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The Living Standards Outlook 2024

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Executive Summary

After what looks set to be the worst Parliament on record for income growth, the new Government came to power promising to kickstart economic growth as the first of its 'five missions', emphasising that this is the key to unlocking improvements in living standards.

So, now is an opportune moment to assess the outlook for living standards across the current Parliament as things currently stand. We do this using economic projections from the Bank of England and Office for Budget Responsibility (OBR), and the assumptions for future policies built into public finance forecasts, to cast incomes forward to the present and up to 2029-30. These projections show the state of the economy that the new Government has inherited, and they reveal a range of headwinds that will need to be overcome or removed to beat the forecasts and improve the trajectory of living standards.

Beyond a strong 2024-25, the outlook for household income growth is very weak

We estimate that real non-pensioner median incomes in 2023-24 fell by around 1 per cent from the previous year, which would mean a total fall of 3 per cent between 2019-20 and 2023-24. This would make the last Parliament the worst on record for income growth at the median, and confirms past work and other data sources, such as the ONS' Real Household Disposable Incomes, which show that the previous Parliament was likely to have been the worst for income growth since the 1950s. In contrast,

our projections suggest strong income growth in 2024-25, with around 3 per cent real-terms growth at the median: this is driven by inflation returning to the 2 per cent target while nominal pay growth is set to remain high. Disposable income in the current financial year will also be boosted by the previous Government cutting the main rate of National Insurance contributions from 12 per cent to 8 per cent earlier this year.

Based on current economic forecasts, and assuming no action on policy, our forecasts suggest that this robust income growth will quickly come to a halt. Between 2024-25 and 2029-30, the average annual growth rate is projected to be 0.4 per cent and the total growth just 2 per cent. The outlook for 2025-26 is particularly bad, with zero real median income growth projected on current economic forecasts.

If these forecasts came to pass, then income growth in this Parliament would be better than the last, but still low by historical standards. Median household income after housing costs for non-pensioners would rise from £30,000 in 2023-24 to £31,400 in 2029-30 (in 2023-24 prices), an average annual increase of just 0.8 per cent and a total rise of 5 per cent. This compares to an annual average of 1.4 per cent between 1994-95 and 2022-23, and 2.1 per cent a year during the last period of Labour government between 1997-98 and 2009-10.

This projection of slow growth is driven by a number of factors, each representing a significant challenge to a government aiming to outperform the forecasts.

First, future growth in real earnings is projected to be slow, in turn reflecting a widespread consensus about weak productivity growth. For example, the Bank of England forecasts average annual real private sector pay growth of just 1.0 per cent between Q4 2024 and Q4 2026, and the OBR's average annual real pay growth forecast for 2024-25 to 2028-29 is just 0.4 per cent. Second, the Bank projects unemployment to rise slightly from 4.4 per cent in 2024-25 to a peak of 4.8 per cent in 2026-27 (an additional 150,000 people), before potentially coming back down. Third, the ongoing freeze of personal tax thresholds will slightly push down on how much growth in gross earnings feeds through to

take-home incomes. Tax on the median wage will be around £230 higher in 2028-29 than it would be if tax thresholds were uprated by CPI each year from 2025-26. Fourth, rents are set to rise faster than incomes, and average mortgage interest payments forecast to stabilise as a proportion of incomes from 2027-28 but not to come down. As a result, we project that the average housing cost to income ratio for mortgagors (excluding capital repayments) is set to reach 15 per cent by 2028-29, a level not seen since 2009-10. Finally, savings interest played a strong supporting role in income growth in 2023-24 – and will to a lesser extent this year – but that source of income is expected to decline in 2025-26 as interest rates fall back.

But these forecasts take no account of any growth-boosting measures the new Government could take. We therefore model an optimistic scenario where real earnings growth is 1 percentage point above our base case forecast in each year from 2025-26. This level of earnings growth would represent a huge improvement – it would mean average earnings grow more in every one of the next five years than they did in any year between 2008-09 and 2019-20. Such a scenario would push up growth in the median income to a more respectable 8 per cent between 2023-24 and 2029-30.

Under current policy assumptions and economic forecasts, low-incomes would be likely to fall in real terms, and poverty would rise

Our base projection at the median is weak (as it also is for most of the top half of the income distribution), but, on current economic assumptions and existing policies, the outlook for lower-income households is worse. Our forecasts suggest that typical non-pensioner incomes at the 10th percentile of the income distribution would be around £600 per year lower in real terms in 2029-30 than in 2023-24, in 2023-24 prices. This would put the 10th percentile of incomes in 2029-30 at virtually the same level they were in 2004-05 in real terms, meaning no income growth over a quarter of a century. Typical incomes at the 20th percentile would also be lower in 2029-30 than in 2023-24, by around £100.

Housing costs are an important driver of these falling living standards, with rents rising in real terms. Despite this, the Department for Work and Pensions' forecast for benefit expenditure assumes that support for housing costs in the benefit system is set to fall in real terms, due to Local Housing Allowances being frozen. Moreover, the continued rollout of the two-child limit and family element abolition to new births is also set to push down on the incomes of low-income families.

As a result, the outlook for poverty rates is also pessimistic. Under current benefit policies, a further 1.5 million people (including 400,000 children) would be in relative poverty by the end of the Parliament, a rise from 21 per cent of the total population in 2023-24 to 23 per cent in 2029-30 – its highest rate since 2000-01. Meanwhile, the absolute poverty rate is set to stagnate at around 18 per cent, and not return to the low of 17 per cent reached in 2020-21. This would be in stark contrast with the progress made when Labour was last in power: over the period of 13 years from 1996-97 to 2009-10, absolute poverty (using a threshold fixed at 60 per cent of the real median income in 1997-98) fell by 14 percentage points overall (7 million people), 20 percentage points for children (2.5 million), and a staggering 24 percentage points for pensioners (2.3 million). If actual poverty numbers perform no better than these projections, then the current Parliament would be the only post-war parliament where absolute poverty did not fall overall.

The Government has stated its aim to reduce poverty, and has said it will announce a Child Poverty Strategy due in 2025. Our projections confirm that this work is much-needed. Poverty rates for children are higher than for working-age adults and pensioners; there were around 4.2 million children living in relative poverty and 3.6 million living in absolute poverty in 2023-24. On current economic assumptions and under existing social security policies, we project that the number of children in relative poverty could reach 4.6 million and the number of children in absolute poverty would remain at 3.6 million by the end of the Parliament. The relative child poverty rate is currently projected to rise from 29 per cent in 2023-24 to 32 per cent by 2029-30 – which would be its highest since the 1990s – while the

proportion living in absolute poverty is forecast to remain at around 26 per cent throughout this Parliament, an increase from a low of 23 per cent at the start of this decade. Stronger wage growth would only marginally improve the absolute poverty outlook, and – all else equal – would actually cause relative poverty to increase faster, as the median income would pull away from those on lower incomes.

In light of these forecasts, and for those on incomes in the bottom half more generally, we have looked at what impact we might expect from two sorts of changes to social security policy. First, ending the handful of policies that break the link between need and entitlement in the social security system: the two-child limit, the benefit cap, and the freeze to the Local Housing Allowance. And second, linking annual working-age benefit uprating to growth in earnings rather than prices, as our earlier work has shown that only with a change such as this can growth be truly shared across the income distribution.

Removing the two-child limit, benefit cap and Local Housing Allowance freeze from April 2025 would immediately lift 1 million people out of relative poverty, and would lead to an immediate reduction of around 1.5 percentage points in both relative and absolute poverty. This package would particularly reduce child poverty, with 600,000 children moving out of relative poverty overnight (a drop of 4 percentage points in relative child poverty) – driven by large families moving out of poverty – while absolute child poverty would fall to a record low.

Following this, indexing working-age benefits to average earnings rather than prices from April 2025 would leave most benefits around 6 per cent higher in 2029-30 than with uprating in line with inflation, equivalent to roughly £6 per week extra on the Universal Credit standard allowance for a single adult. Our modelling suggests that this additional change to social security benefits would be enough to stabilise rates of relative poverty at just over 20 per cent, roughly a percentage point below the average annual levels of the last Parliament, and it would put absolute poverty on a downwards trajectory, falling from 18 per cent this year to 15 per cent in 2029-30.

These changes would come at a cost, of course. We estimate that removing the two-child limit would cost around £2.5 billion next year, rising to around £3.7 billion by the time the policy affects all claiming families with three or more children (in 2025-26 prices), while ending the benefit cap and re-pegging the Local Housing Allowance to the 30th percentile of local rents would cost around £0.5 billion, with the cost of removing the benefit cap rising in subsequent years (as the level of the cap is currently assumed frozen) and the cost of uprating the LHA in subsequent years dependent on rent growth at the 30th percentile; and then additionally linking annual benefit uprating to growth in earnings rather than prices would cost a further £9 billion by 2029-30, in 2025-26 prices. Other benefit policy choices would of course be possible, and labour market and housing policies can also make a difference, but it is clear that fairly substantial changes to social security policy will be needed to significantly move the dial on poverty.

The Government is right to focus on growth following the terrible record of the last Parliament, and this report points to the scale of the task: bringing about meaningful improvements in living standards will require policy changes that boost growth and allow us to beat the current economic forecasts. And, crucially, making a sustained difference to living standards for households at the bottom end of the income distribution looks very difficult without a change to the social security policies that are currently assumed in the official fiscal forecasts.

Section 1

Introduction

This is our sixth annual Living Standards Outlook, our assessment of what government policy and economic forecasts mean for household incomes, poverty rates and inequality.

With the new Government rightly emphasising its commitments to increase growth and reduce child poverty, and following the end of what looks likely to have been the worst Parliament on record for household income growth at the median, this is an opportune moment to understand the context for living standards across this Parliament.

We contribute to this by forecasting the outlook for household incomes, poverty and inequality over the next five years. Crucially, our projections are based on the policy and economic context that the new Government has inherited: the economic forecasts do not reflect the impact of what the Government has said it will do, and our assumptions for how future tax and benefit policy will evolve are taken from the assumptions contained in the Office for Budget Responsibility's (OBR) fiscal forecasts. We also show the impact of a more optimistic scenario for earnings growth, and of two illustrative packages of changes to social security policy.

