The impact of the pandemic on household finances

The pandemic is having a significant impact on people's household finances. Some will be saving money, due to no longer having to commute or due to discretionary spending being constrained while holidays, meals out and pub visits aren't possible.

Others will be facing a hit to their income. Most seriously, many people have lost their jobs. The latest labour market data shows that unemployment is increasing and that the number of redundancies is at a record high[1].

The situation would have been much worse without the job retention scheme, which has helped to protect millions of jobs. At the peak of the first lockdown, 9 million people were furloughed, and 4 million people remain furloughed as of 31 December 2020[2]. While the job retention scheme has protected employment income, it has, however, required many workers to survive on just 80 per cent of their normal wages.

ONS survey data from October 2020 shows that around 4-in-10 furloughed employees in the private sector didn't receive a top up to their wages[3]. The Annual Survey of Hours and Earnings (ASHE), conducted in April 2020, found that low-paid workers were the most likely not to have their pay topped up. As a result, two million people were being paid below the minimum wage in April 2020, with around 1.3 million of these being furloughed employees on reduced pay[4].

The high number of employees pushed below the legal minimum wage reflects the fact that in April 2020, more than half of employees in the lowest decile of hourly earnings (earning less than £8.72 per hour) were furloughed and receiving reduced pay. The proportion of employees furloughed without being paid the top-up was highest in industries such as hospitality (39 per cent), the arts (27 per cent), and construction (26 per cent)[5].

In our National Workers Survey, a nationally representative survey of 2,231 people in England and Wales conducted by BritainThinks between 19th-29th November 2020, 10 per cent of respondents were on furlough. 7 per cent of respondents were on furlough without a top up

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[1] Time for certainty on worker protection as unemployment rises fast, TUC (2021). Available at: https://www.tuc.org.uk/blogs/time-certainty-worker-protection-unemployment-rises-fast

[2] *Coronavirus Job Retention Scheme statistics: January 2021*, HMRC. Available at: https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-january-2021

[3] *Business insights and impact on the UK economy: wave 16,* ONS. Available at: https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy

[4] *Jobs paid below minimum wage by category*, ONS. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/jobspaidbelowminimumwagebycategory

[5] *The government must ensure no one is paid below the minimum wage due to the furlough scheme*, TUC (2020). Available at: https://www.tuc.org.uk/blogs/government-must-ensure-no-one-paid-below-minimum-wage-due-furlough-scheme

to wages, compared to 3 per cent who were on furlough but getting wages topped up by their employer[6].

Another hit to household finances is increased costs caused by the pandemic. In particular, those with children are facing increased costs due to having their children at home. Analysis by the Resolution Foundation found that "families with children estimated to be in the lowest pre-pandemic income quintile were twice as likely to report an increase in spending (36 per cent) than a decrease (18 per cent)". Reasons behind this include higher spending on food (which itself is becoming more expensive) and energy, the extra costs associated with home schooling, as well as having to find ways to entertain children[7].

Alongside this, at a time when many people will have to self-isolate, statutory sick pay (SSP) remains incredibly low at just £95.85 per week. Working people who have to self-isolate but receive either SSP or no sick pay at all will face big hits to their income. Average weekly earnings are currently £531[8], meaning that the average worker on SSP will face an 82 per cent drop in weekly pay in their first week of self-isolation.

Measuring the hit to household finances

Following our previous report on debt and sick pay[9], we've again asked working people about the impact of the pandemic on their household finances. We particularly asked about how the pandemic has impacted their level of disposable income, their level of debt, and whether they have enough money to get through each week.

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[6] BritainThinks conducted an online survey of 2,231 people in England and Wales between 19th November – 29th November 2020. All respondents were either in work, on furlough, or recently made redundant. Survey data has been weighted to be representative of the working population in England and Wales

