

Money, money, money

The shifting mix of income sources for poorer households over the last 30 years

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Summary

The UK has endured two decades of very sluggish progress on living standards, with a special squeeze on those we describe as *Unsung Britain* – working-age households with incomes below the median. While other reports within the *Unsung Britain* programme take detailed dives into particular aspects of life, such as work and housing, this one considers the components of income in the round over the last 30 years. There is a positive side of the story, to do with rising employment and earnings, whose share in poorer households' income is up by 5 percentage points over three decades. But there is also a powerful negative aspect, centred on squeezed social security. Specific cuts and general retrenchments since 2010 have not only offset but overwhelmed previous extensions of family benefits during the New Labour era, leaving the poorest fifth typically receiving benefits worth £1,200 less in real terms than in 1994-95. Outgoings shape living standards too, and housing costs are down by 3 percentage points of income on aggregate for low-to-middle income households, but this average conceals far more than it reveals, because they have evolved in entirely different ways for different parts of the population. Much clearer is the rise in local tax payments, which have soared across *Unsung Britain*, and particularly for the very poorest, whose Council Tax burden has roughly doubled to approach close to 5 per cent of income over the last 20 years.

A changing social mix

Our typical yardstick of living standards is the total disposable income coming in to a household, but adjusted for household size and composition, to reflect that larger households need more money to get by. However, in this paper we mostly look at the impact of different types of income and costs on gross household income. But focusing on this measure means that our impression of living standards can change if households are changing size. And there have been two key changes in household composition in *Unsung Britain* since 1994-95. First, childless single households have risen as a share of all poorer households by 6 percentage points. Second, households that consist of multiple, formally separate "families" – which could cover anything from a group of single adults sharing a flat, to grown-up children continuing to live at home – are up from 18 to 20 per cent of the households in *Unsung Britain*. The biggest decline in the mix has been among couples with children – their share has fallen by 7 percentage points.

As a result, poorer households in *Unsung Britain* have got smaller, but also more complex. The average number of people in a low-to-middle income household has shrunk from 2.86 to 2.71 since 1997-98, a drop not matched in better-off households. This change has been entirely driven by children: the average number in a poorer household is down by 0.17 since 1994-95. At the same time, the average number of families within poorer households has risen, from 1.24 to 1.29, a trend which reflects young adults staying with their families for longer.

More jobs, not necessarily more security

Across Unsung Britain, earnings have become relatively more important, rising from 63 per cent of gross income in 1994-95 to 68 per cent in 2022-23. This flows from two bursts of strong employment growth: the first was between the early 1990s and the great recession of 2008-09; and the second started in around 2012 and continued until the pandemic. As detailed in a companion report, the combined effect was to push the overall employment rate up to 76 per cent in the 2010s, materially above the 20th century high of around 73 per cent. Better-off working-age adults were always overwhelmingly employed, so the income effect of those extra jobs was concentrated at the bottom end of the distribution. And it was reinforced by the parallel introduction and subsequent raising of a national minimum wage.

This good news comes with a caveat: the concentration of grind and insecurity on poorer working Britain. As our earlier work reported: around 13 per cent of workers in poorer families are 'solo' self-employed, 11 per cent are on temporary contracts and 2 per cent on zero-hours contracts. All these insecure modes of working are especially prevalent among poorer households, as indeed is so-called 'gig' work, arranged through online platforms that simply didn't exist a generation ago.

Reliance on earnings has risen across poorer households, but not evenly. Their weight in the income mix has risen most for: lone parents (by 20 percentage points); Londoners (also up by 20 points); and certain ethnic minorities, including Black, Pakistani and Bangladeshi (all of whom have seen a rise of over 20 points, compared to only 5 percentage points among the white population). These groups started from lower employment rates: the employment rate for low-to-middle income people in Black, Pakistani and Bangladeshi families were 40, 36 and 34 per cent in 1996-97, while the employment rate for people in White families in 1996-97 was 55 per cent. Private renters are one other important – and growing – group with an exceptional rise in reliance on earnings (up by 24 percentage points) whose effect on living standards will turn on how much has been diverted into meeting housing costs.

Benefits: a big squeeze, and a changing mix

Social security policy has pushed in different ways at different times over the last 30 years. There was a large expansion of family benefits under New Labour, followed after 2010 by a host of generalised cuts and freezes to the social security system, as well as more targeted and specific retrenchments (such as the two-child limit and the so-called 'bedroom tax'). Right across the income spectrum (below the very top) the inflation-adjusted cash contribution of benefits to gross income rose until 2010-11, and then fell back. But the effect was more dramatic among poorer families, for whom benefits are

always more important. Consider, for example, the poorest fifth of households, whose average benefit income rose by £1,100 a year between 1994-95 and 2010-11, before falling by £2,300 between 2010-11 and 2022-23.

Look instead at benefits as a share of total income, and earnings growth complicates the picture. At the bottom end, pre-financial crisis jobs growth reduced reliance on social security even as some benefit rates rose; after 2010, a mixture of continuing jobs growth and benefit cuts furthered this trend. Across the bottom fifth of the population, the proportion of income from benefits has fallen from 59 per cent in 1994-95 to 46 per cent in 2010-11, and 33 per cent in 2022-23. By contrast, most of those on more middling incomes had always been working, so the jobs boom had less bearing. The benefits share in their income grew as tax credits were extended up the scale, then fell as generosity was pared back.

Cumulative social security cuts since 2010 have been very substantial, but far-from-uniform, leaving the mix of benefits altered. The growth area has been disability benefits (i.e. Disability Living Allowance and Personal Independence Payment): the average poorer household has seen their disability benefit income more than quadruple, from £220 in 1994-95 to £1,070 to 2022-23. And these figures don't capture all benefits paid to the 'disabled and health conditions' group, which include general means-tested assistance and payments pegged to incapacity for work, as well as purely health-related benefits. Unfortunately, this does not imply finding savings will be easy. Some health problems have become more prevalent, and previous Resolution Foundation work has uncovered widespread poverty and deprivation among disabled people. Absent a principled strategy for reform, cost-driven changes risk real hardship. The High Court recently ruled that the last Government's plans for incapacity-type benefits (such as enhanced Universal Credit) were unlawful because the cost-cutting rationale was concealed. The current Government intends to bank the same savings in a different way but has still not set out what this is.

Conversely, other groups, such as poorer single parents, are relying on benefits less: the benefits share in their income has fallen from 72 per cent to 52 per cent since 1994-95.

Council Tax: higher and much less fair

Just as important for living standards as what families have coming in, is what they can't avoid paying out. Most direct taxes are progressive, charging the better-off relatively more, but a striking exception is Council Tax, which now places a similar burden on the very poorest families (around 5 per cent of gross income) as Income Tax and Employee National Insurance combined. By the start of this decade (2020-21), the poorest fifth of households spent 4.8 per cent of their gross household income on the tax, up from 2.9

per cent in 2002-03. Importantly, this figure captures *net* Council Tax bills, after allowing for any discounts and support schemes. Over the last decade, such rebates have become locally variable and less comprehensive, after nationwide Council Tax Benefit was abolished. The result is that where Council Tax was always regressive across the top two-thirds of the income spectrum, it is now regressive right down to the bottom. This regressivity stands in contrast to how other major taxes work: the poorest fifth of households spend more than three times as much of their income on Council Tax as the richest fifth of families do (4.8 vs 1.5 per cent). In contrast, the richest fifth of households spend more than three times as much of their budgets on Income Tax as the poorest fifth (21.6 vs 5.9 per cent). Indeed, the far slower growth of Income Tax spending among poor households – up from 4.7 to 5.9 per cent between 2002-03 and 2020-21 – means that they spend only £300 less (in current prices) on Council Tax than they do on Income Tax per year.

In the 1990s, the unpopularity of the flat-rate “poll tax” sparked political chaos, as widespread non-payment reduced local government finance to what economists described as “fiscal anarchy.” A lot of the sting came from the size of the bills, and the decision to restrict rebates to 80 per cent of a supposedly “standard” bill, leaving the poorest families to find more than 20 per cent of the higher actual bills they faced. The replacement Council Tax successfully drew the sting, via lower average rates, and a full rebate at the bottom.

The bizarre base for Council Tax – 1991 property values – is rightly ridiculed. Less understood, but perhaps more important to *Unsung Britain*, is the way the system has slowly recreated the issues that undid the poll tax. Poorer households initially remained relatively protected by Council Tax Benefit, but in the period after it was abolished in 2013, their net payments have surged: in the second vigintile, for example, they went from 2.8 per cent in 2010-11 to 4.6 per cent of gross income by 2020-21.

A mixed picture on housing – that leaves some more exposed

Housing is another fixed regressive cost, which for the very poorest households typically consumes a high proportion of their gross income. But – at least until recently – there has been good news on housing costs between the mid-1990s and early-2020s, with an across-the-income-spectrum reduction in the average proportion of income that housing absorbs. Considering the third income decile, for example, housing costs consumed 20.0 per cent of gross income back in 1994-95, dropping to 18.1 per cent in 2022-23.

This might seem like a pleasant surprise, because the 21st century has seen a large swing among low-to-middle income families out of homebuying and into notoriously pricey private rentals. But caveats are important. For one thing, while rent as a share of gross

household income fell over the bulk of the period, many more poorer people are exposed to paying it: the proportion of Unsung Britain one-family households who are private renters has almost doubled, from 11 per cent to 20 per cent. And this group has higher costs than anyone else, taking up 42 per cent of their gross income. And in the past couple of years, rents have been outpacing inflation in ways that our data doesn't yet capture.

Meanwhile, housing costs have been falling for others. Poorer homebuyers may have become rarer, but the long years of low interest rates sent their housing costs tumbling, from 32 per cent of gross income in 2008-09 to just 17 per cent by 2021-22, though subsequent rate rises mean it is unlikely this pattern will persist. More subtly, the last 30 years have seen the growth of two groups who enjoy cheap housing. More families are "living with parents," a designation that has expanded from 13 per cent to 15 per cent of Unsung Britain. The share who "own outright" has risen, from 8 per cent in the mid-1990s to 13 per cent by 2022-23. All told, then, cheaper mortgages and a changing tenure mix have eased the weight of housing in Unsung Britain. But these differences have played out very unevenly, with a growing group left exposed to pricey private rents.

Overall, income growth since the mid-2000s has been pitiful. Typical incomes in Unsung Britain rose by just 10 per cent over the 18 years running up to the 2022-23 cost of living crisis. In contrast, incomes at the 20th percentile of the whole-population income distribution were 47 per cent higher in 2004-05 than they were in 1994-95, and incomes at the median were 35 per cent higher. Looking ahead, things continue to be bleak, particularly at the very bottom end (10th percentile) where incomes are set to be 7 per cent (or over £800) lower in 2029-30 than in 2021-22. Multiple ongoing policies – including the failure to peg housing support to actual rents, the continuation of the two-child limit and benefit cap, and inadequately-rebated Council Tax – continue to darken the picture. If the Government succeeds in pursuing growth, that should certainly help. But growth alone may benefit better-off households more than poorer ones. Further action to boost the rewards to working and keep benefits in line with rising earnings are both needed in the long-run to provide Unsung Britain with some much-needed relief.

