The Living Standards Outlook 2025

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Any remaining errors are the author's own.

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Summary

After a lost half-decade for income growth up to 2024-25 as a result of Covid-19 and the cost of living crisis, the Government has set itself the welcome – if historically unambitious – goal of raising living standards by the end of the decade. But with falling employment and rising energy bills, and with fresh headwinds to come from heightened trade uncertainty, it's no wonder that voters report the cost of living to be their top concern. We look at the key trends in household income data and explore how these are likely to evolve over the rest of the decade, drawing on official forecasts and planned tax and benefit policies, under a range of scenarios.

After a difficult few years for living standards, the outlook remains weak and could leave us with a lost decade for income growth

The cost of living crisis has taken its toll on families in recent years, with incomes in 2024-25 no higher than in 2019-20 and with the prevalence of food insecurity in January 2025 still twice as high as it was in 2021. Against this backdrop, the headline outlook for living standards is, at best, disappointing. In our central scenario, the typical annual real income of non-pensioners grows over the five years after 2024-25 but only slightly (1 per cent overall growth, or a cash increase of around £300 in total) – and our outlook for 2025-26 specifically remains poor with income flat (0 per cent growth).

This is based on updating forecasts from the Office for Budget Responsibility (OBR) for more recent data and outturns. A key assumption here is that real earnings growth falls no lower than around 0.6 per cent over the next few years, significantly higher than the OBR's forecast of zero growth at times (which assumes the labour share of income falls). This economic outlook interacts with stated tax policy, with frozen tax thresholds and rising Council Tax cancelling out real pre-tax earnings growth for many, even before accounting for water, rent and mortgage rises. Meanwhile, new and already-announced benefit cuts also weigh on the outlook, although the recently-announced expansion of Free School Meals – worth around £500 a year per affected pupil – will support parents' disposable incomes.

If realised, this outlook would leave typical incomes still higher than in 2023-24 – the last full year before the General Election – largely reflecting tax-cut-bolstered growth of 4 per cent in 2024-25. But taking into account the cost of living crisis, the typical income in 2029-30 would remain essentially unchanged (0 per cent growth) compared to 2019-20. This would clearly make the 2020s the worst decade for living standards growth from the 1970s onwards, with even the 2010s delivering 9 per cent growth at the median.

Lower-income households, children and those with higher housing costs are faring worst

The outlook for the lower-income half of the non-pensioner population is even worse. In our central case, the average real incomes of this group would be 1 per cent (£200) lower in 2029-30 than in 2024-25. This compares to 1 per cent growth for the top half. The only projected year where the bottom half outperforms the top half is 2026-27, when the real value of basic benefit adequacy rises given lagged uprating plus the first of the planned above-inflation boosts. Coupled with net real income hits over the past five years, these projections would leave the bottom half worse off at the end of the 2020s than in 2019-20 (by 2 per cent) while the higher-income half would be slightly better off (by 1 per cent).

Zooming in on households with very low incomes, the 10th percentile of non-pensioners (the middle of the bottom fifth) is projected to be 4 per cent worse off in 2029-30 than in 2024-25. And given weak outturn data, they would be 8 per cent (£1,000) worse off over the decade as a whole – not helped by a range of effects that are holding back poorer households. These include the continued freezing in cash terms of Local Housing Allowances, when average private rents would otherwise have pushed them by a projected 25 per cent by 2029-30; the continued roll-out of the two-child limit; and Council Tax rising without robust protection for those on lower incomes. Given that income for the 10th percentile was already no higher in 2023-24 than in 2002-03, we risk a quarter-century or more without sustained living standards improvements for the poorest (4 per cent lower in 2029-30 than 2002-03).

Beyond income groups, some parts of the population are set to fare better than others. The typical pensioner's household income is projected to rise by 5 per cent between 2024-25 and 2029-30, and that of outright owners by 4 per cent. In contrast, zero household income growth is projected for the median child and the typical mortgagor is projected to be 1 per cent worse off in 2029-30. And similar divisions were also seen over the first half of the decade. In combination, by 2029-30, pensioners are projected to have 8 per cent real growth over the decade, while children will be 2 per cent poorer. The typical outright owner and social renter will be better off, but private renters are expected to be 2 per cent poorer in 2029-30 than in 2019-20. Strikingly, the groups that have fared worse in terms of income growth, and may continue to do so, in general also had the lowest typical savings coming into the cost of living crisis. Forecasts from the OBR and Bank of England assume consumption will grow faster than incomes over the next few years, but this will buoy the living standards of those groups that are projected to have the strongest income growth rather than those faring worst.

The Government's Child Poverty Strategy is not due to be released until the autumn, but our forecasts show why it's sorely needed: in our central case, relative child poverty rises from 31 per cent in 2023-24 to 34 per cent by 2029-30 (a record high of 4.8 million children), despite the poverty-lowering expansion of Free School Meals announced in the Spending Review. Meanwhile, the pensioner poverty rate was much lower at 16 per cent in 2023-24 and is not projected to rise by 2029-30, aided by above-inflation State Pension increases each year.

A plausibly better economy can meaningfully improve the projections

To illustrate risks and uncertainties around the outlook for living standards, we look at three other scenarios. On the upside, it's possible that the employment rate recovers to its previous peak, and that wage growth is stronger. The latter would be consistent with recent independent forecasts – where the average forecast for annual nominal pay growth falls no lower than 3 per cent. In such a scenario, real typical incomes would rise by 3 per cent in total over the next five years – a welcome improvement but weaker than the historical average of 8 per cent per five years and still leave the decade as a whole as a historic low for growth. This doesn't rule out even stronger income growth over the next few years, but the key determinants would need to be considerably stronger than in current official forecasts to achieve this.

This optimistic scenario still would not be enough to leave the bottom half of non-pensioners – or the 10th percentile – in 2029-30 better off than in 2024-25 or 2019-20. Bottom half growth over the next five years would be raised from -1 per cent to 1 per cent (leaving them with zero growth over the whole decade), and the top half from 1 per cent to 3 per cent.

On the downside, our central case could also prove too optimistic. A scenario of weaker earnings growth, as in the OBR's March 2025 forecast, and higher unemployment based on Bank of England projections, would lead to a fall in typical incomes of 1 per cent over these five years, a 1 per cent fall for the top half, a 2 per cent fall for the bottom half and a 5 per cent fall at p10.

Policy change can directly improve the outlook for those on low incomes

Of course, there are no quick fixes when it comes to delivering sustained disposable income growth, and the Government will be trading off the ability to help households directly with the need to invest more and to adequately fund public services. Sustained productivity growth will be essential to drive up real earnings and tax revenues. So, the Government is right to focus on pro-growth policies such as improving trade, planning reforms, public investment, cheaper electricity, supporting dynamism and industrial strategy, and all-important stability and macroeconomic policy – although growth will inevitably depend on a good dose of luck too.

But prospects for lower-income households are much more directly in the control of central Government – where relatively small spending changes can make a big difference to the poorest – and indeed a range of headwinds are due to longstanding Government policies. As a pressing example, given recent heavy hints from the Prime Minister and other members of the Cabinet, we look at a scenario in which the two-child limit is scrapped (funded by an illustrative tax rise). This alone would move growth over the second half of the decade into positive territory for the bottom half (growth of 1 per cent) and p10 – while having little proportional impact on the top half – and deliver a slight fall (to 31 per cent) instead of a large rise in child poverty. However, this would still leave zero growth over the decade for the bottom half, and a fall in incomes for the poorest – pointing to the need to improve the economic outlook as well as further measures to support the poorest in the face of increases in private rents, Council Tax and water bills.

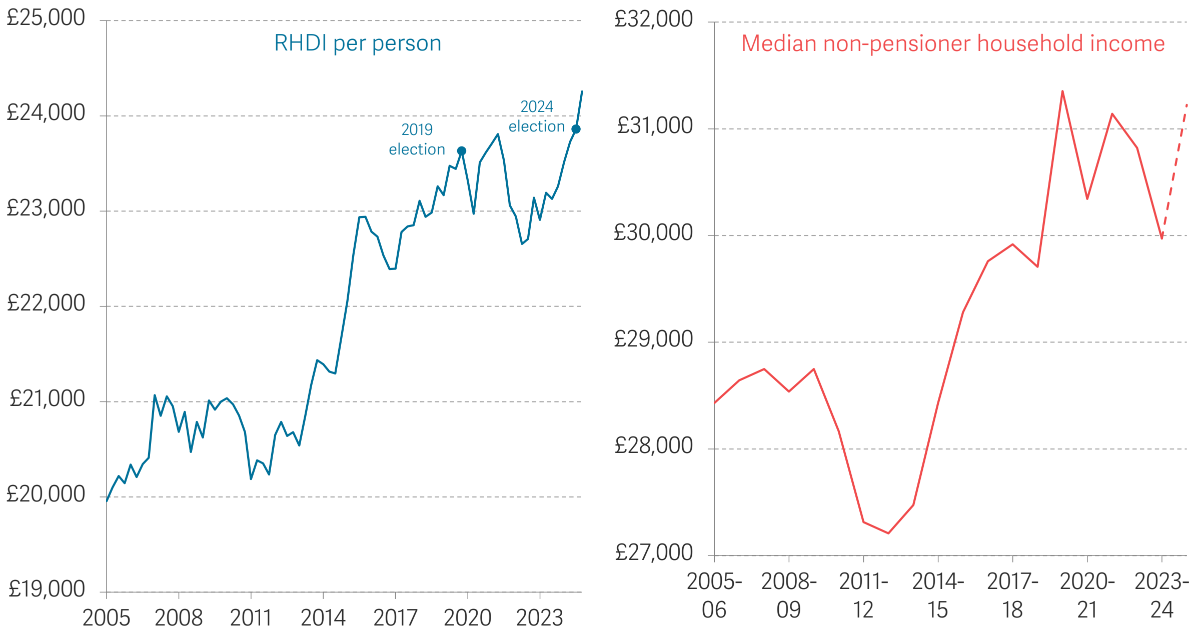
It is a low, but crucial, bar for the Government to raise real, household disposable incomes compared to pre-election. Delivering noticeable income growth for a broad range of voters will require considerably more work, with both targeted measures to boost living standards for the poorest as well as continued broader efforts to shift the dial on growth.

After a difficult few years, and with more headwinds on the horizon, living standards remain a key concern for voters

The past five years have been difficult for living standards with a lost half-decade for income growth. As shown in Figure 1, Real Household Disposable Income (RHDI) per person fell by 5 per cent in the year to Q2 2022. And typical non-pensioners' equivalised household disposable income, our other headline measure of the real incomes, fell by 4 per cent between 2019-20 and 2023-24 (the latest outturn data). On both of these measures (and ignoring our non-pensioner 2024-25 nowcast for now), the previous Parliament was the worst on record for income growth.[1]

FIGURE 1: **Real incomes took a hit during the cost of living crisis, leaving the first half of this decade very weak for income growth, despite a strong 2024-25**

Measures of real household income: UK



NOTES: 2024-25 value for the median is a nowcast. Median values are equivalised and after housing costs.
SOURCE: ONS series CRXX, March 2025 release; RF analysis of DWP, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; Bank of England, Monetary Policy Report, May 2025; and OBR, Economic and Fiscal Outlook, March 2025.

So it is welcome that the Government wants to do better. One of its 'mission' targets is to increase RHDI per person over this Parliament, and to raise GDP per person in every part of the UK.[2] These basic goals should be achievable – particularly given ambiguity over

1 Resolution Foundation, Unsung Britain bears the brunt: Putting the 2025 Spring Statement in context, March 2025. With RHDI we can look at the quarters in which elections took place. For financial years it makes a significant difference whether (in this case) 2024-25's growth is included within the previous parliament or this one.

