

# WEATHERING THE STORM: HOW COVID-19 IS ERODING FINANCIAL RESILIENCE

EXECUTIVE SUMMARY

November 2020



**TURN2US**  
FIGHTING UK POVERTY

# INTRODUCTION

The 2020 Covid-19 pandemic has had profound effects on the UK economy and caused many people to experience severe disruption to their employment and personal finances. Since March, 9.6 million people have been placed on furlough and 2.7 million more people are now claiming Universal Credit due to a loss of income and 695,000 people have been made redundant.

While certain groups have seen their income and livelihoods particularly affected, including women, single parents, younger people and people from ethnic minorities, the effects of the pandemic have been felt throughout UK society.

The financial impact of the first wave of the pandemic will be felt far beyond the immediate loss of income that people have faced. In the face of such a historic life-changing event, people will have turned to other forms of income and support to get by.

Depending on our individual situations, many of us will have used up our savings, spent money that was meant for a deposit, asked family and friends for support, or started to rely more heavily on credit cards and overdrafts.

People who have been financially affected by the pandemic will have done all this to try and ride out the first wave of the Covid-19 pandemic, until we return to more stable economic times.

As a second wave of the pandemic hits us over winter, we believe that now is the time to move beyond just looking at the impact of the first wave on changing levels of unemployment and income levels. We should also turn our attention to the impact of the first wave on people's financial resilience.

We need to consider what people have had to do to financially survive the last six months, and what that means about their ability to stay afloat during a second wave of Covid-19 related job losses, income shocks and additional costs.

This report sets out to answer those questions, by looking at the impact of Covid on our collective financial resilience. Financial resilience is defined as the ability to cope financially when faced with a sudden fall in income or unavoidable rise in expenditure.

## IN THIS REPORT, WE SET OUT TO ANSWER THE FOLLOWING QUESTIONS:

- How capable are people of coping with the economic shocks of a second wave?
- Who has seen their financial resilience most eroded in the last six months?
- What measures need to be in place to support people who are unable to financially cope with subsequent waves of the Covid-19 pandemic?



# METHODOLOGY

A representative survey of 2,500 UK adults aged 18 and above, was conducted by Censuswide between the 16th and 21st September 2020. The aim was to gather data on people's levels of financial resilience in September and how that has changed since February, before the first national lockdown. Alongside this survey, we also conducted 16 semi-structured interviews with people who had experienced changes to their financial resilience since February.



# 4.2M

more people are frequently running out of money, compared to March

## KEY FINDINGS

### IMPACT OF COVID-19 ON FINANCIAL RESILIENCE

When we compare people's financial resilience in September to that in March, there has been a sharp and unprecedented rise in the number of people who are now frequently running out of money, before they are paid again.

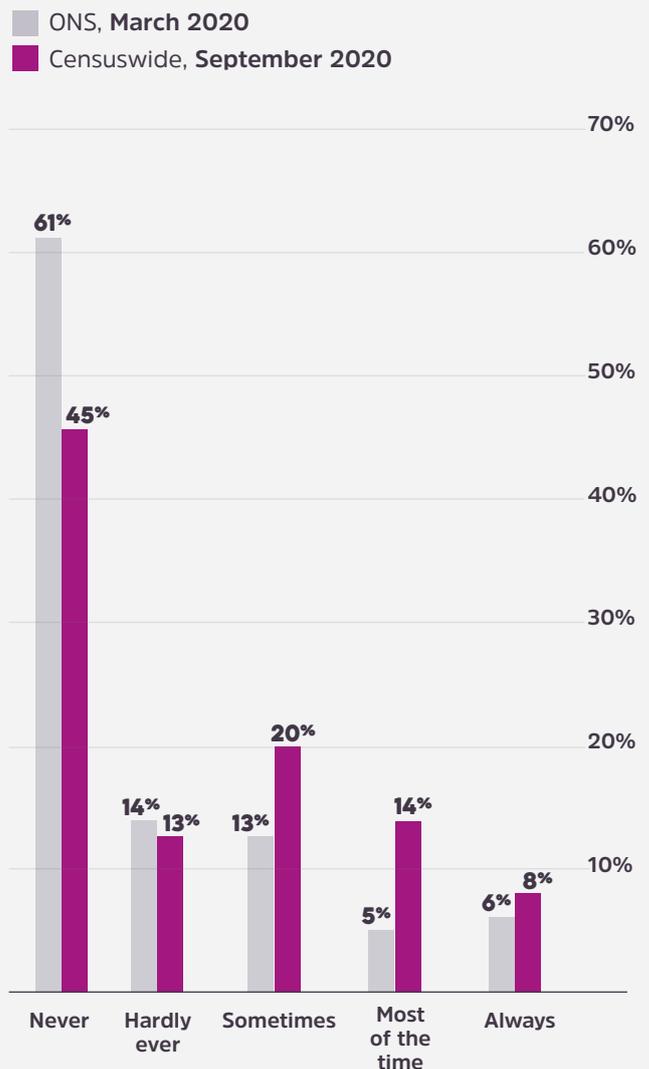
More than one in five of us (11 million people) are now running out of money 'always' or 'most of the time' before the end of the week or month. This means an additional 4.2 million are now frequently running out of money, compared to the start of March.