Understanding Unsung Britain's income sources is essential to understanding their living standards

This briefing note forms part of the Resolution Foundation's Unsung Britain project, a project designed to investigate and understand the economic circumstances of low-to-middle income families in the UK, and how these have changed in recent decades. Other papers in this project will investigate how changes to factors including housing, costs, health and caring have impacted low-to-middle income families and their living standards

over the last 30 years. But this paper will investigate where exactly low-to-middle income households get their incomes from, and how the fixed costs of taxes and housing reduce that income.

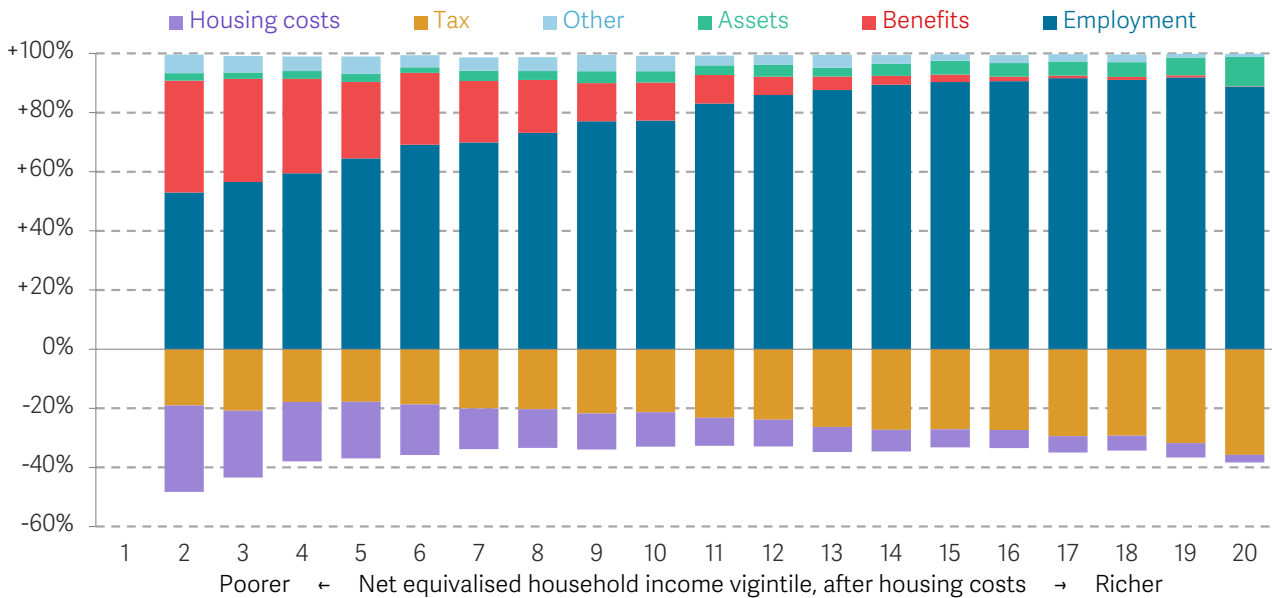
We have embarked on this project because living standards growth in the UK over the last 20 years has left much to be desired. It is good then that the current Government have put improving living standards at the centre of its economic strategy. But concerningly, income growth has been impressively weak for the group we refer to as “Unsung Britain”, or low-to-middle income families (families in households with an income below the median, excluding pensioner benefit units). Typical incomes of this group increased by only 10 per cent from 2004-05 to 2022-23.¹

We start by looking at the composition of household income, which confirms some enduring truths (Box 1 sets out the household income definition we typically use and exactly how it is measured). Figure 1 shows the composition of average household income in each income quintile (i.e. each twentieth of the population) across the income distribution in the latest data. While the average household in each income quintile now relies on income from employment for over half of their gross income, income from benefits is still essential for lower-income households. For example, the average household in the second income quintile received two-fifths (38 per cent) of their gross income from benefits, while households in the seventh quintile received just over a fifth (21 per cent) of their gross income from benefits, on average. Higher-income households, on the other hand, receive boosts to their household income from assets, which make up 10 per cent of the richest 5 per cent of households’ incomes.

¹ M Brewer et al., [Unsung Britain: The changing economic circumstances of the poorer economic half of Britain](#), Resolution Foundation, November 2024.

FIGURE 1: Lower-income households rely on benefits for much of their income, while higher-income households' incomes are supplemented by assets

Components of disposable income for non-pensioner households as a proportion of total gross household income, by whole-population income quintile: UK, 2022-23



NOTES: The bottom quintile is excluded due to concerns about the reliability of the data.
SOURCE: RF analysis of DWP, Households Below Average Income.

BOX 1: How we measure household income

We use household income as our measure of a household’s living standard. In particular, we use ‘equivalised household disposable income, after housing costs’, as recorded in the DWP’s Households Below Average Income (HBAI) dataset. Our focus for the *Unsung Britain* project is low-to-middle income families, which we define as non-pensioner families who live in households that have an equivalised disposable income that is below the whole-population-median household equivalised disposable

income, with all incomes measured after deducting housing costs.²

The Government has recently committed to using Real Household Disposable Income per person as its preferred measure of living standards, which typically travels in lockstep with our chosen measure of income and has the advantage of being more timely than data from the HBAI dataset, but the disadvantage of not being able to account for variation in income growth

² For more information on our definition of low-to-middle income families, see M Brewer et al., *Unsung Britain: The changing economic circumstances of the poorer economic half of Britain*, Resolution Foundation, November 2024.

across the income distribution, or for different groups.³

But what comprises equivalised household disposable income, after housing costs? The income measure includes:⁴

- Earnings from employment
- Net profit or loss from self-employment
- Benefit income
- Investment and dividend income
- Pension income
- The cash value of some services such as Free School Meals or free TV licenses
- Income from scholarships or grants
- Income from maintenance payments

The following costs are removed from the income measure:

- Housing costs, including rent, water rates, mortgage interest payments, ground rent/service charges, structural insurance premiums
- Direct taxes

- Council Tax/Domestic rates in Northern Ireland
- Pension contributions
- Child support/maintenance payments
- Payments to children living away from home
- Student loan repayments

Equivalisation then adjusts household income to account for household composition and size. HBAI is currently equivalised using the modified OECD equivalence scale.⁵ Under equivalisation, a couple without children are taken as the standard household size. Under the OECD 'companion' scale, to equalise after housing cost income, a single adult household's unequivalised income would be multiplied by 0.58 to get their equivalised income, and a couple with two children aged under 14's unequivalised income would be multiplied by 1.4 to achieve their equivalised income.

Where we make comparisons over time, all incomes are deflated by CPI. In our charts in this briefing note, we exclude households with any pensioners in.

Figure 2 shows how the composition of household income has shifted over time, both for Unsung Britain and the top half of the income distribution. Income from employment has

³ A Corlett, S Pittaway & J Smith, *Aiming high? Assessing the Government's new targets for its growth mission*, Resolution Foundation, December 2024.

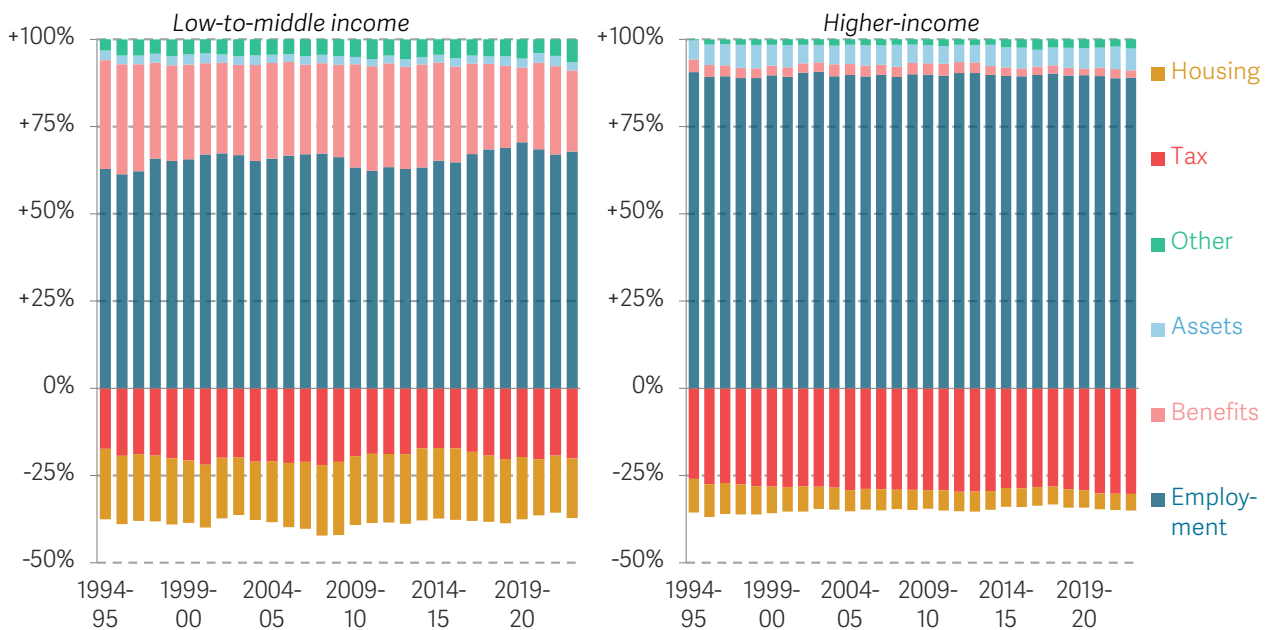
⁴ Department of Work and Pensions, *Households Below Average Income series: quality and methodology information report FYE 2023*, March 2024.

⁵ Department of Work and Pensions, *Households Below Average Income series: quality and methodology information report FYE 2023*, March 2024.

become more important over time for low-to-middle income households: rising from 63 per cent in 1994-95 to 68 per cent in 2022-23. Over the same time period, the proportion of gross income coming from benefits for the bottom half of the distribution fell, from 31 per cent to 23 per cent, reflecting cuts to benefits in the 2010s.

FIGURE 2: Over two-thirds of low-to-middle income household income comes from earnings but – unlike for high-income households – benefits are also important

Components of disposable income as a share of total gross household income, for non-pensioners households below and above median income: GB/UK



NOTES: GB before 2002-03. 'Tax' includes Income Tax, National Insurance and Council Tax.
SOURCE: RF analysis of DWP, Households Below Average Income.

The rest of this note will explore in more detail the trends in the main sources of income for low-to-middle income households (namely: earnings and benefits), and the fixed costs that reduce those incomes (taxes and housing costs). We will investigate how these income sources have changed over the last 30 years and what has driven these changes, as well as how their contribution varies across the income distribution. There are positive findings, to do with rising employment and earnings, but also negative ones, around squeezed benefits and stubborn costs, including rising local tax payments at the bottom end.

