

Section 4

Taxes, benefits and household incomes

Leading up to the pandemic, typical income among 18-29-year-olds had continued to rise faster than among their older counterparts. But the longer view remained sobering: cohort-on-cohort income progress remained weak for younger generations and, more widely, for those who are now of working age.

As with housing costs, data lags mean we don't have definitive information on incomes through the Covid-19 period that is consistent with pre-crisis data. But other survey evidence shows that income changes over the course of the pandemic have, unsurprisingly, tracked the health of labour market, with younger people being more likely to report income falls towards the start of the pandemic (when much of the economy had been temporarily shut down) and most likely to report improvements as the economy reopened again in early summer 2021.

Spending changes over the course of the crisis varied less by age and more by the presence of children, with parents being much more likely to report an increase in their spending early on in the pandemic. But, by the summer of 2021, a larger share of parents and non-parents (of all ages) reported their spending was in line with pre-pandemic levels. Among those who have managed to save over the course of the pandemic, plans to spend savings reflect normal lifecycle patterns rather than generational differences or effects of the crisis: pensioners are far less likely than their younger counterparts to plan to buy a home or major purchase like a car, but much more likely to plan to spend savings in other areas, like going on holiday.

The benefit system played a crucial role in supporting working-age households' incomes over the course of the crisis, and the number of single people with no children receiving income-related benefits grew markedly in the year to the period December 2020 – February 2021: by 1.1 million (a 43 per cent increase). Now that the £20 a week uplift to Universal Credit and Working Tax Credit has been withdrawn, the cumulative effect of benefit policy changes since 2010 has, on average, reduced working-age incomes while boosting pensioner incomes. On average, these changes would see a 35-year-old's income just under 2 per cent worse off (£706 per year) since

2010, whereas a 70-year-old’s income would be, on average, just over 2 per cent better off (£808 per year).

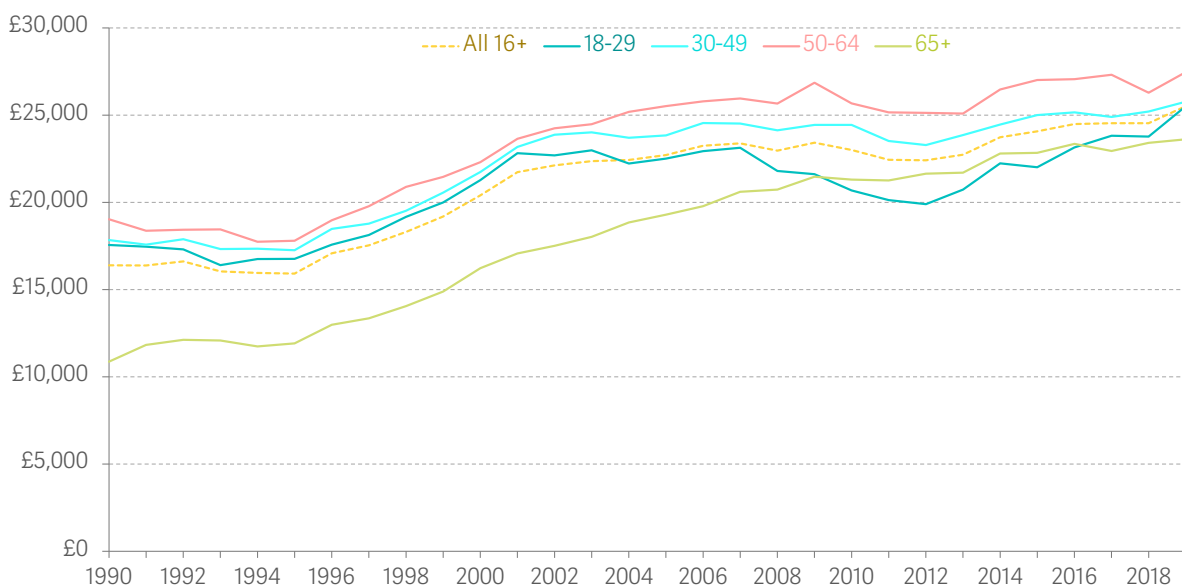
Our Spotlight analysis discusses how the age orientation of the benefits system has shifted over time, and the impact of the benefit system upon incomes (before housing costs) for different generations, amid the backdrop of the rollout of Universal Credit.

Younger adults’ incomes had improved in the lead-up to the pandemic but the bigger picture was stalling generational progress

This section focuses primarily on disposable household income after housing costs, which is a key metric for living standards in that it brings together many of the elements previously discussed in this report (employment within households, pay and housing costs) as well as the effects of direct taxes, benefits, and private pension contributions. (See Box 5 for further detail on income measures.)

FIGURE 37: Heading into the pandemic, younger people’s income had been rising faster than that of any other age group

Typical real household disposable income (2020 prices), after housing costs, by age group: UK/GB, 1990-1991 to 2019-20



NOTES: From 1994-95 to 2002-03 data only covers GB. Figures are in 2020 prices deflated using CPI, after housing costs. Incomes are equivalised to account for differences in household size. Income data before 1992-93 from Family Expenditure Survey is adjusted to align with IFS Fiscal Facts median incomes. SOURCE: RF analysis of IFS, Households Below Average Income (1961-93; DWP, Family Resources Survey (1994-latest).

In general, income growth between the financial crisis and the onset of Covid-19 has been weak (Figure 37).⁷⁹ Figure 37 shows that, after falling in the wake of the financial crisis, typical household incomes among all age groups improved after 2012-13. All ages have seen real rises in typical incomes, but the increase for those aged 65 or over has been smaller than that for younger individuals.⁸⁰

BOX 5: Measuring and defining incomes in the pandemic

Disposable household income after housing costs provides a good indication of households' living standards, as it brings together the effects of household employment, pay, direct taxes, benefits, private pension contributions and housing costs. Unless otherwise noted, we present estimates of household income for each individual in a household (rather than just for the head of the household), as household incomes are equalised to account for differences in household size. In most cases, we refer to the disposable income a household has after housing costs, as it reflects the resources a household has for maintaining day-to-day living costs, and for saving. However, in order to get a sense of how income and spending have fared over the second year of the pandemic, we rely on data from Resolution Foundation-commissioned

surveys, which are based on respondents' household incomes before housing costs are factored in. We note where this is the case.

The latest data from the Households Below Average Income series provides an account of how incomes differed between age groups (and the different directions that they had been moving) on the eve of the Covid-19 pandemic. Earlier Resolution Foundation work did produce a 'Nowcast' estimate of how working-age household incomes had changed between 2019-20 and 2020-21, but the confidence intervals on this prediction are too wide when we break it down by age. To analyse how incomes changes during the pandemic, we therefore rely on separate survey results that set out the proportion of respondents who say that their family income has increased, decreased, or stayed the same over the past year.

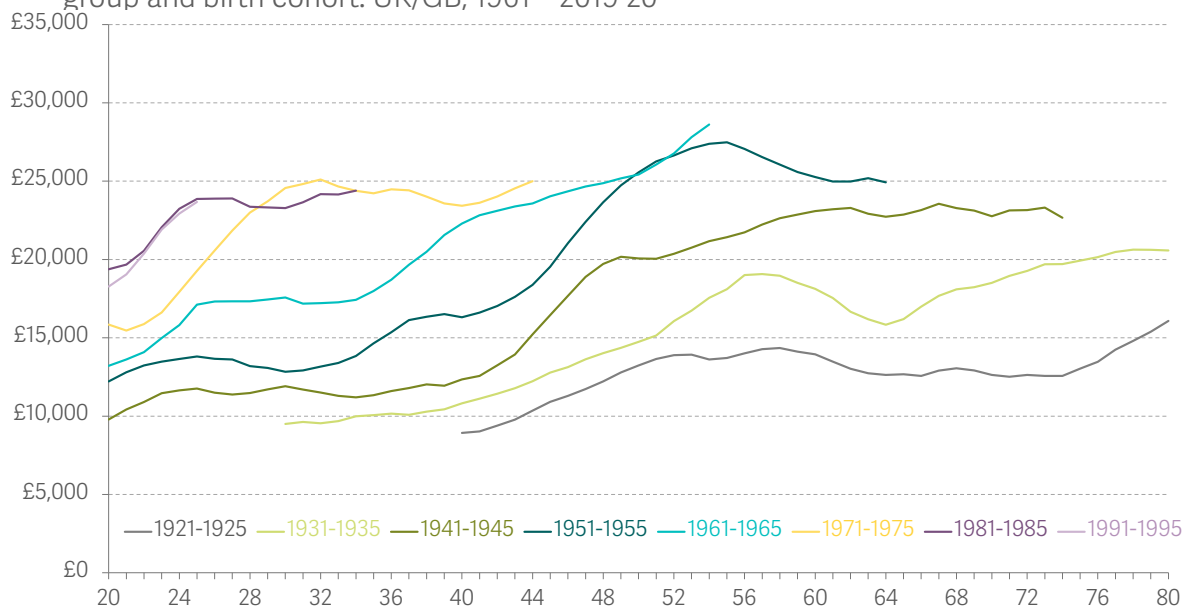
⁷⁹ K Handscomb, et. al., *The Living Standards Audit 2021*, Resolution Foundation, July 2021.

⁸⁰ The weak rates of income growth among pensioners (compared to other age groups) over recent years will likely have been accentuated by statistical oddities, including the rising female state pension age and the treatment of pension lump sums in the underlying household survey. See: L Gardiner et al, *An intergenerational audit for the UK: 2020*, Resolution Foundation, October 2020; G Bangham et al., *An intergenerational audit for the UK: 2019*, Resolution Foundation, June 2019.

