Arrears fears

The distribution of UK household wealth and the impact on families

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Executive Summary

For much of the 20th century, wealth inequality fell, but since the 1980s it has been stable

Wealth inequality has been flat in recent decades – but that does not mean it is unimportant or unchanging. So, this report, the third in an annual series of 'audits' of households' wealth in the UK, is focussed on understanding this form of inequality – looking at why it matters, and its implications for the on-going cost of living crisis.

The UK's wealth distribution experienced dramatic changes through the early parts of the 20th century: between 1900 and the mid-1980s, the share of total wealth held by the wealthiest 1 per cent fell from around 70 per cent to below 20 per cent. Since then, wealth shares at the top of the distribution have been fairly stable, with the richest tenth of families consistently owning about half of total wealth. On the face of it, then, wealth inequality doesn't look like it should be a pressing concern for policy makers. But that would simply be wrong – as we show throughout this report – stubbornly high wealth inequality and the changing nature and distribution of wealth, both within and between different groups, means wealth holdings are a crucial factor which shapes people's living standards in a variety of ways.

But, as wealth levels have risen over time, the gaps between household have also widened

Stable shares of wealth across the distribution only tell part of the story – dramatic increases in value have been equally important. Total household wealth holdings have more than doubled, from around three-times national income in the 1980s, to closer to eight-times in the most recent data.

As a result of this increase in the value of wealth, there has been a huge rise in the gaps between holdings across families. In 2006, the average family in the richest tenth of families had wealth of close to £900,000 more per adult than a family in the fifth decile (inflation-adjusted); by the start of 2020, that gap had increased to over £1.2 million per adult in real terms.

These wealth gaps are important for how families experience economic inequality in modern Britain: the pounds and pence difference between families is a more meaningful economic measure than most traditional inequality measures (such as the Gini coefficient). For example, as it becomes harder, if not impossible, for most people to move up the wealth distribution through saving (because the required wealth to move upwards has increased but incomes have not), there is the potential for less of an incentive to work hard as people are shut out of gaining the benefits of doing so. Relatedly, as wealth gaps grow, ownership of wealth becomes a bigger driver of life outcomes – for example, becoming a homeowner. Wealth is much more unevenly distributed than income (the Gini coefficient for the wealth distribution is 0.62 compared to 0.36 for disposable incomes in 2018-20), and with wealth growing rapidly, the reality of growing wealth gaps means that it feels like inequality is increasing, even if it is stable on some often-used measures.

Wealth gaps have not just grown over time, they are also extremely high from an international perspective. The share of wealth held by the richest 10 per cent in the UK is in line with the OECD average, but the gap between these rich families and the poorest 40 per cent of the distribution (measured as a multiple of median earnings) is the second highest in the OECD – only the US is more unequal.

Rising asset prices have benefited wealthier families most but the effect on inequality has been offset by pension saving

Gaps in asset ownership are resulting in winners and losers from wealth accumulation. 53 per cent of total wealth accumulation (excluding defined benefit pensions and pensions-in-payment) since 2006-08 can be ascribed to 'passive' gains resulting from the average rise in asset prices over time. But these gains only benefit those who already own assets, thus bypassing poorer households: for example, the typical family in the fifth decile of the wealth distribution experienced a 7 per cent two-year asset price return between 2016-18 and 2018-20, while those in the bottom wealth decile saw no returns in the same period (this is somewhat higher than the returns experience by an average family in the highest decile which stood at 5 per cent in the same period, meaning that top-wealth shares did not rise).

Similarly, 'active' accumulation (i.e. direct savings and debt reductions) is also important. But here, again, existing wealth levels are correlated with higher accumulation meaning those already owning assets will tend to be able to accumulate more wealth over time than those without. So, the combination of the passive and active changes means that a family at the 80th percentile has seen real wealth increase by 37 per cent between 2006-08 and 2018-20 but a family at the 40th percentile has seen no real wealth increases.

These changes would suggest that wealth inequality has increased over time but in fact these trends have been offset by rising pension accumulation by lower-wealth families, demonstrating why it is important to consider the entire wealth distribution. In line with rising asset prices, pension wealth has increased over time. But an increasing share of lower-wealth families now have some pension wealth driven, in part, by auto-enrolment. This effect has been material with the 20th percentile of the wealth distribution experiencing a real wealth increase of £1,800 per adult since 2006-08, all of which occurred after the introduction of auto-enrolment.

Rising wealth gaps are also worsening inequality across other dimensions – including age, region and ethnicity

Increased wealth gaps have also driven an increase in some measures of wealth inequality within groups and across groups. For example, intergenerational inequality continues to grow – the share of total wealth owned by those aged 65 and older has risen from 42 per cent in 2006-08 to 51 per cent in 2018-20 (far outstripping the increase in share of the population in that age group) and reflecting the impact of rising asset prices benefiting those who already built wealth (i.e. high homeownership rates for older ages). And it is not just inequality across age groups that matters, but also inequality within age groups. Here, one measure of wealth inequality (the ratio of average wealth in the fourth and second quintiles of the wealth distribution), shows increasing within-age group inequality for working-age families and a decline in inequality for those in retirement. This has been driven by historic trends in homeownership: those in retirement now have a higher share of homeowners than in previous generations but younger groups have seen ownership rates fall.

Regional gaps have also grown worse over the past decade and a half. In particular, wealth gaps between places have risen: the share of wealth held by families living in the south of England, including London, rose from 42 per cent of total wealth in 2006-08 to 46 per cent in 2018-20; this compares to an increase in the population share of just 1 percentage point (from 36 to 37 per cent over the same period). Changing homeownership levels over time have also led to rising gaps between households within regions. For example, in Wales, the share of families owning property fell from 68 per cent to 62 per cent between 2006-08 and 2018-20 and at the same time the ratio of average wealth for someone in the fourth quintile of the wealth distribution and the second quintile rose by 3.4 (from 6.4 times higher wealth to 9.8 times). Under this measure of wealth inequality, there has been a small increase at the national level (as average home ownership rates have fallen across the country), but the key point is that wealth inequality has risen much faster in some places than others. Again, this shows the importance of more detailed analysis of the distribution to understand how wealth inequality is changing in people's actual lives.

Other inequalities across groups remain high and persistent: for example, in 2016-18, typical wealth per adult for a White British family was eight-times higher than a typical Black African family (£196,000 compared to £23,700).

Even though wealth inequality has not risen, many people still have low – or even negative – wealth

Wealth gaps are important because wealth also provides insurance against income shocks – an issue that is particularly important given the current cost of living crisis. So, if wealth gaps are high, some families will not have access to the benefits that wealth can bring in shielding families from the living standards impacts of inflation.

Naturally, low-income families are far more likely to have no savings: in fact, the lowest tenth of families by income were four-times more likely to have no savings than families in the top income decile prior to the pandemic. This means that these families are much more exposed to shocks to their finances – as is the case currently with the cost of living crisis.

Low savings does not just leave families more exposed, it also affects how they cope when these shocks materialise. 32 per cent of families with no savings say they will need to rely on family and friends to cope with income shocks compared to 3 per cent of families with savings in excess of one month's income.

That coping mechanism is clearly less effective when households are facing a fall in income that affects everyone, as is the case during the on-going cost of living crisis. Although not every family will be experiencing exactly the same level of cost increases, the breadth and pace of price rises means no one can escape the effects. So, the cost of living crisis is worse for poorer households not just because they face higher inflation, not just because they have fewer savings to draw down on, but also because their mechanism for coping with a lack of savings is less available.

Although the Government's announced package of support will be important in (partially) insulating families from the crisis, there could well be longer-term implications with the cost of living crisis threatening to worsen financial fragility across the country. The proportion of adults expecting to be unable to save over the coming year has risen from 30 percent at the start of the year to close to 45 per cent in the most recent data.

The cost of living crisis will send more financially-insecure families into arrears – the most harmful form of debt

Families face rising costs, particularly as typical gas and electricity bills are set to rise to well above £3,000 per year in October; those who cannot cut back on spending and have no savings to fall back on will find themselves unable to keep up with their bills and so are likely to fall into arrears.

Bill areas is strongly associated with negative wellbeing outcomes. This is worrying because bills arrears were already the form of debt most concentrated in lower income families: in 2018-20, 8.9 per cent of financial liabilities (excluding student loans and mortgages) were bill arrears for the lowest income tenth of families, compared to 0.3 per cent for those in the top half of the income distribution. Around 8 per cent of those with no loan or bill arrears reported high levels of anxiety. This roughly doubles to around 15 per cent for those in bill arrears, and more than doubles to 18 per cent for those in loan arrears. So, the fact that low wealth and income families are most exposed to the cost of living crisis is concerning not just because they have the fewest options to avoid negative financial outcomes, but also because the increases in financial liabilities they will face as a result are particularly harmful for their wellbeing.

Wealth inequality matters even more as we head into the cost of living crisis

Measures of aggregate wealth inequality in the UK have been stable since at least the financial crisis. But wealth levels, gaps and the make-up of family balance sheets are all equally crucial for household living standards. This is all the more important as the cost of living crisis is testing families' resilience to financial shocks. Those with low wealth are the people most exposed to the crisis – 43 per cent of families in the lowest wealth decile report that they would run out of money within a week if they lost their main income source. As inflation continues to head towards double digit levels, financial fragility will build as real incomes fall and people reduce their savings. High wealth inequality leading to many families with low savings and high debt is a problem policy makers should focus on more – the country needs an economic strategy to make families' finances more resilient.

Section 1

Introduction

The defining economic challenge for UK families at the moment is the cost of living crisis. Inflation continues to rise and the Bank of England expects average inflation to peak above 11 per cent later in the year.[1] This crisis has highlighted the lack of financial resilience for many UK households. Even though the cost of living is set to rise further, with the Ofgem energy price cap expected to exceed £3,000 for the average household in October,[2] problem debt is already a growing concern. In May 2022, StepChange, the debt advice service, recorded a 12 per cent increase in the number of people asking for debt advice compared to April 2022, alongside small increases in average energy bill arrears.[3]

Wealth inequality has been flat in recent decades – but that does not mean it is unimportant. The devastating impact of the cost of living crisis puts wealth inequality even more into the spotlight, as those with financial resources are much better placed to weather the storm. But as we show in this report, and somewhat at odds with the experience of the cost of living crisis so far, wealth inequality has not risen markedly over the past 15 years or so. Thus, a naïve conclusion would be that the UK's wealth distribution is not a pressing concern for the UK and policy makers but this would be a mistake.

So in this report, the third in an annual series of 'audits' of households' wealth, we take a closer look at wealth inequality, and why it matters, particularly in the context of the on-going cost of living crisis. We use newly available data on differences in wealth across groups to show that the stable level of overall wealth inequality hides many evils. These range from issues created by the high existing level of inequality, even if it has not risen materially in recent years, to the widespread lack of savings and concentration of the most harmful types of debt in low income families. Understanding granular details about wealth levels and distribution is crucial for understanding the reality of the economic lives of UK families.

1 Bank of England, Monetary Policy Summary – June 2022.
2 C Lowrey, Default Tariff Cap forecast climbs further as Ofgem announcement looms, Cornwall Insight, July 2022.
3 StepChange, Monthly client data report: May 2022.

With all this in mind, the rest of this report is structured as follows:

- Section 2: sets out the stability of aggregate measures of wealth inequality but also shows that this hides big wealth gaps;
- Section 3: discusses the extent to which overall stable inequality hides big differences in groups;
- Section 4: looks closely at families' assets and liabilities and considers the ways in which high levels of inequality are problem; and
- Section 5: sets out our conclusions.

Section 2

Aggregate inequality is stable but that hides big wealth gaps

Although there is much discussion of inequality shooting through the roof in the UK, at first glance, the UK's wealth distribution seems relatively unremarkable: after a strong trend of equalising wealth ownership during the early and middle parts of the 1900s, wealth shares at the top of the distribution have been fairly stable since the 1980s – the richest tenth have consistently owned about half of total wealth.

But these headline measures tell only part of the story.

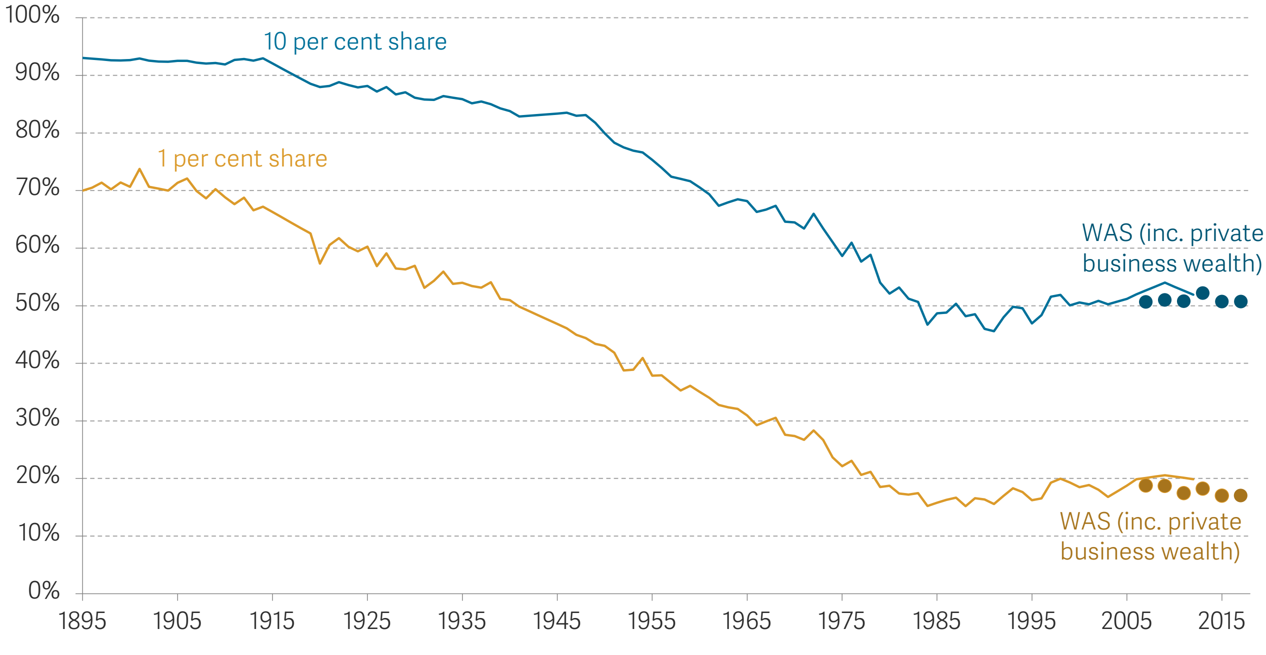
The combination of rapidly growing wealth and a high level of inequality imply a huge rise in the gaps between families. Since the 1980s, total wealth has risen from around three-times national income to closer to eight-times in the most recent data. If wealth shares are fixed (as has been broadly the case) and the total value of wealth increases, then the pounds and pence gaps between families increase. In this context it is important that wealth inequality is significantly higher than income inequality: the Gini coefficient for wealth – a measure of inequality across the entire distribution – is close to double that for disposable income (0.62 compared to 0.36). All this means the gap in wealth between the top decile and the fifth decile has grown, in real terms, by around £300,000 between 2006 and the start of 2020 – now standing at over £1.2 million per adult. The high level of wealth gaps in the UK also become clear when looking across countries: despite the share of wealth owned by the richest tenth of families in the UK being equal to the OECD average, the UK comes second only to the US on measures of absolute wealth gaps (the gap in average wealth between the richest tenth and the poorest 40 per cent is 107 times median income levels – compared to an OECD average of 62 times income).

Rising asset prices have benefited wealthier families most but the effect on inequality has been offset by pension saving by lower-wealth families. The big driver of changes at the top of the distribution have been rising asset prices: on average, over half of total wealth increases since 2006 are as a result of 'passive' gains from rising asset prices rather than 'active' saving behaviour. But these rises only benefit those families lucky enough to own assets that can appreciate in value. For example, families in the middle wealth decile saw median two-year asset price returns in 2018-20 of 7 per cent while those in the bottom wealth decile saw no returns in the same period. This means that a family at the 80th percentile has seen real wealth increase by 37 per cent between 2006-08 and 2018-20 but a family at the 40th percentile has seen no real wealth increases. But inequality has not risen because the increasing gaps in the upper part of the distribution have been offset by more pension saving: between 2006 and 2014 there was no pension wealth up to the 30th percentile of the pension wealth distribution; by 2018-20, the 30th percentile of the pension wealth distribution was £2,450.

