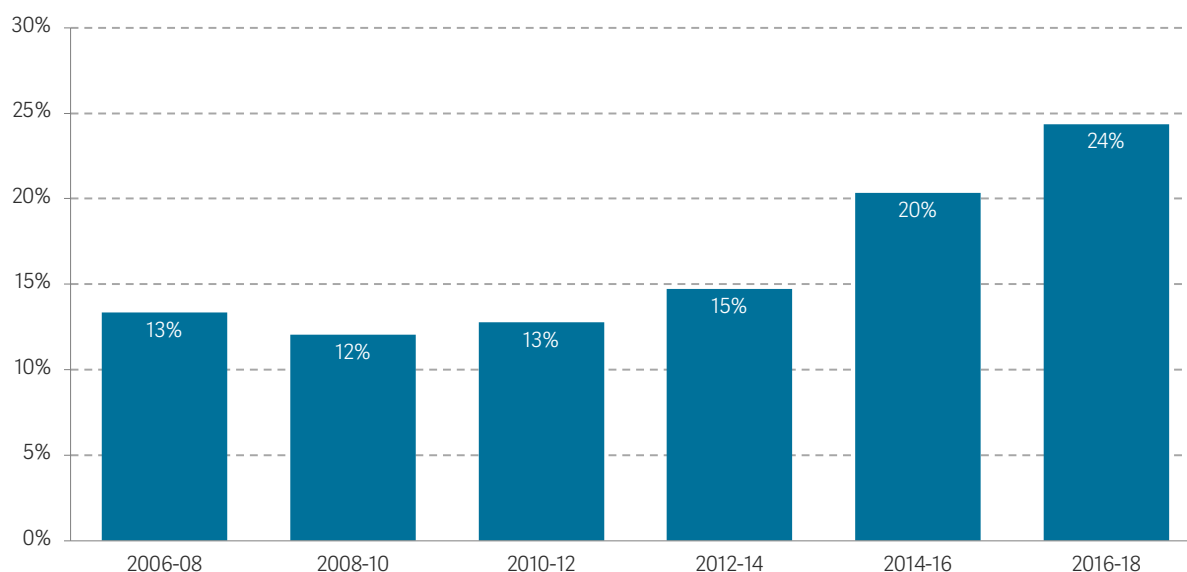
NOTES: Average annuity rates are calculated for each two-year period. The decrease in rates over time from 2006-08 is then used to calculate the impact on aggregate defined benefit pension wealth.  
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Now, turning to defined contribution pension wealth, which largely depends on the returns to financial assets. In general, pension schemes will be able to safely invest in higher returning assets than would make up a typical household’s financial assets, due to the longer investment-horizon and lower liquidity needs. This means that the observed returns for pension funds should, on average, exceed that for household financial assets. Indeed, this is borne out in the faster rise in defined contribution pension wealth than financial wealth.

An important additional aspect for defined contribution pension holdings is the impact of autoenrollment on the coverage of pension scheme across households. Figure 27 shows that there has been a marked increase in the proportion of families with some defined contribution pension wealth. This trend will have continued since the end of our data sample. It is also possible that that pension wealth for those under automatic enrolment is undercounted as some families will be unaware they have it.

**FIGURE 27: Many more families have some defined contribution pension wealth**

Proportion of families with at least some defined contribution pension wealth: GB



SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Despite substantial increases in the measured wealth of both defined benefit and contribution pensions, the relationship to living standards is more complex. For defined benefit pensions, changes in annuity and discount rates do not directly affect the actual level of pension income (or lump sum values) a family can expect to receive. And, to the extent to which increasing costs of providing defined benefit pensions lead to less generous employer pension schemes, over time future accrued pension incomes may be lower. Similarly, the fall in interest rates and rise in costs of annuities mean that defined contribution pension holders will need higher pension wealth at retirement for a given level of income. This means that the rise in pension wealth should not be interpreted as a direct rise in lifetime living standards, and the reverse will be true for some families.

One final important determinant of the distribution of wealth, if not the aggregate level, is developments in inheritances and intergenerational wealth transfers more broadly. There have already been detailed analyses of the impact of inheritance on the distribution of wealth in the UK.<sup>31</sup> Past research has found strong positive correlations between wealth levels and the receipt of inheritances. However, the impact on relative inequality is nuanced as inheritances tend to be slightly more equally distributed than the actual wealth distribution. In practise, the impact of inheritances over the past decade is likely to have been limited. Inheritances only make up a small proportion of lifetime incomes

<sup>31</sup> See, for example, A. Hood & R. Joyce, *Inheritances and Inequality across and within Generations*, Institute for Fiscal Studies Briefing Note BN192, January 2017, R. Crawford & A. Hood, *A tale of three distributions: inheritances, wealth and lifetime income*, IFS Working Paper W15/14, April 2015 and M Brewer, *What Do We Know and What Should We Do About Inequality?*, Sage Publishing, June 2019.

and the aggregate real level of net estates only increased by 0.8 per cent between 2006-07 and 2016-17.<sup>32</sup>

This section has provided an overview of the key drivers for the rise in aggregate wealth and the absolute wealth gaps associated with it. Across all three major types of wealth – financial, property and pension – the most important driver of increasing wealth has been rising asset valuations and the mirror of that development, falling interest rates. Demographics and active saving have only played a small role in shaping the scale and distribution of household wealth.

As outlined, these changes can have important impacts for families' current and future living standards. Rising financial and property wealth could be realised and used to subsidise consumption. Equally, while pension wealth is higher and, in the case of defined contribution pensions, more widely distributed, this does not mean that future pension incomes will be higher. The drivers of the wealth changes are also important from a Government policy perspective.

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<sup>32</sup> This does not mean that inheritances will not become more important in the change in wealth distributions in the future. See, G. Bangham et al, [Intergenerational Audit 2019](#), Resolution Foundation, June 2019 and L. Gardiner, [The million dollar be-question: inheritances, gifts, and their implications for generational living standards](#), Resolution Foundation, December 2017 for a more in depth discussion.

## Section 4

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# Living standards and lower-wealth households ahead of the coronavirus crisis

Wealth matters for living standards and wellbeing in the here and now. It also matters for the future. Beside allowing people to supplement their incomes in retirement, it provides insurance against income shocks by providing a buffer in bad times. This latter role is never more important to society than in an economic crisis, so this section focuses on the intersection between wealth and living standards in the run-up to the coronavirus crisis. The presence (or absence) of a wealth buffer is particularly significant for low-income households, who tend to hold little wealth and for whom other indicators of precarity are heightened. The most recent data from the Wealth and Assets Survey suggests that this group was more vulnerable to an economic shock ahead of the coronavirus crisis, due both to their low holdings of ready savings, and to their increasing levels of consumer debt.

### Wealth is positively linked to wellbeing

As discussed below, wealth is linked to living standards in a number of ways. But, to set the scene, one way to analyse the outcome of these links is to look at subjective wellbeing, an alternative measure of what matters to people.<sup>33</sup> Evidence from several countries suggests that wealth is positively associated with personal wellbeing, even when controlling for income.<sup>34</sup> Figure 28 reports the outcomes of two separate models, showing how personal wellbeing depends on people's position in the household wealth and income distributions respectively, after controlling for other personal characteristics.

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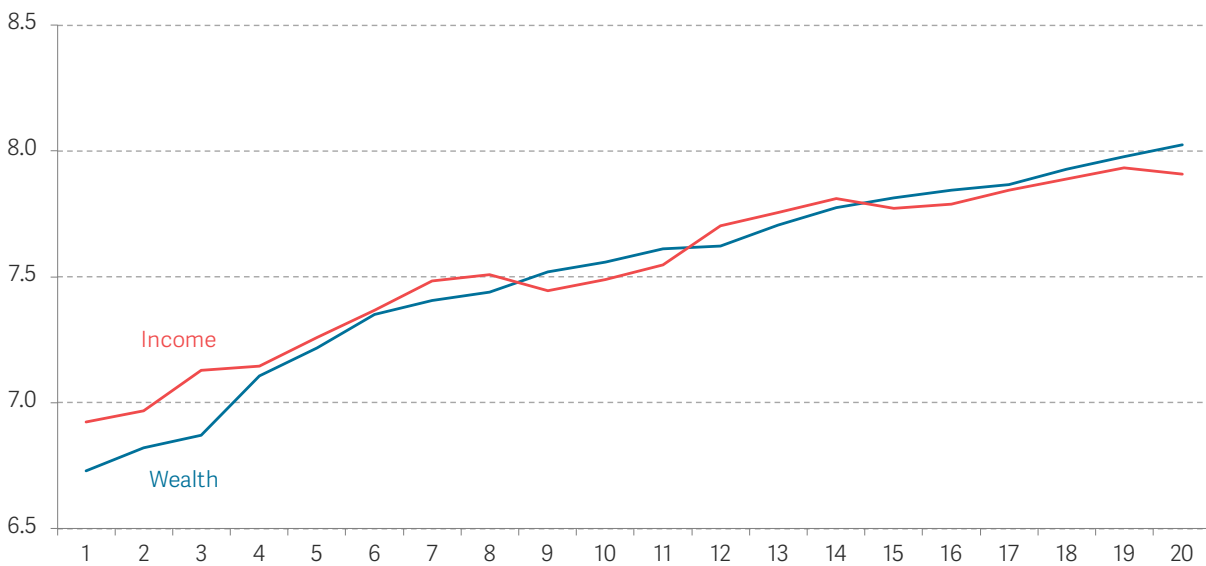
<sup>33</sup> G Bangham, [Happy Now: Lessons for economic policy makers from a focus on subjective well-being](#), Resolution Foundation, February 2019.

<sup>34</sup> B Headey and M Wooden, [The Effects of Wealth and Income on Subjective Well-Being and Ill-Being](#), Economic Record 80, September 2004; O Hochman and N Skopek, [The impact of wealth on subjective well-being: A comparison of three welfare-state regimes](#), Research in Social Stratification and Mobility 34, December 2013; M Jäntti, E Sierminska, T Smeeding, [The joint distribution of household income and wealth: Evidence from the Luxembourg Wealth Study](#), OECD Social, Employment and Migration Working Papers 65, 2008.

People in households with higher total net wealth tend to have significantly higher life satisfaction, even when taking in to account other relevant characteristics like age and economic status.<sup>35</sup>

**FIGURE 28: Higher wealth and income are each associated with higher subjective wellbeing**

Predicted individual life satisfaction by household total net wealth and income vingtile, all ages: GB, 2016-18



NOTES: Smoothing applied with a three-vingtile rolling average. Chart shows predicted values from a linear regression with controls for age, sex, region, presence of children.  
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

The evidence about how wealth is associated with wellbeing, from the academic literature and from our own analysis, tells us that it affects people’s wellbeing differently from income, in a number of ways. It shows that there is merit in considering wealth and income separately when building a broad picture of families’ living standards. The remainder of this section takes this broader approach to living standards, after outlining the different ways in which wealth is associated with people’s living standards.

**Wealth affects living standards in a number of ways**

Holding wealth affects families’ incomes today in a number of ways. Most obviously, it can generate income in the form of dividends, capital gains and rents, which give people the option of consuming or saving more.<sup>36</sup> It can also reduce the amount of family income that is diverted in rents to other people, either as property rent or as the cost of

<sup>35</sup> Note, however, that this analysis does not take in to account how wealth is divided within the household, as we cannot consistently observe this.

