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Inequality control

Why wealth inequality has not increased while asset prices have soared and what that means for the future

Simon Pittaway

November 2024

Acknowledgements

The author is grateful to the abrdn Financial Fairness Trust for supporting this research, which is the latest output in a four-year program of work. The Resolution Foundation joined the abrdn Financial Fairness Trust to embark on a major investigation into the role of wealth in 21st century Britain. The abrdn Financial Fairness Trust's mission is to contribute towards strategic change which improves financial wellbeing in the UK. Its focus is on tackling financial problems and improving living standards for those on low-to-middle incomes. It is an independent charitable foundation.

The author would like to thank Arun Advani, Karen Barker, Brian Bell, Sebastian Burnside, Emma Chamberlain, Mubin Haq, Eleni Karagiannaki, Carla Kidd, Sarah Luheshi, David Miles, Ben Moll, Natacha Postel-Vinay, Michael Royce and David Sturrock for their input into this report or to earlier work on which it is built. Thanks also to current and former colleagues at the Resolution Foundation for their generous contributions, particularly Mike Brewer, Molly Broome, Ian Mulheirn and James Smith. All errors are the author's own.

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Executive Summary

The turbulent 2020s have had profound implications for the wealth of the nation: lockdowns pushed saving to unprecedented highs, asset prices surged and then tanked, and high inflation eroded the real value of wealth. This recent turbulence came on the back of decades of rising wealth. But, unlike elsewhere, relative wealth inequality in Britain did not soar during the era of rapidly rising wealth. In this report we discuss what lies behind this puzzling stability, as it is key to understanding the reality of wealth inequality in Britain today, and how it might evolve in future as the dust settles from the pandemic and the cost of living crisis.

British wealth inequality was surprisingly stable in the decades leading up to the pandemic

In 1980, UK household wealth stood at around three-times national income. By 2019 it had risen to around seven-times national income. This rise was rapid, unprecedented, and driven mostly by passive capital gains as interest rates fell and assets prices soared. But during this time of seismic changes in the total value of wealth, measures of relative wealth inequality were conspicuously stable. This is in stark contrast to the US, where inequality surged over the same period: between 1980 and 2019, the share of wealth owned by the richest 1 per cent grew by 12 percentage points in the US, compared to a rise of less than 1 percentage point in the UK. Avoiding this rise in headline inequality is a good thing, as an increasing concentration of wealth can undermine social cohesion and mobility.

But lurking underneath this headline of static wealth inequality were more pronounced shifts in the level of inequality between age groups at the same point in time. Focusing in on the period between the financial crisis and the pandemic, we find that wealth in Britain became much more unequally shared between young and old. In 2018-20, median wealth among Britons in their 60s was 55 per cent higher in real terms than among those of the same age in 2006-08, whereas median wealth for those in their 30s was a third (34 per cent) lower. This trend should have put upwards pressure on measures of relative wealth inequality. For example, if only the gaps between age groups had changed between 2006-08 and 2018-20, then the share of pension, property and financial wealth owned by the top 1 per cent would have been 15 per cent, rather than its actual value of 12 per cent.

The key reason why headline wealth inequality didn't increase despite rising inequality between age groups was falling inequality within groups – in particular, among older Britons. For those aged 60 or over, the Gini coefficient of wealth within age groups fell between 2006-08 and 2018-20 (with an average fall of 3 percentage points), meaning that wealth became more equally distributed over time. But this was not the case for all age groups: wealth among those in their late 30s and early 40s was distributed more unequally in 2018-20 than in 2006-08.

The differing fortunes of younger and older Britons are tied together by recent trends in home ownership. The share of 35-44-year-olds owning their own home fell from 73 per cent in 2006-08 to 66 per cent in 2018-20. Home ownership fell particularly sharply for less wealthy members of this group, and so housing wealth became more unequally distributed. Older age groups saw the exact opposite: rising home ownership rates (in part due to cohort effects), concentrated at the bottom of the wealth distribution, led to a more equal distribution of housing wealth.

Household wealth has fallen by more than £2 trillion as interest rates have risen since 2021

After rising consistently for decades, wealth has been volatile in recent years. UK households have saved a greater share of income

in the past five years than at any point in the past quarter of a century. On its own, this would have gently pushed up the stock of wealth. But changes in interest rates and asset prices have had a far greater impact. After interest rates were cut at the start of the pandemic, and house prices rose in the immediate recovery, household wealth is estimated to have peaked at eight times GDP in 2021. But a sharp reversal of these trends, as interest rates rose to help combat inflation, has led to a huge fall in household wealth. We estimate that household wealth has fallen to around six times GDP in 2023. Peak to trough, household wealth fell by £2.6 trillion in cash terms (between Q1 2022 and Q4 2023). The fluctuating value of pensions have played a major role, accounting for three-quarters (77 per cent) of the fall in Britain's wealth-to-GDP ratio from its peak in 2021. A key driver has been a fall in the implied value of guaranteed pension incomes, such as those promised in defined benefit (DB) schemes. Although these income streams haven't changed, the fall in their implied value does mark a significant change. DB pensions had become so valuable in a low-rate world precisely because the income streams they promise had become much harder for younger workers to obtain by earning a return on their savings.

Rising interest rates are set to partially reduce wealth inequality between young and old

Because individuals around retirement age are particularly exposed to falling pension wealth, recent passive changes in wealth should reduce some of the inequality that built up after the financial crisis between younger and older generations. We estimate that median per-adult family wealth for those who were in their 60s in 2018-20 has fallen 16 per cent by Q3 2024 (from £470,000 to £390,000 in today's prices). At the same time, wealth for those in their 30s is estimated to have risen by 17 per cent (from £50,000 to £59,000). As a result, the gap in typical wealth between these two age groups has shrunk by £86,000 in real terms to its smallest level in more than a decade.

The significant fall in total wealth, combined with a moderation of inequality between age groups, implies that some of the absolute – or pounds and pence – gaps between families at different points in Britain's wealth distribution has been reduced. In today's prices, the

gap between average per-adult wealth for families in the top decile and the fifth decile grew from £1.1 million in 2006 to £1.6 million in 2019. But, based on changes in asset prices and interest rates since then, we estimate that this gap has fallen back to around £1.3 million in 2024, about the same size as in 2014. This is still a large gap, but it is the largest sustained fall in absolute wealth gaps since comparable data began nearly 20 years ago.

Rising interest rates should reduce the relative wealth of older Brits but that wealth will be passed on in the coming decades

Despite the recent fall, there remains a historically large amount of wealth to be passed on by older Britons. Between 2004-05 and 2021-22, the total real-terms amount of inheritances passed down in the UK grew by two-fifths (42 per cent). In real terms, the value assets inherited in 2021-22 is estimated to have fallen by only 5 per cent in the years since then, leaving the total value of inheritances a third (34 per cent) higher than 20 years ago.

Inheritances are therefore set to continue to play a historically large role in shaping the distribution of wealth across ages. And, in recent years, financial gifts have become an increasingly common way for wealth to transfer between generations. But it is those that are already wealthy relative to their peers who are most likely to receive an inheritance or a gift: someone in the top fifth of their age group's wealth distribution in 2016-18 was two-and-a-half times more likely to receive an inheritance in the following two years than someone in the bottom fifth (5 per cent versus 2 per cent) and twice as likely to receive a financial gift (8 per cent versus 4 per cent). And, when they receive a financial transfer, wealthier recipients are more likely to get a large one. But, despite this clear distributional slant in who receives inheritances and gifts, inheritances may actually reduce relative measures of wealth inequality in the short term. Although the absolute size of financial transfers tends to be largest for those near the top of their age group's wealth distribution, the size of transfers relative to existing wealth levels is greatest at the bottom – and it is this that is captured in measures like the Gini coefficient. For example, for those in the bottom quintile of their age group's wealth

distribution, the median financial gift is worth 43 per cent of pre-gift wealth. This falls to just 2 per cent for those in the top quintile. So, at the point gifts and inheritances are received, they are likely to reduce relative inequality within age groups.

Even if wealth inequality has not risen, policy makers should not be relaxed about the distribution of the nation's wealth

Although the UK doesn't face the same scale of wealth inequality as the US, it is not to say all is well. Significant gaps between young and old remain, and gifts and inheritance look set to increase the absolute wealth gaps – if not relative wealth inequality – within age groups.

Policy should, do more to deal with the present reality of Britain's unbalanced wealth landscape. At the bottom of the wealth distribution, there are millions of families in the UK with very few savings to fall back on in an emergency. In 2018-20, around one-in-three working-age families (30 per cent) had less than £1,000 in accessible savings. Supporting them requires building on what has already been found to work. The extension of Help to Save, announced at the 2024 Autumn Budget, was a welcome step in this direction. But the Government should go further, and the second stage of its Pensions Review should consider reforming pensions auto-enrolment to support employees build precautionary-savings buffers.

Meanwhile, in a world of large passive gains and growing inheritances, more can be done to ensure that wealth taxes pull their weight – which will mean those at the top of the wealth distribution paying more. Here, the Budget took a step in the right direction by broadening the tax base for Inheritance Tax to include pension pots, as well as scaling back tax reliefs for agricultural and business assets. Given the rising prevalence of defined contribution schemes and the removal of compulsory annuitisation in 2015, this was a welcome change. However, the Budget's changes to Capital Gains Tax – raising headline rates towards marginal tax rates on earnings – fell well short of the fundamental reform that is needed to improve both fairness and economic efficiency.

Section 1

Introduction

From the mid-1980s to the end of the 2010s, the total stock of wealth owned by British households rose consistently. For much of the post-war period up until the mid-1980s, household wealth was worth around three times national income. Over the following decades wealth went on a seemingly inexorable rise, reaching around seven times national income in 2019. But during this period of rapidly rising wealth, wealth inequality was remarkably stable – a puzzling outcome when compared to surging inequality in the US over the same period.

This rising tide of wealth appears to have come to an abrupt halt in the 2020s. As highlighted in our previous research, the early stages of the pandemic saw the UK's wealth-to-GDP ratio rise.1 But this quickly reversed, as higher interest rates and falling asset prices caused the total value of wealth to plummet as a share of GDP.2

In this report, we begin with an examination of the apparent puzzle of stable inequality in the pre-pandemic period, before taking a fresh look at the scale and distribution of wealth in the wake of the pandemic and cost of living crisis. The rest of the report is structured as follows:

- Section 2 covers the decades leading up to the pandemic. As well as documenting the rise in wealth over the years, we revisit recent trends in inequality, focusing on the evolution of inequalities between and within different age groups.
- Section 3 takes an updated look at how trends in household saving and asset prices have determined the path of aggregate wealth in the 2020s, and what recent changes might mean for wealth inequality.
- Section 4 concludes with analysis of how inherited and gifted wealth are set to shape the wealth distribution in future and discusses how policy should adapt to the reality of Britain's changing wealth landscape.

1 J Leslie & K Shah, (Wealth) gap year: The impact of the coronavirus crisis on UK household wealth, Resolution Foundation, July 2021.
2 M Broome, I Mulheirn & S Pittaway, Peaked interest? What higher interest rates mean for the size and distribution of Britain's household wealth, Resolution Foundation, July 2023.

Section 2

British wealth soared before the pandemic, but inequality was puzzlingly stable

In the decades before the pandemic, UK household wealth was on a seemingly inexorable rise. Driven by falling interest rates, the total stock of wealth owned by British families grew at a far faster rate than incomes. As a result, UK wealth as a proportion of national income increased from 280 per cent in 1980 to 710 per cent in 2019.

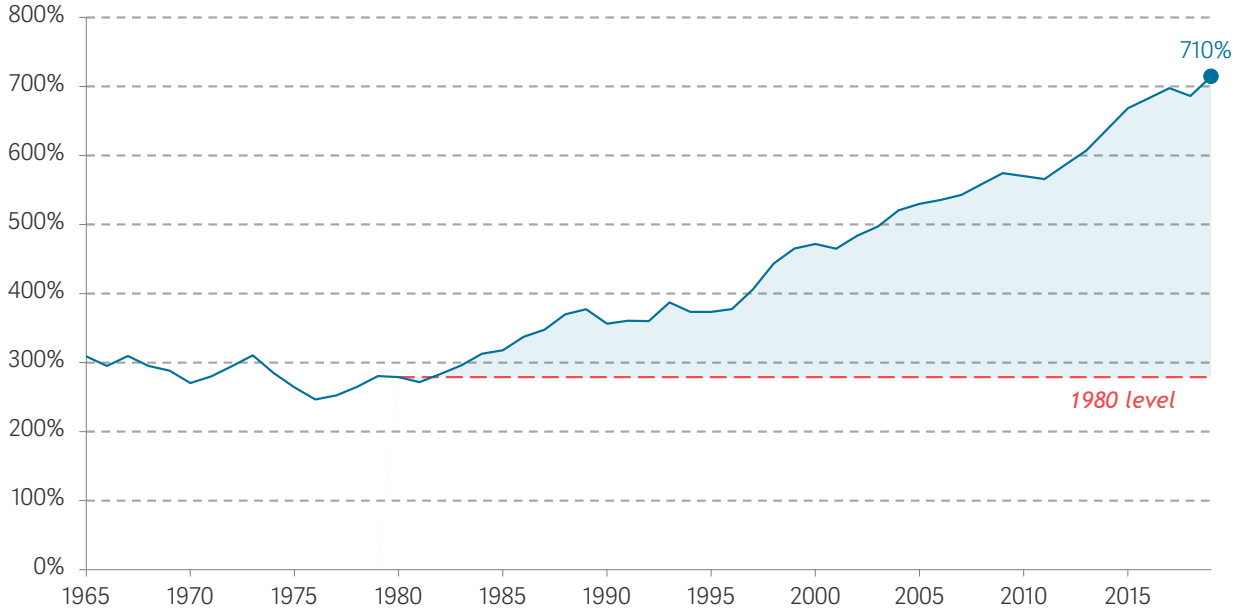
But during this time of seismic changes to the total value of wealth, measures of wealth inequality were broadly stable. This is in stark contrast to the US, where inequality rose markedly over the same period. Between 1980 and 2019, the share of wealth owned by the richest 1 per cent grew by 12 percentage points in the US, compared to a rise of less than 1 percentage point in the UK.

So, then, what explains the puzzling stability of UK wealth inequality? The jumping off point for our investigation is the lifecycle saving behaviour of families. Families saving for retirement and then running down assets is a key driver of fluctuations in wealth at the household level and a major contributor to headline wealth inequality. Doing so reveals that the stability of headline inequality measures hides shifts in the gaps between and within age groups in the period between the financial crisis and the pandemic. In 2018-20, typical wealth among Britons in their 60s was 55 per cent higher in real terms than among those of the same age in 2006-08. By contrast, typical wealth for those in their 30s was a third (34 per cent) lower. On their own, these wider gaps between age groups would have led to a clear increase in wealth inequality, pushing Britain above three G7 peers (Canada, Japan and Germany) in the international ranking of wealth inequality. But this has not happened. The key reason for this is falling wealth inequality within the group of older Britons. The wealth Gini within age groups fell for all groups aged 60 or older between 2006-08 and 2018-20 (with an average fall of 3 percentage points). But not everyone has seen wealth become more equal: wealth among those in their late 30s and early 40s was distributed more unequally in 2018-20 than in 2006-08, driven by housing wealth and consistent with millennials' well-documented difficulties in accessing home ownership.

From the 1980s to the 2010s, the defining trend in Britain's wealth landscape was a huge rise in the total value of household wealth. As shown in Figure 1, the total stock of household wealth in 1980 was worth around three times national income (280 per cent), a typical level for the post-war period. But by 2019 wealth stood at around seven times national income (710 per cent).

FIGURE 1: **In the decades before the pandemic, UK household wealth more than doubled relative to incomes**

Household wealth as a share of national income: UK/GB



NOTES: Distributional National Accounts for the UK are based on Alvaredo, Atkinson & Morelli (2018) up to 1994, and Blanchet & Martínez-Toledano (2022) from 1995 onwards. The two series differ, importantly including their treatment of pension wealth: the former ignores pension wealth entirely, while the latter includes funded but not unfunded pension wealth. To present a consistent time series, the pre-1995 data has been adjusted upwards based on the average difference between the two data sources in the 1995-2012 period.
SOURCE: RF analysis of F Alvaredo, A B Atkinson & S Morelli, Top wealth shares in the UK over more than a century, Journal of Public Economics 162, June 2018 (compiled by the World Inequality Database); T Blanchet & C Martínez-Toledano, Distributional Wealth Accounts in Europe: Methodology, World Inequality Lab, January 2022 (compiled by the World Inequality Database); E Saez & G Zucman, The Rise of Income and Wealth Inequality in America: Evidence from Distributional Macroeconomic Accounts, Journal of Economic Perspectives 34(4), 2020.

This rise in wealth had a profound impact on the economic context for British families. Most of this rise in wealth came from 'passive' capital gains as falling interest rates

pushed-up the value of long-dated assets.[3] This benefitted existing asset holders at the expense of those looking to acquire assets, like a home, in the future.[4] And, as discussed in previous work, Britain's growing stock of household wealth stretched the pounds and pence gaps between those at the top of the wealth distribution and those further down.[5] This deepened economic differences by making it harder for families to move up the wealth distribution by saving out of their own income.

