Section 1

Introduction: the pre-pandemic context for family finances

On the eve of the pandemic, households held more wealth than at any point over the past half a century. Apart from dips in the 1990s and financial crisis recessions, rising wealth values have been a feature of the UK economy since 1980. While wealth inequality, as measured by the share of wealth at the top of the distribution, was high in the UK, it has changed relatively little since the 1980s, after having consistently fallen through most of the 20th Century. But there are huge absolute wealth gaps between families, and those gaps were increasing prior to the onset of the pandemic. The typical family in the richest 10 per cent of households had £1.3 million more in wealth per adult than the typical family in the fifth decile of the wealth distribution – equating to 54 times typical annual family household income prior to the pandemic.

Moreover, financial resilience – the ability of families to cope with a fall in income – was low for many families. Higher savings prevent families needing to cut consumption when incomes fall. As the UK entered the pandemic, close to half of households had savings valued at less than one month's income. And low savings were particularly prevalent for those on low-incomes: two thirds of this group had savings less than one month's income.

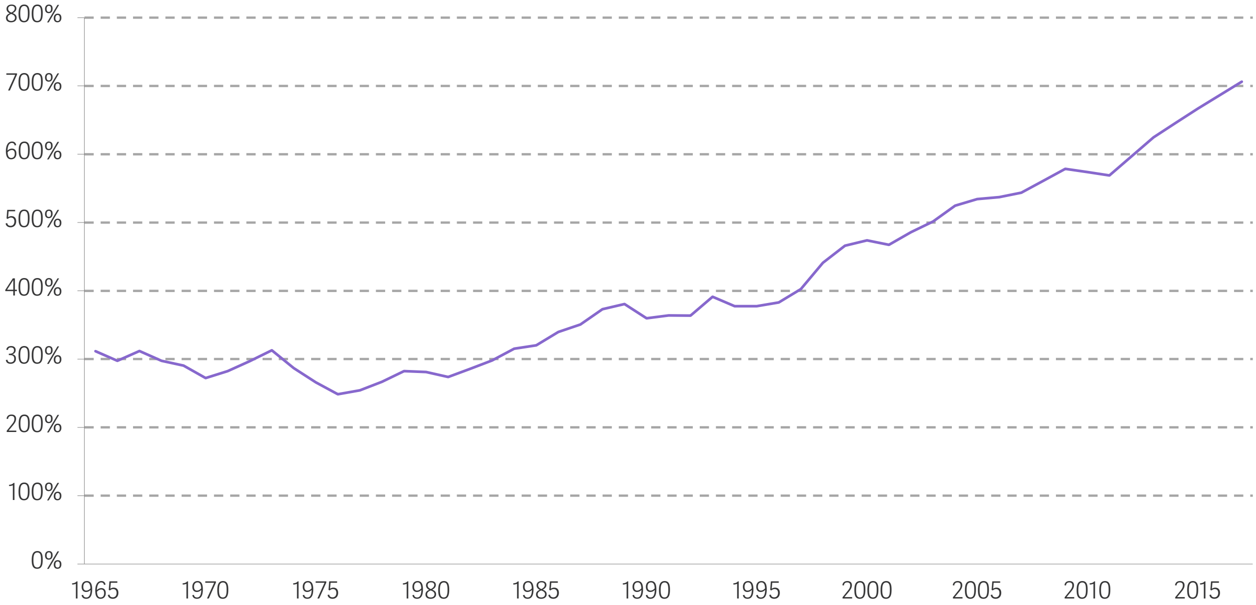
Both long-term trends in UK household wealth, rising overall wealth levels and rising gaps between families, have been accelerated by the pandemic. This is highly unusual: no recession in the past 70 years has been accompanied by rising aggregate wealth levels. This was driven by two effects: first, active changes in savings as limits to spending driven by social-distancing restrictions have led to more than £200 billion in accumulated savings and many families paying down debt; and second, indirect impacts of asset price appreciation – for example, house prices have risen by 8 per cent since the start of the pandemic. This report investigates each in turn and, for the first time, provides joint analysis of the impacts across the wealth distribution.