How have incomes varied by age over the longer-term? Figure 38 turns to a cohort perspective, showing typical income after housing costs by age for individuals from a series of five-year birth cohorts. It shows that there has been little generational income progress for cohorts that are of working age today, with those born during the 1960s through to the 1990s having typical incomes that are not substantially higher than incomes when at the same age of those born ten years before them. Those born in the 1940s and 1950s, by contrast, have experienced significant income gains relative to their predecessors.

FIGURE 38: Despite fast growth in income just before the pandemic, cohort-on-cohort income progress remains weakest for younger adults

Typical real household disposable income (2020 prices), after housing costs, by age group and birth cohort: UK/GB, 1961 – 2019-20



NOTES: From 1994-95 to 2002-03 data only covers GB. Figures in 2020 prices and are deflated using CPI, after housing costs. Figures for each cohort are derived from a weighted average of estimates by single year of age for each single birth year; cohorts are only included if all five birth years are present in the data. Data is smoothed using three-year rolling averages.
 SOURCE: RF analysis of IFS, Households Below Average Income (1961-93); DWP, Family Resources Survey (1994-latest).

The reduced level of progress for those born in the 1960s will, to some degree, have been driven by the financial crisis and the recession that followed: with the slope of the income curve for those born during early 1960s levelling out slightly from the time they were in their mid-to-late 40s (around 2009-14). For younger cohorts, however, the period shock of the financial crisis is a bit less clear: it will have played a role in depressing pay progress for those born in the early 1970s (who would have been in their mid-to-late 30s when the crisis hit, and their typical income began to flatten out). And yet the period effect of the post-crisis recession may have mattered

less to income progress among millennials born during 1981-1985, whose typical pay was stalled for much of their late 20s and early 30s (after the recession), and which has not yet exceeded the pay of those born ten years before them at the same age. Of course, these cohort-level figures will mask within-generation differences, which we discuss further in Box 6.

BOX 6: Cohorts born in the 1970s and 1980s experienced larger relative income gaps when in their 20s than did previous generations at the same age

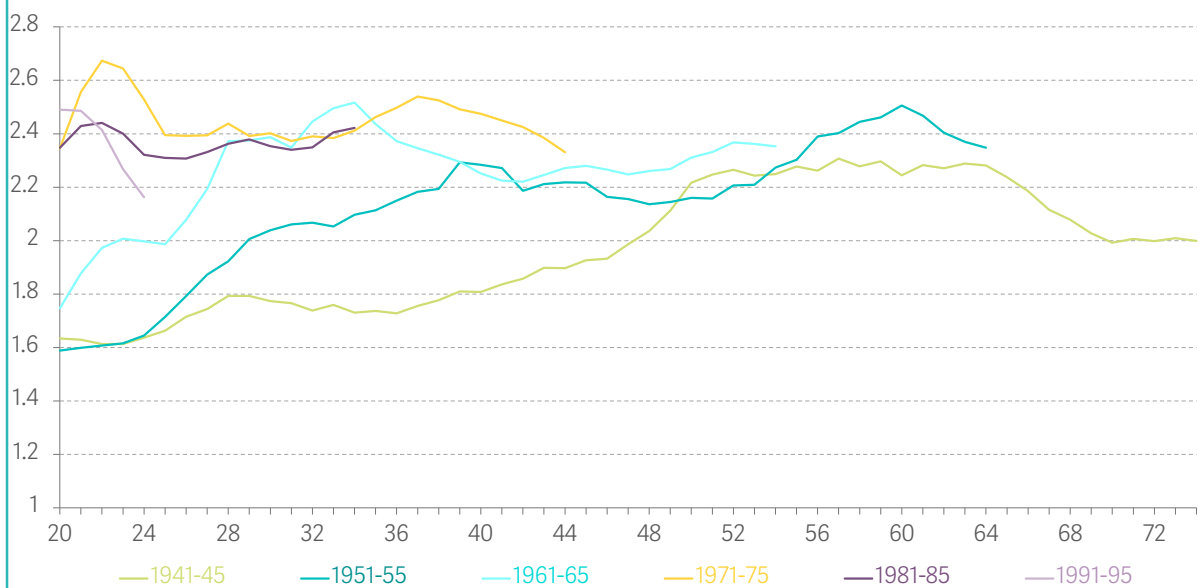
Although this Intergenerational Audit, like our previous two, focuses primarily on differences between generations, there are also (of course) income gaps within generations, and these appear to be larger for more recent cohorts.

Figure 39 shows the size of income gaps between those who were 25 and

75 per cent of the way up the income distribution for cohorts born during 1941-1955, 1951-1955, 1971-1975, 1981-1985 and 1991-1995. Among all cohorts there are clearly large gaps between the two points of the distribution, and these will have grown since income inequality increased during the 1980s.

FIGURE 39: After a long trend of cohort-on-cohort increases in relative income gaps, inequalities have started to fall among cohorts born after 1981-1985

75:25 ratio of real household net income after housing costs, by age and generation: UK/GB, 1961 – 2019-20



NOTES: From 1994-95 to 2002-03 data only covers GB. Figures for each cohort are derived from a weighted average of estimates by single year of age for each single birth year; cohorts are only included if all five birth years are present in the data. Data is smoothed using three-year rolling averages.
SOURCE: RF analysis of IFS, Households Below Average Income (1961-93); DWP, Family Resources Survey (1994-latest).

Over the longer term, income gaps among young adults have become significantly larger, but recently there has been a change in this trend. For example, at age 24, a person born during 1941-1945 whose income was at the 75th percentile would have had an income 1.6 times their counterparts in the 25th percentile. For those born during 1971-1975, that difference at age 24 had grown to 2.5 times. But for the cohorts born in 1981-1985 and 1991-1995, income gaps have shrunk compared to preceding cohorts. For the youngest cohort the difference at age 24 had decreased to 2.2 times.

It is unclear whether, and when, income gaps between younger cohorts will narrow, plateau or continue to grow. For example, income gaps between the 25th and the 75th percentiles of the 1971-1975 cohort reached 2.5 at age 37 before beginning to narrow slightly. Of course, like with intergenerational income inequality, the prospects for intragenerational income inequality either narrowing, or growing, will in part be subjected to several factors, including the speed and shape of the post-Covid labour market recovery, job security and quality, and changes to the taxes and benefit system.

Younger adults were somewhat more likely to experience income falls early in during the pandemic, followed by gains since the 2021 reopening

How have the economic effects of the pandemic affected incomes for different age groups in the UK? The Resolution Foundation's 2021 Living Standards Audit used a detailed nowcasting methodology to estimate how household incomes had changed between 2019-20 and 2020-21, accounting for labour market changes (including pandemic support measures like the Job Retention Scheme and the Self Employed Income Support Scheme, and tax and welfare changes (in particular the £20 per week uplift to Universal Credit). We estimated that median non-pensioner disposable income (after housing costs) growth will be 1.5 per cent in 2020-21 – an impressive level of growth given that GDP fell 10.8 per cent over the same period.⁸¹

Support measures like the furlough scheme alongside the availability and uplift to income support measures like Universal Credit (UC) played a significant role in sustaining median incomes over the past year, and, in particular, protected incomes at the bottom of the distribution, (and even increased incomes for those who were not in work). But although our nowcast is able to provide us with a broad overview of how non-pensioner

⁸¹ K Handscomb, K Henehan & L Try, *The Living Standards Audit 2021*, Resolution Foundation, July 2021. This is slightly higher than projections from the OBR in March 2021 (which estimated that mean household income fell by 0.3 per cent in 2020-21, although using a slightly different income concept to us), because our nowcast reflected the stronger-than-expected labour market towards the end of 2020-21. See: Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2021.

disposable incomes have fared over the bulk of the Covid-19 crisis (2020-21), uncertainty in the pay data over this period prevents us from estimating a similar 'nowcast' for age groups.

We can, however, get a sense of how different age groups' incomes (before housing costs) were affected between the eve of the crisis (February 2020) and the start of 2021 by analysing results from a Resolution Foundation survey of individuals that was in the field during January of 2021.⁸² The left-hand panel of Figure 40 shows change in family income over this time period according to the respondent's age group. (The survey sample was limited to working-age adults, so we cannot present income changes over this period for adults age 65 and older.)

One of the first patterns to emerge from Figure 40 is that the youngest (18-24-year-old) respondents were the least likely to have reported their family income for either February 2020 or January 2021, with four-in-ten declining to provide an estimate. 15 per cent reported an income fall, including 11 per cent who experienced a large fall (of 25 per cent or more). 18 per cent of their 25-34-year-old counterparts reported an income fall (10 per cent of whom reported a large fall) and 16-17 per cent of respondents aged 35-65 reported a fall (between 9 and 10 per cent reported a large fall).

The large amount of 'missing' incomes data for younger adults makes it difficult to compare income changes across age groups. But if we focus only on those who provided income estimates for both February 2020 and January 2021 (the right-hand panel of Figure 40), then it's clear that the 18-24-year-old group was most likely to have reported that their family income fell between the onset of the pandemic and the start of 2021 (19 per cent of this group reported income fell by 25 per cent or more and 7 per cent reported that it fell by less than 25 per cent), compared with 22-23 per cent of all other groups (among whom 12-13 per cent reported an income fall of 25 per cent or more).