Clearly, inequality in the distribution of wealth matters too. Visible differences in financial resources, including wealth, have been linked to rising anxiety and fraying social cohesion.[6] And unequal wealth has a particularly pernicious impact on social mobility across generations, pushing the concentration of wealth higher over time.[7]

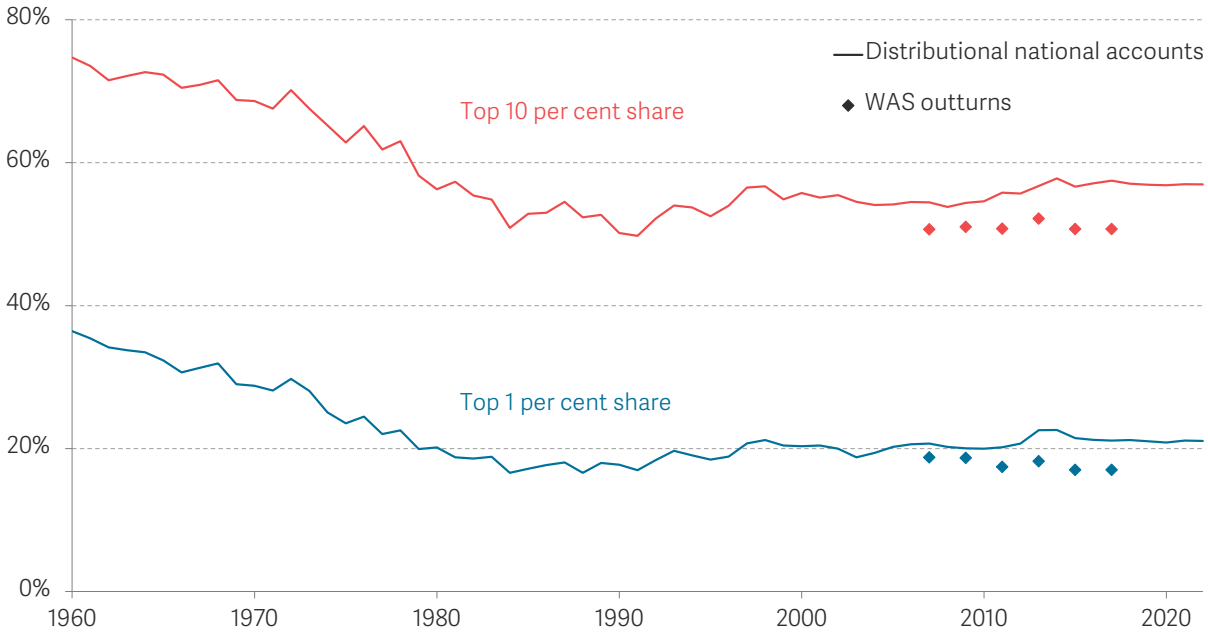
In Britain, headline measures of relative wealth inequality haven't risen much over recent decades

But during Britain's period of rapidly rising wealth, measures of relative wealth inequality – such as the concentration of wealth at the top of the distribution – have been remarkably stable. Before 1980, wealth inequality in Britain was falling sharply, as shown in Figure 2.[8] Since then, top shares of wealth in the UK have been relatively flat. The share owned by the top 10 per cent has grown slightly since reaching a historic low of 50 per cent in 1991, but in 2019 it was only 1 percentage point higher than in 1980 (57 per cent versus 56 per cent). Post-financial crisis data from the ONS's Wealth and Assets Survey (WAS) tells a similar story of little change in concentration at the top, as shown by the diamonds in Figure 2 (Box 1 discussed the different wealth definitions that explain the level gap between the WAS and long-term estimates of top shares).[9] And previous research has found that the Gini coefficient of wealth, a broader measure of inequality across the whole distribution, has also been flat over this period.[10]

3 J Madsen, Wealth and inequality over eight centuries of British capitalism, Journal of Development Economics, Vol.138, May 2019; I Mulheirn, Sources of wealth and their implications for taxation, Wealth Tax Commission, October 2020.
4 A Fagereng et al., Asset-Price Redistribution, World Inequality Lab Working Paper, April 2024.
5 P Bourquin, M Brewer & T Wernham, Trends in income and wealth inequalities, IFS Deaton Review of Inequalities, November 2022; M Broome & J Leslie, Arrears fears: The distribution of UK household wealth and the impact on families, Resolution Foundation, July 2022.
6 M Brewer, What Do We Know and What Should We Do About Inequality?, Sage, June 2019; R Wilkinson & K Pickett, The Inner Level: How More Equal Societies Reduce Stress, Restore Sanity and Improve Everyone's Well-being, Penguin, June 2019.
7 M Savage et al., Why wealth inequality matters, LSE International Inequalities Institute, May 2024.
8 This trend was mirrored across other developed economies, reflecting increased home ownership and more pension saving as life expectancies lengthened. For an international perspective, see: D Waldenstrom, Wealth and history: A reappraisal, Explorations in Economic History, October 2024.
9 Although the two data sources show little change in wealth inequality, they do show different levels of inequality, mainly reflecting conceptual differences in the definition of wealth used. In particular, the Distributional National Accounts only include funded pension wealth, whereas the WAS includes the value of all pensions.
10 M Broome & J Leslie, Arrears fears: The distribution of UK household wealth and the impact on families, Resolution Foundation, July 2022.

FIGURE 2: **Despite a more than doubling of wealth stocks, the UK has seen only limited increases in relative wealth inequality over the past 40 years**

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



NOTES: Top wealth shares from the Wealth and Assets Survey are taken from Advani, Bangham & Leslie (2021). As well as financial, pension and property wealth, they include an adjusted measure of physical wealth that proxies for its replacement value and imputed business wealth based on the 2016-18 wave, due to inconsistent coverage for earlier survey rounds. Distributional National Accounts are based on Alvaredo, Atkinson & Morelli (2018) up to 1994, and Blanchet & Martínez-Toledano (2022) from 1995 onwards. The two series differ, importantly including their treatment of pension wealth: the former ignores pension wealth entirely, while the latter includes funded but not unfunded pension wealth. To present a consistent time series, the pre-1995 data has been adjusted upwards based on the average difference between the two data sources in the 1995-2012 period. The WAS data is for Great Britian, while Distributional National Accounts are for the whole of the UK.
SOURCE: RF analysis of A Advani, G Bangham & J Leslie, The UK's wealth distribution and characteristics of high-wealth households, Fiscal Studies, October 2021; F Alvaredo, A B Atkinson & S Morelli, Top wealth shares in the UK over more than a century, Journal of Public Economics 162, June 2018 (compiled by the World Inequality Database); T Blanchet & C Martínez-Toledano, Distributional Wealth Accounts in Europe: Methodology, World Inequality Lab, January 2022 (compiled by the World Inequality Database).

BOX 1: **Defining and measuring household wealth**

When analysing the level of wealth and its distribution, definitions matter. And defining household wealth isn't as straightforward as it might seem. Nor is measuring wealth accurately. This box clarifies the definitions of wealth used in this report, highlights differences with other research, and highlights some relevant measurement issues.

In this report, we rely substantially on the ONS's Wealth and Assets Survey (WAS) as the most granular data on

wealth in Great Britain. Our preferred measure of wealth in the WAS excludes physical wealth (e.g. cars, home contents) and private business wealth. Rather than a conceptual decision, the omission of these sources of wealth reflects variation in the quality of the data collection and comparability of the data definitions over survey rounds, which creates difficulty in evaluating trends over time.[11] Our headline measure of total wealth is defined as the sum of net property wealth (i.e. any buildings or land net of any mortgages secured on those assets), net financial wealth (i.e. all financial assets net of any non-mortgage debt), and pension wealth (including all private pensions, future pension entitlements, and pensions in payment but excluding public pension entitlements). Our unit of analysis is the individual, but we split wealth equally between adults in the same family, as this measure is likely to better reflect the impact of wealth on living standards than individual-level wealth holdings.[12] This measure is used throughout unless otherwise stated.

Other research on wealth inequality uses different measures of wealth. For data on long-term trends in wealth inequality, we rely on top shares published in the World Inequality Database. These top shares are based on conceptually different definitions of wealth to our preferred measure. Before 1995, this data is based on estimates of the wealth distribution derived from the amounts held in estates at the point someone dies.[13] Pensions are excluded from estates, and so are not captured in this data. From 1995 onwards, the estates data is adjusted using household survey data, which includes adding an estimate for funded – but not unfunded – pension wealth.[14] Unfunded pension wealth is excluded on the grounds that it reflects a promise of future transfers that are not backed by actual wealth today.[15] We take a different view, and evaluate the value of the full pension promise to individuals.[16] This definition has practical benefits, but is principled too: it draws the boundary of wealth around assets that an individual can legally claim, which would be the natural basis for a wealth tax.[17] It is worth noting that other researchers have argued for a broader definition of wealth that

11 For more on these issues, see: G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020.
12 This measure will not always be the most appropriate one. One notable caveat with this measure is that it obscures gender-based wealth inequality, as it eliminates gaps between members of a different-sex couple.
13 F Alvaredo, A B Atkinson & S Morelli, Top wealth shares in the UK over more than a century, Journal of Public Economics, June 2018.
14 T Blanchet & C Martínez-Toledano, Distributional Wealth Accounts in Europe: Methodology, World Inequality Lab, January 2022.
15 T Blanchet et al., Distributional National Accounts Guidelines: Methods and Concepts used in the World Inequality Database, World Inequality Lab, February 2024.
16 The value of pension entitlement should, in principle, be adjusted according to the likelihood of the pension provider making good on its promise. But this adjustment is likely to be negligible in practice and it is not accounted for in the WAS.
17 A Advani, G Bangham & J Leslie, The UK's wealth distribution and characteristics of high-wealth households, Fiscal Studies, October 2021; A Advani, E Chamberlain & A Summers, Is it time for a UK wealth tax?: Initial Report, Wealth Tax Commission, October 2020.

includes claims on social security.[18] We do not adopt this approach based on the same principle behind including unfunded pension wealth.

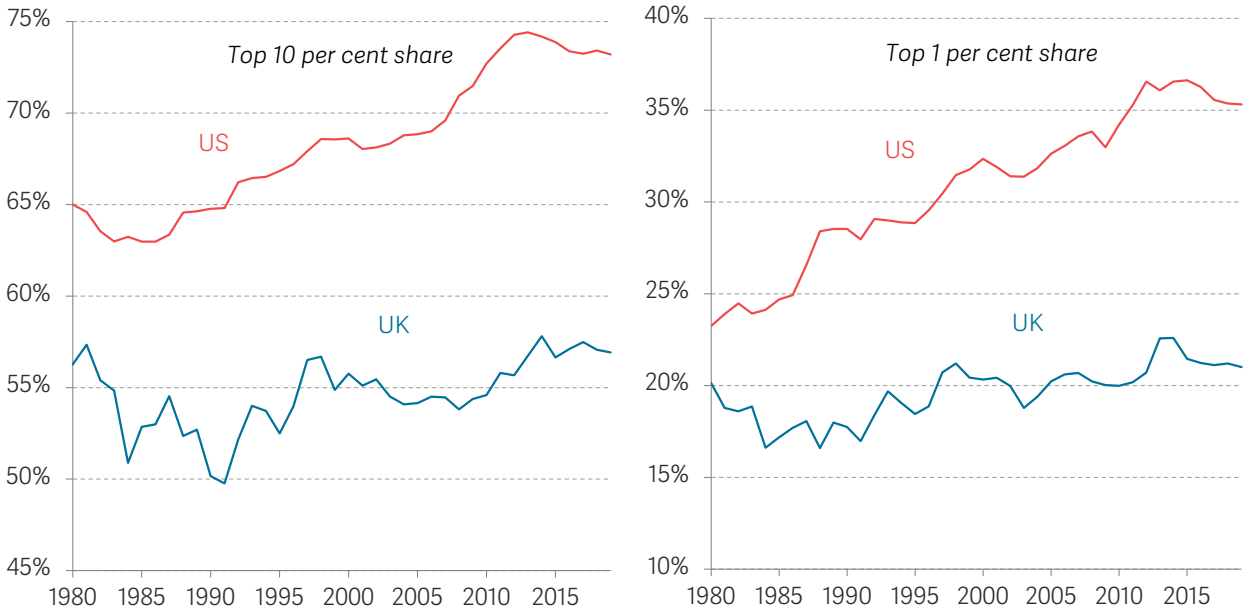
Even within the parameters of our preferred definition, the measurement of wealth in the WAS is not perfect. In addition to issues with accurately and consistently capturing business assets at the top of the distribution, there is a general difficulty in accounting for the wealth of the very richest households, many of whom are likely to be missing from the sample.[19] Evidence suggests that this is a valid concern and that accounting for coverage issues with the survey would add around 3 percentage points to top wealth shares calculated from the WAS.[20] This is an important caveat, and in part motivates our focus on the Gini coefficient of wealth in the WAS – a broader measure of inequality across the distribution – rather than top shares. But there is little evidence that there has been a significant change over time in how much wealth at the top of the distribution is missing from the sample, so the overall picture of broadly stable wealth inequality remains valid.[21]

Given the huge rise in aggregate wealth since 1980, the relative stability of wealth inequality in Britain is puzzling. Some have theorised that falling interest rates should disproportionately benefit the rich, who have the financial flexibility to invest in illiquid long-dated assets whose value is most sensitive to interest rates.[22] And, indeed, this was exactly what played out in the US, where wealth inequality has increased sharply since the early 1980s. The different experiences of the UK and the US are illustrated in Figure 3: between 1980 and 2019, the share of wealth owned by the richest 10 percent of Americans grew by 8 percentage points (from 65 per cent to 73 per cent). The diverging experience of the UK and US is even starker at the very top of the distribution. Between 1980 and 2019, the share of wealth owned by the top 1 per cent grew by 12 percentage points in the US, compared to a rise of less than 1 percentage point in the UK. In short, during the period of rising aggregate wealth, US wealth inequality also rose. By contrast, for the UK, wealth was much more stable.

18 S Catherine, M Miller & N Sarin, Social Security and Trends in Wealth Inequality, The Journal of Finance, forthcoming.
19 F Alvaredo, A B Atkinson & S Morelli, The Challenge of Measuring UK Wealth Inequality in the 2000s, Fiscal Studies, March 2016.
20 A Advani, G Bangham & J Leslie, The UK's wealth distribution and characteristics of high-wealth households, Fiscal Studies, October 2021.
21 A Advani & H Tarrant, Official statistics underestimate wealth inequality in Britain, LSE, January 2022.
22 D L Greenwald et al., Financial and Total Wealth Inequality with Declining Interest Rates, NBER Working Paper, April 2021.

FIGURE 3: **Unlike the US, the UK saw only limited increases in relative wealth inequality over the past 40 years, while wealth as more than doubled relative to incomes**

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



NOTES: Distributional National Accounts for the UK are based on Alvaredo, Atkinson & Morelli (2018) up to 1994, and Blanchet & Martínez-Toledano (2022) from 1995 onwards. The two series differ, importantly including their treatment of pension wealth: the former ignores pension wealth entirely, while the latter includes funded but not unfunded pension wealth. To present a consistent time series, the pre-1995 data has been adjusted upwards based on the average difference between the two data sources in the 1995-2012 period.
SOURCE: RF analysis of F Alvaredo, A B Atkinson & S Morelli, Top wealth shares in the UK over more than a century, Journal of Public Economics 162, June 2018 (compiled by the World Inequality Database); T Blanchet & C Martínez-Toledano, Distributional Wealth Accounts in Europe: Methodology, World Inequality Lab, January 2022 (compiled by the World Inequality Database); E Saez & G Zucman, The Rise of Income and Wealth Inequality in America: Evidence from Distributional Macroeconomic Accounts, Journal of Economic Perspectives 34(4), 2020.

Flat headline inequality has hidden rising inequality between age groups since the financial crisis

Given the puzzling stability of British wealth inequality, in this section we dig into what might be driving this. And because there is a pronounced life cycle in the accumulation of wealth – as explained in Box 2 – we focus on how wealth inequality has changed for different age groups.

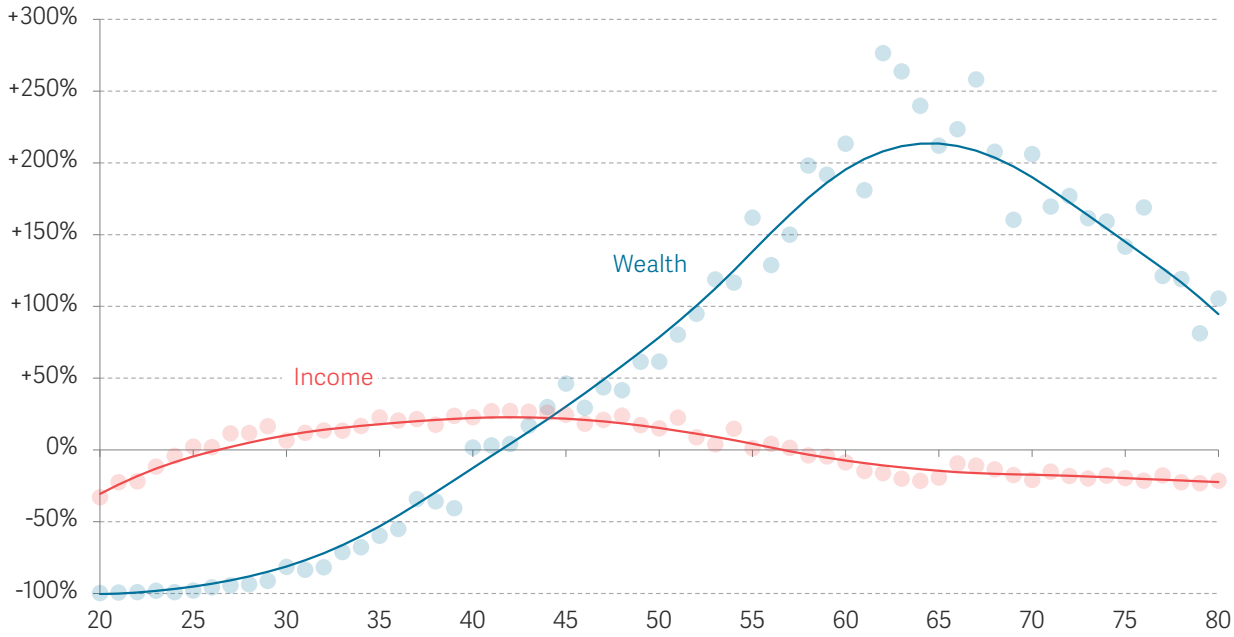
BOX 2: **Wealth varies significantly over the lifecycle, pushing up headline wealth inequality**

Headline measures of inequality reflect the relative wealth of adults of all ages. But some degree of wealth inequality between ages is normal. Even in a world of perfectly equal incomes and other financial resources, there is likely to be substantial wealth inequality when looking across the whole population. People near the end of their working lives, who have nearly finished accumulating the wealth that they plan to live off in retirement, will invariably be wealthier than their younger counterparts who are just starting to accumulate wealth.