Households in Unsung Britain have got smaller, but also more complex

There are many components of household income, as Box 1 sets out, and changes in these components can greatly influence household income. But our yardstick of

living standards is not simply total household income, but features an adjustment for household size and composition, to reflect that larger households need more money to get by. Focusing on this measure means that our impression of living standards can change if households are changing size.

Figure 3 sets out the composition of *Unsung Britain*, or the low-to-middle income group of households, by household type. Composition of this group has changed over the last 30 years; in particular, the proportion of single-person households has increased by 6 percentage points, and the proportion of coupled households with children has fallen by 7 percentage points between 1994-95 to 2022-23.⁶ This growth in single-person households is consistent with other research which shows that entering a cohabiting relationship now happens later in the life cycle than it did in the past, perhaps due to changes in women's labour market participation, people leaving education later, or increased economic precarity delaying household formation.⁷ Falling fertility has particularly affected lower-income families more than higher-income families (the proportion of households that are couples with children in the higher-income group only fell by 2 percentage points between 1994-95 and 2022-23). Indeed, evidence has shown that areas with higher household incomes have higher fertility rates than areas with lower household incomes, and that fertility rates have fallen more in the most deprived areas than the least deprived areas.⁸

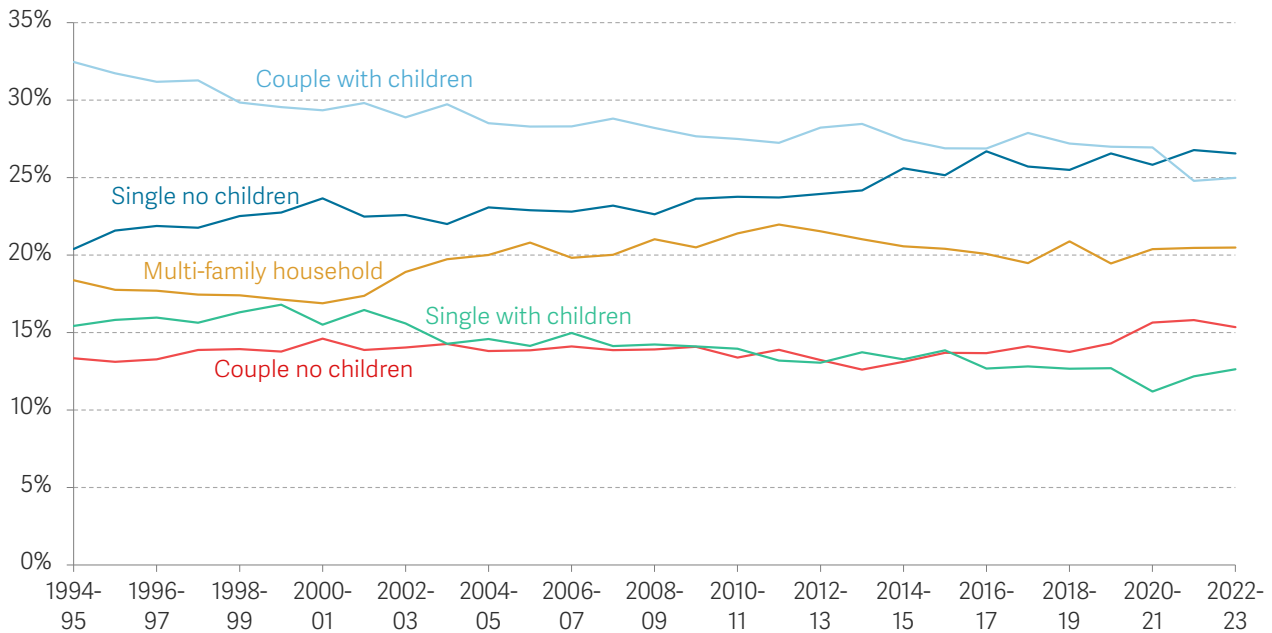
6 The family-level composition of the low-to-middle income group by age, gender, family type, number of children, ethnicity, and region is set out in M Brewer et al., *Unsung Britain: The changing economic circumstances of the poorer economic half of Britain*, Resolution Foundation, November 2024.

7 M Brewer et al., *Unsung Britain: The changing economic circumstances of the poorer economic half of Britain*, Resolution Foundation, November 2024.

8 T Singh, *UK's fertility puzzle: the quest for answers*, Centre for Progressive Policy, October 2024.

FIGURE 3: More than a quarter of low-to-middle income households are single-person households

Composition of low-to-middle income non-pensioner households by household type: GB/UK



NOTES: GB before 2002-03.

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

In addition, the proportion of low-to-middle income multi-family households has increased since the mid-1990s, from 18 per cent to 20 per cent. This has implications for the interpretation of some of our analysis: in particular, the use of household income as a proxy for someone’s living standards relies on the assumption that income is shared between all members of the household, something that may not be accurate, especially in multi-benefit unit households such as house shares, or those where adult children live with parents.⁹

Figure 4 shows what these changes in household types mean for the number of people and number of families (or benefit units) in each household. The average number of people in a low-to-middle income household has fallen from 2.86 in 1997-98 to 2.71 in 2022-23, whereas the average number of people per household in higher-income households has stayed approximately the same (it increased by 0.01). This falling household size, though, is (more than) entirely accounted for by there being fewer children: the average number of children in a low-to-middle income household is down by 0.17, which is slightly offset by rise in the number of adults by 0.02. So we might expect this trend to be beneficial, in broad terms, for living standards.¹⁰

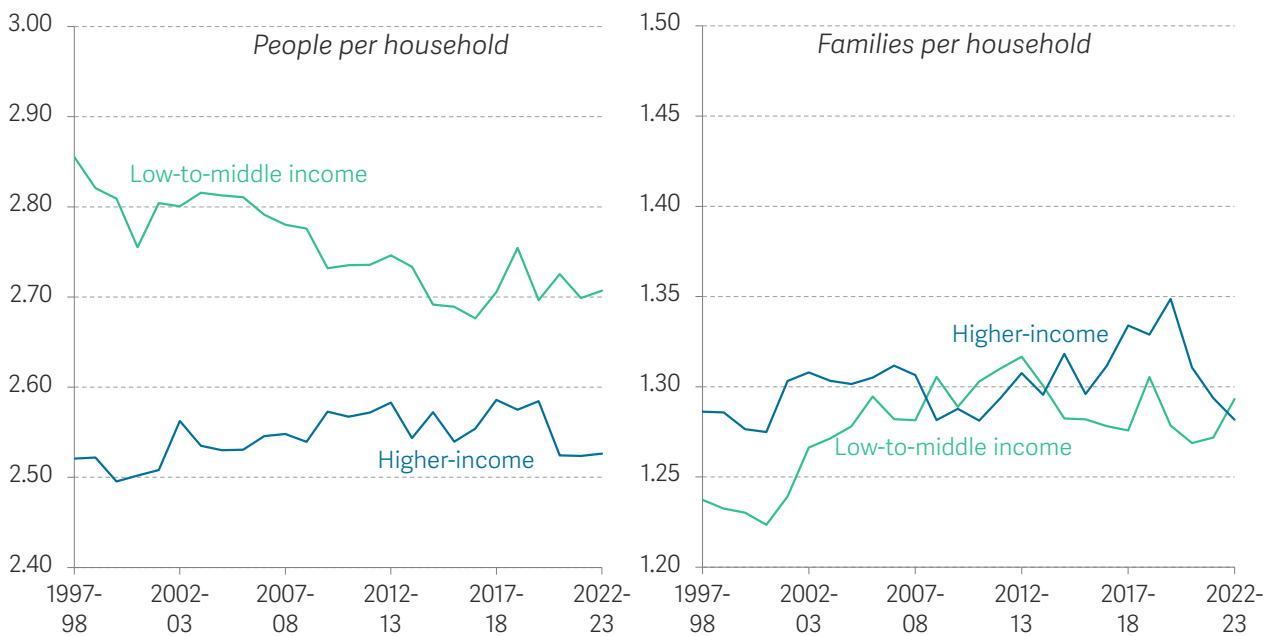
⁹ The Below Average Resources measure of poverty being developed by the DWP based on the Social Metrics Commission measure calculates total resources available at the sharing unit level (individuals living in a household who are related) instead of the household level, to account for the reality that not all individuals within a household share resources. See DWP, [Below Average Resources: Developing a new poverty measure](#), January 2025.

¹⁰ RF analysis of DWP, Households Below Average Income.

But although low-to-middle income households are smaller on average than they were in the mid-1990s, they are more complex, in the sense that there are more families in a low-to-middle income household, on average, than there were in the mid-1990s: up from 1.24 in 1994-95 to 1.29 in 2022-23 (the number of families in a higher-income household fell by 0.01 over the same time period). Overall, it's no longer the case that the most common household type for low-to-middle income households is a couple with children; it's now a single adult living alone. But there are also more multi-family households, including multi-generational households, house shares, and adult children living with parents.

FIGURE 4: Low-to-middle incomes households have got smaller, but have become increasingly complex

Average number of people per household and families per household, for non-pensioner households below and above median income: GB/UK



NOTES: GB before 2002-03.

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

Earnings have grown in importance in Unsung Britain's total income, but there remains a deficit in work quality and security

A previous report in this series has looked at the changing role of employment and work in the lives of low-to-middle income Britain, with a key finding being that (as can be seen in Figure 2) earnings have grown in importance as a share of gross household income, rising from around 63 per cent of gross income in 1994-95 to about 68 per cent in 2022-23. This is the result of two periods of strong income growth for people in lower-income households: the early 1990s up to the 2008 recession; and then the post-2008 recession recovery up until the Covid pandemic. The combined effect was to push the overall

employment rate up to 76 per cent in the 2010s, materially above the 20th century high of around 73 per cent. Better-off working-age adults were always overwhelmingly employed, so the income effect of those extra jobs was concentrated at the bottom end. Indeed, the employment rate for people in lower-income families increased by 9 percentage points between 1996-97 and 2022-23.¹¹ Box 2 provides a longer summary of that report.¹²

BOX 2: The good news on earnings – as well as the caveats

The rise in the relative weight of earnings flows from two bursts of strong employment growth, the first between the early 1990s and the 2008 Financial Crisis; and the second, starting in around 2012, over the course of the rest of the 2010s. As detailed in *A Hard Day's Night*, the first paper in this project, the combined effect was to raise the overall employment rate up to a pre-pandemic peak of 76 per cent, materially above the 20th century high of around 73 per cent.¹³ Seeing as better-off working-age adults were always overwhelmingly working, the income effect of those extra jobs was concentrated at the bottom end. And it was reinforced by the parallel introduction and subsequent raising of a national minimum wage.

All this is good news, although as *A Hard Day's Night* also explained, it arrives caveated with worrying signs about the concentration of grind and insecurity on poorer working Britain.

