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Living Standards Outlook 2026

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All errors remain the sole responsibility of the authors.

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Summary

Low-income families in Britain have seen two decades of unusually weak income growth. Incomes among the poorer half of non-pensioner families in Britain – a group we refer to as 'Unsung Britain' – have been on the floor for almost 20 years, growing by just 0.5 per cent per year. That compares to average annual growth of 1.8 per cent over the 40 years running up to 2004-05, with growth particularly strong the final decade of that period, at 4 per cent a year, on average.

This post-2004 trend of income stagnation is also true for higher-income families (although not for pensioners), but the experiences of these groups are far from equal. Families in the lower half of the income distribution have been working harder over the past few decades – their increasing participation in the workforce fully accounts for the total rise in employment seen in the UK across the last thirty years – yet they have not reaped the rewards in the form of markedly higher living standards growth.

It is no wonder, then, that many lower-income families across Britain feel hard done by, as we show fully in our new book Unsung Britain. But does the outlook for the rest of this decade give any cause for optimism? Unfortunately, the OBR's assessment for the remainder of the 2020s is a gloomy one for living standards overall, with its preferred measure of average living standards (Real Household Disposable Income, or RHDI, per person) set to rise by just 0.3 per cent per year on average between 2025-26 and 2029-30. This is not a good outlook: it is even worse than the income growth experienced between 2015-16 and 2025-26 (an average of 0.4 per cent per year), during which the country experienced the unprecedented shock of the Covid-19 pandemic and a huge rise in the cost of energy.

In this note we publish a new forecast for our measure of living standards: household-level disposable income among non-pensioners. Our forecast is based on household-level income data, projected forward using the economic assumptions used by the OBR, and planned changes to taxes and benefits.

There is good news for lower-income families in the year ahead

But although the outlook for the decade as a whole is weak, the picture is much more positive over the coming year (2026-27), especially for families in the lower half of the income distribution. Our projection is that typical incomes for non-pensioner families will grow by 1.2 per cent between 2025-26 and 2026-27; for families in Unsung Britain, typical income growth is expected to be a much stronger 4.7 per cent. This is long overdue: typical incomes did not grow at all for non-pensioner families in 2025-26, and although 2024-25 was a year of decent income growth, this was skewed to higher-income families

(those in the top half of the distribution saw their incomes increase by 5 per cent, compared to 3 per cent for lower-income households).

This good news for families with below-middle incomes largely reflects rising income from social security benefits: this explains three-fifths of the increase in gross income for lower-income families over the coming year. Two changes to the value of entitlements explain this.

First, the standard allowance of Universal Credit (UC) will rise by 6.2 per cent in April, well above the expected rate of inflation (2.4 per cent). This reflects both a year of 'catch up' (in April 2025, benefits rose by less than inflation, and the rise in April 2026 corrects for that), and the first year of the Government's plan to rebalance entitlements in UC away from incapacity and towards the standard entitlement. This rebalancing will result in the standard allowance of UC increasing by £6 a week above inflation, phased over this Parliament; it also means big falls in entitlement for new claimants of the health element of UC, but in the short run the savings from this are offset by the rise in the standard allowance. Second, more than half a million families who have three or more children and are in receipt of Universal Credit will benefit from the removal of the two-child limit this April, with the average gain per benefiting family standing at £4,560 per year. Families with children in the lower half of the income distribution therefore see above-average income growth over the coming year: typical incomes are set to grow by 5.8 per cent, compared to 1.8 per cent in the typical income of lower-income families without children. As a result of this targeted policy action, relative child poverty is set to fall by 3 percentage points – from 33 per cent to 30 per cent – between this year and next; equating to 420,000 fewer children living in poverty.

The living standards outlook remains weak later this decade

But if the Government cares about making a genuine improvement to living standards, it cannot be complacent. As things stand, the living standards outlook for non-pensioner families is set to worsen later in the decade, largely reflecting the OBR's expectation of dismal real wage growth. The OBR expects real wages to grow by just 0.3 per cent per year on average between 2025-26 to 2029-30, stunting income growth across the distribution. Over this four-year period, income growth for families in Unsung Britain will average 0.9 per cent per year, but if we strip out the strong growth over the coming year and look at the three years between 2026-27 and 2029-30, we see that high- and low-income families alike are set to see their incomes fall in real terms, with the small amount of real wage growth eaten away by taxes (thanks to frozen personal tax thresholds and the expectation of above-inflation Council Tax rises) and housing costs. Concerningly, the outlook is slightly worse for lower-income families than higher-income families later this decade, reflecting the additional pressures they face, such as the continued freezing of Local Housing Allowance (LHA) which weighs on low-income private renters, and the benefit cap.

Action on both productivity growth and the cost of living is needed to boost living standards in the long run

Although weak growth in wages and other sources of income are the key drivers of stagnating living standards, a huge jump in the cost of living has compounded these pressures. The cost of energy remains nearly 60 per cent higher than it was before Russia's invasion of Ukraine, and food prices are almost 40 per cent higher now than in July 2021. This cost of living crisis has hit poorer families especially hard, since they spend a greater proportion of their income on staples like energy and food than richer families, and, in general, have lower levels of financial resilience. So it is right that the Government has started 2026 by focusing on the cost of living – which is highly salient to families across the country – and promising to improve living standards. We suggest action across three fronts.

First, boosting productivity growth is essential if we want to deliver strong and consistent real wage growth to drive higher living standards. Indeed, between 1994-95 and 2004-05, both productivity and pay were rising healthily: over this period, average incomes for lower-income households increased by an average of 4 per cent per year, with higher-income families also experiencing decent growth of 2.9 per cent per year. Since the productivity slowdown in the mid-2000s, working-age families have not experienced a similar period of sustained strong living standards growth.

But, as we showed in our Economy 2030 project, focusing on productivity growth alone is not enough to deliver sustained shared growth. Action to address unfairness in the tax and benefits system is also important; this year's strong income growth for poorer families demonstrates this. The Government must go further, by linking Local Housing Allowance for private renters to the actual rents faced. And ultimately, the only way to ensure that higher productivity growth feeds through to higher living standards for all families is to introduce a system of consistent and stable indexation of social security benefits, where both working-age benefits and the state pension are uprated in line with earnings.

Finally, there should be action to alleviate cost of living pressures directly. It is right that the Government has taken action on this front: for example, by making a significant dent in energy bills by removing some policy costs. But, as things stand, this help is temporary, with costs being added back to energy bills in 2029-30; the Government should instead make this a permanent change, while also building the data sharing infrastructure needed for a permanent and genuine social tariff. And it should seek to ease the burden of Council Tax through both reform of the tax and by restoring a system of consistently applied reliefs.

Taken together, progress across these three fronts would amount to a coherent strategy for improving living standards: prioritising stronger growth as the central objective, but complementing this with reforms to the tax and benefits system to ensure gains are shared across the income distribution, and by measures to ease cost of living pressures so that families feel improvements in the near term.

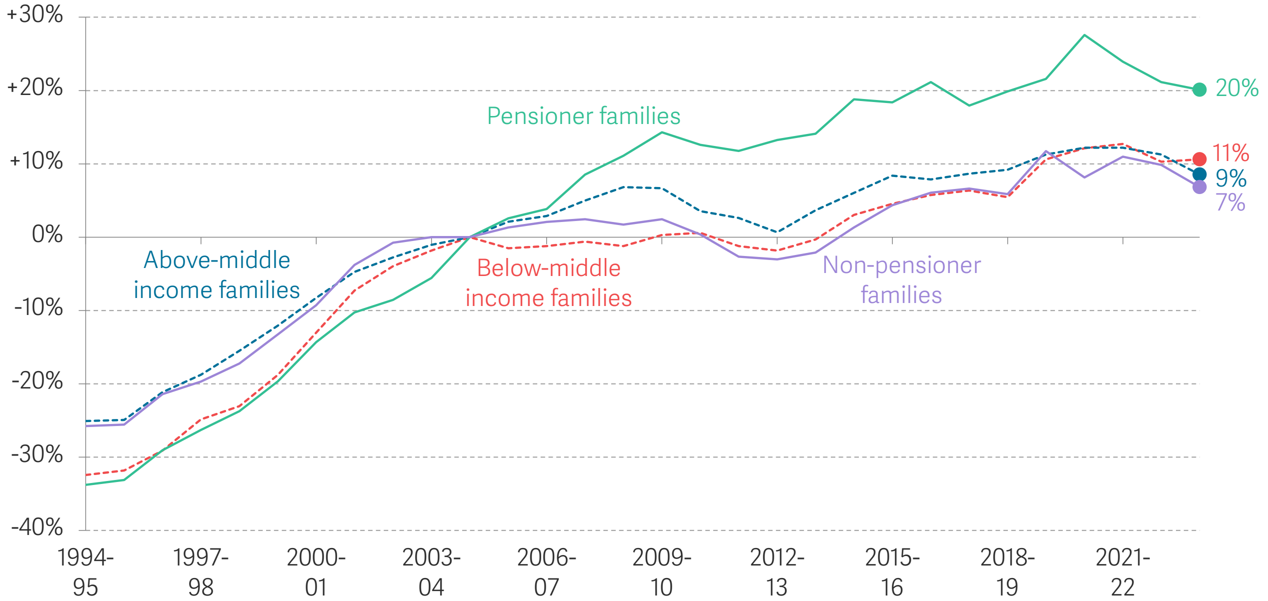
Unsung Britain has experienced slow income growth over the past two decades

The past two decades have been tough for non-pensioner families across Britain. As Figure 1 shows, income growth has been much weaker for non-pensioner families than those of pension age: pensioner families experienced real-terms income growth of 20 per cent between 2004-05 and 2023-24, but non-pensioner families experienced cumulative income growth of just 7 per cent.

This recent income stagnation has been experienced by low- and high-income non-pensioner families alike: over this time period, those with above-middle incomes experienced growth of just 9 per cent, while typical working-age families with below-middle incomes (a group we refer to as 'Unsung Britain', as defined in Box 1 below) experienced growth that was not much better, at 11 per cent.

FIGURE 1: **Non-pensioner families have experienced weak income growth over the past two decades**

Cumulative change in real median equivalised household disposable income, after housing costs, against 2004-05 baseline, by income group: GB/UK



NOTES: Data covers Great Britain only before 2002-03, and the whole UK thereafter. Last data point is for 2023-24. See Box 1 for our definition of above-middle and below-middle income families.
SOURCE: RF analysis of DWP, Households Below Average Income.

BOX 1: **Defining 'Unsung Britain'**

In this note, we refer to 'Unsung Britain', in line with a recent major project at the Resolution Foundation.[1] This is defined as those in working-age families whose disposable household income is below the median, where the median is measured across the whole population (including pensioners). Following the method of the official Households below average income (HBAI) publication, we weight each household by the number of people in it. We focus on disposable income –after deducting taxes and housing costs – and equivalise for household size and composition.[2]

In this note, we often refer to people in Unsung Britain as those with 'below-middle incomes', or those in 'lower-income families'.

But what also stands out from Figure 1 is that income growth for non-pensioner families since 2004-05 has been much weaker than in the period before. Between 1994-95 and 2004-05, there was widespread strong and sustained income growth. For families with above-middle incomes, cumulative income growth over this 10-year period stood at 33 per cent, while for those with below-middle incomes it stood at 48 per cent (income growth for pensioners was only slightly higher, at 51 per cent). When we zoom out further and look at the 40 years running up to 2004-05, those with below-middle incomes saw average annual growth of 1.8 per cent – far higher than the average annual growth of 0.5 per cent experienced over the past two decades.

Although this recent trend of income stagnation is one shared by high- and low-income families, the wider experiences of these two groups is far from equal. Families in the lower half of the income distribution have been working harder over the last few decades: all of the growth in employment seen in the UK over the past thirty years can be attributed to workers in lower-income families.[3] But despite this greater contribution to the economy, lower-income families have not reaped the rewards though markedly stronger living standards growth. It is no wonder, then, that many lower-income families in Britain feel hard done by.

1 For more information on the overall project, see: www.resolutionfoundation.org/major-programme/unsung-britain, accessed 6 February 2026. See also the final report: Resolution Foundation, Unsung Britain: A portrait of the country's poorer half, February 2026, https://doi.org/10.63492/ndtl708.