Indeed, the lifecycle component of wealth inequality comes out clearly in the UK data. Figure 4 shows median income and wealth at each year age, relative to their median values across the whole population. Just before the pandemic, the median Briton in their 60s lived in a family with £480,000 in wealth per adult, around three times as much as the median across all adults (£123,000). By contrast, the median adult in their 20s had wealth of just £7,000. Lifecycle dynamics also affect measures of income inequality but, as Figure 4 makes clear, they are of a much smaller magnitude.

FIGURE 4: **Wealth has a much stronger lifecycle component than income**

Difference between median income and wealth at each year of age and median income and wealth across the whole population: UK, 2022-23 & GB, 2018-20



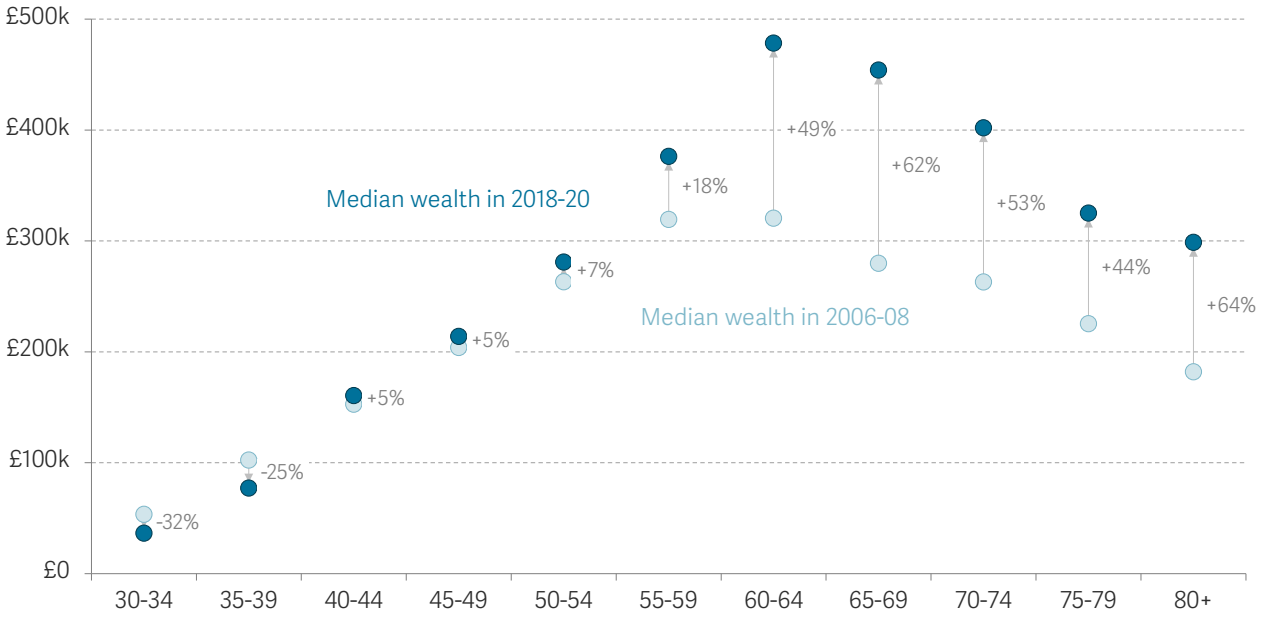
NOTES: Each dot represents median wealth for a single year of age. Lines are smoothed local regression estimates. As in the rest of the report, our unit of analysis is the individual, but wealth is equally split between adults in families. To make a like-for-like comparison, we do the same for net income.
SOURCE: RF analysis of ONS, Wealth and Assets Survey & Household Below Average Income.

Between the financial crisis and the pandemic, the disparities in wealth across different age groups widened.[23] In 2018-20, median wealth among Britons in their 60s was 55 per cent higher in real terms than among those of the same age in 2006-08, but median wealth for those in their 30s was a third (34 per cent) lower (see Figure 5). These changes meant that in 2018-20, Britons in their 60s had typical wealth levels that were more than nine-times higher than those in their 30s, up from four-times higher in 2006-08.

23 For more on wealth accumulation across generations, see: M Broome et al., An intergenerational audit for the UK: 2023, Resolution Foundation, November 2023.

FIGURE 5: **Since the financial crisis, the gaps between older and younger people have widened**

Median real family net wealth per adult, by five-year age group: GB



NOTES: Data is converted to September 2024 prices using a seasonally adjusted CPIH index. To ensure comparability over time, wealth is measured as the sum of net financial, net property and pension wealth, and is equally split between adults within families.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

All else equal, these growing relative gaps between age groups should have pushed up headline wealth inequality in Britain. A simple thought experiment illustrates why this is the case: the grey lines in Figure 6 show the actual evolution of measures of relative wealth inequality, as measured by the WAS between 2006-08 and 2018-20. And the blue dashed lines show a counterfactual in which only the gaps between age groups are allowed to change over time and inequalities within age groups are held fixed.[24] Had these been the only changes, measures of relative wealth inequality would have risen. The share of property, financial and pension wealth owned by the top 10 per cent would have been 50 per cent rather than its actual value of 48 per cent in 2018-20, and the share owned by the top 1 per cent would have been 15 per cent rather than 12 per cent.[25] Britain's wealth Gini coefficient would have been 2 percentage points higher (0.70 rather than 0.68). To put this into context, in 2019 the UK's wealth Gini coefficient ranked 29th out of 38 OECD countries.[26] Increasing it by 2 percentage points would push the UK up to 19th, leapfrogging three G7 peers in Canada, Japan and Germany.

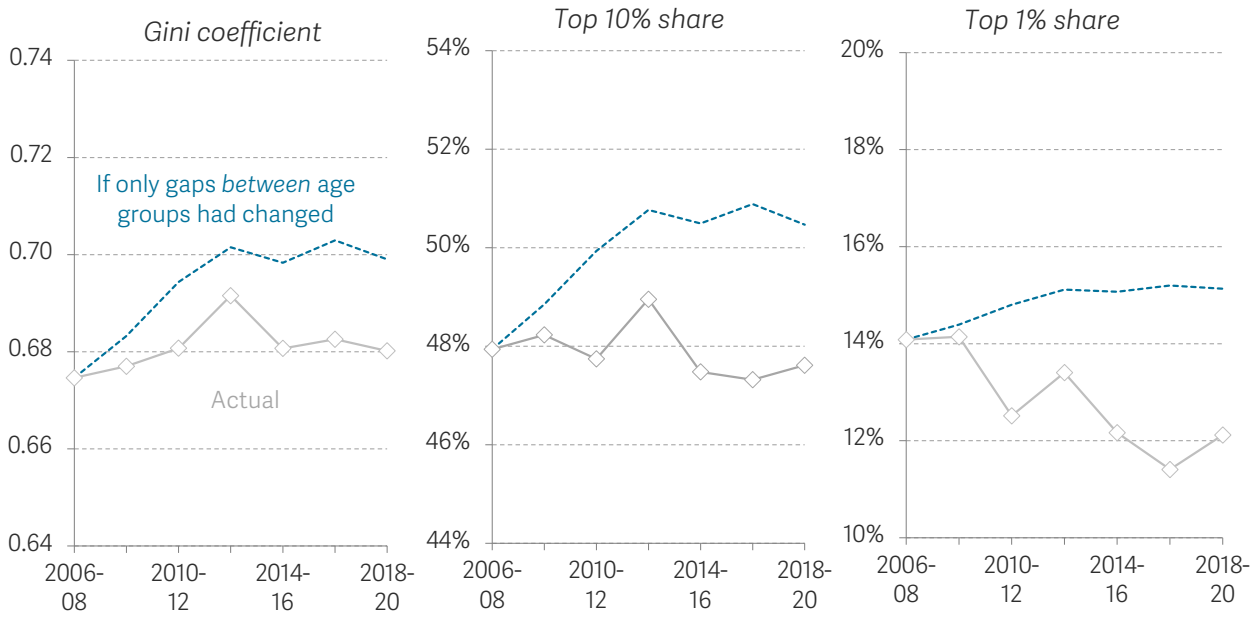
24 To calculate counterfactual measures of wealth inequality, we first create a counterfactual wealth distribution for each wave of the WAS from 2008-10 onwards. In a given wave , this is done by taking individual-level data from wave 1 (2006-08) and uprating each individual's wealth in line with the change in median wealth for their five-year age group between wave 1 and wave .

25 These top shares differ from those shown in Figure 1, due to a difference in the definition of wealth used. Here, we use our preferred definition of wealth in the WAS – namely, the sum of net financial, net property and pension wealth. Box 1 discusses definitions of wealth in more detail.

26 Source: World Inequality Database. Wealth is measured as net personal wealth of adults on an equal split basis.

FIGURE 6: **All else equal, wider gaps between age groups would have pushed up relative wealth inequality**

Actual and counterfactual measures of relative wealth inequality: GB



NOTES: To calculate counterfactual measures of wealth inequality, we first create a counterfactual wealth distribution for each wave of the WAS from 2008-10 onwards. In a given wave, this is done by taking individual-level data from wave 1 (2006-08) and uprating each individual's wealth in line with the change in median wealth for their five-year age group between wave 1 and that wave. The blue dashed lines show measures of relative wealth inequality for each wave of counterfactual data. To ensure comparability over time, wealth is measured as the sum of net financial, net property and pension wealth, and is equally split between adults within families.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

But falling inequality within older age groups has kept a lid on headline wealth inequality

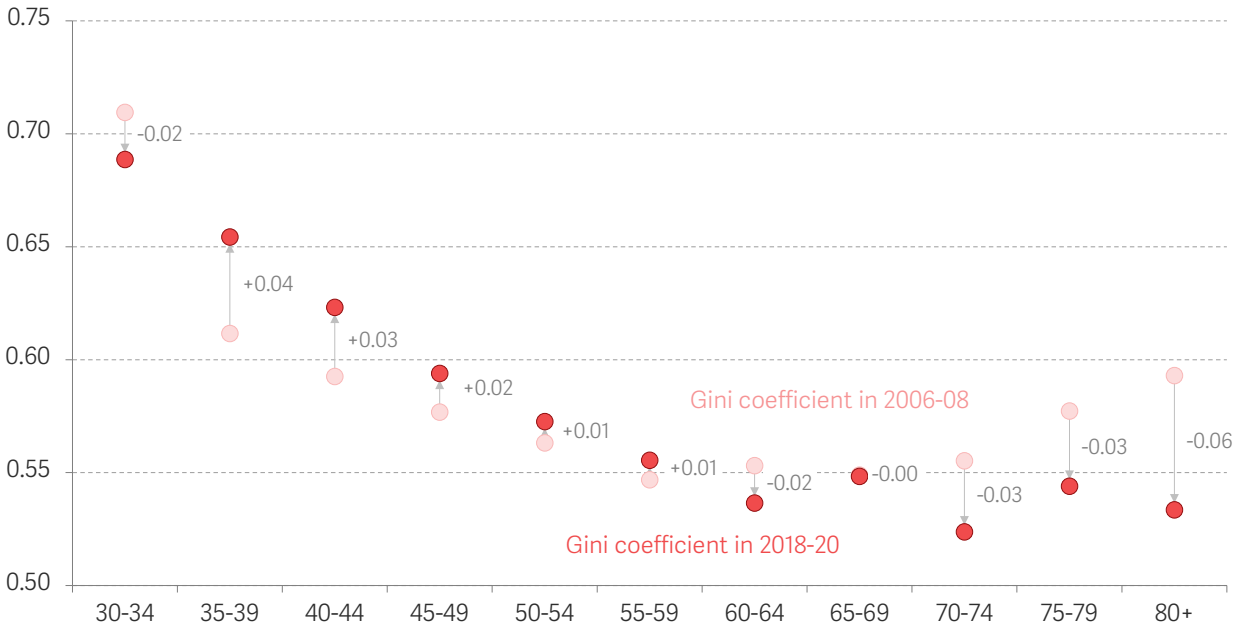
Given that relative wealth inequality has not changed since the financial crisis, despite these pressures, then there must have been a countervailing inequality-reducing pressure.

The answer lies in falling wealth inequality within age groups. But this hasn't played out equally across the age spectrum. Figure 7 shows the changes in the within-age-group Gini coefficient of wealth. What is striking is that the distribution of wealth among older Britons became markedly more equal between the financial crisis and the pandemic: across all age groups older than 60, the fall has been 3 percentage points on average. And falling inequality within these groups has an outsized impact on headline wealth

inequality in Britain because they own an outsized share of wealth: individuals aged 60 and above own half (51 per cent) of household wealth, despite accounting for around a third (31 per cent) of the adult population.[27]

FIGURE 7: **Relative wealth inequality has been kept down by falling inequality within older age groups**

Gini coefficient of per adult family wealth within each age group: GB



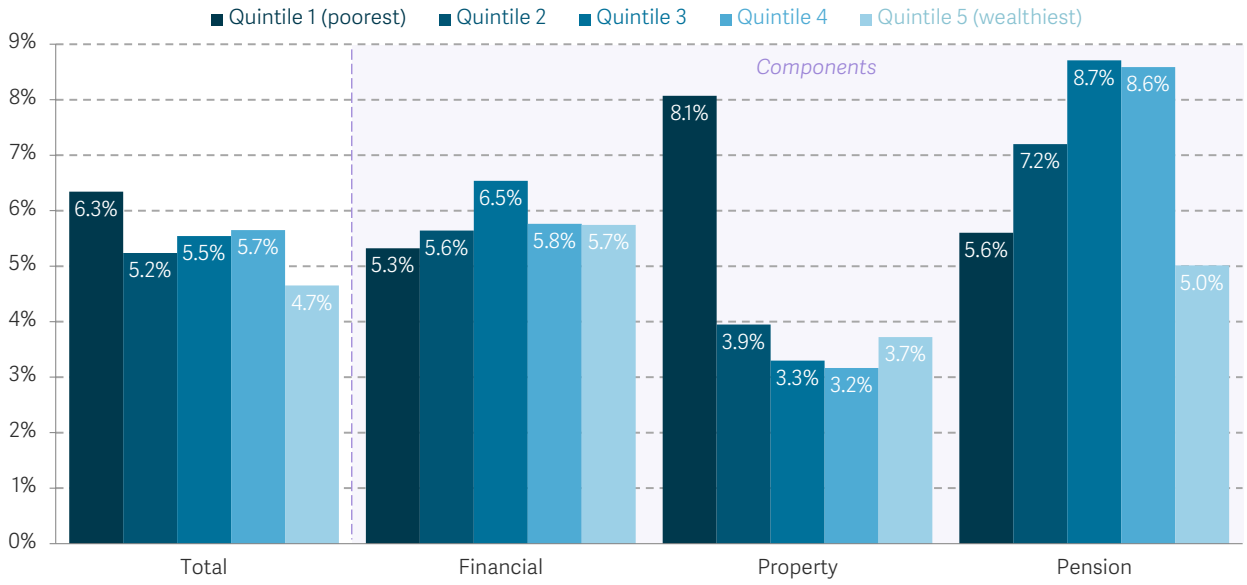
NOTES: To ensure comparability over time, wealth is measured as the sum of net financial, net property and pension wealth, and is equally split between adults within families.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Why has wealth become more equal for older age groups? Figure 8 sheds light on this question by showing average annual growth rates of real wealth among those aged 60 or older, broken down by within-age group wealth quintiles and wealth types. Looking at all individuals aged 60 or older, total real wealth owned by those in the bottom fifth of their age group's wealth increased by an average of 6.3 per cent per year between 2006-08 and 2018-20 – going from £19,000 to £31,000 per person in today's prices.

27 M Broome & J Leslie, Arrears fears: The distribution of UK household wealth and the impact on families, Resolution Foundation, July 2022. Population share is for Great Britain, calculated from: ONS, Estimates of the population for the UK, England, Wales, Scotland, and Northern Ireland: mid-2019.

FIGURE 8: **Among older age groups, property wealth has grown quickest at the bottom of the wealth distribution and pension wealth in the middle**

Average annual growth in total real wealth of individuals aged 60 or above, by age-adjusted wealth quintile and wealth type: GB, 2006-08 to 2018-20



NOTES: Data is converted to real terms using a seasonally adjusted CPIH index. To ensure comparability over time, total wealth is measured as the sum of net financial, net property and pension wealth, and is equally split between adults within families. Age-adjusted wealth quintiles are calculated based on the distribution of wealth within five-year age groups and are re-calculated in each survey wave.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Among those aged 60 and above, property wealth has been the key driver of growing wealth at the bottom of the distribution. Total property wealth of those in the bottom quintile of their age group grew by 8.1 per cent per year in real terms (accounting for £5,100, or 41 per cent, of the £12,000 rise in total wealth per person) compared to just 3.7 per cent in the top quintile (accounting for 30 per cent of growth in total wealth per person). In the middle of the distribution, rapidly growing pension wealth has slightly closed the gap between averagely wealthy older Britons at those at the top. Total pension wealth of those in the middle quintile of their age group's wealth distribution increased by 8.7 per cent per year between 2006-08 and 2018-20, compared to 5.0 per cent in the top wealth quintile. One reason for this change is a falling share of older pensioners without a private pension. The share of pensioners aged 70 or older living in families receiving no private pension income fell from 28 per cent in 2006-08 to 24 per cent in 2018-20.