We use a combination of outturn data, economic projections from the Bank of England and Office for Budget Responsibility (OBR), and stated tax and benefit policies, to cast incomes forward to the present and up to 2029-30: potentially the last financial year of this new Parliament. We also use the same methods to estimate what happened to household incomes in 2023-24, given that official data covering that period will not be available until early 2025.[1] Please see the annex for a more detailed explanation of the methodology used.

1 Despite the importance of tracking actual households' incomes and measures such as poverty rates, this data comes with a significant lag – with the latest official statistics being for 2022-23. See Department for Work and Pensions (DWP), Households below average income: for financial years ending 1995 to 2023, March 2024.

The remainder of this report is structured as follows:

- Section 2 sets out the income growth outlook that the new Government has inherited, as well as the impact on incomes if faster growth in earnings can be achieved. All of these results focus on non-pensioners, unless stated otherwise.
- Section 3 presents our projections for poverty and inequality based on existing policy, and the potential impacts of two illustrative social security policy packages.
- Section 4 concludes
- An Annex provides methodological details of our projection and modelling processes.

Section 2

The new Government inherits a weak outlook for household income growth

The outlook for household incomes based on the policy and economic context the new Government inherited looks better than the likely negative median income growth of the previous Parliament, but a lot of this income growth comes in a strong 2024-25, before growth is projected to tail off. We expect 3 per cent growth in real median non-pensioner incomes this year, but only 5 per cent across the Parliament as a whole. And the outlook for poorer households is even worse, with real incomes falling for the poorest fifth in every year of the Parliament.

An indicative optimistic scenario for real wages would raise real median income growth to a more respectable 8 per cent across the Parliament.

The new Government came to power emphasising the need to boost economic growth as the key to unlocking improvements in living standards. This section sets out the outlook for incomes based on the economic forecasts and policy landscape that it inherited, outlining significant headwinds and challenges to securing sustained growth.

A weak 2023-24 looks set to confirm that the last Parliament was truly terrible for income growth, but 2024-25 is looking much stronger

The latest official data on median household incomes currently goes only up to 2022-23, but this shows a dire record for income growth up to that point in the Parliament, with the typical non-pensioner worse off in 2022-23 than in 2019-20.2 Our 'nowcasting' suggests that this pattern continued in 2023-24 as the cost of living crisis continued, with real incomes falling by 1 per cent, as shown in Figure 1. This would mean a total fall in the real non-pensioner median income of 3 per cent across the Parliament, confirming other statistics that suggest it was the worst for income growth since the 1950s.[3]

2 Previous work using average Real Household Disposable Income per person shows that annual income growth in the last Parliament was weaker than in any other since at least the 1950s, though data right up to the election is not yet available. A Corlett & L Try, Hard times: Assessing household incomes since 2010, Resolution Foundation, June 2024.

3 Determining the period that a parliament covers is imperfect when using annual data. For such analysis, we assume simplistically that the previous Parliament ran from 2019-20 to 2023-24 and the current Parliament will run from 2023-24 to 2029-30. Our income figures in this section exclude pensioners, except where clearly stated, in order to focus on the experience of the working-age population and children, and because pensioner incomes are influenced by separate long-term wealth trends.

In contrast, our projections show strong progress in 2024-25, with median incomes growing by around 3 per cent compared to 2023-24. This is largely driven by inflation returning to around the Bank's 2 per cent target while nominal pay growth has remained high. Disposable income in the current financial year will also be boosted by the previous Government cutting the main rate of National Insurance contributions from 12 per cent to 10 per cent from January 2024 (meaning that 2023-24 as a whole only saw a quarter of the full-year impact of this change) and then to 8 per cent from April 2024. This robust progress is also reflected in strong GDP growth in the first and second quarters of 2024.[4]

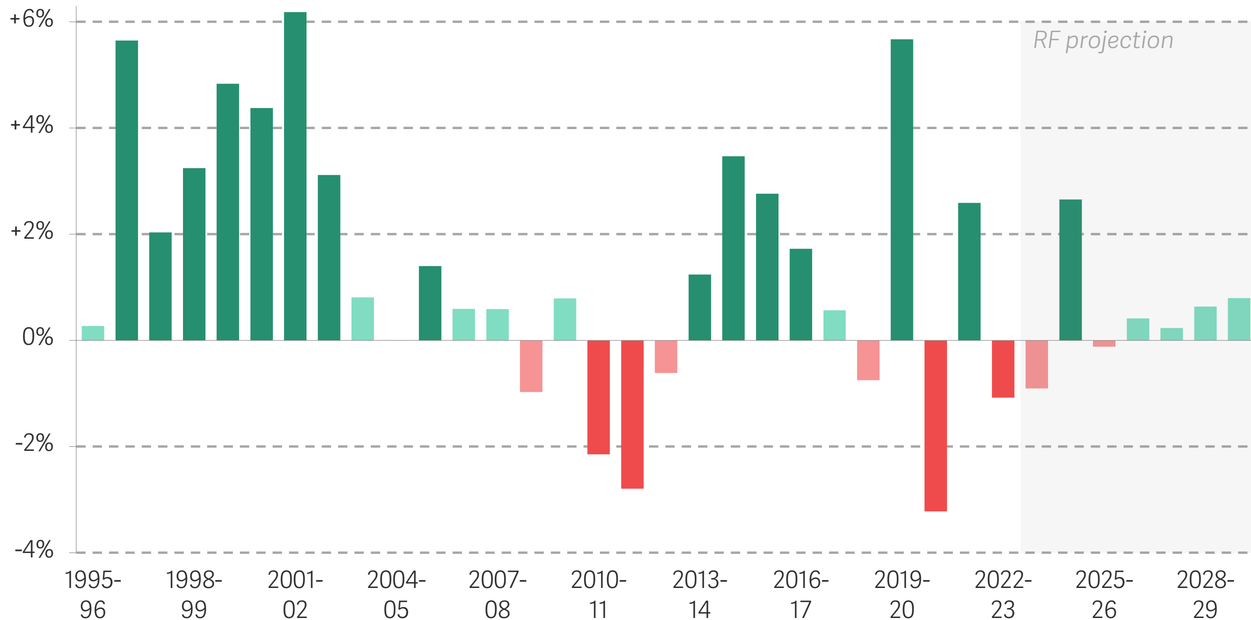
But the outlook is much gloomier from 2025-26, based on current policy assumptions and economic forecasts

So, does the projected progress across 2024-25 show that the Labour Government has in fact inherited an economy 'going gangbusters'? Our projections, reflecting the OBR's and Bank's expectations, suggest that any boom is temporary: the outlook for income growth, based on existing policy and current economic forecasts, is much weaker in 2025-26 and beyond. If policy remained unchanged and these forecasts were to hold, real equivalised median household income after housing costs for non-pensioners would rise from £30,000 in 2023-24 to £31,400 in 2029-30, a total rise of 5 per cent and an average annual rise of 0.8 per cent. This is, of course, better than the likely zero growth of the previous Parliament, but would still be low by historical standards: the annual average median income growth was 1.4 per cent between 1994-95 and 2022-23, and 2.1 per cent a year during the last period of Labour government between 1997-98 and 2009-10. And the majority of the projected growth happens in 2024-25: between 2024-25 and 2029-30, projected total growth is set to be just 2 per cent, with an average annual growth rate of 0.4 per cent. The outlook is particularly bad in 2025-26, with zero real income growth, largely driven by a rise in housing costs.

4 GDP first quarterly estimate, UK: April to June 2024, Office for National Statistics, August 2024.

FIGURE 1: **The outlook for median income growth is weak over the next few years**

Real growth in median equivalised household disposable income after housing costs for non-pensioners: GB/UK



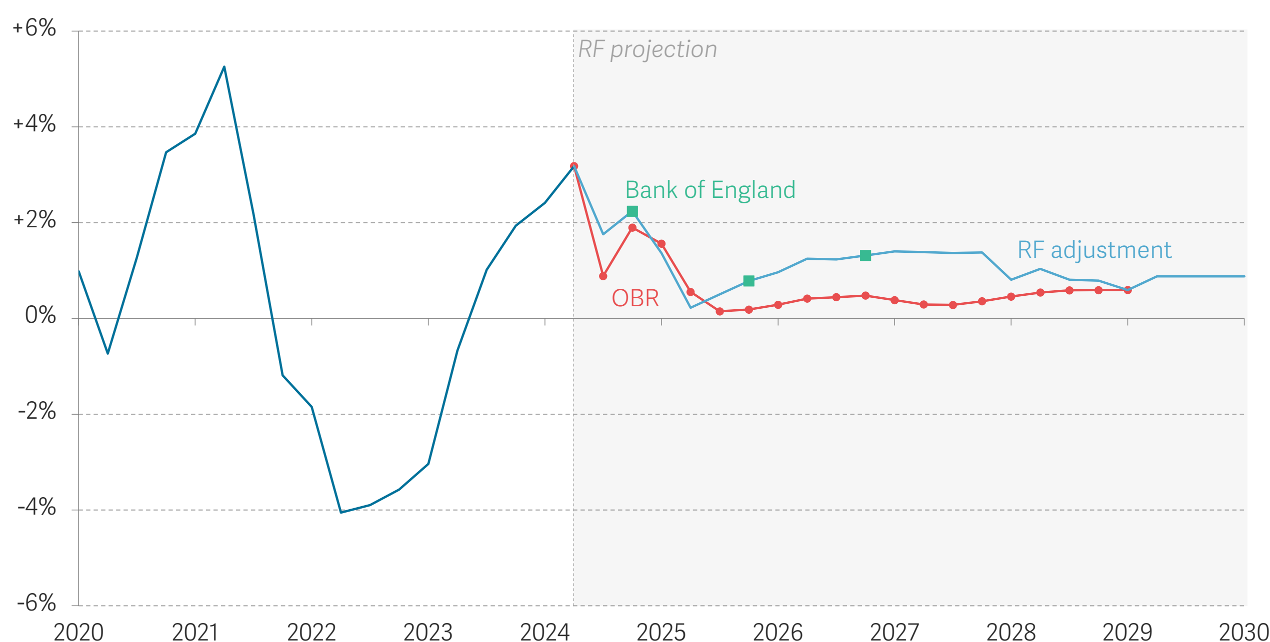
NOTES: Deflated using our after housing costs deflator, based on CPI. GB up to 2001-02, UK from 2002-03.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

What is driving this weak outlook?