2 For a more detailed explanation, see page 3 in: Resolution Foundation, Unsung Britain: A portrait of the country's poorer half, February 2026, https://doi.org/10.63492/ndtl708.

3 This trend, of harder work over the past few decades by those in below-middle income families, is explored in detail in Chapter Three of: Unsung Britain: A portrait of the country's poorer half, Resolution Foundation, February 2026, https://doi.org/10.63492/ndtl708.

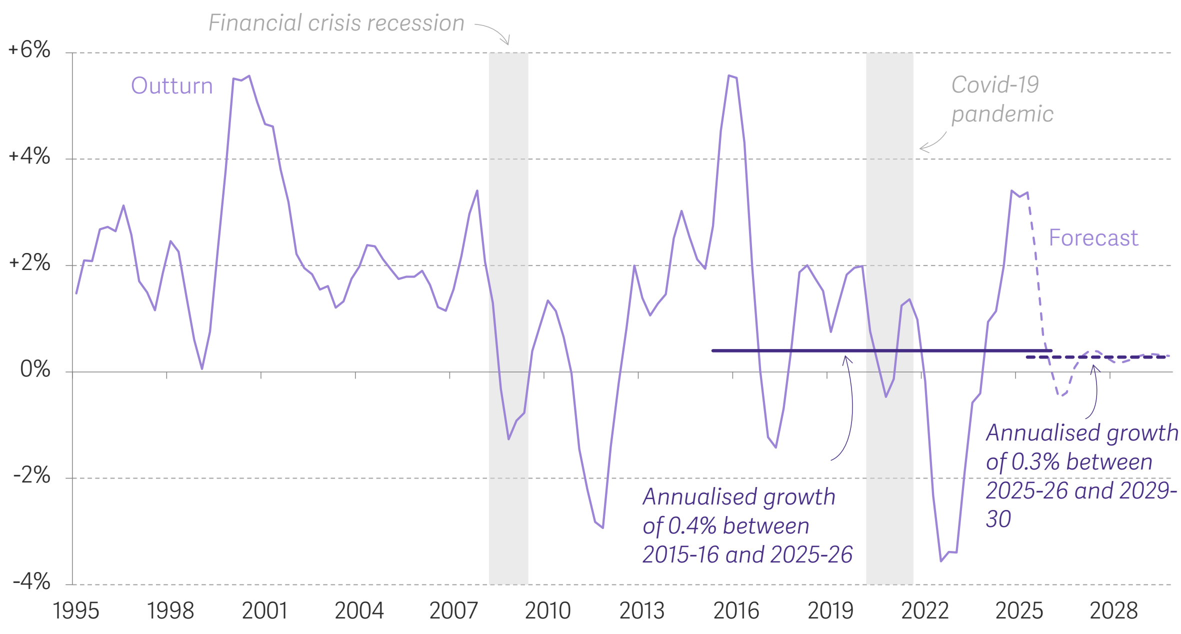
The Office for Budget Responsibility's outlook for the rest of the decade is gloomy

With income growth having been weak for much of the past two decades, the key issue for families across Britain is whether the outlook will improve in the years to come.

Unfortunately, and as illustrated in Figure 2, the Office for Budget Responsibility's (OBR's) outlook for the rest of the decade provides little scope for optimism. It forecasts that Real Household Disposable Income per person (RHDI) will grow by a cumulative 1.1 per cent between 2025-26 and 2029-30, equivalent to growth of just 0.3 per cent a year, on average. This is actually worse than the living standards growth experienced over the past decade: on this measure, incomes grew by 4.1 per cent between 2015-16 and 2025-26, or 0.4 per cent per year on average (in Box 2, we discuss the differences between RHDI and the measure of living standards shown in Figure 1).

FIGURE 2: **The OBR has a pessimistic outlook for living standards over the rest of this decade**

Annual change in real household disposable income (RHDI) per person, outturn and forecast: UK



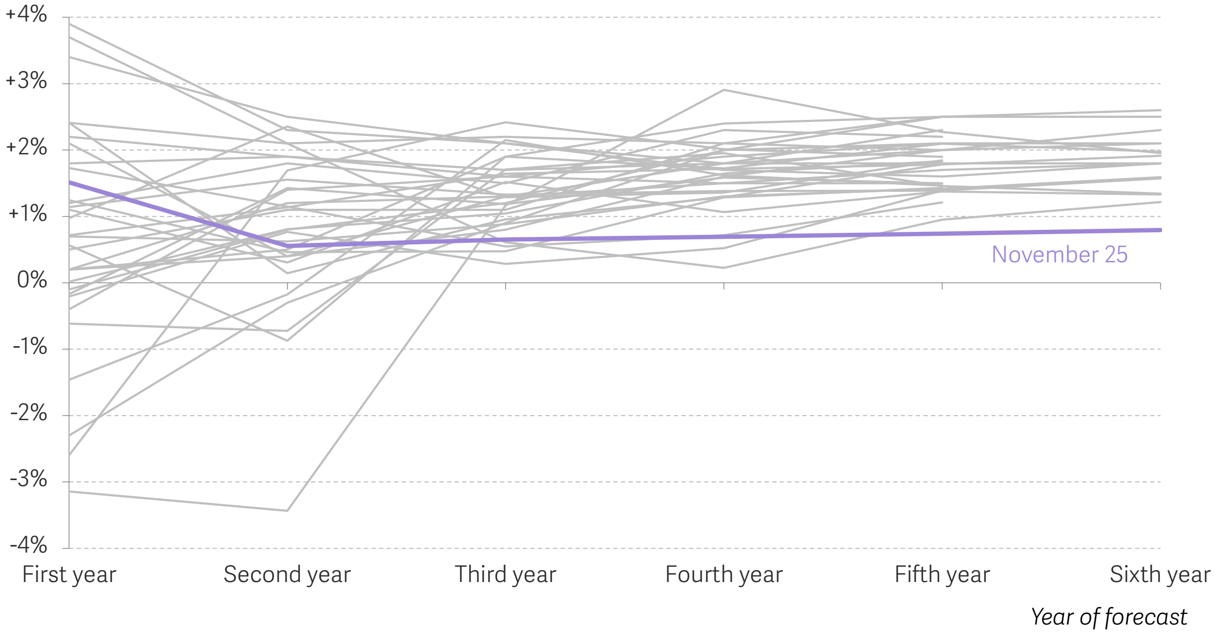
SOURCE: RF analysis of ONS, UK Economic Accounts (series CRXX); OBR, Economic and Fiscal Outlook, November 2025.

But comparing forecast RHDI growth to the actual performance over the past ten years could unfairly flatter the rest of the 2020s, given that the past decade contained unprecedented economic shocks in the form of the Covid-19 pandemic and cost of living crisis. To get a clearer view of how poor the OBR's forecast is for the rest of the Parliament,

Figure 3 compares it to past forecasts (rather than outturns).[4] Here, we can see that the latest near-term forecast is not that bad, historically, but it is more informative to look at the back half of the forecast window. Here, we can see that the OBR has consistently expected annual RHDI growth to stand at around 1 or 2 per cent at the end of its forecast period. But in the most recent forecast from November 2025, RHDI growth for the final year of the forecast – when the OBR is not expecting any economic shocks – is forecasted to be just 0.8 per cent a year. This is worse than in any OBR forecast since 2010.

FIGURE 3: **The OBR's forecast for sustained poor growth in living standards later this decade is worse than usual**

Annual change in Real Household Disposable Income per household in various OBR forecasts



NOTES: The first year of the forecast is the year of publication, i.e. the first year of the forecast is 2025 for the forecast included in the November 2025 publication. We show all forecasts included in the OBR's historical database and their latest Economic and Fiscal Outlook, ranging from July 2010 to November 2025.
SOURCE: RF analysis of OBR, Historical Official Forecasts Database; OBR, Economic and Fiscal Outlook, November 2025.

Altogether, then, the OBR's assessment of living standards is not an optimistic one. This partly reflects its economic assumptions, such as slowing real wage growth and rising taxes later this decade.[5] But some of the short-term weakness in the OBR's RHDI forecast could also be artificial. The OBR use National Accounts (NA) data for its outturn, but its forecast for taxes and benefits is based on Public Sector Finance (PSF) data. At the time of the November 2025 forecast, NA data was stronger than PSF data, so it is plausible that they added some artificial weakness into the forecast to reconcile the two datasets.

4 Figure 3 shows forecasts for Real Household Disposable Income per household rather than RHDI per person, since this is the measure included in the OBR's database of historical forecasts.
5 See paragraph 2.44 in: OBR, Economic and Fiscal Outlook, November 2025.

In the rest of this note, we present our own forecast of living standards. It is important to note that we focus on a conceptually different measure of household income from RHDI: our work tries to forecast the distribution of household disposable income, producing estimates that are consistent with the DWP's Households Below Average Income data series; the differences between this and RHDI are discussed in Box 2. In preparing our forecast, we take the latest outturn data (for 2023-24) and cast this data forward to future years using microsimulation modelling based on current government policy and economic assumptions (see Annex 1 for more detail). We focus primarily on the incomes of non-pensioner families.

BOX 2: **Comparing the OBR's living standards projections to our living standards outlook**

The measures of living standards shown in Figure 2 and Figure 3, RHDI, is produced by the ONS and then forecast by the OBR as part of its fiscal forecasts. It is a measure of living standards based on National Accounts data; importantly, it produces a total figure for the whole economy, which can then be turned into a per household or per person figure.[6]

On the other hand, the measure of living standards that we forecast is a household-level measure consistent with that reported in DWP's Households Below Average Income (HBAI) publications – based on survey data of individual households' incomes (and, in some cases, spending patterns).

There are several differences between RHDI and HBAI as measures of living standards.

- The two measures define 'income' in slightly different ways, with the RHDI measure including some elements of income that are not included in HBAI, such as imputed housing costs.[7] And these differences mean that it is appropriate to use different deflators when creating a real-terms series: RHDI uses the Consumer Expenditure Deflator (CED), while HBAI uses the Consumer Prices Index (CPI).[8]
- They have different approaches to thinking about economies of scale within households: RHDI is reported on a per person (or per household) basis, but the HBAI measure can be adjusted to show each household's

6 For a detailed definition of the OBR's RHDI measure, see: obr.uk/forecasts-in-depth/the-economy-forecast/income/#disposable, accessed 6 February 2026. For another discussion of the differences between RHDI and HBAI-based income projections, see Box 1 in: A Corlett, The Living Standards Outlook 2025, Resolution Foundation, June 2025, https://doi.org/10.63492/.
7 See, for example, Box 1 in: L Judge & C McCurdy, Income outcomes: Assessing income gaps between places across the UK, Resolution Foundation, June 2022.
8 See Box 1 in: A Corlett, The Living Standards Outlook 2025, Resolution Foundation, June 2025, https://doi.org/10.63492.

income based on their exact composition, producing a concept known as 'equivalised household income'.