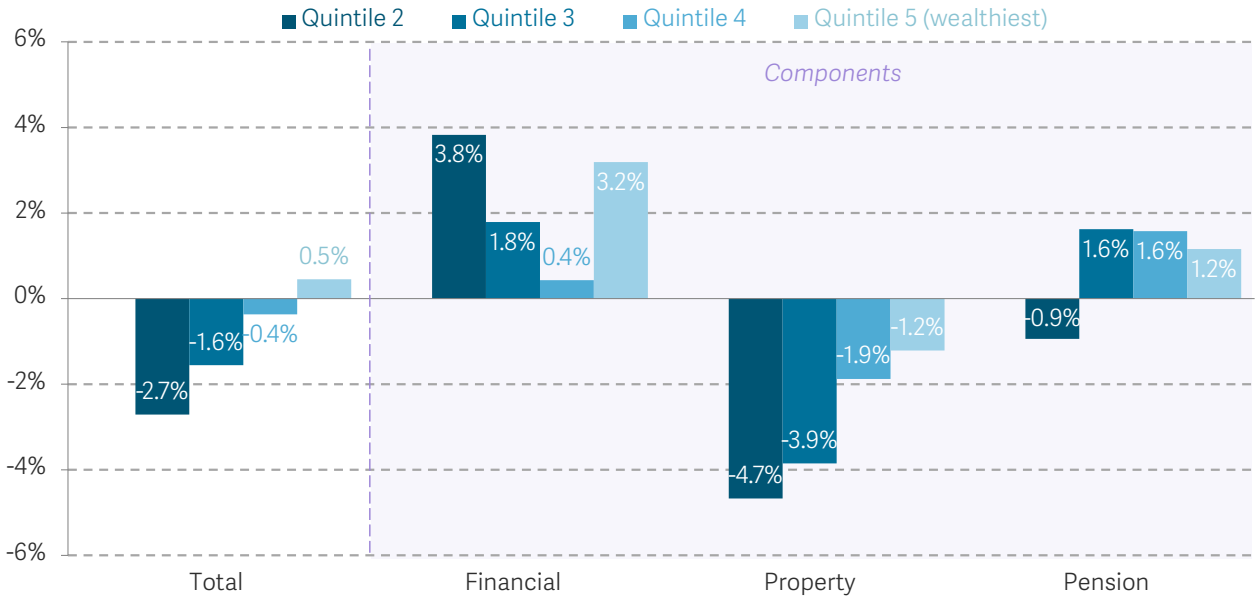
The picture for other age groups is more mixed. As shown in Figure 7, for those in their late 40s and 50s in 2018-20, their within-cohort distribution of wealth was very similar to that of their counterparts in 2006-08. But for those in their late 30s and early 40s, wealth

became more unequally distributed within their respective age groups, driven by large falls in real wealth at the bottom of the distribution.

Figure 9 shows changes in real wealth from 2006-08 to 2018-20, as in Figure 8, but for individuals between 35 and 44 (with the bottom quintile omitted due to their wealth being negative). Again, changes related to housing are key: property wealth in the second-bottom wealth quintile fell by 4.7 per cent per year after adjusting for inflation, compared to just 1.2 per cent in the top quintile. Because property is the most common store of wealth for people in this age group, this mattered a lot for overall inequality. For example, total wealth per person of those in their age group's second-bottom quintile fell by £10,000 in today's prices, of which £9,000 was due to falling property wealth.

FIGURE 9: **Sharp falls in property wealth among less-wealthy millennials have increased wealth inequality within this group**

Average annual growth in total real wealth of individuals aged 35 to 44, by age-adjusted wealth quintile and wealth type: GB, 2006-08 to 2018-20



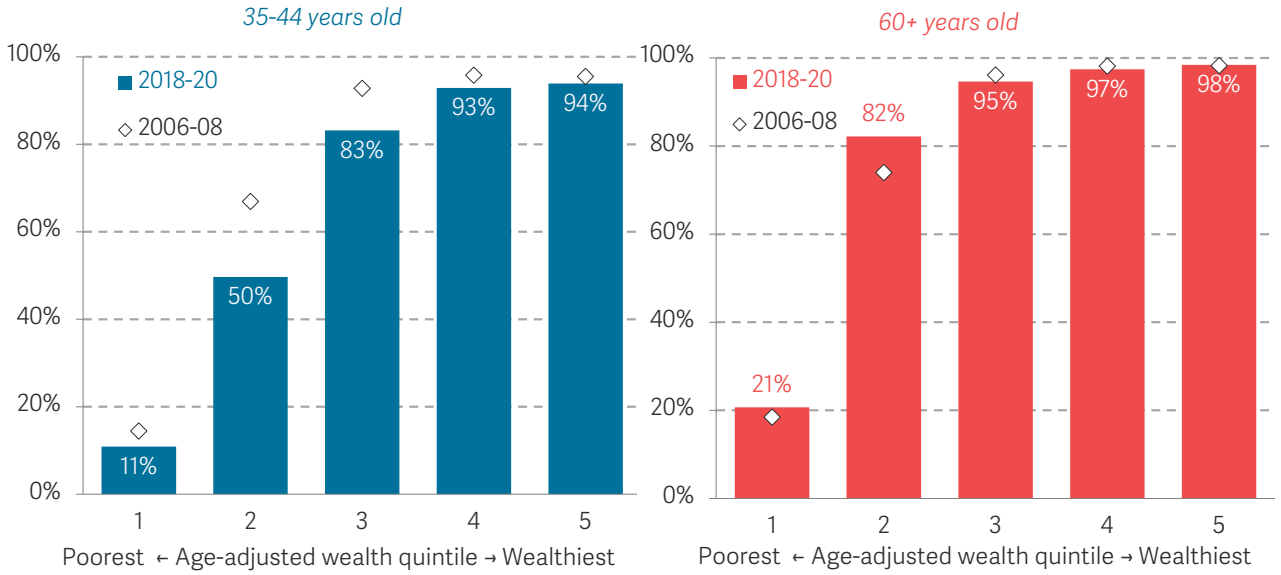
NOTES: The bottom quintile is excluded because their net total, property and financial wealth is negative. Data is converted to real terms using a seasonally adjusted CPIH index. To ensure comparability over time, total wealth is measured as the sum of net financial, net property and pension wealth, and is equally split between adults within families. Age-adjusted wealth quintiles are calculated based on the distribution of wealth within five-year age groups and are re-calculated in each survey wave.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

So, trends in home ownership have been the key driver of the stability of overall wealth inequality. As shown in our previous work, home ownership rates of those aged in their late 30s and early 40s in 2018-20 (i.e. older millennials and some younger members of gen

X) have consistently lagged behind previous cohorts at the same age.[28] And, as shown in Figure 10, it is lower-wealth individuals in this group who have seen levels of owner-occupation fall the most.[29] By contrast, those aged 60 or above were more likely to own their own homes in 2018-20 than those of the same age in 2006-08, driven by higher rates of ownership among lower-wealth individuals.

FIGURE 10: **Sharp falls in property wealth among less wealthy millennials has increased wealth inequality within this group**

Proportion of individuals aged 35 to 44 years old (left panel) and 60 years or above (right panel) living in owner-occupied homes, by age-adjusted wealth quintile: GB



NOTES: Owner-occupied homes are those owned outright, owned with a mortgage or part rented and part owned with a mortgage (e.g. shared ownership). Age-adjusted wealth quintiles are calculated based on the distribution of wealth within five-year age groups and are re-calculated in each survey wave.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Between the financial crisis and the pandemic, the headline trend of flat wealth inequality in Britain masked growing wealth inequality between age groups. And, while these were offset by more equally shared wealth among older Britons, that is cold comfort for older millennials - as well as being on the wrong end of a growing gap between young and old, an increasingly unequal distribution of property wealth saw overall wealth inequality rise within this group. In Section 3, we look at how wealth and wealth inequality have evolved in the 2020s so far before turning in the concluding section to what changes over this period might mean for future wealth inequality.

28 M Broome et al., An intergenerational audit for the UK: 2023, Resolution Foundation, November 2023. We follow the previous Resolution Foundation research by defining Generation X as those born 1966-1980 and millennials as those born 1981-2000.

29 The lack of a similarly sized boost to financial wealth among these cohorts suggests that struggles in becoming homeowners are not merely redistributing wealth from property wealth (i.e. home equity) to financial wealth (i.e. funds that would otherwise be used for a home deposit). This would be consistent with home ownership itself being an important method of wealth accumulation for British families. For more on this, see: L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021.

Section 3

The end of the era of low interest rates has come with a fall in household wealth

Household wealth has been volatile since the onset of the pandemic. Lockdown-induced spending cuts, combined with a surprise rise in saving during the cost of living crisis, mean that the past five years have been the highest half-decade of saving in more than 25 years (since the five years to Q3 1998). On its own, this would have further nudged up the UK's wealth-to-GDP ratio from its already high levels on the eve of the pandemic. But rapidly rising interest rates and oscillating asset prices have had an even larger impact. Our updated modelling of the impact of these developments suggests that household wealth peaked at eight times GDP in 2021, before falling sharply to around six times GDP in 2023. In cash terms, household wealth fell £2.6 trillion from Q1 2022 to Q4 2023. Falling pension wealth has been a major driver, accounting for three quarters (77 per cent) of this fall.

While higher interest rates are estimated to have a historic impact on the overall value of wealth, their impact on wealth inequality is set to be more muted. Wealth inequality within age groups is projected to fall a little and, because of the outsized impact of higher rates on pension wealth, inequality between young and old is set to fall too. Median per-adult family wealth for those who were in their 60s in 2018-20 is estimated to have fallen 16 per cent by Q3 2024 (from £470,000 to £390,000 in today's prices). At the same time, wealth for those in their 30s is estimated to have risen by 17 per cent (from £50,000 to £59,000). As a result, the gap in typical wealth between these two age groups has shrunk by £86,000 in real terms to its smallest level in more than a decade.

The significant fall in total wealth, combined with a moderation of inequality between age groups, has shrunk some of the absolute gaps between families at different points in Britain's wealth distribution. In today's prices, the gap between average per-adult wealth for families in the top decile and the fifth decile grew from £1.1 million in 2006 to £1.6 million in 2019. But, based on changes in asset prices and interest rates since then, we estimate that gap has fallen back to around £1.3 million in 2024, about the same size as in 2014.

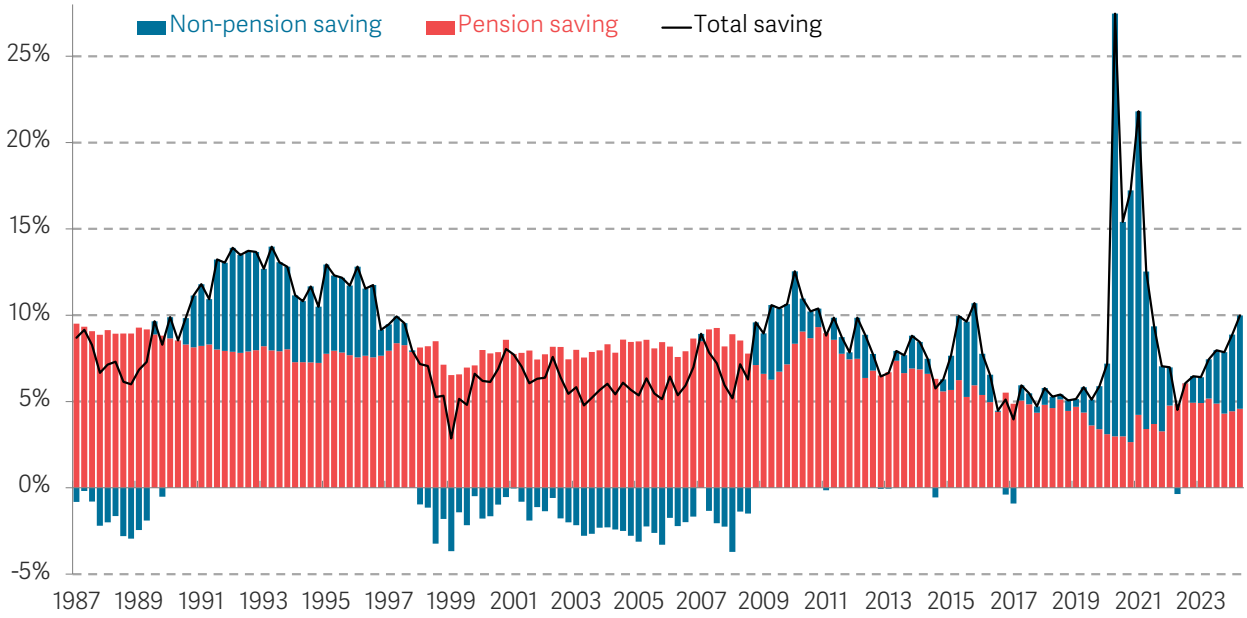
When discussing recent trends in household wealth, it is important to distinguish two ways in which it can change: 'active' saving – that is, households deciding to forego consumption in the present to accumulate assets and provide financial resources in the future; and 'passive' accumulation, driven by changes in asset values. Saving comes in many forms, from putting money into a savings account, to paying down a mortgage or contributing to a pension. We begin this section by looking at both the 'active' and 'passive' contributions to household wealth in recent years.

Household saving has spiked during the pandemic and cost of living crisis

The aggregate rate of household saving has been buffeted by the huge economic shocks hitting the economy over the past four years. The flow of saving as a share of income spiked to unprecedented levels during the pandemic, as spending was curtailed by lockdowns and other restrictions on activity.[30] As shown in Figure 11, the headline saving ratio in Q2 2020 (27 per cent) reached roughly double its the previous record high (14 per cent in Q2 1993), driven by an increase in saving outside of pension schemes.

FIGURE 11: **Household saving spiked during the pandemic, and then rose again through the cost of living crisis**

Household saving ratio: UK



SOURCE: RF analysis of ONS, Economic accounts.

30 G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020.

But more unexpected has been the rise in saving through the cost of living crisis. As inflation began to climb in early 2022, many forecasters – including both the Bank of England and OBR – expected households to cushion the impact of rising prices by saving less and running down their lockdown savings.[31] Instead, early 2022 marked the start of a historic rise in household saving.[32] Between Q2 2022 and Q2 2024, the headline household saving ratio rose by 5.5 percentage points – in nearly 60 years of data (going back to the start of 1965) only the pandemic and post-financial crisis period have seen sharper rises over a two-year period. Altogether, the past five years have been the highest half-decade of saving in more than 25 years (since the five years to Q3 1998).[33]

Big changes in asset prices have had a huge effect on household balance sheets

But it has been changes in the valuation of existing assets, rather than new asset accumulation because of higher saving, that has had the biggest impact on household balance sheets in recent years.

In recent years, interest rates have climbed rapidly while asset prices have been volatile

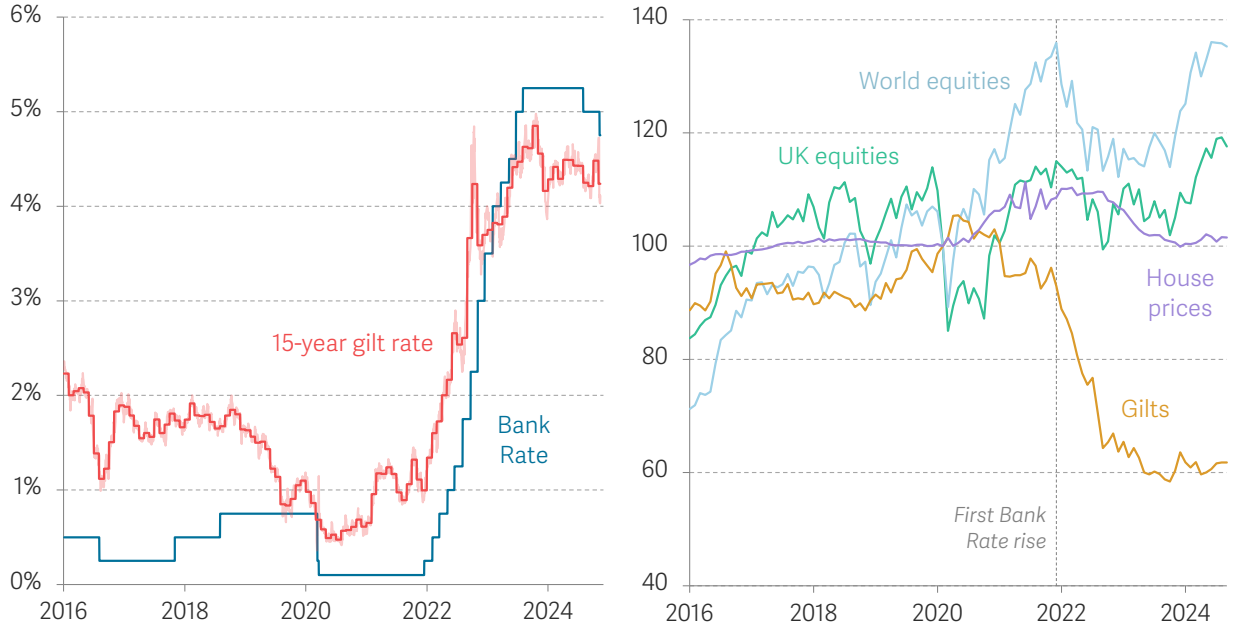
Three years ago, the Bank of England's policy rate stood at just 0.1 per cent. Since then, the Bank has undertaken the largest and most rapid tightening cycle in more than three decades, with its policy rate (known as Bank Rate) reaching 5.25 per cent in August 2023.[34] And even though it has now cut interest rates twice (to 4.75 per cent) today's interest rate environment is still a far cry from the low-rate world of the start of this decade.