The sluggish outlook for median income growth over the five years after 2024-25 is driven by five main factors. First, and most importantly, both the Bank of England and the OBR forecast relatively weak earnings growth between 2024-25 and 2029-30 based on the economic conditions inherited by the new Government, following an uptick in 2024-25, as is shown in Figure 2. Annual growth in real mean pay is set to average just 1.0 per cent between Q4 2024 and Q4 2026, after briefly reaching 2.2 per cent in Q4 2024, according to the Bank of England, while the OBR's average annual real pay growth forecast for 2024-25 to 2028-29 is just 0.4 per cent. This weak pay growth is driven by a weak outlook for productivity growth: the OBR forecasts productivity per worker to rise by an average of just 0.9 per cent per year over the current Parliament. This is above the average annual rate between 2008-09 and 2023-24 of 0.5 per cent, but it is half the rate of growth between 1997-98 and 2007-08, which averaged 1.8 per cent per year.

FIGURE 2: **The weak outlook is primarily down to sluggish Bank (and OBR) real wage forecasts**

Annual growth in real average pay (AWE): GB



NOTES: Our adjustment is constrained to the Bank of England's projection, and deflated using the Bank's CPI forecast. OBR projection deflated by the OBR CPI forecast.
SOURCE: ONS, AWE; Bank of England, Monetary Policy Report, August 2024; OBR, Economic and Fiscal Outlook, March 2024.

Second, the Bank of England projects the labour market to loosen slightly as things stand, with unemployment forecast to increase in the short-term, from 4.4 per cent in 2024-25 to 4.[8] per cent in 2026-27, although these figures remain low by historic standards.

Third, the ongoing freeze of the main Income Tax and National Insurance thresholds until 2028 will restrain the degree to which growth in gross earnings feeds through into household disposable incomes. These threshold freezes mean that a full-time worker on the median wage will pay an estimated £230 more tax in 2028-29 than if the thresholds were to rise in line with CPI in April 2025, 2026 and 2027.[5]

Fourth, rising housing costs are projected to push down on disposable incomes. We assume that private rents will rise in line with average earnings, with a lag, matching their long-term trend.6 This means they would continue to rise faster than net household incomes, particularly for households that receive a significant portion of their income from benefits, but this still represents a considerable deceleration given nominal rent growth of 8.[6] per cent over the year to July 2024.7 Box 1 illustrates the impacts of rising tax and private rents on the earnings of an employee on the minimum wage.

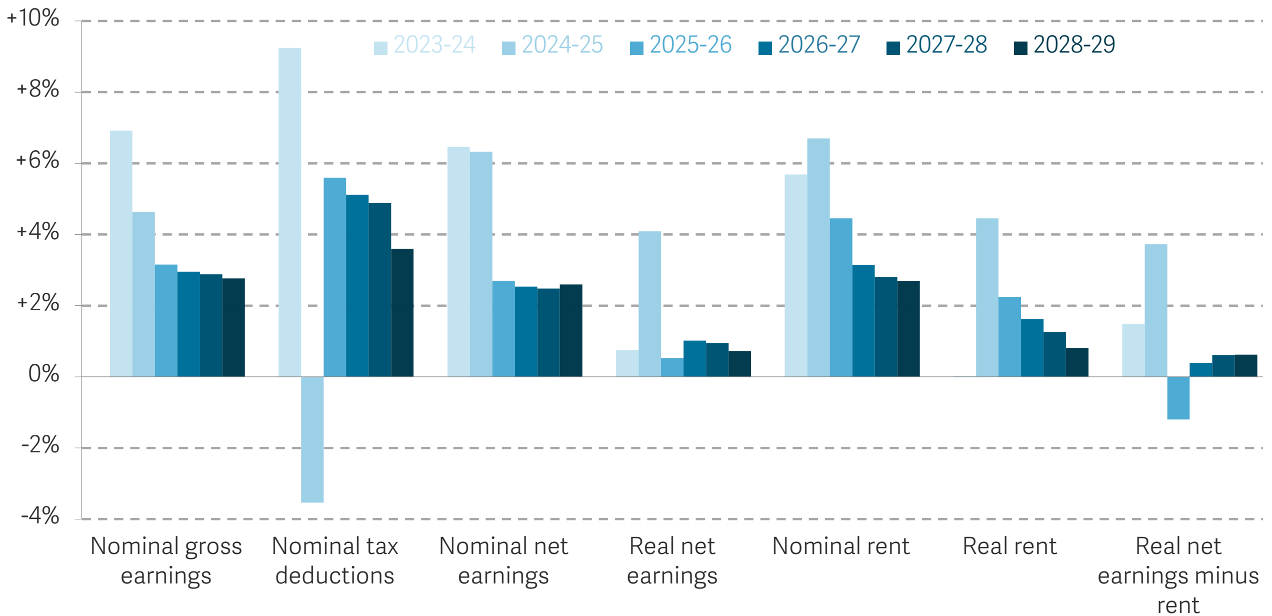
5 Additionally, we follow the OBR in assuming that average English Council Tax bills will rise by 4.3 per cent in each future year, well above the expected growth rates for earnings and benefits.
6 C Pacitti, 'Through the roof: recent trends in rental-price growth', Resolution Foundation, April 2024.
7 ONS, Private rent and house prices, UK: August 2024.

BOX 1: Case study: the impacts of slowing wage growth and tax and rent rises for the median earner

We bring together the effects of earnings growth for an employee on typical pay, the personal tax system, and the average private rent as a case study in Figure 3 (to illustrate the more complex modelling shown in Figure 1). Personal taxes lower the already weak outlook for pay growth in each year except 2024-25 thanks to the ongoing freeze of Income Tax and National Insurance thresholds, with these taxes for a median earner around £230 higher in 2028-29 (when the freeze is set to end) than they would be if the thresholds rose by inflation in 2025, 2026, and 2027. And there is an additional drag from rising rents, particularly in 2025-26, driven by the strong earnings growth in 2024-25.

FIGURE 3: **The tax threshold freeze and rising housing costs are set to weigh on disposable incomes**

Projected annual growth in earnings, tax and housing costs for an illustrative worker on the median wage, privately renting: England

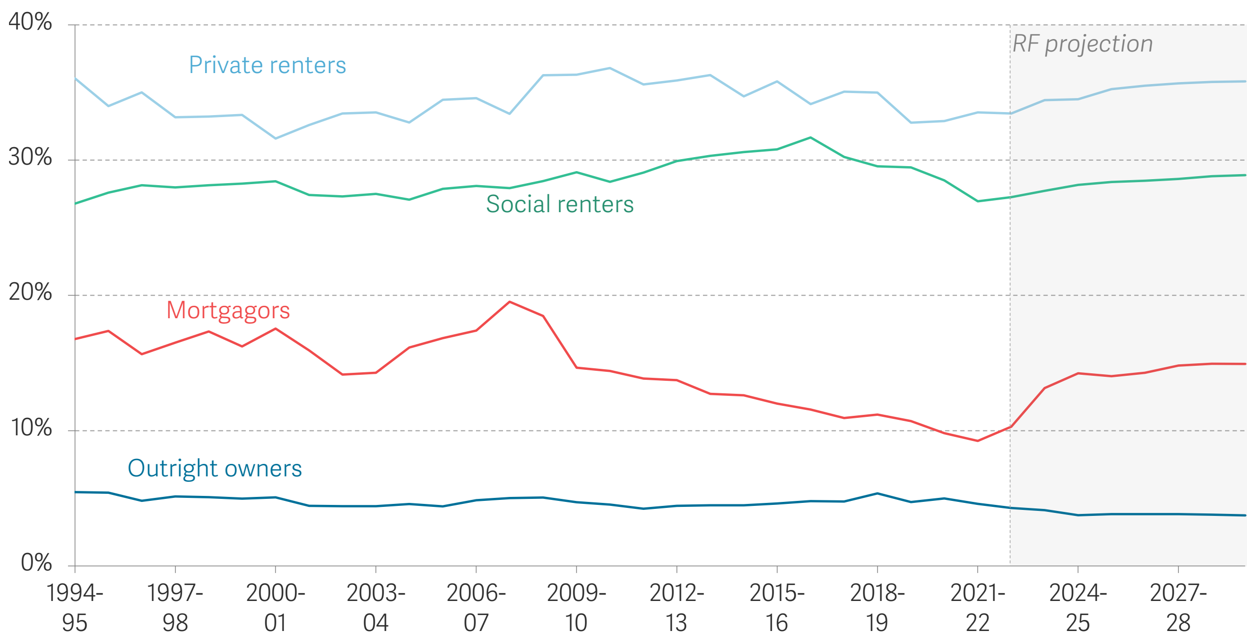


NOTES: Deflated using an RF after-housing costs deflator, based on CPI; tax is Income Tax and National Insurance (outside of Scotland); rent is the average rent for a one-bedroom property in England.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, Price Index of Private Rents; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

The impact of these expected rising housing costs is also shown in Figure 4. The average share of income spent on housing by private renters fell during 2019-20 and the Covid-19 pandemic to its lowest point since 2007-08, but that ratio is now rising – with a projected increase from 33 per cent of net household incomes in 2022-23 to 36 per cent in 2029-30 – and rents are also expected to rise faster than incomes for social renters. For mortgagors, although the rapid rise in average costs since 2021 should now have ended, falls in the Bank Rate will not necessarily lead to lower average payments overall – given house price rises and that some households with long mortgage deals are still yet to move from very low to higher rates. Indeed, we project that the average housing cost to income ratio for mortgagors (excluding capital repayments) will reach 15 per cent by 2028-29, a level not seen since 2009-10: up from 9 per cent in 2021-22 and 14 per cent this year.