Household wealth has been rising in recent decades

The steady rise in UK household wealth has been one of the key defining trends in the UK economy since the 1980s. As Figure 1 shows, throughout the 1960s and 1970s, the value of household wealth was roughly three times national income. But since 1980, it has consistently risen faster than national income and now stands at more than double the value in 1980. As discussed in our previous work, there have been a number of drivers for this change, not least the global secular fall in real interest rates over time.[1]

FIGURE 1: **The value of household wealth has more than doubled since 1980 compared to the size of the economy**

Household wealth as a share of national income: UK



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.

BOX 1: **Sources of data on UK household wealth**

One of the challenges with measuring household wealth – and particularly how it has changed during the pandemic – is the availability of data. Throughout this paper we rely on two primary data sources: the ONS' Wealth and Assets Survey (WAS) and a specially commissioned survey for this report (conducted by YouGov).[2] The WAS is the best data source for

1 See G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020.
2 The paper at times uses other data sources which provide longer-run estimates of wealth in the UK.

understanding UK wealth as it has been produced consistently since 2006, covers a large sample of households, provides very granular data about households' wealth and characteristics, and is conducted in a way which produces accurate responses.[3] However, it has a big disadvantage in that there is a significant lag between data collection and publication which means the currently available data only covers up until 2018, meaning no data covering the pandemic is available. So, in order to understand changes during the pandemic, we have produced a survey for this report which captures changes in savings and debt during the pandemic, alongside changes in incomes and labour market status. The remaining parts of this section focus on the WAS, section 2 covers the key results from the YouGov survey and both data sources are brought together in sections 3 and 4.

And wealth inequality has stopped falling in recent years but is still twice the level of income inequality

Despite much commentary to the contrary, wealth inequality has been relatively stable for the past 40 years, under most methods of measurement. There has been a growing focus on the importance of wealth inequality and how it has changed over time across the world.[4] The primary trend during most of the 20th Century was one of declining inequality with the share of wealth held by the top 1 per cent falling from around 70 per cent to 15 per cent between 1900 and the early 1980s (Figure 2). Since then, shares of wealth held at the top of the wealth distribution have only increased slightly but still remain elevated; wealth inequality as measured by the Gini coefficient is roughly twice that of income inequality and the richest 10 per cent of families own half of all wealth.[5] An important caveat to official measures of wealth inequality is that measurement challenges can be significant. Recent research looking at the WAS between 2016-18 found that it is likely to underestimate the share of wealth held by the richest 1 per cent by a fifth (raising estimated 1 per cent wealth shares from 18 per cent to 23 per cent).[6]

3 For more detail see ONS, Wealth and Assets Survey QMI, December 2019. It should be noted that throughout this paper we take a relatively narrow definition of wealth being the value of assets and debt directly attributed to households. An alternative would be to capitalise future benefit entitlements and tax streams, but this would add complexity and uncertainty to our modelling approach.