One of the key economic trends of the 20th century was a decline in wealth inequality. As Figure 1 shows, in 1900, over 90 per cent of all wealth was held by the richest tenth of society, with the richest 1 per cent owning around 70 per cent of all wealth (see Box 1 for a discussion of how wealth is measured). What followed was a consistent decline in inequality which was particularly rapid in the three decades after the Second World War. But since around 1980, top-wealth shares have been fairly stable with the richest tenth owning about half of wealth and top 1 per cent owing about a little under a fifth.

FIGURE 1: **For much of the 20th Century, wealth inequality fell, stopping in the 1980s**

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



NOTES: Top wealth shares from the Wealth and Assets survey exclude physical wealth but include private business wealth imputed from the share of private business wealth held in round 6 of the survey, this is done due to inconsistent coverage for earlier survey rounds.
SOURCE: A Advani, G Bangham & J Leslie, The UK's wealth distribution and characteristics of high-wealth households, Fiscal Studies, October 2021.

BOX 1: **Measuring household wealth**

Measuring wealth accurately comes with substantial challenges. The best source of data in the UK is from the ONS's Wealth and Assets survey (WAS) which started in 2006 (which we rely on throughout this paper). The WAS is a survey-based measure of households' wealth in Great Britain. As such, it may not fully reflect the entirety of wealth for a number of reasons.[4] Most obviously, it is hard to cover fully the wealth of the very richest households, many of whom are likely to be missing from the sample. And, given the extremely skewed distribution of wealth (i.e. those at the very top of the wealth distribution have average wealth levels far higher than those merely near the top of the distribution), the share of wealth held by the top of the distribution may be underestimated. Evidence suggests that this is a valid concern and that accounting for coverage issues with the survey would add around 3 percentage points to top wealth shares.[5] This is an important caveat to the data but there is little evidence that there has been a change over time in how much wealth at the top of the distribution is missing from the sample – meaning the overall picture of stable wealth inequality remains valid.

The Wealth and Assets survey is only available with a time lag and the current published data cover the period up until March 2020. This means these data do not tell us how the wealth distribution changed during the pandemic, a time of huge economic disruption which saw falling labour incomes, volatile asset prices, significant increases in government transfers to households and businesses, and rising aggregate savings levels. Previous research has found that proportional wealth gains during the first year of the pandemic were largest for those in the middle of the wealth distribution (driven by particularly rapid rises in average house prices), suggesting no rise in the share of wealth held at the top of the distribution.[6] However, since then, data from the Sunday Times 'rich list' suggest wealth rises have been rapid for the wealthiest families in the UK – though the data is insufficient to draw strong conclusions at this stage.[7] It is for this reason, we focus on the period running up until the pandemic.

4 The design of the survey is intended to minimise data quality concerns resulting from only being survey data. For example, respondents are asked, where possible, to refer to documentation to report values of assets and liabilities. Higher wealth households are also 'oversampled' with a three times likelihood of being asked to participate. For more details of the survey methodology see: ONS, Wealth and Assets Survey QMI, February 2022.

5 For a detailed discussion of this issue and the methodology used to account for missing wealth at the top of the distribution see: A Advani, G Bangham & J Leslie, The UK's wealth distribution and characteristics of high-wealth households, Fiscal Studies, October 2021. And for a more up-to-date estimate of the issue see: A Advani & H Tarrant, Official statistics underestimate wealth inequality in Britain, LSE, January 2022.

6 J Leslie & K Shah, (Wealth) gap year: The impact of the coronavirus crisis on UK household wealth, Resolution Foundation, July 2021.

7 Robert Watts, The Sunday Times Rich List 2022, May 2022.

To complement the detailed data from the Wealth and Assets survey, it is useful to look at wealth inequality over a longer-time period (as we do in Figure 1). These data are based on the value of wealth held by estates at the point someone dies.[8] An important point to note here is that the definition of wealth does not match the primary definition from the Wealth and Assets survey; the largest difference is pension wealth which will largely be absent from estates data but makes up close to half of household wealth today. Despite these definitional differences, the estimated top-wealth share in both datasets is close for the overlapping datapoints.

Throughout the rest of the paper, unless otherwise stated, we define total wealth as the sum of: net property wealth (i.e. any buildings or land net of any mortgages secured on those assets), net financial wealth (i.e. all financial assets net of any non-mortgage debt), and pension wealth (including all private pensions, future pension entitlements, and pensions in payment but excluding public pension entitlements).[9]

The share of wealth held by the top of the distribution is just one way of measuring inequality but other measures have also been stable since the 2000s. Figure 2 shows the Gini coefficient for total wealth (and important subcomponents of wealth) – this is a measure which attempts to capture the inequality across the full wealth distribution.[10] Here, again, the level of inequality is not estimated to have changed materially since the start of the Wealth and Assets survey collection period in 2006.

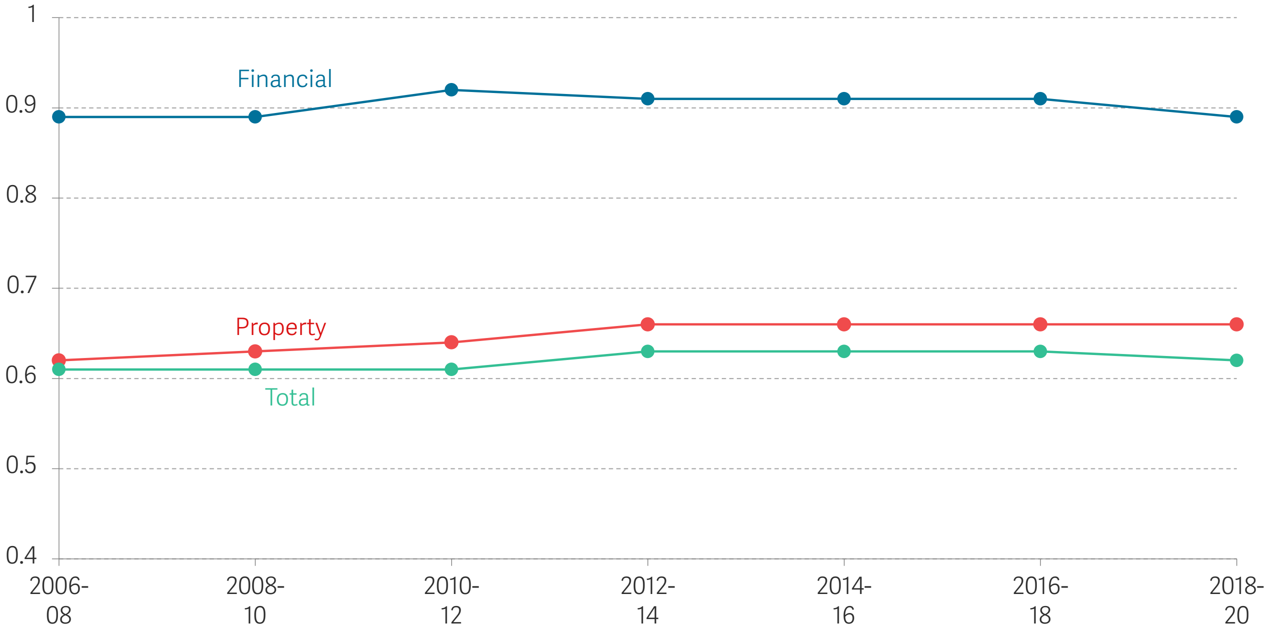
8 It is possible to 'back-out' an estimate of the wealth distribution by using the known probability of death by age to estimate wealth levels for all groups. For more see: F Alvaredoa, A Atkinson & S Morelli, Top wealth shares in the UK over more than a century, Journal of Public Economics, June 2018.

9 This is our preferred measure of wealth. It excludes physical wealth (e.g. cars, home contents, etc) and private business wealth. This is because the quality of the data collection and comparability of the data definitions have varied over survey rounds and so including them creates difficulties in interpretation. For more on these issues 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.

10 The Gini coefficient is a measure which captures inequality across the entire distribution where a figure of 1 is total inequality (i.e. one family owning all wealth) and a figure of 0 is total equality (i.e. all families having exactly the same wealth). For a more in-depth discussion of the Gini coefficient and some of the challenges of using it in this context see: F De Battisti, F Porro & A Vernizzi, The Gini Coefficient and the Case of Negative Values, Journal of Applied Statistical Analysis, vol 12, June 2020.

FIGURE 2: **Other measures of wealth inequality have been broadly stable too**

Gini coefficient, by type of wealth: GB



NOTES: 2006-8 until 2012-14 refers to the period from July in the first year until June of the second year. Later data points refer to the standard financial year (April to March).
SOURCE: ONS, Total Wealth: Wealth in Great Britain.

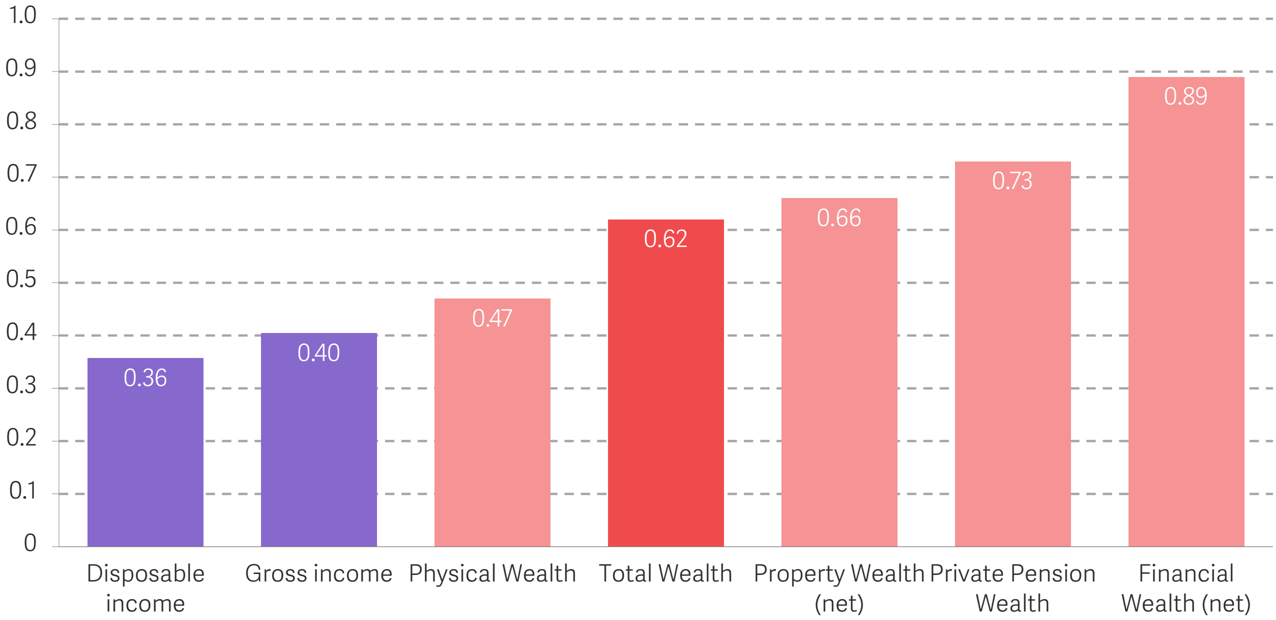
The level of wealth inequality is high relative to income

A lack of change in overall inequality by these measures do not tell the full story – the high level of inequality matters too. For example, measures of inequality in wealth are consistently higher than measures of income inequality in Great Britain. Using the Gini coefficient, Figure 3 shows that across a range of income and wealth measures, inequality is largest for net financial wealth (0.89) followed by private pension wealth (0.73) – both of which are over double disposable income inequality (0.36). As wealth becomes increasingly more important in defining outcomes in life (for example becoming a home-owner) and income shrinks in importance, economic inequality will feel like it is increasing because wealth is more unequally held than income. For example, as it becomes harder, if not impossible, for most people to move up the wealth distribution through saving (because the required wealth to move upwards has increased but incomes have not), there is less incentive to work hard as people are shut out of gaining the benefits of doing so.[11]

11 In actuality, there are two effects here: a 'substitution' effect where the gain from working is reduced because it is harder to save (e.g. if it will be impossible to save for a deposit for a house, someone may choose not to try), but also an 'income' effect where people still want increased savings so try harder to reach that level. For some, it is highly likely the substitution effect dominates. For an estimate of the rising difficulty in saving see: 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.

FIGURE 3: **Wealth inequality is far higher than income inequality**

Estimated Gini coefficients for different income and wealth measures: 2018-20



SOURCE: ONS, Total household wealth; ONS, Household income inequality, UK: financial year ending 2021.

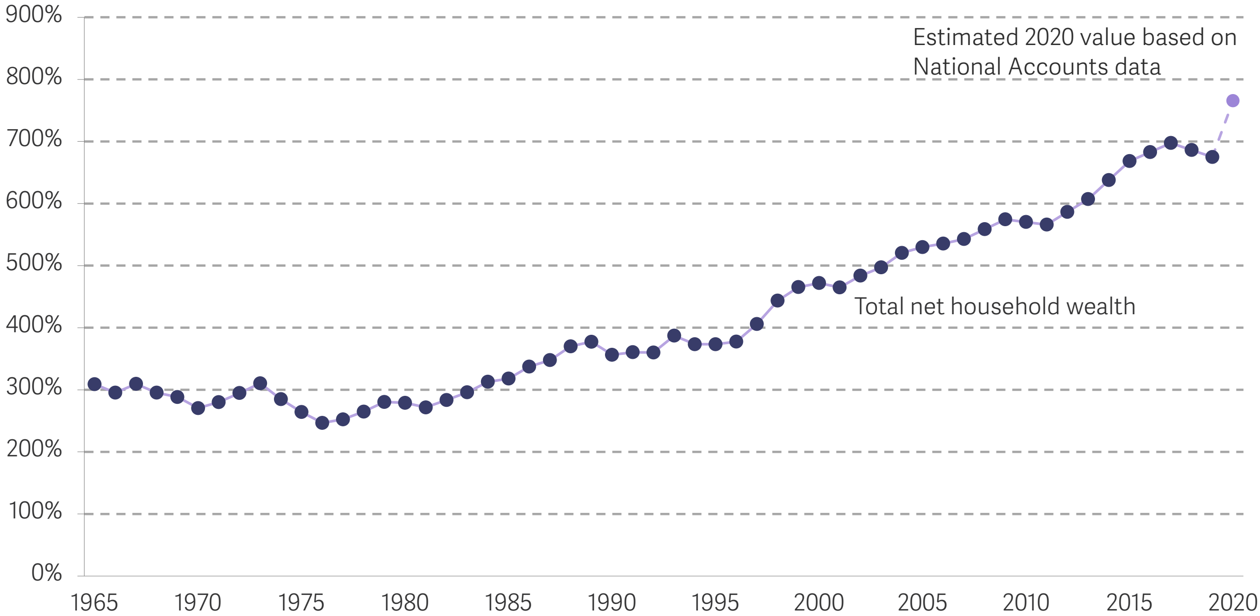
Rising levels of total wealth, combined with high inequality, mean that there are huge gaps between households

One of the least discussed trends in the UK economy is the consistent rise in the total value of wealth that is owned by UK households since the 1980s. As shown in Figure 4, between the mid-1960s and the mid-1980s, the value of wealth hovered around three times the size of the economy. But since then there has been a consistent rise in the value of wealth, outside of recessions, with the latest estimate showing wealth is closing in on being eight times annual national income. This increase has largely been the corollary of the fall in the real interest rates that occurred over the same period.[12] This is because, all else equal, interest rates have a negative relationship with asset prices (such as housing and stocks and shares).

12 For a longer discussion of the drivers of the increase in the value of household wealth, see: I Mulheirn, Sources of wealth and their implications for taxation, Wealth and Policy, Working Paper 122, October 2022.