The financial resilience of people who are working has seen the most dramatic deterioration, since March. Employees are now twice as likely to frequently run out of money as they were pre-Covid-19 and self-employed workers now 2.5 times more likely to frequently run out of money as they were before Covid. A quarter of people who are working are currently running out of money 'always' or 'most of the time'. That means that more than 8 million people in employment are now frequently running out of money each week or month<sup>1</sup>.

More than 8 million workers are also currently only able to cope financially for less than a month if they lost their main source of income. This means they could not last for the duration of the five-week wait for a first payment of Universal Credit if they needed to apply.

In addition, almost 18 million people (34%) have had to use some form of debt to get by since March 2020, with 6.4 million (12%) people using multiple forms of debt. Additionally, 6.4 million people (12%) have resorted to missing a bill or debt repayment since March. Half of all people furloughed since March have had to use forms of debt, compared to just 23% of people who have seen no change to the employment.

How often people run out of money before the end of the week or month in March and September 2020



<sup>1</sup>Estimates for June to August 2020 show 32.59 million people aged 16 years and over in employment, 102,000 fewer than a year earlier and 153,000 fewer than the previous quarter.

# WHO HAS FACED THE LARGEST IMPACT ON THEIR FINANCIAL RESILIENCE?



## Younger people

40% of 18-24-year olds have frequently run out of money in the past year, compared to only 8% of people over the age of 55. When compared to previous data from pre-Covid, we can also see the disproportionate impact of the virus on the financial resilience of younger people. An additional 21% of people aged 18-24 are now frequently running out of money, compared to an additional 3% of people aged 55 and over. The differences in financial resilience by age have been starkly increased by the pandemic. This means that 2.3 million young people, aged 18-24, are now frequently running out of money each week or month.

## People with a disability

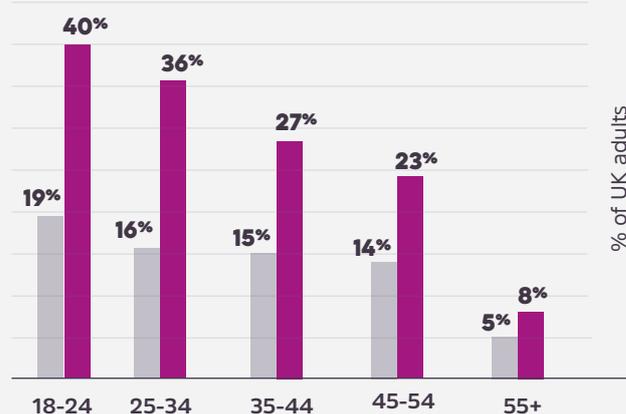
People with a disability are significantly more likely to say they run out of money before the end of the week or month. A third of people with a disability (33%) run out of money frequently ('Always' or 'Most of the time'), compared to only 18% of people without a disability. Whilst nearly half of people who do not have a disability (49%) say they have never run out of money over the last 12 months, only 35% of people with a disability said the same.

## People from ethnic minorities

While over a third of people from both Asian and Black ethnic backgrounds frequently run out of money (34%, 36%), only a fifth of people from white ethnic backgrounds experience frequently running out of money (21%). Similarly, while only 36% of people from Asian ethnic backgrounds could cope for more than three months, if they lost their main source of income, more than half of people from white ethnic backgrounds (51%) could cope for more than three months.