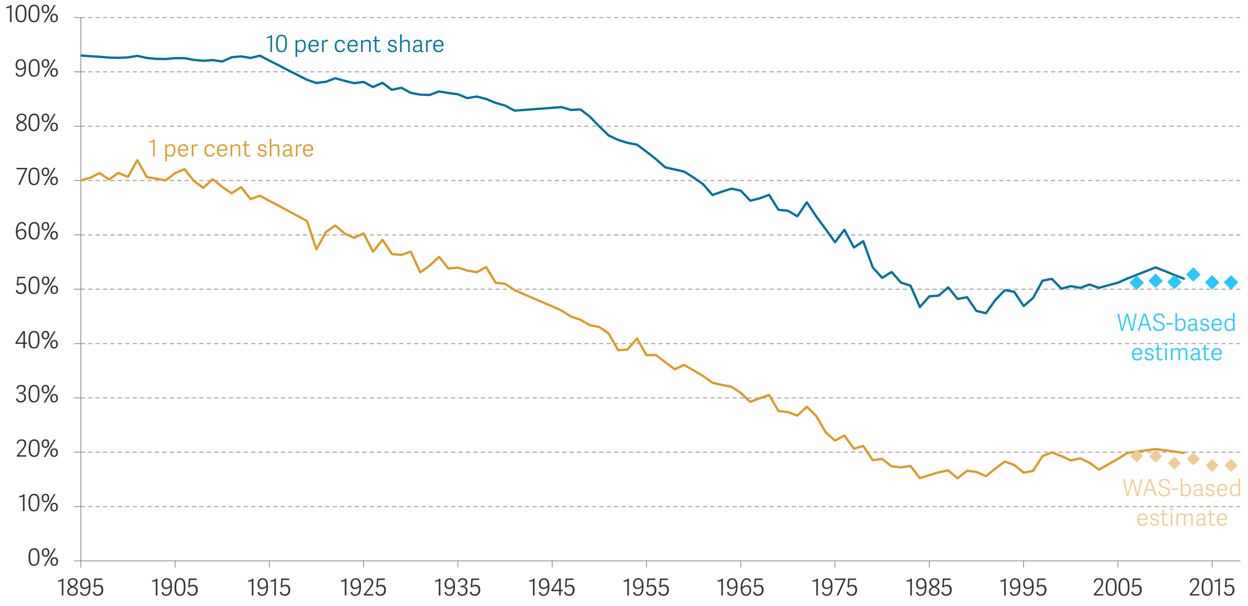
4 Important recent contributions include in the US: E Saez & G Zucman, Wealth inequality in the United States since 1913: Evidence from capitalized income tax data, NBER working paper 20265, October 2016; globally: T Piketty, Capital in the Twenty-First Century, Harvard University Press, April 2014; and in the UK: F Alvaredo, A Atkinson & S Morelli, The Challenge of Measuring UK Wealth Inequality in the 2000s, Fiscal Studies, March 2016, and M Brewer, What Do We Know and What Should We Do About Inequality?, Sage Publishing, June 2019.

5 G Bangham & J Leslie, Who owns all the pie? The size and distribution of Britain's £14.6 trillion of wealth, Resolution Foundation, December 2019.

6 The key driver of this result was that survey measures of household wealth fail to capture representative households from the very top of the wealth distribution, biasing total value of wealth and top wealth shares downwards. For more details see: A Advani, G Bangham & J Leslie, The UK's wealth distribution and characteristics of high-wealth households, Wealth and Policy, Working Paper 101, October 2020.