FIGURE 4: **Total wealth levels have consistently risen for 40 years**

Household wealth as a share of GDP: GB/UK

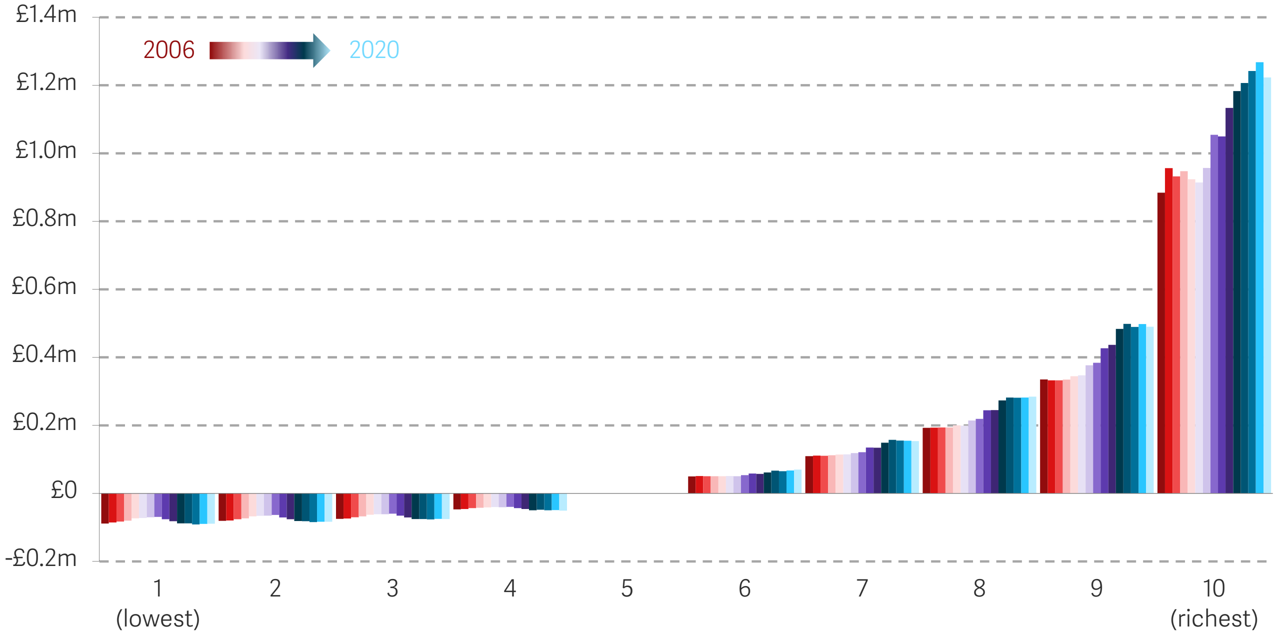


NOTES: The estimate for 2020 is calculated by multiplying the value of wealth as a proportion of GDP from the Wealth and Assets Survey by the growth rate in this value found between 2019 and 2020 in the National Accounts.
SOURCE: RF analysis of D Blake & J Orszag, 'Annual estimates of personal wealth holdings in the United Kingdom since 1948', Applied Financial Economics 9, 1999; ONS, UK National Accounts; ONS, Total Wealth: Wealth in Great Britain; ONS, Gross Domestic Product at market prices.

The increase in the value of wealth has real-world consequences: in particular, rising asset prices have led to a stretching of gaps between the value of wealth held across families. To make this point clear, imagine if the share of wealth held by families across the wealth distribution stays constant (as we have shown has been broadly the case for wealthy families) and the value of wealth doubles (again, as has been broadly the case since the 1980s) – that would mean the actual pounds and pence gap between families would also double. Figure 5 shows this effect in practice: in 2006 the average family in the richest tenth of the distribution had close to £900,000 more in wealth (per adult) than a family in the fifth decile; by the start of 2020, that gap had increased to over £1.2 million per adult.

FIGURE 5: **Gaps across the wealth distribution have increased**

Absolute gap between mean family wealth per adult within each net wealth decile and mean wealth per adult for decile 5, by year: GB



NOTES: Data is adjusted using CPIH into April 2021 prices. Wealth is measured at the family unit level - i.e. one or two adults within a household plus any dependent children. Household composition is accounted for by taking wealth per adult within the family. 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. Post-pandemic results rely on modelling partially based on YouGov survey results. Base of analysis is all adults who responded with valid information about saving and debt changes (n=4,606). These figures have been analysed independently by the Resolution Foundation. Data for 2006 covers July to December that year and 2020 refers to January to March.
SOURCE: RF analysis of ONS; Wealth and Assets Survey.

Despite top-wealth *shares* in the UK being relatively unremarkable compared to other countries, wealth *gaps* are only larger in the US

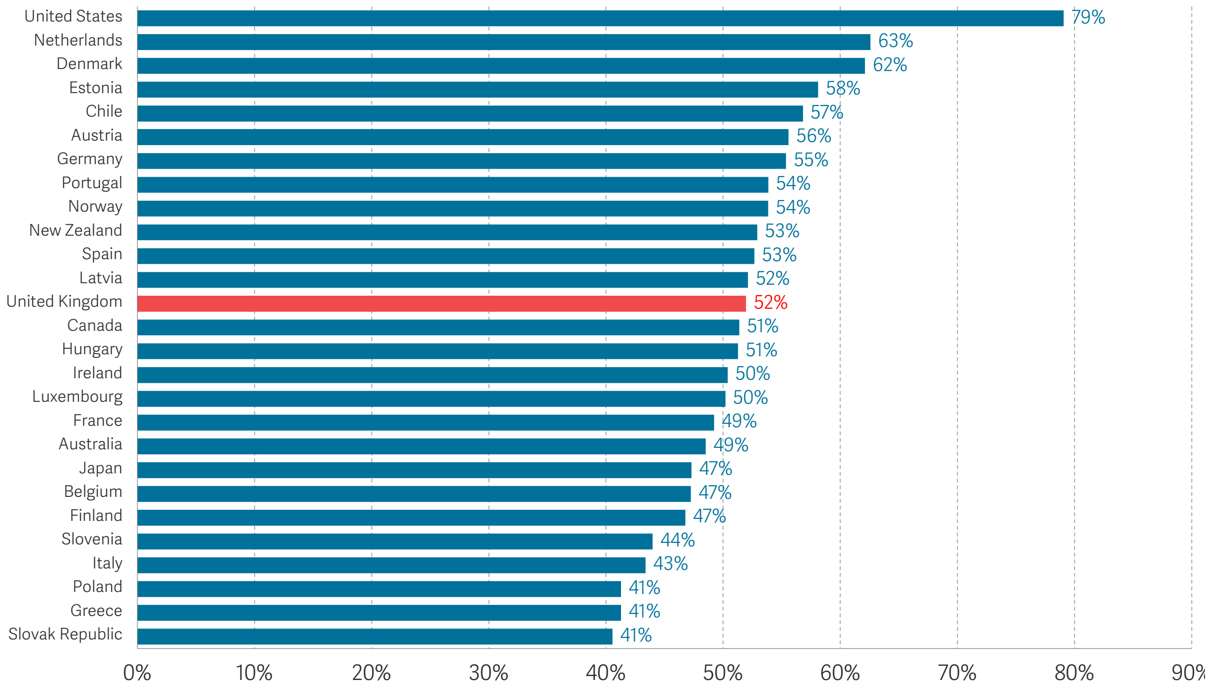
The share of wealth held by wealthiest families in the UK is not high by international standards. As Figure 6 shows, the share of wealth held by the top 10 per cent was 52 per cent in the UK, equal to the unweighted average across OECD countries with available data.[13] This is lower than in many countries that are typically considered more equal – for example Germany where the top wealth share is 55 per cent and Denmark where the share is 62 per cent. This reflects a range of factors, for example, other countries have a higher share of pensions sourced from government schemes rather than private pension wealth.[14] This means that, for a given level of pension entitlement in retirement,

13 This is based on data from the OECD for 2016 to 2019 and is a different definition of wealth to our analysis of the Wealth and Assets survey, hence the small difference in the estimated share of wealth at the top of the distribution.
14 For example, social security contributions in Germany were 15.2 per cent of GDP in 2020 compared to 6.9 per cent in the UK (this reflects not just pensions but other forms of social security contributions as well). Source: OECD, Social security contributions.

private wealth needs to be higher in the UK than comparator countries. Similarly, with a stronger social security safety net, the precautionary saving motive for holding wealth is weakened.

FIGURE 6: **UK wealth shares are close to average of OECD countries**

Share of wealth held by top 10 per cent, by country: 2016-2019



NOTES: Data is based on the latest available. 2016 for Finland, Italy & Poland; 2017 for Austria, Chile, Estonia, France, Germany, Hungary, Latvia, Portugal, Slovakia, Slovenia & UK; 2018 for Australia, Greece, Ireland, Luxembourg, New Zealand, Norway & Spain; and 2019 for Canada, Netherlands & US.
SOURCE: RF analysis of OECD.

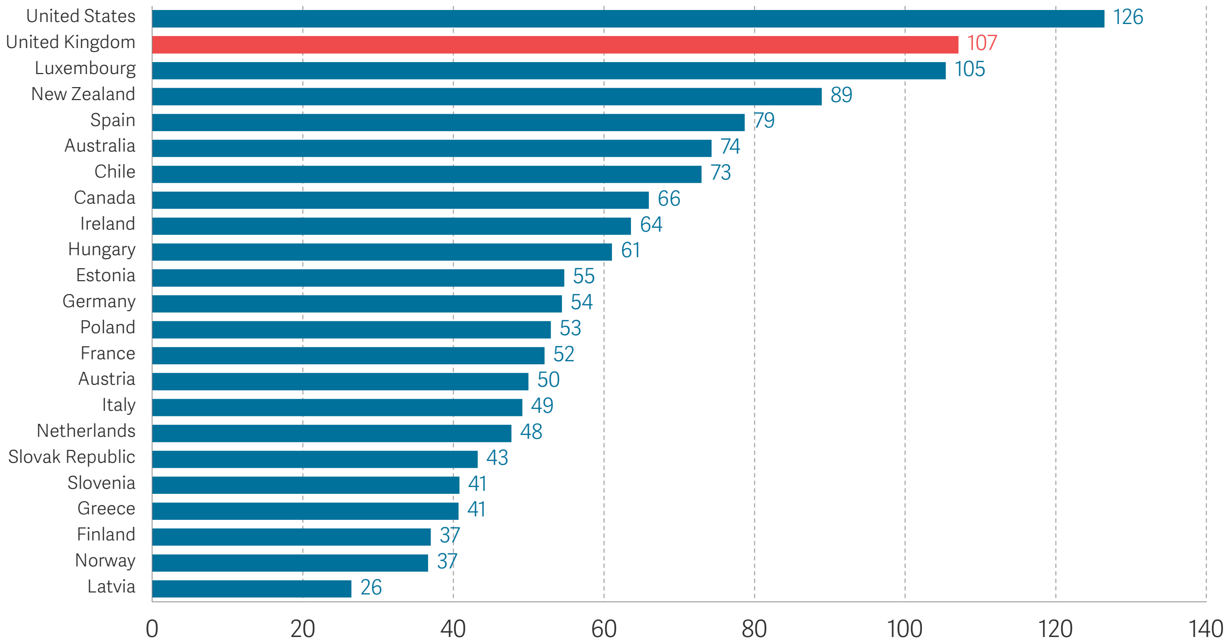
Although top-wealth shares in the UK are typical among international comparators, absolute wealth gaps are much higher in the UK (Figure 7). The gap between the mean level of net household wealth for the wealthiest tenth of households and the poorest 40 per cent of households was 107 times median disposable income in the UK in 2017. This reflects the relatively low level of median income in the UK but more important is the high level of total wealth, relative to the size of the economy, compared to other countries.[15] On this measure of inequality, the UK was second only to the US. This is particularly concerning given that the US tends to be an outlier on many measures of economic inequality. Notably, some countries with higher relative wealth inequality, like Norway, do much better under this metric because both median disposable income is higher and the mean level of private wealth holdings are lower.[16]

15 For more on an international comparison of incomes, see: A Corlett, F Odamtten & L Try, The Living Standards Audit 2022, Resolution Foundation, July 2022 and for more on wealth across countries see: OECD, Inequalities in Household Wealth and Financial Insecurity of Households, July 2021

16 To make this point clear, if wealth shares and incomes are held fixed and the mean level of private wealth is halved then that will halve the gap between households.

FIGURE 7: **UK wealth gaps are very large by historical standards**

Average top 10 per cent wealth compared to average wealth in the bottom 40 per cent, as a multiple of median disposable income: 2016-2019



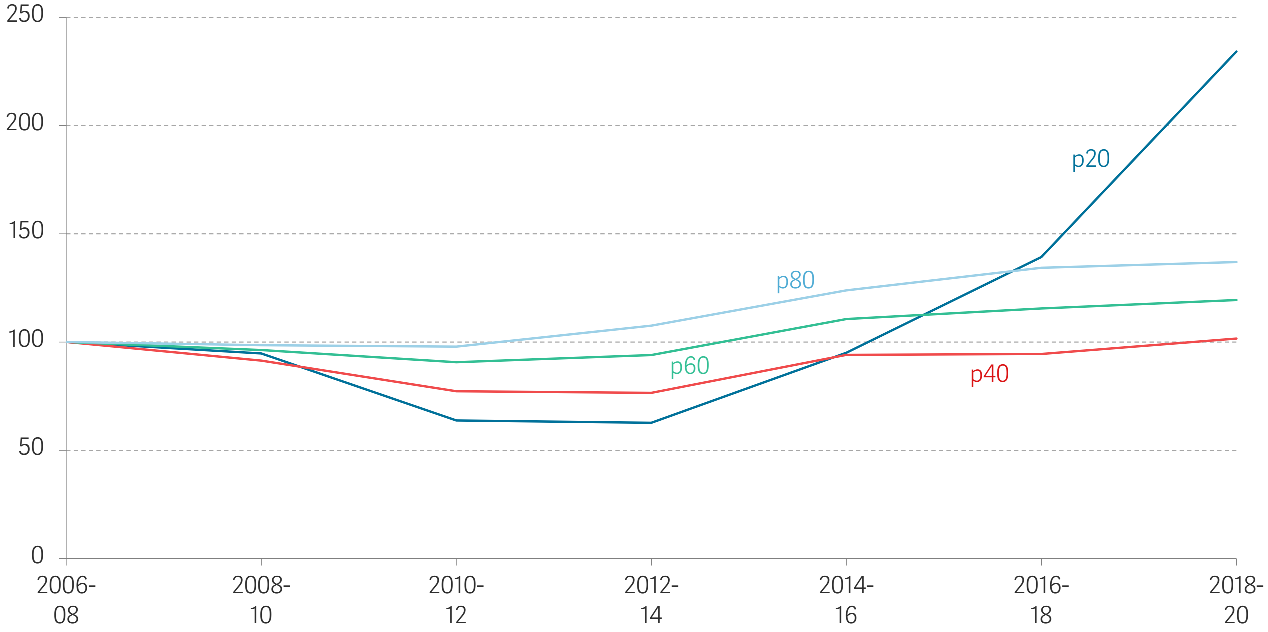
NOTES: Data is based on the latest available. 2016 for Finland, Italy & Poland; 2017 for Austria, Chile, Estonia, France, Germany, Hungary, Latvia, Portugal, Slovakia, Slovenia & UK; 2018 for Australia, Greece, Ireland, Luxembourg, New Zealand, Norway & Spain; and 2019 for Canada, Netherlands & US.
SOURCE: RF analysis of OECD.

Rising asset prices have benefited wealthier families most but the effect on inequality has been offset by pension saving

Differences in asset ownership are resulting in winners and losers from wealth accumulation. As noted above, the share of wealth at the top of the distribution and the Gini coefficient have been stable over time. But that does not rule out changes in other parts of the distribution. Figure 8 shows the change in the real value of wealth at various points in the net wealth distribution and a nuanced picture emerges. Those towards the bottom of the distribution (here measured at the 20th percentile) have experienced the fastest relative increase in wealth since 2006-08. This change has accelerated in recent years: the real wealth per adult at this point of the distribution increased by around 130 per cent between 2006-08 and 2018-20 (equivalent to a real-terms rise of £1,800). In contrast, those slightly higher in the distribution, e.g. at the 40th percentile, have experienced slower growth, with average real wealth levels effectively unchanged since 2006-08. This suggests a compression of the bottom of the wealth distribution is offsetting a somewhat more rapid increase in the upper half of the distribution. At the same time, those further up the wealth distribution have done better, with the value of wealth for a family at the 80th percentile having risen by 37 per cent in real terms between 2006-08 and 2016-18.

FIGURE 8: **The top wealth share has been stable but that doesn't mean the whole distribution has remained fixed**

Index of real household wealth per adult, by percentile of the net wealth distribution (100 = 2006-08): GB



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

The obvious question is: what has driven these patterns? There are two main factors behind these changes: the increase in asset prices over this period (increasing wealth inequality) and a 'spreading-out' of pension wealth (decreasing inequality). We discuss changes each of these changes in turn below.