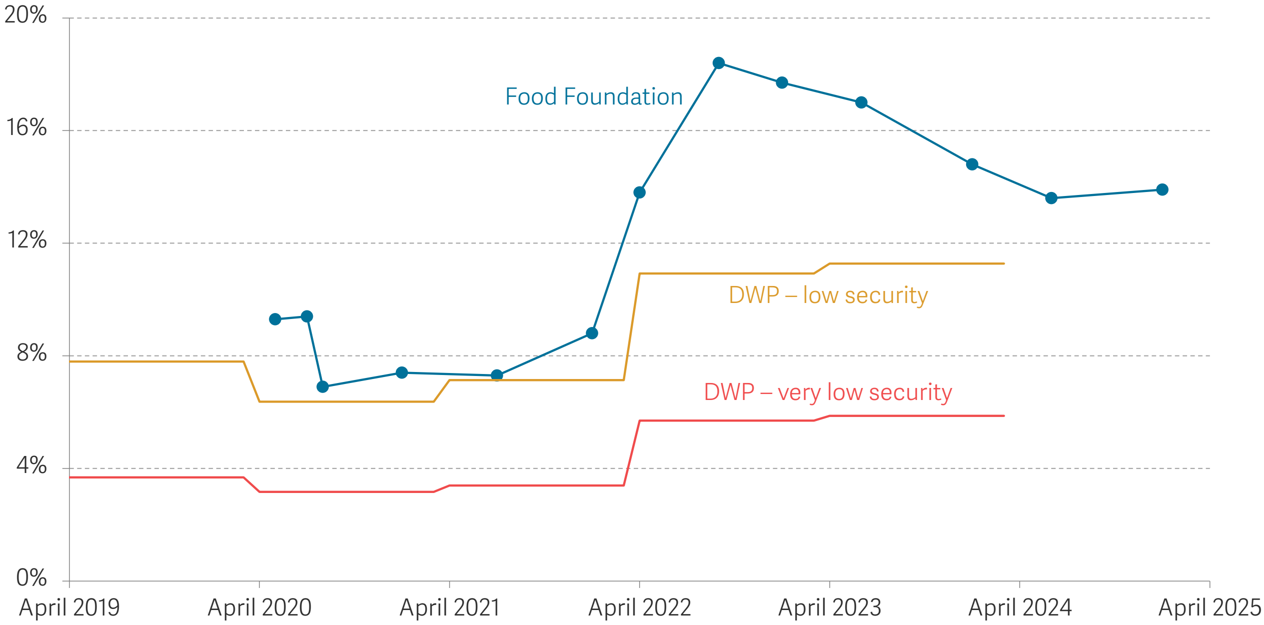
2 HM Government, Plan for Change: Milestones for mission-led government, December 2024.

the base reference point.[3] Indeed, RHDI per person was 3 per cent higher in 2024 than in 2023, and 2 per cent higher in Q4 2024 than in Q3 (which contained the general election) – so the starting point suggests that it will be relatively straightforward to meet the letter of these commitments.

As we will show below, however, there are good reasons to be more pessimistic about income growth going forward, and that significant improvements may be needed for all households to feel better off. This comes in the context of significant hardship created by the cost of living crisis. For example, Figure 2 shows the estimated prevalence of food insecurity, which rose significantly in 2022 and is yet to fall back – with the rate in January 2025 still twice as high as it was in 2021 (14 per cent versus 7 per cent) – despite growth in average RHDI over that period.[4] This highlights the need to consider the distribution of income growth, as we do in this report, rather than just averages.

FIGURE 2: **There is no sign yet of food insecurity returning to pre-2022 levels**

Proportion of households reporting food insecurity: UK



NOTES: Very low food security can be described as 'At times during the last 30 days, eating patterns of 1 or more household members were disrupted and food intake reduced because the household lacked money and other resources for food.' Low food security can be described as 'The household reduced the quality, variety, and desirability of their diets, but the quantity of food intake and normal eating patterns were not substantially disrupted.'
SOURCE: The Food Foundation; DWP, Family Resources Survey.

3 A Corlett, S Pittaway & J Smith, Aiming high? Assessing the Government's new targets for its growth mission, Resolution Foundation, December 2024.
4 The Food Foundation, Food Insecurity Tracking, accessed June 2025.

These stats are also reflected in public opinion. A record 26 per cent of the public said they were struggling to live on their current income in 2024, up from 16 per cent in 2018.[5] In May 2025, the public judged the cost of living to be the top issue facing the UK – reported by 86 per cent (with the NHS on 85 per cent) – and with 'the economy' also reported by 70 per cent.[6] It has remained the top concern for most of the period since 2022. So in this paper we look at the key trends in household income data and how this is likely to evolve over the rest of the decade, drawing on official forecasts and planned tax and benefit policies, under a range of scenarios.

A wide range of economic factors and policies will shape the outlook

In what follows we discuss the prospects for living standards and set out projections for real household disposable incomes for different parts of the income distribution and other groupings. To tee up those findings, we first discuss the key influences on income growth in the coming years, including earnings, employment, taxes and benefits, as well as inflation and the role of housing costs.

Higher inflation and housing costs are providing a headwind to incomes in the near term

Spring 2025 has brought some unwelcome inflation news and sharp rises in the cost of some essentials. CPI inflation in May stood at 3.4 per cent, up from 2.6 per cent in March. The price of water and sewage services rose by a record 26 per cent (with further rises to come over the next four years, which we estimate at perhaps a further 25 per cent given plans to raise bills in line with CPIH inflation plus additional increases).[7] And the energy price cap for a typical household rose by over £100 a year. Bank of England forecasts suggest that the inflation rate could peak at 3.7 per cent in September (given a dip in the price index in September 2024).

The OBR (as of March) and Bank of England (as of May) have forecast that this rise will be temporary – falling back below 3 per cent by Q1 2026. The energy price cap is about to fall by 7 per cent in July and wholesale gas prices remain below where they were when the OBR last made projections. However, crude oil and gas prices have been volatile, given conflict in the Middle East, and this provides another unwelcome risk to the inflation outlook. While new global trade barriers also have the potential to raise prices in some countries at least, a lack of retaliatory tariffs by the UK, coupled with a weakening of global growth expectations and potential for redirecting of goods, mean that there

5 British Social Attitudes, Repairing Britain: Attitudes towards the economy, taxation and public services, June 2025.
6 ONS, Public opinions and social trends, Great Britain: May 2025, June 2025.
7 Water costs are deducted when calculating household disposable income after housing costs, and we showed the distributional impact of the 2025 rise in A Corlett & L Try, Happy new tax year 2025: Tax, utility bill and social security changes in April 2025, Resolution Foundation, April 2025. We do not model any potential expansion of water social tariffs, which is expected but unclear. Energy bills are not deducted, and so the Government's expansion of the £150 Warm Homes Discount for 2025 is not included as a disposable income boost.

should not be a large unwelcome impact on prices from tariff-related changes. The pound has also strengthened to its highest effective exchange rate since the Brexit vote in 2016,[8] and inflation in one series of firm-reported output prices is at its lowest since 2021.[9]

There is also reason to think that the contribution to inflation from private rents will fall back over time from high levels. The cost of new lets rose by 12 per cent in the year to 2022, and changes in new lets take time to fully feed through to the average of the whole stock of rents – which contributes to CPI.[10] In the year to April, average rents overall grew by 7.4 per cent.[11] But with new rental growth of only 2.8 per cent for the same period, we are likely to see average rental-price growth ease over time.[12] Meanwhile, with English social rents linked to CPI inflation plus 1 per cent each year, a significant rise in 2026 is expected (around 4.7 per cent) – although for many social renters (unlike private renters) – such increases are fully covered by benefits.

Based on OBR forecasts, rental inflation is expected to fall further, as is CPI inflation, with the latter also similar in Bank of England forecasts. In our projections, we make use of the OBR's CPI outlook but remove housing costs in order to model those at an individual household level for distributional purposes. Given high inflation in rents and water costs, our figure for 2025-26 is 2.7 per cent: a rise from last year's estimated 1.9 per cent, but a far cry from 2022-23.

Mortgage costs provide another headwind in the near term which won't be included in the inflation figures (but are included in our modelling). Indeed, despite past and projected cuts in Bank Rate, average mortgage payments are still projected to rise further. Some households are yet to come off pre-2022, five-year fixed mortgages. In March, the OBR projected that the overall average rate would rise from 3.8 per cent in 2024-25 to 4.7 per cent in 2027-28. And house price increases also push up mortgage interest bills. So in our projections, mortgage costs continue to rise faster than earnings, incomes or rents for several years to come.

A key factor determining family finances will be how fast wages grow

The most important driver of household income growth is what happens to real (inflation-adjusted) earnings. Having looked at the inflation outlook, which we do not vary when exploring alternative scenarios, we look at a range of possible paths for earnings in nominal terms.

8 Bank of England Database, Effective exchange rate index, accessed June 2025.
9 S&P, S&P Global Flash UK PMI, June 2025.
10 ONS, Private rent and house prices, UK, January 2025.
11 ONS, Private rent and house prices, UK, May 2025.
12 Zoopla, Rental Market Report, June 2025.

Earnings growth has remained strong. Total average earnings grew by 5.3 per cent in 2024-25, and this is also the latest rate for the year to February-April 2025.[13] (Growth has been even higher for low-earners, with the hourly National Living Wage rising by 6.7 per cent, and the 25th percentile point of the monthly earnings distribution – whereby a quarter of employees earn that amount or less – up 8.3 per cent in the year to April 2025.) As Figure 3 shows, such nominal growth rates are high by the standards of the 2000s and 2010s.

There are clear fundamental reasons to expect pay growth to fall back, however. Absent a sustained pickup in productivity growth (although labour force data problems mean the UK lacks any robust measures here), and with the jobs market weakening, it seems likely that wage growth will fall back from where it is now. And the rise in employers' National Insurance is assumed to leave pay growth lower than it would have otherwise been,[14] while higher pay growth was partly made possible by an adjustment in pension deficit contributions that cannot continue permanently.[15]

There are also forward-looking signs of weakening pay growth. The Bank of England's Agents' Pay survey points to 3.7 per cent growth by January 2026, and the Decision Maker Panel points to 3.8 per cent growth by April 2026.[16] Pay rises of around 4 per cent have recently been agreed for teachers and many NHS staff;[17] and illustrative figures from the Low Pay Commission estimate that the National Living Wage could rise by around 3.6 per cent next April if its (undecided) new remit were to remain as it was.[18]

But the OBR's nominal pay growth outlook is noticeably lower than any other independent forecasts and has been too pessimistic over the past couple of years.[19] Clearly the outlook, particularly beyond next year, remains very uncertain. As such, Figure 3 shows three alternative projections for nominal pay growth, that we use to illustrate the sensitivity of living standards to different assumptions later on. These are:

- Our central scenario (in amber), which converges with the OBR pay growth rate forecast by the end of 2029, but is higher over the next few years – e.g. 2.8 per cent in Q4 2026 – using rates taken from the Bank's May Monetary Policy Report.[20]
- A weaker scenario (in red), based purely on the OBR's March forecast. Average

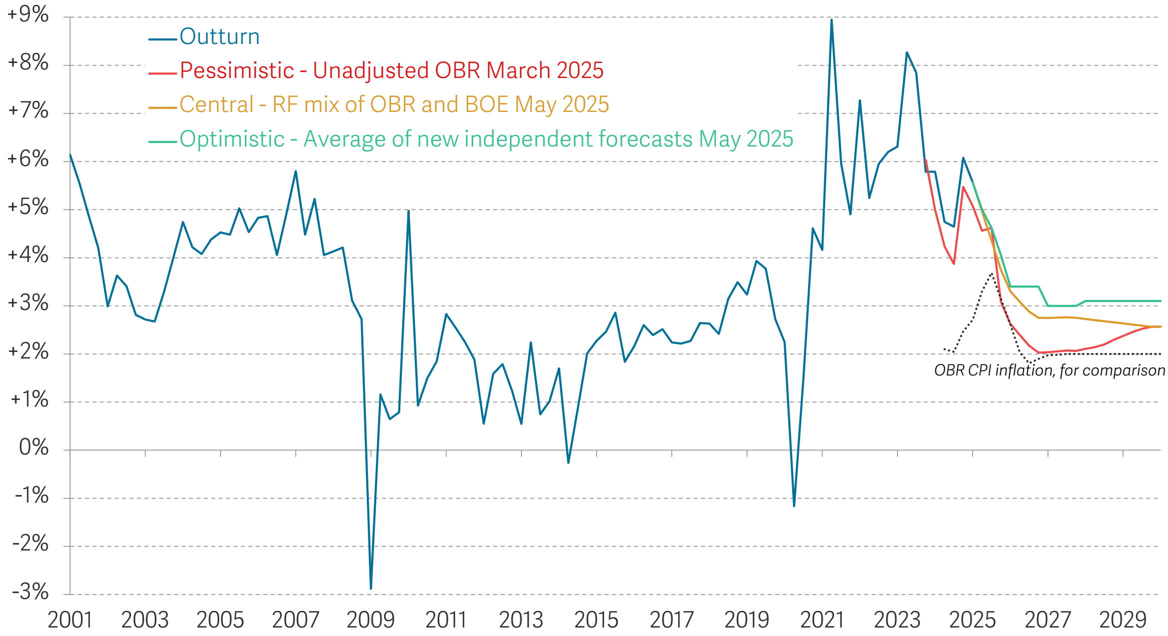
13 ONS, Average weekly earnings in Great Britain, June 2025.
14 OBR, Economic and Fiscal Outlook, October 2024.
15 G Thwaites, The Macroeconomic Policy Outlook Q2 2024, Resolution Foundation, May 2024.
16 Bank of England, Monetary Policy Report, May 2025.
17 BBC News, Teachers and doctors in England given 4% pay rise, June 2025. Departmental budgets set out at the Spending Review may require lower pay rises going forward, e.g. implied annual pay rises of 2 per cent have been estimated in L Sibieta, What the Spending Review really means for schools, IFS, June 2025.
18 Low Pay Commission, Consultation On April 2026 National Minimum Wage Rates, May 2025.
19 OBR, Historical official forecasts database, March 2025.
20 The Bank's projections are for private sector pay, but overall and private sector pay growth are typically close. In the OBR's forecast, the labour share is expected to fall over the next few years to pre-pandemic levels: our updated forecast might, to a first approximation, be considered to be OBR-based but without this fall.

pay growth falls to just 2.6 per cent by Q1 2026, and 2.0 per cent by Q4 2026, before rising slightly.