FIGURE 2: **Declines in wealth inequality came to an end in the 1970s**

Share of net household wealth held by richest 1 and 10 per cent: UK/GB



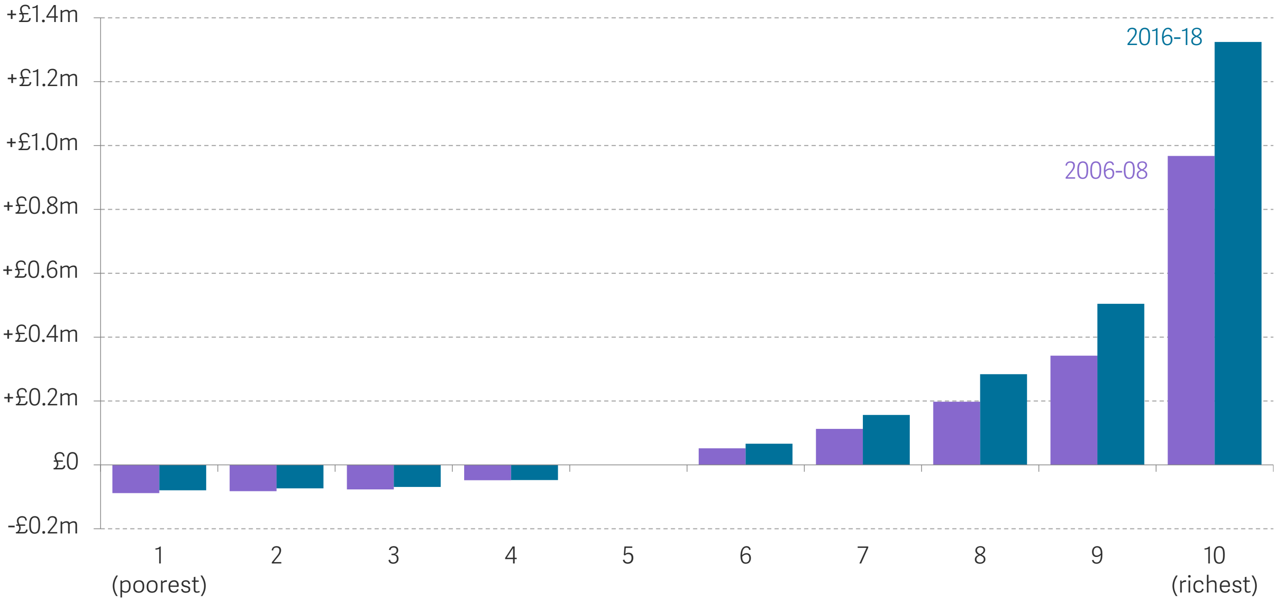
NOTES: World inequality database estimates refer to the whole of the UK and the WAS-based estimates exclude Northern Ireland. Due to changes in the coverage of business assets between survey rounds in the WAS, these results are adjusted using the latest observation of private business wealth shares held by the top 10% and 1% in the most recent round of the survey (2016–18) and imputed backwards to provide a consistent estimate. A version of this chart appeared in A Advani, G Bangham & J Leslie, 'The UK's Wealth Distribution and Characteristics of High-wealth Households', Wealth Tax Commission, Evidence Paper 1, October 2020.
SOURCE: RF analysis of World Inequality Database, 2020; ONS, Wealth and Assets Survey.

But just focusing on the fairly stable shares of wealth at the top of the distribution, or the Gini coefficient, misses a really significant change for families in the UK: the gap in average wealth between rich and poor families has widened substantially. This seemingly contradictory fact, relative wealth inequality has not risen but gaps between households have, is explained by Figure 1; for example, if the share of total wealth held by each family is constant but the overall value of wealth doubles, then the gaps between households' actual holdings would also double.

Figure 3 shows the gap between the average wealth per adult for a family in the fifth decile of the wealth distribution and each other decile. In 2006-08 the average, inflation adjusted, wealth per adult for families in the fifth decile was around £80,000 while those in the top decile, on average, had just over £1 million. By 2016-18 average wealth for the fifth decile rose to £82,000 by 2016-18 but top wealth hit almost £1.4 million. This meant the gap between those at the top and the middle of the distribution grew by around 50 per cent, from £960,000 in 2006-08 to £1.3 million in 2016-18. And this gap is not small – the 2016-18 top decile to fifth decile wealth gap is 54 times the annual median household income after housing costs (up from 43 times income in 2006-08).

FIGURE 3: **The gap between rich households and poorer households has widened**

Absolute gap between mean family wealth per adult within each net wealth decile and mean wealth for decile 5: GB, 2006-08 & 2016-18