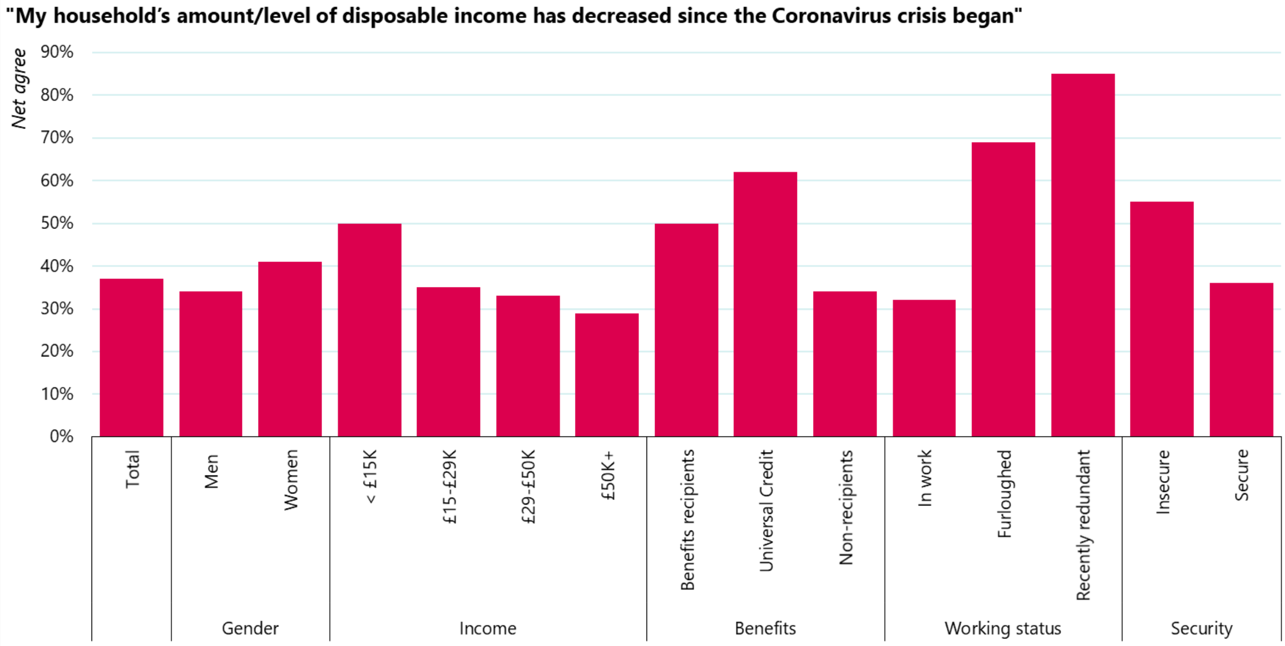
[7] Pandemic pressures, Resolution Foundation (2021). Available at: https://www.resolutionfoundation.org/publications/pandemic-pressures/

[8] *A01: Summary of labour market statistics*, ONS. Availablt at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/summaryoflabourmarketstatistics?

[9] *Sick pay and debt*, TUC (2020). Available at: https://www.tuc.org.uk/research-analysis/reports/sick-pay-and-debt

Less disposable income

37 per cent of working people told us that their household's level of disposable income has decreased since the start of the pandemic[10].



This has particularly impacted those on a low income. Half (50 per cent) of those earning less than £15,000 have said their level of disposable income has fallen since the pandemic began. This compares to three-in-ten (29 per cent) of those who earn more than £50,000 per year. A quarter (24 per cent) of those on higher incomes strongly disagreed that they'd seen a drop in their disposable income, compared to just 1-in-10 low-income workers.