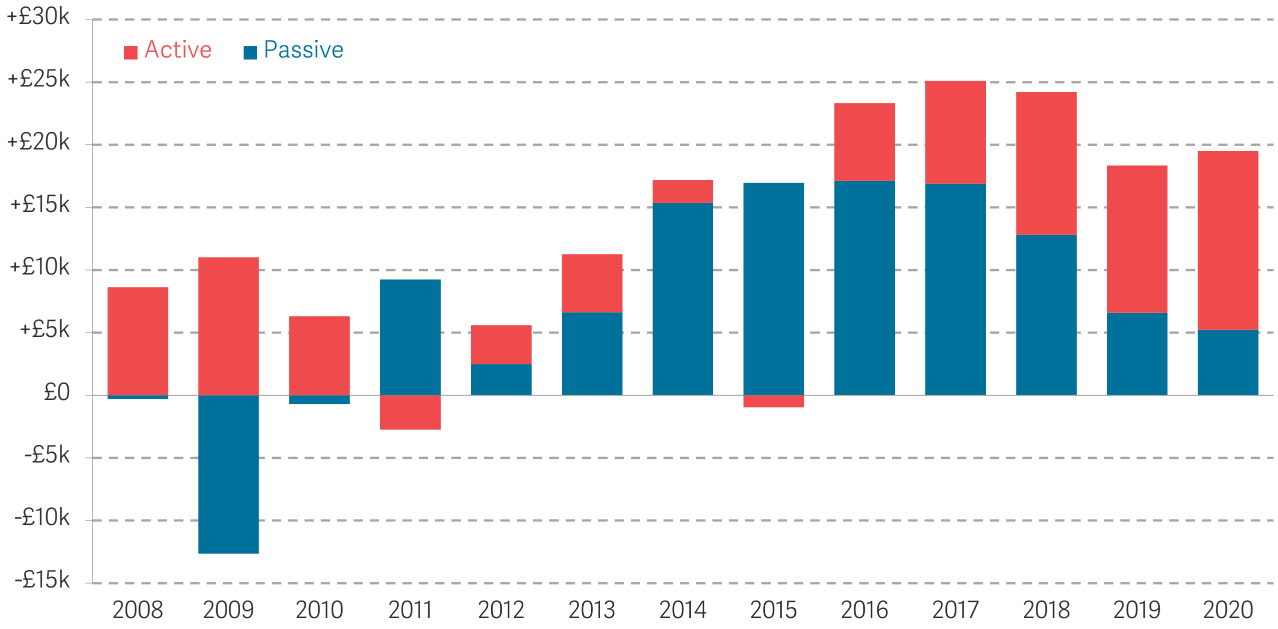
Gaps in asset ownership are resulting in winners and losers from wealth accumulation

People benefit from both active wealth accumulation (such as directly increasing savings or reducing debt) and 'passive' wealth accumulation where existing assets become more valuable due to asset price inflation. Figure 9 shows that, since 2008, such passive accumulation has been responsible for 53 per cent of the increase in average family wealth, while active accumulation has been responsible for 47 per cent (see Box 2 for details on the methodology).

Asset price increases were particularly rapid from around 2013 onwards (particularly house prices, where price growth was slow following the financial crisis in much of the UK), leading to large passive gains in the mid-2010s. However, inequality in asset ownership means lots of families have experienced little to no benefit from rising asset prices.

FIGURE 9: **The key driver of wealth accumulation is asset price increases**

Estimated mean change in family wealth per adult over preceding two years, by type of wealth accumulation: GB



NOTES: Excludes DB pensions and pensions in payment.
SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

BOX 2: **Estimating active and passive wealth accumulation**

Estimating why wealth changes occur is a challenge because the available data only provides a snapshot of household balance sheets once every two years – we cannot directly observe the rates of returns assets experience, nor the saving and spending decisions families take over time. In order to understand wealth changes, we utilise the longitudinal element of the WAS where households are surveyed in successive survey rounds. We take the observed change in wealth levels for each family and decompose it into two categories: passive accumulation – this is the expected change in wealth given by the average returns on assets held in the first period; and active accumulation – this is the residual but can be thought of as the net sum of savings, changes in debt, and wealth transfers.

The WAS provides granular breakdowns of asset holdings, but, of course, these are still aggregated at a relatively high level. We take each asset class, at as granular level as possible, and match these to external estimates of average rates of returns on these assets. For example, for housing assets we take the ONS's regional house price index and use that to estimate the real change in the value of main residences for owner-occupiers, and for other property assets we use the UK national house price index (because the survey does not record the location of other housing assets). Clearly, this approach will not fully capture asset price changes for each individual but should work at an average level.[17]

This leaves the challenge of interpreting the active accumulation component. This should, at least in theory, be relatively similar to the aggregate savings rate – these two series are compared in Figure 10. Clearly there are significant differences but these are likely to be largely definitional. The aggregate savings ratio is measured as the share of national accounts disposable household income not spent on household consumption. This differs from the active wealth accumulation series in a number of ways, first, and most importantly, wealth transfers (either positive or negative), such as inheritances, will show up as active changes in our wealth measure but will be excluded from the national accounts measure.[18] Second, some measured changes in wealth will be captured in the survey measure but excluded from the savings ratio (for example the impact of flooding on the value of a house). Third, the savings ratio is measured relative to income which changes over time and so some of the dynamics are unrelated to savings levels (changing incomes do not directly affect the active wealth change estimate).

But these factors are unlikely to explain all of the difference. More likely is that we underestimate asset price changes during periods of high asset price growth by using average returns. This is because evidence suggests that higher-wealth individuals are able to capture faster asset price appreciation even within narrowly defined asset classes.[19] This means that some of the wealth we define as 'active accumulation' particularly in the late-2010s is actually likely to be passive accumulation. Unfortunately, no data that we are aware of in the UK allows for direct analysis of asset returns that would enable us to correct for this bias. However, despite this limitation, the decomposition in wealth-level changes should be broadly accurate, particularly for the average family.

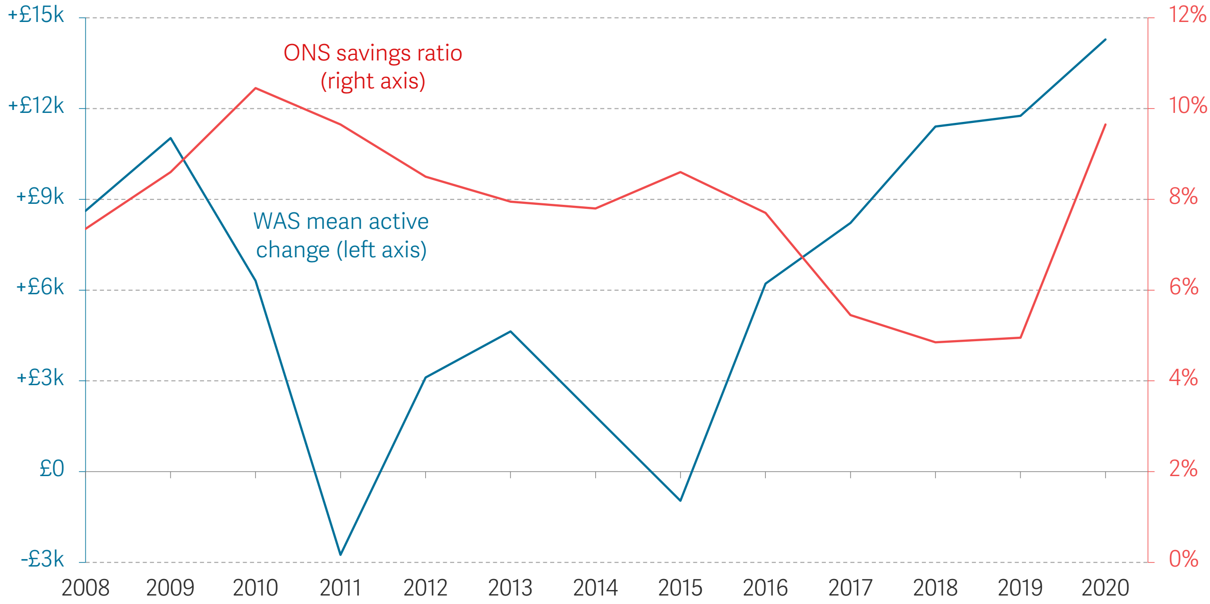
17 We confirm this by estimating a regression on wealth changes using asset composition shares as an explanatory variable (controlling for a range of other characteristics) and find that they are insignificant in explaining wealth changes, robust to a range of specifications.

18 For more on trends in intergenerational wealth transfers in particular see: J Leslie & K Shah, Intergenerational rapport fair? Intergenerational wealth transfers and the effect on UK families, Resolution Foundation, February 2022.

19 A Fagereng et al., Heterogeneity and persistence in returns to wealth, Statistics Norway Discussion Papers No. 912, July 2019.

FIGURE 10: **Estimates of the saving rate and active wealth accumulation diverge**

Estimated mean active wealth accumulation and aggregate savings ratio: GB/UK



SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; ONS, UK House Price Index; and ONS, Quarterly National Accounts.

But increases in asset prices mainly benefit those who already own assets, thus bypassing poorer households. Figure 11 shows the importance of pre-existing asset ownership for passive gains; it estimates the range of asset-price returns given the pre-existing composition of assets.[20] Roughly speaking, typical wealth ownership patterns for those in the bottom third of the wealth distribution are for little or no ownership of assets exposed to price changes. Indeed, most wealth is either held in physical property (e.g. cars, home contents, etc – which we don't include here) or in cash and bank accounts.[21] This shows up in the negligible asset price returns for low-wealth families across the survey period. This means low wealth families are missing out on wealth accumulation even in periods of more muted asset price inflation, widening existing wealth gaps. Instead, it is families towards the top of the distribution that tend to gain the most from asset price returns. For example, families in the middle wealth decile saw 7 per cent median two-year asset price returns in 2018-20 while those in the bottom wealth decile saw no returns in the same period.

An important side-point to note here is that the average estimated returns for those at the top of the wealth distribution are slightly lower than those in the upper-middle, particularly in the two most recent survey rounds – driven by more rapid house price

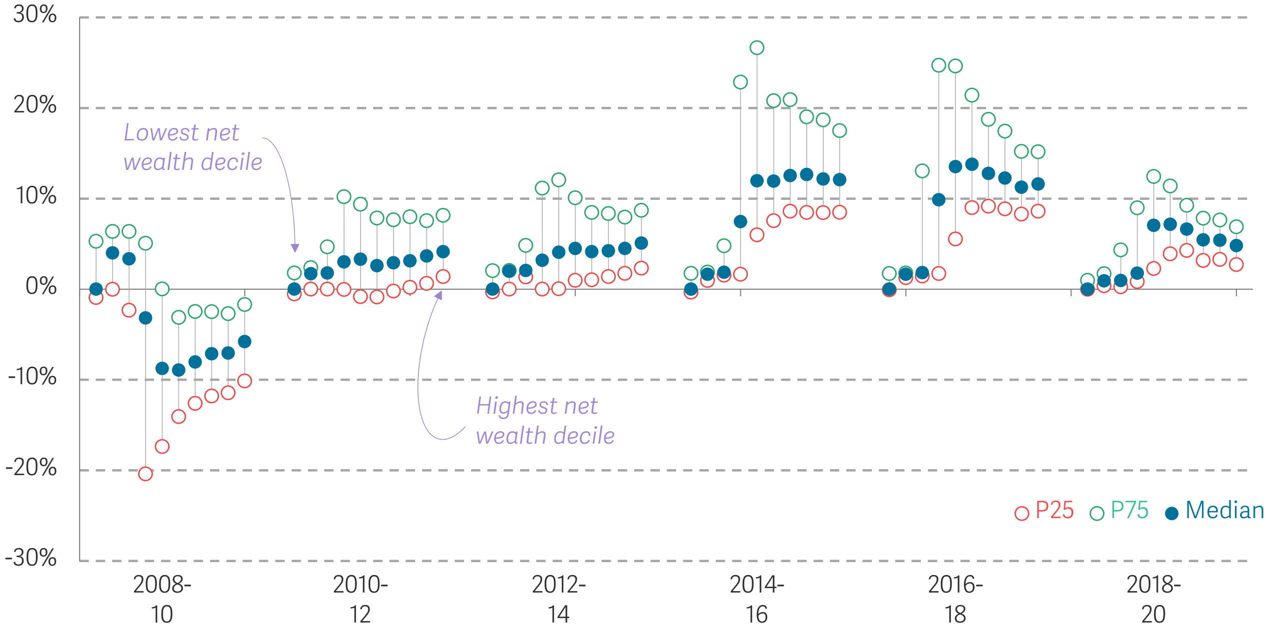
20 For example, if a family's assets were 50 per cent in housing (with a two-year return of 10 per cent) and 50 per cent in cash (with no return), the estimated average return would be 5 per cent for that family.

21 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.

increases (an asset which has a higher share of total wealth for those in the middle of the distribution) than financial asset price rises. This is one reason why shares of wealth at the top of the distribution have not increased over time.

FIGURE 11: **Low-wealth people have limited exposure to asset price changes**

Estimated two-year asset price returns, by net wealth decile: GB

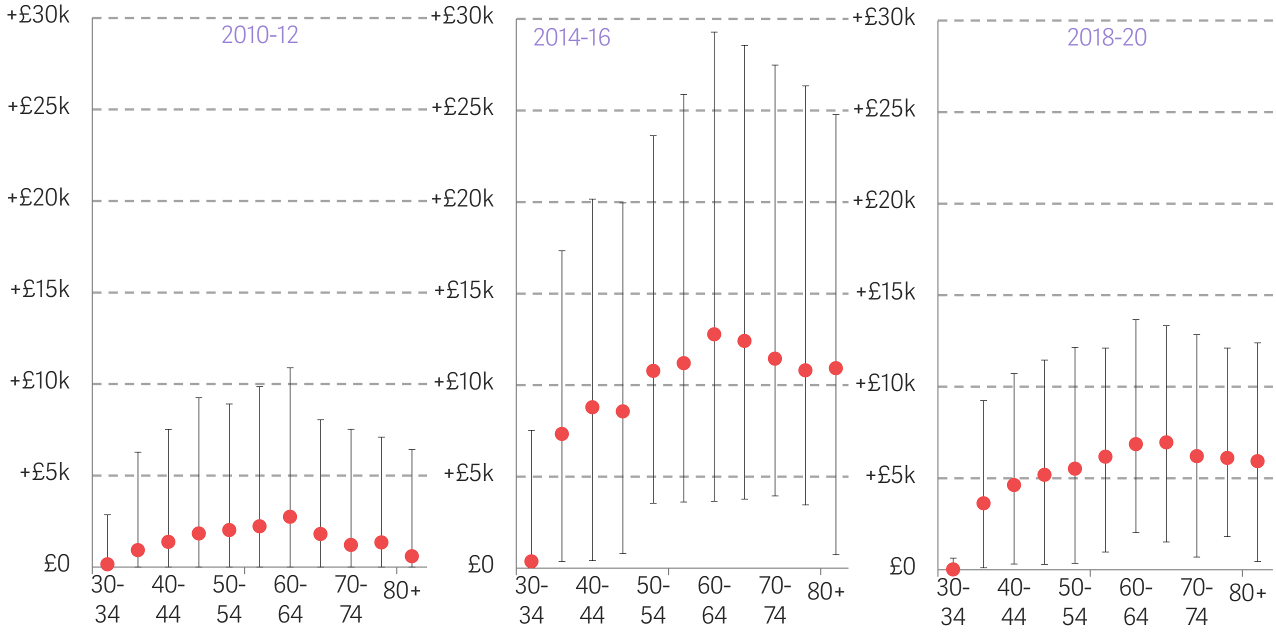


NOTES: Excludes DB pensions and pensions in payment. Years refer to the survey periods – for example, values for 2008-10 compare the estimated returns for each family compared to 2006-8 period.
SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

One crucial thing to understand is that the distribution of passive wealth accumulation is wide – it is not the case that everyone has benefitted from rising asset prices equally, with some families benefiting from particularly high returns. Figure 12 plots the range of estimated passive wealth changes across age groups. Taking an example, families headed by 60-64-year-olds saw median passive gains of around £6,860 in between 2016-18 and 2018-20, but the distribution is large with a quarter of families seeing very small returns and a quarter seeing over double that amount.

FIGURE 12: **Large distribution in returns means that not everyone is experiencing wealth gains**

Estimated two-year passive wealth accumulation at the 25th, 50th and 75th percentile, by age: GB



NOTES: Excludes DB pensions and pensions in payment.
SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

Asset ownership can facilitate active wealth accumulation through income and reduced costs

Of course, passive wealth gains are only part of how families accumulate wealth – active accumulation is also important. Active accumulation will depend on a wider range of factors than passive accumulation. Naturally income levels are important: higher incomes mean for a given level of consumption higher savings rate are possible. However, thinking about it simply in terms of income and savings choices misses important other effects. Namely, having wealth facilitates faster active accumulation as well, not just faster passive accumulation. The big driver of this is home ownership. Previous research has shown that being an owner-occupier is the most economically-efficient housing tenure – both from the exposure to passive gains but also an association with lower day-to-day housing costs.[22] In a regression analysis, estimating the level of active wealth accumulation, homeownership is positively related to higher active wealth accumulation even after controlling for household composition, individual characteristics and income levels. Specifically, owning property is associated with an increase in average active

22 L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021. And MHCLG, English Housing Survey, 2019 to 2020: home ownership, July 2021.

wealth accumulation of close to £7,000 per year.[23] It is also the case that some forms of wealth ownership provide additional income – for example, renting out a second home. This income effect will also facilitate faster active accumulation for those with higher pre-existing wealth levels.