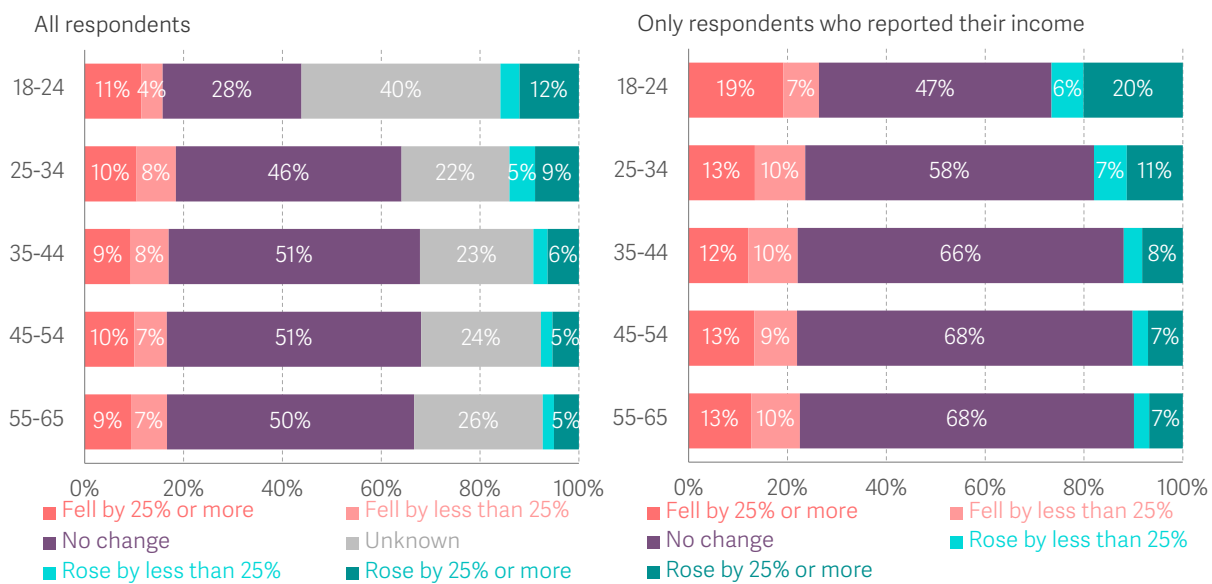
However, Figure 40 shows that 18-24-year-olds were also more likely to report that their incomes rose over this period: for 20 per cent of this group, incomes rose by 25 per cent or more (and for a further 6 per cent they rose by less than 25 per cent). This mixed picture for young people could reflect the fact that younger people often find themselves in changeable employment positions, and more likely to be single, so their overall family income is more sensitive both to changes in their employment status or to benefit policies than is the case for those living as a couple (for example, the £20 a week uplift to

⁸² The survey was undertaken by YouGov from the 22nd to the 26th January and has a sample size of 6,389 adults aged 18 to 65. Results are weighted so as to be representative of the population of that age group.

Universal Credit, which came into effect in April 2020, represented a rise of 25 per cent in benefit entitlement for a single person aged under 25, excluding any additional elements, such as for children and housing).⁸³

FIGURE 40: Between the onset of the pandemic and January 2021, younger adults were a little more likely to report income changes

Change in monthly disposable family income (before housing costs) among all 18-65-year-old respondents (left-hand panel) and only those that reported their income changes (right-hand panel): UK, February 2020 to January 2021



NOTES: Base for left-hand panel = all respondents who provided an estimate of their family income (including if unknown) for February 2020 and January 2021. Sample size is as follows: 18-24: 853; 25-34: 1,373; 35-44: 1,290; 45-54: 1,478; 55-64: 1,229. Base for right-hand panel = all respondents who provided an estimate of their family income (excluding those whose incomes were unknown) for both February 2020 and January 2021. Sample size is as follows: 18-24: 510; 25-34: 1,073; 35-44: 993; 45-54: 1,119; 55-64: 908. Family income refers to the combined income of the respondent and their partner, if they have one. Respondents are asked to report the “amount of income left over from what you receive after paying tax, national insurance, pension contributions, and any other deductions made by your employer, if you have one. Please think about all forms of income, including any benefits received.” All figures have been analysed independently by the Resolution Foundation.

SOURCE: RF analysis of RF/YouGov Covid-19 survey January 2021 wave.

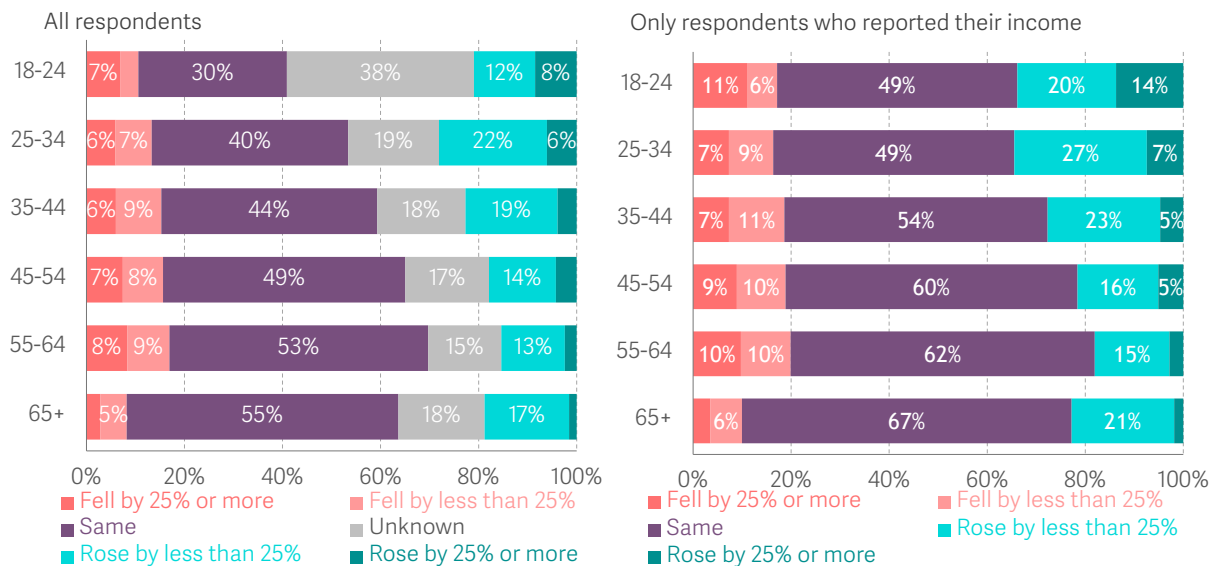
When we narrow our focus to those respondents who reported a negative employment change between the onset of the crisis and the start of 2021, most of these age-related differences, unsurprisingly, fall away. Among those who reported their family incomes and experienced a negative employment change, 58 per cent of 18-24-year-old incomes reported an income fall, as did 62 per cent of 25-34-year-olds, 52 per cent of 35-44-year-olds, 60 per cent of 45-54-year-olds and 63 per cent of 55-64-year-olds.

⁸³ K Handscomb, *The big squeeze: Assessing the changes to family incomes over the next six months*, Resolution Foundation, September 2021.

But what about income changes since the 2021 winter lockdown? Here we rely on a more recent Resolution Foundation/YouGov survey, conducted in June 2021 which asked respondents to estimate the extent to which their family income had changed between the winter lockdown (February 2021) and the spring reopening period (June 2021).⁸⁴ The left-hand panel of Figure 41 presents these results for all respondents, and the right-hand panel focuses on those who answered information on whether and how their income had changed.

FIGURE 41: Compared to their older counterparts, younger adults were somewhat more likely to report an improvement in income between February and June 2021

Change in monthly disposable family income (before housing costs) among all 18-65-year-old respondents (left-hand panel) and only those that reported their income changes (right-hand panel): UK, February 2021 – June 2021



NOTES: Base for the left-hand panel = all respondents who answered whether their family income had changed between February 2020 and June 2021 (including those who answered “don’t know” or “prefer not to say”). Sample size is as follows: 18-24: 732; 25-34: 1,347; 35-44: 1,382; 45-54: 1,356; 55-64: 1,188; 65+: 2,025. Base for the right-hand panel = all respondents who answered whether their family income had changed between February 2020 and May 2021 (excluding those who answered “don’t know” or “prefer not to say”). Sample size is as follows: 18-24: 440; 25-34: 1,199; 35-44: 1,137; 45-54: 1,127; 55-64: 1,011; 65+: 1,670. Family income refers to the combined income of the respondent and their partner, if they have one. Respondents are asked to report the “amount of income left over from what you receive after paying tax, national insurance, pension contributions, and any other deductions made by your employer, if you have one. Please think about all forms of income, including any benefits received.” All figures have been analysed independently by the Resolution Foundation.

SOURCE: RF analysis of RF/YouGov Covid-19 survey June 2021 wave.

⁸⁴ The survey undertaken by YouGov from the 3rd – 8th June 2021, has a sample size of 8,030 adults aged 18+. Results are weighted so as to be representative of the population of that age group.

18-24-year-old respondents were, again, the least likely to have provided an answer (38 per cent), but, putting this age group to one side, there does appear to be an age-related pattern in the share of respondents reporting that their family income had increased, with younger adults (25-34-year-olds) reporting this at the highest rate (28 per cent) and 55-64-year-olds reporting it at the lowest (15 per cent). These patterns hold when we narrow our focus only to those who provided information about income changes (in the right-hand panel): from 34 per cent of 18-34-year-old respondents to 21 and 18 per cent of 45-54 and 55-64-year-olds, respectively. (Pensioners were included in this survey, and they were somewhat more likely than all to report no change to their incomes.)