## People who frequently run out of money, by age

■ ONS, March 2020  
■ Censuswide, September 2020



# 40%

of 18-24-year olds have frequently run out of money in the past year

# 33%

of people with a disability run out of money frequent

## Women

Nearly a quarter of women (24%) frequently run out of money, compared to a fifth of men (20%) and this gap has widened since March. Nearly a third of women (32%) could also only last a month or less, if they lost their main source of income, compared to a quarter of men (25%). This means that women are particularly likely to find it difficult to cope during the 5-week wait for Universal Credit.

## Larger families and single parent households

Families with three or more children are twice as likely to always run out of money as families with only one child (18%, 9%).

Single parents are also likely to have much lower levels of financial resilience and more likely to have needed to resort to credit in order to get by over recent months.

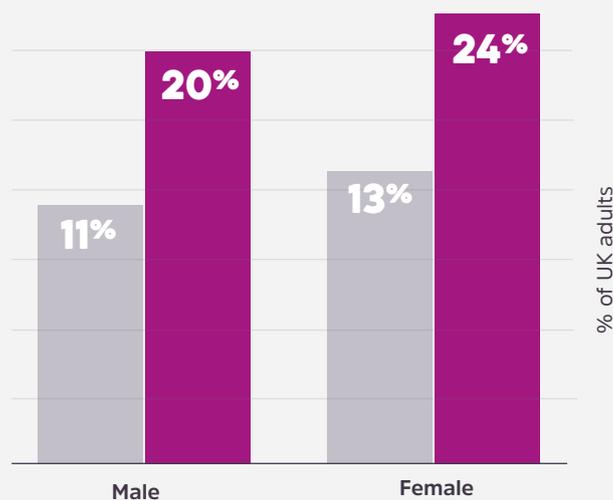
## Universal Credit claimants

Universal Credit claimants are disproportionately likely to run out of money. Only 26% of Universal Credit claimants have hardly ever or never run out of money before then end of the week or month within the last year, compared to 72% of people who aren't claiming income related benefits and 38% who are. In addition, nearly a fifth (19%) have never had enough money to make it to the end week or month without having to resort to credit cards or overdrafts.

## People who frequently run out of money, by gender

■ ONS, March 2020

■ Censuswide, September 2020



% of UK adults



# 32%

of women could only last a month or less, if they lost their main source of income



# WHAT SHOULD WE DO?



Many of the people who have been hardest hit by this pandemic are those of us who already face the most barriers within our economy.

There has been a significant drop in the financial resilience of everyone in the country but particularly among workers. More than 8 million workers are now frequently running out of money before payday, and more than 8 million workers are now also unable to cope financially for long than a month if they were to lose their income. In addition, the situation is dramatically worse for Universal Credit claimants, nearly half of whom (49%) run out of money frequently. That means that almost three million claimants on Universal Credit are regularly running out of money before the end of the week or month.

If the effects of the first wave of the pandemic were difficult to predict ahead of time, the effects of the second wave are painfully clear. Without continued financial support for those at risk of losing their income, there will be higher unemployment, rising levels of poverty and greater levels of food insecurity.

And the actual human experience of these national statistics is likely to be more severe, as people's financial resilience has been silently eroded. Fewer people now have the financial resources to stay afloat over the winter if their income drops or their expenses increase. This makes it vital that the government continues the measures it has put in place to support anyone who has been financially affected by the crisis, including the furlough scheme and the £20 per week uplift to Universal Credit standard allowance.

Many of the people who have been hardest hit by this pandemic are those of us who already face the most barriers within our economy. Women, people of colour, people with disabilities and single parents already faced greater disadvantage and have therefore also used up their financial resilience and 'buffer' far quicker than others when the pandemic hit.

Therefore, we need targeted support for groups who have struggled to stay afloat the most through the first wave and are now particularly at risk of poverty, financial hardship, and hunger over the course of winter. This is also necessary to ensure that equality improvements over last few decades are not more severely eroded and we do not slip further backwards.

Certain welfare policies such as the Benefit Cap and Two-child Limit have made some people more vulnerable to the financial impact of the pandemic, or undermined the impact of measures put in place to help people through this difficult time. These policies should at the very least be suspended until our economy has recovered.

## RECOMMENDATIONS



1. Maintain the £20 per week uplift to Universal Credit
2. End the five-week wait for Universal Credit
3. Increased funding and guidance for Local Welfare Assistance schemes
4. Increased support for children through the benefits system
5. Increased support for people with disabilities and apply the £20 uplift to legacy benefits