Alongside the rise in Bank Rate, the post-pandemic period also saw a dramatic rise in long-term interest rates, here shown by the yield on 15-year UK government bonds (gilts). And, preceding that, was a sharp drop in long-term interest rates at the very start of the pandemic, with the 15-year gilt rate averaging 0.5 per cent in July 2020, an all-time low.

31 Bank of England, Monetary Policy Report, May 2022; Office for Budget Responsibility, Economic and fiscal outlook, March 2022.
32 For discussions of the recent rise in UK household saving and its drivers, see: N Cominetti et al., Paying the price: How the inflation surge has reshaped the British economy, Resolution Foundation, May 2024; M Greene, Who's buying? The outlook for consumption in a rate cutting cycle, speech given at the North East Chambers of Commerce, September 2024; Bank of England, Monetary Policy Report, November 2024.
33 Of course, not all Britons have been able to save more in recent years. Surveys from the pandemic and cost of living crisis show a sharp gradient in saving across the income distribution. For example, 43 per cent of those in the top income quintile saw their savings rise during the pandemic, double the share in the bottom income quintile (21 per cent). For more detail, see: M Broome, I Mulheirn & S Pittaway, Peaked interest? What higher interest rates mean for the size and distribution of Britain's household wealth, Resolution Foundation, July 2023.
34 For a comparison to previous tightening cycles, see: S Pittaway, The Macroeconomic Policy Outlook Q2 2023, Resolution Foundation, May 2023.

FIGURE 12: **Recent years have seen dramatic moves in interest rates and asset prices**

Interest rates (left panel) and real indexed value of selected assets (right panel, February 2020 = 100): UK



NOTES: In the left panel, the solid red line shows the monthly average of the 15-year gilt rate. The faded line shows the daily rate. In the right panel, asset values are measured using: the MSCI World Index for world equities; the FTSE All Share for UK equities; the UK House Price Index for housing; and the S&P UK Gilt Index for gilts. All asset values are adjusted for inflation using a seasonally adjusted CPIH index.
SOURCE: RF analysis of Bank of England, Yield curves; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; HM Land Registry, UK House Price Index; and ONS, Consumer prices.

Fluctuating interest rates have had important implications for asset prices, as shown in the right panel of Figure 12. The impact of the recent rise in interest rates on gilts is most apparent. As a direct counterpart to rising yields, gilts have lost two-fifths (38 per cent) of their real value since before the pandemic. House prices have also been hit, albeit in a less immediate and more muted way.[35] Real house prices were initially flat in the face of rising interest rates but are now 6 per cent lower than at the time of the Bank of England's first rate rise in December 2021. Equities, by contrast, have been volatile – with overseas stocks delivering large real returns since the start of the pandemic.

Higher interest rates have precipitated a historic fall in the total value of household wealth

These moves in interest rates and asset prices have had important implications for the total value of wealth in the UK. Figure 13 shows a long-run estimate of Britain's household

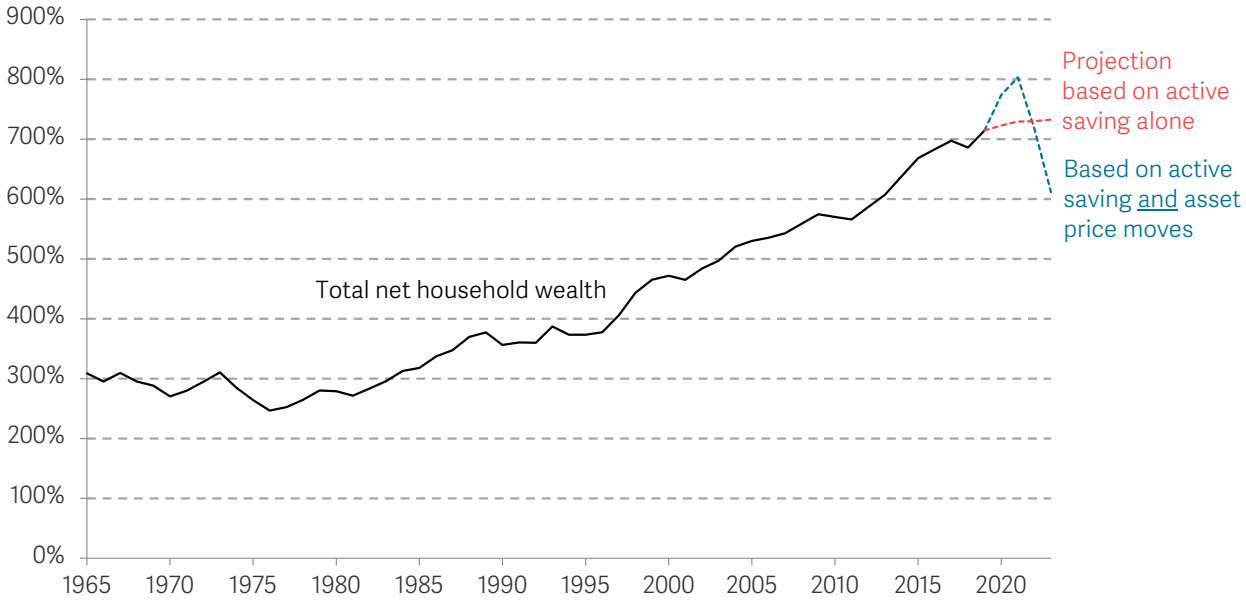
35 For discussion of the impact of higher rates on house prices, see: M Broome, I Mulheirn & S Pittaway, Peaked interest? What higher interest rates mean for the size and distribution of Britain's household wealth, Resolution Foundation, July 2023.

wealth as a share of national income (or GDP). As previously discussed, household wealth amounted to around three times national income in the mid-20th century, but this had risen to around seven times national income on the eve of the pandemic.

In the absence of timely data on household wealth, we have modelled the impact of recent trends in saving, interest rates and asset prices on the level of wealth in the UK (Annex 1 outlines the methodology for this projection). On its own, the historic saving of recent years would have only slightly increased Britain's wealth-to-income ratio, as shown by the red dashed line. But this modest rise is dwarfed by the projected path for wealth once we also account for changes in asset prices and interest rates, shown in the dashed blue line. Household wealth is estimated to have peaked at eight times GDP in 2021, before falling sharply to around six times GDP in 2023. From peak (in Q1 2022) to trough (Q4 2023) wealth fell £2.6 trillion in cash terms. Although this is a nowcast rather than actual data, the recent fall has already appeared in the distinct but related measure of household net worth in the National Accounts, which fell by 140 percentage points as a share of GDP between 2020 and 2023.[36]

FIGURE 13: **Higher interest rates have precipitated a fall in the total value of household wealth**

Outturn and projections for household wealth as a share of national income: UK/GB



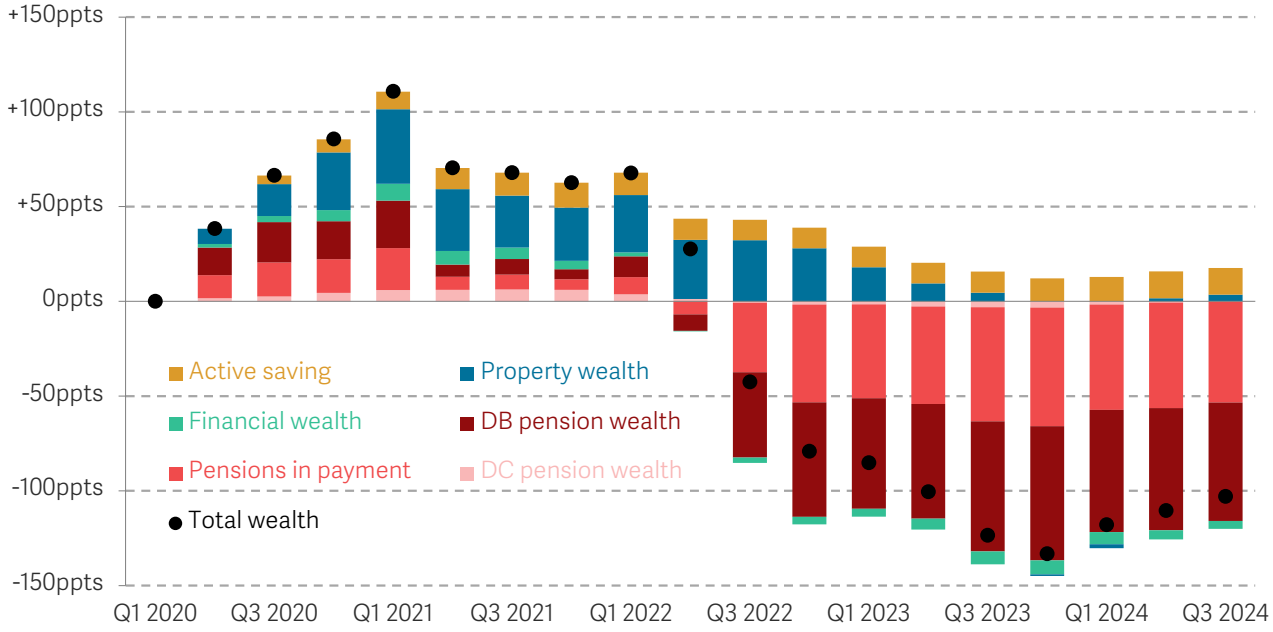
NOTES: Data from 2020 to 2023 are estimated using the methodology set out in Annex 1
SOURCE: RF analysis of ONS, UK Economic accounts, Wealth and Assets Survey & Wealth in Great Britain; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; The Annuity Project from William Burrows; and HM Land Registry, UK House Price Index; D Blake & J Orszag, Annual estimates of personal wealth holdings in the United Kingdom since 1948, Applied Financial Economics 9, 1999.

36 Source: ONS, UK National Accounts, The Blue Book: 2024.

The drivers of the large fall in the value of household wealth since the start of the pandemic are shown in Figure 14. The gold bars show the contribution of 'active' saving, based on the National Accounts data shown in Figure 11 (which we are unable to split out across asset types). The other bars show the impact of the changing value of existing assets, for which we have granular data from before the pandemic. As outlined in previous research, the contribution of 'passive' changes in the value of different assets have dominated, whereas the aggregate impact of households' active saving is much smaller.[37]

FIGURE 14: **The fall in household wealth is mostly due to a revaluation of pension wealth in a higher interest rate world**

Cumulative change in total net household wealth as a proportion of GDP relative to Q1 2020, and contributions from active saving and passive changes by wealth type: GB



NOTES: Estimates are based on the methodology set out in Annex 1. Excludes physical wealth and business wealth.
SOURCE: RF analysis of ONS, UK Economic accounts & Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; The Annuity Project from William Burrows; and HM Land Registry, UK House Price Index.

As of Q3 2024, Britain's projected wealth-to-GDP ratio sits around 200 percentage points below its peak in Q1 2021, with defined benefit (DB) pensions and pensions in payment accounting for more than three quarters (77 per cent) of this fall. For the holders of these assets, the loss in value won't be felt directly. That's because, from the perspective of households, DB pension pots – which promise a guaranteed stream of income in the

37 M Broome, I Mulheirn & S Pittaway, Peaked interest? What higher interest rates mean for the size and distribution of Britain's household wealth, Resolution Foundation, July 2023.

future – don't have an observable market value.[38] Instead, we assign them an implied value by asking how much a household would need in cash to purchase an annuity upon retirement that delivers the same future income stream. As gilt yields have risen, so have annuity rates, which has reduced the up-front amount needed to purchase any given income stream, and thus the implied value of DB pensions.[39] The value of pensions in payment, which are valued by the Wealth and Assets Survey (WAS) in a similar way, has also fallen.[40]

Although the income streams associated with DB pensions and pensions in payment haven't changed, the fall in their implied value does mark a significant change in Britain's wealth landscape. DB pensions had become so valuable in a low-rate world precisely because the income streams they promise had become much harder for younger workers to obtain by earning a return on their savings. In a high-rate world, these income streams are more obtainable, including for those with defined contribution (DC) pensions, and so the promises to pension holders are relatively less valuable.[41]

Nonetheless, it is worth highlighting changes in the value of assets that have a visible market value, as they are likely to have a particularly important impact on households' perceptions of their own financial health (Box 1 discusses different definitions of wealth in greater detail). Figure 15 zooms in on these more visible forms of wealth by removing the changes in DB pensions and pensions in payment, showing changes in real wealth per household since the start of the pandemic. Through 2020 and 2021, high levels of saving and rising asset prices pushed up the value of all forms of tangible wealth in real terms. House prices, where growth was boosted by temporary factors such as a cut to stamp duty rates, played a particularly important role.[42] Between Q1 2020 and Q1 2022, we estimate that total 'visible' wealth had grown by nearly £40,000 per household in real terms. But since that point, rising interest rates and high inflation have eroded any passive gains in this measure. In real terms, combined stocks of property, financial, and DC pension wealth are worth about the same in real terms as they were at the start of 2020.

38 There is, of course, a market value for the assets invested by the DB pension provider. But from the perspective of the household this isn't relevant: what matters is the value of the income stream promised to the pension holder.

39 To ensure our projections are consistent with the measurement of wealth in the Wealth and Assets Survey, we use the same methodology for valuing DB pension pots. This methodology uses present-day market annuity rates to value future income streams, whereas an estimate for annuity rates at the time of retirement would be more appropriate. To the extent that long-term gilt yields fall in future, and this is reflected in annuity rates at the time of retirement, using present-day annuity rates understates the true value of DB pension pots. However, the rise in market interest rates in recent years appears to reflect expectations for higher rates in the longer term, and not just higher policy rates today. For more discussion on the long-term outlook for interest rates, see: M Broome, I Mulheirn & S Pittaway, Peaked interest? What higher interest rates mean for the size and distribution of Britain's household wealth, Resolution Foundation, July 2023.

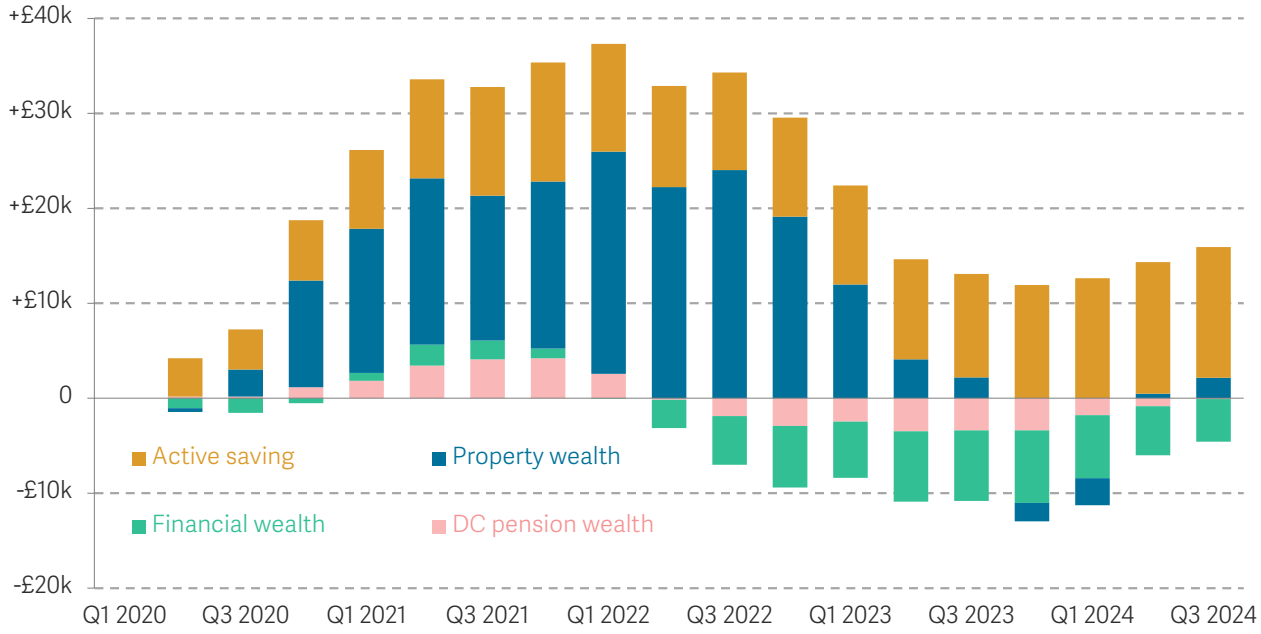
40 The WAS estimates the value of pensions in payment based on an individual's reported annual income from pensions. In an analogous way to the valuation of DB pensions, this income flow is converted to a stock of wealth using age-specific annuity rates. It therefore implicitly assumes that all pension income is received as a guaranteed fixed income stream, such as a DB pension or an annuity. This is an imperfect proxy for the value of pensions in payment. For example, it does not account for inflation protection in guaranteed incomes. And, more importantly, it does not reflect the observable market value of DC pension pots in drawdown. But, at present, we think it is a reasonable proxy because: (i) most pension wealth of today's pensioners is in DB schemes, and (ii) compulsory annuitisation before 2015 means that DC wealth of older pensioners is likely to have been annuitised in the past.

41 For a recent discussion of the impact of the interest rate environment and the adequacy of future pensions, see: M Broome & I Mulheirn, Perfectly adequate?: Revisiting pensions adequacy 20 years after the Pensions Commission, Resolution Foundation, October 2024.