These age-related differences reflect how different age groups have experienced the employment-related effects of the crisis over time: as we set out in Section 2, younger adults were more likely to be furloughed or lose work at the start of the crisis and then, among those who lost work, it was the young who transitioned back into working at the fastest rate during the spring 2021 reopening.

Although a smaller share of older working-age adults experienced a negative employment change during the pandemic than those aged 18-24, Section 2 also set out how, by May 2021, those older workers who had lost a job or been fully furloughed during the winter lockdown were transitioning back into work at the slowest rate. This relatively uneven employment bounce back (in terms of age) could explain why the oldest working-age respondent group (55-64-year-olds) were the most likely to have reported falling income during the three months to May 2021 (17 per cent) and the least likely to report growing incomes (15 per cent) over the same time period.

Over the course of the crisis, spending changes have varied somewhat by age and a lot by the presence of children

Provisional ONS estimates show that UK households reduced their weekly spending by 19 per cent (or £109.10 a week) during the coronavirus pandemic.⁸⁵ Spending falls during the pandemic were far greater for the highest-income households than the lowest: weekly spending reduced by 20.6 per cent for the richest 20 per cent of households compared to a fall of 12.5 per cent for the poorest 20 per cent. These preliminary results from the Living Costs and Food Survey (LCFS) do not include spending patterns by age group, so we rely on Resolution Foundation-commissioned surveys to obtain a sense of how spending changes have varied by age over the course of the pandemic. However, because our early surveys were limited to working-age UK adults, we are unable to capture how spending has changed among pensioners.

⁸⁵ These are provisional figures from the Living Costs and Food Survey (LCF) and cover the financial year ending 2021. These figures have not yet been processed as comprehensively as previous years. See: Office for National Statistics, [Weekly household spending fell by more than £100 during the coronavirus pandemic](#), September 2021.

We might expect spending changes during the pandemic to be driven by three factors. First, those people who experienced any form of labour market disruption might reduce their spending to reflect their reduced income. Second, spending may have fallen because people were unable to consume the usual set of goods and services because of the various lockdowns or social distancing restrictions, or because they wanted to avoid the risk of Covid-19, or because spending on commuting and other work-related costs fell when people worked from home; these factors would have predominately affected spending on hospitality and leisure. Third, spending may have changed because Covid-19 affected the cost of certain activities.⁸⁶ The age patterns in the overall changes in spending, then, will depend on how important those three factors were for different sorts of families. For example, our 2020 Intergenerational Audit showed that older adults tend to devote a higher than average share of spending towards luxuries, which include hospitality and entertainment.⁸⁷

Our analysis finds that, although there has been some age-related variation in spending changes, other factors – notably whether or not a respondent has dependent children in their household – have had a larger effect. Figure 42 sets out changes in household spending toward the start of the pandemic (between February and May 2020) according to the respondent's age and whether they have dependent children living with them (left-hand panel) or not (right-hand panel).⁸⁸ There is only a small amount of age-related variation in spending changes among respondents with children: between 25 to 31 per cent of 18-34, 35-44, 45-54 and 55-64-year-olds with dependent children reported that their family spending rose. Spending rises were somewhat smaller among those without children, ranging from 14 per cent of 18-34 to 24 per cent of 55-64-year-olds. As we have discussed in other work, this difference in spending changes between those with and without children is likely to reflect additional costs of having children at home during successive months of school closures.⁸⁹ Among those without children, the age gradient is less clear in part because of the large proportion of 18-34-year-olds that did not provide data on spending changes (14 per cent).

⁸⁶ For a discussion of how this may have happened for low-income families with children, see: M Brewer & R Patrick, [Pandemic Pressures: Why families on a low income are spending more during Covid-19](#), Resolution Foundation, January 2021.

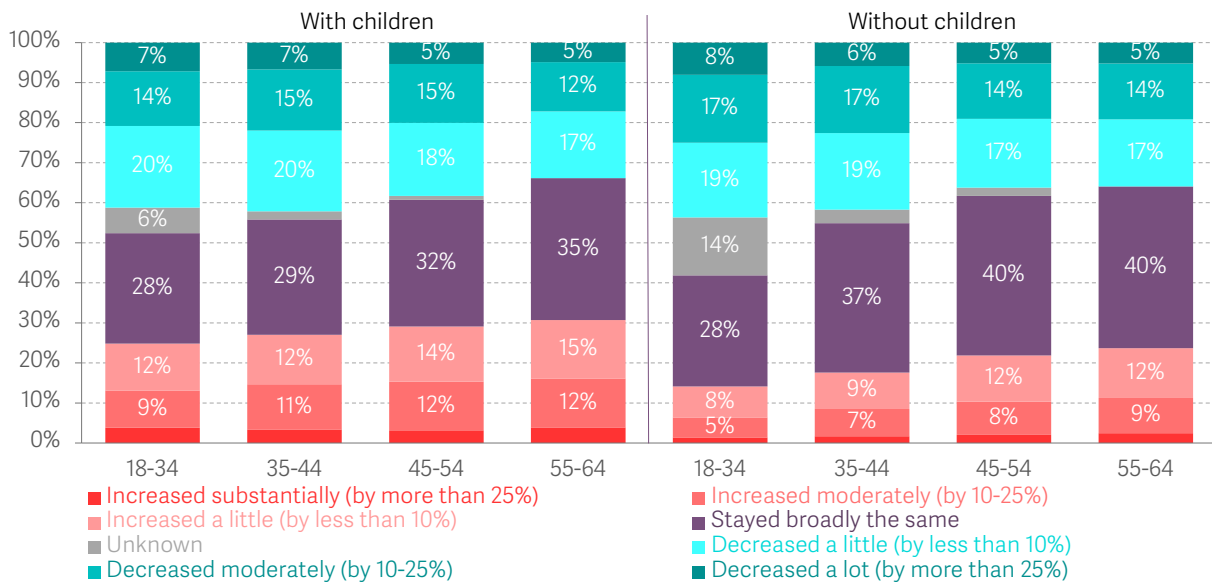
⁸⁷ L Gardiner et al., [An intergenerational audit for the UK: 2020](#), Resolution Foundation, October 2020.

⁸⁸ Figures are derived from by a survey designed and commissioned from YouGov by the Resolution Foundation, in partnership with the Health Foundation (although the views in this report are not necessarily those of the Heath Foundation). The figures have been analysed independently by the Resolution Foundation and are not the views of YouGov. The total sample size was 6,005 working age adults. Fieldwork was undertaken during 6-11 May 2020. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+) according to age, gender, and region.

⁸⁹ M Brewer & R Patrick, [Pandemic Pressures: Why families on a low income are spending more during Covid-19](#), Resolution Foundation, January 2021.

FIGURE 42: At the start of the crisis, respondents with children were more likely to report higher spending

Change in respondent’s day-to-day spending among those with dependent children (left-hand panel) and without (right-hand panel): UK, February 2020 – May 2020

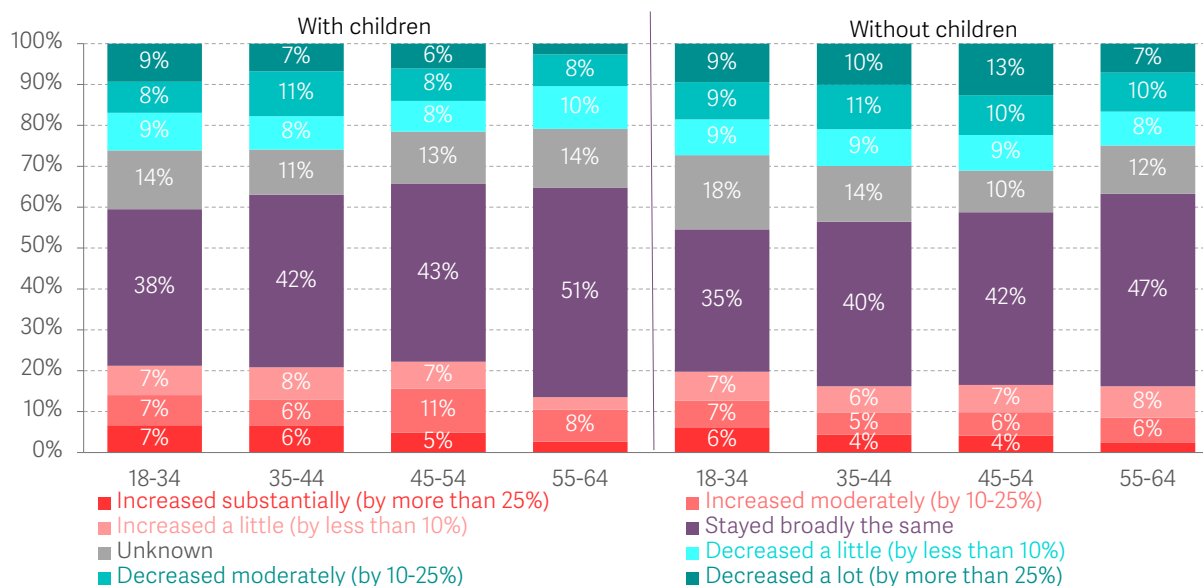


NOTES: Base = all respondents who reported a change in their family’s day-to-day spending between February and May 2020. Sample size for respondents with dependent children is as follows: 18-34: 342; 35-44: 652; 45-54: 754; 55-64: 396. Sample size for respondents without dependent children is as follows: 18-34: 1,658; 35-44: 587; 45-54: 622; 55-64: 754. Day-to-day spending includes the respondent and their partner’s spending on food, bills, entertainment, clothes, but excluding one-off purchases such as home improvements, booking a holiday or buying a car changed between February 2020 and June 2021. 18-24 and 25-34-year-olds are combined into one age group order to achieve a robust sample size. All figures have been analysed independently by the Resolution Foundation. SOURCE: RF analysis of RF/YouGov Covid-19 survey June 2021 wave.