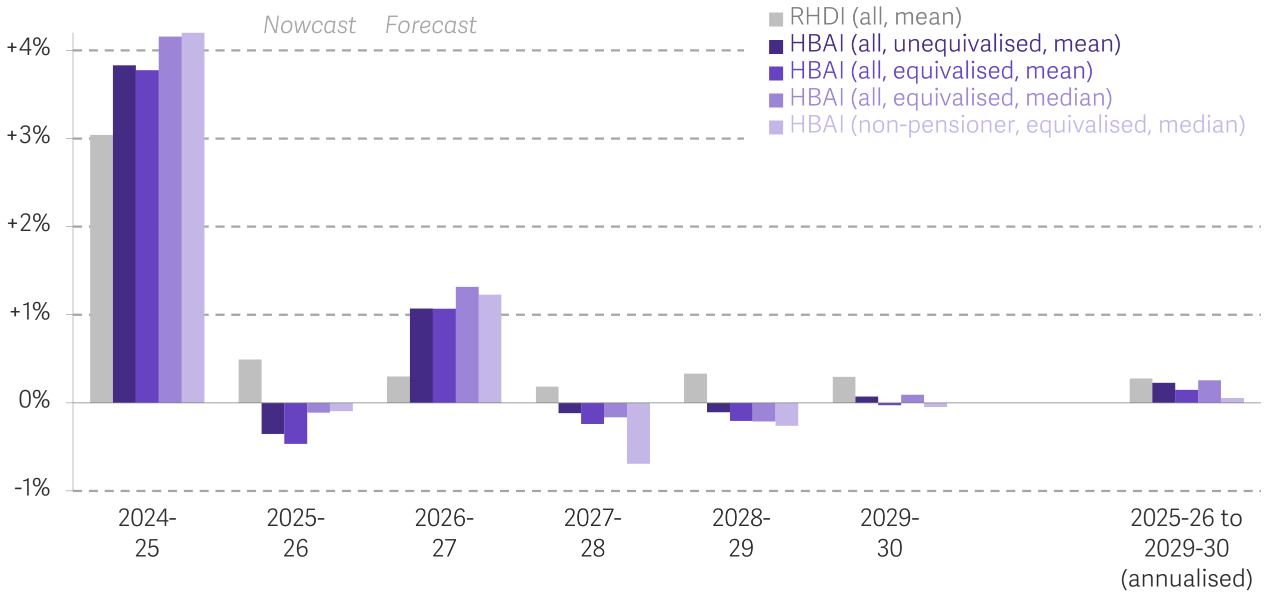
- Because HBAI is based on a large survey of households, it produces an estimate of the whole distribution of income; by contrast, RHDI is an economy-wide concept, although this can be turned into the mean average per person or household. However, because the mean income can be heavily influenced by the top and bottom of the income distribution, where survey errors are likely to be greatest, we prefer to use median income as our core statistic.
- The HBAI series estimates household incomes across the whole population, but in this note we focus on incomes of non-pensioner families; RHDI is reported for all people.

Figure 4 compares several of our nowcasts and forecasts, which are all consistent with the HBAI concept of income, to outturns and forecasts for RHDI. Because our preferred HBAI measure differs in several ways from RHDI, we also show variants of the HBAI measure that are conceptually closer to the concept of income measured by RHDI per person.

However, the Figure shows that small differences still exist. In particular, the RHDI forecast for 2026-27 is much weaker than our HBAI-based projection; on the other hand, RHDI growth is slightly stronger than our HBAI-based projection later in the decade. But the big picture is similar across our central model outputs and the OBR's projections: living standards are set to barely grow between now and the end of the decade.

FIGURE 4: **Across the rest of the decade, our forecast for growth in living standards is comparable to that produced by the OBR**

Projected real household income growth per year, under various measures: UK



NOTES: HBAI-based measures of income are projected into the future using the IPPR Tax Benefit Model.
SOURCE: RF analysis and projections of DWP, Households Below Average Income; OBR, Economic and Fiscal Outlook, November 2025.

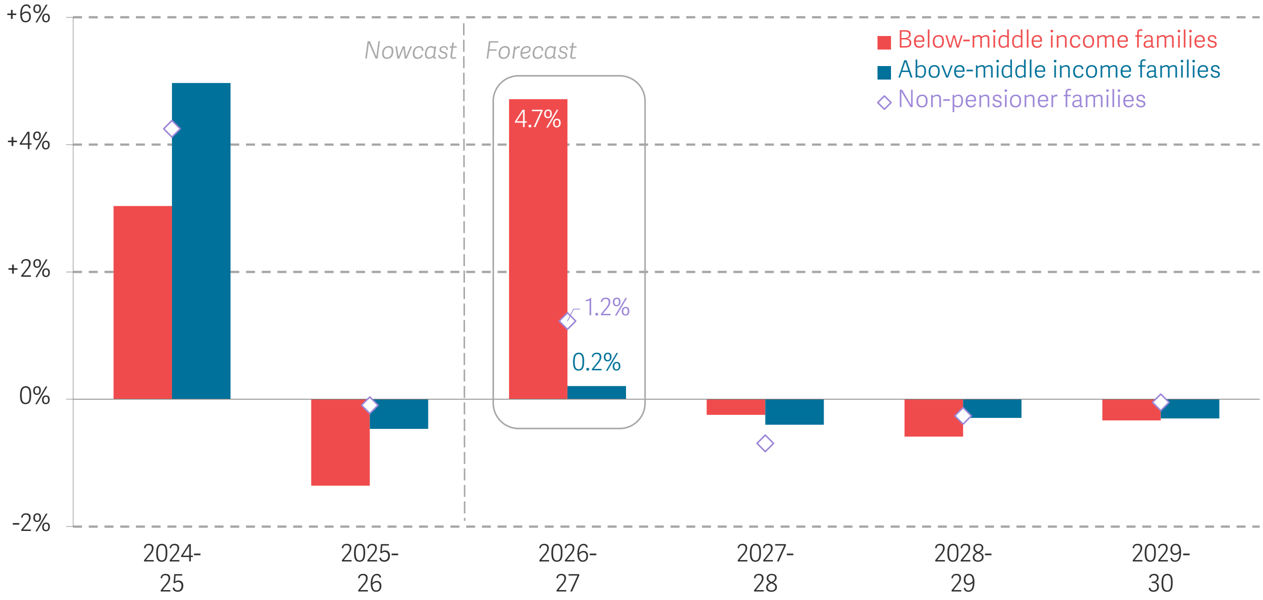
There is some good news for families in the poorer half of Britain, with strong income growth expected in the next financial year

Although the outlook for the decade is not an encouraging one, our own forecast suggests that there is good news for families in the short term, especially for families with below-middle incomes. Over the coming year (i.e. between 2025-26 and 2026-27), typical incomes among non-pensioners are set to grow by 1.2 per cent (see Figure 5), but those in lower-income families are forecast to see typical incomes rise by 4.7 per cent.

But it is important to remember the context: if we look at the cumulative change in incomes between 2023-24 and 2026-27, then lower-income families have fared only slightly better than higher-income ones: typical income growth for families with below-middle incomes is expected to be 6.4 per cent over this period, compared to growth of 4.7 per cent for families with above-middle incomes.

FIGURE 5: **Lower-income families are set to benefit from strong income growth over the coming year**

Annual real growth in median equivalised household disposable income after housing costs for non-pensioners, by income group: UK

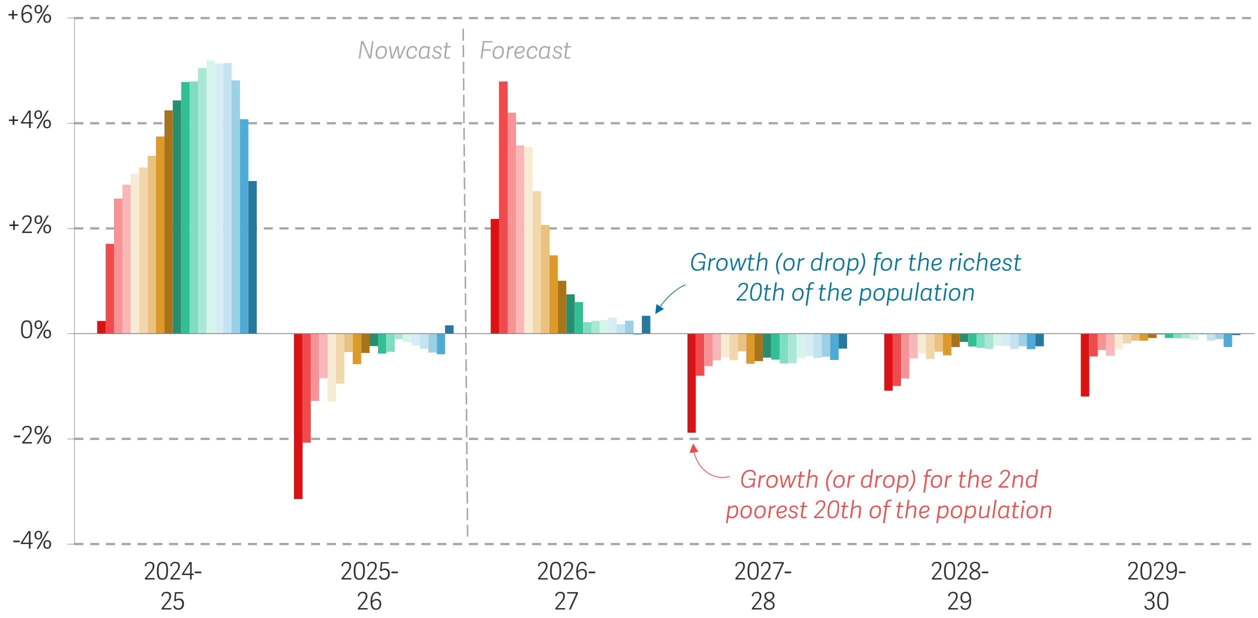


NOTES: See Box 1 for our definition of below-middle and above-middle income families.
SOURCE: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; OBR, Economic and Fiscal Outlook, November 2025.

We can break this down even further and show our projection for those across the income distribution: Figure 6 shows our projected income growth for those with the lowest household incomes (in shades of red) to those with the highest household incomes (shown in shades of blue). This makes clear that our forecast for income growth in 2026-27 is also notable for being the only one in the whole 2024-25 to 2029-30 period that is set to be progressive, or inequality-reducing.

FIGURE 6: **The income growth coming this year is set to be progressive – the opposite of the last two years and of later this decade**

Annual real growth in median 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.
SOURCE: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; OBR, Economic and Fiscal Outlook, November 2025.

The progressive (i.e. skewed to lower-income families) nature of the income growth expected in the coming year is welcome, not least because it is the exact opposite of the income changes last year. Over that period, families across the income distribution saw real-terms declines, but these were greatest for lower-income families. The patterns expected in 2026-27 also contrast with those in 2024-25, which was a year of strong income growth but one which benefitted higher-income families more so than lower-income ones. This is because growth was driven by the tax cuts announced by Jeremy Hunt that benefited richer households more than poorer ones.[9]

The strong income growth for lower-income households is driven by social security benefits, reflecting both deliberate policy change and an automatic catch-up effect from past high inflation

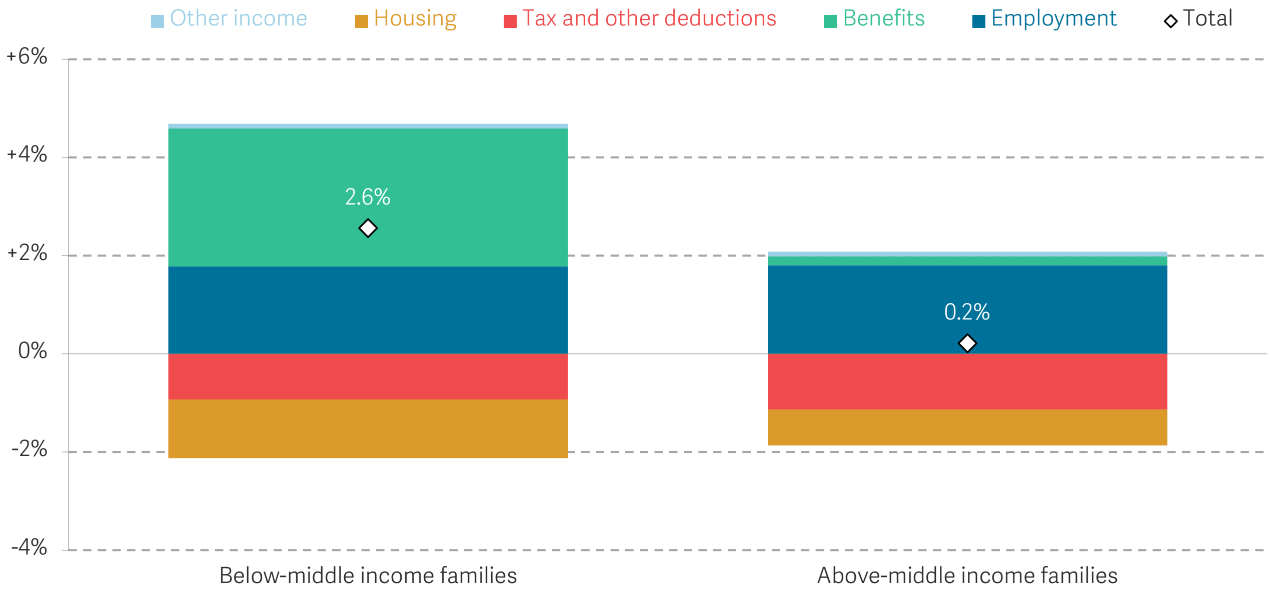
Figure 7 shows which components of income are behind the forecast rise in incomes in 2026-27. For families with below-middle incomes, income from social security benefits is set to provide the largest contribution, accounting for three-fifths of the positive income growth between 2025-26 and 2026-27 (the other two-fifths relates to rising income from employment). Income from benefits also almost entirely explains the difference in

9 For further discussion of the drivers of income growth in 2024-25, see: A Clegg & A Corlett, The Living Standards Outlook 2024, Resolution Foundation, August 2024, https://doi.org/10.63492/eki5634; A Corlett, The Living Standards Outlook 2025, Resolution Foundation, June 2025, https://doi.org/10.63492.

income growth between below- and above-middle income families, with growth in other sources of income due to be very similar (although note that housing costs are set to grow by more for lower-income households than better-off households).