42 HM Revenue & Customs, Stamp Duty Land Tax: temporary reduced rates, June 2021.

FIGURE 15: **Property wealth boomed as the economy bounced back from the pandemic, but this has now fallen away**

Cumulative change in real net wealth per household relative to Q1 2020, and contributions from active saving and passive changes by wealth type: GB



NOTES: Estimates are based on the methodology set out in Annex 1. Excludes DB pensions, pensions in payment, physical wealth and business wealth. Changes are expressed in September 2024 prices using a seasonally adjusted CPIH index.
SOURCE: RF analysis of ONS, UK Economic accounts & Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and HM Land Registry, UK House Price Index.

Higher rates are expected to reduce relative wealth inequality a little, by shrinking the gap between young and old

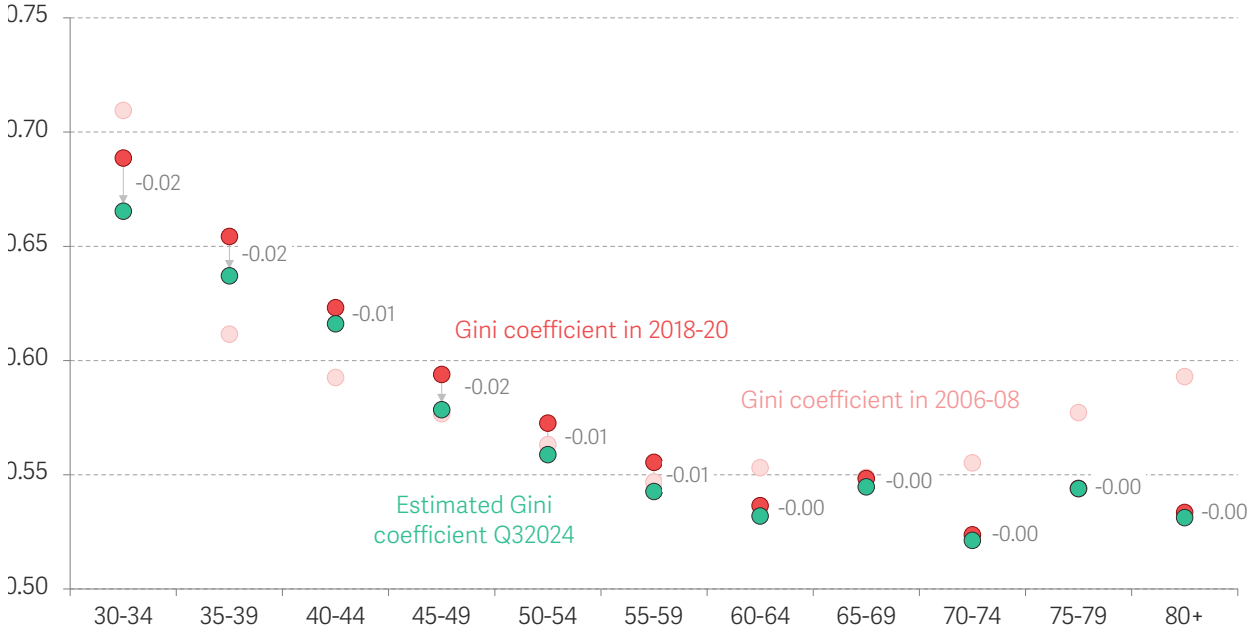
In the previous section we saw that, once we look underneath the hood of flat relative wealth inequality in Britain from the 1980s through to the 2010s, there is a rich combination of changing gaps both within and between age groups. But what might the post-pandemic shifts in interest rates and assets prices, which have had such a pronounced impact on aggregate wealth, mean for these inequalities?

Using the same projection methodology as above, Figure 16 sets out our estimate of what could have happened to within-age group wealth inequality due to recent moves in interest rates and asset prices.[43] It shows that inequality within age groups is estimated to have fallen slightly since 2018-20, offsetting some of the increased inequality among millennials.

43 Due to data limitations, we do not attempt to model the impact of active saving on inequality.

FIGURE 16: **Interest rate-driven changes in wealth since 2020 are unlikely to have changed inequality within age groups**

Gini coefficient of per adult family wealth within each age group, outturns and projection: GB

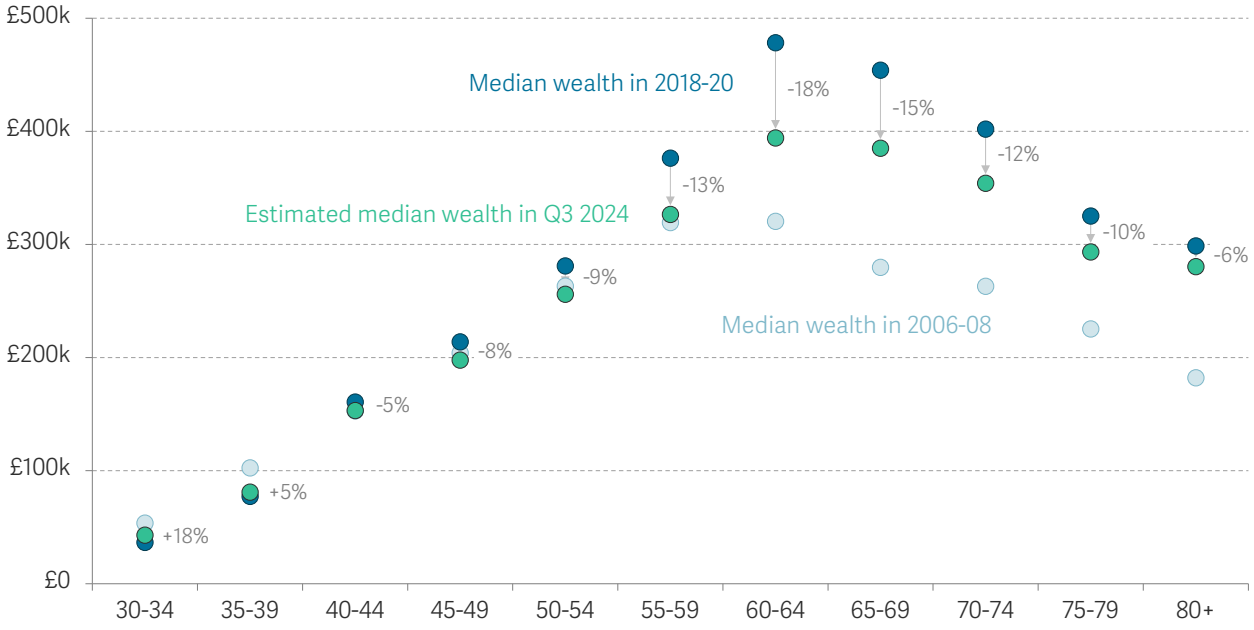


NOTES: To ensure comparability over time, wealth is measured as the sum of net financial, net property and pension wealth, and is equally split between adults within families. Green dots are a projection based on asset price and interest rate moves, as outlined in Annex 1. Due to data limitations, we do not attempt to model the impact of active saving on inequality.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; The Annuity Project from William Burrows; and HM Land Registry, UK House Price Index.

There are potentially larger changes afoot for the inequalities between age groups. As shown in Figure 17, it is those around retirement age – exactly the ages that saw the biggest gain in wealth before the pandemic – that have seen the largest proportional falls in recent years. Median per-adult family wealth for those who were in their 60s in 2018-20 is estimated to have fallen 16 per cent by Q3 2024, from £470,000 to £390,000 in today's prices. At the same time, wealth for those in their 30s is estimated to have risen by 17 per cent, from £50,000 to £59,000. As a result, the gap in typical wealth between these two age groups has shrunk by £86,000 in real terms (from £420,000 to £330,000), the smallest gap in more than a decade (£290,000 in 2010-12). The two groups' differing fortunes reflects their asset allocations in 2018-20. In 2018-20, only around a fifth (22 per cent) of 30-to-39-year-olds' wealth was in DB pensions or pensions in payment (whose value has been particularly hit by higher interest rates) compared to two-fifths (41 per cent) for people in their 60s.

FIGURE 17: **The wealth gaps between age groups are set to shrink slightly**

Real median wealth by age group, outturns and projection: GB



NOTES: Data is converted to September 2024 prices using a seasonally adjusted CPIH index. To ensure comparability over time, wealth is measured as the sum of net financial, net property and pension wealth, and is equally split between adults within families. Green dots are a projection based on asset price and interest rate moves, as outlined in Annex 1. Due to data limitations, we do not attempt to model the impact of active saving on inequality.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; The Annuity Project from William Burrows; and HM Land Registry, UK House Price Index.

Absolute wealth gaps between households have shrunk to their lowest level in a decade

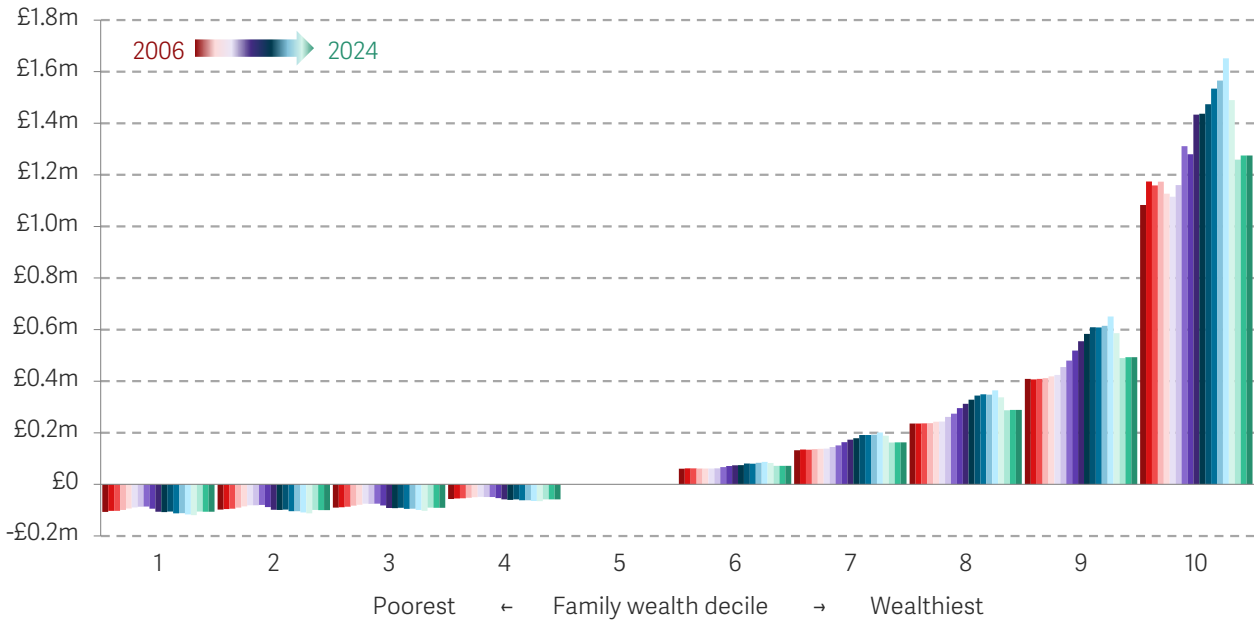
Combining our nowcasts for aggregate wealth and relative inequality, we now arrive at an estimate for how the absolute wealth gaps between families have changed in recent years.

To illustrate this, Figure 18 shows the absolute gap between average per-adult wealth for a family in the fifth decile of the wealth distribution and average wealth in other deciles. The coloured bars show how these gaps have evolved over time. In today's prices, the gap in average per-adult wealth between families in the top decile and those in the fifth decile grew from £1.1 million in 2006 to £1.6 million in 2019. But, based on changes in asset prices and interest rates since then, we estimate that gap has fallen back to around £1.3 million in 2024, about the same size as in 2014. This is still an extremely difficult gap to bridge purely by saving out of one's own income, but it is significantly smaller than a few years ago: the estimated fall of £290,000 between 2019 and 2024 is equal to nearly eight times median disposable household income.[44]

44 Based on median disposable household income for 2022-23, uprated to Q2 2024 using growth in cash basis gross disposable household income and the UK resident population. Sources: ONS, Average household income, UK: financial year ending 2023, September 2024; ONS, UK Economic Accounts, September 2024.

FIGURE 18: **In real terms, the absolute gap between families at the top and the middle of the wealth distribution is estimated to have fallen back to 2014 levels**

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



NOTES: Data is adjusted using CPIH into September 2023 prices. Wealth is measured at the family unit level - i.e. one or two adults within a household plus any dependent children. Household composition is accounted for by taking wealth per adult within the family. The definition of wealth excludes physical wealth and private business wealth. Wealth gaps for 2020 onwards are estimated using the methodology outlined in Annex 1.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; The Annuity Project from William Burrows; and HM Land Registry, UK House Price Index.

So the changes in interest rates and asset prices over the past three years are expected to undo some of the increased inequality between older and younger Britons. And, combined with a sharp fall in aggregate wealth, this fall in inequality is set to reduce some of the absolute gaps between families too. But, as can be seen by comparing the green and light blue dots in Figure 17, the age gradient of wealth remains noticeably steeper than it was in 2006-08. The increased inequality between young and old that emerged in the 2010s hasn't been reversed entirely. As the wealth currently held by older Britons starts to cascade down, it looks set to have important implications for within-cohort inequality among younger generations, which is our focus in the next section of this report.

Section 4

Inherited wealth will play a major role in the future of British wealth inequality

Having dug deeper into the recent history of wealth inequality in Britain, we now turn to its future. In this context, a key driver of how today's wealth distribution will affect future wealth inequality is through inheritances and gifts, which have been a growing feature of Britain's wealth landscape over the past two decades. Between 2004-05 and 2021-22, the total amount of inheritances passed down in the UK grew by two-fifths (42 per cent). And despite recent falls in wealth discussed in the previous section, inheritances are set to continue to play a historically large role in shaping the distribution of wealth across ages. We estimate that the real-terms value of assets inherited in 2021-22 has fallen by only 5 per cent in the period since then, leaving the total value of inheritances around a third higher than 20 years ago.

But what does the generational transfer of wealth mean for inequality? In this context there is much concern that inheritances and gifts will lead to a higher concentration of wealth. And it is the case that those who are already wealthy relative to their peers are more likely to receive such a transfer. For example, someone in the top fifth of their age group's wealth distribution in 2016-18 was two-and-a-half times more likely to receive an inheritance in the next two years than someone in the bottom fifth (5 per cent versus 2 per cent), and twice as likely to receive a financial gift (8 per cent versus 4 per cent). And, when they do receive a financial transfer, wealthier recipients are more likely to get a large one. But for wealth inequality that is not the end of the story. Here, crucially, the amounts received relative to existing wealth levels are largest at the bottom of the wealth distribution. As a result, inheritances and gifts look set to reduce relative wealth within age cohorts at the point they are given.

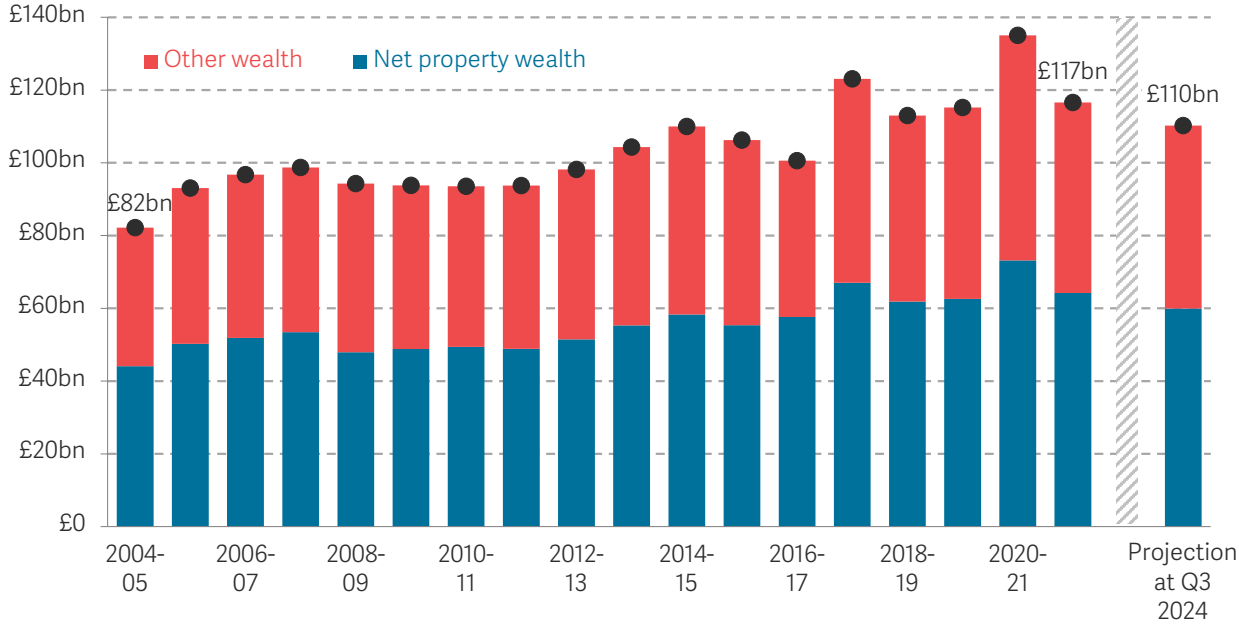
We conclude with what this means for the future and discuss implications for the direction of wealth policy.