FIGURE 4: **Rents are set to rise relative to incomes and average mortgage payments are not forecast to drop significantly, despite expected falls in Bank Rate**

Average proportion of net household income spent on housing costs, by tenure: GB/UK



NOTES: GB before 2002-03. In addition to rents and mortgage interest, housing costs include water rates, structural insurance premiums, ground rent and service charges.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, Price Index of Private Rents; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

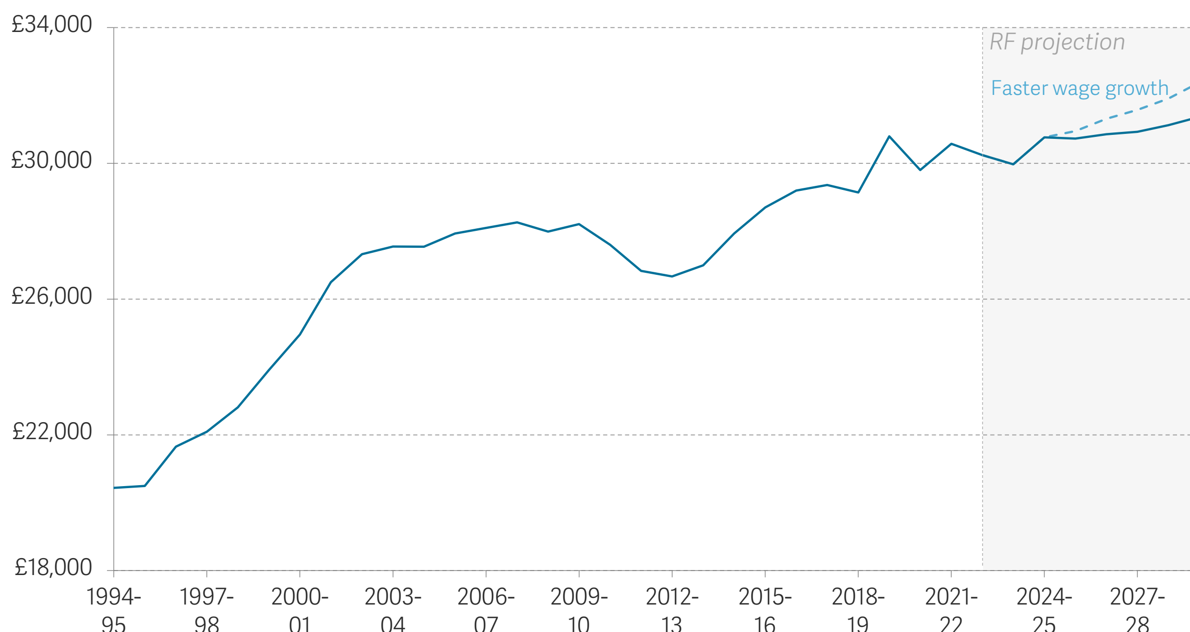
Finally, although savings interest played a strong supporting role in income growth in 2023-24 – and to a lesser extent this year – that source of income is now expected to decline as interest rates fall. We estimate that aggregate savings income (e.g. through bank accounts or ISAs) grew by over £40 billion between 2021-22 and 2024-25, in cash terms, but will decline by £9 billion in 2025-26. And although savings are very unequally distributed, with many households having no such wealth, our analysis suggests that the impacts of these changes will still be felt across the income distribution.[8]

The Government is, of course, aiming to outperform these weak forecasts. "Kickstart economic growth" is the first of its five missions for government, and its pre-election manifesto argued that sustained economic growth is 'the only route' to improving living standards, mentioning the term 'growth' a total of 49 times.[9] Figure 5 shows median income growth under an indicative, more optimistic scenario in which average earnings growth is 1 percentage point higher in each year, compared to our main (Bank of England driven) projection. This would represent a much more respectable pattern of earnings growth, leaving it faster in each of the next five years than it was in any year between 2008-09 and 2019-20. This scenario would raise annual average median income growth to 1.0 per cent between 2025-26 and 2029-30: far better than our base case of 0.4 per cent, although still less than half of the annual average of 2.1 per cent during the last period of Labour government between 1997-98 and 2009-10.

8 A Corlett, The Living Standards Outlook – Summer 2023 Update, Resolution Foundation, September 2023.
9 Labour Party Manifesto, June 2024.

FIGURE 5: **Faster growth in earnings would improve the outlook for incomes**

Real median equivalised household disposable income after housing costs for non-pensioners: GB/UK



NOTES: GB before 2002-03. 'Faster wage growth' represents wage growth at 1 percentage point above our adjustment of the Bank of England and OBR forecasts in each year from 2025-26. In 2023-24 prices, deflated using our after housing costs deflator, based on CPI.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

Household income growth is projected to be weaker for children than working-age adults or pensioners

So far, we have looked at the median income among non-pensioners, but the outlook can of course vary across different income and age groups.

Figure 6 shows historic and projected median incomes by age band. Based on current economic forecasts and existing policy, we project just 3 per cent growth in the typical household income for under 18s between 2023-24 and 2029-30, compared to 5 per cent for working-age adults and 4 per cent for pensioners.[10] The main reason for this is that households with children are more likely to receive a portion of their income from working-age benefits, which rise more slowly than pension-age benefits or income from earnings.

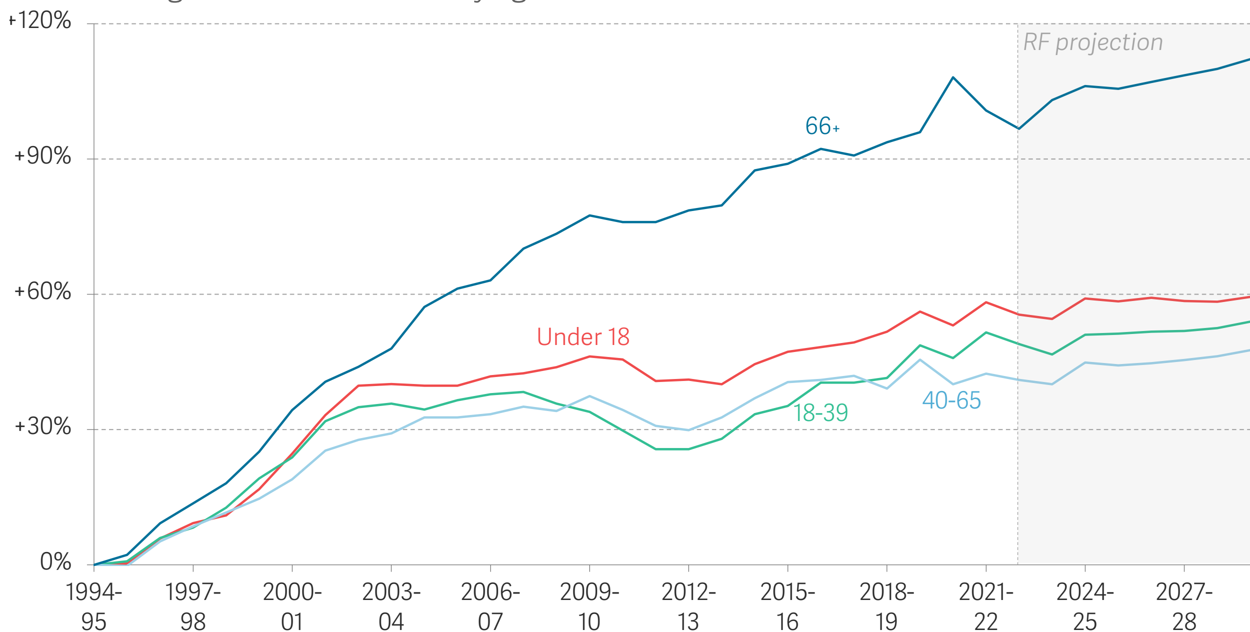
Pensioner incomes are protected as the State Pension will rise faster than prices, unlike non-pensioner benefits (as we explore later), and many pensioners are insulated from

10 For simplicity, we do not incorporate this Parliament's expected rise in the State Pension Age here.

rising housing costs. The recently announced means-testing of the Winter Fuel Payment is included in our modelling, but does not change the overall picture of rising pensioner incomes in 2024-25 (by 2 per cent) and nor do tax changes that have fallen slightly harder on pensioners on balance.[11] Zooming out, the median income of the 66+ population more than doubled between 1994-95 and 2023-24 (an increase of 103 per cent), thanks to both benefit policy and wider coverage of private pension provision. During the same period, median household incomes have increased by 59 per cent for children and 48 per cent for working-age adults.

FIGURE 6: **Median incomes for pensioners have grown faster than for other age groups**

Cumulative real growth in median equivalised household disposable income after housing costs since 1994-95, by age band: GB/UK



NOTES: GB before 2002-03. Deflated using our after-housing costs deflator, based on CPI.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

Incomes are projected to fall for the bottom end of the distribution

While the outlook for typical incomes is sluggish at best, at least after 2024-25, the picture would be even worse for households at the bottom end of the income distribution the picture if policy were to remain unchanged from the current assumptions.