Pulling these results together, a regression analysis of total wealth accumulation (i.e. including both passive and active accumulation) shows that the most important driver of being able to accumulate wealth is having high income. Secondary to that, a range of factors are associated with a higher chance of wealth accumulation: including having a family with no children (presumably reflecting the high financial cost of having a child); being working age and in employment; and having high-education levels personally or in addition to a partner. Concretely, for example, we estimate that someone aged 40-44, without children, and with a degree-level qualification is 33 percentage points more likely to experience positive wealth accumulation over a two-year period than someone who is aged 70-74, married with children, and without a degree-level qualification (82 per cent compared to 49 per cent).[24]

The 'spreading out' of pension wealth has decreased inequality

These changes would suggest that wealth inequality has increased over time but this trend has been offset by rising pension accumulation by lower-wealth families. Indeed, pension saving is the other key factor affecting overall inequality. More families owning pension wealth explains the particularly fast growth for those in the 20th percentile (Figure 8) – gaining £1,800 per adult, in real terms, since 2006-08. Between 2006 and 2014 there was no pension wealth up to the 30th percentile of the pension wealth distribution. But, in the most recent data (2018-20), the 30th percentile of the pension wealth distribution had £2,450 of pension wealth. This is a substantial increase as average wealth levels at the bottom of the wealth distribution are close to (or below) zero. Although the WAS data cannot be conclusive, this appears to be reflective of the introduction of pension auto-enrolment[25], which began in 2012 and gradually rolled out to a large proportion of working adults over the following years.[26] Indeed, all of the gains in total wealth at the 20th percentile occurred after the introduction of auto-enrolment.

Finally, the importance of pension accumulation in offsetting increases in asset prices at the top of the distribution in terms of overall inequality is confirmed by regression analysis. A limitation of the analysis in Figure 8 is that it only shows changes at particular

23 This regression controls for income levels, age, household composition, employment status, education (and includes time period dummies to get a through-the-cycle effect to abstract from fluctuations in the aggregate savings rate).

24 This is estimated using an ordered probit model where positive wealth accumulation is defined as an observed increase in wealth over a two-year period in excess of £1,000 (this is to remove small changes in wealth being identified as wealth accumulation).

25 DWP, New timetable clarifies automatic enrolment starting dates, January 2012.

26 For a detailed analysis of pension savings rates and the impact of auto-enrolment see: D Finch & C Pacitti, Building a living pension: Closing the pension savings gap for low to-middle income families, Resolution Foundation, January 2021 and H Slaughter, Enrol up! The case for strengthening auto-enrolment enforcement, Resolution Foundation, August 2020.

points of the distribution. We can do a more rigorous analysis of changes across the whole distribution by considering a decomposition of the coefficient of variation of wealth. The coefficient of variation is a measure of inequality across the full distribution and can be decomposed into the contribution of different sources of wealth have to the change in inequality over time.[27] Specifically it is the combination of: (i) whether a source of wealth becomes more or less important over time (e.g. if financial wealth, which is the most unequally held type of wealth, increases as a share of total wealth, that pushes up aggregate wealth inequality); (ii) changes in the inequality within each type of wealth (e.g. if financial wealth becomes more unequal that pushes up overall inequality); and (iii) the change in the correlation between the source of wealth and overall wealth (e.g. if the correlation between high financial wealth and high values of other types of wealth increases, that increases overall inequality). This decomposition confirms and extends the analysis above. Pensions wealth has increased as a share of wealth (the total share of wealth from pensions has risen from 39 per cent in 2006 to 48 per cent by the start of 2020) and it has become more equally held. This pushes down on wealth inequality. Partially offsetting this effect is an increase in the inequality within financial wealth holdings and an increase in the correlation of financial wealth with overall wealth.

Overall, then, this section has described changes in the aggregate level of wealth, wealth inequality and wealth gaps. But there are also important changes across and within-groups – this is the subject of the next section.

27 The coefficient of variation is calculated as the ratio of the standard deviation of wealth levels to the mean level of wealth.

Section 3

Stable overall inequality hides changes within groups

The increased wealth gaps discussed in the previous section have also driven some measures of wealth inequality within groups and across groups to rise. Such changes in inequality across and within different groups are important, not least because they affect people's day-to-day experience of inequality.

A key example in this context is growing intergenerational inequalities. Older-age groups increasingly have the highest wealth: the share of total wealth owned by those aged 65 and older has risen from 42 per cent in 2006-08 to 51 per cent in 2018-20 (far outstripping the increase in the share of the population in that age group). But it is not just inequality between age groups that is changing, but also inequality within groups: those over 80 have experienced a decline in wealth inequality since 2006-08, while those aged 45-49 have seen widening inequality.

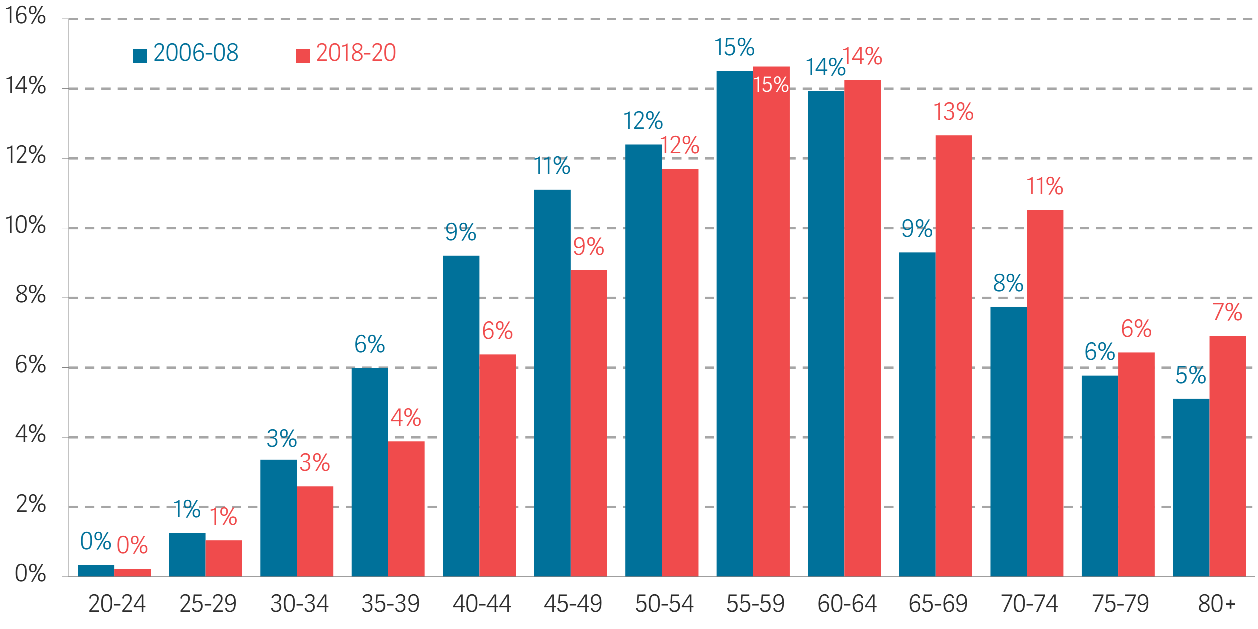
Inequality across regions has been growing too: the share of wealth held by families living in the south of England has risen from 42 per cent in 2006-08 to 46 per cent by 2018-20 – far higher than the population share of 37 per cent. There is also evidence that some measures of inequality within-regions have increased as well – particularly driven by changing trends in homeownership. For example, in Wales, the share of families owning property fell from 68 per cent to 62 per cent between 2006-08 and 2018-20 and at the same time the ratio of average wealth for someone in the fourth quintile of the wealth distribution and the second quintile rose by 3.4 (from 6.4 times to 9.8 times). In addition, inequalities across some other groups remain high and persistent: for example, in 2016-18, typical wealth per adult for a White British family was eight-times higher than a typical Black African family (£196,000 compared to £23,700).

Intergenerational inequality has increased markedly

One strand of wealth inequality which has received significant attention is inequality across age groups. Here, the story is clear: life cycle-adjusted wealth levels are highest for those in the 'boomer' generation. This is shown clearly in Figure 13 where the share of wealth held by those aged 65 and older has risen from 42 per cent in 2006-08 to 51 per cent in 2018-20. This change is partly driven by demographics: the share of the UK population aged 65 and older has increased from 16 per cent to 19 per cent over that period. But that clearly does not explain the full shift.[28] A bigger contributing factor is that younger age cohorts are accumulating wealth at a slower pace than older age groups were at the same age and so are not benefiting from passive gains in asset prices.[29] There is a strong life-cycle pattern to wealth where young people start with low wealth, accumulate it over time (at least for a typical person) as they age, with wealth peaking around retirement age. The slower wealth accumulation for younger cohorts means that as older generations reach the life-cycle peak in wealth levels, the share of wealth held by older people increases. This shift in the ownership of wealth towards older groups could grow further as there are no signs that low wealth accumulation for younger groups has reversed.[30]

FIGURE 13: **Older age groups own a larger share of total household wealth**

Share of total household wealth by age of survey respondent: GB



NOTES: Those under the age of 20 have been excluded.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

28 The full impact of an aging population on wealth levels is not just about changing share of population by age groups. For example, as life expectancies increase for a given level of pension income, the measured value of that pension increases (that is because the discounted value of future pension payments will be larger the longer the recipient is expected to live). But, given the horizon over which this comparison is taken, these secondary effects should be small.

29 K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021.

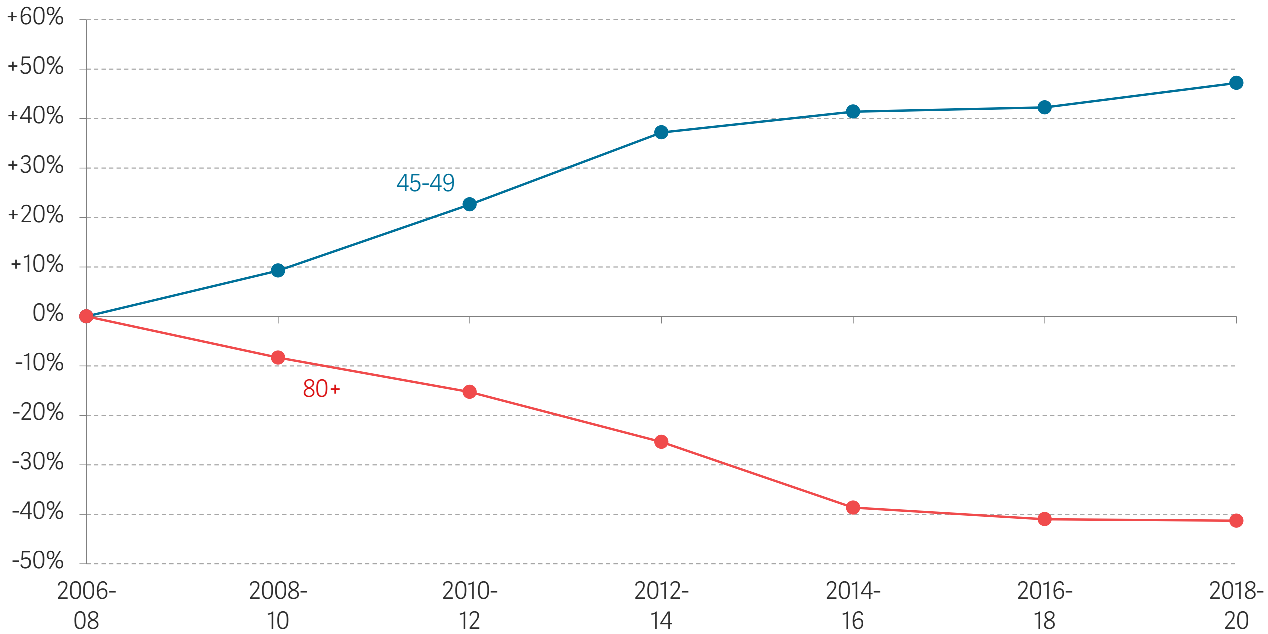
30 Ibid.

It is not just inequality across age groups that matters, but also inequality within groups. Figure 14 shows wealth inequality (measured by the ratio of average wealth in the fourth quintile of the wealth distribution to average wealth in the second quintile of the distribution) for those aged over 80 and those aged 45-49. There is a clear pattern: for older age groups (with the effect strongest for those over 80) there has been a strong decline in wealth inequality. This seems driven by cohort effects where rising homeownership during the second half of the 20th century has enabled a higher proportion of older cohorts today to own their own home, thus reducing this measure of inequality. In contrast, there has been an increase in the within-age groups inequality for those in middle-age groups (with the effect strongest for those aged 45-49). Part of this increase appears to be related to the decline in homeownership in the 2000s, but also the rising asset prices benefiting those higher in the wealth distribution more than those lower down (as discussed in Section 2).

These results will affect how people experience wealth inequality as people will compare themselves to their peers. In levels terms, and using the same inequality measure above (i.e. the ratio of the fourth to second decile wealth), inequality is far higher for younger age groups, before declining with age: for someone aged in their early 30s and in the fourth net wealth quintile (for that age group) average wealth is 10 times average wealth for their peers in the second quintile; in comparison, for all age groups over 65, that ratio is just 3 times. Therefore, younger age groups are likely to feel inequality more keenly than those in retirement.

FIGURE 14: **Within-age group inequality has risen for the middle aged**

Change in the ratio of mean total household wealth in fourth quintile and second quintile of net wealth distribution, by age: 2006-8 to 2018-20



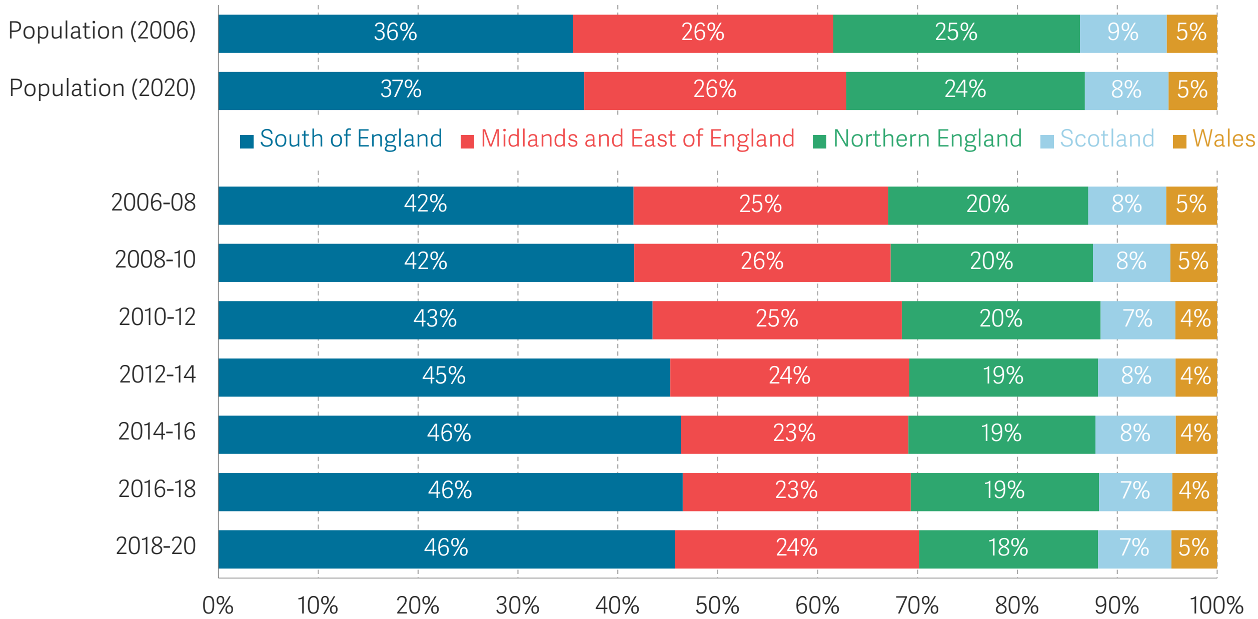
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Inequality across, and within, regions has also risen

Wealth gaps across regions have also increased. For example, as shown in Figure 15, regions of the country with high average wealth levels (i.e. particularly London and the South East of England) have seen their share of wealth grow over time: in 2006-08 42 per cent of the country's household wealth was held by families living in the South of England, since then that share has risen to 46 per cent of all wealth. Again, this growth cannot be explained by population change where the share of people in the South of England has only risen from 36 per cent to 37 per cent over the same period. Naturally the rising share of wealth in this part of the country means other areas are falling behind. This is particularly the case with Northern England, where around a quarter of the population of Great Britain live, but families own just 18 per cent of all wealth.