<sup>36</sup> For a brief summary of relevant literature on the functions performed by wealth, see G Zucman, *Global Wealth Inequality*, Annual Review of Economics 11, August 2019.

borrowing money. Those with wealth can buy housing equity, allowing them to receive ‘imputed rents’ and thereby experience lower housing costs, and they can avoid having to borrow money except for large purchases.<sup>37</sup> When they do borrow they can do so more cheaply, since lenders will assess higher-income, higher-wealth families as being less risky to lend to. We know from previous Resolution Foundation research that families on lower incomes (who are likely to have low wealth too) are more likely to use certain forms of high-cost credit, and less likely to use lower-cost forms of credit like mortgages and car purchase agreements.<sup>38</sup>

Holding wealth can also affect family living standards in the future, by improving their ability to maintain their consumption level at times when their income is expected to be lower (so-called ‘consumption smoothing’), and allowing them to insure against unforeseen shocks to their income like job loss (‘precautionary saving’).

The most common example of consumption smoothing is over the life cycle: working-age families save money for retirement, so that they can draw down their savings when they stop receiving labour income. Precautionary saving is particularly important in insuring against risks like job loss, where people with savings to fall back on are better able to continue to make ends meet, and are able to spend longer searching for a new job that best matches their skills and pay expectations.<sup>39</sup> The importance of each of these functions depends partly on the degree of public provision available. We move on next to considering each function in more detail.

## Holding wealth boosts income and lowers costs

In the here and now, holding wealth can boost families’ incomes and increase the proportion of disposable income that they have left over after the costs of housing and credit. This links it directly to family living standards. Figure 29 shows how the benefits of two key sources of income from wealth differ across the household net wealth distribution – the returns from financial investments and income from property rents. In the most recent data (for 2016-18), the wealthiest tenth of families received a combined total of £20 billion annual household income from financial investments (60 per cent of the total across the population), and £10 billion from rent on property they owned (32 per

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<sup>37</sup> The cost saving experienced by owner occupiers may be accounted for as an income, in the form of ‘imputed rent’. This is equal of the market rental value of the owned property, which is effectively ‘received’ by an owner-occupier.

<sup>38</sup> J Ahmed & K Henehan, *An outstanding balance? Inequalities in the use – and burden – of consumer credit in the UK*, Resolution Foundation, January 2020.

<sup>39</sup> Economic modelling suggests that workers with higher savings have lower transition rates from unemployment to employment, consistent with them having the ability to wait longer in order to find a job that better matches their skills and expectations. See e.g. G Chaumont & S Shi, *Wealth Accumulation, On the Job Search and Inequality*, 2017 Meeting Papers 128, Society for Economic Dynamics, 2017.

cent of the population total).<sup>40</sup> Their investment income is more than twenty times that received by families in the middle of the wealth distribution.<sup>41</sup>

Crucially, income from wealth also plays a more proportionally important part in the income of high-wealth families. Investment income provides 9 per cent of the income of families in the top tenth by net wealth, compared to just 1 per cent for families in the 5th decile. It is a similar – though less top-heavy – story for rental income, which provides more than 5 per cent of income in the top wealth decile, compared to less than 1 per cent in the 5th decile.

It is also worth noting how much more unequally distributed investment and rental income are compared to labour income. The top household wealth decile receives 16 per cent of all income from employment and self-employment, half of the share they receive of total rental income. As might be expected, labour income plays the most significant role in the incomes of households in the lower middle of the wealth distribution, accounting for 70 per cent of the income of households in the 4th wealth decile, as opposed to 46 per cent of that of the top wealth decile.

If the importance of income from wealth is often overlooked in public discussions about income inequality, there is greater awareness of the advantages that holding wealth brings in reducing families' costs. The most obvious manifestation of this is around housing tenure, where the high costs of renting have become much more prominent in recent years at the same time as the proportion of households who rent rather than own their home has grown considerably.<sup>42</sup>

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<sup>40</sup> The levels of investment income towards the top of the distribution are likely to be underestimates, given the substantial flow of income each year in realised capital gains, that does not usually get counted in income statistics. Income from capital gains is highly skewed towards the top of the income distribution: of the total flow of realised gains in 2017-18 (a total of £55 billion), 62 per cent went to just 9,000 people, each of whom realised over £1 million. For details see A Corlett, A Advani & A Summers, [Who gains? The importance of accounting for capital gains](#), Resolution Foundation, May 2020.

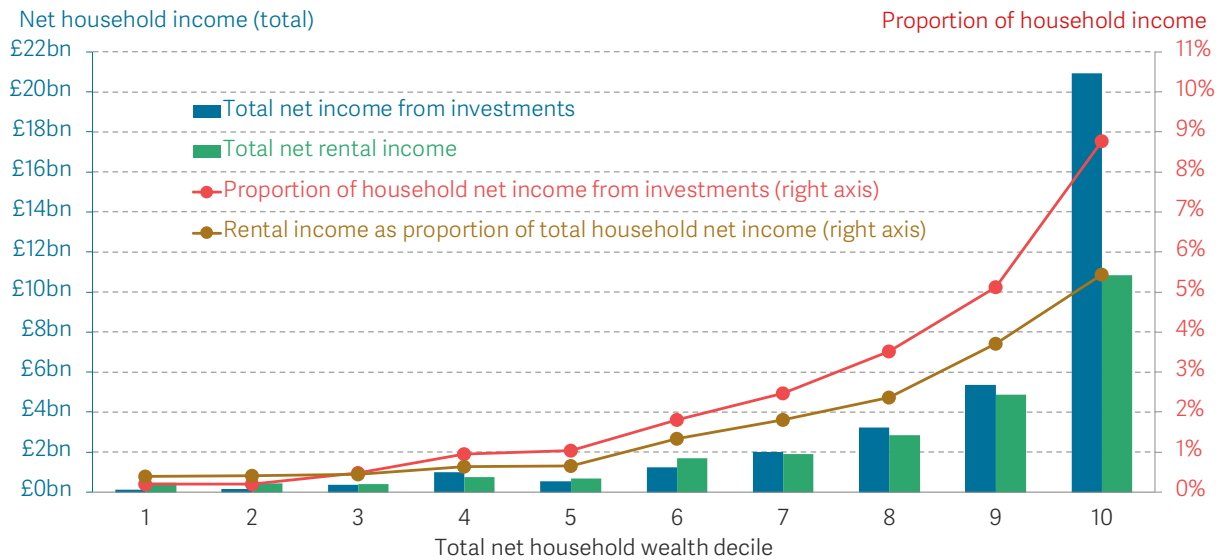
<sup>41</sup> The distribution of rental income would appear somewhat more equal if 'imputed rents' were also included. These are 'received' by owner-occupiers, and are equal to the market rent that they would pay to occupy their property if they were not the owner. Since the distribution of primary property ownership is less unequal than that of additional property ownership, the addition of imputed rents would make the distribution of rental income less top-heavy.

<sup>42</sup> A Corlett & L Judge, [Home Affront: Housing across the generations](#), Resolution Foundation, September 2017.



**FIGURE 29: Higher-wealth households receive more investment and rental income, and it provides a larger proportion of their income**

Household investment and rental income, total and as a share of net household income, by total net wealth decile: GB, 2016-18



Note: Figures in nominal (2016-18) prices. Investment income defined as that “received in total in interest, dividends or return on your investments in the last 12 months, including any winnings on premium bonds”. It includes income that was re-invested and not withdrawn.  
 SOURCE: RF analysis of ONS, Wealth and Assets Survey.

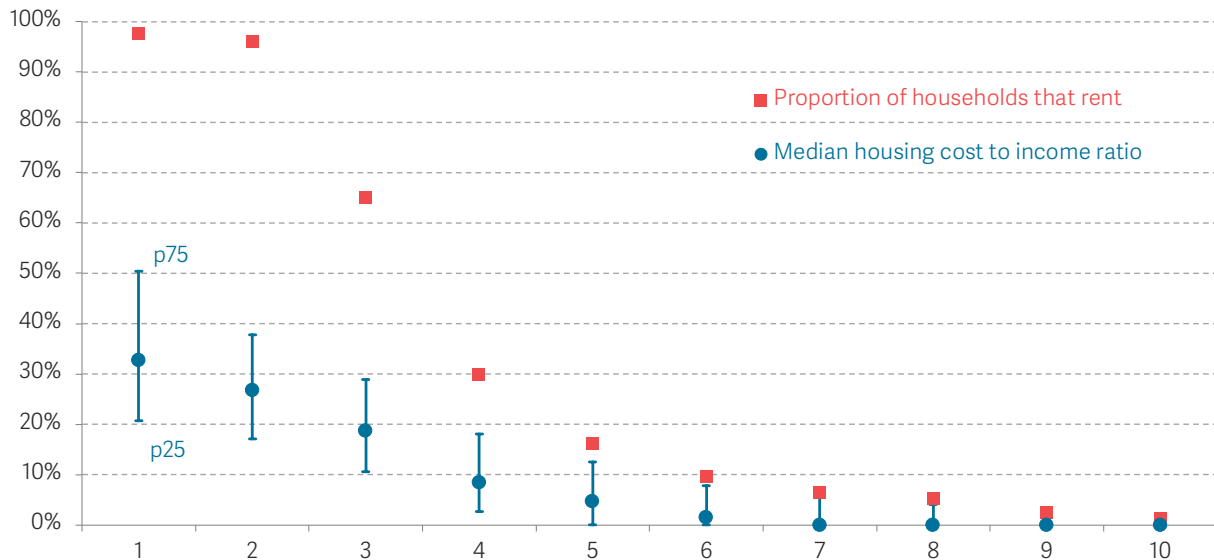
Housing tenure varies considerably across the wealth distribution, and plays a determining role in families’ housing costs. Renters tend to have higher housing costs and lower net wealth, hence housing costs are higher for people lower down in the wealth distribution. As Figure 30 shows, median housing cost to income ratios exceed 20 per cent in the lowest fifth of the household wealth distribution, and this is explained by the fact that over 95 per cent of people in this part of the distribution are renters with high housing costs. Data from the Family Resources Survey for 2017-18 – the second half of the time period covered by the chart – shows that families living in the private rented sector spent an average of 32 per cent of their income on housing, compared to 18 per cent for social renters (included in the ‘renter’ category in the chart), 11 per cent for mortgagors, and 5 per cent for outright owners.<sup>43</sup> In the top wealth decile, given that 70 per cent of households are outright owners, and almost all the rest are mortgagors, average housing costs are negligible.<sup>44</sup> As already discussed, one way to interpret the low housing costs for owner-occupiers is to view them as consuming the ‘imputed rents’ due on their property: rather than paying market rent to somebody else, they effectively ‘receive’ the difference between any mortgage repayments and the market rent for the property as an addition to their disposable income.

<sup>43</sup> Resolution Foundation, *Housing Outlook: Data Dashboard*.

<sup>44</sup> Note that housing costs can be calculated in other ways, which would make them higher for owner-occupiers. For details see ONS, *Measures of owner occupiers’ housing costs, UK: October to December 2019, March 2020*.