- A stronger scenario (in green), based on the average new (May) independent forecast, as collated by HM Treasury.[21] This falls no lower than 3 per cent, and is near (though slightly below) the long-term average rate over 2001-2024.

FIGURE 3: **In all of our three earnings scenarios, pay growth falls considerably but to varying degrees**

Nominal growth in average earnings: GB/UK



SOURCE: RF analysis of ONS; OBR, Economic and Fiscal Outlook, March 2025; Bank of England, Monetary Policy Report, May 2025; HM Treasury, Forecasts for the UK economy, May 2025.

Will the jobs market continue to weaken?

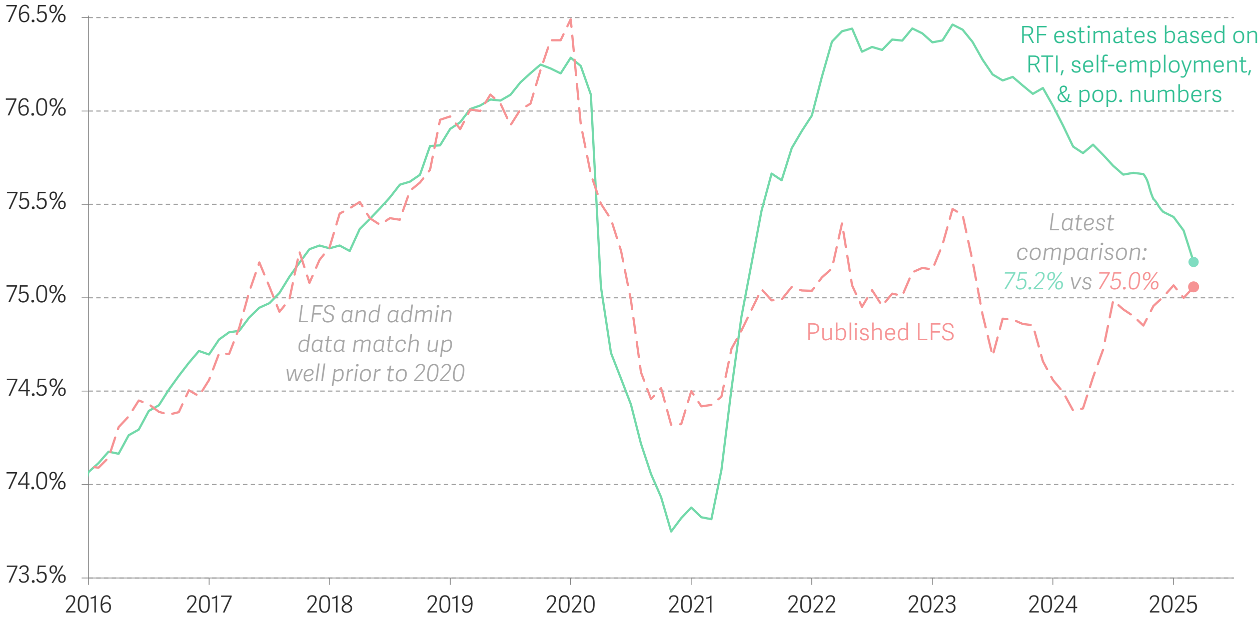
While it would be good news for living standards if the trend of higher-than-expected real pay growth continued, recent employment trends have been much less welcome. All analysis of employment and unemployment is confused by the well-known problems with the Labour Force Survey (LFS), although the survey is believed to be in better health in 2025. But our alternative estimates of the employment rate using administrative data suggest that the jobs market has been weakening for two years now, and recent data has been particularly poor – even if May 2025 'flash' estimates are likely incomplete.[22] It is likely that unemployment is rising, with the LFS giving the highest rate since 2021, at 4.6

21 HM Treasury, Forecasts for the UK economy, May 2025.
22 For more information on our alternative employment rate methodology and uncertainties, see https://www.resolutionfoundation.org/our-work/estimates-of-uk-employment/.

per cent in February-April, and the number of job vacancies has been falling continuously since 2022.

FIGURE 4: **On our best estimates, the employment rate has fallen significantly over the past two years**

16 to 64 employment rate: UK



NOTES: Latest LFS data point is Feb-Apr 2025. For recent population growth we use the ONS' 'migration category variant' population projection.
SOURCE: ONS, Summary of labour market statistics, June 2025; RF analysis based on ONS Earnings and employment from Pay As You Earn Real Time Information, HMRC Income of individuals with self-employment sources, ONS National population projections: 2022-based.

At present, the data do not necessarily point to a significantly different picture to that in the OBR's March labour-market forecast. That was for relatively small changes in labour market quantities. So this projection is the basis for our central scenario (if anything, the employment rate in Q1 was slightly higher than in the OBR's projections). But we also explore two alternative assumptions. As part of our weak pay scenario, we replace the OBR's unemployment outlook (a fall to 4.1 per cent over the next few years) with the Bank of England's more pessimistic outlook (a rise to 5.0 per cent). Much more optimistically, as part of our stronger pay growth scenario, we assume that the 16 to 64 employment rate rises by around 1 percentage point over the next four years, reversing the decline seen over the past few years in our estimates (or since 2019 in the LFS), but still much less ambitious than the Government's (longer-term) target of an 80 per cent employment rate.

Fiscal drag and Council Tax rises are also set to push down on income growth

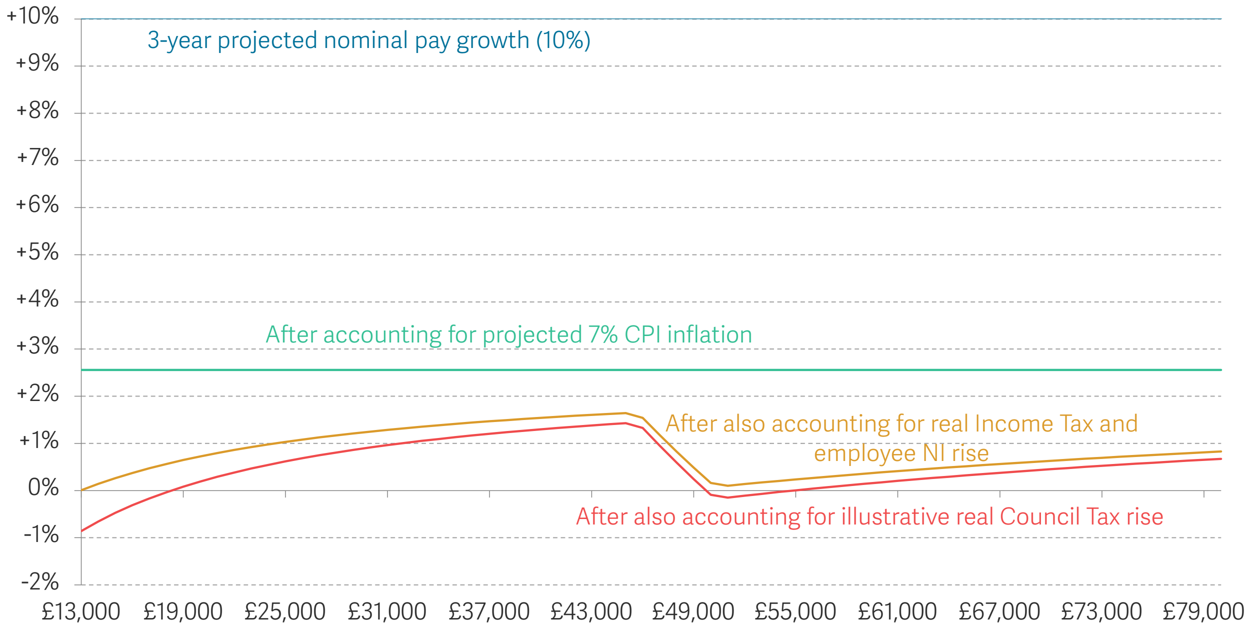
Following the substantial personal National Insurance cuts of 2024-25, the main impact of tax policy over in the coming years is to weigh down on income growth. The two most relevant policies here are the ongoing freezing of Income Tax and National Insurance thresholds (with the £12,570 and £50,270 points not rising until 2028) and the steady rise of Council Tax.[23] Figure 5 illustrates how these tax policies affect disposable income growth for a given boost to pre-tax pay. In cash terms, average pay growth (in blue) is forecast to be 10 per cent over the three years to 2027-28 in our central scenario. But real, pre-tax growth (in green) would be considerably lower: around 2.5 per cent here in the central scenario. We assume for illustration that this same pay growth applies to everyone. But then the rate of real take-home pay growth (in amber) is affected by changes in effective tax rates – which will increase as tax thresholds are not rising as fast as pay and indeed are frozen in each of these years. This effect is greatest for those just above tax thresholds, so someone earning £13,000 or £51,000 in 2024-25 could have real gross pay growth of 2.5 per cent but see zero real change in their net pay.

Figure 5 also illustrates the potential effect of Council Tax increases, which in this example rises by around £100 in real terms for everyone: reducing disposable income growth and taking some into negative growth. At present there is every expectation – including in the Spending Review itself – that councils will need to increase Council Tax by the maximum possible each year (4.99 per cent in many cases, potentially with a £14 police precept rise on top), while Council Tax Reduction schemes – already much smaller than they once where – are often being cut further each year.

23 The impacts of the employer NI rise are incorporated through the Bank of England and OBR's labour market forecasts, rather than modelled or explored separately.

FIGURE 5: **Small rises in real gross pay translate into even weaker growth in real net pay**

Illustrative gross/net pay growth from 2024-25 to 2027-28, by level of annual pay in 2024-25: UK



NOTES: Illustrative Council Tax figures based on a single person in the East Midlands in a Band C home.
SOURCE: RF analysis using CPI and Council Tax assumptions from OBR, Economic and Fiscal Outlook, March 2025; and pay growth based on Bank of England, Monetary Policy Report, May 2025.

This is not to suggest that these tax rises can easily be wished away, bearing in mind the public finances, but it is relevant to the disposable income outlook, and shows that earnings growth will need to be stronger than in our central scenario to deliver meaningful living standards improvements – particularly for those who are additionally particularly negatively affected by housing cost rises or by benefit policy.

Benefit policy will also largely be a drag on income growth, with some exceptions

Benefit policies are not key drivers of income growth for higher-income households, but can make a major difference to growth for low and middle-income households. Here a number of cuts will tend to put downward pressure on incomes. These include:

- The 'Pathways to Work' green paper's cuts to Personal Independence Payments and the health element of Universal Credit (UC);[24]
- The continued roll-out of the two-child limit and family element abolition, which only apply to children born from April 2017;
- The frozen benefit cap; and
- Frozen Local Housing Allowances for private renters.

24 M Brewer, A Clegg & L Murphy, A dangerous road? Examining the 'Pathways to Work' Green Paper, March 2025.

But there are also changes which push in the opposite direction:

- Underlying growth in Personal Independence Payment caseloads (boosting household incomes, all else equal), with numbers post-reform still expected to rise from 3.2 million in 2023-24 to 4.7 million in 2029-30;[25]
- Reductions in the maximums that can be deducted for debt repayments within UC;
- Free School Meal expansion in England to all families receiving UC (noting that this counts towards household income in DWP's statistics);
- The green paper's boost to basic UC, which will rise by around 5 per cent above inflation by 2029-30; and
- The State Pension triple-lock, which is projected to deliver real-terms increases in every year.

And some policies will have mixed effects:

- The end stages of the roll-out of UC, with winners and losers compared to legacy benefits;[26] and
- Winter Fuel Payment policy, which is a net takeaway from higher-income pensioners, with a removal in 2024-25 but then partial reinstatement in 2025-26. It is also assumed that Pension Credit take-up is now higher following the Government's steps to increase it.