There is a stubborn gap, of around 7-8 percentage points, in the job satisfaction of workers from households in the top and bottom income quintile, with the former more satisfied.¹⁴

Comparing workers from homes ranking anywhere in the top and the bottom half of the income distribution as a whole, the gap comes in at 2-3 points.

Focus groups with workers from poorer households established that their main frustrations were: stress at work, bad managers and a lack of control over hours. All of these are important for the quality of people's lives, but it is the last which feeds back into this report's particular focus on incomes and living standards. Especially in the context that we are describing – where poorer families' reliance on earnings has increased – it is crucial that they know what their earnings will be. Various insecure contractual arrangements threaten this, sometimes by saddling

¹¹ M Brewer et al., *Unsung Britain: The changing economic circumstances of the poorer economic half of Britain*, Resolution Foundation, November 2024.

¹² N Cominetti & L Murphy, *A hard day's night: The labour market experience of low-to-middle income families*, Resolution Foundation, December 2024.

¹³ N Cominetti & L Murphy, *A hard day's night: The labour market experience of low-to-middle income families*, Resolution Foundation, December 2024.

¹⁴ See Figure 16 in N Cominetti & L Murphy, *A hard day's night: The labour market experience of low-to-middle income families*, Resolution Foundation, December 2024.

them with volatile hours, sometimes by other insecurities, such as time-limited contracts. And nearly all these arrangements are most concentrated workers from poorer homes: between 2017-2021, 23 per cent of workers from low-to-middle income families were in insecure work, compared to 18 per cent of workers from higher-income families.¹⁵

Specifically, over the period 2016-2017 to 2020-2021, around 13 per cent of workers in poorer families report being 'solo' self-employed (against 9 per cent for their higher-income counterparts);

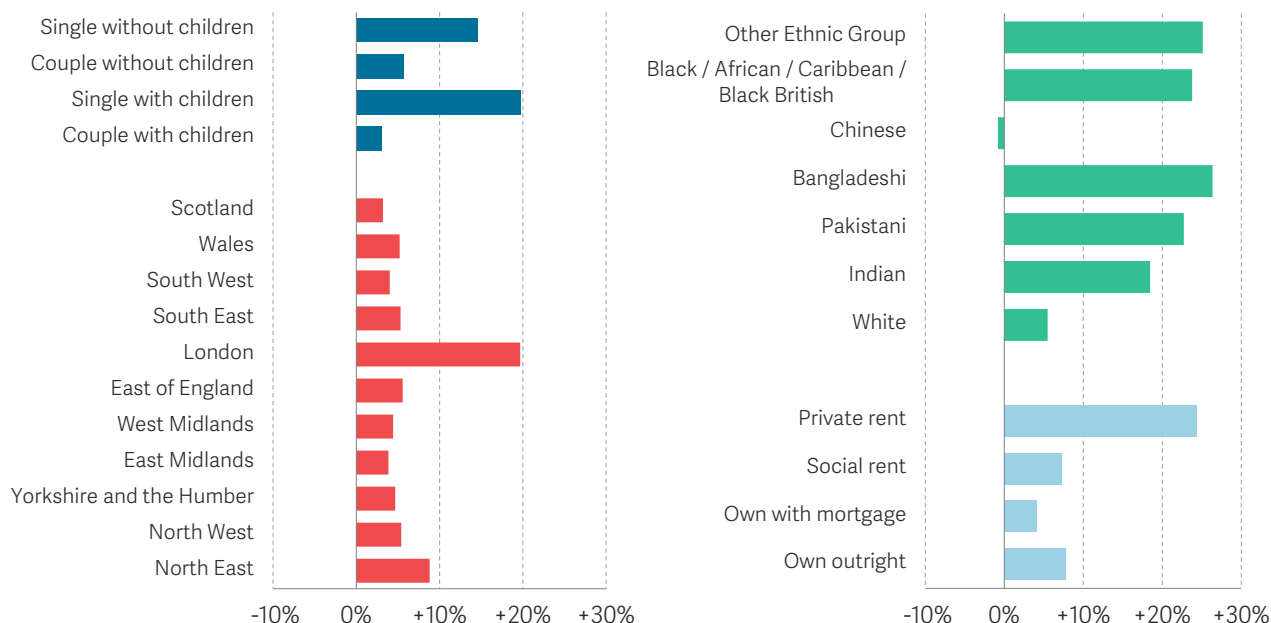
and around 11 per cent report being on temporary contracts (against 9 per cent for the better-off). From 2016 to 2022, 2.0 per cent were on zero-hours contracts (against just 1.6 per cent for the higher-income group). So-called 'gig' work, arranged through online platforms that simply didn't exist a generation ago, is yet another insecure employment form more prevalent in Unsung Britain: in 2021-2022, 1.7 per cent of low-to-middle income workers were gig drivers or couriers, against just 1.3 per cent of those from better-off homes.

Income from earnings has increased for low-to-middle income households overall, but has increased more significantly for certain groups more than others. In particular, earnings as a share of gross income have increased for Londoners (by 20 percentage points), lone parents (20 percentage points), and certain ethnic minority groups, predominantly the Pakistani, Bangladeshi and Black African/Caribbean/Black British group (by 23, 26 and 24 percentage points respectively, compared to only 5 percentage points among the White group). These groups started from lower employment rates: the employment rate for low-to-middle income people in Black, Pakistani and Bangladeshi families were 40, 36 and 34 per cent in 1996-97, while the employment rate for low-to-middle income people in White families in 1996-97 was 55 per cent. Earnings have also increased as a proportion of the average low-to-middle income private renter's income by a significant 24 percentage points; however, the living standards gains from the rise in earnings as a proportion of household income is dependent on how much of those gains are diverted towards housing costs (which are highest for private renters), as we discuss later.

¹⁵ N Cominetti & L Murphy, *A hard day's night: The labour market experience of low-to-middle income families*, Resolution Foundation, December 2024.

FIGURE 5: Single parents, Londoners and private renters are increasingly relying on earnings for their income

Percentage point change in share of income from employment among non-pensioner low-to-middle income households, by group: GB/UK, 1994-95 to 2022-23



NOTES: 1994-95 data is GB, 2022-23 data is UK. Northern Ireland is not included as a nation in this chart, and mixed/multiple ethnicities or any other Asian background are not included as ethnicities in this chart, due to data being unavailable for those categories in 1994-95. 1994-95 data by region and ethnicity is a three-year average from 1994-95 and 1996-97.

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

The importance of benefit income has fallen, for both positive and negative reasons

Earnings growing in importance as a share of gross household income for low-to-middle income households would mean that, all else equal, the proportion of income from benefits is likely to have fallen over the last 30 years. However, all else was not equal over this period. The benefit system has been through two major overhauls, with the introduction of Tax Credits in the early 2000s, and the merging of all income-replacement means-tested benefits into Universal Credit, a process that began in 2013 and is still ongoing. And both broad-based benefit cuts and benefits cuts that affect specific groups introduced in the 2010s have also changed the amount and pattern of benefits received.

Figure 6 shows the annual real-terms household income from benefits in each quintile at three crucial points over the last 30 years. In 1994-95, unemployment was high (9.7 per cent from April to June 1994), as was child poverty (32.4 per cent of children were in relative child poverty).¹⁶ But from the late 1990s, the New Labour government undertook a significant expansion of the benefits system, to support families with children.¹⁷ This

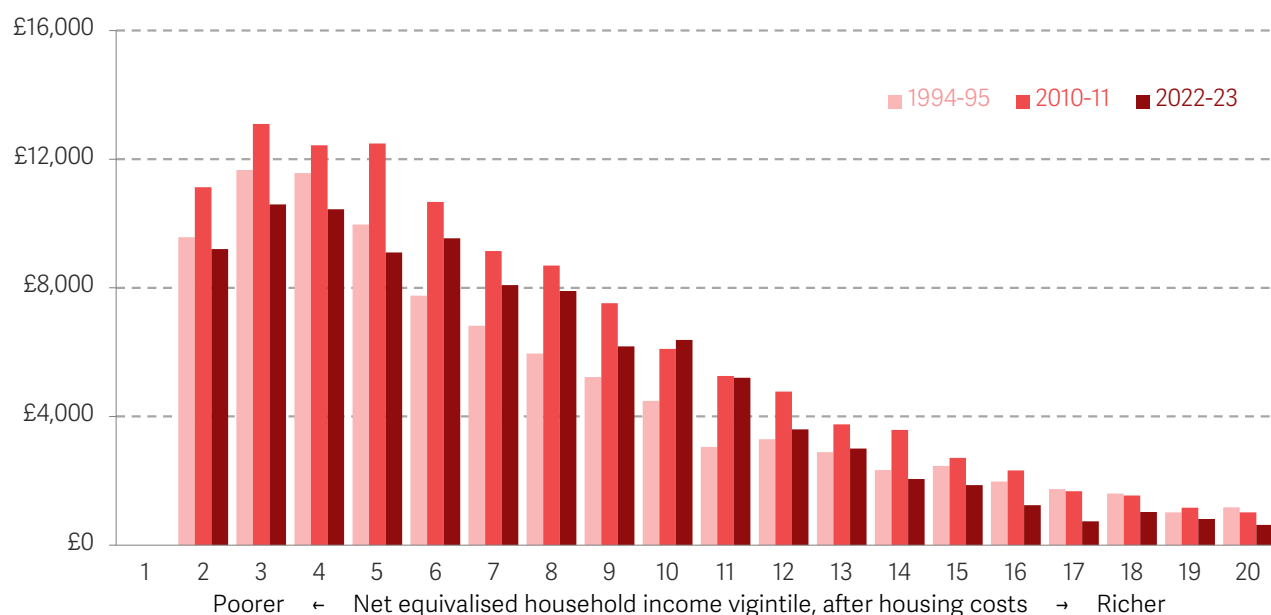
¹⁶ Unemployment data from: ONS, A01: Summary of labour market statistics.

¹⁷ M Brewer et al., *Social insecurity: Assessing trends in social security to prepare for the decade of change ahead*, Resolution Foundation, January 2022.

massively boosted benefit income for low-to-middle income households in particular, with benefit income of the poorest fifth of households rising by £1,100 a year between 1994-95 and 2010-11.

FIGURE 6: Household income from benefits in real-terms rose in the 2000s, but fell in the 2010s

Average real-terms gross household income from benefits among non-pensioner families, by whole-population income vigintile: GB/UK



NOTES: GB before 2002-03. Data in 2023-24 prices, deflated using CPI. The bottom vigintile is excluded due to concerns about the reliability of the data.
SOURCE: RF analysis of DWP, Households Below Average Income.