FIGURE 15: **Gaps across regions have also increased**

Share of total household wealth and population, by region/nation: GB



SOURCE: RF analysis of ONS, Wealth and Assets Survey, and ONS, Mid-Year Population Estimates.

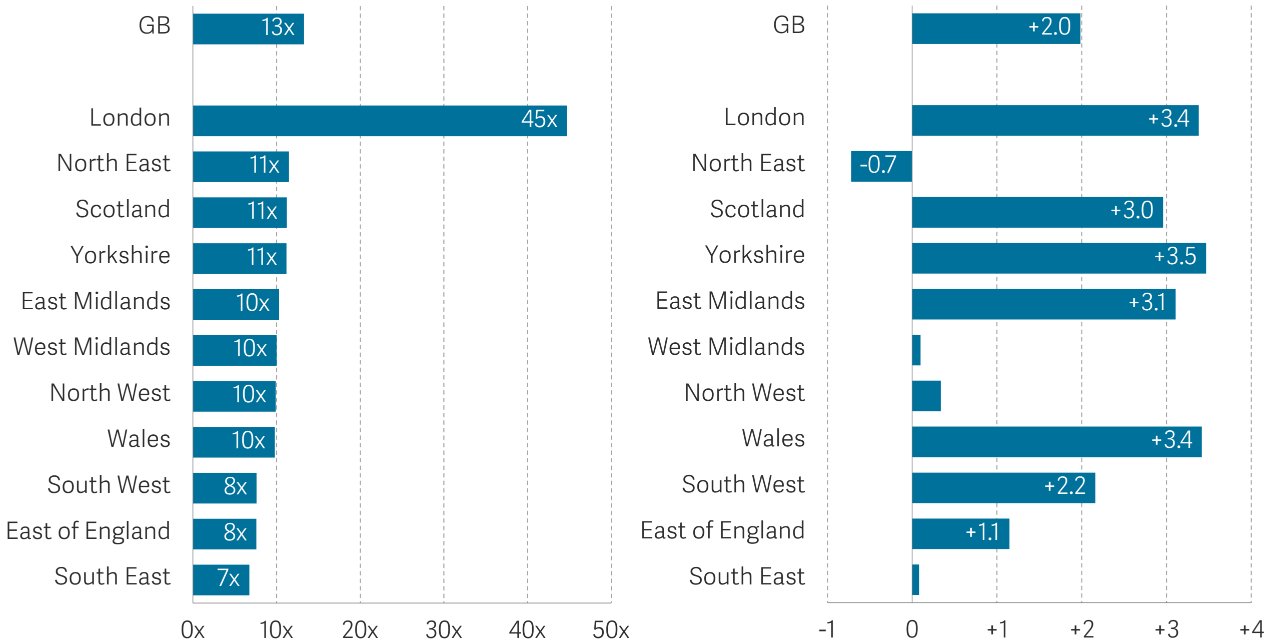
There are also important changes in the distribution of wealth within-regions. Using the same metric as above (the ratio of the fourth and second quintile of wealth), the left chart of Figure 16 shows the level of inequality in each region or nation. Unsurprisingly, the level of inequality in London is far higher than in other regions. This pattern is mostly driven by homeownership rates: the South East of England has the highest share of property owners (66 per cent of families) compared to London with the lowest (48 per cent). High homeownership rates mean, on average, the level of wealth in the second quintile of the wealth distribution will be higher.

There has also been a significant increase in inequality within most regions since 2006-08. The right chart of Figure 16 shows the change in the ratio between 2006-08 and 2018-20. Although GB as a whole became more unequal under this measure, the pace of increase was particularly rapid within some areas – with Yorkshire seeing the biggest absolute increase: the average family's wealth in the fourth quintile of the wealth distribution was 7.7 times the value of the average in the second quintile in 2006-08, by 2018-20 that ratio had increased to 11.2 times. The changes within-regions are also related primarily to home ownership: the area with the largest relative increase in inequality (at least under this metric) is Wales, which is also the area with the largest fall in homeownership between 2006-08 and 2016-18 (falling from 68 per cent to 62 per cent).

These results cover just one measure of wealth inequality but they demonstrate that rising wealth gaps can be felt more keenly within areas than they are at the national level.[31]

FIGURE 16: **Within-region inequality has increased**

Multiple of mean total household wealth in fourth quintile and second quintile of net wealth distribution (left chart) and change in that multiple (right chart), by region/ nation: 2018-20 and 2006-8 to 2018-20



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

31 Under this measure of wealth inequality, there has been a small increase at the national level (as average home ownership rates have fallen across the country), but the key point is that wealth inequality has risen much faster in some places than others.

Inequality across different ethnic groups remains persistent

One crucial area of high wealth inequality is the inequality between typical wealth holdings for different ethnic groups.[32] In 2016-18, the median net wealth per adult for a Black African family was just £23,700, while the median wealth for a White British family was over eight-times higher at £196,000.[33] These gaps have also not been closing over time,[34] despite improvements in ethnic inequalities in other areas of economic life.[35] This is an area we intend to return to in future work on wealth in the UK.

This section has shown that the rising wealth gaps between households also intersect with inequalities across other dimensions – and this will affect how people experience inequality in their daily lives. But it does not tell us why wealth inequality and gaps have real implications for how people live their lives. This is something we turn to in Section 4 where we consider why wealth gaps matter, particularly as the cost of living crisis intensifies.

32 For more on this topic see: O Khan, The Colour of Money: How racial inequalities obstruct a fair and resilient economy, Runnymede, April 2020.
33 G Bangham, A gap that won't close: The distribution of wealth between ethnic groups in Great Britain, Resolution Foundation, December 2020. These wealth figures are calculated at the family level, but of course ethnicity is something related to an individual. This means that for producing these statistics, the ethnicity of the survey 'household reference person', which is a randomly allocated adult within the family, is used to categorise the observations. This increases the uncertainty in the accuracy of the exact wealth holdings by ethnicity.
34 Ibid.
35 For example, the 16-64 employment rate for Black people in the UK in 2006-8 was 9.4 percentage points lower than the national rate which has fallen to (a still very high) 8.1 percentage point gap by 2018-20.

Section 4

Persistent high levels of inequality are problem

Wealth provides insurance against income shocks – an issue that is particularly important given the current cost of living crisis. Low-income families, in particular, naturally have less opportunity to build financial resilience due to limited wealth holdings: families in the bottom income decile were four-times more likely to have no savings than families in the top income decile. A family's level of savings is a key determinant of how they cope with income shocks. Here we find that 32 per cent of families with no savings say they will need to rely on family and friends to cope with income shocks, compared to just 3 per cent of families with savings in excess of one month's income. And this fragility is not just an issue for those with low savings, it creates macroeconomic issues as well: as the cost of living crisis affects all British families, the ability to rely on family and friends declines as they are increasingly likely also to be struggling financially.

In addition to the absence of a 'wealth buffer', debt accounts for a greater share of income among lower income families. The type of debt held varies across the income distribution with lower income families having a greater share of debt that is more strongly associated with negative wellbeing outcomes such as loan and bill arrears. For example, 18 per cent for those in loan arrears reported high levels of anxiety compared to 8 per cent of people not in loan arrears. Similarly, 15 per cent of those with bill arrears reported high levels of anxiety compared to 8 per cent of people with no bill arrears. This is particularly worrying as we go into a period where energy prices are expected to skyrocket to above well above £3,000 per year in October. Those who cannot cut back on spending and have no savings to fall back on will find themselves unable to keep up with their bills and so are likely to fall into arrears.

This section highlights that inequality in wealth and composition of debt not only increases lower income household's vulnerability to the current cost of living crisis, but the lack of financial resilience on the part of this group means that they are more likely to experience negative wellbeing outcomes.

Wealth gaps matter

Rising wealth gaps matter in a number of different ways. First, at the most basic level, wealth can be used to finance consumption – either directly through liquidating assets or indirectly by providing greater income. This means those with higher wealth are able to achieve higher living standards over time and equally those with little wealth cannot. Thus, rising wealth gaps mean gaps in living standards will increase.[36] Second, wealth provides opportunities, most obviously the opportunity to purchase a home through being able to afford a deposit. Previous research has shown that building a deposit is the largest barrier to becoming a first-time buyer:[37] Indeed, higher house prices in recent years along with a tightening in lending requirements, means that it is now harder to save for a deposit from income alone, meaning that pre-existing wealth takes on an even more important role.[38] Higher wealth gaps means those opportunities are more unevenly distributed. Third, and relatedly, wealth gaps affect social mobility: as wealth becomes more important for the opportunities in people's lives, inheritances and family support becomes an even more important factor in driving future wealth. Providing money for future generations within families – particularly for housing – is becoming an increasingly important feature of economic life in the UK.[39] It is also increasingly difficult for someone to 'move up the wealth distribution' on their own through saving as wealth has increased faster than saving.[40] Fourth, wealth also provides insurance against income shocks – an issue that is particularly important given the current cost of living crisis. So, if wealth gaps are high, the ability of families to respond to income shocks will vary hugely across the distribution. Some families will not have access to the benefits that wealth can bring to shielding living standards from inflation – this consequence of wealth gaps is the focus of the following analysis.

Savings are important for financial resilience and wellbeing

Having money set aside is an important component of financial resilience. As previous research shows, families with access to a substantial 'savings buffer' can draw down these financial assets when hit by an income shock. And if households have a high saving rate, they may be able to reduce this while adjusting to an income shock.[41]

36 A counterpoint to this is that some wealth cannot be used directly for consumption. For example, defined benefit pensions schemes provide a fixed income at retirement. The value of this future income depends, in part, on real interest rates (where lower interest rates imply higher measured value). For more on the measurement of the value of defined benefit pensions schemes 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.

37 A Corlett & F Odamtten, Hope to buy: The decline of youth home ownership, Resolution Foundation, December 2021.

38 L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021.

39 J Leslie & K Shah, Intergenerational rapport fair? Intergenerational wealth transfers and the effect on UK families, Resolution Foundation, February 2022.

40 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.

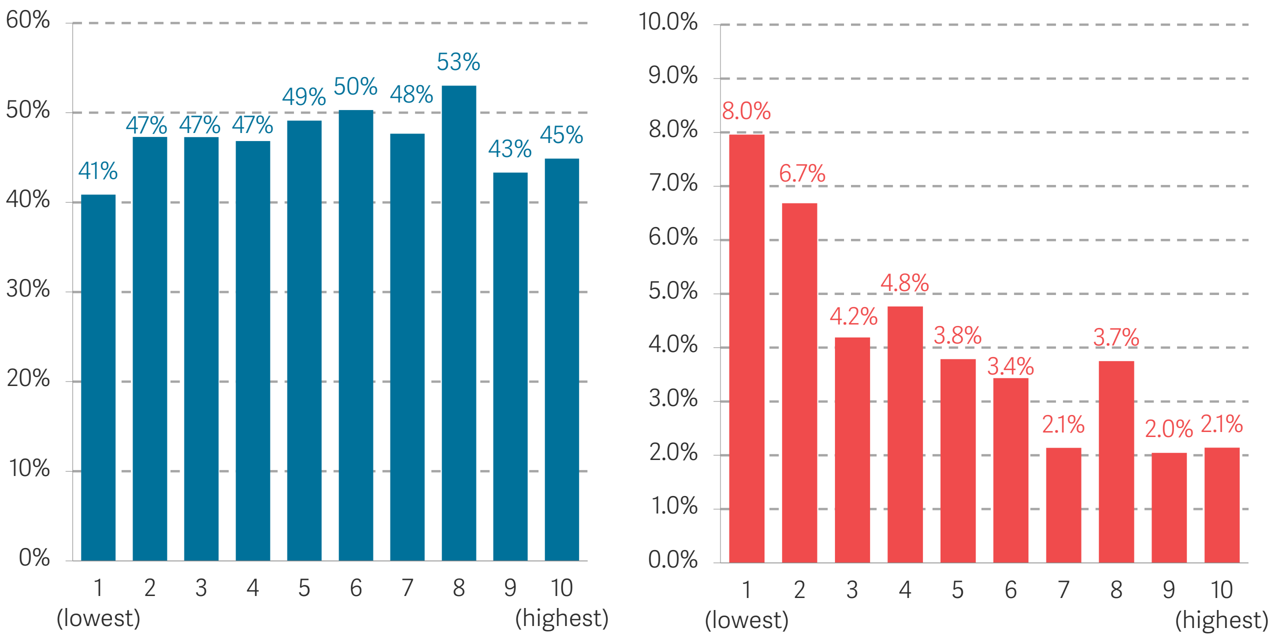
41 G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020. M Gustafsson et al., After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.

Although the appropriate level of savings for any individual will be highly dependent on their circumstances, a good reference point is a figure of at least three months of spending.[42] However, as shown in Figure 17 over two fifths (41 per cent) of families have savings of less than one month's current income. And this is not just an issue confined to those on low income, low savings is a feature observed across the entire income distribution. It is, however, important to keep in mind that higher-income families will typically have much more scope to cut back on non-essential spending in the fact of an income shock, providing an extra buffer.[43]

An even more acute lack of financial resilience is experienced by those who have no savings at all. Using a definition of savings based on the most liquid financial assets (current accounts in credit, value of savings account, value of ISAs and value of national savings products) shows that low-income families are far more likely to have no savings. Families in the bottom income decile were four times more likely to be in that position than families in the top income decile (8 per cent compared to 2 per cent)

FIGURE 17: **Assets are important for resilience and low-income families are far more likely to have no savings**

Share of families with savings less than one month's income, by income decile, 2018-20 (left-hand panel), share of families with no savings, by income decile, 2018-20 (right-hand panel): GB



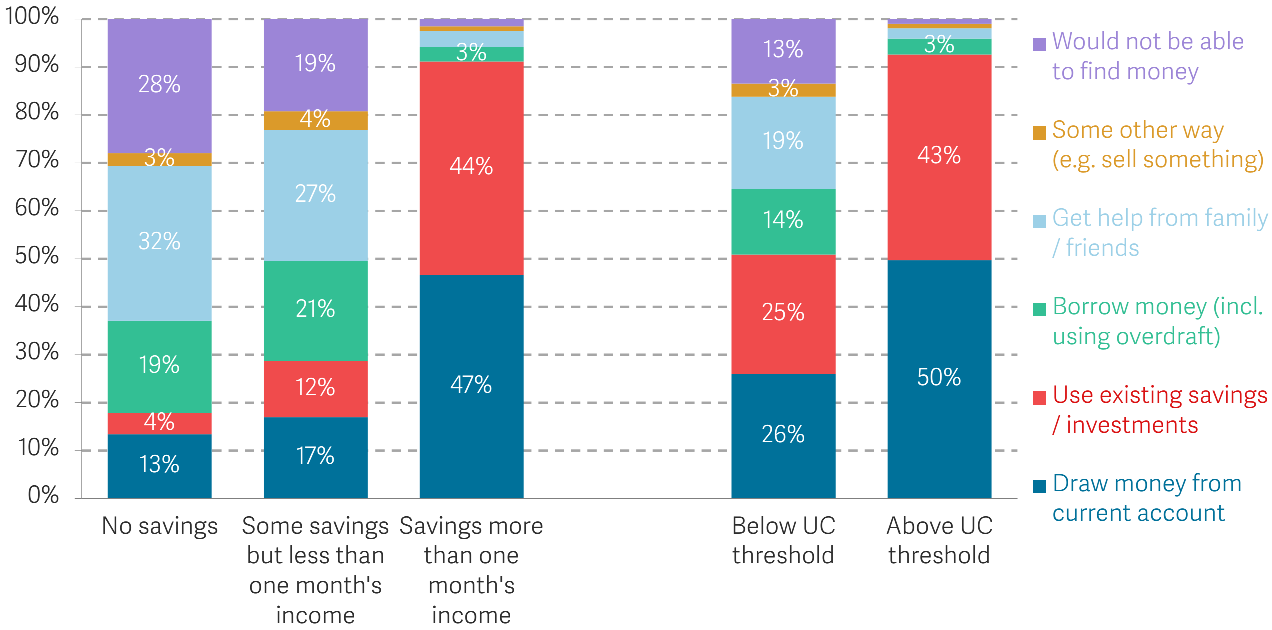
NOTES: Saving defined as current accounts in credit, value of savings account, value of ISAs and value of national savings products.
SOURCE: RF analysis of ONS; Wealth and Assets Survey.