By June 2021, when much of the economy had re-opened, some had returned to the office and schools were mostly back open, the proportion of respondents reporting that their family spending was broadly the same as their family’s spending before the onset of the pandemic (i.e. in February 2020) had greatly increased (Figure 43). In May 2020, just 29 per cent of 35-44-year-olds with dependent children reported their spending was the same as it was before the pandemic; by June 2021, 42 per cent did. Differences between respondents with and without children were somewhat smaller too: for example, in May 2020, 35-44-year-old parents were nine percentage points more likely to report an increase in spending than their non-parent counterparts; by June 2021 this difference had fallen to just under five points.

FIGURE 43: By June 2021, the share of respondents reporting that their spending was different from pre-pandemic levels had fallen

Change in respondent's day-to-day spending among those with dependent children (left-hand panel) and without (right-hand panel): UK, February 2020 – June 2021



NOTES: Base = all respondents who reported a change in their family's day-to-day spending between February 2020 and June 2021. Sample size for respondents with dependent children is as follows: 18-34: 419; 35-44: 651; 45-54: 452; 55-64. Sample size for respondents without dependent children is as follows: 18-34: 1,660; 35-44: 731; 45-54: 904; 55-64: 1,110. Day-to-day spending includes the respondent and their partner's spending on food, bills, entertainment, clothes, but excluding one-off purchases such as home improvements, booking a holiday or buying a car changed between February 2020 and June 2021. 18-24 and 25-34-year-olds are combined into one age group order to achieve a robust sample size. All figures have been analysed independently by the Resolution Foundation.

SOURCE: RF analysis of RF/YouGov Covid-19 survey June 2021 wave.

Temporary support measures have played a role in shoring up working-age incomes throughout the pandemic

The effects of the pandemic on income, as with employment, appear to have something of an age-related skew: younger people were more likely to report income falls towards the start of the pandemic (when much of the economy had been temporarily shut down) and were most likely to report improvements as the economy reopened again in early summer. But young people who found themselves out of work, like all of their working-age counterparts, were able to benefit from temporary support measures, including the JRS, SEISS and the £20 a week uplift to UC and Working Tax Credits.⁹⁰

The number of people benefiting from these grew rapidly during the pandemic. In fact, the Spotlight analysis at the end of this section shows that between February 2019/ December 2020 and December 2020/February 2021, the number of single people with no children receiving income-related benefits had increased by 1.1 million (a 43 per cent

⁹⁰ See also: M Brewer & K Handscomb, *All Together Now? The impacts of the Government's coronavirus income support schemes across the age distribution*, Resolution Foundation, August 2020.

increase) compared to the year before, while the rise among all other family types has been just 300,000 (or 8 per cent overall). Our analysis found that, were the temporary uplift to UC and Working Tax Credits made permanent, they would have increased working-age adult incomes by 0.8 per cent on average (£240 per year), and by 1.1 per cent (£300 per year) for children.

However, the Government removed the UC uplift (which had been in place for 18 months) in September. This cut to UC, which will affect the 4 million families on it, would amount to a 15 per cent reduction in standard allowances among couples over the age 25, a 21 per cent reduction among single adults over 25 and 25 per cent reduction for single adults under age 25. At the other end of the age spectrum, the Government have decided not to uprate the State Pension by the usual triple lock mechanism this year: with average earnings likely to have risen by over 8 per cent in May-July, the triple lock would have resulted in the largest nominal rise in the state pension for three decades.⁹¹ Instead, it will rise in 2022 by 2.5 per cent or by September's CPI inflation figure (which is set to be higher).

However, tax and benefit changes since 2010 have reduced average working-age incomes and boosted average pensioner incomes

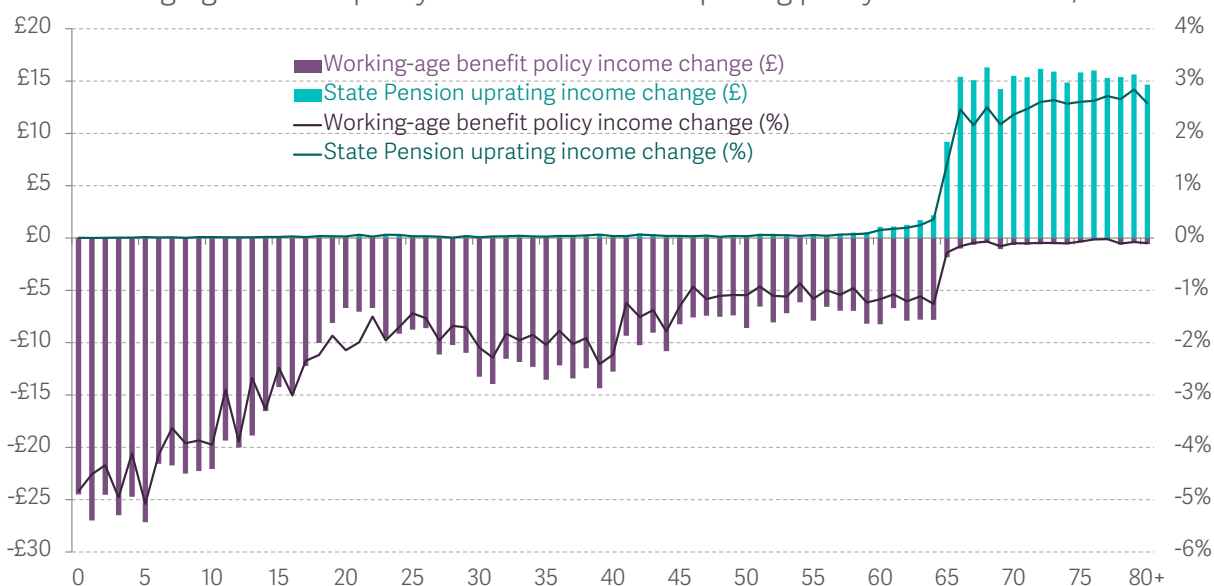
Against this backdrop, we should consider these benefit policy decisions (including the recent withdrawal of the temporary uplift to UC and Working Tax Credits) compared to recent history (Figure 44). As our Spotlight explains, benefit policies that came into play since 2010 have had sharply different income effects across the age distribution. Changes to working-age and Child Benefit policies reduced incomes for children and those of working age between 2010 and 2019-20, whereas the State Pension uprating policy helped to boost incomes for those of retirement age over the same period. On average, a 35-year-old would find their incomes just under 2 per cent worse off (£706 per year) since 2010 as a result of these policies, whereas a 70-year-old would, on average, just over 2 per cent better off (£808 per year). (For reference, the UC uplift put into place during Covid-19 temporarily increased working-age adult incomes by an average of £240 per year and children's incomes by £300 per year⁹²).

⁹¹ T Bell, A Corlett & D Tomlinson, *To govern is to choose: The choices facing the Chancellor this autumn*, Resolution Foundation, September 2021.

⁹² K Handscomb & L Try, *Age-old or new-age? The changing incidence of social security benefits by age*, Resolution Foundation, August 2021.

FIGURE 44: Benefit policy since 2010 has cut incomes for children and working-age adults, while boosting pensioner incomes

Change in average weekly family income for individuals by age as a result of changes to working-age benefits policy and State Pension uprating policy since 2010: UK, 2022-23



NOTES: Policy changes include: reduction in benefit uprating, two-child limit, removal of the family premium, benefit cap, reduction in Council Tax Support, Bedroom Tax, Benefit Cap, removal of the limited capability for work addition, means-testing of Child Benefit. Full roll-out of UC assumed. Effect of uprating State Pension by inflation. We assume that new State Pension at consistent ratio to Basic State Pension. We also assume that CPI inflation in September 2021 will be the same as in August 2021 (3.2 per cent). Incomes are equivalised to account for household size.
SOURCE: RF analysis using the IPPR tax benefit model.

The Covid-19 crisis has affected incomes both across and within age groups, with some evidence that, after dipping last winter, incomes (especially among the working age) began to recover as large sectors of the economy reopened last spring and summer. However, looking towards the coming months, households of all ages are likely to feel an increase in living costs through growing energy costs and rising inflation (the Bank of England projects that inflation will rise above 4 per cent in the coming months, the highest rate in the UK since 2011⁹³), and working-age households will experience an additional income squeeze from the rise of 1.25 per cent in employee, employer and self-employed National Insurance Contributions from April 2022.⁹⁴ The pandemic has shown that policy can be immensely effective in protecting families' living standards in the face of sharp and sweeping economic change and the evidence suggests it was very successful. It now needs to ensure that these successes won't be undermined in the recovery.⁹⁵

⁹³ For further discussion, see: J Leslie et al., *The Uncertainty Principle: Previewing the decisions to be taken at the Autumn Budget and Spending Review*, Resolution Foundation, October 2021.

⁹⁴ For further discussion of the impact of the new Health and Care Levy, see: T Bell et al., *Nationally Insured? New taxes and new spending to address key Department for Health and Social Care priorities*, Resolution Foundation, September 2021

⁹⁵ For a discussion of income changes over coming months, see: K Handscomb, *The big squeeze: Assessing the changes to family incomes over the next six months*, Resolution Foundation, September 2020.