Further changes to the benefit system took place in the 2010s. The switch to Universal Credit has led to some groups of people being better off and some worse off compared with the legacy benefit system. For example, private renters have gained £1,200 on average as a result of the switch to UC, whereas people previously entitled to Employment and Support Allowance (ESA) are on average £2,100 worse off.¹⁸

As well as an overhaul of the benefit system, successive governments in the 2010s undertook benefit cuts and freezes that eroded the value of benefits. The basic value of unemployment benefits has fallen by 8 per cent in real-terms between 2010-11 and December 2024, driven by below-inflation upratings in many of the years over this period. In addition, some specific benefit policies have cut benefits for certain groups, such as the two-child limit and the benefit cap¹⁹, and successive freezes to Local Housing Allowance.²⁰

¹⁸ A Clegg, *In Credit? Assessing where Universal Credit's long roll-out has left the benefit system and the country*, Resolution Foundation, April 2024.
¹⁹ L Try, *Catastrophic caps: An analysis of the impact of the two-child limit and the benefit cap*, Resolution Foundation, January 2024.
²⁰ A Clegg, *A temporary thaw: An analysis of Local Housing Allowance uprating over time*, Resolution Foundation, December 2023.

The combined result of these changes means that benefit income in 2022-23 was lower in real-terms than it was in 2010-11 across the income distribution, but disproportionately so at the lower end. Indeed, benefit income for the poorest fifth of non-pensioner households in 2022-23 was £2,300 lower (22 per cent) in real-terms (2023-24 prices) than it was in 2010-11, or £1,200 lower (13 per cent) than it was in 1994-95.

But if we look instead at the proportion of household income from benefits across the income distribution, then the picture becomes more complex. As Figure 7 shows, despite benefits growing in real terms at the bottom of the income distribution between 1994-95 and 2010-11, the proportion of income from benefits fell for this group over this period, due to the sheer strength of employment growth reducing the reliance on social security. Across the bottom fifth of the population, the proportion of income from benefits has fallen from 59 per cent in 1994-95 to 46 per cent in 2010-11, and 33 per cent in 2022-23. The combination of employment growth and benefit cuts in the 2010s were significant in bringing the proportion of income from benefits down. But in the middle of the income distribution, where there was less of a change to employment rates, changes to benefit rates have more of a direct impact: as Tax Credits expanded benefit eligibility up the income distribution, so benefits rose as a share of household income by 2010-11; as benefit generosity was reduced, benefits as a share of income fell back by 2022-23. At the top end of the income distribution, benefits have always been less important to income, and withdrawing the previously universal Child Benefit from higher-paid parents reduced their importance even further.

FIGURE 7: The proportion of income from benefits has fallen across the distribution – but more so for low-income households

Proportion of gross household income from benefits among non-pensioner families, by whole-population income quintile: GB/UK



NOTES: GB before 2002-03. The bottom quintile is excluded due to concerns about the reliability of the data.

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

As we showed in a report last year, a combination of rising ill-health and disability (in 2012-13, 5.9 million working-age adults in Britain reported having a disability, but this rose to 8.9 million by 2022-23) and changes to the benefits system (not least cuts to the basic rate of out-of-work benefits) has triggered a rise in the number of claimants receiving health- and disability-related benefits.²¹ This combination of rising health- and disability-related benefit caseloads and falling receipt of child-related elements of benefits means that the makeup of the benefit caseload has changed. The average low-to-middle income working-age household has seen their disability benefit income²² more than quadruple in real-terms, from £220 in 1994-95 to £1,070 to 2022-23.²³ And as Figure 8 shows, the proportion of low-to-middle income households’ benefit income that comes from disability benefits has risen markedly since 1994-95 and particularly over the 2010s and 2020s, with 14 per cent of total low-to-middle income benefit income now coming from disability benefits. In low-to-middle income households that receive disability benefits, these benefits now make up 31 per cent of benefit income. The total proportion of gross income from disability benefits for low-to-middle income households has also

²¹ L Judge & L Murphy, *Under strain: Investigating trends in working-age disability and incapacity benefits*, Resolution Foundation, June 2024.

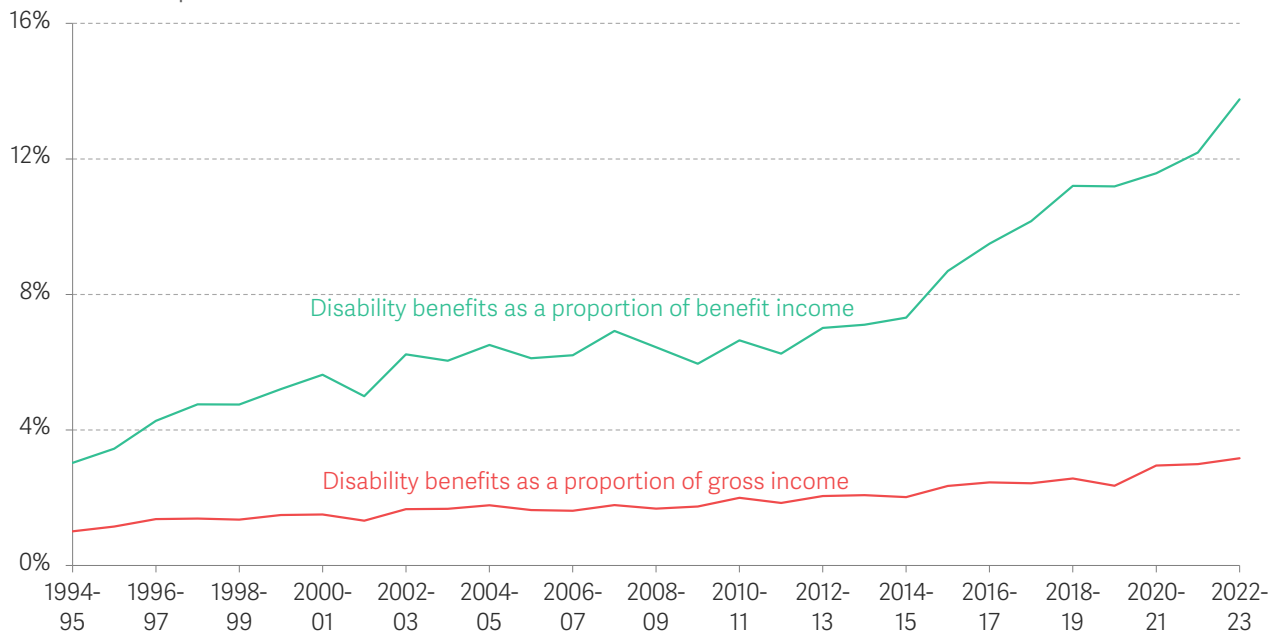
²² Disability benefit income referred to here includes Disability Living Allowance, Personal Independence Payment, Adult Disability Payment and Child Disability Payment.

²³ RF analysis of DWP, Households Below Average Income.

increased over this time: from 1.0 per cent in 1994-95 to 3.2 per cent in 2022-23. And this is likely understating the impact of rising ill-health and cuts to other types of benefits, as spending on working-age *incapacity* benefits has also risen by 34 per cent between 2013-14 and 2022-23 (working-age disability benefits also rose by 89 per cent over the same time period).²⁴

FIGURE 8: Disability benefits have become a more important source of income for low-to-middle income households

Total disability benefits as a proportion of benefit income and gross household income for non-pensioner low-to-middle income households: GB/UK



NOTES: GB before 2002-03. Disability benefits include Disability Living Allowance, Personal Independence Payment, Adult Disability Payment and Child Disability Payment.
SOURCE: RF analysis of DWP, Households Below Average Income.

Why has the increase in benefit income from disability benefits been so steep?²⁵ As discussed in our earlier work, the rising State Pension Age and growing and ageing population have boosted the working-age disability benefits caseload by 272,000 between 2013 and 2023 – equal to a quarter of the increase over that time. Rising awareness and understanding of disabilities and support available to help meet extra costs associated with them is undoubtedly positive and has likely led to more people claiming benefits. And the inclusion of mental health and learning-related disabilities as criteria to receive PIP also enables a wider group of disabled people to get support for the extra costs they face. Real-terms benefit cuts and policies that limit benefit income

²⁴ L Judge & L Murphy, *Under strain: Investigating trends in working-age disability and incapacity benefits*, Resolution Foundation, June 2024.
²⁵ This paragraph draws on: L Judge & L Murphy, *Under strain: Investigating trends in working-age disability and incapacity benefits*, Resolution Foundation, June 2024.

for certain groups have increased the incentive to claim other benefits to help make up for this income loss, such as disability benefits. The basic value of unemployment benefits has fallen by 8 per cent in real-terms between 2010-11 and December 2024, driven by below-inflation upratings in many of the years over this period. The increase in conditionality in UC compared to the legacy benefit system also incentivises claimants to apply for disability benefits, as these are seen as a stable source of income that cannot be revoked if a claimant doesn't meet their conditionality requirements, and disability benefits also aren't subject to the benefit cap, again making them a more secure source of income.

The Government has expressed its intention to reduce the disability benefits bill by cutting these benefits but is yet to set out exactly how it will achieve this. The High Court recently ruled that the last Government's plans for incapacity-type benefits (such as enhanced Universal Credit) were unlawful because the cost-cutting rationale was concealed.²⁶ Absent a principled strategy for reform, cost-driven changes risk real hardship.²⁷

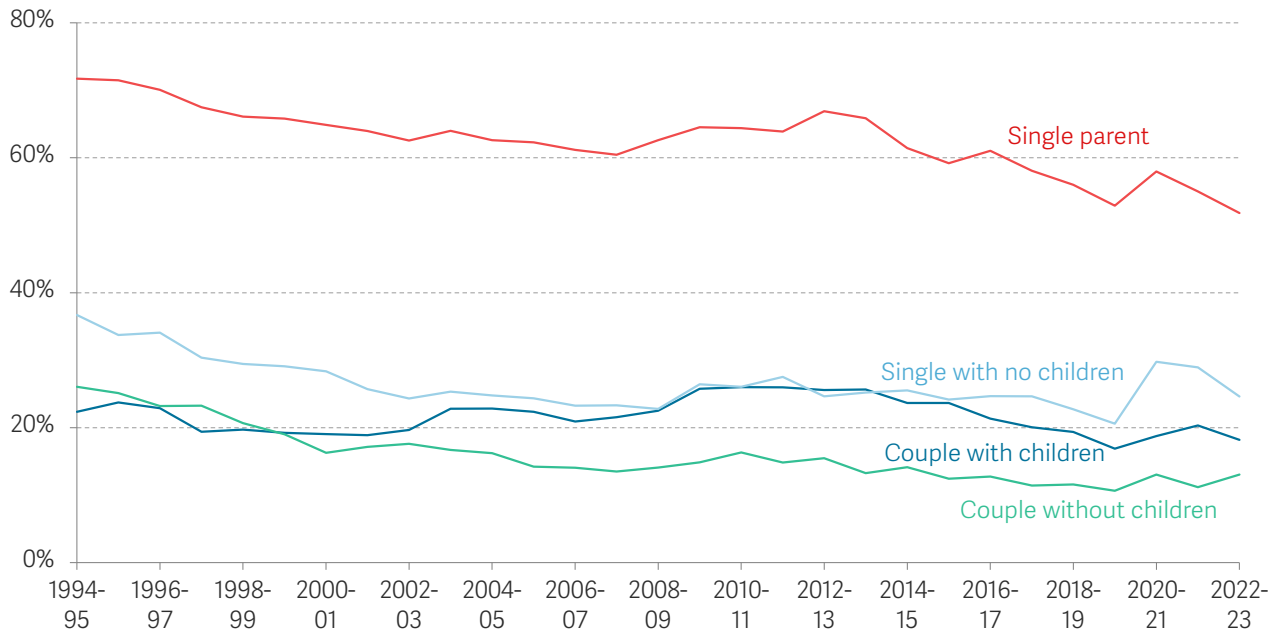
Although the proportion of benefit income for low-to-middle income households that comes from disability benefits has risen, the proportion of household income that comes from benefits for certain other groups has fallen. Figure 9 shows the average proportion of gross income from benefits for low-to-middle income households by family type. Single parents in particular have seen their share of income from benefits fall over the last 30 years, from 72 per cent on average in 1994-95 to 52 per cent in 2022-23. Much of this will be driven by higher employment (which increased by 18 percentage points for single parents between 1994-95 and 2022-23), but there were also benefit cuts affecting some families with children. It should be noted that boosts to benefit income from the £20 uplift to UC and its equivalent to legacy benefits in 2020-21 and 2021-22, and the cost of living payments in 2022-23, all affect the data in Figure 9, making the proportion of income from benefits in the last few years higher than it would have been otherwise.