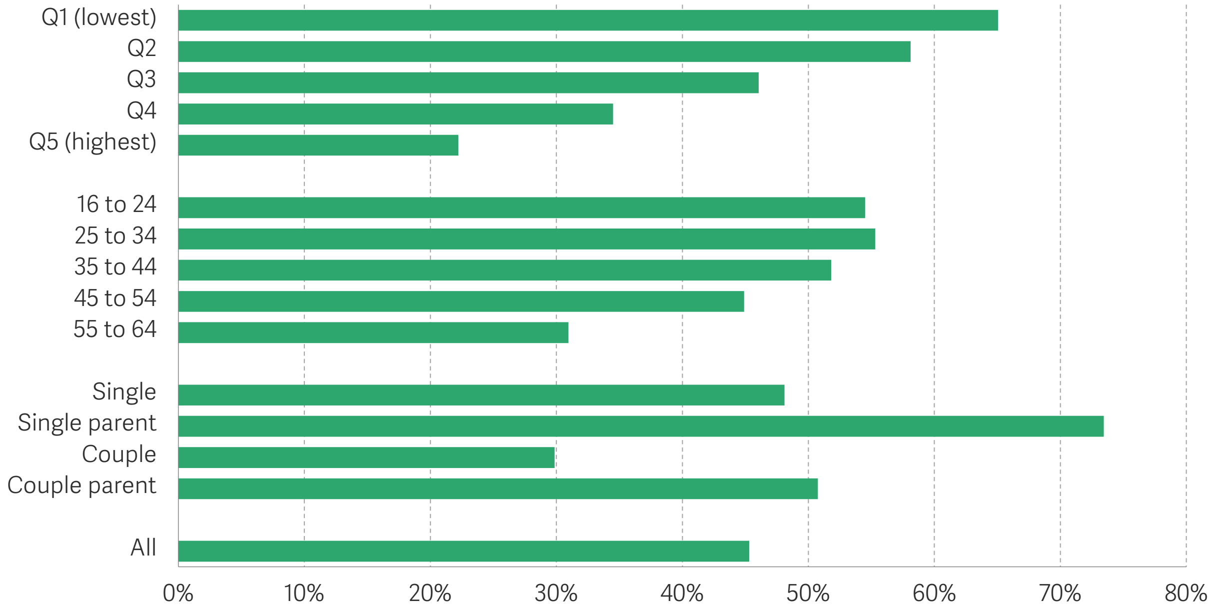
NOTES: Data is adjusted using CPIH into April 2021 prices. Wealth is measured at the family unit level - i.e. one or two adults living as a family plus any dependent children. Family composition is accounted for by taking wealth per adult within the family. The definition of wealth excludes physical wealth and private business wealth. The definition of wealth excludes physical wealth and private business wealth. This is because the definition of physical wealth is more subjective than other asset classes and is inconsistently defined compared to other asset classes. Private business wealth was poorly captured in the 2006-08 wave of the WAS and so is removed to reduce measurement changes over time. Comparisons are to average family wealth per adult in the fifth wealth decile which was, inflation adjusted, £82,000 in 2006-08 and £73,390 in 2016-18.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Finally, the financial buffers of households coming into the pandemic is also vitally important to understand what effects the crisis has had on household wealth. Close to half of UK families had savings below the value of one month's income prior to the onset of the pandemic, as shown in Figure 4. And, unsurprisingly, those most likely to have low savings are those on lower income (65 per cent of the fifth lowest income families had low savings), younger people and those with children (particularly single parents). This is important context for the pandemic because if families with low savings experienced a fall in income, they are more likely to need to increase debt or reduce spending.[7]

7 The financial resilience of families in the UK (and Germany and France) was covered in depth in M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.

FIGURE 4: **A significant minority of households had low savings coming into the pandemic**

Proportion of households with less than one month's income in savings, by selected income, age and family groupings: 2017



NOTES: Savings defined as balances in current accounts and savings accounts (including ISAs).
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

The long-term trends in UK household wealth, rising overall wealth levels and rising gaps between families, have been accelerated by the recession. And this is unusual: no recession in the past 70 years has been accompanied by rising aggregate wealth levels. While it is often the case that there is evidence of higher desired saving in recessions, aggregate savings often do not rise because incomes fall. Furthermore, asset prices typically fall during recessions. This crisis has been different: after falls at the outset of the crisis, strong growth in house prices and global equities have meant asset prices are now higher than pre-pandemic. Active changes in saving and debt as well as asset price appreciation will have profoundly impacted UK household wealth. The rest of the paper takes each of these in turn, and, for the first time, provides joint analysis of the impacts across the wealth distribution. The paper concludes with what these changes mean for the country and for policymakers.

To that end, the rest of the paper is structured as follows:

- Section 2: provides detailed analysis of the changes in savings and debt caused by the coronavirus crisis.
- Section 3: covers the impact of pandemic-driven asset price changes on household wealth and compares that to changes in savings and debt.

- Section 4: considers the prospects for household wealth post-pandemic.
- Section 5: concludes with a discussion of the key implications from this paper's findings for the Government's economic policy.