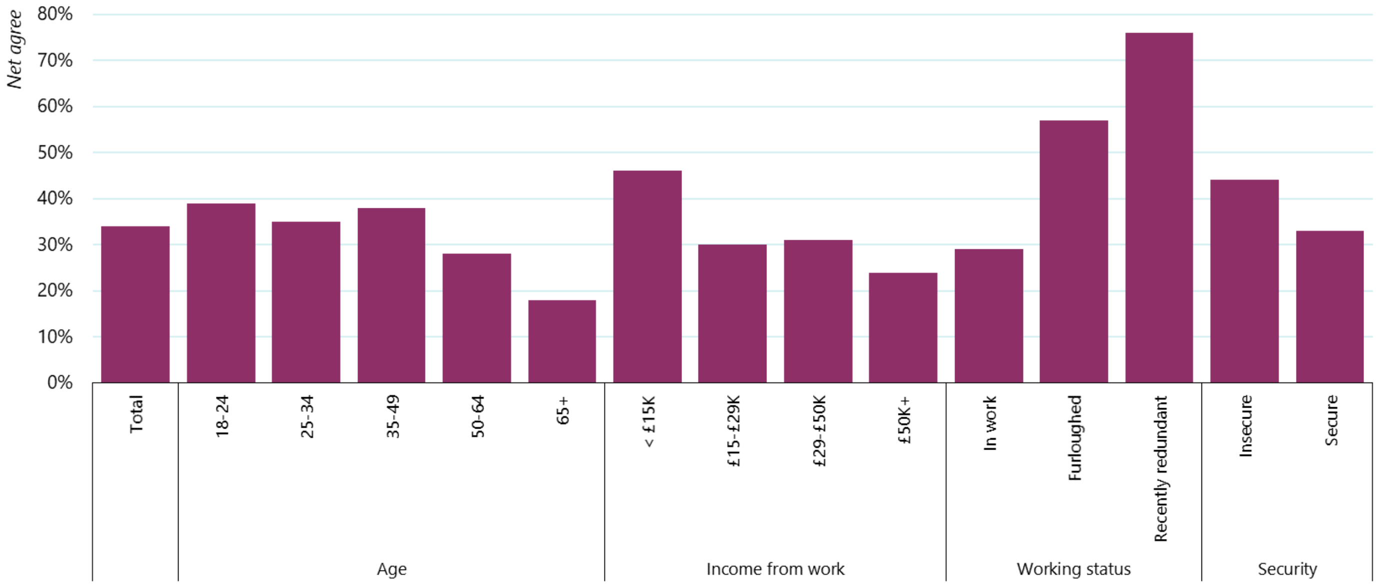
69 per cent of furloughed workers and 89 per cent of recently redundant workers have seen a drop in their income, compared to 32 per cent of those in work as normal. As have those in insecure work (55 per cent) and those on benefits including Universal Credit (50 per cent). Looking at just those on Universal Credit, this rises to 62 per cent. Women are also more likely to report a drop in disposable income than men (41 per cent compared to 34 per cent).

[10] We cannot compare this to our previous survey as the wording of the question has changed

Having to cut back

Unsurprisingly given the fall in disposable income, a third of workers (34 per cent) report having to cut back spending at the end of the week or month more since the pandemic began because they have run out, or might run out, of money. This means there has been no improvement of the situation since we asked the same question in early August, when 33 per cent of respondents to our survey told us they were having to cut back to make ends meet[11].

"I have had to cut back spending at the end of the week or month more since the pandemic began because I have run out, or might run out, of money"