²⁶ A Toth, [High Court rules disability benefit reforms plan as unlawful – but Labour remains committed to cuts](#), The Independent, 17 January 2025.

²⁷ Forthcoming Resolution Foundation work will set out the priorities the Government should have in mind if they are wishing to reduce the disability benefit bill.

FIGURE 9: Single parents get a much smaller share of their income from benefits than they did in the past

Total income from benefits as a proportion of gross household income for non-pensioner low-to-middle income households, by type: GB/UK



NOTES: GB before 2002-03.

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

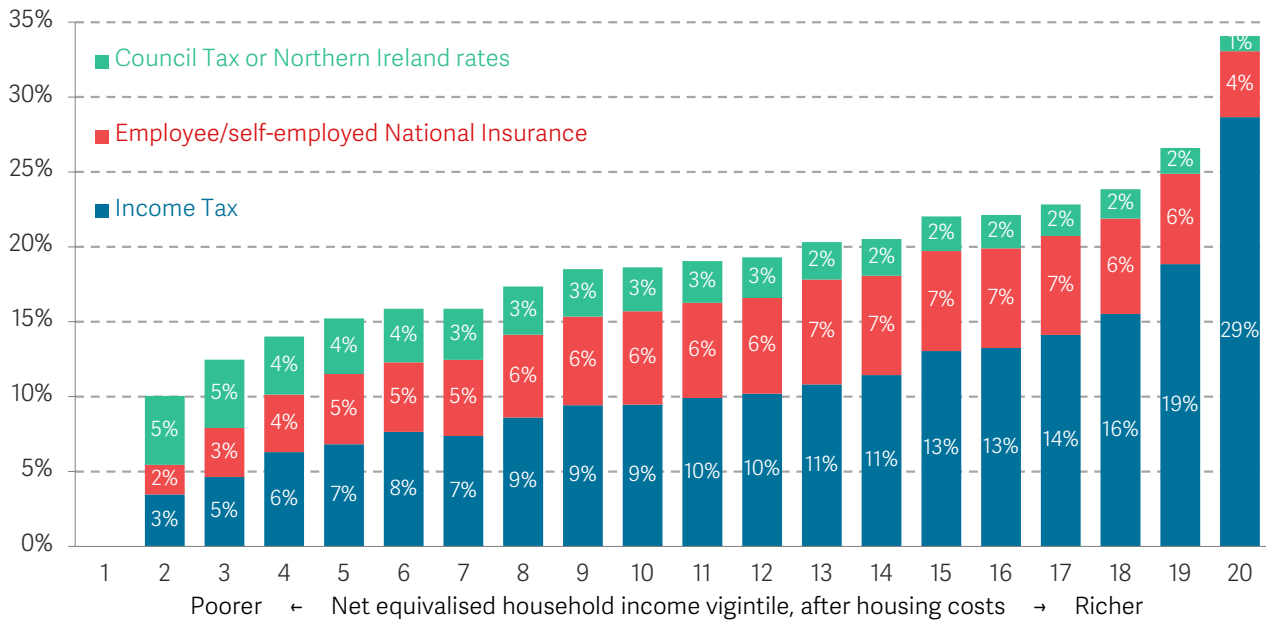
Rising council tax and falling support to help pay has led to council tax taking up an increasing proportion of household income

When thinking about living standards, the fixed costs that have to be paid are just as important as the money coming in from earnings and benefits. Here, we focus on the impact of taxes (specifically Income Tax, National Insurance and Council Tax), and housing costs.²⁸ As Figure 10 shows, Income Tax and National Insurance are progressive, meaning the households with the highest incomes rightly pay more as a proportion of their overall income. However, in the latest data, Council Tax was starkly regressive. For the second income quintile, Council Tax takes up a similar share of their income as Income Tax and National Insurance combined (4.6 per cent compared to 5.4 per cent). And crucially, the Council Tax data in Figure 10 is net Council Tax, after allowing for discounts and support schemes, which have recently changed in ways that have hit some vulnerable homes hard.

²⁸ An upcoming report on low-to-middle income households' spending will investigate the effect of changing costs and consumption patterns on their living standards.

FIGURE 10: Low-income families spend a significant proportion of their income on council tax

Various taxes as a proportion of gross household income for non-pensioner households, by whole-population income quintile: UK, 2020-21



NOTES: Council Tax data is after discounts/support schemes. Data excludes households with a retired member. The bottom quintile is excluded due to concerns about the reliability of the data. 2020-21 is the most recent available year of microdata for this data source.
 SOURCE: ONS, Effect of Tax and Benefits on Household Income.

The history of Council Tax and local taxation in general over the last four decades is pertinent context for these changes. In the late 1980s, the Thatcher government replaced traditional Domestic Rates, which imposed large bills on expensive properties, with the flat-rate Community Charge, or “poll tax”. Its unpopularity sparked rebellion on the streets, and political chaos at Westminster, where it precipitated the downfall of the prime minister. But what mattered most to the public finances was widespread non-payment, which dry economists described as “fiscal anarchy in the UK”.²⁹

In these circumstances, Council Tax was essentially designed to make local government finance boring again. In this it succeeded, even though it retained certain features of the Community Charge reform, by reducing bills for those who lived alone and taxing the most valuable properties at a less-than-proportional rate. Instead, the sting was drawn in two ways: by reducing the overall take from local tax bills (something that was offset by larger central government grants); and, just as importantly, by properly rebating bills for the poorest. Under the poll tax, the Thatcher Government had capped relief at 80 per cent of a supposedly ‘standard’ bill, leaving the poorest families to find more than 20 per cent of the higher actual bills they faced. This had left councils tasked with pursuing

²⁹ T Besley, I Preston & M Ridge, *Fiscal Anarchy in the UK: modelling poll tax non-compliance*, Journal of Public Economics, May 1997.

a large number of poor people for sums which were large for them, but marginal to the public finances. Under Council Tax, all this changed: a comprehensive system of Council Tax Benefit offered 100 per cent relief of the actual bill to the very poorest, tapered away at 20p in the pound as incomes rose.

Over the last 30 years, both of the easements that came with Council Tax – lower bills and proper rebates – have been compromised. Average rates of the tax rose sharply through the 2000s. Then – in 2013 – nationwide Council Tax Benefit was abolished and replaced only with a variable patchwork of discretionary local schemes, for which only limited central government funding was provided. The available discounts are often less generous than the old benefit, and in some places are becoming less generous over time. Discounts also vary greatly between local authorities. The complex and variable nature of the relief that is still available is another barrier to it being understood, which can hardly help with take up.

The distributional effect of all this is captured in Figure 11, which shows the average proportion of gross household income paid towards Council Tax, net of discounts, across the income spectrum at three points in time. Back in the early 2000s, even though bills had already started to rise, the burden was generally markedly lighter than today, and also reasonably proportional across most of the distribution, except the top end, on whom it had always weighed less heavily. Across the bottom three-quarters of the spectrum, the combined effect of the tax and benefit made for net payments of around 2 to 3 per cent of gross income. By 2010-11 bills were higher across the range (average Council Tax bills were up 23 per cent in real terms on 2002-03), but this basic distributional pattern remained unchanged.³⁰

By 2020-21, the story was different. Average bills had stabilised – indeed they had actually fallen slightly in real-terms. But because of the abolition of Council Tax Benefit, net payments for the poorest families had soared. For them, it has been the chapter of the story that abolished Council Tax benefit, rather than the earlier one of rising headline bills, that did most damage: the second vigintile, for example, saw net payments merely edge up from 2.4 per cent of gross income in 2002-03 to 2.8 per cent in 2010-11, but then surge to 4.6 per cent of gross income by 2020-21. And by 2020-21, the poorest fifth of households spent 4.8 per cent of their gross household income on the tax, up from 2.9 per cent in 2002-03.

This regressivity of Council Tax stands in contrast to how other major taxes work: the poorest fifth of households spend more than three times as much of their income on Council Tax as the richest fifth of families do (4.8 vs 1.5 per cent). In contrast, the richest fifth of households spend more than three times of their budgets on Income Tax as the poorest fifth (21.6 vs 5.9 per cent). Indeed, the far slower growth of Income Tax spending

³⁰ RF analysis of MHCLG, [Live tables on Council tax](#).

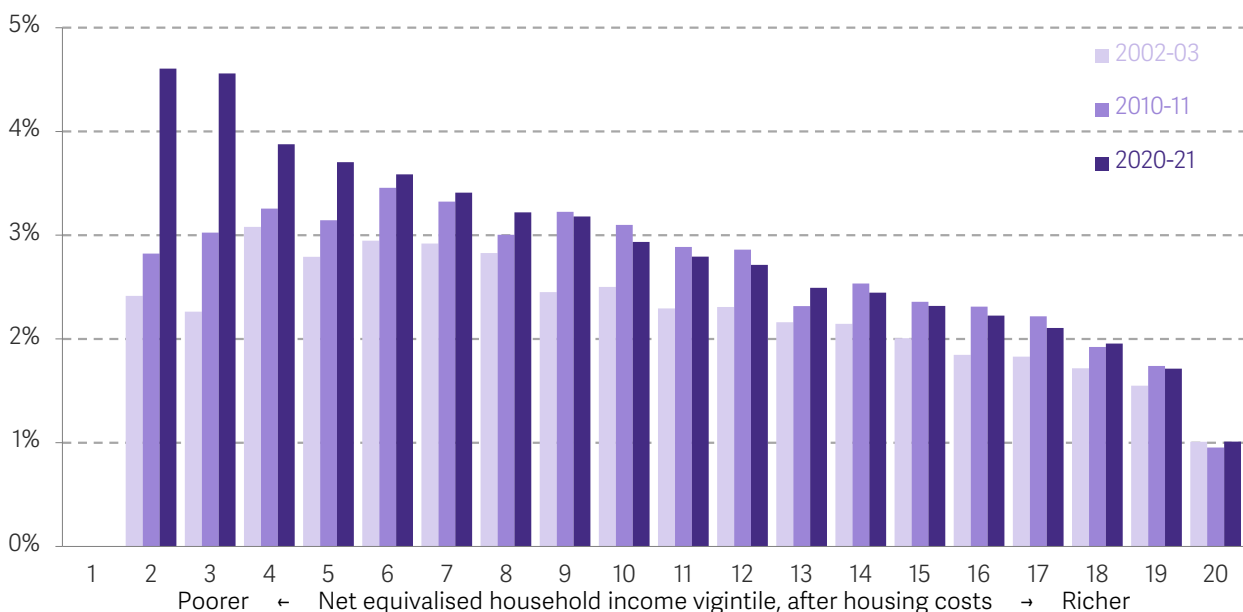
among poor households – up from 4.7 to 5.9 per cent between 2002-03 and 2020-21 – means that they spend only £300 less (in current prices) on Council Tax than they do on Income Tax per year.