Spotlight: Age-old or new-age? The changing incidence of social security benefits by age

Nearly two-thirds of the population live in households that receive some income from state benefits⁹⁶

Benefits provide vital support to families: protecting those out of work from abject poverty while ensuring those in low-paid work are – through in-work benefits – better off than if they did not work; helping with additional costs or fulfilling an obligation society has towards other groups – through Child Benefit and disability benefits; supporting activities that contribute towards society – for example through Carer’s Allowance; and, providing social insurance for unemployment, ill-health – through contributory Jobseeker’s Allowance and Employment and Support Allowance – and for retirement – through the State Pension.⁹⁷

Figure 45 shows that in 2019-20, before the Covid-19 pandemic, 62 per cent of the population lived in a household supported by at least one benefit.⁹⁸ By individual benefit: 21 per cent of the population are in a household receiving the State Pension, 35 per cent with Child Benefit income, 25 per cent with income-related benefit income, and 12 per cent with disability benefit income. Of the remaining benefits, disability benefit incomes are more concentrated among older individuals. The remaining benefits (both means-tested and out-of-work contributory benefits, as there is no way to split them in the data) are more concentrated among children, and middle-aged working-age adults with

⁹⁶ This is a summary of a longer Spotlight published during August 2021. This summary abbreviates that original publication, which included a more detailed analysis of how the value of benefits has changed (for different age groups) over recent decades and of the change in the numbers of families receiving benefits during the Covid-19 crisis (with a particular focus on the rollout of Universal Credit and the move away from legacy benefits). The longer version of this Spotlight (which was published before the Government had proceeded with the removal of the £20 uplift to UC and to working tax credits, and before they announced plans to suspend the triple lock mechanism and instead uprate the State Pension by either 2.5 per cent or inflation in 2022) also modelled the effect on individual’s equivalised household income, by age, were the Government to maintain the £20 a week boost to UC and uprating the State Pension by earnings. See: K Handscomb & L Try, [Age-old or new-age? The changing incidence of social security benefits by age](#), Resolution Foundation, August 2021.

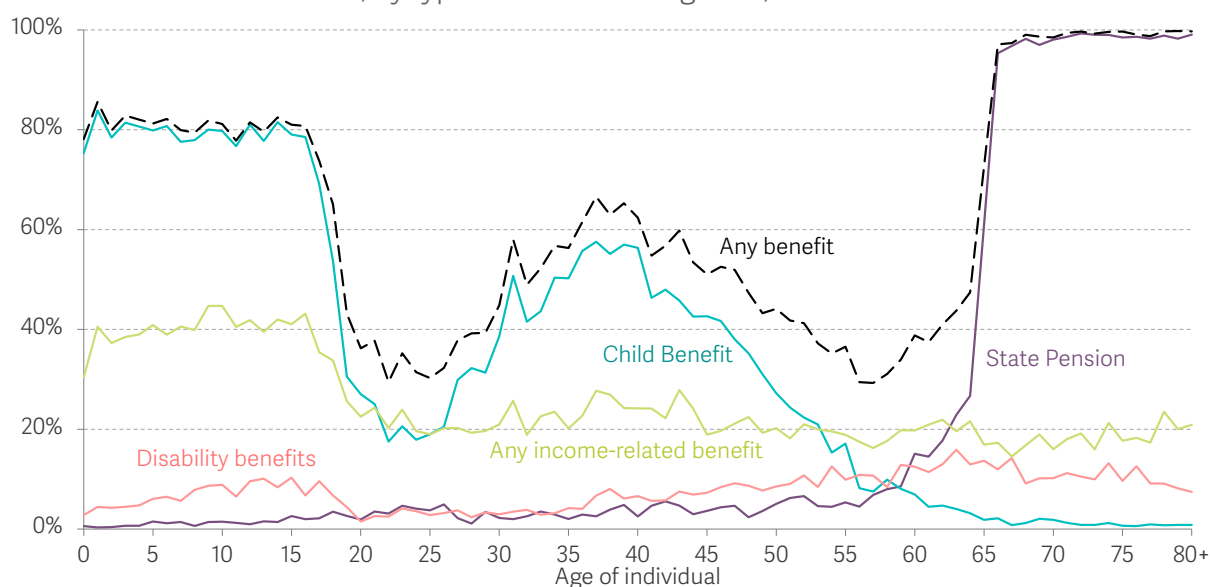
⁹⁷ Box 1 in the full version of this Spotlight explains the some of the different types of benefits that individuals and families can receive. See: K Handscomb and L Try, [Age-old or new-age? The changing incidence of social security benefits by age](#), Resolution Foundation, August 2021.

⁹⁸ In this analysis, we consider all of the benefit income that is received by individuals in a household, regardless of who it is intended to support.

children. This is because the means-tested benefits purposefully provide more support to families with children to help with additional costs.⁹⁹

FIGURE 45: The welfare system provides more support to pensioners and children

Proportion of individuals living in households that receive income from social security benefits or tax credits, by type of benefit and age: UK, 2019-20



NOTES: Disability benefits include Disability Living Allowance and Personal Independence Payment. Income-related benefits include Universal Credit, Working and Child Tax Credit, Carer's Allowance, Incapacity Benefit, Pension Credit, Housing Benefit, Income Support, Jobseeker's Allowance and Employment and Support Allowance (including contributory-based).

SOURCE: RF analysis of DWP, Households Below Average Income and Family Resources Survey.

In the longer version of this Spotlight, we find that the reach of the welfare system during the mid-2000s was significantly different from that of the welfare system today. Then, more than seven-in-ten (72 per cent) people had some benefit income, compared to around six-in-ten (62 per cent) in 2019-20. And four-in-ten (43 per cent) people had income-related benefit income, compared to one-in-four (25 per cent) in 2019-20.¹⁰⁰ Part of the reason for this fall will be reduced entitlements to Child Benefit and the number of people in households receiving an income-related benefit. Meanwhile, receipt of the State Pension for those aged over 66 has remained relatively unchanged.

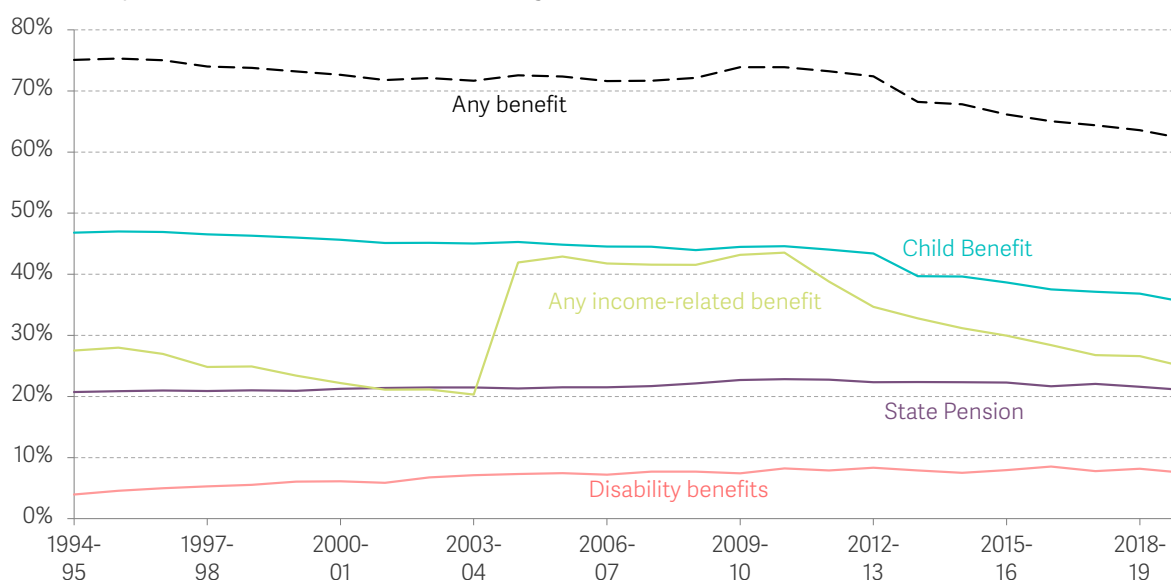
⁹⁹ It is worth noting that means-tested benefit receipt is typically under-reported in the data used in this analysis (the Family Resources Survey (FRS); see: A Corlett, *Improving our understanding of UK poverty will require better data*, Resolution Foundation, January 2021. For example, Child Benefit receipt in the HBAI data (79 per cent of 0-15-year-olds in 2019), is lower than the proportion calculated implied by official Child Benefit statistics taken as a proportion of the population (87 per cent). However, the official statistics on the number of children in receipt of Child Benefit include the children of the 354,000 families where an adult is paying the High Income Child Benefit Charge (families can choose to opt out of Child Benefit or pay the charge); if HBAI respondents report that they do not receive Child Benefit if they pay the charge, then the two estimates would be considerably closer to each other. However, the FRS remains the best source to look at benefit receipt within households.

¹⁰⁰ K Handscomb and L Try, *Age-old or new-age? The changing incidence of social security benefits by age*, Resolution Foundation, August 2021

Figure 46 shows a time-series of the proportion of people that live in a household that receives some benefit income. This clearly shows the impact of the introduction of the High Income Child Benefit Tax Charge in January 2013, as well as the reform to tax credits (and their increase in generosity) in April 2003 (the full effect of which is not seen until 2004-05 in this data). The effect of the financial crisis in 2008-09 was a more modest increase of 2 to 3 per cent of the population with at least some household benefit income. Since 2010, there has been a general decline in income-related benefit receipt that has come alongside significant reductions in benefit generosity, resulting from the falling real-terms value of benefits and particular policies such as the two-child limit, the benefit cap and the removal of the family element of the child tax credit.