As ever, the importance of annual uprating decisions for the living standards outlook should not be underestimated. Figure 6 shows the significant projected impact of triple-locked State Pension uprating over this Parliament (far outweighing any decisions about Winter Fuel Payments). And for non-pensioners, we have long noted that 1.7 per cent CPI-linked uprating in 2025-26 means a temporary real-terms fall given projected inflation of 3.2 per cent this year. (One policy option for the Government's UC review to consider is whether a later inflation figure than September's could be used each year within UC, which would help to dampen real-terms benefit volatility.) But this dip will go into reverse in 2026-27, and will be further supplemented by the Government's basic boost to UC. So standard allowances for UC may rise by 6 per cent in April next year, given projected September inflation of 3.7 per cent plus a further 2.3 per cent.[27] Smaller real rises are then also planned for 2027, 2028 and 2029, though even then UC's basic adequacy would remain lower than it was before the previous Government's benefit freeze.

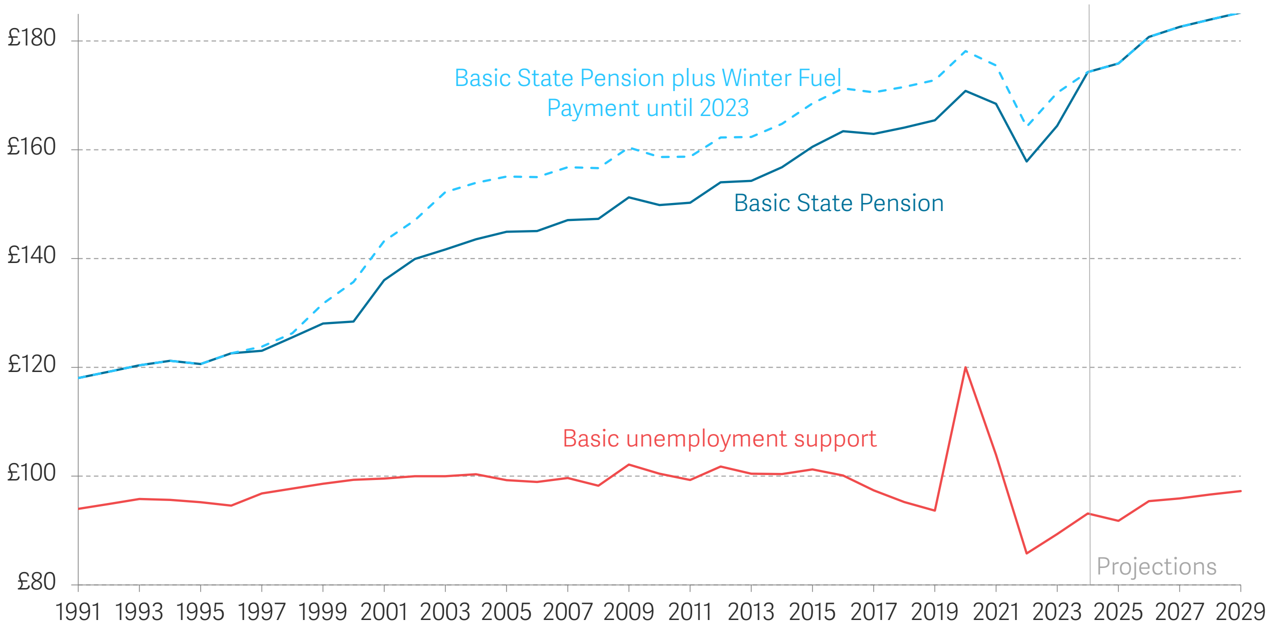
25 DWP, Benefit expenditure and caseload tables 2025, April 2025. England and Wales only.

26 A Clegg, In credit? Assessing where Universal Credit's long roll-out has left the benefit system and the country, Resolution Foundation, April 2024.

27 See the Universal Credit and Personal Independence Payment Bill. Depending on inflation, this may take the UC standard allowance for a single adult 25 or over from £400 to £424 in 2026, or £98 per week, matching what was stated in the green paper.

FIGURE 6: **Real unemployment support will rise over the next few years, as will the State Pension**

Real weekly value of basic unemployment support and the State Pension: UK



NOTES: All values beyond 2024-25 are projected. The higher rate of Winter Fuel Payment is used. Earnings growth for the triple lock matches our central forecast.
SOURCE: RF analysis including inflation forecasts from OBR, Economic and Fiscal Outlook, March 2025.

Additionally, it has also been reported that the two-child limit could be scrapped as part of this autumn's Child Poverty Strategy (a policy that we have said will be effective in reducing such poverty).[28] We therefore also look at a policy scenario in which this happens in April 2026 to explore how significant a change this would be.

The outlook for real disposable incomes over the next few years is weak, putting further pressure on family finances

We now bring together the economic assumptions and tax and benefit policies that we have discussed, to produce our own forecasts for financial living standards. Our preferred measure here is real household disposable incomes, after deducting housing costs and after 'equivalisation' to account for the number of adults and children in each household – following the approach of DWP's Households Below Average Income data. As usual, we focus initially on the non-pensioner population, given that pensioner living standards depend more than most on longer-term wealth accumulation as well as contemporary factors.

The latest outturn data from DWP is for 2023-24, with the significant rise in energy and then general prices leading to a fall in the median income between 2021-22 and 2023-24,

28 A Mitchell & M Cooke, 'Starmer hints at scrapping two-child benefit cap to tackle poverty', The Independent, 29 May 2025.

as Figure 7 shows. But we can cast this data forward to future years using microsimulation modelling (see Annex 2 for more details). As noted earlier, based on the outturn economic data and tax and benefit policies that we have explored, our 'nowcast' for 2024-25 suggests there was very strong income growth on this measure last year, with perhaps 4 per cent growth (aided by pre-election tax cuts). And this strength is also seen in the ONS's aggregate Real Household Disposable Income per head data (see Figure 1 and Box 1), which gives 3 per cent growth in 2024 – though that measure does not allow us to dig into the distribution of income.[29]

We then make projections for 2025-26 through to 2029-30, based largely on current Government policy and the economic assumptions discussed above – with four separate scenarios:[30]

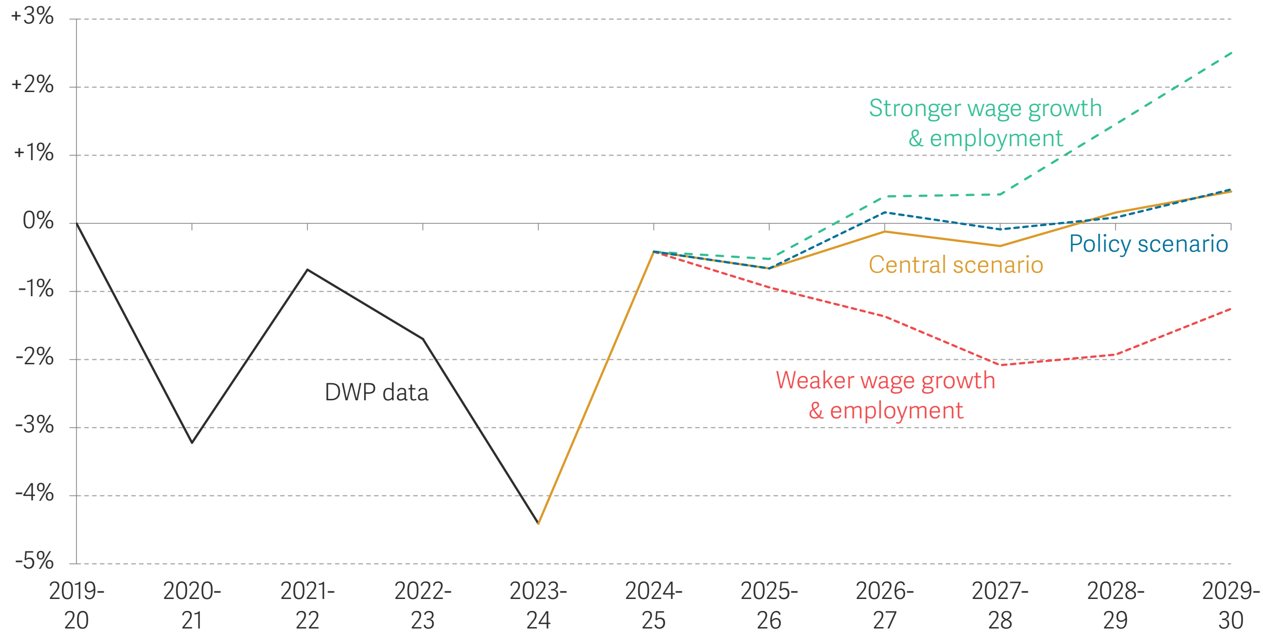
- A central scenario (in amber) based primarily on the OBR's March economic forecasts but updated for data outturns and the higher nominal pay growth outlook embodied in the Bank of England's latest forecast;
- A weaker scenario (in red) that keeps future pay growth in line with the OBR's March forecast, but also embodies higher unemployment based on the Bank of England's May forecast;
- A stronger scenario (in green) that has a more optimistic pay growth outlook, and has the employment rate gradually rising back to its previous peak by 2029-30; and
- A policy scenario (in blue) in which the two-child limit is scrapped, funded (with a lag) by an illustrative tax rise.[31]

Against this backdrop, the headline outlook for living standards is, at best, disappointing. In our central case, the typical non-pensioner is only 1 per cent (or £300 in cash terms) better off in 2029-30 than in 2024-25. And given weak growth over the previous Parliament this would leave them unchanged (0 per cent growth) over the decade since 2019-20.[32] If realised, this would leave typical incomes still higher than in 2023-24 – the last full year before the General Election – largely reflecting tax-cut-bolstered growth of 4 per cent in 2024-25. But taking into account the cost of living crisis, the typical income in 2029-30 would remain essentially unchanged (0 per cent growth) compared to 2019-20. This would clearly make the 2020s the worst decade out of the past six for living standards growth, with even the 2010s delivering 9 per cent growth at the median (see Figure 11 later).

29 ONS series CRXX, March 2025 release.
30 We do not explore the second-order implications of changes in earnings and employment, e.g. that the resultant boost or loss to the Exchequer might mean more or less generous tax and benefit policy. However, we do model the direct effect of earnings changes on the triple lock. Housing costs remain unchanged across scenarios.
31 To avoid ignoring trade-offs, we model funding this through an illustrative tax rise that reduces household incomes – with the roughly £3.5 billion annual cost (in 2029-30) of scrapping the two-child limit fully offset by a one-year (2028-29) personal tax threshold freeze extension.
32 It should be noted that outturn DWP survey data comes with large confidence intervals and that revisions are scheduled for 2026 (DWP, Family Resources Survey: release strategy, March 2025). The Institute for Fiscal Studies notes that real pay growth over 2019-20 to 2023-24 appears weaker in HBAI than in administrative data (by around 1 percentage point for most of the earnings distribution), and that growth in employee numbers is also weaker. On the other hand, they estimate that the share of working-age benefit spending that is missing from the survey has fallen from 30 per cent to 25 per cent over that period (IFS, New data suggest dramatic decline in living standards, but it may just be the quality of the data that has declined, March 2025).

FIGURE 7: **The outlook for the typical income over the next five years is currently weak**

Cumulative change in non-pensioner real median equivalised household disposable income, after housing costs, since 2019-20: UK



NOTES: All values beyond 2023-24 are projections. In the policy scenario the two-child limit is abolished from 2026-27 and the tax threshold freeze extended to 2028-29.
SOURCE: RF analysis of DWP, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; Bank of England, Monetary Policy Report, May 2025; and OBR, Economic and Fiscal Outlook, March 2025.

Our policy scenario does little to change the median income (we will return to its impacts on poorer households), but inevitably the use of stronger or weaker economic assumptions feeds through to disposable incomes. If nominal pay growth were as weak as in the OBR's most recent forecast, and unemployment merely rose in line with the Bank of England's latest projections, typical incomes could be 1 per cent lower in 2029-30 than in 2024-25, and still 1 per cent below where it was in 2019-20. And while stronger pay growth and rising employment delivers more optimistic outcomes, the typical income would still only be 3 per cent higher in 2029-30 than 2019-20 (or 2024-25). This would be a welcome improvement, but still a slow pace of growth (weaker total growth over five years than in the single year of 2024-25): the economy would need to considerably outperform expectations for the next few years to be a boom period.