Despite recent falls, there is still a lot of wealth that is likely to be passed on by today's older generations in the coming years

Over the past two decades, the sharp rise in wealth owned by older Britons has been mirrored by a growing flow of inherited wealth. As shown in Figure 19, after adjusting for inflation, the total amount of inheritances in the UK grew by two-fifths (42 per cent) between 2004-05 and 2021-22.[45] Using the same methodology for estimating passive changes as earlier in this report, we can roll forward the value of assets bequeathed in 2021-22 (the most recent year of administrative data) to illustrate the impact of recent asset price moves on inheritances. We estimate that assets inherited in 2021-22 – mainly property, cash and securities – would be worth 5 per cent less in real terms if passed on today. In the context of the past rise in inheritances, and previous work showing a doubling of future inheritances over the longer term, this most recent fall hasn't made much of a dent in the important role inheritances are set to play.[46]

FIGURE 19: **The amount of wealth being passed down via inheritances has grown rapidly over the years**

Total real value of net assets in estates assessed for inheritance tax, outturns and illustrative projection: UK



NOTES: Net property wealth is 'net immovable property' in the HMRC statistics, defined as UK residential property, other buildings and land less mortgages. This closely matches the definition of net property wealth in the WAS. Other wealth is 'net movable property', includes securities, cash, insurance, loans and other assets less other debt and funeral expenses. All amounts are converted to September 2024 prices using a seasonally adjusted CPIH index. Annex 1 provides details on the projection methodology.
SOURCE: RF analysis of HMRC, Inheritance tax liabilities statistics; ONS, Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; The Annuity Project from William Burrows; and HM Land Registry, UK House Price Index.

45 This rise reflects both higher levels of wealth among older Britons and our ageing population.
46 J Leslie & K Shah, Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families, Resolution Foundation, February 2022.

Already-wealthy individuals are set to receive the largest inheritances and gifts, but their impact on inequality is complex

When thinking through the implications of inheritances and financial gifts for wealth inequality across the generations, there are two questions to answer. First, which age groups are most likely to receive inheritances and gifts? And second, how do those financial flows vary across each age group's wealth distribution?

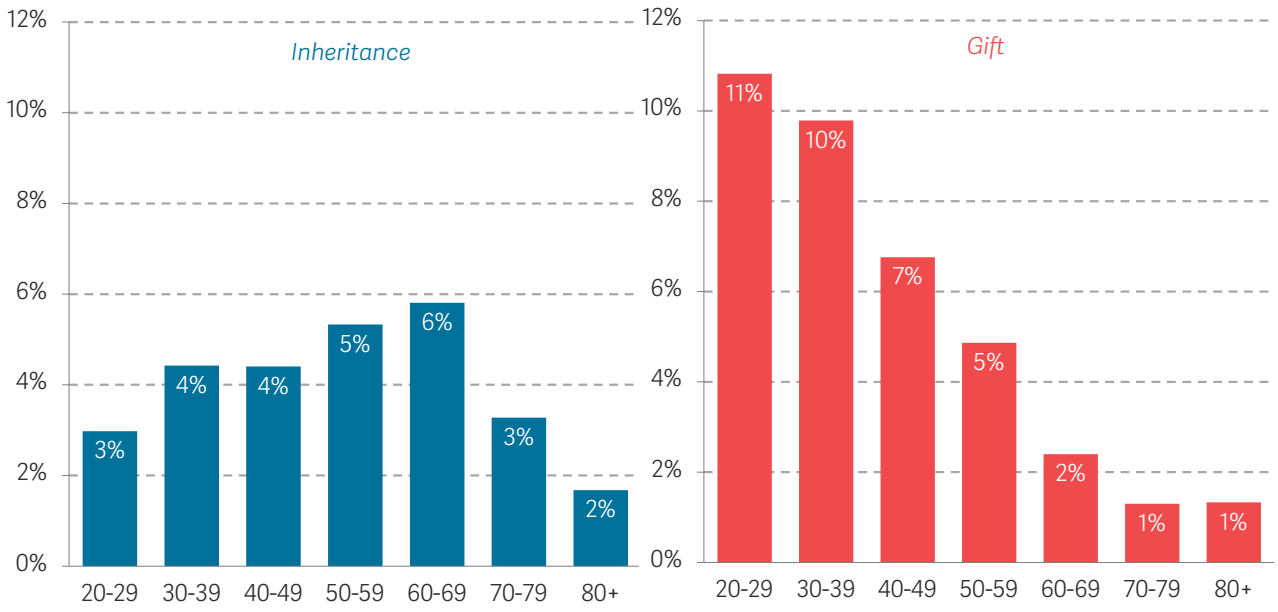
To answer the first of these questions, Figure 20 shows the age distribution of those receiving inheritances and financial gifts in the two years to 2018-20. As has been shown in previous work, the most common age of receiving an inheritance is in one's 60s, with 6 per cent of 60-69-year-olds receiving an inheritance over the previous two years.[47] And large inheritances are particularly concentrated among those in their 50s and 60s: 1.3 per cent of people in their 50s and 60s received an inheritance of at least £100,000, more than four times the proportion of people in their 20s and 30s (0.3 per cent).

In recent years, financial gifts have become an increasingly common way for wealth to pass down the generations in addition to inheritances. Since 2008-10, the total number of adults receiving a financial gift over £500 within the prior two years has grown by 34 per cent, increasing from 2.3 million in 2008-10 to 3 million in 2018-20.[48] While gifts tend to be smaller in size than inheritances – only 2 per cent of gifts were valued at £100,000 or more in 2018-20, compared to 18 per cent of inheritances –they tend to flow to younger people, with around one-in-ten people in their 20s and 30s (11 per cent of people in their 20s, 10 per cent of those in their 30s) receiving a financial gift over the previous two years.[49]

47 This is consistent with previous work estimating that the average age at which a millennial will receive an inheritance is 61: L Gardiner, The million dollar be-question: Inheritances, gifts, and their implications for generational living standards, Resolution Foundation, December 2017.
48 M Broome, S Hale & H Slaughter, An intergenerational audit for the UK: 2024, Resolution Foundation, November 2024.
49 For a more detailed discussion of inheritances and financial gifts in the context of intergenerational financial support, see: M Broome, S Hale & H Slaughter, An intergenerational audit for the UK: 2024, Resolution Foundation, November 2024.

FIGURE 20: **Inheritances are quite widespread, but gifts have a very sharp age gradient**

Proportion of individuals receiving an inheritance (left panel) or financial gift (right panel) in the past two years, by age group: GB, 2018-20



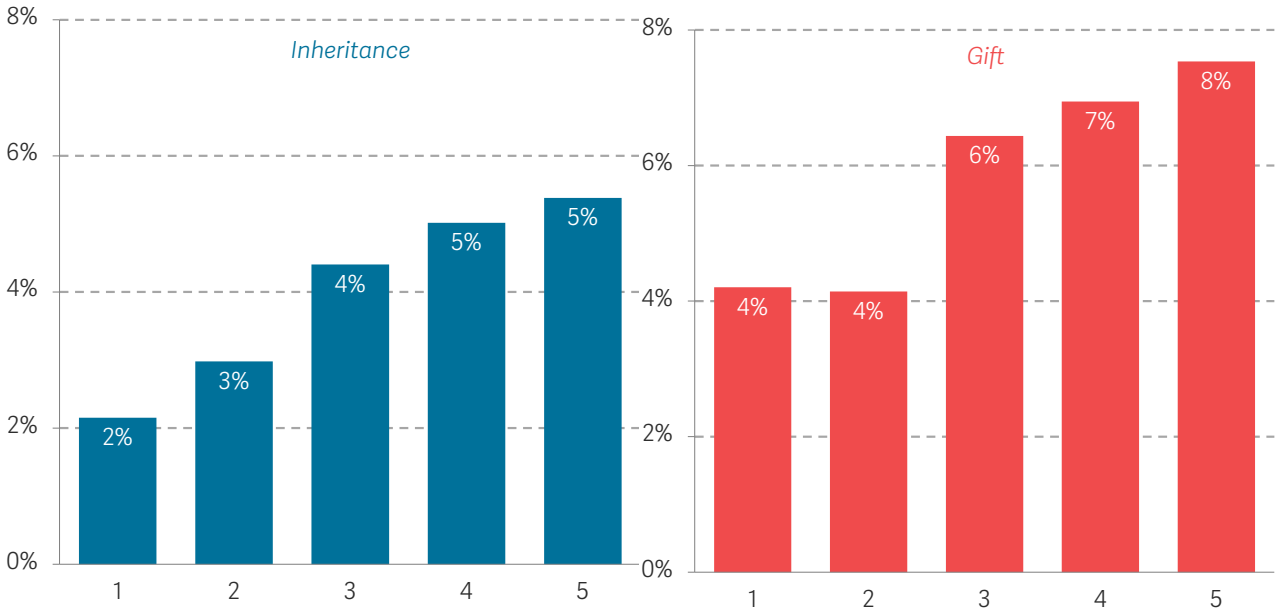
NOTES: Counts inheritances of £1,000 or more and financial gifts of £500 or more.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

So, inheritances are likely to have the biggest impact on the wealth distribution of those in their 50s and 60s, while the impact of gifts is more concentrated in younger age groups. But their impact on wealth inequality depends crucially on the interaction between inheritances and the pre-existing distribution of wealth.

Perhaps unsurprisingly, inheritances and gifts are more likely to flow to those who are already wealthy relative to their peers. Figure 21 shows the proportion of individuals receiving an inheritance or gift in the two years to 2018-20 based on their position in their age group's wealth distribution in 2016-18 – that is, before they received their inheritance or gift. Someone in the top fifth of their age group's wealth distribution is two-and-a-half times more likely to receive an inheritance in the next two years than someone in the bottom fifth (5 per cent versus 2 per cent) and twice as likely to receive a financial gift (8 per cent versus 4 per cent).

FIGURE 21: **Those who are already wealthy compared to their peers are more likely to receive an inheritance or gift**

Proportion of individuals receiving an inheritance (left panel) or financial gift (right panel) in the past two years, by pre-inheritance/gift age-adjusted wealth quintile: GB, 2018-20

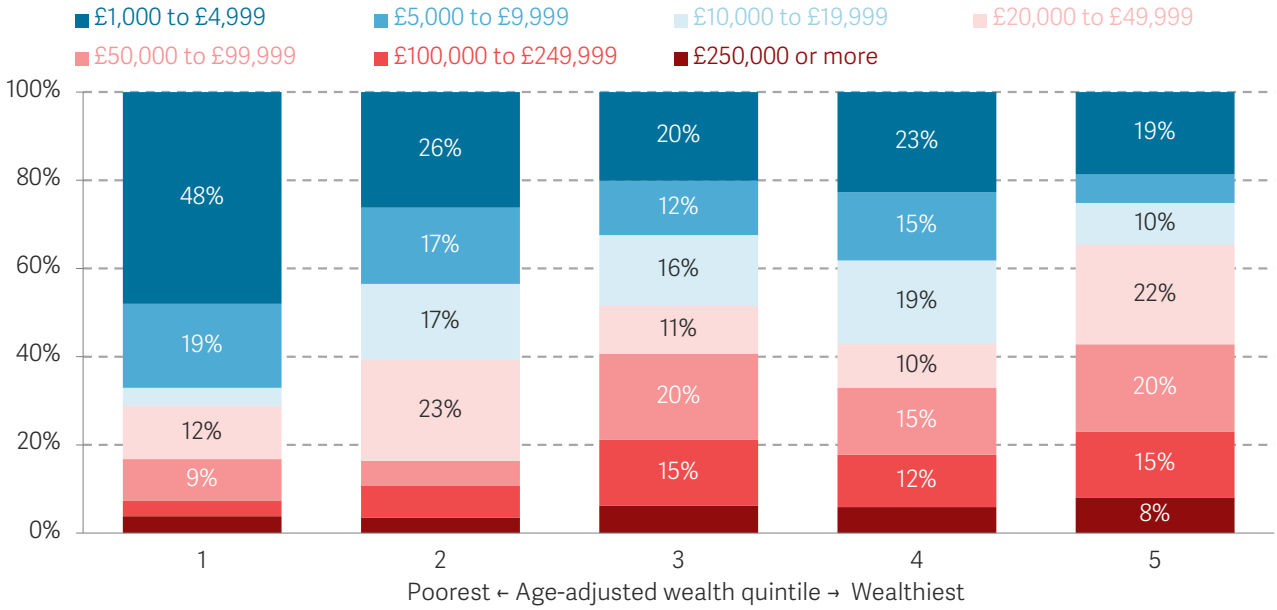


NOTES: Counts inheritances of £1,000 or more and financial gifts of £500 or more. Age-adjusted wealth quintiles are based on an individual's position in their five-year age group's wealth distribution in the 2016-18 wave of the WAS.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

On top of being more likely to receive an inheritance or gift in the first place, the already-wealthy also tend to get larger amounts when they do. As shown in Figure 22, there is a pronounced age gradient to the size of inheritances: of those who received one in 2018-20, one-in-four (23 per cent) who were in the top fifth of their age group's wealth distribution in 2016-18 received at least £100,000, compared to less than one-in-ten (8 per cent) of those in the bottom fifth.

FIGURE 22: **Those who are already wealthy compared to their peers are more likely to receive an inheritance or gift**

Proportion of inheritors receiving an inheritance of various sizes in the past two years, by pre-inheritance age-adjusted wealth quintile: GB, 2018-20



NOTES: Wealth quintiles are based on an individual's position in their five-year age group's wealth distribution in the 2016-18 wave of the WAS. Due to data limitations, excludes inheritances of less than £1,000.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

The size of financial gifts is similarly skewed towards wealthier recipients, although the wealth gradient is most prominent for larger gifts. In 2018-20, the 75th-percentile financial gift received by someone in the top fifth of their age group's wealth distribution before receipt was £10,000, double the equivalent gift for those in the bottom quintile (we show this later in Figure 23).

But gifts and inheritances are likely to have a larger proportional impact on the wealth of poorer families

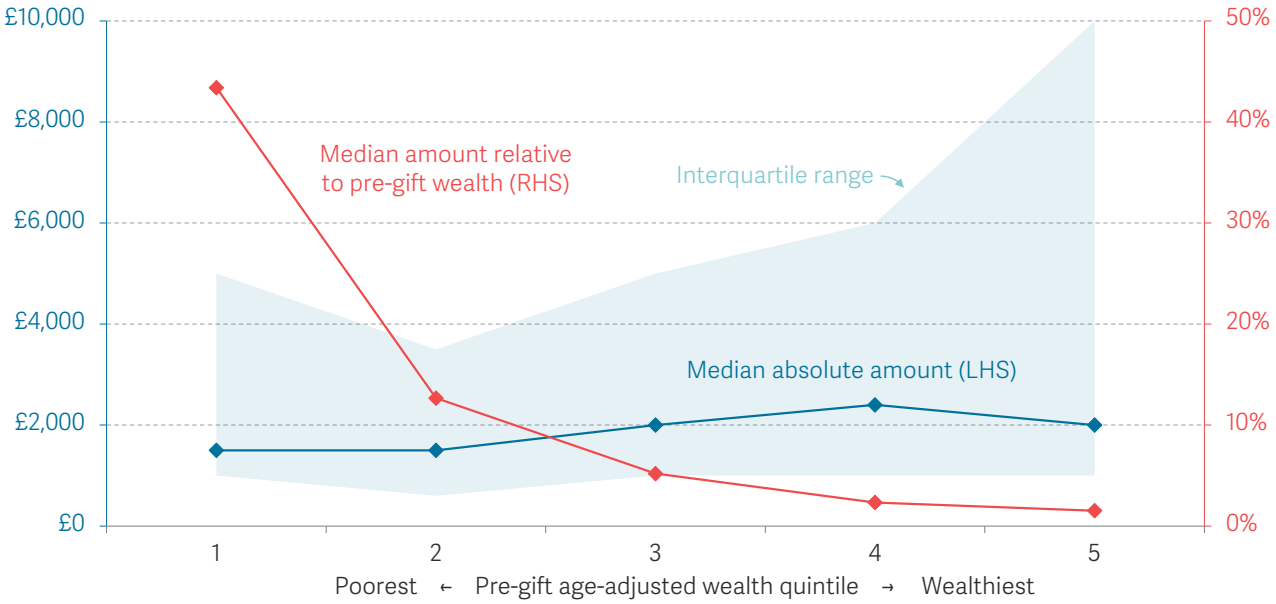
What, then, does this mean for wealth inequality within cohorts? Here, despite the clear evidence above that wealthier people are more likely to receive an inheritance or gift, it is likely that these will reduce within-cohort inequalities at the point they are made: while the absolute size of financial transfers are largest to those already sitting near the top of their age group's wealth distribution, the size of transfers relative to existing wealth levels is largest at the bottom. And this that matters for relative measures of wealth inequality, like the Gini coefficient.

Starting with gifts, Figure 23 illustrates how these have a larger proportional impact on the wealth of poorer households. In 2018-20, the median gift received as a proportion of

pre-gift wealth was 43 per cent for someone who started out in their age group's bottom wealth quintile, compared to just 2 per cent for someone in the top quintile.[50] This means that gifts will be a bigger deal for households at the bottom of the distribution.