FIGURE 46: The falling reach of the welfare state has been driven by reduced eligibility of Child Benefit and income-related benefits

Proportion of all individuals with any household-level benefit income: UK/GB



NOTES: From 1994-95 to 2002-03 data only covers GB. Disability benefits include Disability Living Allowance and Personal Independence Payment. Income-related benefits include Universal Credit, Working and Child Tax Credit, Carer's Allowance, Incapacity Benefit, Pension Credit, Housing Benefit, Income Support, Jobseeker's Allowance and Employment and Support Allowance (including contributory-based).

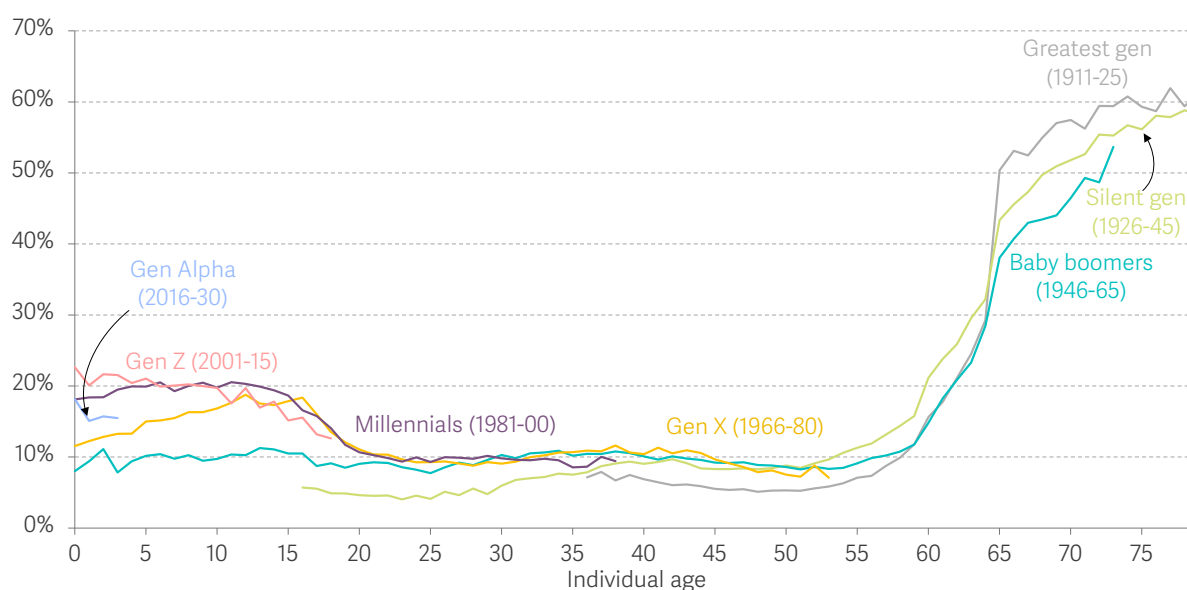
SOURCE: RF analysis of DWP, Households Below Average Income and Family Resources Survey.

How have different generations experienced these changes? Figure 47 looks at benefit income as a share of disposable household income (before housing costs: we look at disposable income before housing costs as benefit income includes support paid to help with housing costs), as each generation experienced it. We can see a similar pattern over the age distribution and by generation, with relative generosity increasing and then falling for children and remaining relatively constant for working-age adults. Millennials in their

20s typically received more benefit income (as a share of their household income) than generation X did; but, now they are into their 30s, the share of their income accounted for by benefits is roughly similar. Much of this will be explained by the changes discussed in relation to Figure 46, although increasing housing costs over time may have also had an effect by pushing up receipt of housing benefit.¹⁰¹ However, for pensioners the share of income provided by the State Pension actually falls for later generations in our analysis: this is explained by other pensioner income – that from pensioner employment and from private pensions – rising faster than the State Pension (together with other benefits pensioners accrued) over that period (in absolute terms, income from the state pension increased).¹⁰²

FIGURE 47: Millennials in their 20s typically received more benefit income as a share of their household income than generation X did

Average weekly household benefit income as a share of disposable household income (before housing costs) by individual age and generation: 1961 to 2019-20



NOTES: Generations calculated by year of birth as shown in the chart. Income deflated by HBAI Before Housing Costs deflator.

SOURCE: RF analysis of DWP, Households Below Average Income.

The Covid-19 crisis has seen the numbers receiving UC finally surpass legacy benefits

The numbers of families on benefits has changed only gradually over recent years, but the Covid-19 crisis has led to a significant increase: the pandemic caused a large rise in Universal Credit (UC) claims, while the number of families on legacy benefits has

¹⁰¹ For example, see figure 9.1 in: OBR, *Welfare Trends Report*, October 2014.

¹⁰² See: A Corlett, *As time goes by: Shifting incomes and inequality between and within generations*, Resolution Foundation, February 2017.

continued to dwindle.¹⁰³ To look at the changing nature of income-related benefits through the crisis, we have to use administrative benefit data, rather than data from household surveys.¹⁰⁴

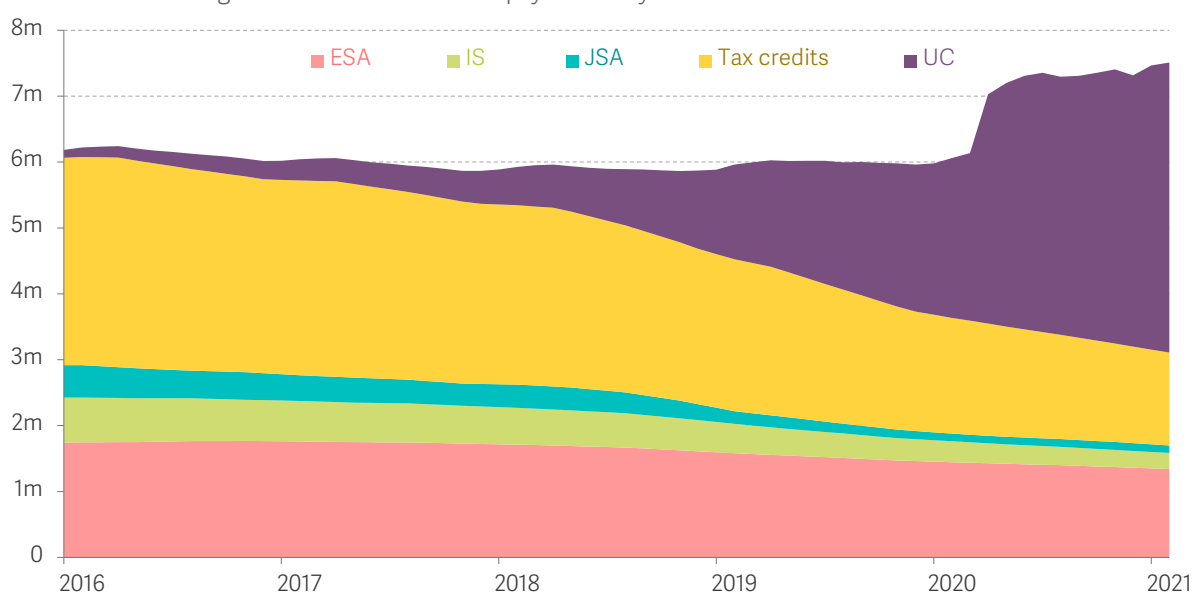
The slow and steady rollout of UC is not so slow anymore

Figure 48 shows how the number of families claiming UC and various legacy benefits has changed since 2015.¹⁰⁵ The number of families on UC has increased since 2015, initially slowly, but with the rate of increase picking up from the start of 2019, when legacy benefits were closed to new claimants in all parts of the country.

FIGURE 48: Universal Credit continues to steadily replace other income-related benefits, with a rapid jump up at the start of the Covid-19 crisis

Number of families receiving Universal Credit and legacy benefits: GB

NOTES: UC figures are cases that are in-payment only. Tax credits excludes families who are out of work



(and who are likely claiming JSA, ESA or IS as well). JSA figures are claims. JSA and ESA figures are income-based only. Families are able to claim more than one of some of these benefits, meaning we cannot show this data using stacked lines.

SOURCE: Stat-Xplore, DWP; Child and Working Tax Credit statistics: Provisional awards, December 2020, HMRC.

¹⁰³ Universal Credit has been gradually replacing six different legacy benefits since 2013. It is replacing income-based Jobseeker's Allowance (JSA), income-related Employment and Support Allowance (ESA), Income Support (IS), Working Tax Credit (WTC), Child Tax Credit (CTC), and Housing Benefit (HB). Of these, families can receive at most one of JSA, ESA, IS and WTC, whereas CTC and HB can both be received in addition to any of the other four benefits (or in isolation).

¹⁰⁴ Administrative data is more up-to-date than survey data and should be more accurate, although it tells us nothing about the wider circumstances or incomes of the families receiving benefits, so we are not able to update the analysis in Figures 1 to 5. There are some other, smaller, implications: we switch from analysing the UK to just Great Britain (because benefits policy is devolved to Northern Ireland and separate statistics are produced); and we can look at the age only of adult recipients, as there is incomplete data on the age and number of children in families receiving benefits.

¹⁰⁵ A very small number of families (under 100,000) claimed UC before 2015 during the initial trials.