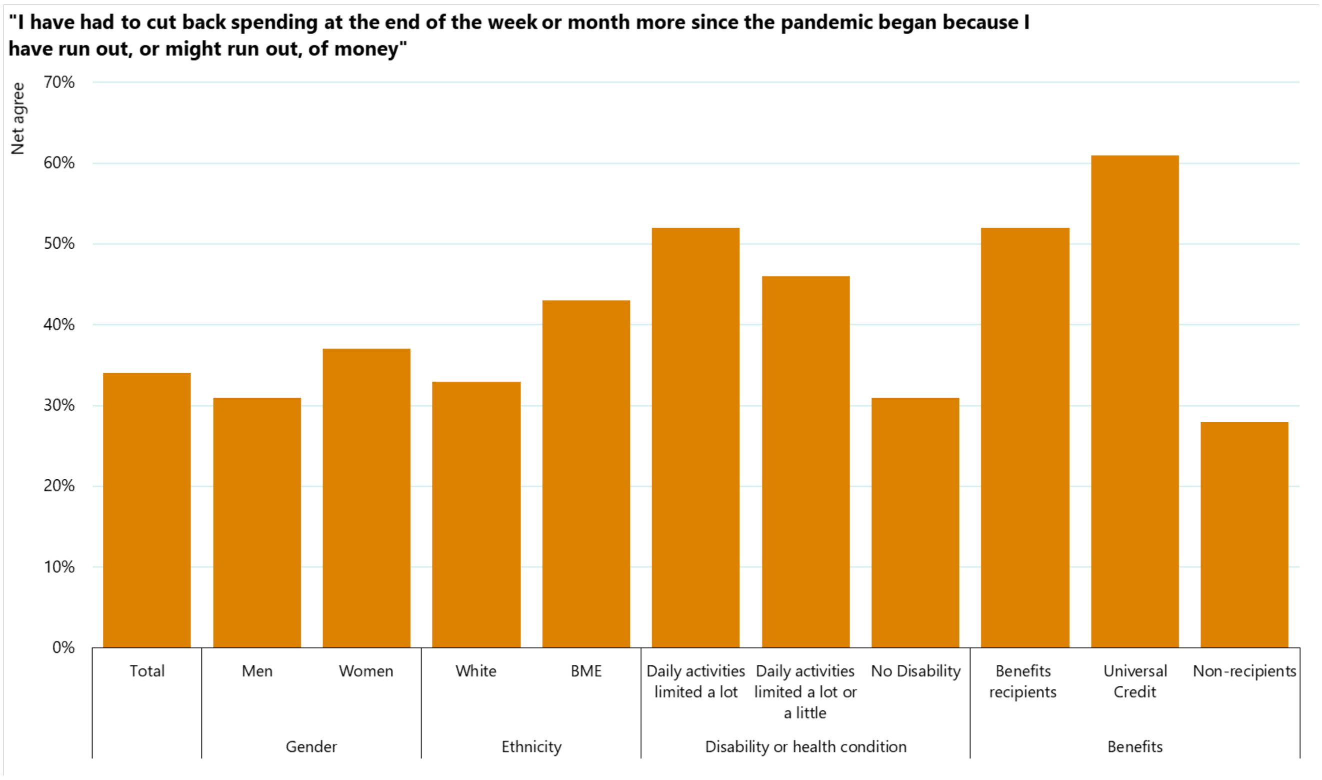


Following the same trends we saw among the workers more likely to be experiencing a fall in disposable income, those on a low income, those who have been furloughed or recently made redundant and those in insecure work are more likely to be cutting back:

- 46 per cent of those earning less than £15,000 per year have been cutting back to make ends meet more since the pandemic began, compared to a quarter of those earning above £50,000 per year
- 57 per cent of those who are furloughed and three-quarters (76 per cent) of those recently made redundant are cutting back, compared to 29 per cent of those in work as normal
- 44 per cent of those in insecure work have had to cut back, compared to a third of those in secure work
- As well as this, younger and middle-aged workers have been cutting back more. Four-in-ten (39 per cent) 18-24 year olds and a similar percentage of 35-49 year olds have been cutting back, compared to three-in-ten (28 per cent) 50-64 year olds and one-fifth (18 per cent) of those over 65

[11] *Sick pay and debt*, TUC (2020). Available at: https://www.tuc.org.uk/research-analysis/reports/sick-pay-and-debt

And much like in August, disabled workers, Black and Minority Ethnic (BME) workers, female workers and those on benefits are all more likely to be cutting back on spending as a result of the pandemic.



Increased debt

Having to cut back isn't the only consequence of the hit on household finances. Debt levels for some households are rising. Despite the households' saving ratio being significantly higher than it was before the pandemic[12], one-fifth of workers (21 per cent) told us that they'd seen their levels of debt increase since the pandemic began. This reflects something we mentioned in our previous report, and supported by research by organisations such as the Bank of England[13], IPPR[14] and Resolution Foundation[15]: while higher income households are likely to be saving money due to the pandemic, lower income households are struggling. The pandemic is entrenching existing inequalities.