**FIGURE 30: Housing costs are substantially higher for low-wealth households, due mainly to the cost of renting**

Housing cost to income ratio and proportion of households who are renters, households by net wealth decile: GB, 2016-18

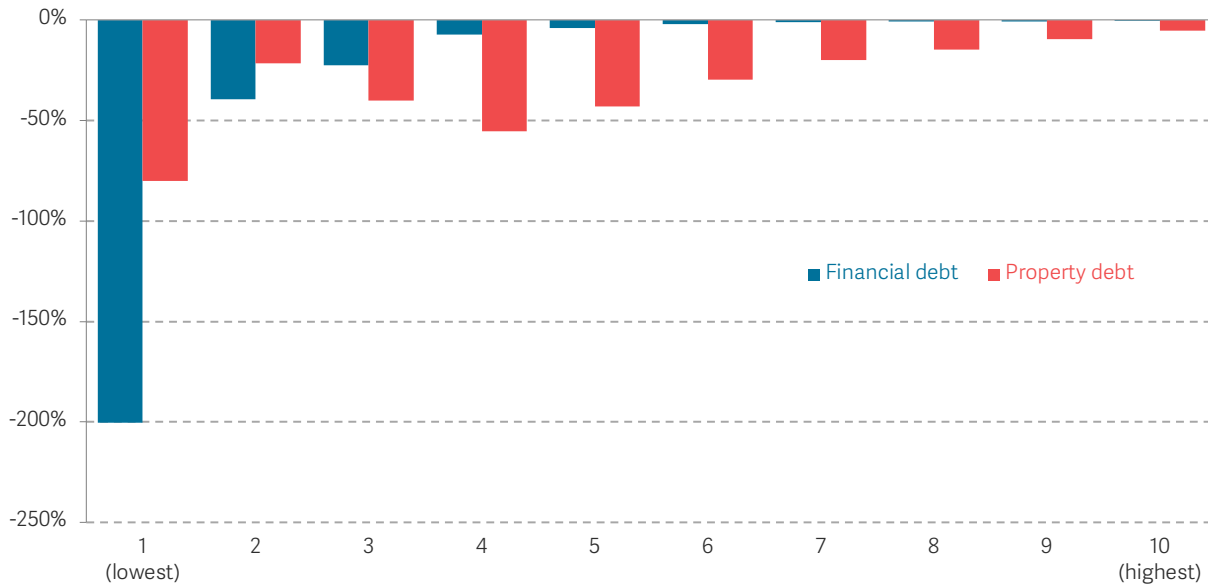


NOTES: Blue bars show 25th and 75th percentile of housing cost to income ratios within each wealth decile. Excludes households in shared ownership or living in someone else’s property rent-free. Renters’ housing costs are presented gross, without accounting for Housing Benefit, so estimates for the lowest few deciles are overestimates. Owner-occupiers are assumed to have zero housing costs, given that data on their costs (e.g. ground rents) are not available.  
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Borrowing costs are another way in which low wealth can reduce families’ disposable income. Families with sufficient wealth may be able to run down their savings – if their income drops – before they have to turn elsewhere and borrow money. Those without savings to dip in to, by contrast, are more likely to have to resort to borrowing straight away. As Figure 31 shows, low-wealth families typically have substantially higher levels of financial debt as a proportion of marketable assets. They also tend to have more property debt, but this is less directly relevant as a way to supplement income in the face of economic shocks, except where families are easily able to borrow money secured against their property wealth.

FIGURE 31: The least wealthy families are hugely indebted, on average

Gross debt as a share of gross marketable wealth by net wealth decile: 2016-18



NOTES: Gross marketable wealth is the denominator for both series, and includes gross financial wealth and gross property wealth, held by the family.

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Previous Resolution Foundation research has investigated the different costs of borrowing for families across the household income distribution.<sup>45</sup> It showed that between 2006-08 and 2016-19, the use of consumer credit grew faster in the lowest household income quintile than among higher-income households, almost closing the gap whereby high-income households had previously been most likely to use consumer credit. It remains the case, however, that the use of consumer credit is relatively evenly spread across the income distribution, with some high-cost products like credit cards used more by higher-income households.

That said, what matters more for family living standards day-to-day is not so much the amount of debt they have, but the burden that debt repayments impose on their disposable income – since high-income households are better able to cope with the burden of borrowing, all things equal. Here there is reason for concern. Figure 31 showed that lower-wealth households have a very large stock of consumer debt as a proportion of their gross wealth. As a proportion of income, debt repayments are also higher among lower-wealth households, reaching 8 per cent of income in the second household wealth quintile, compared to 5 per cent in the top quintile. The disparity in debt repayment burden is more marked across the income distribution, with previous Resolution Foundation research showing that lower-income households face a much higher burden

<sup>45</sup> J Ahmed & K Henehan, *An outstanding balance? Inequalities in the use – and burden – of consumer credit in the UK*, Resolution Foundation, January 2020.

of debt as a proportion of pre-tax income. Data collected by NMG Consulting for the Bank of England showed that the median consumer debt repayment to monthly income ratio in 2018-19 was 8 per cent for households in the bottom income quintile, compared to 2.7 per cent for the top quintile.<sup>46</sup>

## Holding wealth allows smoothing through future economic shocks

Families' living standards aren't only affected by wealth in the here and now. It also plays a key role in determining their living standards in the future. This dynamic link between wealth and living standards emerges for a number of reasons. For example, wealth allows families to maintain living standards in the face of unexpected income shocks (so-called 'precautionary saving'), and plays a key role in supporting living standards during retirement (life-cycle 'consumption smoothing'). It also affects people's ability to move around geographically to find better employment opportunities, as discussed in Box 3.

### BOX 3: Wealth has a more subtle link with labour market outcomes

A large academic literature has analysed the links between wealth holding and people's living standards. For example, people with wealthier parents are more likely to have achieved degree-level qualifications by age 25, even after controlling for parental income and education.<sup>47</sup> In this case, wealth is likely to buy numerous advantages throughout children's lifetimes, such as allowing their parents to live near better schools, all of which can contribute to higher earning potential in future.<sup>48</sup>

We focus on three specific areas in which wealth links to living standards: future labour force participation, future earnings, and job mobility. Parental wealth is also correlated with these outcomes, but this is of less direct interest to us here.

Future labour force participation is correlated with people's wealth holdings, beyond what can be explained by educational attainment alone. Using data from the National Child Development Study (NCDS), which follows children born during a week in March 1958, Abigail McKnight and

<sup>46</sup> J Ahmed & K Henehan, *An outstanding balance? Inequalities in the use – and burden – of consumer credit in the UK*, Resolution Foundation, January 2020.

<sup>47</sup> A McKnight & E Karagiannaki, *The Wealth Effect: How parental wealth and own asset-holdings predict future advantage*, in John Hills, Francesca Bastagli, Frank Cowell, Howard Glennerster, Eleni Karagiannaki, and Abigail McKnight, *Wealth in the UK: Distribution, Accumulation and Policy*, Oxford, Oxford University Press, 2015.

<sup>48</sup> S Gibbons & S Machin, *Paying for Primary Schools: Admission Constraints, School Popularity or Congestion?*, *Economic Journal* 116, 2006.

Eleni Karagiannaki showed that people who owned financial assets at age 23 were more likely to be in employment 10 years later, and those with assets at age 33 more likely at age 42. After controlling for other characteristics associated with both asset holding and labour participation, a positive link remains between having financial wealth at age 33 and likelihood of being in a job 9 years later.<sup>49</sup>

Wealth holding is also associated with higher earnings in the future. Using the same NCDS data, research has found positive associations between having financial assets at age 23 and 33 and higher earnings at age 33 and 42. At age 23, the asset premium is larger for women than men, while by age 33 it is larger for men. Interestingly, more detailed analysis shows that most of the premium occurs is associated with slightly higher levels of wealth, in the range above £1,000 (or £3,070 in 2019 prices).

Job mobility has a more complex relationship with people's wealth. It is well known that workers tend to get pay rises by moving job. These pay rises are larger when the job is in a new organisation.<sup>50</sup> They are larger again when the new job is located in a different, more productive geographical area.<sup>51</sup> Wealth holding can play two key

functions here, which work in opposite directions. First, having financial wealth may enable people to more easily absorb the costs of moving (like rental deposit payments) thereby promoting mobility. Second, homeownership is in some circumstances associated with lower mobility – given that private renters are more likely to make job-to-job and region moves.

Previous Resolution Foundation work has examined the drivers of the long-run fall in rates of people moving job and region, especially young people.<sup>52</sup> The declining trend is partly driven by narrowing differences in employment rates and average wages between different regions, making the wage boost from moving smaller over time, but house prices also have a role to play. Because house prices and rents have risen faster over the past two decades in areas with higher wage growth, the after-housing costs income boost from moving to higher-paying regions has diminished, helping drive the decline in job-to-job and region moves. Wealthier workers, however, are better able to absorb temporary drops in disposable income, giving more of them the chance to move to areas where jobs provide better long-term living standards prospects.

<sup>49</sup> A McKnight & E Karagiannaki, *The Wealth Effect: How parental wealth and own asset-holdings predict future advantage*, in John Hills, Francesca Bastagli, Frank Cowell, Howard Glennerster, Eleni Karagiannaki, and Abigail McKnight, *Wealth in the UK: Distribution, Accumulation and Policy*, Oxford, Oxford University Press, 2015.

<sup>50</sup> S Clarke, *The RF Earnings Outlook Q4 2017*, Resolution Foundation, March 2018.

<sup>51</sup> E Moretti, *The New Geography of Jobs*, Houghton Mifflin Harcourt, 2012.

<sup>52</sup> L Judge, *Moving Matters: Housing costs and labour market mobility*, Resolution Foundation, June 2019.

Our focus in this report is particularly on working-age families, given that people face different challenges around income replacement once they are drawing from their pensions. A good way to get an insight in to different families' ability to smooth their consumption in the face of income drops is to look at the balance sheets of families on low incomes. We consider this at the end of this chapter, but turn first to the more general relationship between income and wealth.

## Given wealth's role in supporting consumption, it is worrying that there is a strong association between low income and low wealth

Families' wealth will always be somewhat correlated with their income. To some extent this is desirable, since higher-income families tend to face higher costs and so they need a larger savings buffer in case of income shocks. But the degree of correlation matters, since if wealth was to play its ideal role in smoothing people's consumption when their income falls, then we would hope that families at all income levels would have at least a minimum level of savings necessary to insure against unexpected events. Unfortunately, this is not the case: many low-income families have little wealth to draw on in the event of an income shock. This matters not only because it leaves them more exposed to economic shocks, but also because it means family balance sheets will be less able to cushion an economic shock that disproportionately affects low-income families (like the coronavirus lockdown), compared to one with a more evenly-shared impact (like the 2007-08 financial crisis).

Wealth and income are of course always correlated to some extent: higher-income households are able to accumulate more wealth for a given amount of consumption spending, and need to save more for precautionary motives. And, as Figure 32 shows, a household's income rank is strongly linked to its wealth rank, and vice versa. In the top household net income decile, 57 per cent of households are also in the top fifth of the wealth distribution. In the top net wealth decile the relationship is even stronger: more than 3 in 5 households are also in the top fifth of the income distribution. Income and wealth ranks are correlated at the bottom of the distributions too, though less strongly than at the top: in the bottom income decile 43 per cent of households are in the bottom fifth of the wealth distribution, whereas half of households in the bottom decile of the wealth distribution are in the lowest income quintile.