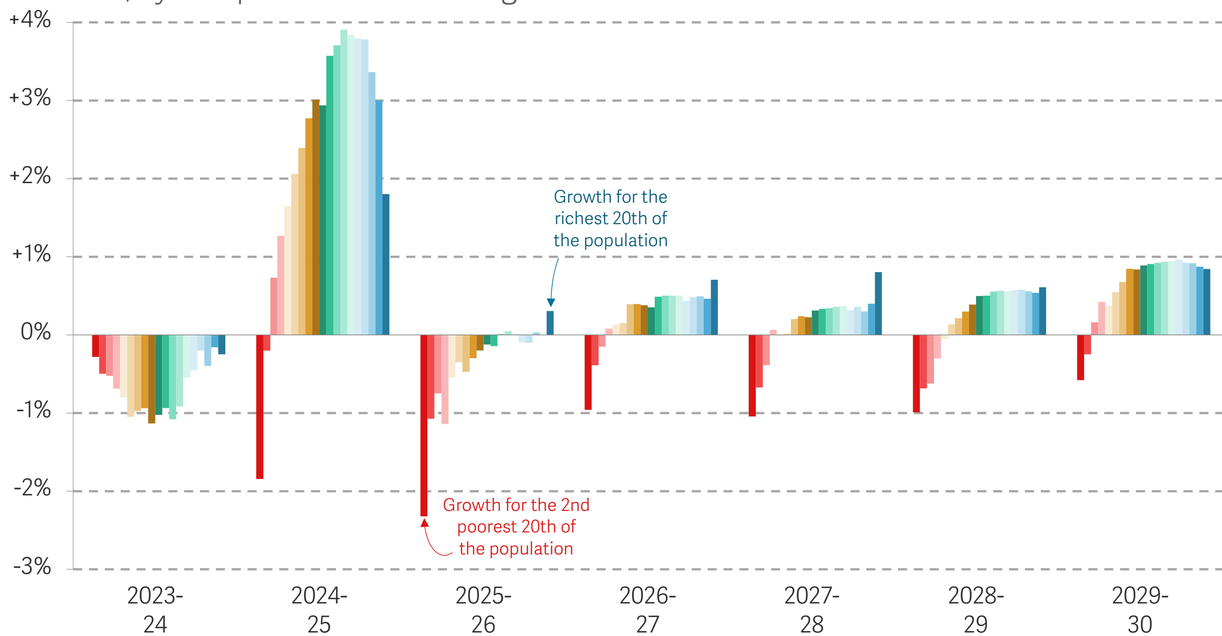
Figure 7 shows our projections for income growth by vigintile of the income distribution, based current economic forecasts and existing policy. The cost of living crisis led to real

11 M Brewer, A Clegg & L Try, 'Pensioner progress: the impact of personal tax and benefit changes since 2010 on pensioner families', Resolution Foundation, March 2024.

income falls for lower-income households (among others) in 2022-23 and in our 2023-24 nowcast. And while most of the distribution are projected to have higher real incomes in 2024-25 than in 2023-24, the weakest growth – with negative results for some – is to be found at the bottom. What's more, as things stand, real incomes are projected to fall for the poorest fifth in every year of this Parliament, and growth for the top half of the distribution would be far stronger than for the bottom half in each year.

FIGURE 7: **The outlook for incomes is very bad for the bottom end of the distribution**

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 analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

As explained above, housing costs play an important role in driving these income falls. Housing costs for the poorest decile are projected to be over £700 higher in 2029-30 than 2024-25, in 2023-24 prices, accounting for a 12 per cent decline in their average real incomes. Among poorer households, for whom earnings are a smaller proportion of their income and who also face high marginal effective tax rates, it is difficult for weak earnings growth to offset such increases in costs.[12] In addition, parts of the benefit system are actually being cut in real terms. In particular, Local Housing Allowance is currently set

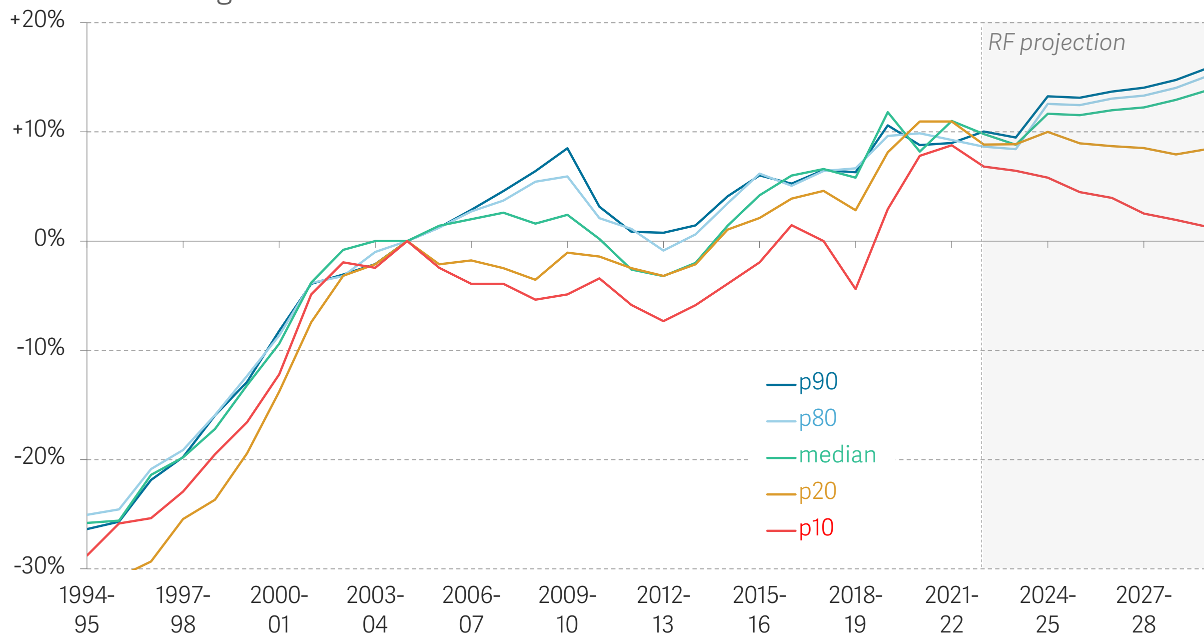
12 Chapter seven: 'Shared rewards, fair sacrifices', Resolution Foundation & Centre for Economic Performance, LSE, 'Ending Stagnation: A New Economic Strategy for Britain', Resolution Foundation, December 2023.

to be frozen indefinitely (after a rise in April 2024), meaning available housing support will actually fall in real terms. Meanwhile, the benefit cap is also frozen, affecting more households each year as benefits are uprated; and the number of families affected by the two-child limit (and the abolition of the family element) is set to increase steadily as children born before 2017 – who are exempt – become a smaller share of the relevant population.

Figure 8 further highlights the projected decline in real incomes for poorer households, and adds some historic context. In total, the typical real income of the poorest fifth (i.e. 'p10') is set to be 7 per cent – or over £800 in 2023-24 prices – worse off in 2029-30 than in 2021-22. This would be in part reversing an income boost during the Covid-19 pandemic, and would leave their income essentially unchanged (only 1 per cent higher) over the 25 years from 2004-05 to 2029-30.

FIGURE 8: **Incomes for poorer households are projected to fall after rising from 2018-19 to 2021-22**

Cumulative change in real equivalised household disposable income since 2004-05, after housing costs: UK



NOTES: GB before 2002-03. Deflated using our after housing costs deflator, based on CPI.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

This section has looked at the projected outlook for income growth across this Parliament based on current economic forecasts and policy. It has shown that, as things stand, the strong income growth in 2024-25 is set to slow down dramatically in 2025-26, and continue on a sluggish pace for the remainder of the potential five-year Parliament.

For low-income households, things would be even worse, with real incomes falling for the bottom fifth in every year of the forecast. In the next section, we show what this weak outlook for lower-income households means for projected levels of inequality and poverty, and how selected policy changes could improve these prospects.

Section 3

Poverty would rise over the Parliament under current policy assumptions

The poor forecasts for incomes in the bottom half of the distribution mean that relative poverty and inequality would rise, while absolute poverty would stagnate, under the inherited forecasts and existing assumptions on tax and benefit policy. Stronger earnings growth alone would not change that, and would increase relative poverty as the median income pulled away from those on lower incomes. We therefore look at the impact we could expect from two sets of reforms to social security policy: first, removing the two-child limit, benefit cap and Local Housing Allowance freeze from April 2025; and second, additionally indexing benefit uprating to earnings rather than prices. The first change would lead to a sizable drop in poverty rates, lifting 1 million people and 600,000 children out of relative poverty immediately. Moving to earnings-linked uprating would then stabilise relative poverty at around 1 percentage point below the average annual levels of the last Parliament, while absolute poverty would be put back on a downwards trajectory.

The outlook for poverty is bad based on current policy assumptions

In the previous section, we showed the weak outlook for real income growth at the lower end of the distribution. Unsurprisingly, this translates into a forecast for relative and absolute poverty where both are heading in the wrong direction.[13]

If the economic forecasts and policies inherited by the new Government remained unchanged, a further 1.5 million people, including 400,000 children, would be in relative poverty by the end of the Parliament, a rise from 22 per cent of the total