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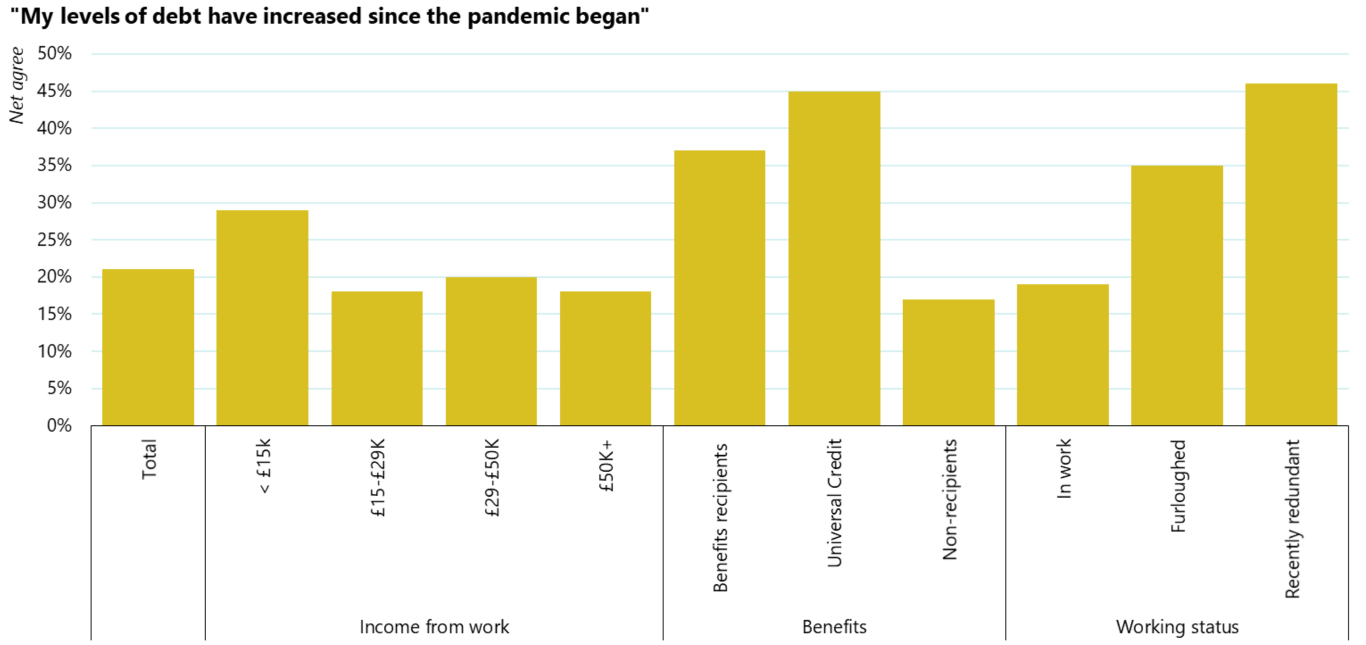
[12] *Households' saving ratio*, ONS. Available at: https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/dgd8/ukea

[13] *Monetary Policy Report: August 2020,* Bank of England (2020). Available at: https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/august/monetary-policy-report-august-2020

[14] *Helping households in debt,* IPPR (2020). Available at: https://www.ippr.org/files/2020-11/helping-households-in-debt-nov20.pdf

[15] *Pandemic is seeing lower income households turn to borrowing, while higher income households increase their savings*, Resolution Foundation (2020). Available at: https://www.resolutionfoundation.org/press-releases/pandemic-is-seeing-lower-income-households-turn-to-borrowing-while-higher-income-households-increase-their-savings/