Put all this together, and the story for Unsung Britain isn't a happy one. Where 20 years ago Council Tax was relatively low, and broadly proportional below the upper reaches of the income spectrum, today it is notably higher and regressive across, right the way down to the bottom. Indeed, the average Council Tax bill has increased by 77 per cent in real terms between 1994-95 and 2020-21.³¹ The burden on the poorest families is now probably closer to that they faced under the poll tax than under the early Council Tax.³²

In conclusion, the increasingly bizarre nature of Council Tax's base of 1991 property values is familiar.³³ What's less appreciated, but perhaps even more important to Unsung Britain, is the way the system has slowly recreated some of the issues that undid the poll tax.

FIGURE 11: The Council Tax burden increased significantly for lower-income households over the 2010s

Council Tax or Northern Ireland rates as a proportion of gross household income for non-pensioner households, by whole-population income quintile: UK



NOTES: Council Tax data is after discounts/support schemes. Data excludes households with a retired member. The bottom quintile is excluded due to concerns about the reliability of the data.
SOURCE: ONS, Effect of Tax and Benefits on Household Income.

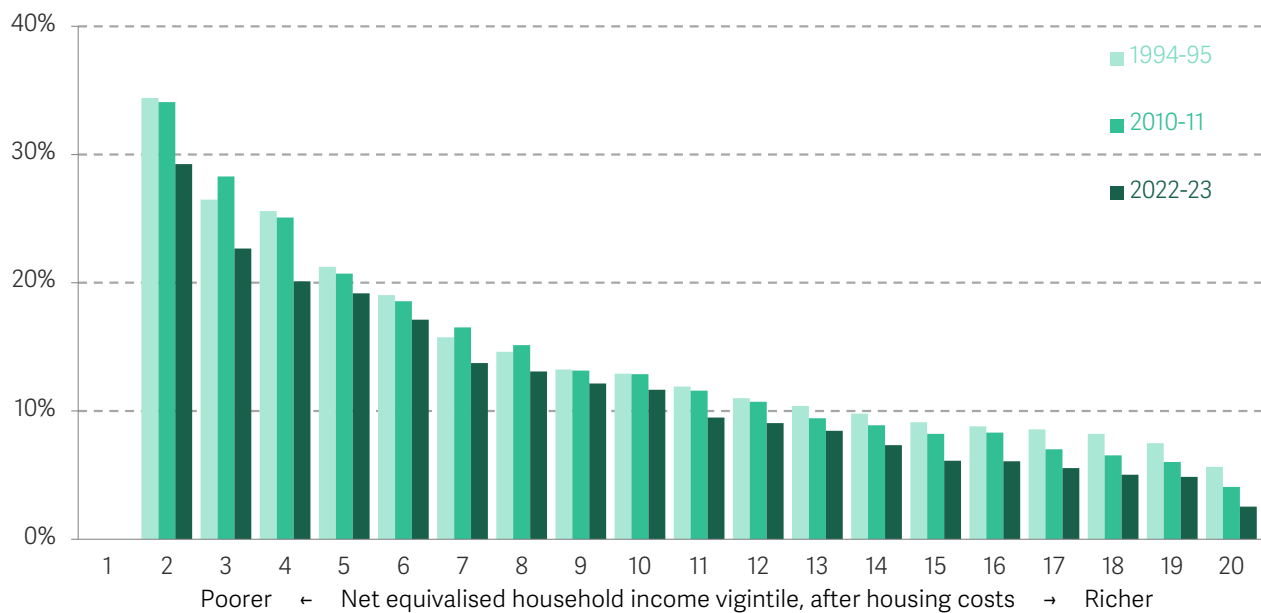
³¹ RF analysis of MHCLG, [Live tables on Council tax](#).
³² For contemporary modelled estimates of net Community Charge and early Council Tax burdens across the income spectrum see Figure 9 in: C Giles & M Ridge, *Right This Time? An Analysis of the first year's Council Tax figures*, IFS April 1993. For discussion of how non-take up of rebates colours the interpretation of such estimates see: T Clark, C Giles & J Hall, *Does Council Tax Benefit Work?*, IFS June 1999.
³³ See M Broome, A Corlett & G Thwaites, *Tax planning: How to match higher taxes with better taxes*, Resolution Foundation, June 2023 for our thoughts on its reform.

Overall housing costs have fallen over the last 30 years, but some households are now more exposed to rising housing costs than others

In addition to tax, housing is another fixed cost, and one that consumes a particularly high proportion of income for low-income households. Figure 12 shows the proportion of gross household income spent on housing, across the income distribution. Despite housing costs having always been regressive over the last 30 years, they have fallen as a proportion of gross household income across the board over that time period. For example, the third income decile had housing costs of 20.0 per cent of gross income in 1994-95, which fell to 19.6 per cent in 2010-11, and further to 18.1 per cent in 2022-23. As Figure 2 shows, housing costs as a proportion of gross income for low-to-middle income households as a whole have fallen by 3 percentage points between 1994-95 and 2022-23, from 20 per cent to 17 per cent.

FIGURE 12: Housing costs are regressive, but have fallen as a share of income across the distribution

Housing costs as a proportion of gross household income for non-pensioner households, by whole-population income vigintile: UK, 2022-23



NOTES: GB before 2002-03. The bottom vigintile is excluded due to concerns about the reliability of the data.

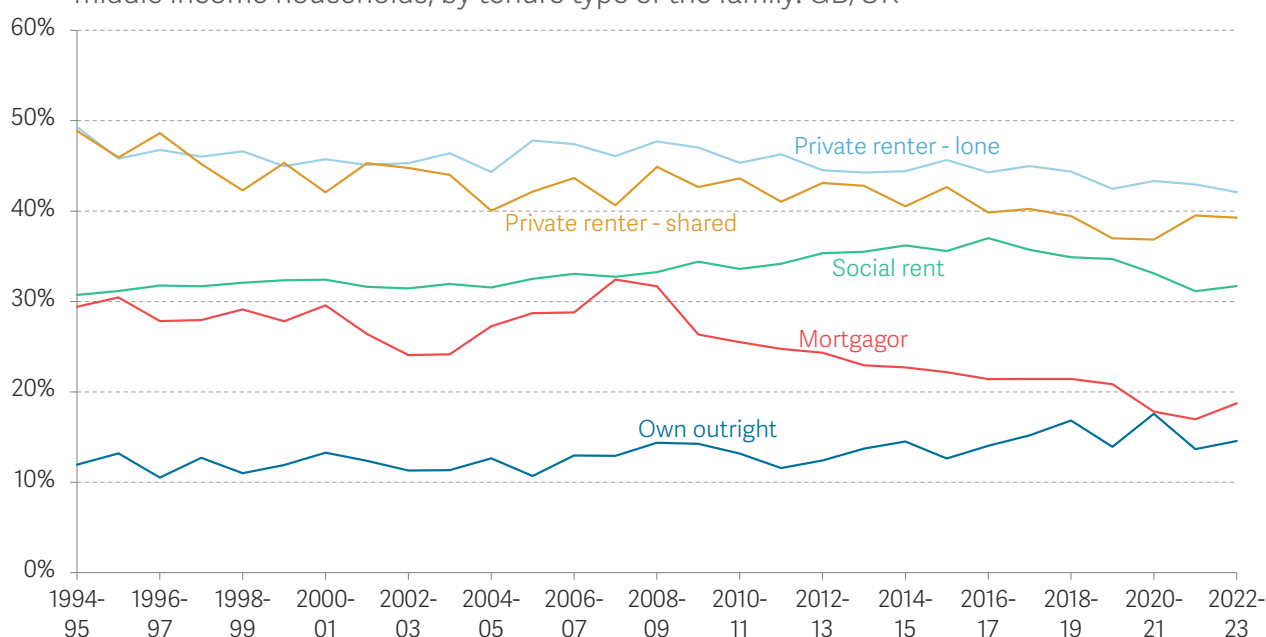
SOURCE: RF analysis of DWP, Households Below Average Income.

It is undoubtedly good news to see housing costs fall as a share of income over the longer term – this is a key measure of housing affordability. But the data in Figure 12 obscures the varying outcomes that lie under the surface. As Figure 13 shows, some

tenure types have higher housing costs than others: private renting households made up of one benefit unit (such as a single person or couple with or without children) have the highest housing costs, measured as a share of income, closely followed by private renting households made up of more than one benefit unit (such as houses shared by unrelated adults, adult children living with parents, or grandparents living with children).

FIGURE 13: Over the longer term, housing has become more affordable for low-to-middle income households of most tenures

Housing cost to income ratio (gross of housing benefit) for non-pensioner low-to-middle income households, by tenure type of the family: GB/UK



NOTES: GB before 2002-03. Data for other sharing tenure is excluded here. 'Own outright' housing costs include water rates, ground rent/service charges and structural insurance premiums.
SOURCE: RF analysis of DWP, Households Below Average Income.