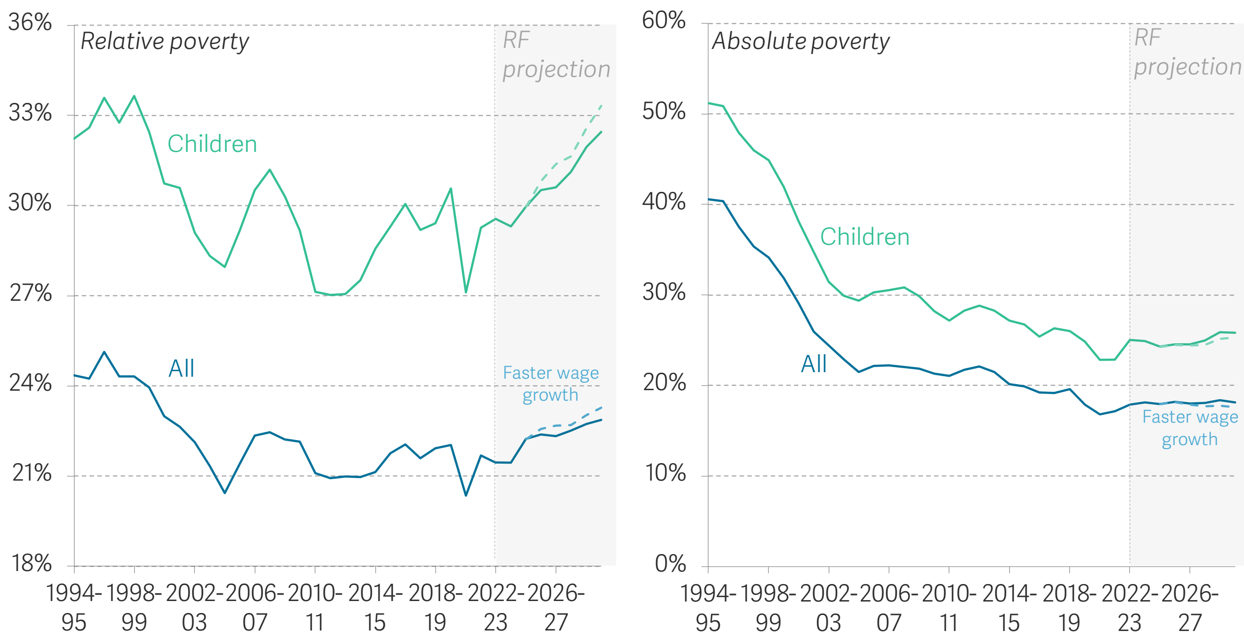
13 Relative poverty is defined as having an income below 60 per cent of the median income in a given year. Absolute poverty is defined as having an income below 60 per cent of the median income in 2010-11, adjusted for inflation. Both are useful. Relative poverty allows us to assess the proportion of the population that are falling significantly behind typical living standards at any given time. The constantly changing level of this poverty line can mean that the real income level that is now classed as 'in poverty' would not have been classed as such in past years, and poverty rates will increase if the median income grows faster than lower incomes. But if we take as a baseline that we expect living standards to improve over time, and that this should be shared across the distribution, relative poverty is a useful measure in determining the extent to which poorer households are falling behind the rest of the population. In contrast, absolute poverty measures the proportion of households that fall below a constant level of income, which means it is more consistent as a measure. However, judgments of progress on absolute poverty can be tricky when the standards of 2010 are applied to significantly earlier or later time periods.

population in 2024-25 to 23 per cent in 2029-30 – a level not seen since 2000-01 (see left panel of Figure 9).[14]

The share of people living in absolute poverty (shown in the right panel of Figure 9) would remain virtually flat at 18 per cent. This would be in stark contrast with the progress made when Labour was last in power: over the period of 13 years from 1996-97 to 2009-10, absolute poverty (using a threshold fixed at 60 per cent of the real median income in 1997-98) fell by 14 percentage points overall (7 million people), 20 percentage points for children (2.5 million), and a staggering 24 percentage points for pensioners (2.3 million).[15] If incomes perform no better than our projections, then this would be the only post-war Parliament where absolute poverty did not fall overall.[16]

FIGURE 9: **Relative and absolute poverty are both heading in the wrong direction, particularly for children**

Proportion of people living in relative and absolute poverty, after housing costs: GB/UK



NOTES: GB before 2002-03. Relative poverty is defined as having an income below 60 per cent of the median income in a given year. Absolute poverty is defined as having an income below 60 per cent of the median income in 2010-11, adjusted for inflation.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

14 Official poverty statistics may be significantly revised in 2025. DWP are in the process of linking Family Resources Survey responses to administrative benefits and earnings data to correct any responses that may be inaccurate. This process has also discovered that the survey may systematically under-represent benefit recipients, and so the grossing factors will also be adjusted. It remains to be seen what impact these changes will have on overall poverty levels, the make-up of poverty and trends over time. For now, the results that we present – including our projections – are necessarily based on the existing statistics. DWP, Family Resources Survey Transformation: integrating administrative data into the FRS, March 2024.
15 A Corlett and L Try, 'Hard times: assessing household incomes since 2010', Resolution Foundation, June 2024.
16 We cannot include the seven-month Parliament of 1974 in our analysis.

Figure 9 also shows the outlook for child poverty, which is worse than for the population as a whole, both in terms of existing levels and future increases. Poverty rates for children are higher than for working-age adults and pensioners, with around 4.2 million children currently living in relative poverty and 3.6 million living in absolute poverty. We project that child relative poverty could reach 4.6 million and that 3.6 million children would continue to live in absolute poverty by the end of the Parliament under current economic forecasts and policy assumptions. The relative child poverty rate is projected to rise from 29 per cent in 2023-24 to 32 per cent by 2029-30 – this would be its highest since the 1990s – while the proportion living in absolute poverty is set to remain at around 26 per cent throughout this Parliament, an increase from a low of 23 per cent at the start of this decade.

As noted in Section 2, faster-than-expected real earnings growth is much-needed. But, as Figure 9 additionally shows (see dashed lines), 1 percentage point faster earnings growth each year would not dramatically improve the absolute poverty outlook – all else equal – and would actually cause relative poverty to increase faster (relative poverty would be around an additional half a percentage point higher in 2029-30 in the more optimistic earnings scenario). As we have highlighted in previous work, lower-income households will tend to benefit relatively less from earnings growth due to earnings making up a smaller – or zero – share of their income, and due to high effective marginal tax rates (e.g. the withdrawal of Universal Credit as earnings rise).[17] This is why many households would fall relatively further behind compared to a rising median income.

Policy changes could make a significant difference to the outlook

In light of these forecasts, we have looked at what impact we might expect from two sets of reforms to social security policy. First, ending the handful of policies that break the link between need and entitlement in the social security system. The package we have modelled involves removing the two-child limit and the benefit cap from April 2025, and uprating the Local Housing Allowance by growth in private rents each year from April 2025, rather than freezing it at its 2024-25 level, as is currently assumed in the forecasts.[18]

And second, linking annual working-age benefit uprating to growth in earnings rather

17 M Brewer et al., 'Sharing the benefits: Can Britain secure broadly shared prosperity', Resolution Foundation, July 2023; Chapter seven: 'Shared rewards, fair sacrifices', Resolution Foundation & Centre for Economic Performance, LSE, 'Ending Stagnation: A New Economic Strategy for Britain', Resolution Foundation, December 2023.

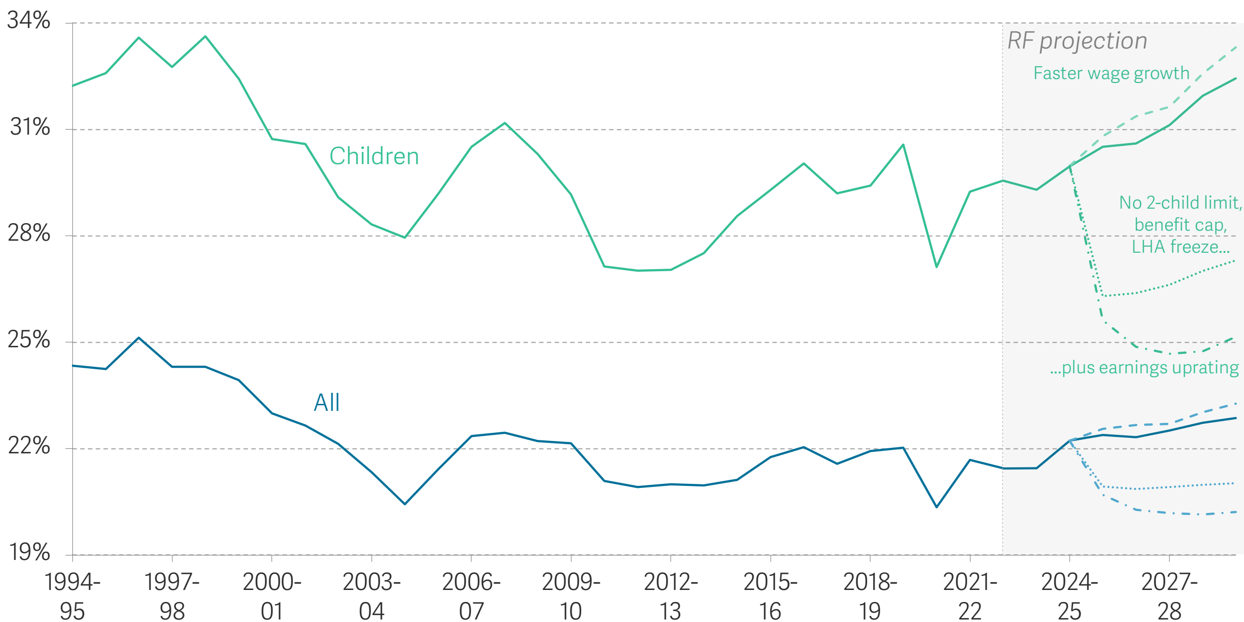
18 The two-child limit means that most families with a third or subsequent child born from 6th April 2017 do not receive support through Universal Credit or Child Tax Credit for these children. The benefit cap limits total annual benefit support for a couple or lone parent to £25,323 in Greater London and £22,020 outside Greater London, and for a single claimant without children to £16,967 in Greater London and £14,753 outside Greater London. The Scottish government provides funding to local authorities for discretionary payments to mitigate the benefit cap. The Local Housing Allowance sets a limit on the level of private rent that can be covered by housing support in Universal Credit or Housing Benefit. In principle, it is set at the 30th percentile of Broad Rental Market Area rents each year (as it was in April 2024), but in practice annual uprating has been inconsistent, see A Clegg, 'A temporary thaw: an analysis of Local Housing Allowance uprating over time', Resolution Foundation, December 2023.

than prices. Our previous work has shown that it is impossible to achieve shared income growth in a growing economy if income from benefits rises more slowly than people's earnings from the labour market.[19]

Removing the two-child limit, benefit cap and Local Housing Allowance freeze from April 2025 would immediately lift 1 million people out of relative poverty, and would reduce both relative and absolute poverty by around 1.5 percentage points straight away. And this would be a particularly effective way to reduce child poverty, with 600,000 children moving out of relatively poverty (see Figure 10).