BOX 1: Aggregate figures from the OBR and Bank of England give similar conclusions, though with some differences

At an aggregate level, we can also compare our usual income measure (taken from DWP's Households Below Average Income – or HBAI – releases) of equivalised housing disposable income after housing costs with alternative income definitions. In particular, there are the national accounts measure of Real Household Disposable Income (RHDI) from the ONS and with projections from the OBR; as well as total 'post-tax labour income' from the Bank of England. The downside of these statistics is that they are total or mean values, with no potential to look at different income groups or other breakdowns, but it is useful to compare the results and explore any differences.

As Figure 8 shows, the big picture is similar across our central model outputs (in blue), the OBR's projections (in gold) and the Bank of England's projections (in purple, on a separate calendar year basis). Despite different income definitions (e.g. RHDI includes imputed rent), this is not very surprising given our use of OBR (and Bank) inputs. All show far weaker growth in 2025-26 and beyond than in 2024-25.

But there are some differences driven partly by definitional choices, and so we set out a range of adjustments that help explain these differences.[33]

First, projected income growth changes as we move from median to mean non-pensioner income, although this effect is not consistent. Second, we can include pensioners and (as we will explore in further detail below) they raise income growth over the whole period from 2024-25 to 2029-30. And, third, we can move from 'equivalised' incomes (designed to account for economies of scale within households) to unequivalised per person incomes, which further raises growth.

Finally, a fourth difference relates to deflators. RHDI (and the Bank's measure) uses the 'Consumer Expenditure Deflator' (CED), whereas survey-based household income stats and earnings stats tend to use CPI or CPIH. In terms of its basket of goods and services, the CED is similar to CPIH, but rather than use a fixed basket (updated annually), it is influenced by the average basket at both the start and end of the period, to reflect how consumers may consume less of something if its price rises disproportionately. To give an illustration: if people only bought bananas and pears, in equal amounts at £1 each, and the price of bananas

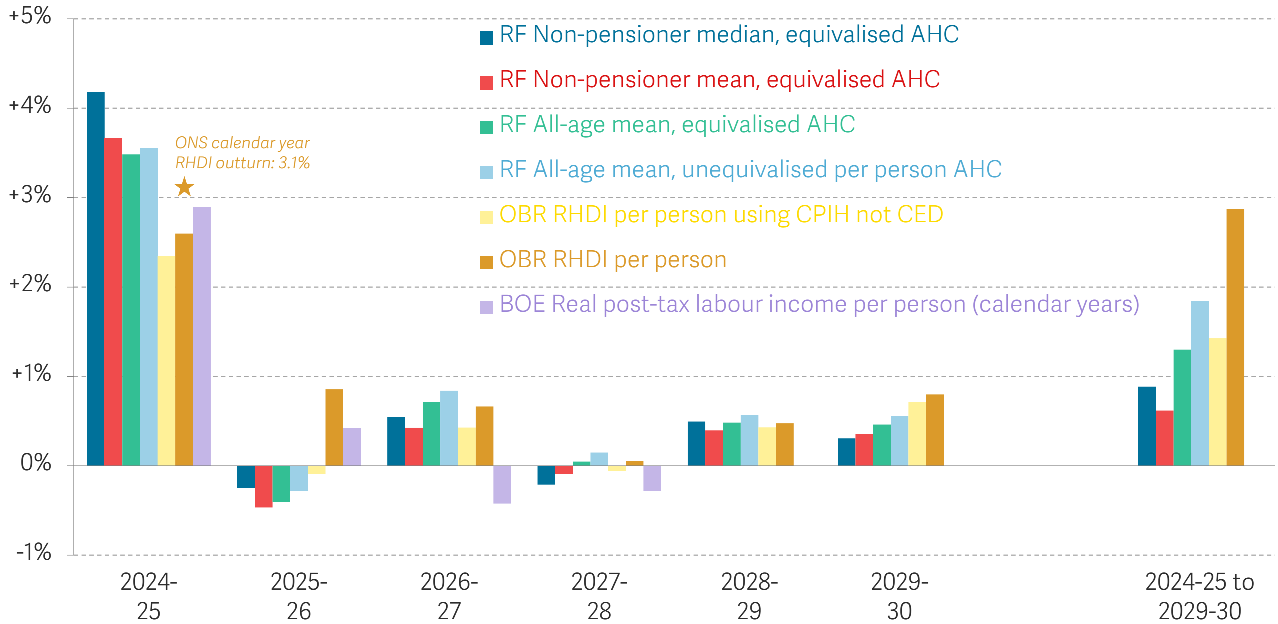
33 A harder-to-quantify difference will come from the fact that HBAI data significantly under-estimates investment income. A Advani, T Ohms & A Summers, Missing Incomes in the UK: Evidence and Policy Implications, Journal of Social Policy, April 2022.

doubled, CPI would give inflation of 50 per cent. But if people decided as a result to shift to buying 90 per cent pears and only 10 per cent bananas, a measure that used the shopping basket in the end period would give only 10 per cent inflation. An 'ideal' price index is considered to be somewhere in between, with the CED in this case giving inflation of around 28 per cent (based on a geometric mean of the other two indices) – far lower than the CPI-based approach in this example.

In 2025-26, there is an unusually large difference between the OBR's forecasts for CPIH inflation (3.7 per cent) and CED inflation (2.8 per cent), which on current forecasts could make the difference between positive or negative real income growth. And over the five years as a whole after 2024-25, the OBR projects CED inflation of 11 per cent compared to 13 per cent for CPIH: contributing to slightly stronger projected RHDI growth overall than in our CPI-based measures.

FIGURE 8: **The OBR and Bank also forecast a big decline in income growth after 2024-25, and our overall results are comparable to the OBR's**

Projected real household income growth per year: UK



NOTES: AHC is real disposable income after housing costs (HBAI definition). RHDI includes imputed rent. Bank of England forecast includes RF adjustment for population growth.
SOURCE: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; Bank of England, Monetary Policy Report, May 2025; and OBR, Economic and Fiscal Outlook, March 2025.

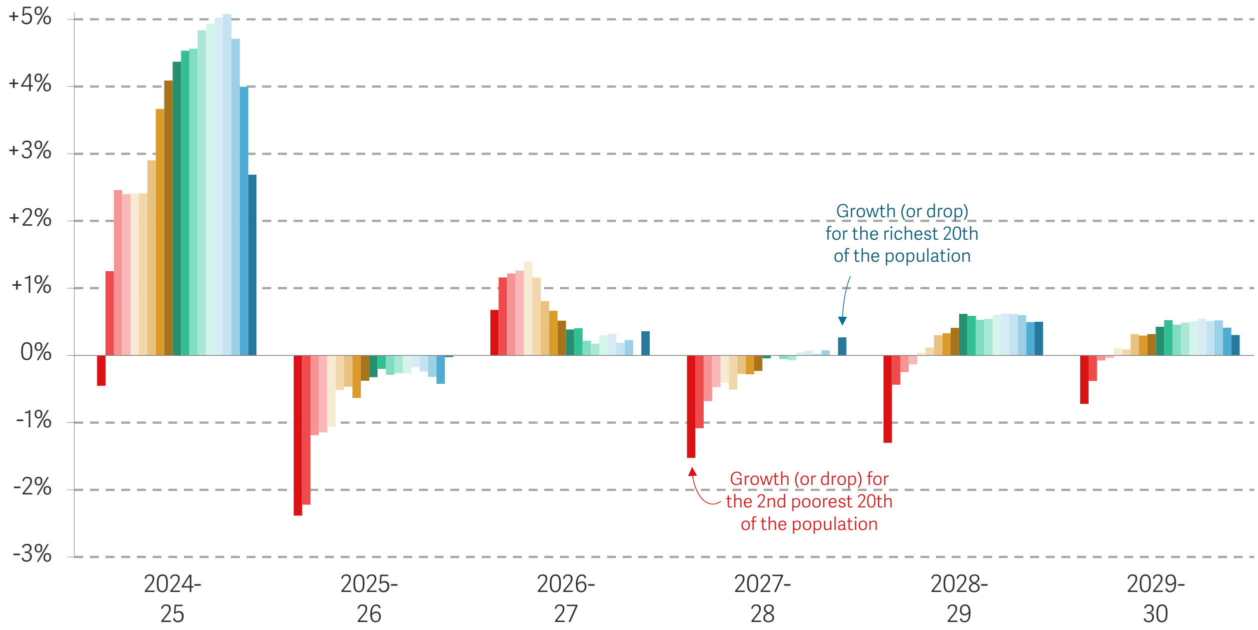
The outlook is worse for lower-income households

The key benefit of our microsimulation modelling is that we can look not just at the mean or the median income, but also at different income groups and other characteristics. Figure 9 shows our central projections for real income growth for each part of the income distribution, from those with low household incomes (in shades of red) to the richest (in shades of blue), and for each financial year.

Some basic trends are shared across income groups, with 2024-25 being the strongest year of growth for almost all,[34] and incomes falling for all in 2025-26. But growth is not equally shared. Income growth is stronger for the top half of non-pensioners than the bottom half in every year except 2026-27, and in most years it is the poorest who have the lowest projected proportional growth. The small boost in incomes for some low-income households in 2026-27 can be attributed to the expected above-inflation uprating discussed earlier, as well as the September 2026 Free School Meal expansion.

FIGURE 9: **The growth outlook is generally even worse at the bottom of the income distribution, though with a small boost in 2026-27**

Annual real growth in average equivalised household disposable income, after housing costs, by non-pensioner income vigintile: UK



NOTES: The bottom 5 per cent are excluded due to concerns about the reliability of data for this group. Deflated using our after housing costs deflator, based on CPI.
SOURCE: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; Bank of England, Monetary Policy Report, May 2025; and OBR, Economic and Fiscal Outlook, March 2025.

34 One limitation of our 2024-25 nowcast is that it uses LFS-based employment trends. As Figure 4 showed, this might be optimistic.

Cumulating these annual growth figures, Figure 10 shows these trends, together with what happened over the previous Parliament, for the poorest (using 'p10' – the mid-point of the bottom fifth of non-pensioners), the average of the bottom half, and the average of the top half. In our central scenario, incomes for the bottom half are projected to fall by 1 per cent between 2024-25 and 2029-30, compared to 1 per cent growth for the top half. And outcomes are even worse for the poorest, with p10 projected to fall by 4 per cent.

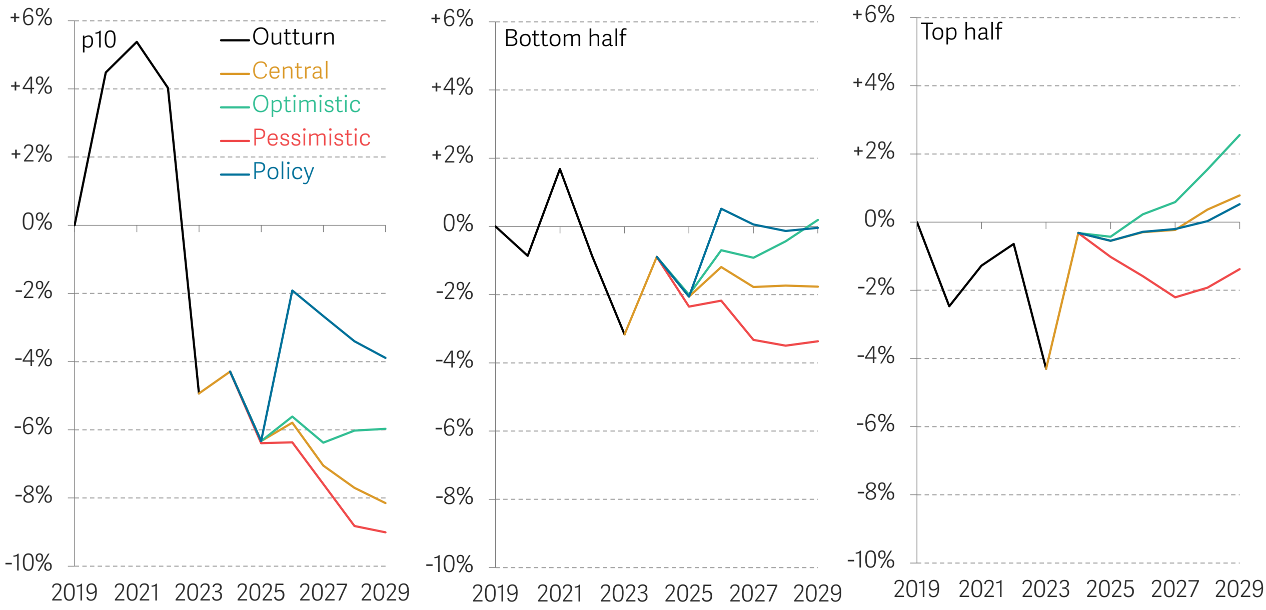
Given past income falls for all three groups between 2019-20 and 2024-25, the results over the whole decade are poor. The bottom half is projected to be 2 per cent (£300) worse off at the end of the decade than in 2019-20, while the top half is 1 per cent better off. And p10 is projected to be 8 per cent (£1,000) lower in 2029-30 than in 2019-20. Going back even further (not shown), this would also leave the poorest people 2 per cent worse off in 2029-30 than in 2002-03.[35]

Even in our optimistic economic scenario, those in the bottom half would still be on course for income stagnation over the decade overall, and an income fall for the poorest. Our two-child limit abolition scenario, meanwhile, has little relative impact on the top half (despite a tax rise). But – in this modelling – it would be the difference between positive or negative income growth for p10 and the bottom half over 2024-25 to 2029-30. Clearly, we must hope for both improvements in the economic outlook for all, but targeted policy change can make a significant difference for the poorest families.