FIGURE 32: High-wealth households are also likely to have high incomes

Proportion of each net household income decile also in that total net wealth decile: GB, 2016-18

	1	2	3	4	5	6	7	8	9	10
1	28.2%	21.7%	15.1%	10.3%	8.5%	7.0%	4.2%	2.6%	1.0%	1.4%
2	14.3%	17.0%	17.5%	14.6%	10.9%	10.2%	7.7%	4.2%	2.8%	0.9%
3	10.2%	12.4%	12.7%	13.3%	13.0%	12.6%	9.1%	8.6%	5.8%	2.2%
4	12.6%	10.3%	11.2%	9.8%	9.6%	11.4%	12.5%	10.4%	7.8%	4.4%
5	13.1%	11.1%	9.8%	8.5%	8.9%	10.2%	11.5%	12.7%	10.0%	4.3%
6	8.4%	10.4%	11.5%	10.4%	9.1%	8.9%	10.7%	10.4%	11.8%	8.4%
7	7.0%	8.1%	8.9%	13.8%	10.2%	9.3%	10.4%	11.8%	11.2%	9.4%
8	3.3%	4.7%	6.7%	10.4%	14.4%	12.0%	11.4%	10.6%	13.9%	12.6%
9	1.9%	3.2%	4.9%	6.8%	10.4%	12.8%	13.3%	14.7%	14.2%	17.8%
10	1.2%	1.1%	1.6%	2.2%	4.9%	5.6%	9.2%	14.0%	21.6%	38.7%

SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Given our focus on the ability of families’ ability to smooth their consumption in the face of income drops – particularly in the context of the coronavirus crisis – we turn next to how the position of families with low wealth has changed in recent years.

### Given the importance of wealth for financial resilience, it is concerning that low-income households have so little

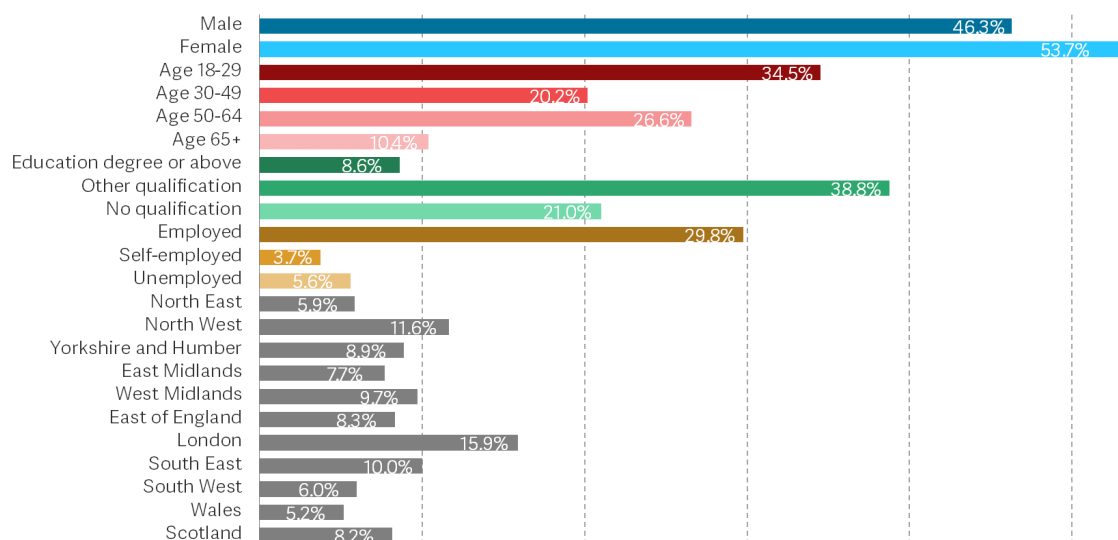
In tough economic times, the most useful forms of wealth for supporting families’ living standards are the most liquid ones: their gross financial assets. As such, this section concentrates on this category of wealth rather than on others like pensions and property wealth, neither of which are useful as insurance against income drops in the short-term heat of an economic shock.

The balance sheets of people with low wealth have deteriorated over recent years

To set the scene, Figure 33 shows us the personal characteristics of people in the lowest-wealth households. It shows that they tend to be female, and also to be in younger age bands. They are much more likely than the general population to have no educational qualifications, and are much more likely to be unemployed.

**FIGURE 33: People in low-wealth households are more likely to be female, young, and non-degree educated**

Proportion of people in bottom wealth quintile (and of all people) with given characteristics: GB, 2016-18



NOTES: Quintiles calculated on household-level total net wealth, excluding physical wealth.  
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

In assessing the financial resilience of families with low wealth or low income, it's important to look both at the asset and liability sides of their balance sheets, since trends in average net wealth can obscure differences in how assets (savings) and liabilities (debts) have evolved. It's also important to go beyond aggregate measures of financial resilience and look at how the composition of family balance sheets differs across the wealth distribution. At the aggregate level, for example, recent Bank of England analysis argued that family balance sheets were in a better state on the eve of the coronavirus crisis than they were before the 2007-08 financial crisis. It also pointed to a fall in the proportion of households with debt service to income ratios over 40 per cent – a level which puts them at risk of payment difficulties – to around 1 per cent recently, compared to 2.7 per cent in 2007.<sup>53</sup> At an aggregate level, then, there were reasons to be less concerned about families' financial resilience in the run-in to the coronavirus crisis.

Digging below the population average, on family balance sheets, reveals a more worrying picture for low-wealth families, however. First, as Figure 34 shows, despite the substantial increase in total wealth as a share of national income over the past 12 years, discussed in Section 1, the net worth of families in the lowest net wealth quintile has in fact gone down (it improved somewhat between 2006-08 and 2012-14, and has worsened since then). Second, the deterioration in their net worth is the result of differing trends on the asset and liability sides of the balance sheet. The asset side increased by almost 50 per

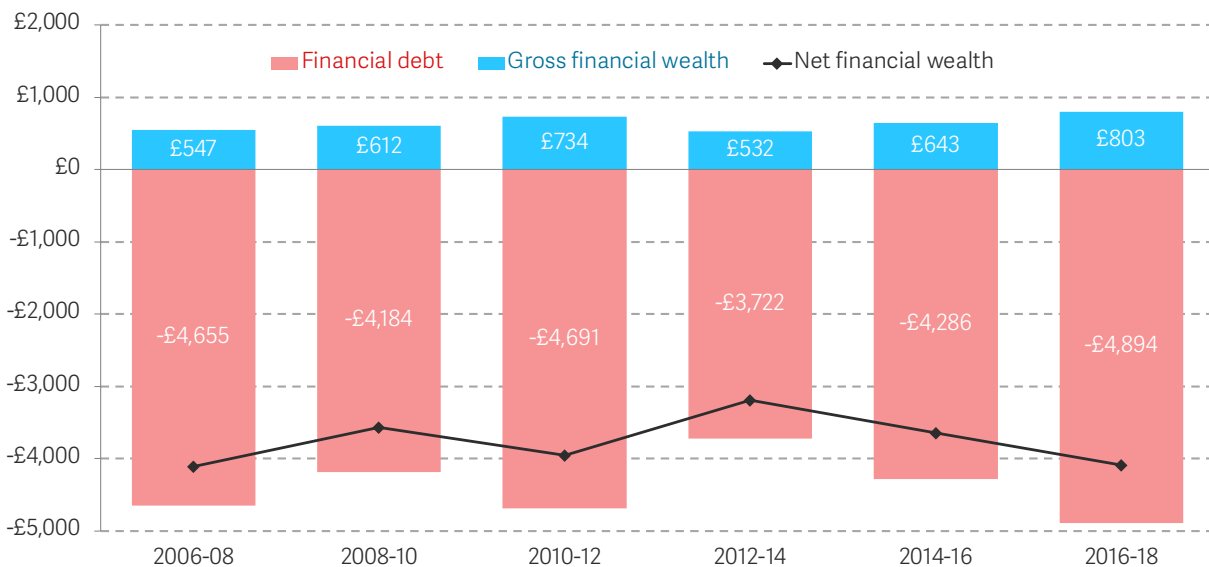
<sup>53</sup> Financial Policy Committee, *Interim Financial Stability Report, May 2020*, Bank of England, May 2020. See box on page 48.



cent in real terms from 2006-08 to 2016-18. But the liability side is more significant as a driver of net changes in these families’ net financial wealth. It improved up to 2012-14, as families deleveraged in the wake of the financial crisis, but since then has deteriorated, with average debts increasing by more than £1,100 per adult per family, driving a deterioration in low-wealth families’ net worth of £1,000 per adult per family between 2012-14 and 2016-18. Of course, this increase in debt holdings has coincided with a fall in the cost of servicing debt, but the fall in debt costs for low-wealth and low-income families has been less pronounced than for those higher up the distribution.<sup>54</sup>

**FIGURE 34: The balance sheets of low-wealth families have deteriorated in recent years**

Real family financial wealth per adult, non-pensioner families in lowest wealth quintile: GB



Note: CPIH-adjusted to 2019-20 prices.  
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

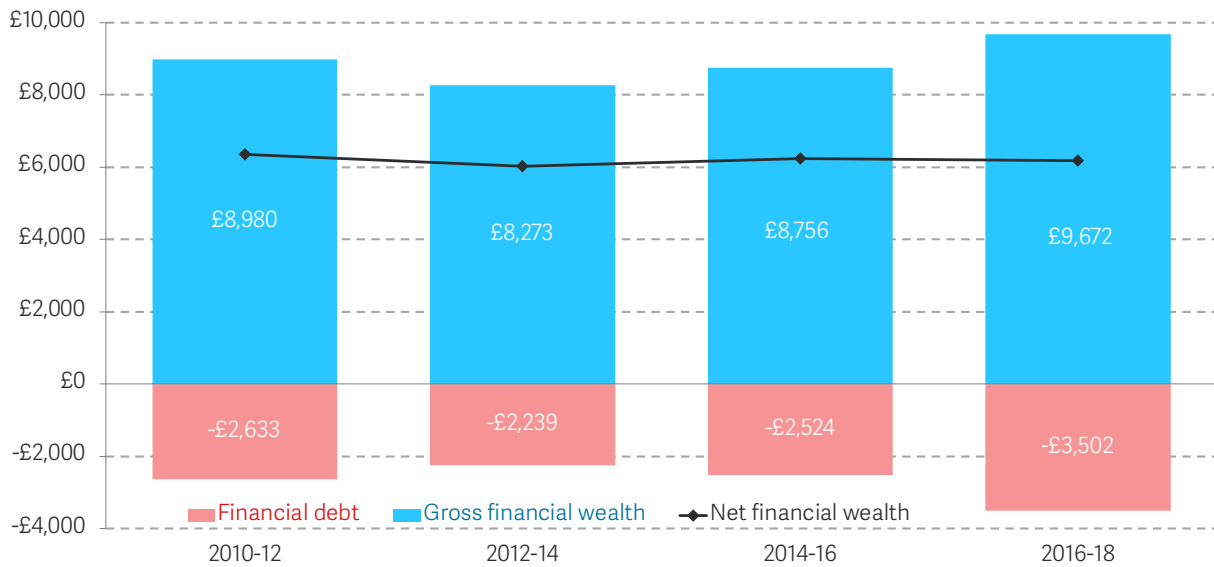
To assess the potential for families’ financial savings to cushion their living standards in periods of low consumption, it is important to look at the financial balance sheets of families on low incomes too, particularly in the context of the strong link between the two. Figure 35 shows how the financial balance sheets of the lowest-income fifth of working-age families have evolved since 2010-12, after adjusting for inflation. Their net worth has not changed at all in this time period while, again, the asset and liability sides

<sup>54</sup> J Ahmed & K Henehan, *An outstanding balance? Inequalities in the use – and burden – of consumer credit in the UK*, Resolution Foundation, January 2020.

of their financial balance sheets tell a more nuanced story. In short, low-income working-age families reduced both their savings and their debts between the first two periods in this analysis, before building up both sides of their balance sheets again since 2012-14.