FIGURE 7: **Increased income from benefits almost entirely explains the different growth rates for income among lower-income and higher-income families**

Projected change in various components of income and mean equivalised disposable household income, for non-pensioner families, by income group: UK



SOURCE: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; OBR, Economic and Fiscal Outlook, November 2025.

The growth in income from social security benefits over the coming year derives from two changes coming into effect this April.

First, the two-child limit will be abolished, boosting income for many families with three or more children receiving Universal Credit (UC). This is a significant and overdue change: it will cost the Government £2.4 billion in 2026-27, rising to £3.1 billion by 2029-30.[10] The reform will benefit 510,000 families in 2026-27, with the average gain per benefiting family standing at £4,560 per year.[11]

Second, the standard allowance in UC will be uprated by 6.2 per cent, considerably above the expected rate of inflation of 2.4 per cent. As shown in Figure 8, this has two causes.

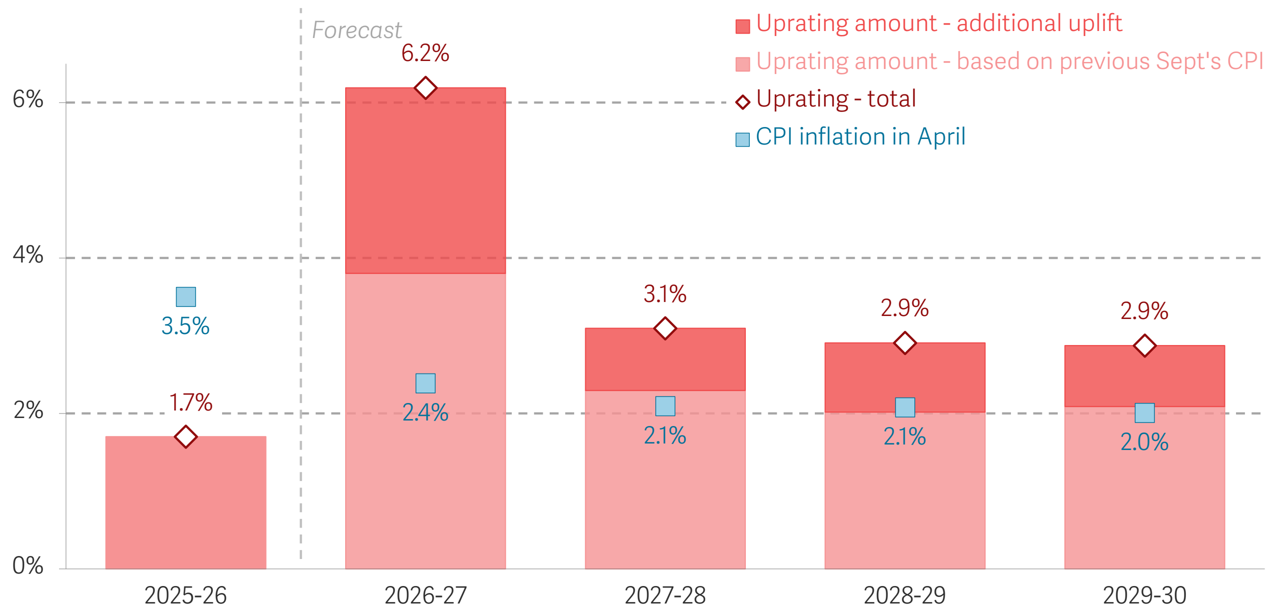
- The UK's usual approach to benefit uprating is to increase benefits in April based on

10 See Table 4.1 in: HM Treasury, Budget 2025: Strong Foundations, Strong Future, November 2025.
11 UK Parliament, Final stage impact assessment: Universal Credit (removal of two child limit) bill, January 2026. Figures are for Great Britain.

the inflation rate from the previous September. In the medium term, this ensures that the real value of benefits remains unchanged, but in the short term it leads to temporary fluctuations in the real value of benefits when the rate of inflation is rising or falling. This is exactly what has happened over the past two years: in late 2024 and early 2025, inflation was increasing (in other words: it wasn't just that prices were increasing, but the rate of the price increases was increasing), and so the rise in working-age benefits in April 2025 of 1.7 per cent, based on the inflation rate in September 2024, was less than half the actual rate of inflation at that point (3.5 per cent). But the rate of inflation has fallen back during 2025 and early 2026, so the expected rate of inflation in April 2026 is set to be just 2.4 per cent, less than the rate last September of 3.8 per cent. Crucially, though, these two impacts broadly offset each other, meaning that some of April 2026's above-inflation rise is needed to remove the fall in the real value of benefits that happened in 2025-26.

FIGURE 8: **Universal Credit will increase by well above the expected rate of inflation in April, reflecting falling CPI as well as policy change**

Universal Credit uprating and CPI inflation, outturn and forecast: UK



SOURCE: RF analysis of UK Parliament, Universal Credit Act 2025; ONS, Consumer Price Inflation; OBR, Economic and Fiscal Outlook, November 2025.

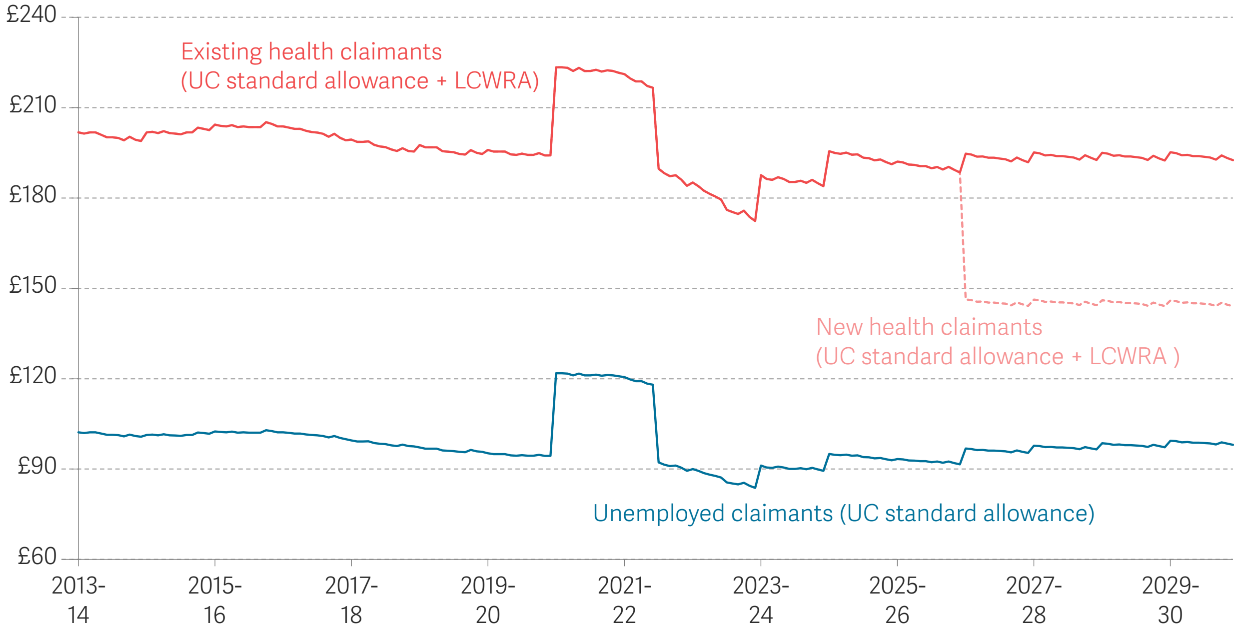
- Last year, the Government announced a plan to rebalance entitlements in UC away from those who are out of work due to ill-health (who receive the more-generous health element of UC as well as the standard allowance) and towards those who are out of work for other reasons (who receive only the standard rate of UC).[12] It is

12 See: F Hobson et al., Research Briefing: Changes to Universal Credit rates from April 2026, House of Commons Library, October 2025.

doing this by increasing the standard allowance of UC by £6 a week above inflation, phased over this Parliament, and by cutting back substantially on the health element of Universal Credit for new claimants. This change will improve an aspect of the benefits system which distorts incentives; before the reform, someone out of work due to ill health could receive more than twice as much support from Universal Credit than someone who was unemployed.[13] As Figure 9 shows, the gap between the amount of UC received by new unemployed claimants relative to those with health conditions will be almost half what it is today by the end of the decade (falling from £99 per week this year to £47 per week in 2029-30, in today's prices). But because this cut only applies to new claimants of the health element, the savings will accrue gradually over time, meaning that in the short run the savings are offset by the cost of increasing the standard allowance. In 2026-27, the Government expects these measures to have a net cost of £330 million per year, though by 2029-30 it expects a slight saving of £210 million per year.[14]

FIGURE 9: **The Government is reducing the gap between health- and unemployment-related benefits**

Real weekly value of Universal Credit standard allowance and Universal Credit LCWRA element for a single person over 25: UK



NOTES: Figure is in December 2025 prices, deflated by CPI. New claimants of LCWRA will receive a lower rate from April 2026.
SOURCE: RF analysis of DWP, Abstract of Benefit Statistics; OBR, Economic and Fiscal Outlook March 2025; ONS, Consumer price inflation, UK.

13 The original proposal was also to freeze the real value of the health element of Universal Credit for existing claimants, but this aspect of the reform was softened while the Bill was going through parliament. Now, existing claimants will see their combined payment of the UC standard allowance and health element rise at least in line with inflation (the only remaining 'cut' is that they will not benefit from the above-inflation uprating to the standard allowance).

14 UK Parliament, The Universal Credit Bill Impact Assessment, July 2025.

Overall, then, of the total UC standard allowance rise of 6.2 per cent, 2.4 per cent can be thought of as just matching this April's inflation rate, an additional 1.4 per cent is needed to undo the accidental decline in the real value last year due to rising inflation during late 2024 and early 2025, and 2.4 per cent represents the first steps in the rebalancing of UC, which in the end will benefit those on the basic rate at the expense of those on health related benefits. All told, though, it represents the largest real-terms increase in the UC standard allowance outside of the £20 a week emergency uplift during the Covid-19 pandemic.

The living standards outlook for the end of this decade is poor, reflecting the OBR's expectation of weak growth in real wages

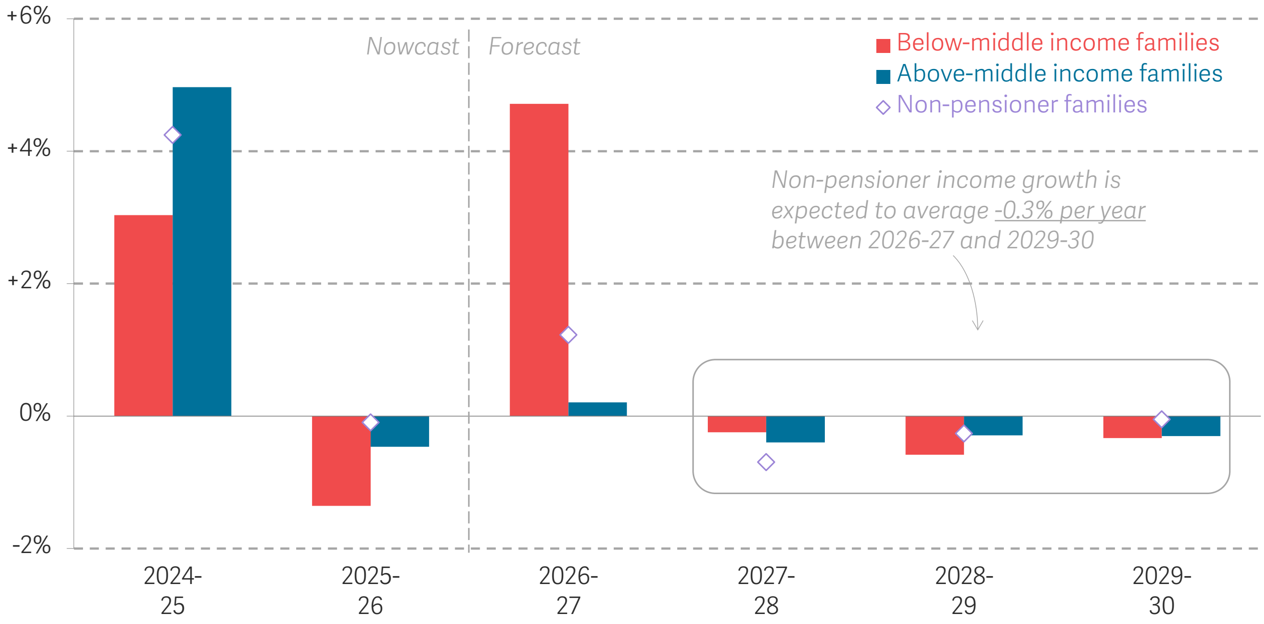
Non-pensioner families will benefit from a sizeable income boost over the coming year: this is undeniably good news. But without further policy action – or a more positive economic outlook – the picture for later this decade is much less cheery.