42 https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus, accessed 18 July 2022.
43 For an estimate of essential spending by income see: Bank of England, Financial Stability Report - July 2022.

The amount of money set aside changes how families cope with financial shocks. Figure 18 shows that families with access to a 'savings buffer' would find it easier to find money for an unexpected expense while families with no savings would struggle. Only 2 per cent of families with savings more than one-month's income would not be able to find the money to cover an unexpected expense compared with 28 per cent of families with no savings.

FIGURE 18: **Asset holdings have a direct connection to how people cope with income falls**

Share of families reporting how they'd find money for an unexpected major expense, by amount of savings held, 2018-20: GB



NOTES: Family averages are calculated using household reference person only. Missing data labels for savings more than one month's income: 3 per cent get help from family / friends, 1 per cent some other way (e.g. sell something), 2 per cent would not be able to find money. Missing data labels for above UC threshold: 2 per cent get help from family / friends, 1 per cent some other way (e.g. sell something), 1 per cent would not be able to find money.
SOURCE: RF analysis of ONS; Wealth and Assets Survey.

Furthermore, families with little or no savings are more likely to rely on family and friends to cope with income shocks. 32 per cent of families with no savings would get help from family or friends to cover an unexpected expense compared to 3 per cent of families with savings more than one month's income. However, reliance on friends and family is likely to be more problematic for individual families when an income shock is widespread. The cost of living crisis is affecting all families with many seeing their real wages falling.[44] Those who were once able to help family and friends may no longer be in a position to

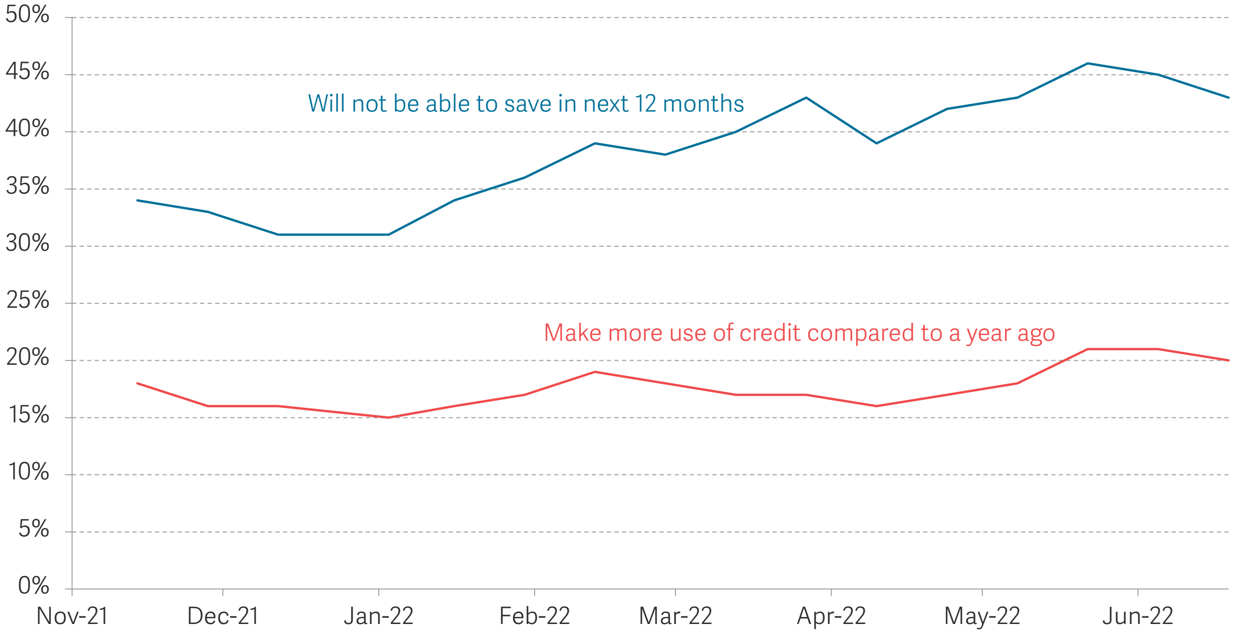
44 Nominal wage growth is below the rate of inflation, meaning pay is falling in real terms. Average real regular pay fell by 2.8 per cent in the three months to May – the sharpest fall in real wages since records began in the early 2000s. (N Cominetti, Cost-of-living crisis is hitting pay packets but not jobs as some older workers return to work, Resolution Foundation, July 2022.)

do so. As a result, low income families may find that the pool of family and friends that are able help cover an unexpected expense is shrinking, leading to more entrenched macroeconomic fragility.

The absence of a wealth buffer to cope with an income shock is not only a short-term problem. As we have shown, owning wealth opens doors to future wealth accumulation through asset price appreciation, higher income and lower housing costs. The cost of living crisis threatens to worsen gaps in asset holdings as it is increasingly leading to fewer people saving money (despite around £30 billion of Government support[45] and an aggregate increase in the aggregate value of savings during the pandemic[46]). Figure 19 shows an estimate of the proportion of adults reporting that they do not expect to be able to save over the next year. Since the start of the year, this share has risen from around 30 per cent of adults to around 45 per cent of adults in the latest data.

FIGURE 19: **Increasingly people expect not to save over the next year**

Proportion of adults reporting measures of financial resilience: GB



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

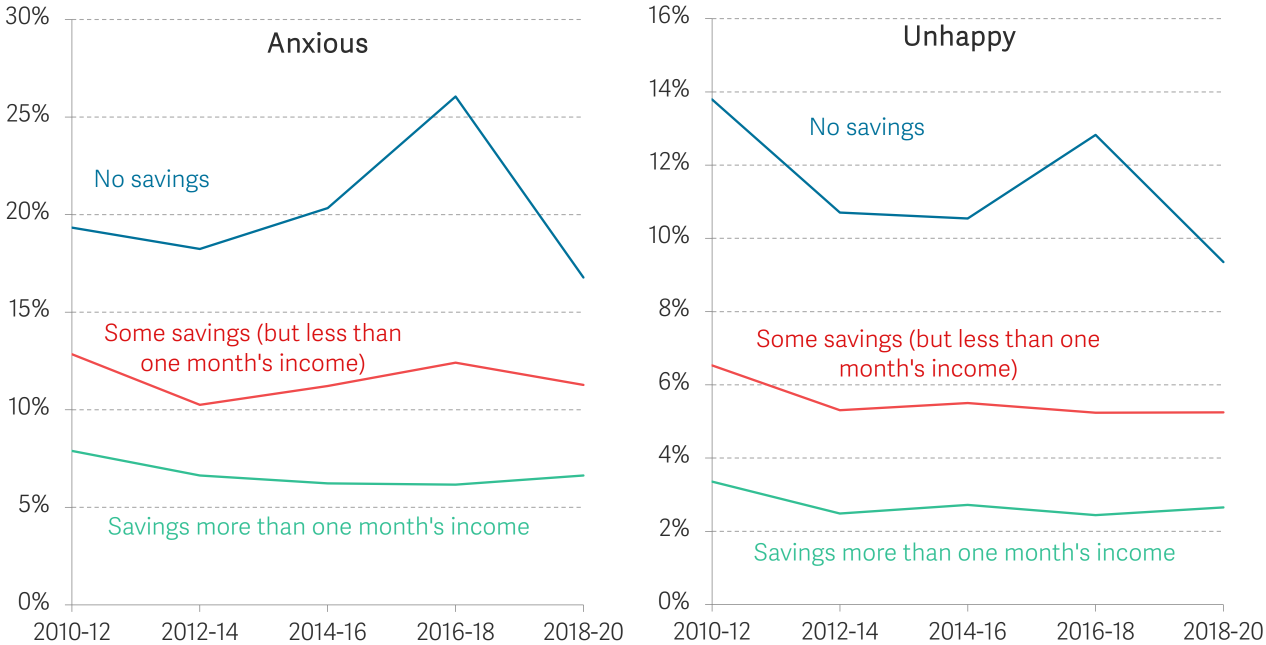
Having savings is an important component of financial resilience and is also associated with higher wellbeing. Figure 20 shows that people with some savings are less likely to report high levels of anxiety and low levels of happiness. For example, 7 per cent of individuals with more than one month's savings reported high levels of anxiety in the 2018-20, compared to 17 per cent of individuals with no savings. This association remains, albeit weaker, when controlling for personal characteristics, income levels and amount

45 HM Treasury, Cost of living support factsheet: 26 May 2022, June 2022.
46 J Leslie & K Shah, (Wealth) gap year: The impact of the coronavirus crisis on UK household wealth, Resolution Foundation, July 2021.

of debt held: 10 per cent of individuals with no savings reported high levels of anxiety, dropping to 7 per cent for those with savings with more than one month's income, after controlling for these other factors.

FIGURE 20: **Families with lower savings are more likely to report higher levels of anxiety and unhappiness**

Share of families reporting high levels of anxiety, by amount of savings (left-hand panel), share of families reporting high levels of unhappiness, amount of savings (right-hand panel): GB



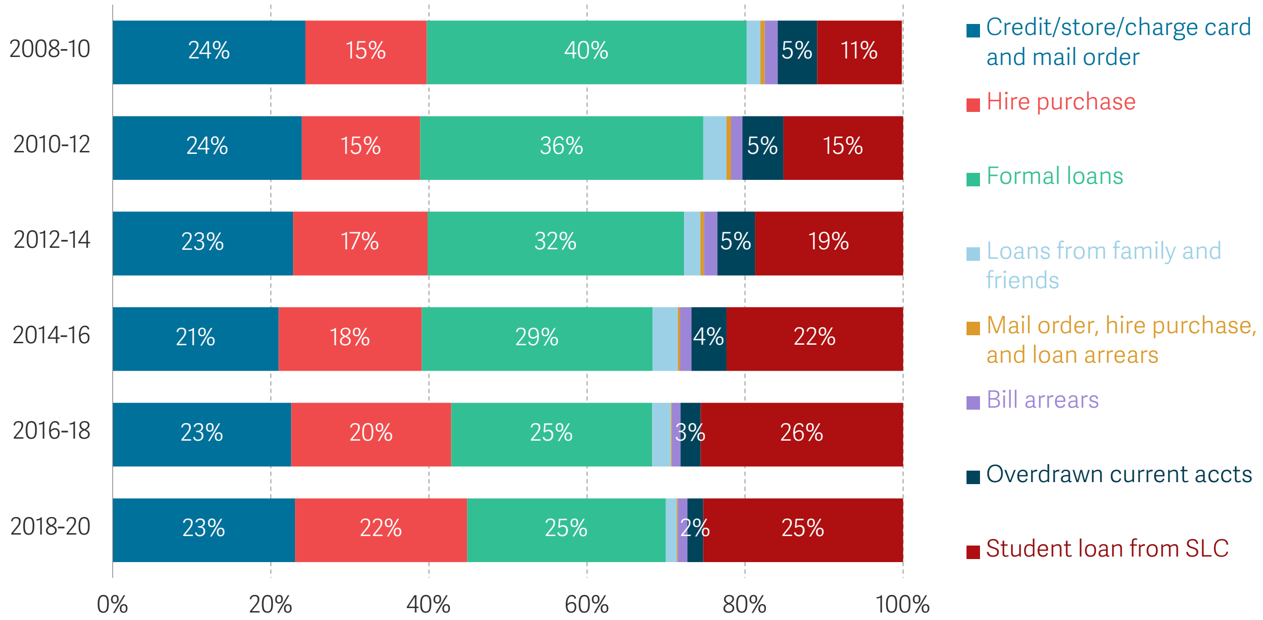
NOTES: Family averages are calculated using household reference person only.
SOURCE: RF analysis of ONS; Wealth and Assets Survey.

Debt levels – and the type of debt – are also linked to wellbeing

The total stock of household debt (excluding mortgages) in Great Britain was increasing pre-pandemic: in 2008-10 household debt was £113 billion, by 2018-20 this had risen to £133 billion. Figure 20 shows that this has largely been driven by an increase in student loan debt. In 2008-10, student loan debt accounted for £12 billion of total debt (11 per cent), by 2018-20 this had risen to £34 billion (25 per cent). This reflects more young people going to university and higher university fees. Formal loans and overdrafts account for a smaller share of total debt – 45 per cent in 2008-10 falling to 27 per cent in 2018-20. While taking on debt is much less costly than in previous decades due to the low interest environment, banks have tightened their standards making these debts more difficult to access (an issue discussed further in Box 3).

FIGURE 21: **Debt in Great Britain has moderately increased over time**

Stock of debt by financial liability type: GB



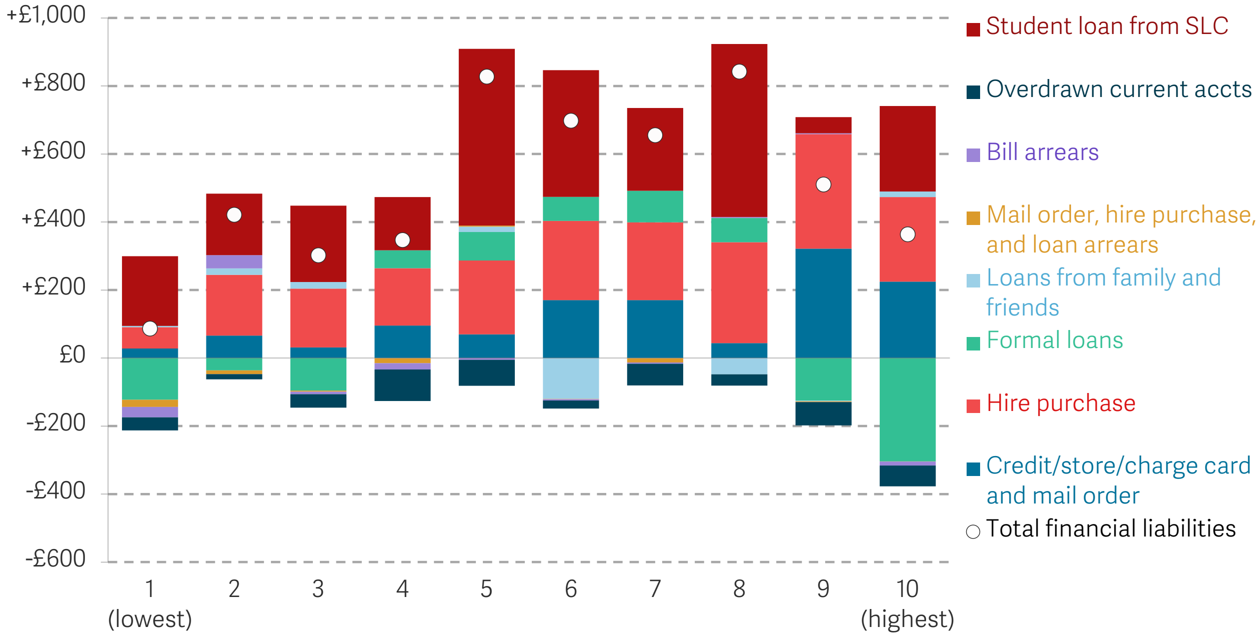
SOURCE: RF analysis of ONS; Wealth and Assets Survey.

Families across the income distribution have utilised this low-cost environment to increase the amount of debt they hold. But, as shown in Figure 22, increases in debt holdings vary across the income distribution with middle-to-high income families seeing the largest increases in debt holdings (in levels terms). On average, debt holdings for families in the second income decile increased by around £420 since 2012-14, compared to £830 for families in the fifth income decile and £840 for families in the eighth income decile. Increases in debt holdings have mostly been driven by increases in student loan debt and hire purchases.[47]

47 Hire purchases largely reflect financing for cars.

FIGURE 22: **Families across the income distribution have increased the amount of debt they hold**

Change in debt, by financial liability type and income decile, 2012-14 to 2018-20: GB



NOTES: Data is adjusted using CPIH into April 2021 prices.
SOURCE: RF analysis of ONS; Wealth and Assets Survey.

BOX 3: **The importance of access to credit**

As discussed above, financial resilience is low across many households with almost half of families having savings of less than one-month's income. Therefore, many families are not well-placed to deal with short-term income shocks. In this context, debt in the form of affordable short-term credit can be a good thing. It can help households respond to short-term shocks and, under the right conditions, manage a host of necessary transactions.[48]

However, some individuals find it more difficult to access credit. Greater financial regulation means that banks have tightened their lending standards making affordable short-term credit more difficult to access. Figure 23 shows that individuals within lower income household are over twice as likely to be rejected for credit as those in high-income households. Furthermore, individuals within lower income households are less likely to apply for credit because they think they will be rejected.