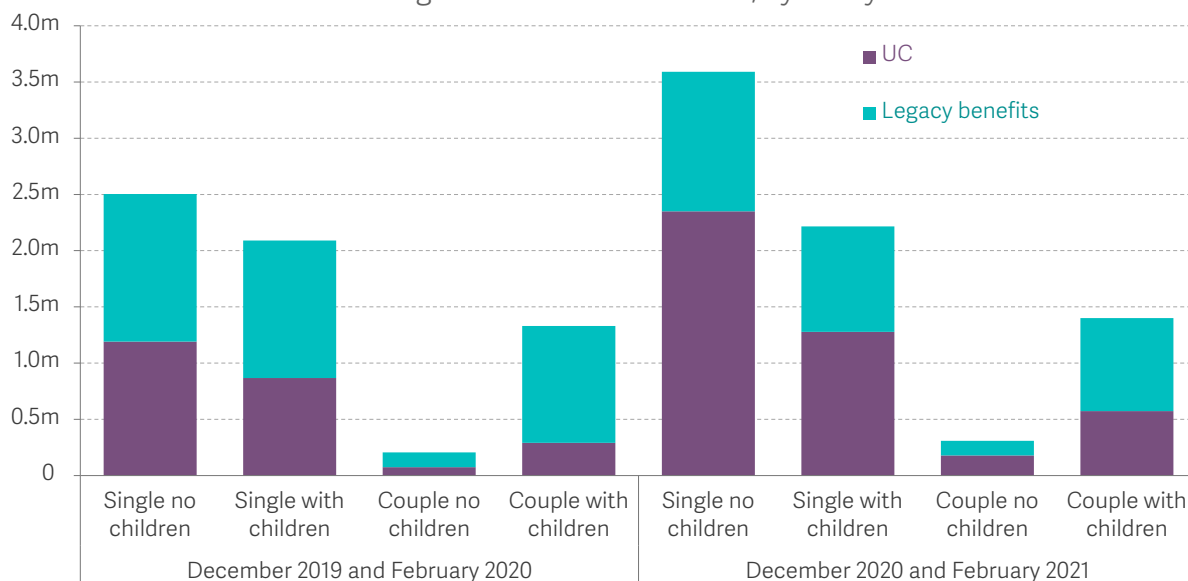
At the same time, the number of legacy benefit families has been declining: over 3 million families were receiving tax credits in December 2015, falling to fewer than 1.5 million by December 2020. Although this decline is principally due to the rollout of UC, reductions in generosity since 2015 (as mentioned earlier) – as well as the strengthening labour market in the run-up to the crisis – will also have meant fewer families were entitled to the means-tested legacy benefits than would have otherwise been the case.

Almost all new working-age benefit recipients since March 2020 have been single and without children

Figure 49 shows the number of families on UC and legacy benefits by family situation for the period from December 2019 and February 2020 (before Covid-19) to December 2020 and February 2021 (the latest complete data).¹⁰⁶ Before Covid-19, more single people were receiving income-related benefits than couples, with 2.5 million single people with no children and 2 million single parents receiving either UC or a legacy benefit.¹⁰⁷ Among couples receiving benefits, the vast majority had dependent children.

FIGURE 49: Almost all the rise in families claiming income-related benefits in the Covid-19 crisis comes from single people with no children claiming UC

Number of families claiming income-related benefits, by family situation: GB



NOTES: Legacy benefits are made up of income-based Jobseeker's Allowance, income-based Employment Support Allowance, Income Support, and tax credits. JSA figures are claims. JSA and ESA figures are income-based only. Data for Tax Credits is from preceding December, data for all other benefits is from February. We have used tax credit data for working families, and families with children, and DWP data for non-working families without children. There are no administrative statistics on the number of income-related ESA claims without children, so we have estimated a share of ESA claims based on FRS data.

SOURCE: Stat-Xplore, DWP; Child and Working Tax Credit statistics: Provisional awards, December 2020, HMRC.

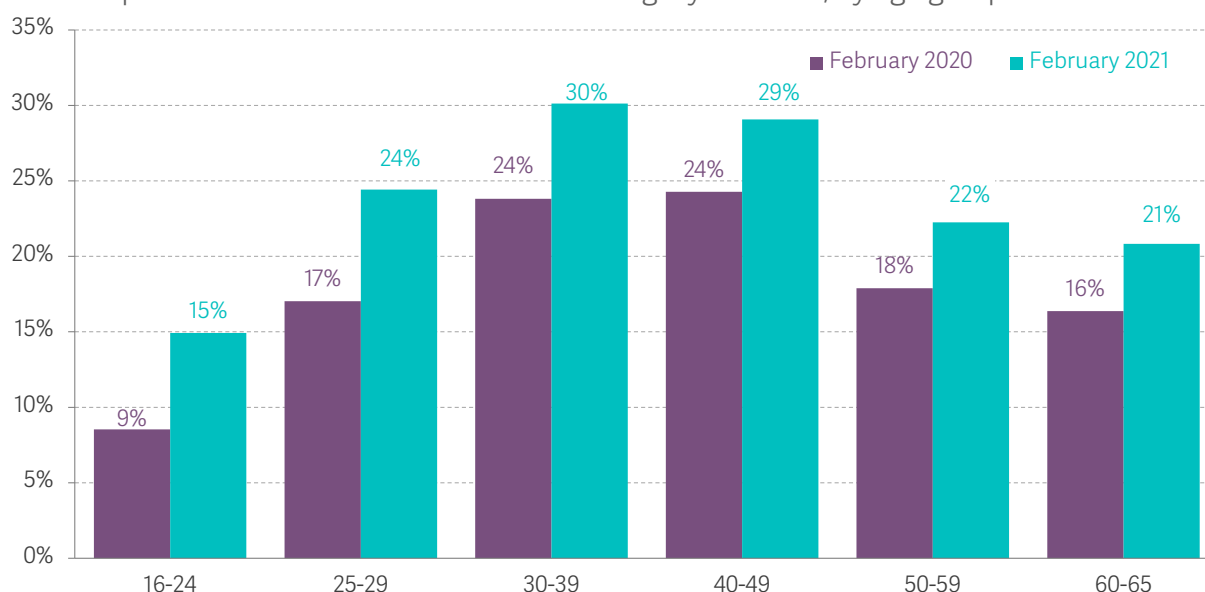
¹⁰⁶ December 2020 are the latest tax credit statistics before the crisis, and February 2021 are the latest for other legacy benefits and UC. Legacy benefit data is not available for December 2020. We compare one year on, as that is the latest available data for legacy benefits. More recent UC data is available, but would then be inconsistent with the other data.

¹⁰⁷ Although for legacy benefits this could be reflecting the low quality of the partner information for JSA and ESA statistics.

In the latest data, reflecting the situation in December 2020 or February 2021, the number of single people with no children receiving income-related benefits had increased by 1.1 million (a 43 per cent increase) compared to the year before, while the rise among all other family types was just 300,000 (or 8 per cent overall). In other words, of the 23 per cent rise in families claiming an income-related benefit between December 2019 or February 2020 and December 2020 or February 2021, 79 per cent is accounted for by single people without children.

FIGURE 50: The growth in income-related benefit claimants during the crisis was slightly skewed towards younger adults

Proportion of individuals who are a UC or legacy claimant, by age group: GB



NOTES: JSA figures are claims. JSA figures are income-based only. ESA figures are income-based and contributory. Age band for tax credits is 60+, but few will be aged over 65. Figures for tax credits are from December as the closest available data, and figures for all other benefits are from February. The population estimates for 2019 were used to calculate the proportion of benefit claimants in both years. Includes UC recipients who are not in payment as they are not identifiable in the UC age statistics.

SOURCE: Stat-Xplore, DWP; Child and Working Tax Credit statistics: Provisional awards, December 2020, HMRC. Population estimates for Great Britain, ONS.

Figure 50 shows the proportion of the population claiming an income-related benefit by age.¹⁰⁸ Before Covid-19, a higher proportion of 40-49-year-olds were receiving a benefit than any other (working-age) age group, at 24 per cent. In contrast, only 9 per cent of 16-24-year-olds were receiving a benefit. During the crisis, the largest increases in the

¹⁰⁸ To do this, we again have to use the administrative data on individuals in receipt of UC, not families. As explained earlier, analysis of individuals in benefit data includes some UC claimants who are not in payment, and may miss some legacy partner claimants due to statistical quality. This means that it overstates the number of people actually in receipt of benefit. In particular, between February 2020 and February 2021, there were 1.6 million more single adults in receipt of a UC payment, and 390,000 more couples, totalling around 2.3 million more people. However, the data on individual claimants – including those with nil payments – shows a total of 3 million more UC claimants from February 2020 to February 2021, overstating the actual rise in UC recipients rise by some 28 per cent.

proportion of people receiving a benefit were for 25-29-year-olds, with a 7 percentage point rise (in the year to December 2020 or February 2021), but the 16-24-year-olds saw the proportionally largest rise – a rise of around two-thirds compared to before the crisis from 9 to 15 per cent. Of the increase in benefit claimants of 2.3 million during this time period; 786,000, or 34 per cent, were aged under 30.

Our analysis of benefit receipt by age has necessarily ignored children because of the detail available in the administrative statistics. However, we can look at the total number of children that are in a family receiving an income-related benefit. This proportion fell from 47 per cent in December 2015 to 42 per cent in February 2020, before increasing to 44 per cent as of April 2021 – corresponding to around 6.7 million children.

The long-term picture of reductions in benefit coverage, and generosity, for children and working-age adults was reversed during the course of the Covid-19 pandemic. However, the removal of the temporary uplift, running alongside employment improvements, has shifted the system back towards its previous course. What the pandemic has taught us, however, is that Government policy can quickly – and effectively – put into place policies to improve living standards across the age range.