As Figure 10 shows, for both those in low- and high-income families, we expect typical incomes to fall slightly in real terms between 2026-27 and 2029-30. On an annualised basis, we expect typical non-pensioner incomes to fall by an average of 0.3 per cent per year between 2026-27 and 2029-30.[15] This stagnation later in the decade undoes much of the good news coming over the next year for lower-income families: when we look across the four-year period between 2025-26 and 2029-30, income growth for families in Unsung Britain will average just 0.9 per cent a year on average.

15 We note a perhaps surprising feature of Figure 10, which suggests that, in 2027-28, the median income change for non-pensioner families as a whole will be smaller than the median income changes for families with above- and below-middle incomes. This is not a mistake; it reflects that our forecast is predicting especially weak changes in income at the middle of the distribution compared to both the middle-bottom and middle-top. Had we been using mean averages, this apparent anomaly would not have been possible.

FIGURE 10: **Typical non-pensioner incomes are set to fall later in the decade**

Annual real growth in median equivalised household disposable income after housing costs for non-pensioners, by income group: UK

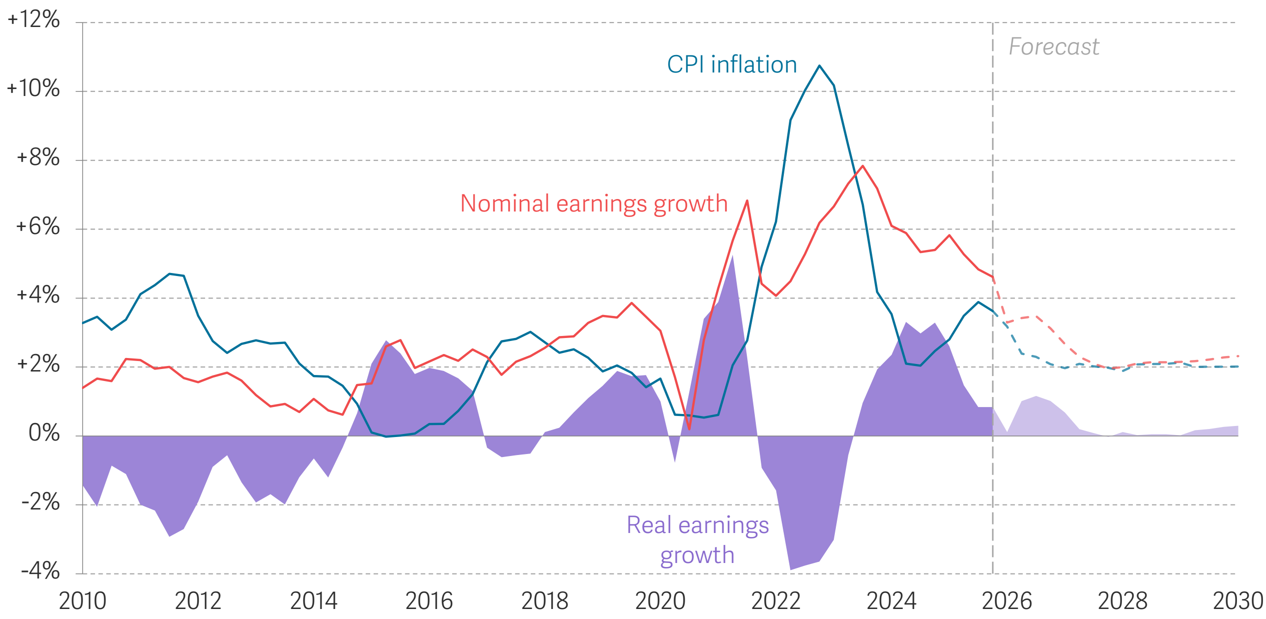


NOTES: See Box 1 for our definition of below-middle and above-middle income families.
SOURCE: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; OBR, Economic and Fiscal Outlook, November 2025.

The main cause of the weakness at the end of the decade is the OBR's forecast of very low real wage growth: it expects real wages to grow by just 0.3 per cent per year on average between 2025-26 to 2029-30 (see Figure 11), something that would, if realised, stunt income growth across the distribution. Indeed, if we look at the period between 2026-27 and 2029-30, real wage growth is expected to be even weaker, at just 0.1 per cent per year on average. Amid this backdrop, it is no wonder that disposable incomes are set to fall, given that higher housing costs and tax policy (notably, frozen income tax thresholds and expected above-inflation rises to Council Tax) are pushing down on disposable incomes.

FIGURE 11: **The OBR expects almost no real wage growth from 2027 onwards**

Annual growth in earnings (real and nominal) and CPI inflation, outturn and forecast: UK



SOURCE: RF analysis of ONS, Labour market statistics; OBR, Economic and Fiscal Outlook, November 2025.

Our usual approach in making these forecasts is to follow the assumptions used by the OBR, as doing so ensures consistency with modelling that goes on within government. But given how important the assumption of future wage growth is for our living standards outlook, Box 2 examines what sits behind it, and how this compares to the earnings expectation from other forecasters.

BOX 3: **The OBR's expectation for real wage growth is much weaker than the Bank of England's**

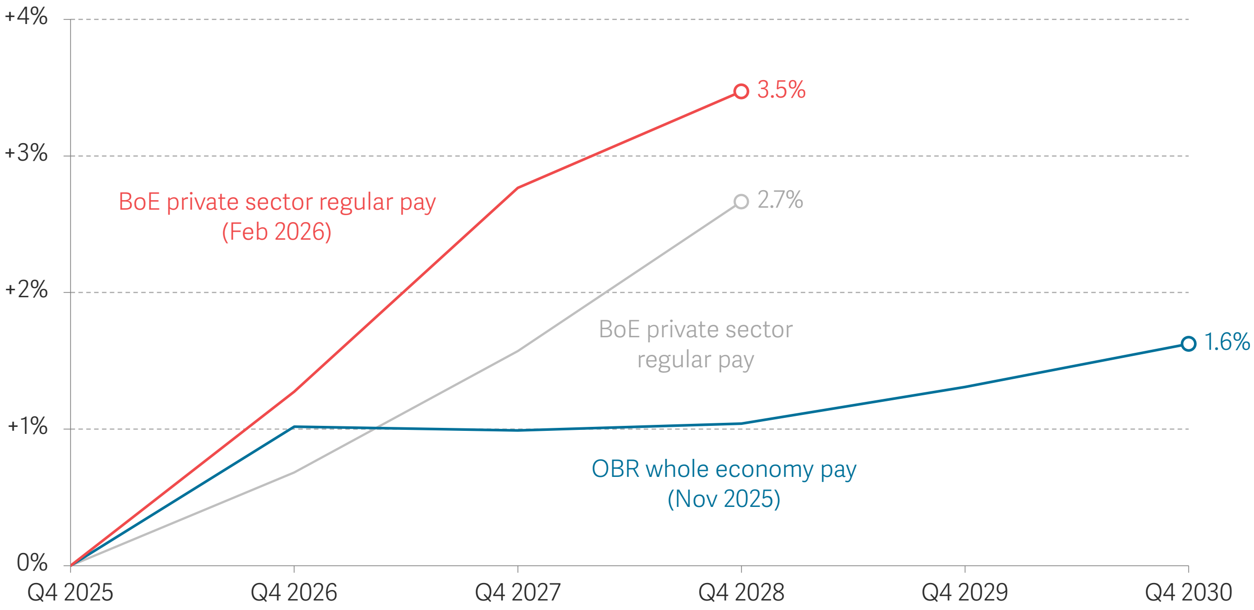
It has long been the case that the OBR's pay outlook has been more pessimistic than other independent forecasters.[16] This is still the case: even though the OBR revised up its near-term average earnings growth projection in its latest forecast, its longer-term outlook for the end of this decade was actually revised down, meaning that real wage growth is barely positive by 2029-30.[17] The Bank of England has a much more optimistic outlook (from the point of view of workers, at least). As Figure 12 shows, the Bank projects more than twice as much real pay growth in the next three years (3.5 per cent) as the OBR does over the next five (1.6 per cent). [18] If the Bank is right, then there is a much

16 See: A Corlett, The Living Standards Outlook 2025, Resolution Foundation, June 2025, https://doi.org/10.63492/mpb395
17 OBR, Economic and fiscal outlook – November 2025, November 2025.
18 Bank of England, Monetary Policy Report - February 2026, February 2026.

brighter outlook for living standards later this decade.

FIGURE 12: **The Bank of England has a much more optimistic outlook for real wages than the OBR**

Forecasts for cumulative growth in real average weekly earnings from Q4 2025: UK



NOTES: To produce forecasts of real pay, we deflate each institution's forecast for nominal pay by their own forecast for CPI.
SOURCE: RF analysis of Bank of England, Monetary Policy Report, November 2025 & February 2026; OBR, Economic and Fiscal Outlook, November 2025.

As a result of targeted policy action, families with children in Unsung Britain will benefit from long overdue income growth this year

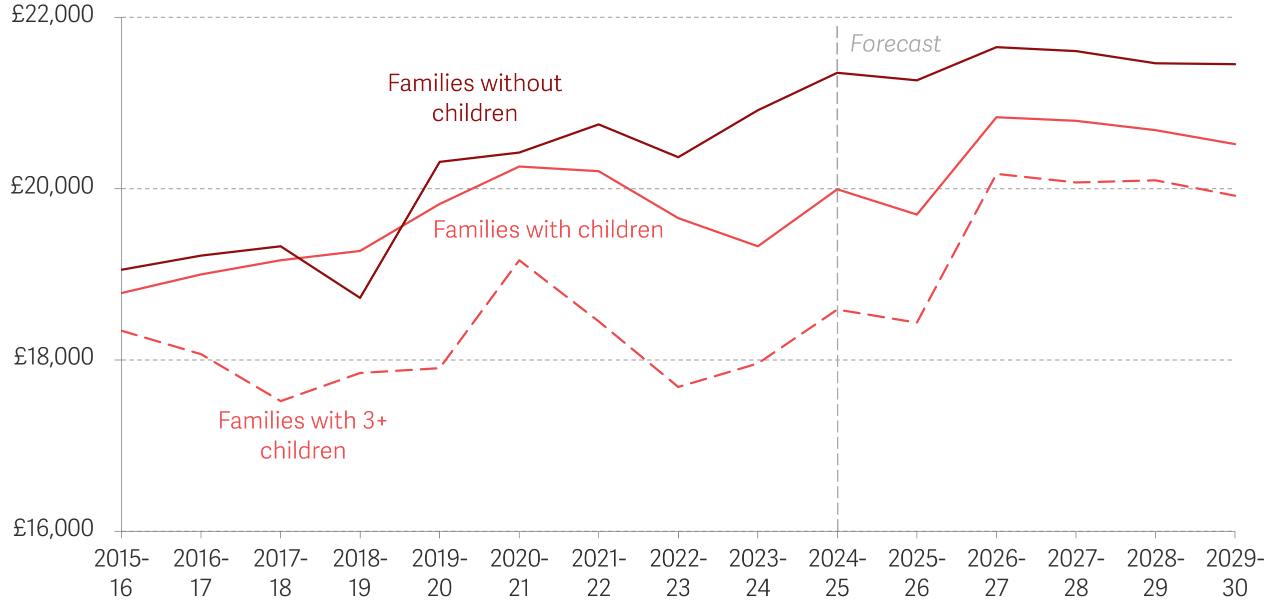
Having examined the living standards outlook across the income distribution and over the decade ahead, we now consider how the living standards outlook varies across different families within Unsung Britain.