**FIGURE 35: Lower-income households have more assets and more debt than six years ago, leaving their net worth broadly unchanged**

Real family financial wealth per adult, non-pensioner families in bottom net income quintile: GB



NOTES: CPIH-adjusted to 2019-20 prices.  
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

This section has shed light on the importance of families’ wealth for both wellbeing and living standards in the short term, and for families’ resilience in the longer term. Given what we have identified about low-wealth families’ worsening net worth, and low-income families’ increasing debts in recent years, we move in the next section to an analysis of families’ financial resilience in the face of the coronavirus crisis.

## Section 5

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# Family financial resilience during the coronavirus crisis

We now fast-forward to the coronavirus crisis itself. The virus-induced lockdown has led to an unprecedented hit to the economy, with a number of sectors still almost completely closed. While much of the analysis of the impact of the crisis so far has focussed on the easier-to-measure impact on workers' pay, this is not all that matters. Instead, policy makers need to pay close attention to the impact on overall income and families' balance sheets to gauge which groups are most at risk of severe economic hardship.

In this section we take two approaches to assessing the risk to family finances. First, we conduct a stocktake of the wealth holdings of those in sectors affected by the first three months of lockdown. Based on this pre-crisis data, we find reasons to worry about the resilience of family balance sheets in the run-in to the crisis, particularly those of workers in shut-down sectors. Second, we exploit new survey data on the impact of the crisis so far on household balance sheets. This analysis finds a stark divide between the experience of those on low incomes and those on higher incomes. With much of the economy closed, those on high incomes have been unable to continue their usual consumption patterns, leading to falls in spending and an accumulation of additional savings, or a reduction in existing debt. In short, the crisis appears to have led to an improvement in the balance sheets of those on higher incomes. In contrast, low-income families have had less scope to reduce their spending, and our data shows that their balance sheets are much more likely to have deteriorated. Furthermore, their lack of savings means they have taken on more debt – of more expensive types than typically used by high-income families – or suffered financial hardship.

The coronavirus crisis has already had an unprecedented impact on the UK economy. The onset of lockdown led to a fall in output that was deeper and far quicker than typically experienced during a downturn. Such an economic shock risks widespread hardship. To avoid this, policy makers need a timely understanding of the impact the crisis is having. We already have a good sense of which sectors are being hit the hardest, but this gives an incomplete picture of the likely shock to families' living standards. The ideal, comprehensive data on household balance sheets will not be available until long after the most intense phase of the crisis is behind us, so, in this section we address that gap in two ways. First, we build up a picture of families' finances shortly before the crisis, using data from the Wealth and Assets Survey to assess the wealth holding of those families most likely to be vulnerable when the crisis hit. Second, we then examine directly the impact of the crisis itself on family balance sheets, using timely data collected for the Resolution Foundation in recent weeks.

## Pre-crisis data suggests that the households most affected by the crisis are likely to have lower wealth

The coronavirus lockdown has had very different economic impacts on working-age families, depending on the sectors of industry they work in. Those affected by the crisis can respond in a number of ways. Workers in wealthy households can dip into their savings, to smooth through income falls and maintain their living standards. But lower-wealth and lower-income households are likely to have had to turn elsewhere, often to less generous and more unreliable sources, including: to Universal Credit, statutory sick pay and assistance from friends, family and commercial lenders. Because of this, there is a risk that these families will have seen a greater fall in their living standards than others.

To assess that risk we start by dividing workers into four groups based on their likely exposure to the crisis during the initial three-month period of lockdown.<sup>55</sup>

- First, workers in **shut-down sectors** (6.3 million people), who have not been able to work at all during the lockdown, such as workers in hotels and restaurants (1.8 million) or wholesale and retail (1.3 million). It is worth noting that workers in these two sectors are, on average, among the lowest-paid. And, with an average age of 39, they are four years younger than the average person working from home.<sup>56</sup>

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<sup>55</sup> This analysis follows the methodology developed in recent Resolution Foundation research. For a detailed explanation of this methodology see Box 1 in M Gustafsson & C McCurdy, [Risky Business: Economic impacts of the coronavirus crisis on different groups of workers](#), Resolution Foundation, April 2020. The Wealth and Assets Survey contains less detailed information on workers' job characteristics, giving only two-digit level Standard Industry Classification (SIC) and Standard Occupational Classification (SOC) codes, so our assignment of workers between the four groups is less granular than can be achieved in other datasets. This leads to some overlap between the 'shut-down' and 'key worker' groups, the largest part of which is because we cannot distinguish between food and non-food retail workers.

<sup>56</sup> Estimates of the size and characteristics of the four groups are taken from M Gustafsson & C McCurdy, [Risky Business: Economic impacts of the coronavirus crisis on different groups of workers](#), Resolution Foundation, April 2020. In reality, workers are always moving between the groups, particularly after lockdown restrictions began to be lifted in mid-June.

- **Key workers** (8.6 million people), who have continued to work as usual, in jobs where the difficulty of social distancing puts them at higher risk of exposure to the virus. This group is disproportionately composed of women, and are more likely to be parents than not. It includes workers in education, health and social care, food retail and public transport, among many others.
- Those who can **work from home** (11.1 million people). This group is both the largest and the highest-paid, with more than double the typical pay of those in shut-down sectors (£707 per week compared with £348) and includes many workers in high-skilled occupations and office-based work.
- Workers who still have to **go out to work** (6.1 million people). This includes workers unable to work from home, but who did not appear on the Government's official list of 'critical workers'.<sup>57</sup> They are classified as unable to work from home based on a model calibrated with data from Understanding Society.

These groups of workers vary considerably in their average income and wealth. Figure 36 shows their different levels of family financial wealth (made up of cash in bank accounts and holdings of other assets like bonds and equities).<sup>58</sup> It shows that the average net family financial wealth per adult of people able to work from home, £40,000 in 2016-18 (in 2019-20 prices), was double that of the average key worker. Although workers in shut-down sectors have the lowest earnings, their average family financial wealth per adult (£23,000) is a little higher than that of key workers (£20,000). It is a similar story for median net financial wealth in each group (not shown in the chart), which is two and a half times higher among those who can work from home (£4,700 per adult) than among those in shut-down sectors (£1,900 per adult).

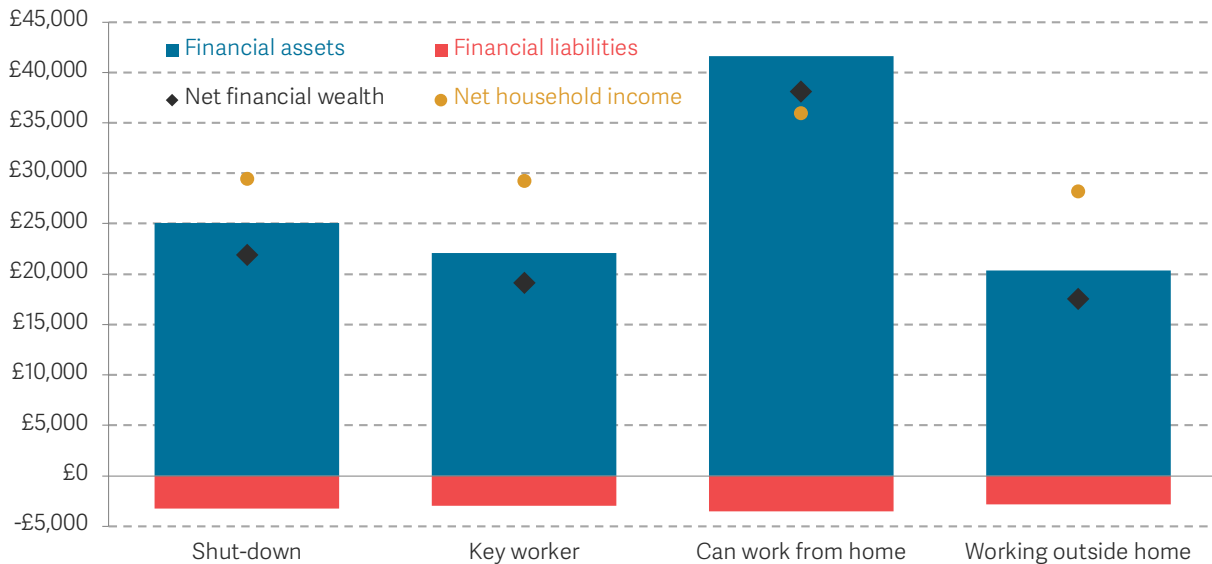
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<sup>57</sup> Cabinet Office and Department for Education, [Guidance for schools, childcare providers, colleges and local authorities in England on maintaining educational provision](#), March 2020.

<sup>58</sup> Compared with the rest of this report, this means we exclude property wealth and pension wealth (as well as physical assets).

**FIGURE 36: People exposed to the economic and health risks of the pandemic are less well able to stand a shock to their incomes**

Workers' mean family financial wealth per adult, and average household income, by exposure to coronavirus: GB, 2016-18



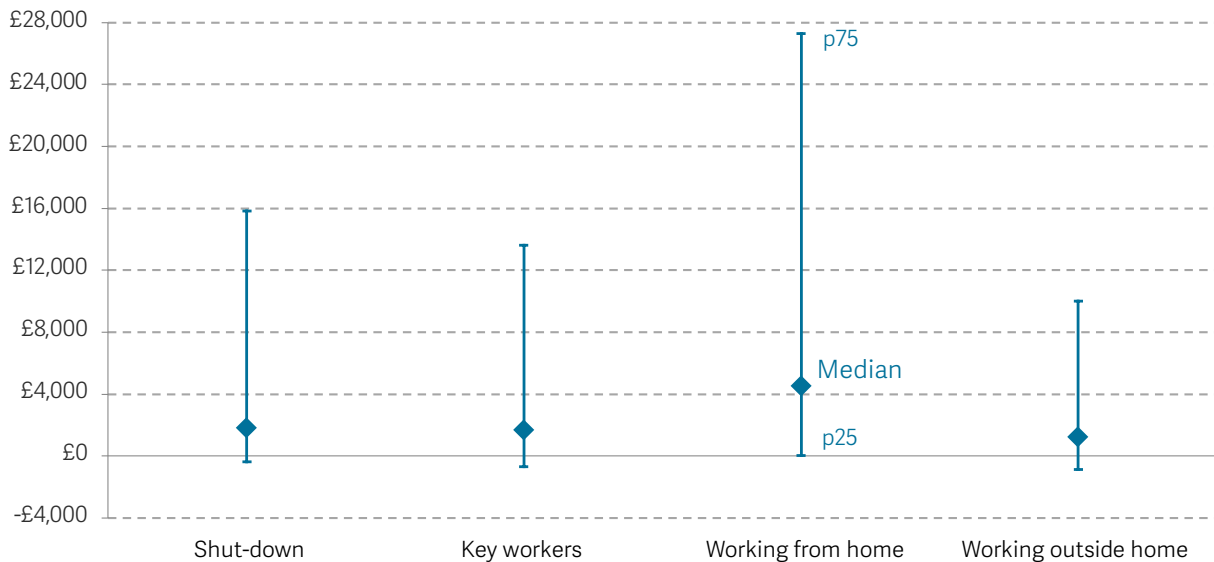
NOTES: Workers classified in to groups by industry and occupation, and their propensity to be able to work from home is estimated from analysis of Understanding Society waves 6 and 8. See methodology outlined in M Gustafsson and C McCurdy, *Risky Business: Economic impacts of the coronavirus crisis on different groups of workers*, Resolution Foundation, April 2020.  
SOURCE: RF analysis of ONS, Wealth and Assets Survey; ISER, Understanding Society.