FIGURE 10: **Benefit reforms would improve the outlook for relative poverty**

Proportion of people living in relative poverty, after housing costs: GB/UK



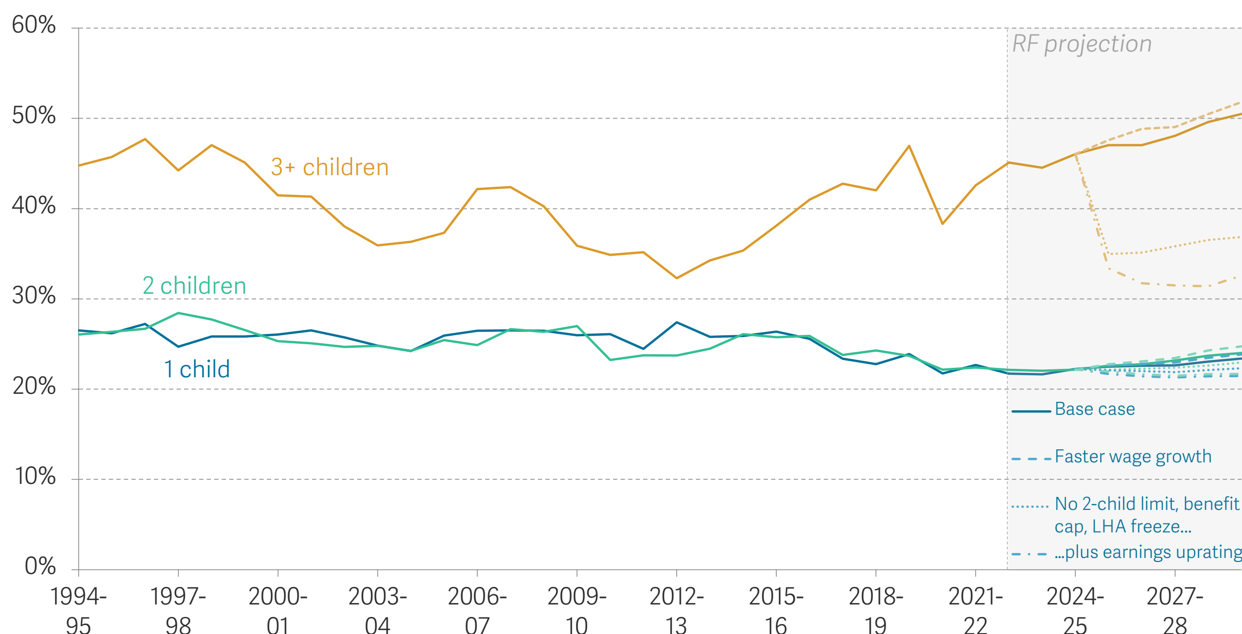
NOTES: GB before 2002-03. Relative poverty is defined as having an income below 60 per cent of the median income in a given year. 'No 2-child limit, benefit cap, LHA freeze' shows those policies removed from April 2025. 'Plus earnings uprating' is from April 2025 and in addition to the removal of the two-child limit, benefit cap and LHA freeze. Neither benefit scenario includes the faster wage growth scenario. See annex for full details on the scenarios presented.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

Unsurprisingly, families with three or more children would benefit the most (see Figure 11), as only these families are impacted by the two-child limit, and they are much more likely to be impacted by the benefit cap: the proportion of people in relative poverty in families with three or more children would drop by 11 percentage points overnight if these three policies were removed.

19 M Brewer et al., 'Sharing the benefits: Can Britain secure broadly shared prosperity', Resolution Foundation, July 2023.

FIGURE 11: **Large families would benefit strongly from removing social security policies that break the link between need and entitlement**

Proportion of people living in relative poverty, after housing costs, by number of children in the household: GB/UK



NOTES: GB before 2002-03. Relative poverty is defined as having an income below 60 per cent of the median income in a given year. 'No 2-child limit, benefit cap, LHA freeze' shows those policies removed from April 2025. 'Plus earnings uprating' is from April 2025 and in addition to the removal of the two-child limit, benefit cap and LHA freeze. Neither benefit scenario includes the faster wage growth scenario. See annex for full details on the scenarios presented.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

Figures 10 and 11 show that removing the benefit cap, two-child limit and LHA freeze would achieve a sharp drop in poverty rates, but relative poverty would then begin to rise again. This is because benefit uprating linked to CPI inflation means that the generosity of non-pensioner benefits falls behind median incomes, which are driven by earnings. The most reliable way to ensure shared growth is therefore to index benefit income to earnings, as is accepted (and then some) for the State Pension.[20] Indexing working-age benefits to average earnings rather than prices from April 2025 would leave most benefits around 6 per cent higher in 2029-30, equivalent to roughly £6 per week extra on the Universal Credit standard allowance for a single adult. Our modelling suggests that this additional change to social security benefits would be enough to stabilise rates of relative poverty at just over 20 per cent, as shown in Figure 10, roughly a percentage point below average annual levels of the last Parliament. And it would put absolute poverty on

20 M Brewer et al., Sharing the benefits: Can Britain secure broadly shared prosperity, Resolution Foundation, July 2023; Chapter seven: 'Shared rewards, fair sacrifices', Resolution Foundation & Centre for Economic Performance, LSE, 'Ending Stagnation: A New Economic Strategy for Britain', Resolution Foundation, December 2023.

a downwards trajectory, falling from 18 per cent this year to 15 per cent in 2029-30.

These changes would come at a cost, of course. We estimate that removing the two-child limit would cost around £2.5 billion next year, rising to around £3.7 billion by the time the policy affects all benefit-claiming families with three or more children (in 2025-26 prices), while ending the benefit cap and re-pegging the Local Housing Allowance to the 30th percentile of local rents would cost around £0.5 billion each next year, with the cost of removing the benefit cap rising in subsequent years (as the level of the cap is currently assumed frozen) and the cost of uprating the LHA in subsequent years dependent on rent growth at the 30th percentile. Linking annual benefit uprating to growth in earnings rather than prices, if done in addition to the aforementioned reforms, would cost around an extra £3 billion next year, rising to £9 billion by 2029-30, in 2025-26 prices.[21]

BOX 2: **Our illustrative benefit rises would help achieve international commitments on poverty, though may still fall short**

As well as reducing relative poverty, more generous benefit policies would of course also reduce absolute poverty. By 2029-30, overall absolute poverty could be 3 percentage points lower with our illustrative package than we project it would be under current policy, and child absolute poverty 9 percentage points lower. Both would fall to record lows – following the usual historic pattern of absolute poverty falling over time as real incomes grow.

It remains to be seen whether the upcoming Child Poverty Strategy will adopt any specific targets.[22] But we have previously highlighted that the UK has committed on the international stage to halving poverty rates.[23] The UN Sustainable Development Goals (SDGs), adopted in 2015, cover many issues, but target 1.2 commits the country to "by 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions". Unlike some other countries, such as Canada, the UK has not set out a chosen measure or baseline (nor how 'by 2030' would be defined). But given how difficult it would be to halve relative poverty (see earlier charts), we think a workable goal would be to at least halve absolute poverty after housing costs between 2015-16 and 2029-30 (or 2030-31).

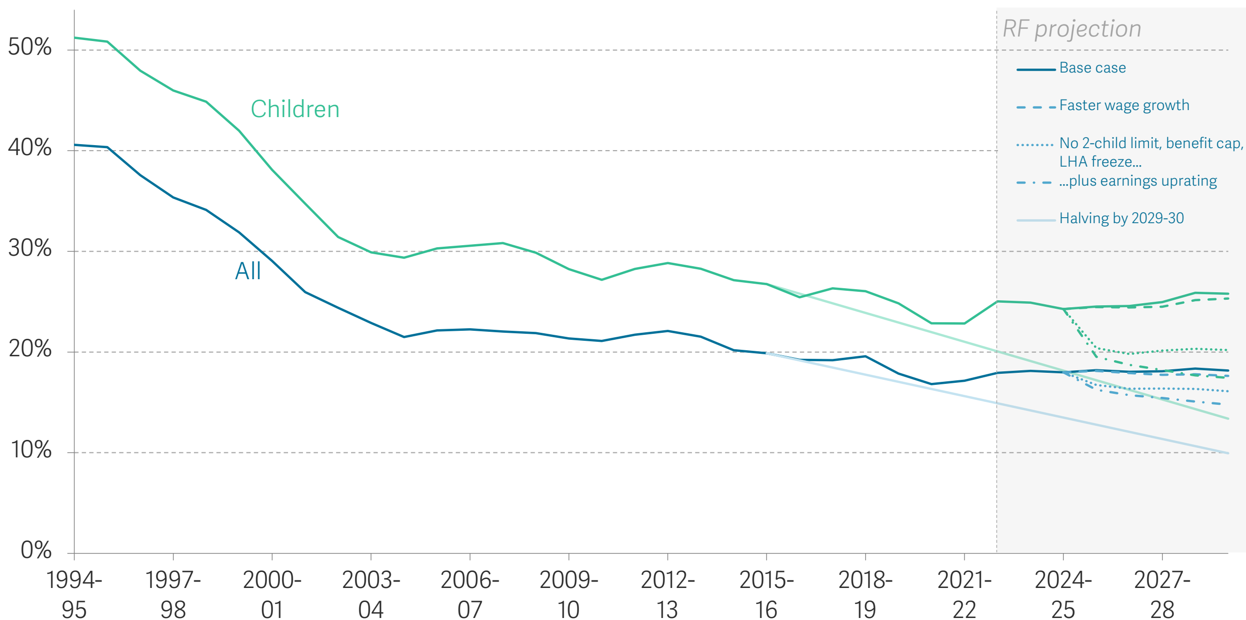
Figure 12 shows that we were not on track in 2022-23 relative to this target, for all ages and for children,

21 We do not explore here how these illustrative benefit increases would be funded, but most tax rises would be unlikely to lessen the positive impact of higher spending on relative and absolute poverty.
22 https://www.gov.uk/government/news/child-poverty-taskforce-kicks-off-urgent-work-to-publish-strategy-in-spring
23 A Corlett, Half time: The UK's commitment to halve poverty by 2030, Resolution Foundation, September 2023.

and absolute poverty is currently not projected to fall in future – meaning that the targets would be completely missed. Our illustrative benefit reforms show that it would be quite feasible to make significant progress, however. In our second benefit policy scenario, all-age and child absolute poverty in 2029-30 is around one quarter lower than in 2015-16.