First, we consider the outlook for lower-income families with and without children. Figure 13 shows that income growth in 2026-27 is forecast to be much stronger for a typical lower-income family with children than for those without, at 5.8 per cent and 1.8 per cent respectively. This reflects both the fact that families with children are more likely than those without to be in receipt of Universal Credit (and thus benefit from this April's above-inflation uprating), and that the ending of the two-child limit benefits only families with children. To isolate the impact of ending the two-child limit, we also show the forecast change in typical incomes of lower-income families with three or more children: this is set to rise by 9.4 per cent between 2025-26 and 2026-27. But what is also clear from

Figure 13 is that larger families are starting from a low base – their typical (equivalised) incomes are currently well below those of other lower-income families, and this will still be true later in the decade even when the two-child limit has been removed. So, although ending the two-child limit will give these families a welcome income boost, we should not forget that many families with three or more children will still be living on very low incomes.

FIGURE 13: **Lower-income families with children are due to see especially strong income growth over the coming year**

Real median equivalised household disposable incomes among those in below-middle income families, by family type: UK

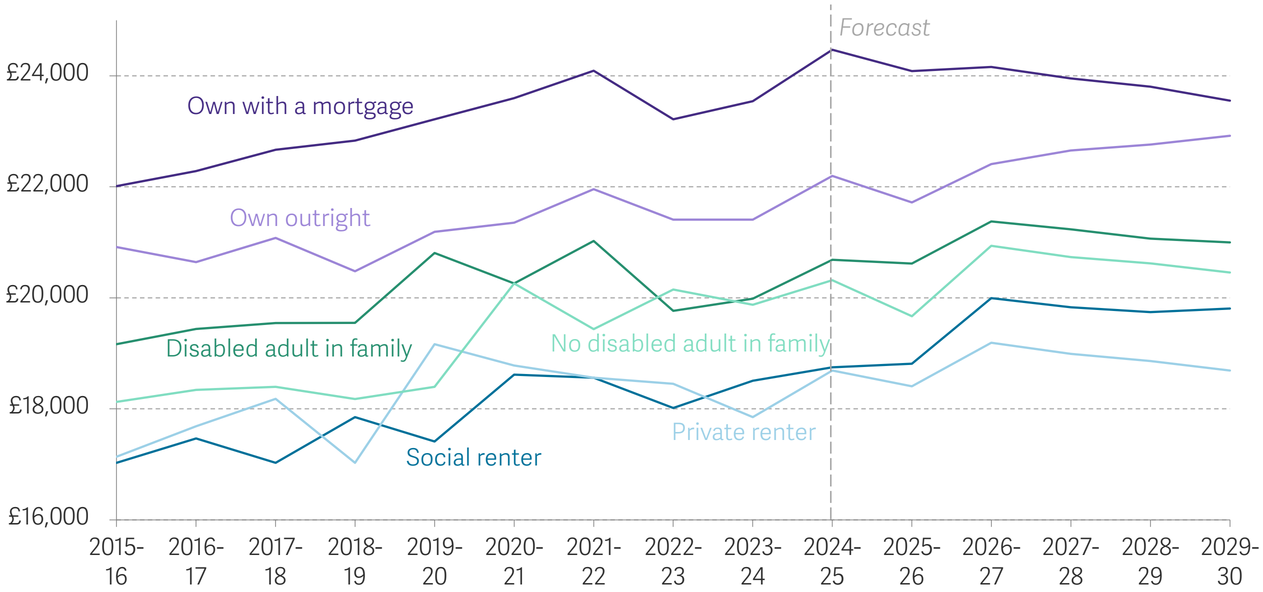


NOTES: Shown in 2025-26 prices, deflated using our after housing costs deflator, based on CPI. See Box 1 for our definition of below-middle and above-middle income families.
SOURCE: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; OBR, Economic and Fiscal Outlook, November 2025.

It is right that this Government acted to boost the incomes of low-income families with children through this year's benefit changes. But there are other groups within Unsung Britain who have had a tough experience in recent years: notably, families living in the private rented sector, and families with disabled members. In Figure 14, we look at these characteristics – housing tenure and disability status – and show how incomes are set to change over time for various types of lower-income families.

FIGURE 14: **Lower-income families in the private rented sector have low and falling incomes**

Real median equivalised household disposable incomes among those in below-middle income families, by selected demographics: UK



NOTES: Shown in 2025-26 prices, deflated using our after housing costs deflator, based on CPI. See Box 1 for our definition of below-middle and above-middle income families.
SOURCE: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; OBR, Economic and Fiscal Outlook, November 2025.

A few things stand out. First, it is clear that, even when we condition on being in the poorer half of the country, the typical lower-income family in the private rented sector has a much lower disposable income than the typical family who owns their home; this difference in income levels is why the societal swing away from homeownership towards private renting over the past few decades is pushing down on the incomes of those in Unsung Britain.[19] Over the rest of the decade, the income of a typical poorer family who owns their home outright is set to grow, while a typical lower-income private renter and mortgagor face falling incomes later this decade as rising rents and mortgages bite. And it is private renters who are arguably in the most unfavourable position, given that their incomes are both low relative to other families in Unsung Britain, and set to fall later in the decade.

Second, although the rising prevalence of disability has had a major impact on the lives of families in Unsung Britain over the past few decades, the living standards outlook for lower-income families that do and do not include a disabled adult look broadly similar over the rest of the decade. Both see typical incomes rise over the coming year, before gradually falling between 2026-27 and 2029-30. Of course, the outlook for lower-income

19 For example, see Figure 1.4 in: Resolution Foundation, Unsung Britain: A portrait of the country's poorer half, February 2026, https://doi.org/10.63492/ndtl708.

families with disabled adults would have been worse had the Government not reversed its decision to substantially cut disability benefits.

Zooming in on different family types within Unsung Britain allows us to better understand the various drivers of living standards growth. The strong income growth that lower-income families with children are set to benefit from this year is testament to the Government's Child Poverty Strategy (discussed in more detail in the following section); the benefit changes coming this April will help deliver some well-needed income growth to a group with especially low incomes. But the poor outlook later in the decade for private renters makes it clear that there is more work to do to improve the living standards of other groups within Unsung Britain who have had a raw deal in recent years.

Child poverty is set to fall this year

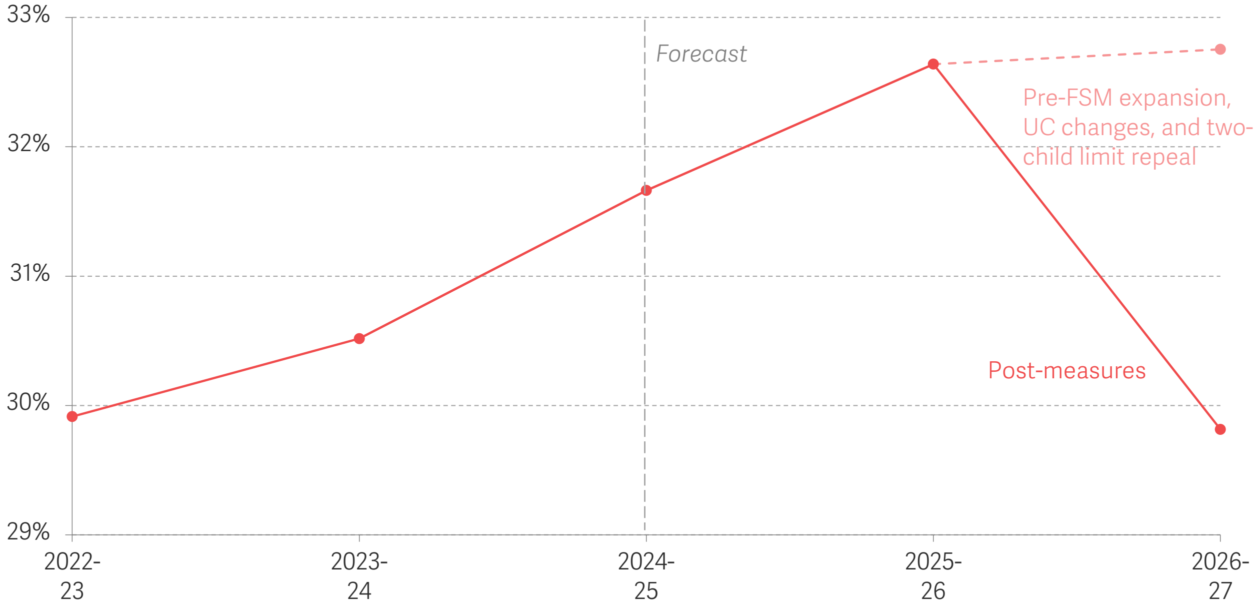
As discussed in the previous section, one group of lower-income families who are set to do particularly well over the coming year are those with children. This largely reflects the policy announcements that stemmed from the Government's Child Poverty Strategy.[20] The headline policy measure was, of course, the repeal of the two-child limit from April 2026, with the other major poverty-reducing policy being the expansion of Free School Meals eligibility to all families receiving UC in England, announced as part of the Spending Review last summer. And, as mentioned earlier in this note (and separately from the Child Poverty Strategy), the Government has committed to increase the Universal Credit standard allowance for families with and without children faster than inflation over the rest of this Parliament.

As Figure 15 shows, the timing of this policy action means child poverty is set to fall sharply in 2026-27 when the two-child limit repeal is enacted. Between 2025-26 and 2026-27, the child poverty rate will fall from 33 per cent to 30 per cent, and the number of children in poverty will fall by 420,000.[21]

20 Department for Work and Pensions and Cabinet Office, Child Poverty Strategy, 5 December 2025.
21 Figure 15 shows our own assessment of the impact; DWP's poverty projections published in February 2026 also project a fall in child poverty from 33 per cent in 2025-26 to 30 per cent in 2026-27.

FIGURE 15: **Child poverty is set to fall sharply in 2026-27**

Proportion of children living in relative poverty after housing costs, with and without the measures announced by this Government: 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, Family Resources Survey; ONS, various; and OBR, Economic and Fiscal Outlook - November 2025.

Finally, we should remember that repealing the two-child limit and expanding Free School Meals does not only benefit children; it also benefits their parents. Because of this (and the above-inflation rises to Universal Credit), relative poverty for people of working age is set to fall slightly, from 19.9 per cent in 2025-26 to 19.5 per cent in 2026-27. But pensioners remain the group least likely to be in relative poverty, with a poverty rate of 16.0 per cent in 2026-27.