FIGURE 23: **As a proportion of existing wealth, gifts are biggest at the bottom of the wealth distribution**

Median value of gifts received over the past two years, absolute amounts and as a proportion of pre-gift wealth, by pre-gift age-adjusted wealth quintile: GB, 2018-20



NOTES: Wealth quintiles are based on an individual's position in their five-year age group's wealth distribution in the 2016-18 wave of the WAS. Only counts gifts of more than £500.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

However, it is important to keep in mind that the impact of gifts on within-cohort inequality may be different in the long-term than the short-term. Gifts and inheritances received today can play an important role in future wealth accumulation. In particular, large gifts are often used to facilitate buying a house or to fund bigger home deposits which – by bringing forward the point of home purchase and allowing first-time buyers to access mortgages with lower loan-to-value ratios and lower interest rates – can allow young gift-receivers to accumulate wealth more quickly than their peers who don't receive a gift, or who receive smaller gifts.[51] As Figure 23 shows, large absolute gifts are skewed towards the top of the wealth distribution, and it is those gift-receivers – who are already wealthy relative to their peers – whose home buying and wealth accumulation

50 A similar pattern has been found using Swedish administrative data: M Elinder, O Erixson & D Waldenström, Inheritance and wealth inequality: Evidence from population registers, Journal of Public Economics 165, September 2018.
51 B Boileau & D Sturrock, Help onto the housing ladder: the role of intergenerational transfers, Institute for Fiscal Studies, December 2023.

potential is most boosted by gifts (not to mention the wider benefits associated with home ownership).[52]

More generally, looking across the whole lives of recipients, the impact of inheritances on inequality is highly complex.[53] The fact that gifts and inheritances are, in pounds and pence terms, skewed towards those who are already wealthy means that they act to stretch the absolute financial gaps within cohorts at the point they are bequeathed. This means inheritances will matter for social inequality – even if they don't have a large impact on the shape of the wealth distribution, they do push those with parental wealth towards the top and those without towards the bottom.[54]

Overall, then, the implications for how the huge wealth accumulated by older generations is passed on to younger ones, is not straightforward, there are reasons to think that it might not only act to increase wealth inequality – suggesting the puzzling stability of wealth inequality in the UK could continue in the coming years. But that does not mean all is well as big absolute wealth gaps will grow larger. So next we turn to what this means for the broad direction of travel for policy in the area of household wealth.

Policy makers need to acknowledge the reality of persistent inequality and widening wealth gaps

Sitting behind these measures of wealth inequality and wealth gaps are a broad range of financial realities – from precarious finances at the bottom to levels of wealth at the top that feel unattainable to many. Policy must do more to address these persistent imbalances.

For example, at the bottom of the wealth distribution, there are millions of families in the UK with very few savings to fall back on in an emergency. In 2018-20, around one in three working-age people (30 per cent, or 11.2 million people) live in families that have less than £1,000 in accessible savings, a share that rises to nearly a half (45 per cent, or 5.9 million people) in the bottom third of the income distribution.[55] During the cost of living crisis, having limited savings was associated with an increased likelihood of borrowing more and falling behind on bills,[56] which in turn was associated with adverse health

52 L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021.
53 P Bourquin, R Joyce & D Sturrock, Inheritances and inequality within generations, Institute for Fiscal Studies, July 2020.
54 P Bourquin, R Joyce & D Sturrock, Inheritances and inequality over the life cycle: what will they mean for younger generations?, Institute for Fiscal Studies, April 2021.
55 M Broome, I Mulheirn & S Pittaway, Precautionary tales: Tackling the problem of low saving among UK households, Resolution Foundation, February 2024.
56 M Broome, I Mulheirn & S Pittaway, Precautionary tales: Tackling the problem of low saving among UK households, Resolution Foundation, February 2024.

outcomes.[57] When looking for policies to boost families' emergency savings buffers, we should start by building on what has already been found to work. Encouragingly, the Government took a step in this direction by announcing it would extend the existing Help to Save scheme at the Autumn Budget.[58] The scheme, which offers saving incentives to benefit claimants, has been successful in helping low-income families build up their financial resilience.[59] The extension of the scheme until April 2027, plus a broadening of its eligibility criteria from next year, are welcome developments.

The Government can also build on another recent policy success by reforming pensions auto-enrolment to support employees in building precautionary savings buffers. Auto-enrolment has been an unmitigated success in broadening the coverage of workplace pension schemes.[60] But there is evidence from the roll-out of auto-enrolment that a large share of extra pension saving was funded by lower liquid savings or higher debt.[61] As the Government embarks on the next phase of its pensions review, it should take seriously the tension between saving for a pension in the future and saving for a rainy day today. In previous work, we have set out a proposal for a joined-up approach including a 'sidecar' saving scheme to build up to £1,000 in liquid savings and a facility for workers to borrow limited amounts from their pension pots to smooth through larger shocks.[62]

Further up the wealth distribution, the reality is one of inheritances and passive capital gains playing an increasingly important role over time. Policy makers must ensure that tax system doesn't overlook the new reality of wealth by failing to recognise the new reality of the sources, scale and distribution of wealth today.

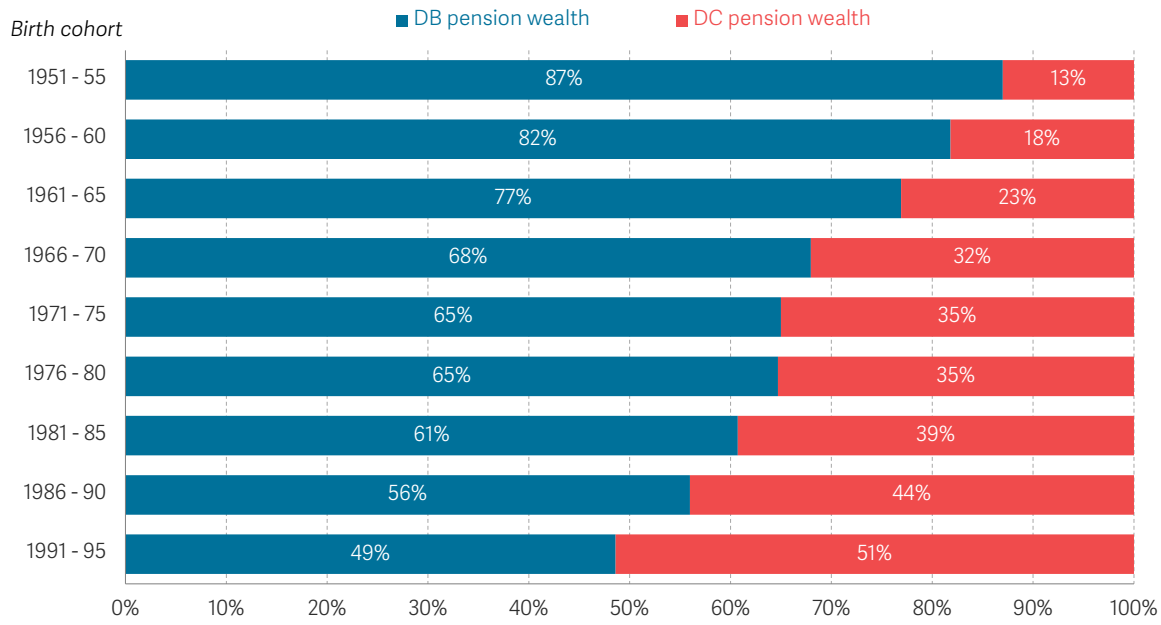
Historically, the UK's tax system has found to be lacking in this regard. Across the board, receipts from wealth-related taxes have lagged well behind the rising level of household wealth in the UK.[63] The Autumn 2024 Budget included some progress on this front but fell short of the serious reforms of wealth taxation that are needed. In particular, the increases to Capital Gains Tax (CGT) rates will slightly reduce the gap in the effective tax rates on earned income and capital gains.[64] But announcements in the Budget fall well short of the comprehensive reform – to both CGT rates and the tax base – that would equalise effective marginal tax rates, improve economic efficiency and reduce the tax burden on workers.[65]

57 F Odamtten & S Pittaway, In too deep?: The impact of the cost of living crisis on household debt, Resolution Foundation, February 2024.
58 HM Treasury, Autumn Budget 2024, October 2024.
59 M Broome, A Corlett & J Leslie, ISA ISA Baby: Assessing the Government's policies to encourage household saving, Resolution Foundation, January 2023.
60 ONS, Employee workplace pensions in the UK: 2021 provisional and 2020 final results, April 2022.
61 T Choukhmane & C Palmer, How do consumers finance increased retirement savings?, March 2024.
62 M Broome, I Mulheirn & S Pittaway, Precautionary tales: Tackling the problem of low saving among UK households, Resolution Foundation, February 2024.
63 S Pittaway, Wealth check: What the new Government needs to know about household wealth as it navigates the challenges ahead, Resolution Foundation, July 2024.
64 C Aref-Adib et al., More, more, more: Putting the Autumn Budget 2024 decisions on tax, spending and borrowing into context, Resolution Foundation, October 2024.
65 A Advani, A Lonsdale & A Summers, Reforming Capital Gains Tax: Revenue and Distributional Effects, CenTax, October 2024.

More pertinently for this report, the continued importance of inheritances in a high-interest rate world suggests a key role for Inheritance Tax (IHT). Here, the Budget announced welcome reforms that move the IHT framework towards a more equal treatment of different forms of inherited wealth. Scaling back the reliefs on agricultural property has proven controversial, but applying IHT to pension wealth is forecast to be a much bigger revenue-raiser in the long term.[66] Widening the base of IHT to include pensions is particularly timely given the rising importance of DC pension pots.[67] Unlike DB pensions, the remaining value of DC pensions can be bequeathed in full upon death unless previously annuitised.[68] Of those reaching state pension age today, only around one fifth of their pension wealth at retirement is in DC schemes (the 1956-60 birth cohort in Figure 24) but this share is projected to rise to nearly half in the longer term.

FIGURE 24: **DC pension wealth is becoming more significant over time**

Actual and estimated defined benefit and defined contribution pension wealth of full-time employees at age 60, as a share of total pension wealth, by five-year birth cohort: GB



NOTES: For the 1951-55, 1956-60 and 1961-65 cohorts, data is based on actual pension wealth for those aged between 58 and 62 in the WAS. For later cohorts, pension wealth is estimated using the methodology outlined in the source.
SOURCE: Adapted from Figure 33 in M Broome et al., An intergenerational audit for the UK: 2023, Resolution Foundation, November 2023.

66 Applying IHT to pension wealth is forecast to raise £1.5 billion in 2029-30; changes to agricultural property relief and business property relief are forecast to raise £0.5 billion in 2029-30. Source: OBR, Economic and Fiscal Outlook, October 2024.
67 The Budget's IHT reforms also bring into scope lump-sum death benefits from DB pensions. The value of these lump sums will vary according to the terms of each scheme, but are likely to be less than the implied value of the DB pension to the recipient at the time of death.
68 Since the introduction of pension freedoms in 2015, only a small proportion of DC pensions have been annuitised. In Q1 2024, only 10 per cent of pension plans accessed for the first time were accessed via an annuity. Source: FCA, Retirement income market data 2023/24, September 2024.

Of course, none of these reforms will touch the increasingly common transfer of wealth via financial gifts. In an ideal world the UK would replace IHT with a recipient-based tax on lifetime financial acquisitions.[69] This would be a bold reform, but this method of taxation has international precedent, with Ireland's Capital Acquisitions Tax being a particularly pertinent example for the UK.[70]

In the past few years, the abrupt move to a high-rate world has had a large and potentially long-lasting impact on the overall level of wealth in Britain. But its impact on the distribution of wealth has been more muted. Some inequalities, particularly between young and old, have fallen. Yet stark wealth inequalities remain, and look set to persist for years to come.

69 For more detail, see: M Broome, A Corlett & G Thwaites, Tax planning: How to match higher taxes with better taxes, Resolution Foundation, June 2023.
70 OECD, Inheritance Taxation in OECD Countries, May 2021.

Annex 1 – Estimating the current value of household wealth

The latest granular snapshot of household wealth in Britain is from 2018-20

The Wealth and Assets survey (WAS) provides the most comprehensive and granular details on household wealth holdings in Britain, and forms the basis for much of our analysis of wealth. But the latest data covers 2018-20. To produce estimates of current household wealth, we have estimated the change in wealth since the last wave of WAS by estimating separately: (i) passive changes in wealth; and (ii) the impact of active saving.

Passive changes since 2018-20 are estimated at the individual level, by combining pre-pandemic balance sheet data with recent trends in asset prices and interest rates

Our estimates for passive changes are done at the individual level, which allows us to illustrate their distributional impact. However, our estimates for the impact of active saving are only at the aggregate level, due to a lack of comprehensive and timely survey data on individuals' or households' saving behaviour. That said, given the dominant role played by passive changes in the past and present, we are confident that the distributional impact of passive changes should be a reliable guide to the total distributional impact on family balance sheets.

To estimate passive changes, we take observed wealth holdings in 2018-20 and roll forward the value of wealth using broad asset price growth. For example, for a family sampled at the beginning of 2020, we apply changes in house prices, financial assets and interest returns over the period between the sample period and Q3 2024. We recalculate the value of wealth in each quarter, according to the relevant asset prices at the time.

We make a number of assumptions in order to roll forward the value of wealth. First, we assume that all assets change value at the same rate within the asset classes we have returns data for. Second, we assume no changes in the composition of assets households held since the WAS sample period (because we have no data to calibrate asset composition transitions). In practice, we know that some families will have shifted asset allocation – for example, by becoming first-time-buyers. Third, the WAS does not provide detailed information of the composition of assets within defined contribution pension pots, so we assume a 70:30 split between equities and bonds, which, 10 years before retirement age, rolls down linearly to 70 per cent bonds and cash.

We also estimate changes to the value of DB pensions and pensions in payment. In the WAS, pensions in payment are valued as the lump sum that would have been needed at the time of interview to purchase the reported annual payment. This calculation is based on annuity rates at the time of interview. DB pensions are valued similarly, except that their value is discounted to take into account that the income stream is received in future upon retirement, and any future lump sums are also included. This calculation also uses annuity rates from the month in which the individual was surveyed and SCAPE discount rates, which are often used in the valuation of public sector pensions.[71]

We use this methodology to estimate passive changes in DB pensions. We adjust the annuity rates used to value DB pensions and pensions in payment in line with movements in average market annuity rates and uprate pension income in line with inflation. We do not account for the fact that individuals will accrue DB income, as we classify this as active saving (even if it usually doesn't require an active decision on behalf of the pension holder). We also hold constant the discount rates used to value DB pensions, as these would be unduly distorted by high levels of inflation in recent years.[72]

Active saving is estimated at the aggregate level using data from the UK National Accounts

Our estimate for the impact of active saving on aggregate wealth uses data from the UK Economic Accounts and Blue Book, which we add to the aggregated impact of passive changes to arrive at an estimate for the total change in household net wealth since the latest WAS sample period.

We separately calculate flows of financial and non-financial saving. Financial saving is the sum of net lending/net borrowing in the household sector financial account and other changes in the volume of assets in the household financial account (quarterly changes in the latter are approximated by dividing annual changes by four and in 2024 are imputed as a proportion of households' financial assets, based on the average ratio of changes to assets over the past five years). Gross non-financial saving is equal to households' total gross capital formation. To arrive at our final estimate of active saving we subtract households' consumption of fixed capital to capture depreciation.

The returns on these financial and non-financial savings are also included in our projection for total household wealth, and these are derived from the same data source. The rate of return on financial savings is calculated based on the residual change in value

71 Full details of the valuation of pension wealth can be found in the Wealth and Assets Survey user guides.
72 SCAPE (superannuation contributions adjusted for past experience) discount rates include both a real component, based on long-run real GDP growth, and a nominal component, based on CPI inflation today. This approach is currently under review and there are good reasons for thinking that it could change in future but in this report, we adopt the ONS's methodology in order to provide a consistent time series for household wealth.

of households' financial net worth between quarters, after subtracting the effect of active saving as calculated above. The same approach is taken to calculate the return on (gross) non-financial savings, with the value of non-financial assets linearly interpolated between year-end data points.

We illustrate recent changes in the value of inheritances by applying passive changes to Inheritance Tax data

In Figure 19, we show how recent passive changes might affect the value of inheritances today. This is done with an illustrative exercise that updates the value of inherited assets in HMRC data for deaths occurring in 2021-22 to account for changes in their value in the subsequent period up to Q3 2024.

Assets in HMRC's inheritance tax statistics are reported at a much lower level of granularity than in the WAS. The largest single source of inherited wealth are UK residential buildings (51 per cent of gross inherited wealth in 2021-22), the value of which we assume grows in line with the UK House Price Index. The next largest are cash (22 per cent of gross inherited wealth) and securities (15 per cent). For these, we calculated a blended return across the more granular asset types used to update wealth in the WAS, as laid out in Table 1. The weights used to calculate the blended returns are based on the amounts held by individuals in the 2018-20 wave of the WAS, adjusted with age- and gender-specific mortality rates to more closely match the portfolios of those passing on inheritances.

TABLE 1: **Summary of assumptions used to project forward inheritances**

Real value of assets and liabilities in estates notified to HMRC in 2021-22, and summary of their projection to Q3 2024: UK

	2021-22	Return assumption	Projection at Q3 2024 valuations
Assets			
Securities	£19bn	Blended return on UK equities, foreign equities, UK gilts, foreign investment grade bonds	£20bn
Cash	£26bn	Blended return on cash ISAs, fixed-term saving accounts, instant-access saving accounts, National Savings & Investments (NS&I) accounts, and current accounts	£23bn
Insurance policies	£2.6bn	Constant in real terms	£2.6bn
UK residential buildings	£62bn	Follows the seasonally adjusted UK House Price Index	£58bn
Other buildings and land	£4.8bn	Follows the seasonally adjusted UK House Price Index	£4.5bn
Loans and other assets	£7.0bn	Constant in real terms	£7.0bn
Liabilities			
Mortgages	£2.2bn	Constant in real terms	£2.2bn
Other debts and funeral expenses	£3.0bn	Constant in real terms	£3.0bn

NOTES: Amounts are converted September 2024 prices using a seasonally adjusted CPIH index.
SOURCE: RF analysis of HMRC, Inheritance Tax liabilities statistics; ONS, Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; The Annuity Project from William Burrows; and HM Land Registry, UK House Price Index.

Annex 2 – Data citations

- Households Below Average Income (series page here):
  - 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
- Wealth and Assets Survey (series page here):
  - 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

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For more information on this report, contact:

Simon Pittaway
Senior Economist
simon.pittaway@resolutionfoundation.org

Resolution Foundation

2 Queen Anne's Gate
London SW1H 9AA

Charity Number: 1114839

@resfoundation
@resfoundation.bsky.social
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