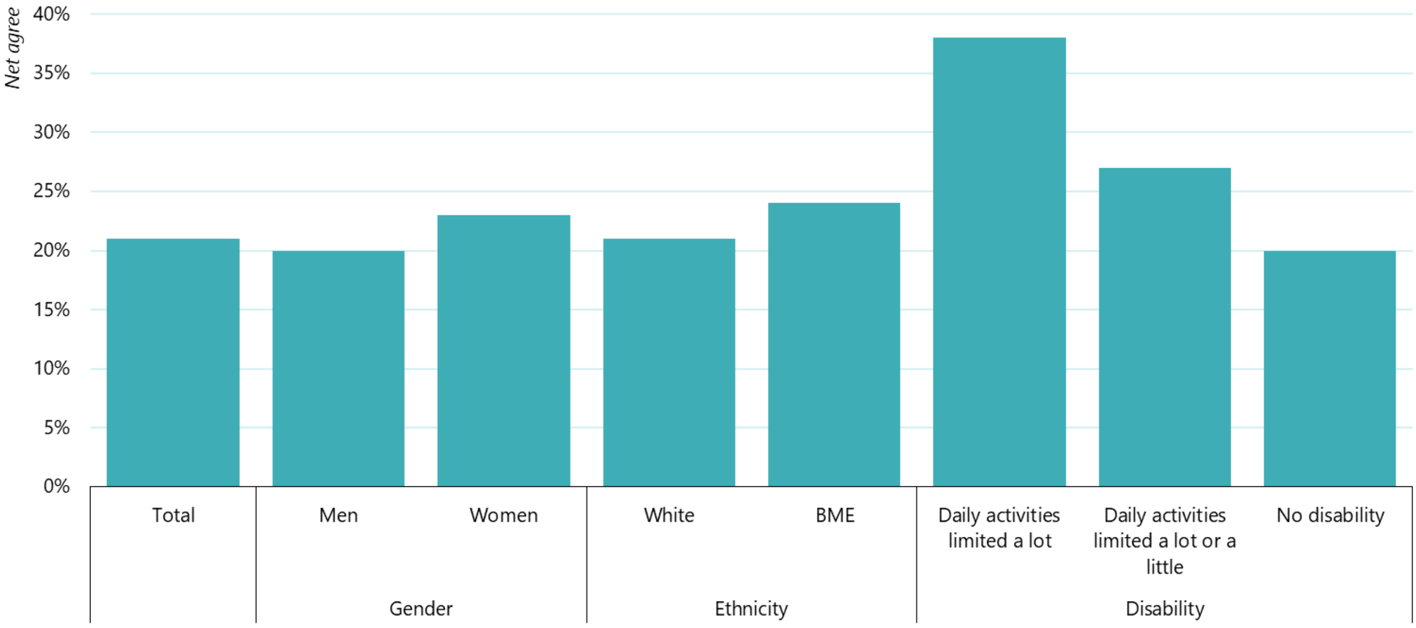


The rise in debt was particularly noticeable among:

- Low-paid workers. Three-in-ten (29 per cent) workers earning less than £15,000 per year reported higher levels of debt as a result of the pandemic, compared to one-in-five in other income groups
- Furloughed workers and those recently made redundant. 35 per cent of furloughed workers and 46 per cent of those recently made redundant have experienced high levels of debt, compared to 19 per cent of those working as normal
- Those in receipt of benefits. 37 per cent of workers receiving benefits reported increase debt due to the pandemic, compared to 17 per cent of those not in receipt of benefits
- Disabled workers. Four-in-ten (38 per cent) of workers whose day-to-day activities are limited a lot due to a disability told us they'd seen their levels of debt increase, compared to one-in-five non-disabled workers

BME workers were also slightly more likely than white workers to report higher levels of debt (24 per cent compared to 21 per cent). And women were slightly more likely than men to report the same (23 per cent compared to 20 per cent).

"My levels of debt have increased since the pandemic began"



Struggling with bills

Our findings correspond with the findings of other organisations, adding to the evidence of a household debt crisis that was already growing before the pandemic[16], but has been worsened by the crisis.

Citizens Advice have estimated that 6 million adults in the UK have fallen behind on at least one bill, with 1.2 million falling behind on rent[17]. They've raised particular concerns about council tax debt, estimating that over 3.5 million people are currently behind on council tax. Council tax debt is a particularly problematic debt due to the regulations around the debt being inflexible, leading to small debts quickly escalating, and unnecessarily harsh collection methods being used[18].

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[16] Our new government must address the burgeoning household debt crisis, TUC (2020). Available at: https://www.tuc.org.uk/blogs/our-new-government-must-address-burgeoning-household-debt-crisis

[17] *Excess debts – who has fallen behind on their household bills due to coronavirus?,* Citizens Advice. Available at: https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/excess-debts-who-has-fallen-behind-on-their-household-bills-due-to-coronavirus/

[18] *Unavoidable debt: Coronavirus council tax debt*, Citizens Advice (2021). Available at: https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/unavoidable-debt-coronavirus-council-tax-debt/

What needs to be done

The government must take urgent action to avoid a worsening household debt crisis that is already hitting people hard and looks set to leave many struggling with debt and repayments for years to come. This is important both in terms of helping those who are struggling and helping the economy to recover. Any recovery will depend on people being able, and feeling confident, to spend. This is unlikely to be the case if people are burdened by debt repayments.

Government must help to prevent the crisis worsening by protecting jobs, increasing the minimum wage, overhauling our benefits system to make it fit for purpose, and increasing statutory sick pay. As well as this, it must provide support for those already in debt through a wider package of support for struggling households.