Incomes are not all that matter – the high cost of living remains a headwind to living standards and has hit poorer families hardest

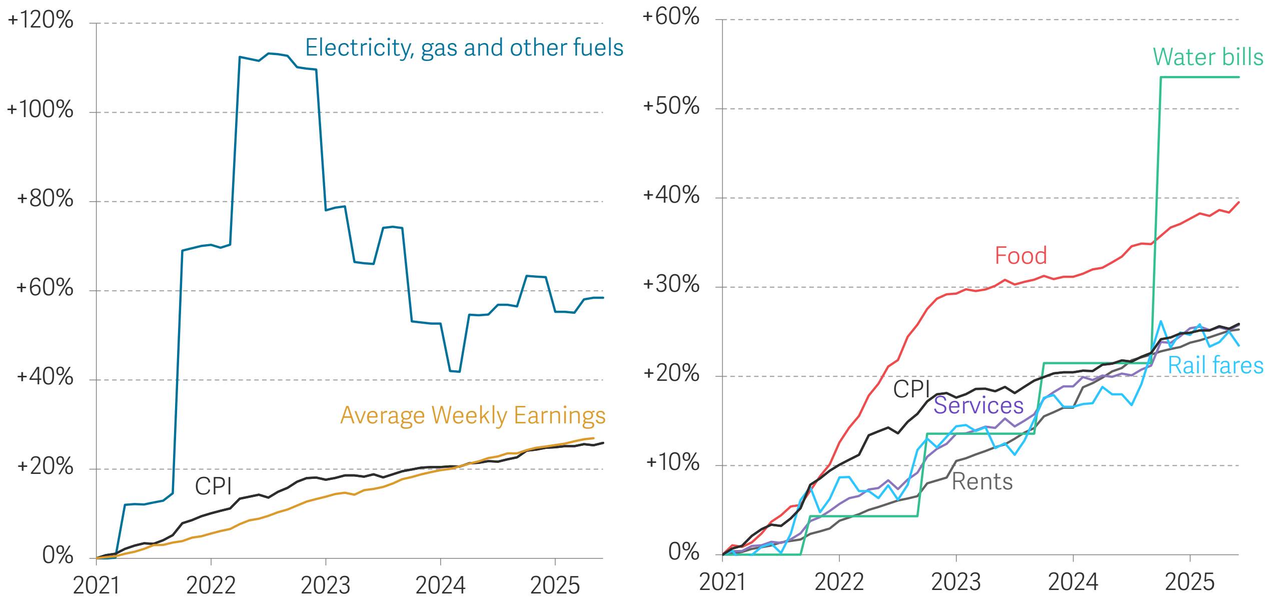
Although weak growth in wages and other sources of income are the key drivers of stagnating living standards, high inflation has compounded these pressures. The cost of living shot to the top of the list of the most important issues for people in 2022, and has remained a priority for voters since then, despite the fall back in inflation,[22] and ongoing rises in the price of food are particularly salient for families.[23] It's clear that these concerns are no mere idle curiosity and have very real effects at the ballot box: incumbent Governments, including in the US and the UK, were routed in the aftermath of the rise in prices in 2024. So it is understandable that the Government is making the cost of living a key priority in 2026.

22 Source: Ipsos, What worries the world, January 2026.
23 N Anesti, V Esady & M Naylor, Food prices matter most: sensitive household inflation expectations, Bank of England Working Paper No. 1,125, April 2025.

But policy to ease the cost of living is not straightforward. Figure 16 shows why that is the case. The driver of the rise in the cost of living has been the sharp rise in energy prices following Russia's invasion of Ukraine. Over time, that rise has bled into other prices both because energy is a key input to other goods and services, and because wages have risen too, as workers have tried to restore their spending power, also pushing up on firms' costs and ultimately leading to higher prices. With the cost of energy nearly 60 per cent above pre-invasion levels, and likely remaining there for the foreseeable future, this is a permanent shock to everyone's spending power, making us all poorer.[24] As well as reflecting higher costs for producers from energy and wages, food prices have also been pushed up (by 40 per cent since July 2021), reflecting additional increases in the prices of agricultural commodities, with global prices up around 50 per cent on pre-pandemic levels in the aftermath of the rise in energy prices.[25]

FIGURE 16: **The shock from higher energy prices has led to a huge rise in a broader range of prices**

Change in CPI price level by spending category: UK, July 2021 to December 2025



SOURCE: RF analysis of ONS, Consumer Prices; ONS, Labour Market Statistics.

Other factors have exacerbated the effects of higher energy prices, however, and turned the energy bills crisis into a wider cost of living crisis for many families.

24 The retail cost of energy has also been pushed up by policy costs applied by the Government, although some of these are being undone in April 2026. See: J Marshall, Splitting the bill: How can Government help families with high energy bills?, Resolution Foundation, October 2025, https://doi.org/10.63492/hpc653.

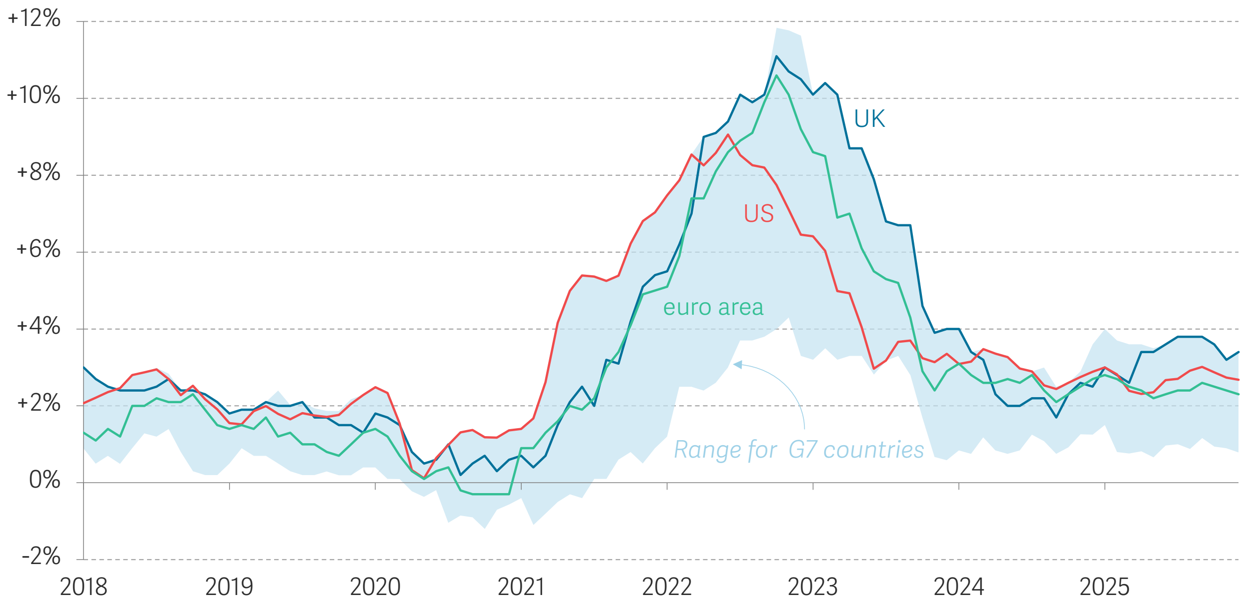
25 For example, the Standard & Poor's Goldman Sachs Commodity Index (S&P GSCI) more than doubled between 2019 and its peak during the energy crisis. It fell back thereafter but remained around 50 per cent above 2019 levels in the years following the energy crisis.

One indirect effect has come through the rise in interest rates as the Bank of England battles to bring inflation back to its 2 per cent target.[26] This raises the cost of borrowing for mortgagors but, along with rising wages, has put upward pressure on rents too.[27]

But government policy is also having direct effects. In particular, there has been notable upward pressure on the cost of living from some administered prices, effectively set by government (to the extent that it sets the regulatory regime). The right-hand panel of Figure 16 shows that rail fares and water bills both increased sharply in 2025, reflecting recent policy. Some price rises are justified, and the rise in water bills in particular reflects wider challenges facing the industry.[28] But these price rises have come at an unfortunate time and, along with the rise in National Insurance that took place in 2025, have meant the UK has been left with the highest rate of inflation in the G7 for the past seven months, as shown in Figure 17.

FIGURE 17: **UK inflation has been higher than for our peers in recent months**

Headline 12-month CPI inflation rate: UK, US, euro area and range for G7 countries



SOURCE: RF analysis of ONS, Consumer Price Inflation; BLS, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average; Eurostat, Euro area (changing composition) - HICP - Overall index; and OECD, Consumer price indices (CPIs) - Complete database.

Poorer families have been hardest hit by this period of high inflation, since food and energy bills make up a higher share of their total budget: the share of spending on food

26 Rather than trying to keep inflation at 2 per cent through massive rate rises that would have led to a huge rise in unemployment, the Bank of England has accommodated this direct effect on inflation and worked to contain its feedback into higher wages and hence long-lasting inflation ('second-round effects'). This was all unavoidable: a rise in the price of imported energy means we are fundamentally poorer as a country.

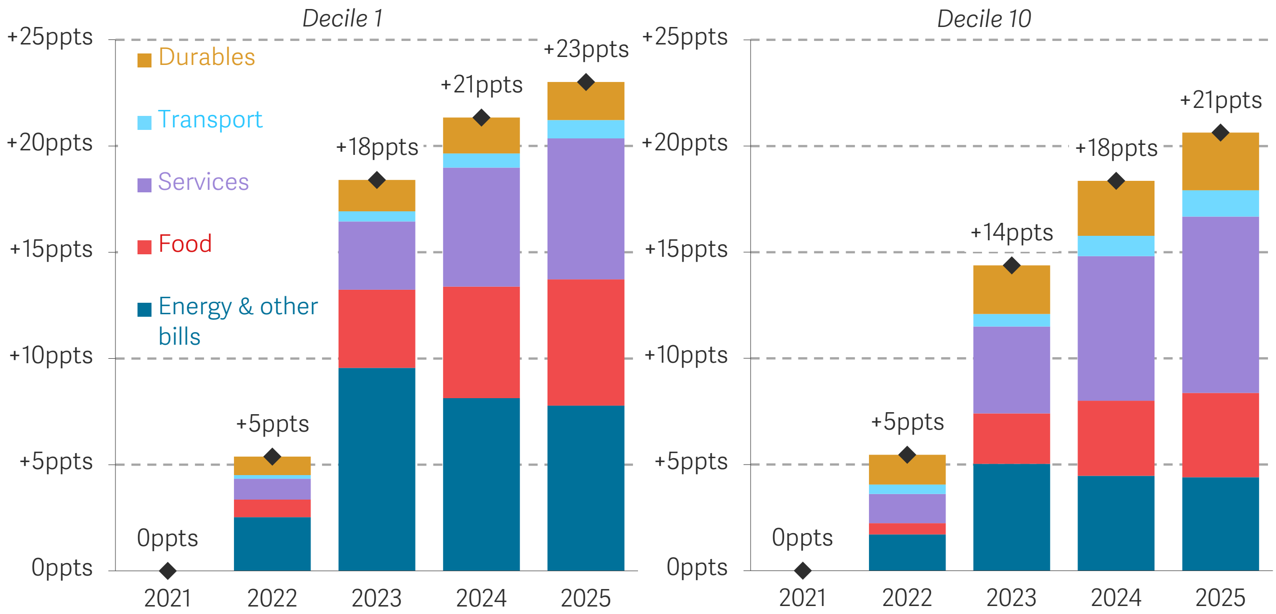
27 C Pacitti, Through the roof: Recent trends in rental-price growth, Resolution Foundation, April 2024, https://doi.org/10.63492/duq5712.

28 J Cunliffe, Independent Water Commission: final report, July 2025.

and energy by the lowest tenth of families is around 50 per cent higher than that for the richest.[29] As a result, and as shown in Figure 18, the experience of inflation varies significantly by income level. The contribution of non-housing items to household costs index inflation was around 3 percentage points lower for the richest households (decile 10) than for the poorest (decile 1). Prices increased faster for poorer families early in the cost of living crisis due to the bigger impact of higher energy bills on their spending, but price rises for richer families 'caught up' more recently, as the impact of energy and other cost increases gradually fed into higher prices elsewhere, particularly services.