As Figure 14 shows, the proportion of low-to-middle income benefit units who are private renters that live in a single-family household has almost doubled over our time period: from 11 per cent in 1994-95 to 20 per cent in 2022-23.³⁴ Although housing costs for private renters have been high but falling over the time period we have data for, the picture in the years following is much less positive. Indeed, rents have recently been rising at historically high rates: rents have been rising since mid-2021, and annual rent growth using the Price Index of Private Rents peaked at 9.2 per cent in March 2024, with the most recent data from December showing annual rent growth at 9.0 per cent.³⁵ So

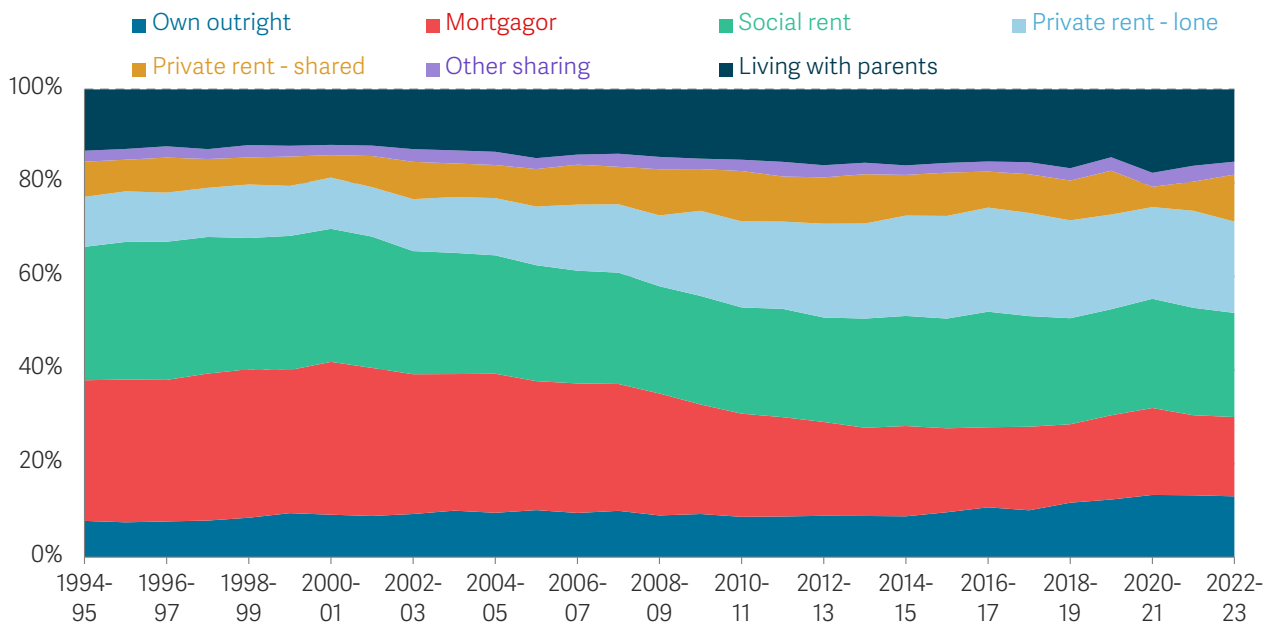
³⁴ Figures 13 and 14 are similar to Figures 20 and 19 (respectively) in M Brewer et al., *Unsung Britain: The changing economic circumstances of the poorer half of Britain*, Resolution Foundation, November 2024, but there are minor differences. Figure 13 here uses a measure of tenure defined at the family-level, whereas Figure 20 in *Unsung Britain* report uses a household-level tenure variable. Figure 19 uses a more detailed tenure variable (which is then simplified) than the variable used in Figure 14.

³⁵ Office for National Statistics, *Private rent and house prices, UK: January 2025*.

although housing costs for renters may have fallen, the proportion of renters has risen, meaning more low-to-middle income households are now subject to higher housing costs, which have also risen significantly after the period covered by our data.

FIGURE 14: The proportion of low-to-middle income private renters has risen, but so has the proportion of low-to-middle income outright owners

Proportion of non-pensioner low-to-middle income families in different tenure types: GB/UK



NOTES: GB before 2002-03.
SOURCE: RF analysis of DWP, Households Below Average Income.

However, over the last 30 years, housing costs have eased for low-to-middle income households who are in other tenure types. Specifically, housing cost to income ratios for mortgagors have almost halved since the 2008 financial crisis, thanks to historically low interest rates: from 32 per cent in 2008-09 to 17 per cent in 2021-22. But it is unlikely that these historically low mortgage costs will continue; interest rates have increased from 0.1 in 2021 to a high of 5.25 in 2023 and 2024 (Bank rate is now 4.5 and is expected to fall further, although the speed of this fall is uncertain).³⁶

Two different tenure groups with lower-than-average housing costs have also become more prominent in the low-to-middle income group over time, and this has also played a role in driving down overall housing costs for Unsung Britain. First, the proportion of low-to-middle income benefit units who are outright owners of their homes has increased, from 8 per cent in 1994-95 to 13 per cent in 2022-23. This will have been driven at least in part by the rising State Pension Age leading to a rise in older people in non-pensioner low-to-middle income families, who are more likely to have paid off mortgages

³⁶ Bank of England, [Interest rates and Bank Rate](#).

and be owner occupiers.³⁷ Second, the proportion of low-to-middle income families who are living with parents has risen from 13 per cent in 1994-95 to 15 per cent in 2022-23 (unsurprisingly peaking during the pandemic at 18 per cent in 2020-21). Of course, this rise could reflect the increasing difficulty of becoming a homeowner or the high level of private rents, but for those young people at the time, it does tend to mean they face relatively low housing costs. More generally, this increase could be seen both as a potentially worrying one (adults aged under-35 living with parents are more likely to be unemployed or low-paid than those who don't live with parents), or a valuable resource for young people starting their careers (adults who live with parents start off relatively disadvantaged, but their outcomes improve over the longer term).³⁸

The combination of mortgages getting cheaper and shifting changes in tenure have ensured that on average, housing costs have fallen as a proportion of income over time. But while some groups have benefitted from lower housing costs while also having secure tenures, such as mortgagors, others, and especially private renters, have become increasingly blocked from home ownership and are exposed to much higher housing costs as a result.

Changing incomes and costs leave low-to-middle income households increasingly vulnerable to rising costs

On the whole, then, some aspects of where we get our income from have improved for low-to-middle income households in *Unsung Britain*. Employment growth has been concentrated at the lower end of the income distribution, and the introduction of the minimum wage and impressive increase in it over time have meant that more low-to-middle income household income comes from earnings, especially for groups that tend to be more economically disadvantaged, such as single parents or households belonging to certain ethnicities. And housing costs at the aggregate level have fallen for low-to-middle income households over the last 30 years.

However, these positive changes obscure some more worrying ones, that mean that income is less reliable for some low-to-middle income households than it was in the past. Grind and insecurity particularly affect workers in low-income households: workers from the bottom income quintile are 7 percentage points less likely to be satisfied with their job compared to workers from the highest income quintile. In earlier work, focus group participants told us that their main frustrations with work regarded stress at work, bad managers and a lack of control over their hours. And the proportion of low-to-middle income workers in insecure work of different kinds has increased in recent years.

³⁷ M Brewer et al., *Unsung Britain: The changing economic circumstances of the poorer half of Britain*, Resolution Foundation, November 2024.

³⁸ M Broome, S Hale & H Slaughter, *An intergenerational audit for the UK: 2024*, Resolution Foundation, November 2024.

Benefit income has also become a less stable source of income for low-to-middle income households, falling both in real-terms and as a proportion of gross household income over time. Policies including the two-child limit, the benefit cap and the freeze to Local Housing Allowance rates mean benefit income will continue to reduce in real-terms for families affected by these policies, even if benefits continue to be increased by inflation. The combination of a rising disability benefit caseload and a rising proportion of income coming from disability benefits also means that any cuts to these benefits will adversely affect disabled people in low-to-middle income families, who already have weaker living standards than the rest of the population.

Low-to-middle income households are also increasingly exposed to certain fixed costs that are already more severe than they were in 2022-23 or are set to become more severe. The OBR has forecast the Council Tax level in England to rise by 4.3 per cent, Wales by 4.1 per cent, and Scotland by 2.7 per cent over the next five years,³⁹ and some councils are expected to increase their Council Tax rates by more than 5 per cent this year to try and avoid bankruptcy.⁴⁰ Frozen personal tax thresholds over the 2020s have led to the income tax burden rising, while cuts to National Insurance have reduced the rate of employee and self-employed National Insurance paid (the net impact of personal tax changes from the 2019-2024 Parliament is that incomes have fallen as a result of tax changes for everyone across the income distribution, except those in the top vigintile).⁴¹ Additionally, rents are still growing by 9 per cent a year, and the low-interest rate world of the 2010s is over, with a higher Bank rate continuing to feed through to mortgagors.

Despite improvements in some elements that make up household income, low-to-middle income households have still seen pitiful income growth since the mid-2000s. Typical low-to-middle income household incomes increased by just 10 per cent from 2004-05 to 2022-23.⁴² In contrast, incomes at the 20th percentile of the whole-population income distribution were 47 per cent higher in 2004-05 than they were in 1994-95, and incomes at the median were 35 per cent higher.

How are the future prospects for income growth for low-to-middle income households, and households in the UK as a whole? Not great. Real Household Disposable Income per person is set to rise by 0.5 per cent each year on average of the current Parliament.⁴³ Prospects are even worse for lower-income households: the 10th

³⁹ OBR, *Economic and Fiscal Outlook – October 2024*.

⁴⁰ J Ahmed, *Mapped: The areas where residents face council tax hikes of up to 25 per cent*, The Independent, 28 January 2025.

⁴¹ A Corlett & L Try, *Hard times: Assessing household incomes since 2010*, Resolution Foundation, June 2024.

⁴² M Brewer et al., *Unsung Britain: The changing economic circumstances of the poorer half of Britain*, Resolution Foundation, November 2024.

⁴³ A Corlett, S Pittaway & J Smith, *Aiming high? Assessing the Government's new targets for its growth mission*, Resolution Foundation, December 2024.

percentile of the whole-population income distribution are set to be 7 per cent, or over £800 in 2023-24 prices, worse off in 2029-30 than in 2021-22.⁴⁴

Tailwinds that previously boosted household incomes for those on a low-to-middle income are no longer likely to make much of a difference. For example, rising employment over the last 30 years greatly boosted incomes for Unsung Britain, in particular through drastically reducing inactivity for women due to caring for children and reducing worklessness.⁴⁵ However, the employment rate rose by around 9 percentage points between 1996-97 and 2022-23, and it would be extremely difficult to see the same increases in employment in the coming years. And although the introduction of the minimum wage and successive increases over time greatly boosted hourly pay, the Government has not yet announced a policy on increasing the NLW further. There are also multiple headwinds that will act as a drag on income growth for low-to-middle income households, including prospective cuts to disability benefits, the continuation of the two-child limit, benefit cap and LHA freeze, higher housing costs, and inadequately rebated Council Tax increases. It is undoubtedly a good thing then, that the Government have made boosting growth their main economic priority. But growth alone cannot be the answer for Unsung Britain. As we showed in earlier work, to ensure low-to-middle income households share in the proceeds of growth, the Government must not just get growth, but improve the quality and stability of work, and commit to raising all benefits for all in line with future earnings growth.⁴⁶

⁴⁴ A Clegg & A Corlett, [The Living Standards Outlook 2024](#), Resolution Foundation, August 2024.

⁴⁵ M Brewer et al., [Unsung Britain: The changing economic circumstances of the poorer half of Britain](#), Resolution Foundation, November 2024.

⁴⁶ Resolution Foundation & Centre for Economic Performance, LSE, [Ending Stagnation: A New Economic Strategy for Britain](#), Resolution Foundation, December 2023.

Annex 1

Data citations

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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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