What explains the much higher average family wealth of those able to work from home? Given what we know about the industries and occupations included in this group, it would be reasonable to think that most workers in high-wealth families fall within it. Figure 37 suggests that this is indeed the case, in that the working from home group contains most of the upper tail of the working-age family wealth distribution.

Knowing how much wealth workers in different groups have is not the whole of the story, though. Other factors may also affect families' financial resilience, or might mitigate or exacerbate falls in income, that do not show up in the statistics on their wealth holdings at a particular point in time. The WAS data gives us an alternative way to look at the question, by looking at workers' own assessments of their financial resilience before the crisis.

**FIGURE 37: The wealthiest workers are highly likely to be among those who can work from home**

Distribution of workers' family net financial wealth per adult, by exposure to coronavirus: GB, 2016-18



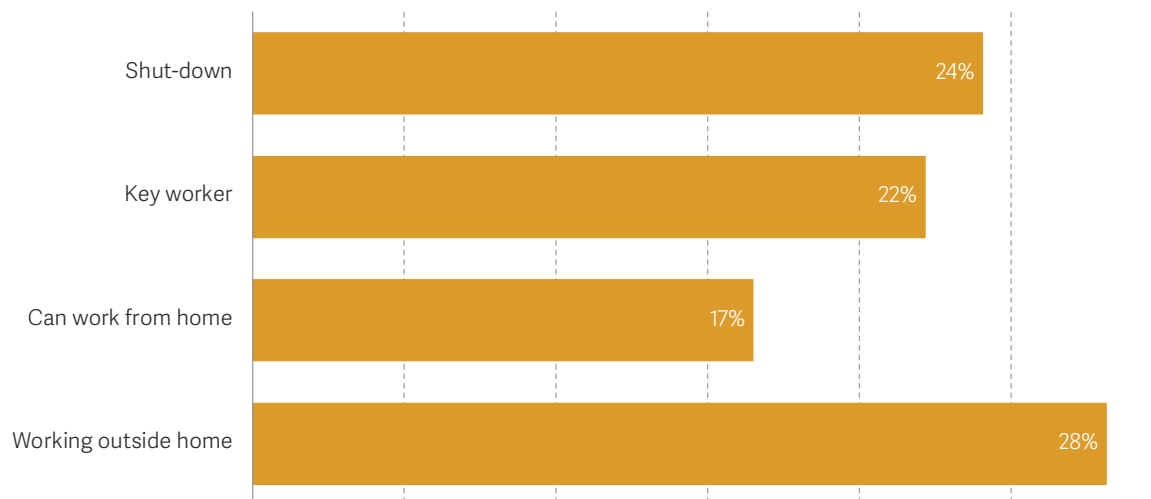
SOURCE: RF analysis of ONS, Wealth and Assets Survey; ISER, Understanding Society.

A useful measure of subjective financial resilience is how easily workers think they could make ends meet if their main income source dried up. In the most recent data, for April 2018 to September 2019, 1 in 10 workers thought their household would not be able to make ends meet if its main income source ran out for a week; around 1 in 4 said they would struggle after a month (this is often described as a measure of financial precarity).<sup>59</sup> Individuals in this latter group are more likely to be female, young and educated below degree level. Figure 38 shows that, before the crisis, precarity was lowest among those able to work from home – matching what we learned from Figure 36, which showed that they are also substantially wealthier, on average.

<sup>59</sup> Early indicator estimates from the Wealth and Assets Survey, Office for National Statistics, April 2020.

**FIGURE 38: Workers in shut-down sectors are more likely to struggle without a month of income than key workers and those working from home**

Proportion of employees aged 16-69 whose family would struggle to make ends meet if main income source stopped for a month, by coronavirus job group: GB, 2016-18



SOURCE: RF analysis of ONS, Wealth and Assets Survey.

It is worth noting that, although financial precarity is higher for those most exposed to the economic impact of the crisis, it is not confined to lower-income households. Figure 39 shows that even in the seventh household income decile, 1 in 5 workers think their household would struggle to make ends meet for a month if their main income source dried up. That said, precarity is more skewed towards the bottom of the household income distribution than it is across the earnings distribution. This suggests that, although the risk of economic hardship has so far been concentrated on lower-paid workers in the coronavirus crisis, a significant proportion of high-paid workers also think their household would quickly struggle if they were affected.<sup>60</sup>

An additional area of concern about financial resilience is the way that families' wealth holdings interact with the social security system. Many working-age benefits are subject to an asset test, including Universal Credit, such that families with more than £6,000 in marketable wealth (excluding homeowners' main properties) will have their entitlements tapered, and those with more than £16,000 will not be eligible at all. The asset test is a longstanding feature of UK social security policy, and exists partly to reduce eligibility among people who are likely to have higher earnings in future, since wealth today is positively correlated with earnings tomorrow.<sup>61</sup> But in these extraordinary economic

<sup>60</sup> L Gardiner & H Slaughter, *The effects of the coronavirus on workers: Flash findings from the Resolution Foundation's coronavirus survey*, Resolution Foundation, May 2020.

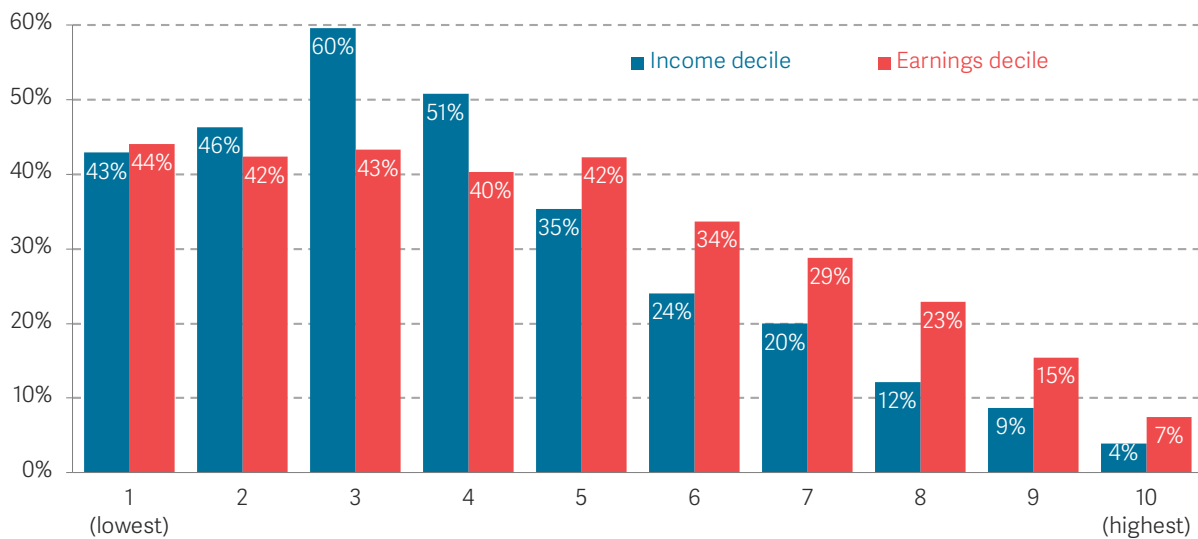
<sup>61</sup> M Brewer, R Joyce, T Waters & J Woods, *A method for decomposing the impact of reforms on the long-run income distribution, with an application to universal credit*, *Economics Letters* 192, July 2020.



circumstances, when the risk of unemployment is far greater than in normal times and we cannot rely on unemployed workers moving quickly into work, such rules prevent some from accessing the safety net benefits unnecessarily, and should be suspended during the coronavirus crisis.<sup>62</sup>

**FIGURE 39: High financial precarity is not confined to low-income households**

Proportion of workers whose household would not be able to make ends meet for a month if main income source lost, by income and earnings deciles: GB, 2016-18



SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Having considered a range of indicators of which workers were more at risk of hardship before the coronavirus crisis, we now move on to analysing the results of our own survey of 6,005 adults, collected by YouGov and supported by the Health Foundation.<sup>63</sup> Previous Resolution Foundation analysis showed that the workers most at risk from the lockdown were likely to have lower household incomes and low family wealth, and that those on lower incomes were much more likely to be concerned about making ends meet.<sup>64</sup> The

<sup>62</sup> M Brewer & K Handscomb, [This time is different – Universal Credit’s first recession: Assessing the welfare system and its effect on living standards during the coronavirus epidemic](#), Resolution Foundation, May 2020.

<sup>63</sup> The survey was designed and commissioned by the Resolution Foundation, in partnership with the Health Foundation (although the views in this note are not necessarily those of the Health Foundation). It was conducted using an online interview administered to members of the YouGov Plc UK panel, which is made up of 800,000+ individuals who have agreed to take part in surveys. The total sample size was 6,005 adults, aged 18-65 and fieldwork was undertaken during 6-11 May 2020. The figures presented here have been weighted and are representative of all UK adults (aged 18+) according to age, gender, and region. The figures presented here have been analysed independently of YouGov and by the Resolution Foundation. They are not the views of YouGov.

<sup>64</sup> For other analysis of the Resolution Foundation’s timely data on the economic impact of the lockdown, see: L Gardiner & H Slaughter, [The effects of the coronavirus on workers: Flash findings from the Resolution Foundation’s coronavirus survey](#), Resolution Foundation, May 2020; M Gustafsson, [Young workers in the coronavirus: Findings from the Resolution Foundation’s coronavirus survey](#), Resolution Foundation, May 2020; L Judge, [Coping with housing costs during the coronavirus crisis: Flash findings from the Resolution Foundation’s coronavirus survey](#), Resolution Foundation, May 2020; M Brewer & L Gardiner, [Return to spender: Findings on family incomes and spending from the Resolution Foundation’s coronavirus survey](#), Resolution Foundation, June 2020; C McCurdy, [Local differences: Responding to the local economic impact of coronavirus](#), Resolution Foundation, June 2020.

analysis that follows enables us to see how far these risks have crystallised during the coronavirus crisis – filling a gap given that Wealth and Assets Survey data for the current period will not begin to be available until at least 2021.

## Despite the relatively even impact of the crisis on incomes across the distribution, the hit to balance sheets has been bottom-heavy

Previous Resolution Foundation analysis has shown that the lowest-paid workers have been worst affected by the crisis.<sup>65</sup> It found that one-third of employees in the bottom quintile of weekly earnings (before coronavirus) have experienced furloughing, job loss or hours reductions associated with reductions in pay, compared to 15 per cent in the top quintile.