35 With survey data we cannot be certain about small differences, particularly at low incomes, and particularly when data quality has changed over time. Future data and revisions could change these exact results, but as it stands the trends for the poorest have clearly been very bad. Separate ONS data (ONS, Average household income, UK: Financial Year Ending 2024, May 2025) gives a similar story: real p10 of the before housing costs all-age distribution fell 5 per cent from 2019-20 to 2023-24.

FIGURE 10: **Poorer households were hit by the cost of living crisis and now face further hits rather than recovery**

Cumulative change in non-pensioner real equivalised household disposable income, after housing costs, by income group since 2019-20: UK

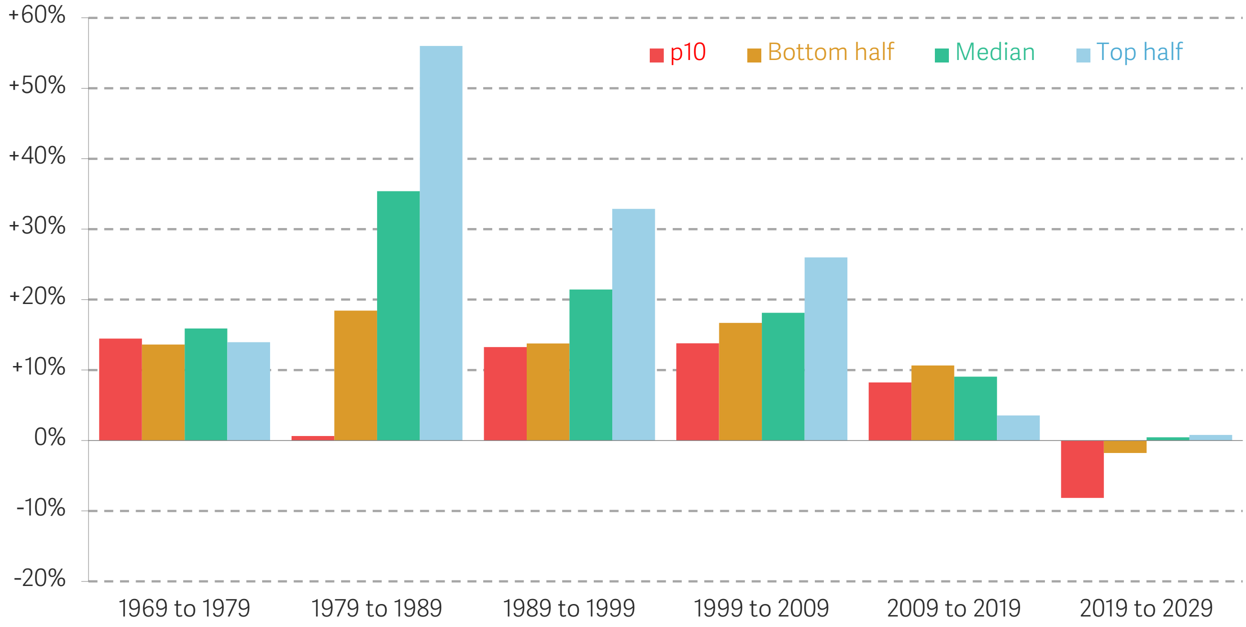


NOTES: Financial years. All values beyond 2023-24 are projections. p10 is the middle of the poorest fifth of the population. In the policy scenario the two-child limit is abolished from 2026-27 and the tax threshold freeze extended to 2028-29.
SOURCE: RF analysis of DWP, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; Bank of England, Monetary Policy Report, May 2025; and OBR, Economic and Fiscal Outlook, March 2025.

Whether we are talking about incomes falling over the decade, stagnating, or rising slightly, we should be clear that the combination of weak outturns and current assumptions about future drivers of living standards leads to a historically poor outlook for the 2020s overall. Figure 11 compares it to the previous five decades, and for each part of the distribution these projections would make it the worst decade on record. Even the 2010s delivered 9 per cent growth at the median, compared to zero projected growth over the 2020s at present.

FIGURE 11: **Forecasts will need to dramatically improve for the 2020s as a whole not to be a historically weak decade for non-pensioner income growth**

Real change in non-pensioner equivalised household disposable income by decade: GB/UK



NOTES: Values for the 2020s are projections. GB from 1994-95 to 2001-02. Financial years from 1993-94 onwards.
SOURCE: RF analysis of DWP and IFS, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; Bank of England, Monetary Policy Report, May 2025; and OBR, Economic and Fiscal Outlook, March 2025.

The outlook is worst for children, private renters and mortgagors

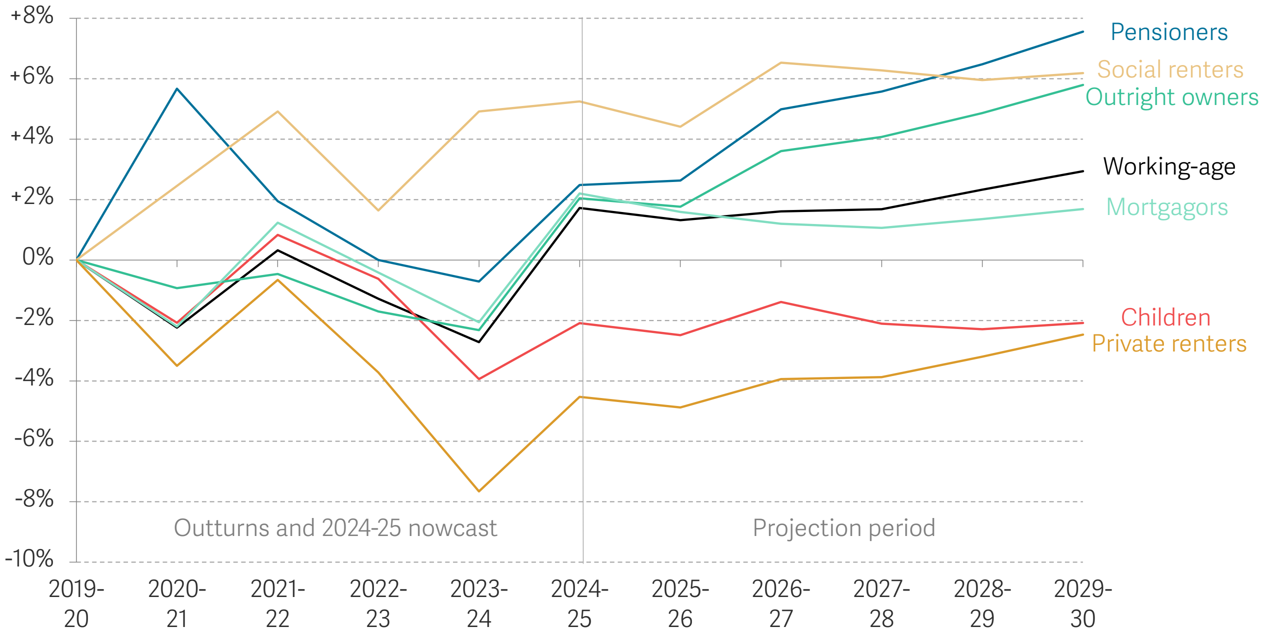
We can also explore outturn and projected income growth for other breakdowns of the population, and in Figure 12 we look at typical incomes for different housing tenures and for broad age groups (children, working-age and pensioners – with children's incomes being those of the household they live in).

Our projections suggest that the typical pensioner income is projected to rise by 5 per cent between 2024-25 and 2029-30, and that of outright owners rise by 4 per cent. In contrast, zero household income growth is projected for the median child and the typical mortgagor is projected to be 1 per cent worse off in 2029-30.

Looking backwards, income trends were (despite survey noise) very broadly shared across groups – with the cost of living crisis affecting all and 2024-25 being a strong year – but with similar divisions to the second half of the decade. In combination, by 2029-30, pensioners are projected to have 8 per cent real growth over the decade, while children will typically be 2 per cent poorer.[36] The typical outright owner and social renter will be better off, but private renters are expected to be 2 per cent poorer in 2029-30 than in 2019-20 (despite our assumption that rental inflation will fall significantly) and the median mortgagor is barely better off (2 per cent).

FIGURE 12: **The decade from 2019-20 to 2029-30 is currently projected to deliver income growth for the typical pensioner but a slight decline for the typical child**

Cumulative change in real median equivalised household disposable income, after housing costs, by group since 2019-20: UK



NOTES: All values beyond 2023-24 are projections.
SOURCE: RF analysis of DWP, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; Bank of England, Monetary Policy Report, May 2025; and OBR, Economic and Fiscal Outlook, March 2025.

As discussed in Box 2, the available evidence suggests that these weak income forecasts and outturns for some groups also align with those that had lower financial buffers – and weaker savings growth – coming into the forecast period.

36 Separate ONS data (ONS, Average household income, UK: Financial Year Ending 2024, May 2025) gives a similar story: the typical real retiree income was 5 per cent higher in 2023-24 than in 2019-20, the typical non-retiree income 1 per cent lower, and the average middle-quintile income for families with children 2 per cent lower.

BOX 2: Can built-up savings come to the rescue?

The aggregate household saving ratio has been high, rising from 5.5 per cent in 2019 to 10.4 per cent in 2024. This means that disposable incomes have been growing faster than consumption, with reduced spending on durables especially. There are a range of reported reasons for this, including the incentive provided by high interest rates and economic pessimism.[37] But the OBR expects this effect to unwind over the forecast period, allowing consumption growth to be stronger than income growth (with a projection of 6 per cent and 3 per cent respectively per head over the five years to 2029-30).

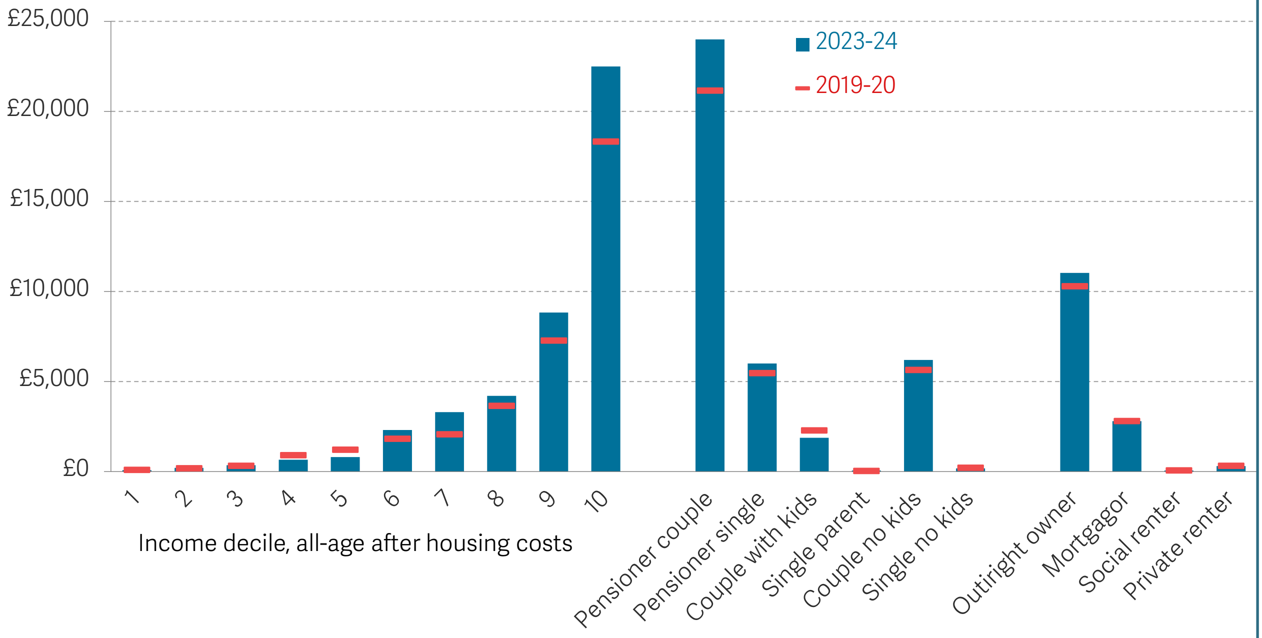
There is limited data available on who exactly has been saving more. But we know that savings are very unevenly distributed, and HBAI can also give some indication of how this has changed over the years to 2023-24. Figure 13 demonstrates that median savings are far higher for higher-income groups; for pensioners; and for outright owners, than for others. And that there is no sign that low-savings groups have built up extra savings over the pandemic and cost of living crisis: indeed, these figures suggest that lower-income households; parents; and housing tenures other than outright owners had lower real savings in 2023-24 than in 2019-20.