48 J Ahmed & K Henehan, An outstanding balance?: Inequalities in the use – and burden – of consumer credit in the UK, Resolution Foundation, January 2020

FIGURE 23: **Lower-income families are less likely to apply for credit**

Share of individuals being rejected for credit or not applying for credit in the past 12 months by household income, 2020: UK

NOTES: All UK adults holding one or more consumer credit or loan products now or in the last 12 months. Rebased to exclude 'don't knows'.
SOURCE: RF analysis of FCA, Financial Lives 2020.

While there may be benefits to accessing affordable short-term credit in the context of financial resilience, it is not suitable for everyone. Previous Resolution Foundation research has shown that lower-income households with outstanding consumer debt tend to experience more financial stress than both their counterparts in the bottom income quintile who do not have any outstanding consumer debt and those in higher income quintiles who do. Furthermore, households must be able to repay credit/loans or they risk worsening their financial resilience through accumulation of interest, rising repayment rates and the potential for add-on fees. This will reduce a household's ability to spend where needed, and to accumulate sufficient savings to allow the household to avoid consumer borrowing in future.[49] Nevertheless, policy makers may wish to consider improving access to affordable short-term credit to help low income families deal with the rising cost of living.

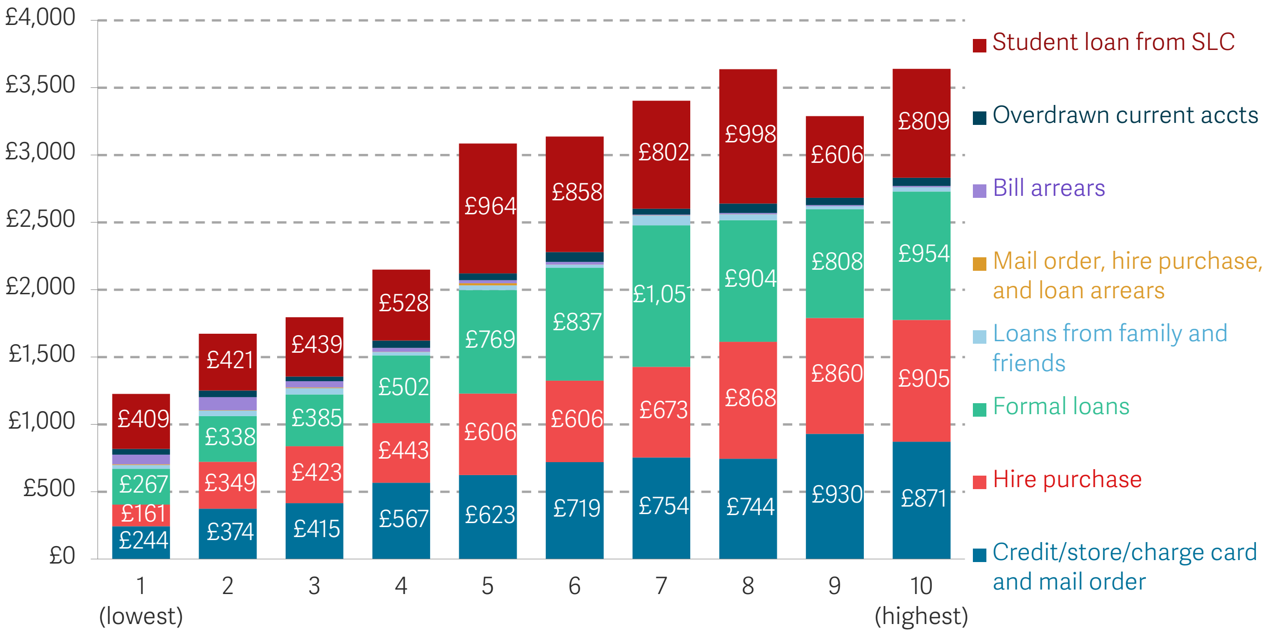
49 J Ahmed & K Henehan, An outstanding balance?: Inequalities in the use – and burden – of consumer credit in the UK, Resolution Foundation, January 2020

The type of debt is key: lower income families tend to have more higher-cost and harmful forms of debt

Debt levels typically rise with income. Reflecting this, lower income families tend to hold less debt. A family in the bottom income decile, for example, had an average debt of around £1,230 in 2018-20, compared with £3,090 for families in the fifth income decile and £3,640 for families in the top income decile. While holding less debt may be interpreted as a positive story, this may in fact indicate that many lower-income households struggle to access credit. Box 3 discusses the importance of accessing credit in the context of financial resilience. Without access, many lower income families would have to respond to an income or cost shock by cutting essential consumption spending, hitting living standards directly.

FIGURE 24: **Higher-income families have higher debt levels, on average**

Average amount of debt by financial liability type and income decile, 2018-20: GB



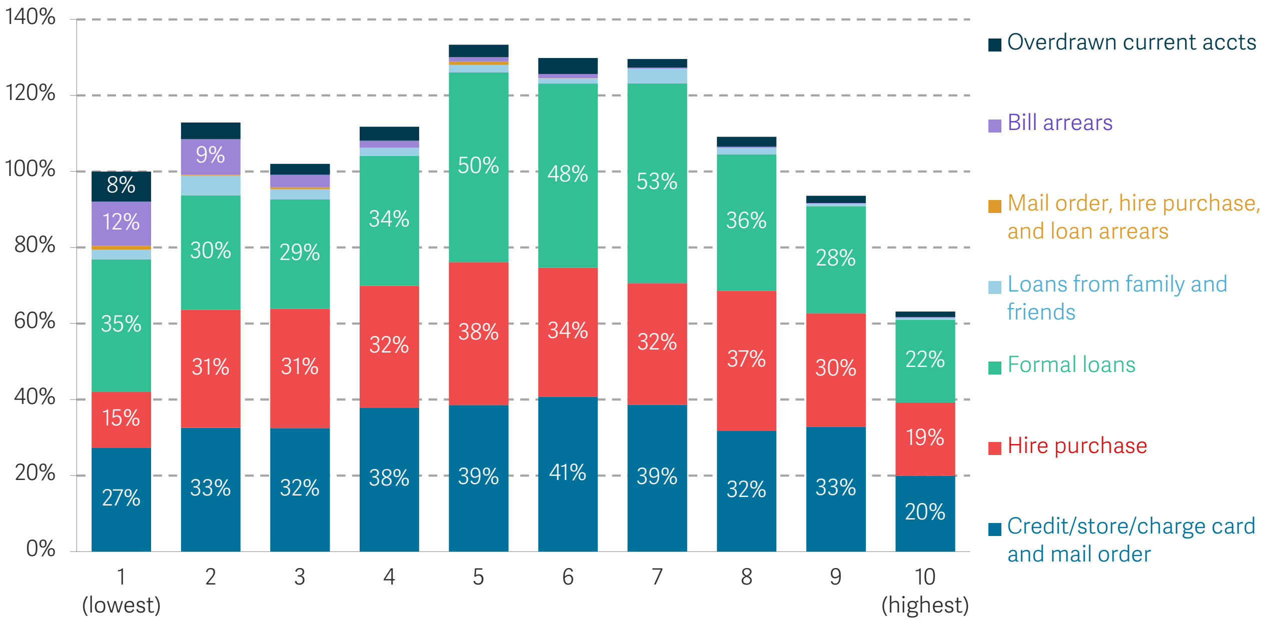
NOTES: Data is adjusted using CPIH into April 2021 prices.
SOURCE: RF analysis of ONS; Wealth and Assets Survey.

The burden that debt places on a household can be measured in a number of different ways. Figure 25 shows the absolute level of debt relative to monthly income to shed light on the overall pressure of debt, and the length of time it may take to reduce it. Pre-pandemic debt burdens were highest for families in the middle of the income distribution. Excluding student loans, debt stocks equated to 133 per cent of monthly income for families in the middle-income decile. High debt-to-income ratios are a feature across the majority of the income distribution and only begin to drop off for families in the very top income deciles.

The type of debt varies across the income distribution. Figure 25 shows that arrears are very focussed on low-income families. This is supported by previous research which found that 28 per cent of those in the bottom-income quintile reported having been in arrears of two months or more over the past year; that is more than twice as high as the proportion of households in the middle quintile reporting the same (11 per cent) and substantially higher than those at the top saying so (18 per cent).[50] This is important because arrears have the worst outcomes on wellbeing – particularly bill and loan arrears. For example, 18 per cent for those in loan arrears reported high levels of anxiety compared to just 8 per cent of people not in loan arrears. Similarly, 15 per cent for those in bill arrears reported high levels of anxiety compared to 8 per cent of people not in bill arrears. The impact of arrears on wellbeing is particularly worrying as we go into a period where energy prices and bill arrears are expected to skyrocket.

FIGURE 25: **The lowest-income families have the highest debt burden**

Debt as a share of net monthly income by financial liability type (excluding student loans) and income decile, 2018-20: GB



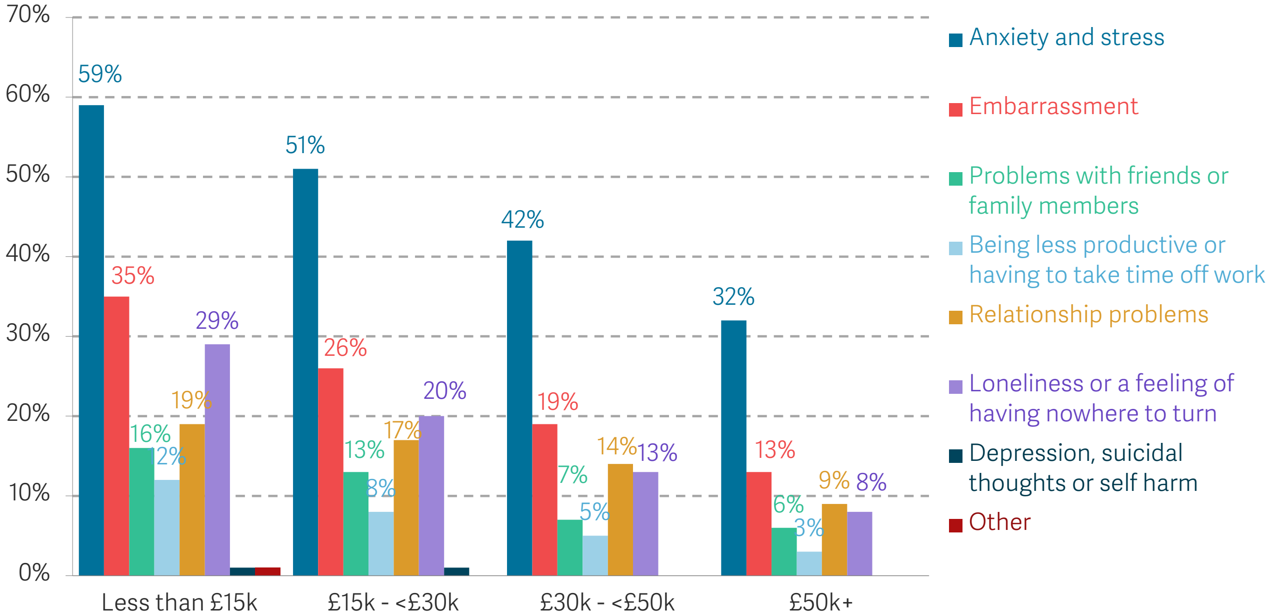
SOURCE: RF analysis of ONS; Wealth and Assets Survey.

Figure 26 emphasises that debt is indeed associated with negative outcomes – this is particularly true for those with lower incomes. In other words, financial resilience and the impact on wellbeing depends on multiple factors. This emphasises the need for low income and high debt to be viewed as connected issues, as it is not just the former or the latter which influences a person's wellbeing but the intersection of thee two.

50 J Ahmed & K Henehan, An outstanding balance?: Inequalities in the use – and burden – of consumer credit in the UK, Resolution Foundation, January 2020

FIGURE 26: **Both income and debt matter for a person's wellbeing**

Share of indebted individuals reporting negative outcomes, by household income, 2020: UK



NOTES: Base is all UK adults who are overindebted or hold any consumer credit product now or have held one in the last 12 months, including balances revolved on credit and/or store card except those who are only transactors on credit cards, store cards, catalogue credit. Rebased to exclude 'prefer not to say'.
SOURCE: RF analysis of FCA, Financial Lives 2020.

Section 5

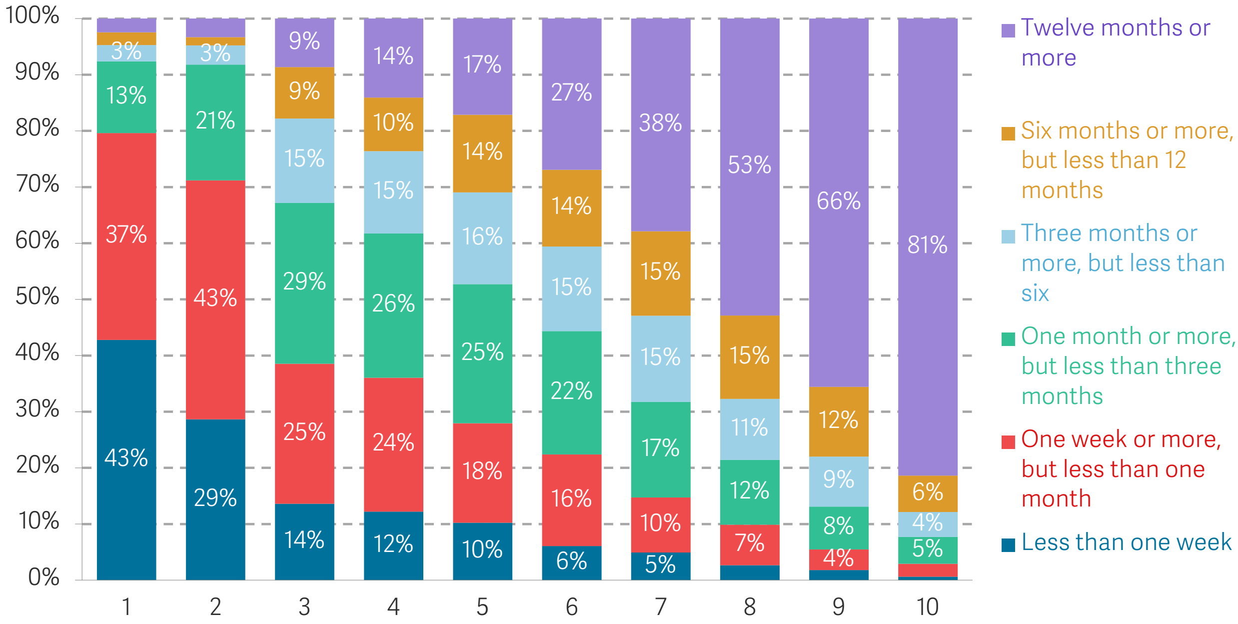
Conclusion

The analysis in this paper has shown that the level and distribution of wealth matters for living standards. Both the narrative of wealth inequality exploding and a simplistic reading of the data that the share of wealth at the top of the distribution has been relatively stable are, at best, a partial understanding of wealth in the UK. The real picture is complicated: rising asset prices have boosted wealth gaps between households but at the same time a modest democratisation in pension wealth holdings means some former low wealth families are in a better position. Rising wealth gaps have compounded existing inequalities across age groups, regions and incomes. And there is little sign at this stage of these inequalities reversing as the UK remains near the extreme end of the international league table for wealth equality.

Wealth inequality is an issue in its own right but more importantly the cohort of families without sufficient wealth to enjoy financial stability is too large. In fact, 43 per cent of the lowest-wealth tenth of families say they would run out of money within a week if they lost their main income (Figure 27).

FIGURE 27: **Families with low wealth are most exposed to the cost of living crisis**

Share of families reporting how long money would last if main income was lost, by wealth decile, 2018-20: GB



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

The cost of living crisis is the most pressing economic challenge facing the country, with families across the country facing substantial real income falls this year. The issue of rising inflation is strongly compounded by the fragility caused by high wealth inequality. Low-wealth families facing rising costs cannot cut back on spending without directly harming living standards. And this is not just about the financial fragility of individual families, but it also has wider macroeconomic implications: if more households had savings to fall back on they would not respond to macroeconomic downturns by reducing spending, or at least not by anywhere near as much. This would, instead of amplifying downturns, help to shield the economy from shocks.

Too little focus has been given to the balance sheets of families in the UK by policy makers over time. Policy to help families build up savings over time have been primarily focussed on pension saving, or been too small scale and inconsistent to make a major difference. Given these challenges, and the pressing need to find a way to improve the financial resilience of UK households, key areas for further research include: how to tackle the uneven nature of wealth accumulation across households, the impact of existing government policies, and how policy might be improved. We will return to these issues in future work.

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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