The impact across the income distribution has been more even, however. Despite the strong skew of the economic shock towards the bottom of the earnings distribution, our previous analysis found that the impact on family incomes has been surprisingly evenly shared across the income distribution. It found that in the lowest-income 40 per cent of working-age households, 37 per cent of adults reported falls in their income since the onset of lockdown, little different from the 35 per cent of adults in the top 40 per cent of incomes.<sup>66</sup>

The fact that falls in income are fairly even distributed across the income distribution can be attributed to three key factors:

- First, many low earners live in middle- and high-income families, so these workers' loss of earnings has less of an impact on their family's overall income.
- Second, many adults in low-income families were not in work prior to the lockdown. This left their family incomes less reliant on worker earnings, and therefore less exposed to the recent shock to market incomes.
- Third, the social security system has cushioned the financial impact of job losses and earnings falls among many low- and middle-income families. Social security plays this role in any economic crisis, though during the coronavirus lockdown its role is likely to have been enhanced due to increases in the generosity of working-

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<sup>65</sup> L Gardiner & H Slaughter, [The effects of the coronavirus on workers: Flash findings from the Resolution Foundation's coronavirus survey](#), Resolution Foundation, May 2020.

<sup>66</sup> M Brewer & L Gardiner, [Return to spender: Findings on family incomes and spending from the Resolution Foundation's coronavirus survey](#), Resolution Foundation, June 2020.

age benefits.<sup>67</sup> These increases will have boosted the incomes of all families receiving social security benefits, not only those impacted by job loss or earnings falls.

Despite this, the impact on spending is larger for higher-income families. Previous Resolution Foundation analysis found that working-age family spending had fallen for 57 per cent of adults in families in the top fifth of the income distribution, compared to only 30 per cent in the bottom quintile. Ordinarily, such falls in spending would be a sign that families' incomes had dropped. But during the lockdown this is not the only explanation: many families have not experienced income falls, yet they are no longer able to spend as they normally would on services like leisure, tourism, hospitality and non-food retail. As our previous work concluded, for many families the recent falls in spending are better explained by 'forced saving' than by falls in income.<sup>68</sup>

And we can bring together the analysis of how income and spending has changed during the crisis to see how the crisis has affected families' rates of saving. Previous Resolution Foundation analysis showed that 38 per cent of adults in the top family income quintile reduced their outgoings despite their income staying the same (meaning that this group are saving more), compared to just 12 per cent of those in the bottom quintile. Figure 40 shows the proportion of families in each income quintile who are saving more, less or the same as they would in normal times. One third (34 per cent) of families in the top quintile are saving more than they usually would, and only 21 per cent are saving less. By contrast, 28 per cent in the bottom quintile (and 32 per cent in the second quintile) are saving less than they do in normal times.

In sum, the implications of the early phase of this crisis for household balance sheets remain much more serious for lower-income working-age families than higher-income ones, despite the fact that the income shock of the lockdown is distributed fairly evenly. Lower-income households are the least likely to have cut back on spending and are most likely to be saving less than usual during the lockdown. High-income households, on the other hand, are more likely to be saving more, while others who have experienced income hits will have been able to avoid taking on debt by running down their savings, as we shall see in the next section. Three times as many adults in the top income quintile as in the lowest income quintile have experienced no income hit alongside a spending reduction.

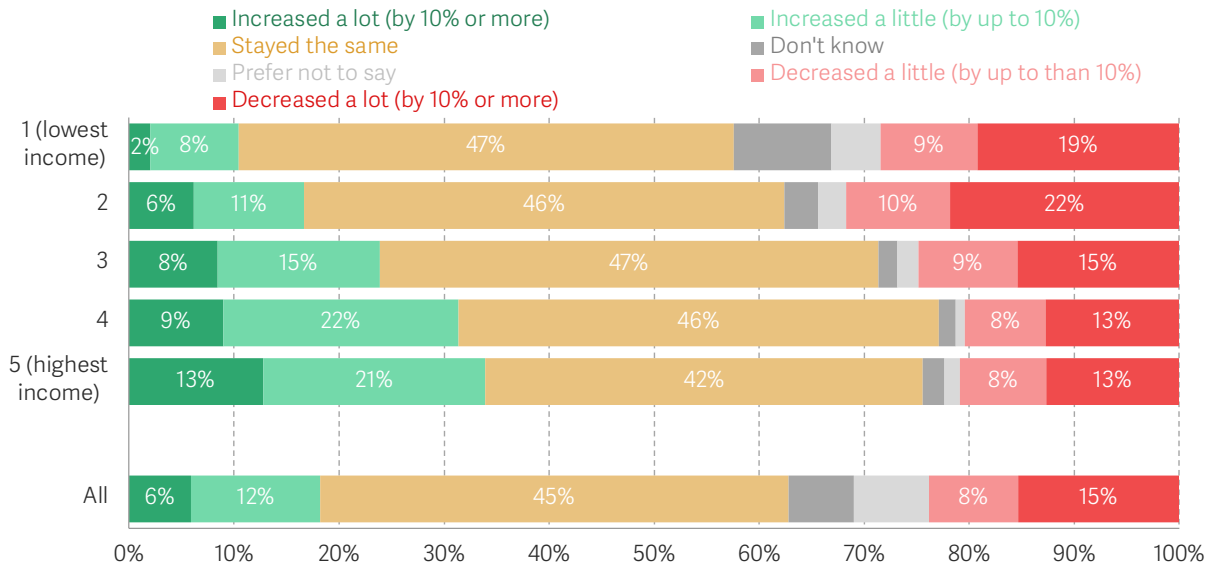
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<sup>67</sup> For detailed analysis of the social security system during the coronavirus crisis see M Brewer & K Handscomb, [This time is different – Universal Credit's first recession: Assessing the welfare system and its effect on living standards during the coronavirus epidemic](#), Resolution Foundation, May 2020.

<sup>68</sup> M Brewer & L Gardiner, [Return to spender: Findings on family incomes and spending from the Resolution Foundation's coronavirus survey](#), Resolution Foundation, June 2020.

**FIGURE 40: During the lockdown, one-third of low-income households are saving less, while one-third of high-income households are saving more**

Proportion of people whose family saving rate have changed since the coronavirus outbreak, by family income quintile prior to the outbreak: UK, 6-11 May 2020



NOTES: Base = all UK adults not studying or retired. Income quintiles are based on net family income prior to the coronavirus outbreak. Sample weighted to be representative of individuals but not families. Question wording = As a reminder, please think about all forms of savings, including bank accounts, stocks and shares, and other investment products, but excluding pensions. Thinking about now in comparison to before the Coronavirus (COVID-19) outbreak started (i.e. the end of February 2020). To what extent, has the amount of money that you/ you and your partner can save or put aside each month increased or decreased, or has it remained the same?

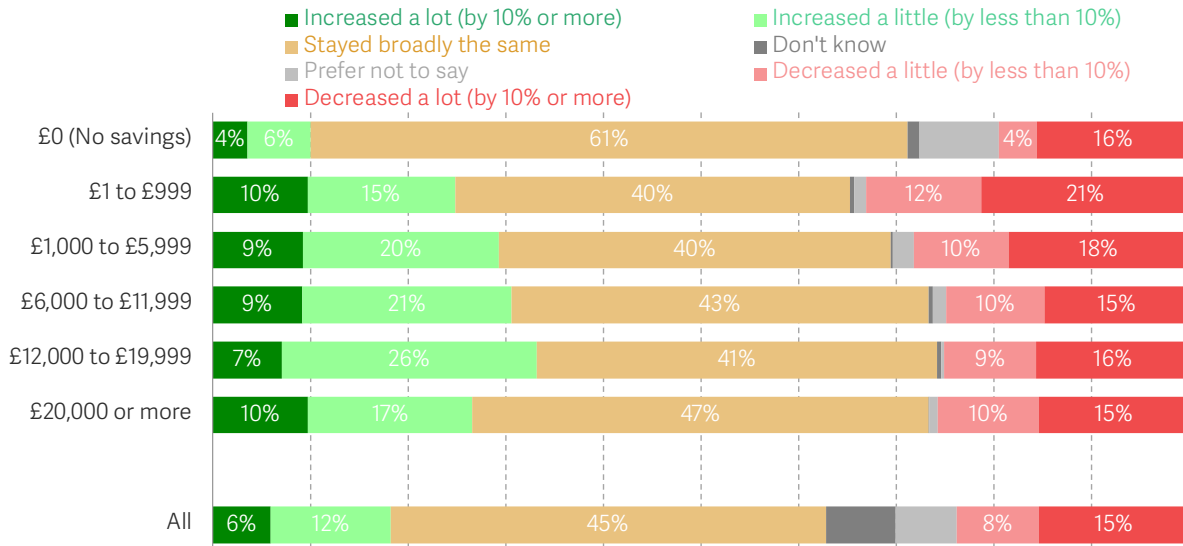
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

## Lower-income households are more likely to have had to borrow money during the coronavirus crisis

Figure 41 shows that people with family savings under £1,000 are most likely to have reduced the amount they put aside each month by more than 10 per cent. There is less of a clear pattern of saving and dissaving among those with higher levels of savings, however: around a quarter have been saving less irrespective of their prior level of savings, while a typically slightly larger proportion have been increasing their family's financial wealth.

**FIGURE 41: During the lockdown, households with the least savings are most likely to have been saving less than usual**

Proportion of people whose family saving rate has changed since the coronavirus outbreak, by family savings prior to the outbreak: UK, 6-11 May 2020



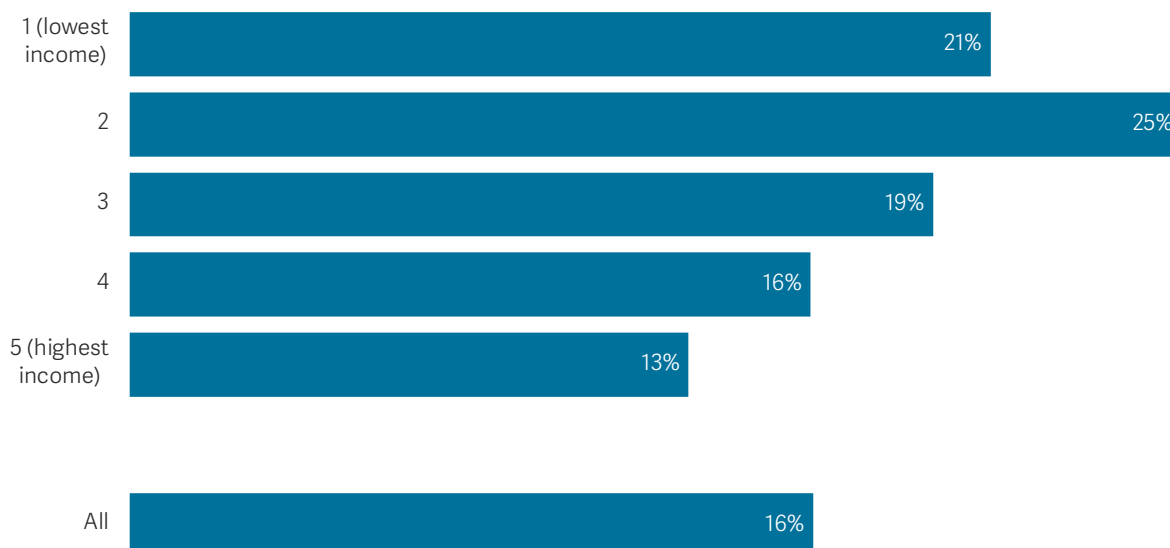
NOTES: Base = all UK adults not studying or retired. Income quintiles are based on net family income prior to the coronavirus outbreak. Sample weighted to be representative of individuals but not families. SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Some families have responded to reductions in their incomes by taking on (more) debt, and Figure 42 shows that this is more likely among families lower down in the income distribution, with 1 in 4 families in the second income quintile having increased their use of consumer debt during the crisis. This statistic is doubly concerning given that low- to middle-income families were already substantially more likely to be facing problem debt and having difficulty paying for essentials before the coronavirus crisis. For example, research by StepChange shows that in December 2019, 3.2 million people in the UK were in severe problem debt, while 9.8 million were showing signs of financial distress.<sup>69</sup>

<sup>69</sup> Coronavirus and personal debt: a financial recovery strategy for households, StepChange, June 2020.