We must await future Wealth and Assets Survey data to comment with more confidence. But for now, the available evidence on levels and changes in savings suggest that we shouldn't expect lower-income households' living standards over the next few years to be supported by savings that don't exist – even if a declining savings ratio in aggregate supports higher consumption growth.

37 See Chart 2.11 in Bank of England, Monetary Policy Report, May 2025.

FIGURE 13: **Typical low-income households have almost no savings and sho no signs of an increase since 2019-20**

Real median family (benefit unit) savings by group: UK

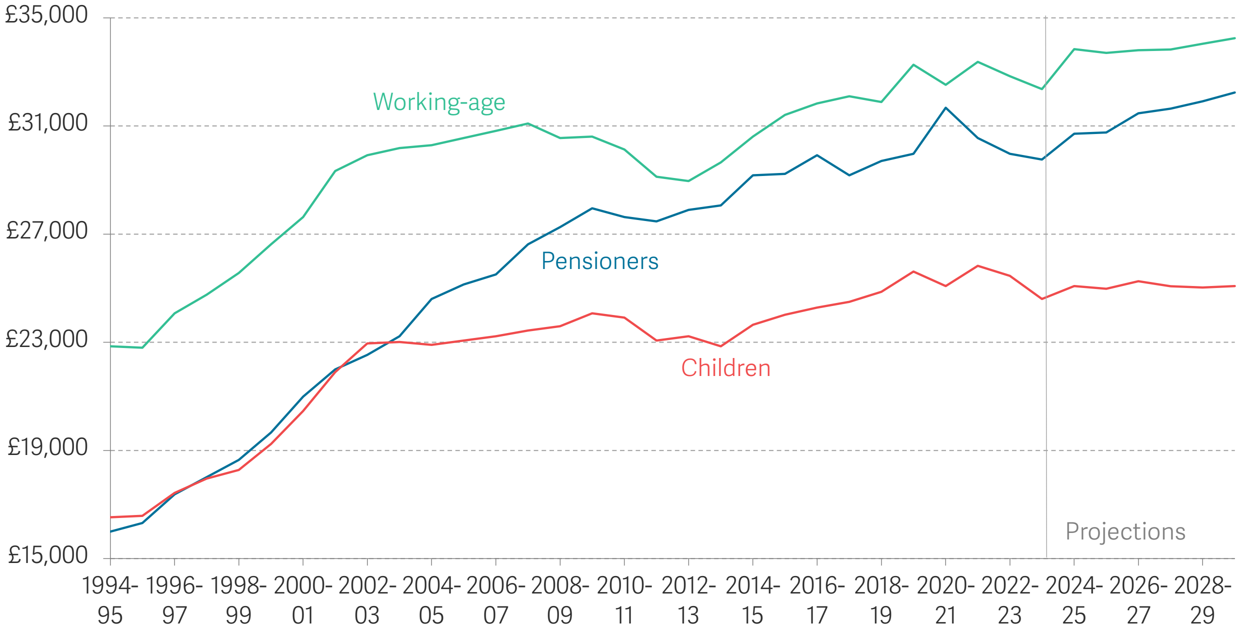


NOTES: 2023-24 prices, adjusted using CPI.
SOURCE: RF analysis of DWP, Households Below Average Income.

The divergence in child versus pensioner income trends over both halves of the 2020s is also not new. In 2002-03 pensioners and children had very similar typical equivalised household incomes, but between then and 2023-24 the median pensioner income grew by 32 per cent and the child figure by 7 per cent (with the typical working-age income growing by 8 per cent). In cash terms, the equivalised household income gap between pensioners and children has grown from roughly zero in the early 2000s to over £5,000 by 2023-24 and potentially over £7,000 by 2029-30. As we explore below, this is also reflected in poverty figures.

FIGURE 14: **The typical pensioner and typical child's household income were once very similar, but have diverged**

Real median equivalised household disposable income by individual age group: GB/UK



NOTES: All values after 2023-24 are projections. GB from 1994-95 to 2001-02. 2024-25 prices.
SOURCE: RF analysis of DWP and IFS, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; Bank of England, Monetary Policy Report, May 2025; and OBR, Economic and Fiscal Outlook, March 2025.

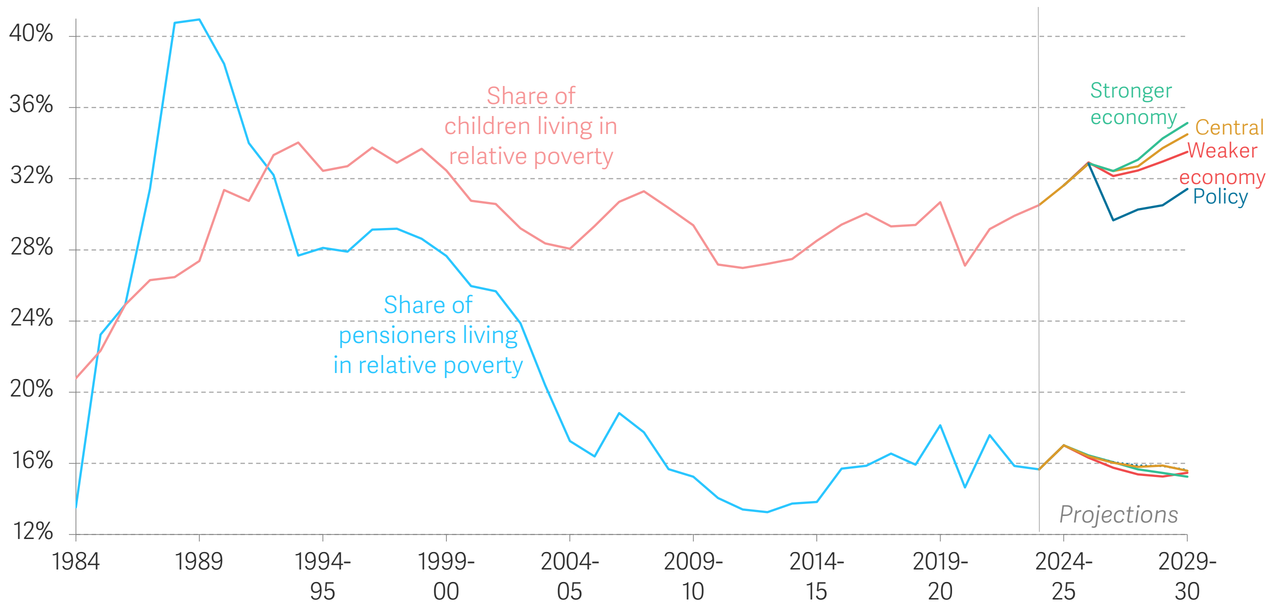
Child poverty is projected to rise but policy can make a big difference here

Given the weaker outlook for lower-income households and for children, the child poverty outlook is also poor. We project that the share of children living in relative poverty (the Government's headline measure) will rise from 31 per cent in 2023-24 to 34 per cent by 2029-30 (Figure 15). That would be a rise to 4.8 million children – a new record high – though this is lower than it would be without the recently announced expansion of Free School Meals.

A better economy, on its own, does not deliver lower relative child poverty. Instead, shifting the dial here requires policy changes. In all three of our economic scenarios, the child poverty rate in 2029-30 is higher than in 2024-25 (by 2-4 percentage points). In our policy scenario, however, with the two-child limit abolished, the rate would instead drop immediately, and be no higher in 2029-30 than 2024-25, at 31 per cent – though this would still be higher than in 2023-24 and higher than the average over Conservative-led 2011 to 2023 (29 per cent).

FIGURE 15: **Child poverty is projected to rise, but would fall if the two-child limit were scrapped**

Proportion of children/pensioners living in relative poverty: GB/UK



NOTES: All figures beyond 2023-24 are modelled projections. GB before 2002-03. Relative poverty is defined as having an income below 60 per cent of the median income in a given year.
SOURCE: RF analysis of DWP and IFS, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; Bank of England, Monetary Policy Report, May 2025; and OBR, Economic and Fiscal Outlook, March 2025.

Child poverty projections for each nation of the UK are available in Annex 1, with Scotland bucking the trend. Given its Scottish Child Payments, two-child limit offset from 2026, and other policies, its child poverty rate is not expected to rise significantly between 2023-24 and 2029-30 (a 1 percentage point rise by 2029-30, but a lower rate in earlier years). That said, there is no sign of the large further poverty reductions that would be needed for Scotland to hit its 2030 target (under 10 per cent by 2030-31, with an – uncertain – estimate of 22 per cent in 2023-24).

Figure 15 also shows pensioner poverty trends. At 16 per cent in 2023-24, the latest outturn pensioner poverty rate is half that of children. And in contrast to child poverty, pensioner poverty is not projected to rise over the medium-term, with an unchanged rate of 16 per cent in 2029-30, supported by earnings-driven State Pension uprating.

It should be noted that outturn poverty (and income) statistics are currently expected to be revised in March 2026 as part of a welcome stats overhaul using administrative data.[38] A likely consequence is an (even) lower pensioner poverty rate, with uncertain changes in

38 DWP, Family Resources Survey: release strategy, March 2025.

child poverty.[39] This will also allow us to speak with more confidence about deep poverty, where the share of children living below 40 per cent of the median hit a record high in 2023-24, but where we cannot be sure about the role of data problems yet. It is clear that the Government has work to do on poverty and deprivation in its Child Poverty Strategy and beyond.

The outlook for living standards remains difficult, but there is scope for policy to make a difference

The future set out by our scenarios is a difficult one. And we must clearly hope that the future will be brighter than suggested by a living standards outlook in which incomes at the end of the 2020s are essentially no higher than a decade earlier, in which the poorest are worse off, and in which child poverty continues to rise.

There are, however, no quick fixes when it comes to delivering sustained disposable income growth. The Government is right to prioritise seeking growth and must hope that its policy agenda – including attempts to improve trading relationships, reform the planning system, increase public investment, reduce energy costs, support dynamism and put in place a new industrial strategy – delivers that. But, inevitably, prospects for living standards will also depend on a dose of luck – varying with the negative and positive shocks hitting the economy in the coming years, for instance on global commodity prices and on underlying technological trends. Sustained growth will be essential to drive up real earnings and tax revenues. But the Government will also be trading off the ability to help households directly with the need to invest more and to adequately fund public services.

Nonetheless, our stronger scenario shows that quite large improvements in the economic outlook would be needed to get to a historically respectable pace of household income growth overall, while our weaker scenario and the assumptions we have set out show that outcomes could easily be worse than in our central case.

Even with optimistic economic assumptions, however, it is clear that there are downwards pressures on the incomes of the poorest in the UK especially – seen in both outturn data and projections. But prospects for lower-income households are much more directly in the control of policy makers. Some recent policy changes such as the general UC boost and Free School Meal expansion will help (albeit with disability benefit cuts working in the other direction), and we have shown that removing the two-child limit would make a big difference. But other pressures include the Local Housing Allowance freeze (at a time of rising rents), uncoordinated support with water bills (at a time of rising

39 A Corlett & L Try, Five takeaways from new living standards data, Resolution Foundation, March 2024.

costs),[40] and weak Council Tax Support (at a time of rising Council Tax), and these will also require policy change to tackle deprivation.

Overall, it is vital that the Government strives to raise real, household disposable incomes. Delivering noticeable income growth for a broad range of voters will require both targeted measures to boost living standards for the poorest as well as continued broader efforts to shift the dial on growth.

40 Environment, Food and Rural Affairs Committee, 'Failing' water sector needs 'root and branch reform' to address culture that is 'deaf' to 'crisis', June 2025.