FIGURE 12: **The Sustainable Development Goals imply that the UK should be halving poverty by 2030, relative to 2015**

Proportion of people living in absolute poverty, after housing costs: GB/UK



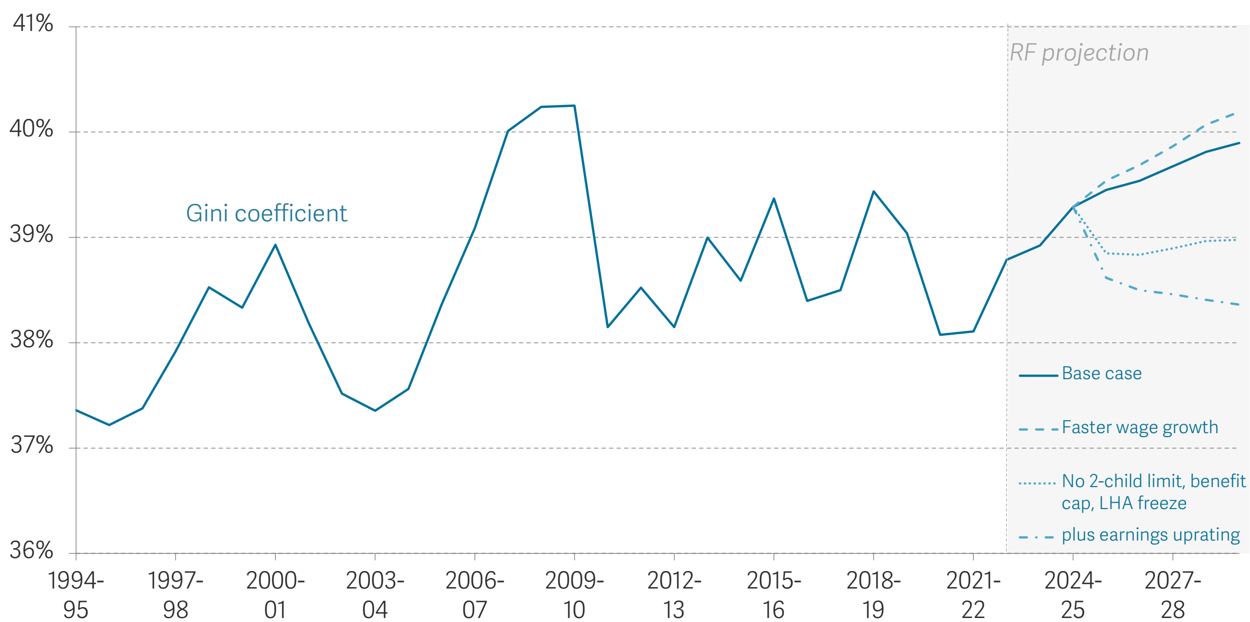
NOTES: GB before 2002-03. Absolute poverty is defined as having an income below 60 per cent of the median income in 2010-11, adjusted for inflation. 'No 2-child limit, benefit cap, LHA freeze' shows those policies removed from April 2025. 'Plus earnings uprating' is from April 2025 and in addition to the removal of the two-child limit, benefit cap and LHA freeze. Neither benefit scenario includes the faster wage growth scenario. See annex for full details on the scenarios presented.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

In addition to a poverty goal, the SDGs also commit the UK to "By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average" – which Figure 7 suggests will also not be met under existing policies. As we have argued earlier, it may be difficult to achieve this without benefit policies such as earnings uprating that help ensure that growth is shared.

These benefit reform packages would also make a difference to overall inequality, as shown in Figure 13. Without action, the Gini coefficient is set to rise over this Parliament to around 40 per cent – its highest rate since 2009-10 – having already risen between 2022-23 and 2024-25, in part due to the National Insurance rate cuts.[24] Removing the two-child limit, benefit cap and LHA freeze would mean the Gini coefficient would be 1 percentage point lower than it is projected to be based on current policy in 2029-30, while also moving to earnings-linked uprating would boost that reduction to 1.7 percentage points. This would be a sizable drop, but it should be noted that even in this case the Gini coefficient would not be low by historic standards, with a value of 38.4 per cent in 2029-30, compared to a very similar average over the period from 1997-98 to 2022-23 of 38.6 per cent.

FIGURE 13: **Inequality is set to rise further over this Parliament, but alternative policy choices could change that**

Gini coefficient for equivalised household disposable income, after housing costs: GB/UK



NOTES: Data source changes in 1994-95. GB from 1994-95 to 2001-02. Our modelling produces lower inequality figures than the published data suggests – in part due to under-reporting of benefits in the published data. We adjust our projection levels to match the outturn data.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; Bank of England, Monetary Policy Report, August 2024; and OBR, Economic and Fiscal Outlook, March 2024.

24 Note that our projected levels are sensitive to the accuracy of the base year statistic: i.e. if the 2022-23 HBAI inequality estimate is an overestimate (or underestimate), then so our projections would be.

This section has shown that the dire outlook for income growth in the bottom half of the income distribution based on current policy assumptions would mean significant rises in relative poverty and inequality, while absolute poverty would remain at its current level. It has also shown how changes to social security policy could have a substantial immediate impact on poverty rates, especially for children, and could prevent relative poverty and inequality being set on an upwards trajectory.

Benefit rises are, of course, not the only way to make a difference to poverty and inequality. In upcoming work, we will also explore how the labour market and housing policies can affect poverty rates, and how changes to the tax system can reduce inequality. But it is clear that poverty-reducing policies are needed, and that social security changes will need to be a part of that to make a significant difference.

Section 4

Conclusion

The projections presented in this report, based on the economic forecasts and policy landscape that the new Government inherited, show a gloomy outlook for incomes, poverty and inequality over this Parliament. Without action to boost growth and change course on benefit policy, income growth would likely be slow over the next few years following a strong 2024-25. And relative poverty, absolute poverty and inequality would be set to increase throughout the Parliament, as real incomes for the poorest fall further.

These projections should not be taken as a forecast of what will happen over the next five years: they make no allowance for the new Government's agenda and growth-boosting aspiration. But our projections make clear that there are a range of headwinds that will need to be overcome or removed to beat the forecasts and improve the trajectory of living standards.

The Government is right to seek higher growth: this will directly boost incomes while also providing increased revenue. A range of measures that are outside the scope of this report will no doubt be pursued to boost people's living standards, including through housing and labour market reforms. However, our previous work has shown that even distinctly progressive changes to the labour market may not be enough to get poorer household's incomes rising faster than those of middle- and higher-income households, and thus reduce poverty and inequality.[25] Reforms to tax and benefit policy are likely to be necessary to ensure that growth is shared, poverty falls, and living standards improve across the income distribution.

25 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

Annex

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/ Households Below Average Income statistics, 2022-23) to the years from 2023-24 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.[26]

- We reweight the population to match ONS forecasts for demographic change by age and gender.[27] 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 2024 outlook, as the Bank of England's August 2024 forecast is lacking in detail.[28]
- We also adjust the survey weights to model changes in the unemployment rate, based initially on the Bank's forecast followed by an assumption that unemployment returns slowly to the Bank's long-term equilibrium rate.
- 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 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.

26 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.
27 ONS, National population projections: 2021-based interim, January 2024.
28 The Bank's latest participation rate forecast is, if anything, more pessimistic than the OBR's.

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. We assume that the minimum wage beyond 2024-25 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. As noted in Section 2, 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 after 2024-25, despite the previous Government's commitment to implement reforms that would increase contributions for some people in the 'mid-2020s'.
- 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,[29] savings interest is modelled in the Wealth and Assets Survey – using interest projections from early August 2024 – and then imputed into the HBAI data.
- Dividend and property income growth follow OBR assumptions.

29 See Box 1 in: A Corlett, The Living Standards Outlook – Summer 2023 Update, Resolution Foundation, September 2023.

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 Bank's August 2024 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 which we have updated using market-based average rate projections from early August 2024.
- 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 June 2024.
- Social rents are uprated based on the Bank's inflation forecast and the CPI + 1 per cent policy.
- Other housing costs (including home insurance and water supply) are uprated using the Bank'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:

- 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 not completed until 2027-28.
- We model incomplete take-up of the main means-tested benefits. For example, we assume 63 per cent take-up of Pension Credit, and 80 per cent take-up of Universal Credit. We assume that these figures do not change between years (or scenarios).
- 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 replacement of Disability Living Allowance with Personal Independence Payments is not modelled, and we do not specifically model any rise in disability benefit receipt since 2022-23.
- The introduction of the new State Pension for younger cohorts is modelled.
- We model the means-testing of Winter Fuel Payments from 2024-25.
- 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 or deductions.

Projecting changes rather than levels

Using all of the above, we model incomes in the years 2022-23 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 2022-23 outturn data, rather than directly using the projected levels. This does mean that any random or systematic error in the 2022-23 data will also affect our projected levels.

Scenarios

In addition to our main projection, we also look at a more optimistic labour market scenario and two benefit-reform scenarios:

- Faster wage growth: Nominal wage growth is 1 percentage point above our base case forecast in each of the five years from 2025-26 to 2029-30. We also assume that the State Pension triple lock changes accordingly. We do not incorporate any other potential knock-on effects, such as higher housing costs.
- First benefit scenario: The benefit cap, the two-child limit and the freeze to the Local Housing Allowance are removed from April 2025. The Local Housing Allowance is then assumed to rise in line with growth in private rents each year.
- Second benefit scenario: In addition to the policies in the first benefit scenario, we switch to uprating most benefits by the previous September's three month average of annual growth in Average Weekly Earnings, rather than the previous September's annual growth in CPI, every year from April 2025

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