FIGURE 18: **The rise in the cost of living has hit poorer families harder**

Selected contributions to the Household Cost Index price level for households in decile 1 (left panel) and decile 10 (right panel): UK, January 2021 to January 2025



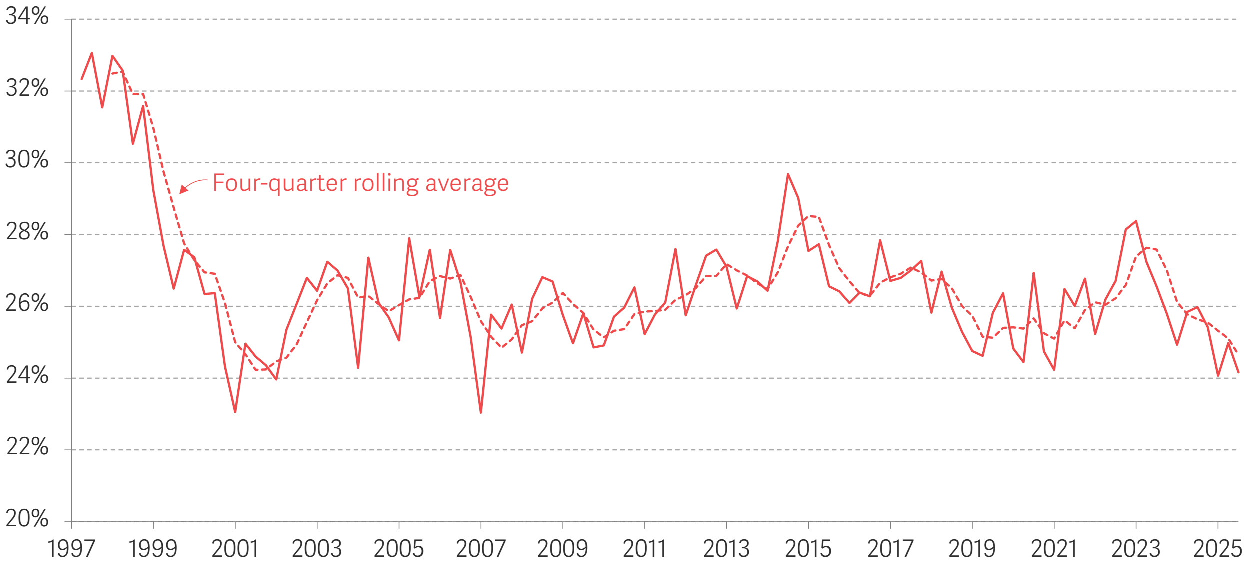
NOTES: Excludes housing costs. 'Durables' is made up of clothing, furniture and cars; 'Transport' is public transport and other transport; 'Services' is health, communication, recreation, hospitality and other; 'Food' includes alcoholic beverages; 'Energy & other bills' includes petrol.
SOURCE: RF analysis of ONS, Household Cost Indices.

Contrary to what some have claimed, the rise in the cost of living has not been driven by predatory pricing from business. As shown in Figure 19, profits have, in fact, fallen as a share of national income since inflation peaked towards the end of 2023. This reflects the fact that wages rose more quickly than prices overall during a period in which productivity was stagnating. This is consistent with evidence that margins in the UK tend to fall during periods of weaker growth, reflecting hoarding of labour given the costs of firing and rehiring.[30] So there is little evidence that so-called 'greedflation' has been a key driver of rising prices for the economy as a whole.

29 Source: RF analysis of ONS, Household Cost Indices.
30 I Yotzov et al., Profit margins and firm price growth: evidence from the Decision Maker Panel, Bank Underground, September 2023.

FIGURE 19: **'Greedflation' has not been a key driver of the cost of living crisis**

Aggregate profit margin of private corporations: UK



NOTES: Profit margins are defined as aggregate net operating surplus of corporations, excluding the alignment adjustment, plus the capital share of mixed income, all as a share of non-government GVA. The capital share of mixed income is estimated by dividing total mixed income according to the ratio of gross operating surplus to compensation of employees in the UK sector.
SOURCE: RF analysis of ONS, National Accounts, Public finances, Public Sector Employment & Average Weekly Earnings.

How can the Government turn a corner on the cost of living and boost living standards?

At the end of 2025, the Chancellor stated that the cost of living was her "number one focus", and the Prime Minister has toured the country promising to "tackle the cost of living".[31] This is the right focus: after two decades of income stagnation, families feel hard done by, and despite some strong – and progressive – income growth over the coming year, both the level and distribution of income changes look much less promising later in the decade. But the Government can turn this around – the analysis in this note (and in the wider Unsung Britain project) highlights the need for action on three fronts.[32]

Productivity (and employment) growth

Overall income growth has been poor for families in Unsung Britain over the past two decades, but one key trend has pushed up on incomes: the rising employment rate of adults in lower-income families. Improving employment and earnings for lower-income families must therefore be a priority for the decade ahead.

31 The first is quoted in: K Peachey, Are things going to get better for your finances?, BBC News, 24 January 2026; the second comes from: K Starmer, Britain built for all, Speech delivered at Coin Street Neighbourhood Centre, 1 December 2025.
32 This summarises material in: Resolution Foundation, Unsung Britain: A portrait of the country's poorer half, February 2026, https://doi.org/10.63492/ndtl708.

First, we must work to increase the employment rate for groups within Unsung Britain with the lowest employment rates – notably disabled people and parents. This will require action to make work, disability and caring more compatible. For example, we propose introducing a 'Return to Work' recruitment reward for firms who hire disabled people and a new 'Right to Reintegration' for workers on sick leave. Second, we must also help support incomes. Second, we must make sure that lower-income families feel the rewards of employment. Measures in the Employment Rights Act should help with this, by protecting against short-notice changes in shifts and cancelled hours.

But increasing the employment rate alone is not enough. Living standards have stagnated over the past decade despite this being a period of rising employment; this is because average earnings growth has been weak. Given that wages are the central determinant of living standards for most families in Britain, the Government must not abandon its focus on productivity growth. It is only by improving our performance on productivity that we will achieve strong and consistent real wage growth. Indeed, between 1994-95 and 2004-05, both productivity and pay were rising healthily, and typical incomes for lower-income households increased by an average of 4 per cent per year. It is not surprising that our living standards outlook for the end of this decade is so poor given the OBR's expectation of near-zero real wage growth.

Addressing unfairness in the tax and benefits system

Yet action on benefits is also important; this year's strong income growth for families in the bottom half of the income distribution demonstrates this.

But the policy changes coming this April are not enough – without further action, incomes for the families in Unsung Britain receiving benefits will stagnate again later in the decade, and much of the progress on child poverty will be undone, as median incomes pull away from those at the bottom. The story of the past two decades is that poorer households have been working harder but not feeling the rewards, partly because their income from benefits has fallen over this period.

So policy makers must take further steps to address unfair aspects of the tax and benefit system that are hitting lower-income families hard. Chief among these should be linking Local Housing Allowance for private renters to the actual rents faced, rather than the unsustainable nominal freeze that has been in place since April 2024; this would improve the living standards of low-income families in the private rented sector, a group with low and (likely) falling incomes. But in the longer term, if the Government truly wants to achieve living standards growth that is felt across the income distribution – and make a lasting dent to child poverty – it must change its approach to working-age benefit uprating. We recommend introducing a system of consistent and stable indexation of social security benefits, where both working-age benefits and the state pension are uprated in line with earnings rather than inflation. This is the only way to ensure that higher productivity growth feeds through to higher living standards for all families, including those who cannot work, whether temporarily or permanently.

Targeted policy measures that bear down on the cost of living

But as we noted earlier in this note, incomes are only one part of the living standard picture: costs matter too, and are often more visible to families. The Government has already intervened to ease the cost of living, by removing some policy costs from energy bills. But it should go further with measures that complement its efforts to boost productivity growth.

First, more can also be done to bring down all-important energy bills. [33] Blanket promises to bring down bills in the face of a seemingly permanent increase in prices aren't sustainable. Instead, the Government should continue to reduce the policy costs that push up bills; such costs account for nearly half (46 per cent) of the rise in electricity bills since 2015.[34] It is good news that the Government made a significant dent in energy bills in the near term by removing some policy costs in the recent Budget.[35] But as things stand this help is temporary, with costs due to be added back to bills in 2029-30; the Government should instead make this a permanent change. It should also develop the data infrastructure to allow us to create a genuine 'social tariff' for energy bills (i.e. one with a lower unit rate for energy targeted at lower-income households) in the future.

Second, there is scope to ease the burden of Council Tax, a tax which has both risen and become more unfair over recent decades. Centralised support for this tax ended in 2013, and was replaced in England by underfunded local schemes. As well as long-overdue reforms to Council Tax itself, restoring a consistently applied set of means-tested reliefs should be a priority.[36] Finally, for some elements of the high cost of living, making sure markets remain competitive is the answer. Although profits don't appear to be adding to the inflation problem overall, there are some areas where more can be done to keep prices down. Grocery shopping is a key example. Here, despite intense competition between supermarkets which has acted to keep the cost of food low, regulators – such as the Competition and Markets Authority – should intervene on so-called food 'deserts' where prices are higher. Regulators should also act to make sure pricing is transparent enough to support consumer choice. Some practices – such as

33 For more on all the points in this paragraph, see: J Marshall, Splitting the bill: How can Government help families with high energy bills?, Resolution Foundation, October 2025. https://doi.org/10.63492/hpc653

34 J Marshall, Splitting the bill: How can Government help families with high energy bills?, Resolution Foundation, October 2025. https://doi.org/10.63492/hpc653

35 H Aldridge et al., Stairway to headroom: Putting the Autumn Budget 2025 decisions on tax, spending and borrowing into context, Resolution Foundation, November 2025. https://doi.org/10.63492/gad912

36 A Clegg, The localisation era: Assessing the post-2013 rise of localised social security, Resolution Foundation, November 2025. https://doi.org/10.63492/ndxb35

automatic renewals, hidden charges and high costs for families switching suppliers – should be much more restricted.

Taken together, progress across these three fronts would amount to a coherent strategy for improving living standards: prioritising stronger growth as the central objective, but complementing this with reforms to the tax and benefits system to ensure gains are shared across the income distribution, and by measures to ease cost of living pressures so that families feel improvements in the near term. The good news coming this year shows that this is possible: lower-income families will benefit from all three of real wage growth, a boost to benefit income and reduced energy costs. The Government must learn from this and go further to deliver strong living standards growth later in the decade.

Annex 1: Nowcasting and forecasting methodology

There are many factors that influence household disposable incomes and therefore need to be modelled when nowcasting and forecasting 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.[37]

- We reweight the population to match ONS forecasts for demographic change by age and gender.[38] 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 in recent years).
- We model receipt of Personal Independence Payment based on future caseload projections, as this is a significant change in benefit incomes. Caseloads are split based on daily or mobility element receipt
- We do not account for detailed changes in migration patterns (beyond the overall impact on demographics and participation), or housing tenure (the share of which we hold constant over time), including 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 to those aged 21-22 in 2024-25 and (provisionally) to those aged 18-20 by 2029-30. We

37 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.
38 ONS, National population projections: 2022-based, January 2025. We use the migration category variant.

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 OBR figures for the projection period, taking into account the effects of the wage floor and compositional changes.
- Private pension incomes are uprated using the previous September's RPI inflation, taken from 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 frozen thresholds that will in practice affect effective contribution rates.
- We allow for student loan repayments (which are deducted from disposable income in HBAI).
- Given the rapid and significant rise in savings income since 2022-23, and its likely under-reporting in the data that lies behind HBAI, we model this separately: savings interest is modelled in the Wealth and Assets Survey – using interest projections from mid-June 2025 – and then imputed into the HBAI data. [39]
- Dividend and property income follow the OBR's assumptions (but note that levels of investment income are known to be under-estimated in HBAI).[40]

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 November 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.
- Mortgage interest costs are uprated uniformly using OBR projections.
- The ONS's Price Index of Private Rents, which includes variation in rent growth by region, is used in our nowcasting. Beyond September 2025, private rents are assumed to rise in line with average earnings, with a 12-month lag. Ground rents and service charges are assumed to do the same.

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

- Social rents are uprated based on the OBR'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.[41] 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. 2025-26 benefit rates) and default policy (e.g. CPI uprating in many cases). But there are a number of choices to note:

- 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, and so affects a growing proportion of the caseload each year. It is removed from April 2026 in line with Government policy. 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. Variation in Council Tax Support by nation and local authority are not modelled.

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

- We are not able to model the effects of benefit sanctions. Benefit deductions are modelled, such as those to repay debts and benefit advances, and this modelling is consistent with the 2025 Fair Repayment Rate reform.[42]

Projecting changes rather than levels

Using all of the above, we model incomes in the years 2024-25 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.

42 The Fair Repayment Rate, introduced in April 2025, caps deductions from Universal Credit at 15 per cent of the standard allowance, down from the previous cap of 25 per cent.

Annex 2: 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/UKDA-Series-2000022
- Institute for Fiscal Studies Households Below Average Income Dataset, 1961-1993:
    - 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 think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. We also investigate fairness between the generations in our Intergenerational Centre.

We aim to provide rigorous analytical work, develop effective policy proposals, and use our expertise to affect direct change. We analyse the trends and outlook for living standards, including for different age groups, family types, and levels of household income and wealth, and seek to promote greater understanding of these. Our research focuses both on the specific areas of the economy that matter most for people's living standards, including work and housing; and on economic growth and productivity as the route to sustainably higher living standards. We also examine the role of government in improving living standards including through taxes, social security and public services.

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