Annex 1: Child poverty results

Table 1 gives our projected child poverty changes by nation and for the UK as a whole. These can be added on to outturn values (from 2023-24), but that baseline can be noisy at the level of nations in particular. It is also the case that poverty levels are expected to be revised in March 2026, given DWP data improvements.[41] So we are more confident in projecting future trends than in specific levels. More broadly, relative poverty rates are likely not as predictable as real income trends, given that they rely on the interaction of a moving median and movements across a particular low point in the income distribution.

Our Scottish forecast includes a scrapping of the two-child limit in 2026-27 (though we cannot model the full impact of this). A limited rise in relative child poverty between 2023-24 and 2029-30 would buck the trend in the rest of the UK, but would still not be at all sufficient to meet Scotland's goal of getting to under a 10 per cent rate by 2030-31, given a (very uncertain) estimate of 22 per cent in 2023-24.[42] These findings are broadly similar to Scottish government projections, which also clarify that Scottish policy changes have made a significant difference to child poverty levels.[43]

Note that we do not assume that Wales, Scotland or Northern Ireland follow England in (further) expanding Free School Meal eligibility, though this is a possibility and would improve the child poverty outlook. Incomes in Wales are affected by 8 per cent private rental growth in the latest data (May 2025) and a 7 per cent Council Tax rise – both higher than in most parts of the UK.

41 DWP, Family Resources Survey: release strategy, March 2025.
42 Scottish Government, Child poverty summary, March 2025.
43 Scottish Government, Child poverty modelling: update, March 2025.

TABLE 1: **The child poverty outlook is better in Scotland than elsewhere**

Projected cumulative percentage point change in the proportion of children living in relative poverty since 2023-24, by nation

	UK	England	Wales	Scotland	N. Ireland
2023-24	0.0	0.0	0.0	0.0	0.0
2024-25	+1.1	+1.1	+1.4	+0.4	+2.8
2025-26	+2.3	+2.3	+4.4	+0.8	+2.6
2026-27	+1.9	+1.9	+4.3	-0.7	+3.5
2027-28	+2.2	+2.2	+4.3	-0.5	+3.8
2028-29	+3.2	+3.3	+5.0	-0.2	+4.2
2029-30	+4.0	+4.1	+5.4	+0.9	+4.4

NOTES: Relative poverty is defined as having an income below 60 per cent of the median income in a given year.
SOURCE: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; Bank of England, Monetary Policy Report, May 2025; and OBR, Economic and Fiscal Outlook, March 2025.

Annex 2: Nowcasting and forecasting methodology

There are many factors that influence household disposable incomes and therefore need to be modelled when 'casting forward' the latest household income data (DWP's Family Resources Survey and Households Below Average Income statistics, 2023-24) to the years from 2024-25 through to 2029-30. Our approach for projections is as follows.

Projecting underlying demographic change and employment

Part of our forecasting relies on simply altering the composition of the population in the data, in line with actual or projected changes.[44]

- We reweight the population to match ONS forecasts for demographic change by age and gender.[45] This includes modelling changes in the numbers of dependent children of each age.
- We adjust the overall labour force participation rate using the OBR's March 2025 outlook and in our central scenario also use their unemployment forecast.
- The proportion of women aged 70+ who have private pension income is also adjusted each year, rising in line with past Family Resources Survey trends (note that there has been broadly no change among men).
- We adjust the population to model the rise in working-age Personal Independence Payment caseloads – while controlling for the aforementioned factors – as this is a significant change in benefit incomes (though less so following the green paper reforms). Caseloads are split based on daily and/or mobility element receipt.
- We do not account for changes in migration patterns (beyond overall demographics and participation), or housing tenure (which we hold constant over time), or any shifts in the number of people living with their parents.

Market incomes

Projecting wages and other forms of market income into the present and future is a key part of our modelling, and is done largely through the IPPR Tax Benefit Model.

- In every year, we model the wage floor, ensuring that no-one in our data falls below their age-appropriate minimum wage. We include some 'spillover effect' for those just above the wage floor. We also model the extension of the National Living Wage

44 We primarily do this using the 'reweight2' command in Stata: see J Browne, Reweight2: Stata module to reweight survey data to user-defined control totals, IFS, July 2012.
45 ONS, National population projections: 2022-based, January 2025. We use the migration category variant.

to those aged 21-22 in 2024-25 and (provisionally) to those aged 18-20 by 2029-30. We assume that the wage floor beyond 2025-26 rises in line with average earnings.

- Beyond these changes, all employee and self-employed earnings are uprated equally in each year. Overall wage growth is constrained to match ONS figures for the outturn period and Bank of England (and later OBR) figures for the projection period, taking into account the effects of the wage floor and compositional changes. The Bank only provides private sector average earnings growth and we assume that this approximates average earnings growth going forward.
- Private pension incomes are uprated using the previous September's RPI inflation based on the last OBR forecasts (but see also: Projecting underlying demographic change, above). We cap this growth at 5 per cent.
- Private pension contributions are increased in line with average earnings. We assume no changes to auto-enrolment, despite the previous Government's commitment to implement reforms that would increase contributions for some people in the 'mid-2020s', and despite frozen thresholds that will affect effective contribution rates.
- We model student loan repayments (which are deducted from disposable income in HBAI).
- Given the rapid and significant rise in savings income since 2022-23, this is modelled separately. As set out in previous work,[46] savings interest is modelled in the Wealth and Assets Survey – using interest projections from mid-June 2025 – and then imputed into the HBAI data.
- Dividend and property income growth follow OBR assumptions. In general, however, levels of investment income are known to be under-estimated in HBAI.[47]

Projecting prices and housing spending

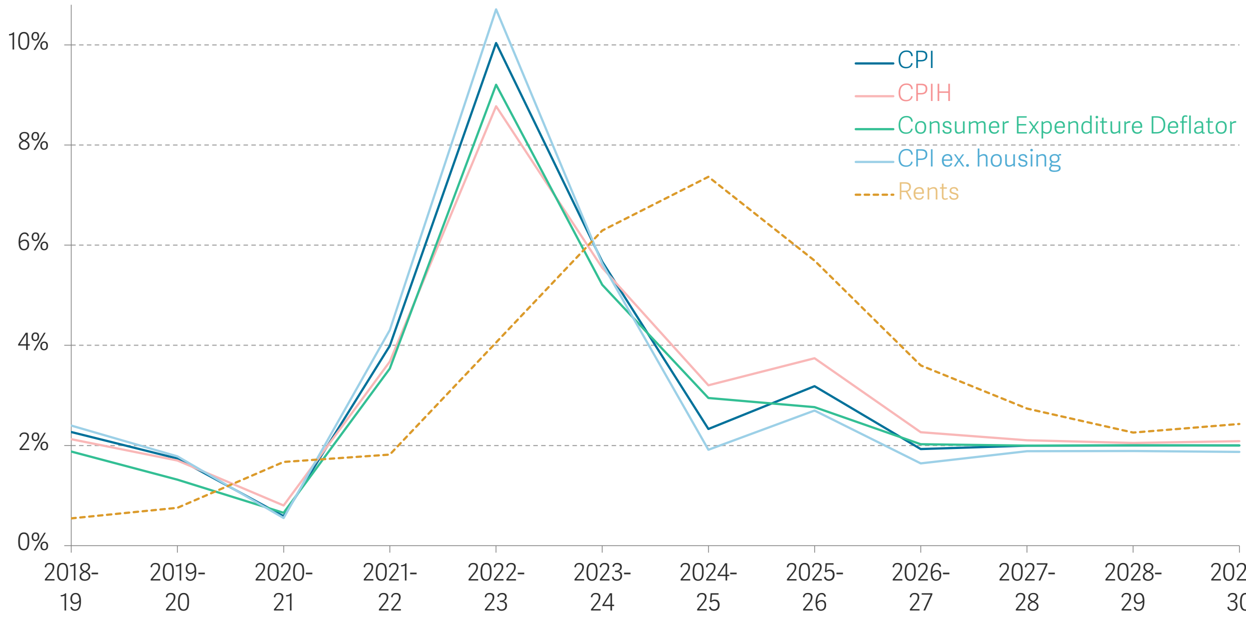
As our focus is on real disposable incomes, after housing costs, we must also account for changes in prices and housing costs.

- Our starting point in accounting for inflation is the OBR's March 2025 CPI forecast. However, we create a specific deflator for 'after housing costs' income, in line with DWP definitions. This removes any housing costs from CPI, in order to avoid double-counting their impact. These projected inflation figures per year are shown in Figure 16.

46 See Box 1 in: A Corlett, The Living Standards Outlook – Summer 2023 Update, Resolution Foundation, September 2023.
47 A Advani, T Ohms & A Summers, Missing Incomes in the UK: Evidence and Policy Implications, Journal of Social Policy, April 2022.

FIGURE 16: **Inflation is more of a headwind in 2025-26 than 2024-25, but the future inflation outlook is assumed to be benign**

Inflation rates by financial year: UK



NOTES: All projected after 2023-24.
SOURCE: OBR, Economic and Fiscal Outlook, March 2025; and derived RF projection of CPI excluding housing costs.

- Mortgage interest costs are uprated uniformly using OBR projections.
- Private rents are assumed to rise in line with average earnings in future, with a 12 month lag. Ground rents and service charges are assumed to do the same. The ONS's Price Index of Private Rents is used in our nowcasting, but no regional variation in price changes is assumed beyond May 2025.
- Social rents are uprated based on the Bank's inflation forecast and the CPI + 1 per cent policy.
- Future water and sewage service costs are projected using the OBR's CPIH forecast plus proposed additional increases.[48] We assume equal relative price rises across all households, and we are not able to model any changes in social tariffs.
- Other housing costs (including home insurance) are uprated using the OBR's CPI forecast.

Modelling taxes and benefits

We model the tax and benefit system in future years using stated government policy (e.g. 2024-25 benefit rates) and default policy (e.g. CPI uprating in many cases). But there are a number of choices to note:

48 CCW, Breakdown of water companies' bill increases 2025-30, accessed June 2025.

- We model a mix of Universal Credit and legacy benefit systems, with roll-out estimated using DWP projections and other figures. We assume that full roll-out of Universal Credit is completed in 2026-27.
- We model incomplete take-up of the main means-tested benefits. For example, we assume 80 per cent take-up of Universal Credit. For the most part, we assume that these figures do not change between years (or scenarios), but we assume a rise in Pension Credit take-up from 65 per cent to 70 per cent following Winter Fuel Payment reform.
- We model the means-testing of Winter Fuel Payments, first through Pension Credit in 2024-25 and then via an individual income limit from 2025-26 onwards.
- The two-child limit is applied to children born from April 2017 onwards, and so affects a growing proportion of the caseload each year. The abolition of the family element of Tax Credits and Universal Credit is applied in the same way.
- The change in the eligibility of mixed-age couples for Pension Credit in 2019 – with newly-claiming mixed-age couples now receiving (less generous) Universal Credit instead, but existing claims protected – is not modelled. We instead use the new eligibility rules for everyone, in every year.
- The introduction of the new State Pension for younger cohorts is modelled.
- Council Tax is assumed to rise in line with OBR forecasts by nation. Detailed changes to Council Tax Support by nation and local authority are not modelled.
- We are not able to model the effects of benefit sanctions. Deductions are modelled, including reforms in 2025.

Projecting changes rather than levels

Using all of the above, we model incomes in the years 2023-24 through to 2029-30. However, as our modelled estimates can systematically differ from survey data – e.g. due to survey data underestimating benefit incomes – we apply income growth rates (and absolute changes in poverty and inequality metrics) from our modelling to the 2023-24 outturn data, rather than directly using the projected levels. This does mean that any random or systematic error in the 2023-24 data will also affect our projected levels.

Annex 3: Data citations

Family Resources Survey:

• Department for Work and Pensions, NatCen Social Research. (2021). Family Resources Survey. [data series]. 4th Release. UK Data Service. SN: 200017, DOI: http://doi.org/10.5255/UKDA-Series-200017

Households Below Average Income:

• Department for Work and Pensions. (2021). Households Below Average Income. [data series]. 3rd Release. UK Data Service. SN: 2000022, DOI: http://doi.org/10.5255/UKDASeries-2000022

Institute for Fiscal Studies Households Below Average Income (for pre-1994 data):

• Institute for Fiscal Studies. (2022). Institute for Fiscal Studies Households Below Average Income Dataset, 1961-1993. [data collection]. 2nd Edition. Department of Employment, Central Statistical Office, [original data producer(s)]. Department of Employment. SN: 3300, DOI: http://doi.org/10.5255/UKDA-SN-3300-2

Wealth and Assets Survey:

• Office for National Statistics. (2019). Wealth and Assets Survey. [data series]. 2nd Release. UK Data Service. SN: 2000056, DOI: http://doi.org/10.5255/UKDA-Series-2000056

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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