The TUC's budget submission sets out our programme to boost workers' jobs, pay and incomes across the board. Here we set out specific actions that are needed to tackle problem debt.

Protecting jobs

To protect jobs in the immediate future, the government must improve and extend the furlough scheme.

The two largest rises in unemployment in 2020 occurred in months when support was reduced or expected to end[19]. The government must therefore ensure it does not remove the furlough scheme too soon, or allow another situation where the future of the scheme is uncertain. It should create certainty by extending the furlough scheme until the end of 2021.

The government must also urgently act to introduce a requirement that no one’s pay drops below the legal minimum while furloughed. And the minimum wage

We also need to see the government investing now to help create jobs in the coming years. Research carried out for the TUC by Transition Economics reveals that fast tracking spending on projects such as broadband, green technology, transport and housing could deliver a 1.24 million jobs boost by 2022[20], and the TUC has set out plans to fill and create 600,000 jobs in the public sector.[21]

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[19] *Extend job retention support to end of year before unemployment surges,* TUC (2021). Available at: https://www.tuc.org.uk/news/extend-job-retention-support-end-year-unemployment-surges-says-tuc

[20] Rebuilding after recession: a plan for jobs, TUC (2020). Available at: https://www.tuc.org.uk/research-analysis/reports/rebuilding-after-recession-plan-jobs

[21] TUC (2020) *A plan for public service jobs to help prevent mass unemployment* available at https://www.tuc.org.uk/research-analysis/reports/plan-public-service-jobs-help-prevent-mass-unemployment

Raising the minimum wage

Over 9 million employees, including 3.7 million key workers, are paid below £10 per hour[22]. A £10 minimum wage would mean a pay increase for millions of low-paid workers who have struggled through the pandemic and would ensure everyone is paid enough to live on.

Increase statutory sick pay

The weekly SSP rate must be permanently raised to at least the equivalent of a week's real living wage (£330 per week). This would guarantee that everyone who has to take time off work when sick would still at least be paid enough to live on.

Strengthening the safety net

For those who do lose their jobs, the benefits system fails to provide adequate support. It needs an emergency overhaul to make it fit for purpose.

The social security system should support those who do lose their jobs to stay on their feet rather than fall into debt. Government must therefore:

- Raise the basic level of universal credit and legacy benefits, including jobs seekers allowance and employment and support allowance, to at least 80 per cent of the national living wage (£260 per week).
- End the five-week wait for first payment of universal credit by converting emergency payment loans to grants.
- Remove the savings rules in universal credit to allow more people to access it.
- Significantly increase child benefit payments and remove the two-child limit within universal credit and working tax credit.
- Ensure no-one loses out on any increases in social security by removing the arbitrary benefit cap. In addition, no one on legacy benefits should lose the protection of the managed transition to universal credit as part of this change.
- Scrap the no-recourse-to-public-funds rules that deny working families access to social security.

Wider support for struggling households

We reiterate our calls for a more extensive package to support household finances. This should include a fully funded freeze on council tax debt repayment. Council tax debt collection is harsh, ineffective, inefficient and can push people further into debt. It also comes with the underlying threat of imprisonment.

The government should also:

- Increase the short-term hardship funding provided to councils while also establishing a permanent fund that provides a source of grants to support those facing hardship. This will allow councils to implement properly funded long-term support for struggling households

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[22] *A £10 minimum wage would benefit millions of key workers,* TUC (2020). Available at: https://www.tuc.org.uk/research-analysis/reports/ps10-minimum-wage-would-benefit-millions-key-workers

- Explore ideas such as writing off council tax debt and providing the outstanding money to councils. The latest available data shows that, as of the end of March 2020, the total amount of council tax outstanding was £3.6 billion[23]. Writing this off and paying the outstanding amount to councils would have two benefits: providing both debt relief for struggling households and a significant cash injection to local councils
- Increase the support it provides to renters, including an extension of the eviction ban that is set to end in February 2021

[23] *Collection rates for Council Tax and non-domestic rates in England, 2019 to 2020*, Ministry of Housing, Communities and Local Government. Available at: https://www.gov.uk/government/statistics/collection-rates-for-council-tax-and-non-domestic-rates-in-england-2019-to-2020