**FIGURE 42: Those on low-to-middle incomes are most likely to have increased their use of consumer debt in this crisis**

Proportion of respondents increasing use of consumer debt products since the coronavirus outbreak began, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020

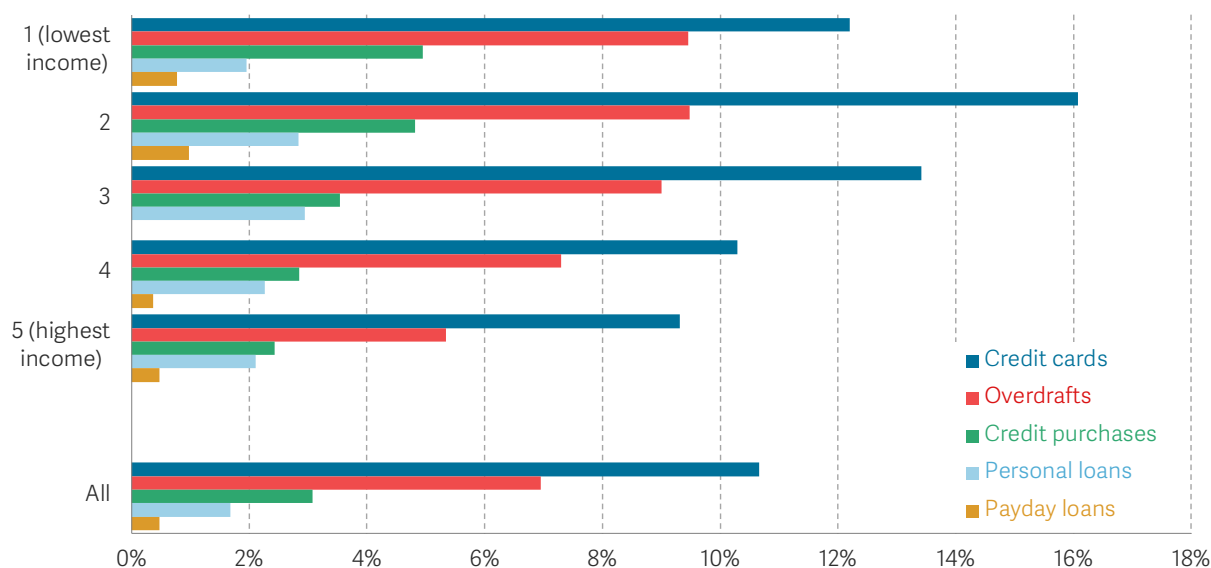


NOTES: Base for RF survey = all adults aged 18-65 with valid income data (apart from the 'all' category), except those who answered 'Don't Know'. Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Question wording = For the following question, please think about since the Coronavirus (COVID-19) outbreak started in the UK (i.e. the end of February 2020). Which, if any, of the following sources of incomes or support have you started using/ are now using more of to cover your costs? (Please select all that apply)? Consumer debt products = overdrafts, credit cards, personal loans, payday loans and credit purchases. Source RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

The cost of servicing consumer credit tends to be higher than other forms of borrowing (like mortgages), increasing families' financial fragility. Figure 43 shows that lower-income families are more likely than high-income ones to have taken on several types of higher-cost consumer credit during the crisis. Credit cards, overdrafts and credit purchases have all grown in usage more quickly among the lowest-income fifth of families than better off families.

**FIGURE 43: Higher-cost consumer debt products (overdrafts and credit purchases) show a stronger concentration among low-income families**

Proportion of respondents increasing use of consumer debt products compared to before the coronavirus outbreak began, by type of consumer debt product and 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020



NOTES: Base for RF survey = all adults aged 18-65 with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Question wording = For the following question, please think about since the Coronavirus (COVID-19) outbreak started in the UK (i.e. the end of February 2020). Which, if any, of the following sources of incomes or support have you started using/ are now using more of to cover your costs? (Please select all that apply)?

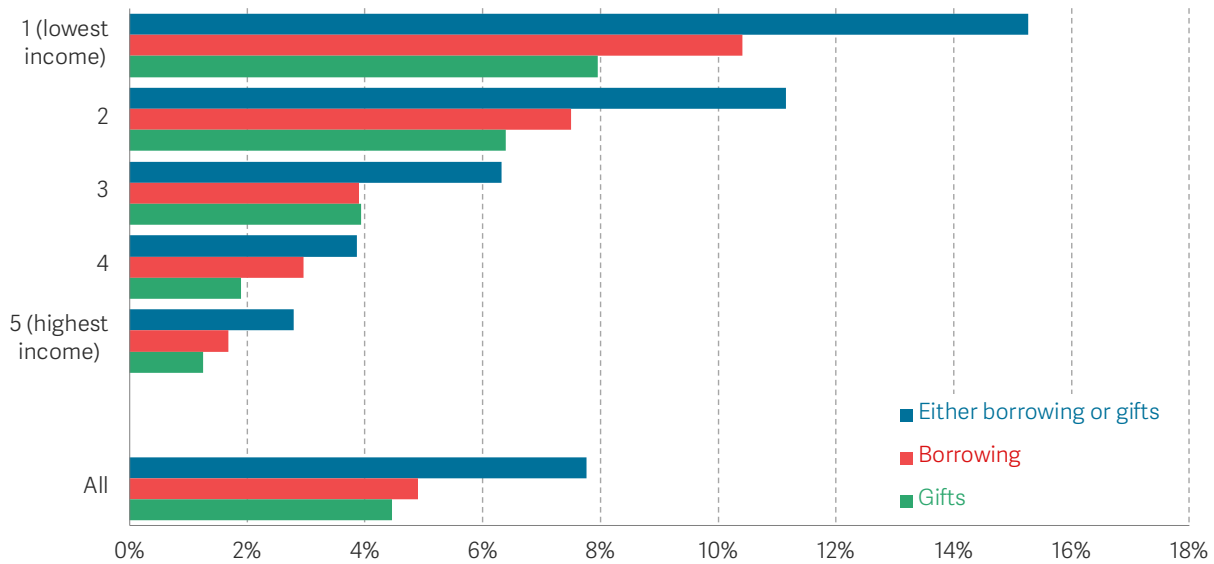
Source RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Figure 44 shows that just over 10 per cent of respondents in the bottom income quintile report that they have increased their use of informal loans from family and friends during the coronavirus crisis, a further sign of the economic hardship that the crisis is causing for families on low incomes. Low-income families' use of such informal borrowing may be motivated by their relative lack of access to credit at reasonable cost, since they are unlikely to hold lower-cost debt products like mortgages and car finance agreements, and are more likely to hold some high-cost products like mail order purchase agreements.<sup>70</sup> But the broader lesson for policy makers remains clear: this recession is hitting low-income families hard. Their pre-crisis family finances left them less able to endure hits to their incomes, and, despite the increased entitlements to social security benefits, government support for family incomes has not been sufficient to prevent substantial increases in formal and informal borrowing, all of which will worsen indebted families' financial resilience over the medium term.

<sup>70</sup> This issue is explored in recent Resolution Foundation work on consumer debt, see: J Ahmed & K Henahan, *An outstanding balance? Inequalities in the use – and burden – of consumer credit in the UK*, Resolution Foundation, January 2020.

**FIGURE 44: Lower-income families are also drawing more on gifts and borrowing from friends and family**

Proportion of respondents increasing use of gifts or borrowing from friends or family compared to before the coronavirus outbreak began, by type of consumer debt product and 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020



NOTES: Base for RF survey = all adults aged 18-65 with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Question wording = For the following question, please think about since the Coronavirus (COVID-19) outbreak started in the UK (i.e. the end of February 2020). Which, if any, of the following sources of incomes or support have you started using/ are now using more of to cover your costs? (Please select all that apply)? Source RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).



## Section 6

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### Conclusion

This report has provided a comprehensive stocktake of trends in the accumulation and distribution of wealth. The context for this exercise is dominated by the huge economic shock from the coronavirus crisis, the unprecedented impacts of which is a threat to families' livelihoods and living standards. The risk of a loss in earnings is most severe for the lowest-paid workers, who are disproportionately employed in the sectors most affected by the lockdown. While that is a worrying development in its own right, the level of economic hardship that results will also depend on how falls in earnings translate into falls in incomes, and on how these changes affect family finances.

In Section 5 we focussed on the risks to lower-wealth households in the run up to the crisis. Our analysis of the financial balance sheets of the families with the lowest net wealth and lowest net incomes showed that they had become somewhat less resilient in recent years. The lowest-wealth fifth of families have larger consumer debts than their counterparts did before the 2007-08 financial crisis, albeit against the backdrop of lower interest rates.

In our assessment of the financial balance sheets of the workers affected most by the pandemic, we showed that net financial wealth is much lower among workers in shut-down sectors than it is among those who can work from home. Almost a quarter of them said that their household would struggle to make ends meet for a month if their main source of income was interrupted.

Looking at how families with different levels of income have fared since the onset of the lockdown, there is a clear distributional pattern. High-income households are more likely to be building up their savings, while low-income households are more likely to running theirs down. The pressure the crisis is exerting on the balance sheets of low-income households – who already had relatively little savings – is pushing more of that group to take on consumer credit, with those on lower incomes more likely to have resorted to high-cost credit.

This analysis of the impact of the crisis underscores the importance of the Government's response to the crisis so far, in sustaining employment and incomes. But the crisis is far from over, and while we save a more detailed discussion of the policy implications of all this for later work, there are three implications of our work that are particularly important for those charged with designing a response to the crisis.

First, while the impact of the coronavirus crisis on jobs and pay is more visible, it is crucial for policy makers to understand the impact on household balance sheets, because these play a critical role in determining the extent of the hardship that is likely to result both now and in the months to come.

Second, while the impact of the crisis on financial and other asset prices will only become clear in time, its immediate impact on financial wealth risks further widening gaps in net worth between higher- and lower-wealth households. This puts the onus on policy makers to do more to tackle very large wealth gaps once Britain emerges from the crisis.

And third, the lack of adequate financial buffers for many low-income households could pose significant challenges to living standards as the Government phases out its emergency support for family incomes. This highlights the importance of a strong social security safety net for all.

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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