

The fact that 30% of the UK population have savings of ...

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The [Resolution Foundation published a report](#) this morning which suggests that at least 30% of UK households have savings of less than £1,000 and are, therefore, unable to manage many of the cash-flow risks that are a normal part of life as a consequence of unexpected events. Unsurprisingly, many of these households are also those that suffer from low income.

The summary of the report's findings is as follows:

- * As many as 1-in-3 (30 per cent) of working-age adults live in families with savings below £1,000, leaving them financially vulnerable and ill-equipped to respond to small cashflow shocks.
- * Larger precautionary savings balances would help people cope with bigger shocks, but the country's savings shortfall is significant. If every working-age family in Britain had at least three months' income in precautionary savings, aggregate savings would be £74 billion higher.
- * Saving for retirement is also too low. 39 per cent of individuals aged 22 to the State Pension age (equivalent to 13 million people) were undersaving for retirement when measured against target replacement rates of at least two third of pre-retirement income.
- * Policies to boost precautionary saving have largely involve fiscal incentives, such as tax breaks or bonuses based on account balances. These policies are expensive, exceeding £8 billion in 2023-24, and are inefficient as they disproportionately benefit wealthier households.
- * Pension auto-enrolment has transformed pension saving. Since the introduction of auto-enrolment, the proportion of employees with a pension climbed from 47 per cent in 2012 to 79 per cent in 2021 – an extraordinary policy achievement.
- * Precautionary and pension saving are in tension. Evidence indicates that when default auto-enrolment contribution rates were increased from 2 per cent to 8 per cent between 2018 and 2019, for every £1 reduction in take-home pay due to higher

pension contributions, employees reduced their consumption by 34p, with the rest of the contribution funded through either lower liquid saving or higher debt.

* Other countries alleviate the tension between precautionary and pension saving by allowing early access to pension savings under a variety of conditions so that they can also act as a precautionary savings vehicle. This offers insights into how the UK's savings policy could evolve to help boost retirement saving while also making British families more financially resilient in the short term.

I deliberately reproduced these findings to make clear that I have not missed the point of the report.

I have also checked with care what the report recommends. There are three such recommendations if I interpret them correctly.

The first is to increase mandatory pension saving in the UK over time from 8% of earnings, as it is at present, to 12% of earnings over time, with this applying to all people from age 18 without a lower earnings limit. It appears that the Resolution Foundation does not understand the potential aggravation that this will create, particularly for those with multiple employments and employer pension arrangements.

More realistically, and I think quite appropriately, it suggests that pension contributions should, in the first instance, be paid into what it calls a sidecar account linked to a person's pension savings. £1,000 would be held in this sidecar account for a person to call upon whenever the need might arise. There would be some limited barriers to access to prevent the funds from being considered to be readily available, but the whole purpose of this account would be to add a degree of financial resilience to the affairs of those making pension contributions to help address the current shortfall in savings. I see merit in that.

The third recommendation is to allow loans from a pension fund against the security of the remaining part of that person's fund, which is a commonly available facility in many countries including, for example, the USA and New Zealand. Evidence suggests that repayment rates are very good. Conditionality would apply, including requiring proof that exceptional circumstances existed. What this arrangement does make clear is that the pension is not something sacrosanct, as it is treated in the UK, but is instead just a part of overall saving. Again, I see merit in this suggestion, which I think is better than permitting excessive early pension drawdown.

However, all this being said, the glaringly obvious problem within the Resolution Foundation proposal is that the entire onus of responsibility for solving the supposed £74 billion pension saving deficit that exists is placed upon the 30% of lower-income households who suffer that shortfall. To reinforce this, the state is given a pretty draconian stick to ensure that they comply with their obligation to create the funds in question. Staggeringly, at no point does the report suggest that redistribution might be

a solution to this problem. This is despite the fact that [according to the ONS](#), in 2021 the UK had £8,300 billion of financial wealth. That is a sum more than 100 times bigger than that which Resolution Foundation is concerned with creating for the sake of 30% of the UK population, but despite that fact, the words taxation and redistribution never appear in a meaningful way in the report (I checked).

I find this omission quite staggering. The problem inherent in the UK's obviously inappropriate patterns of saving is not that 30% of the population are somehow delinquent as evidenced by their failure to save, which is the fundamental underlying assumption of this report from the Resolution Foundation. They are, instead, unable to save because they simply do not have sufficient income to let them do so at a level that provides them with either short or long-term financial security. In contrast, as is apparent from the data, at least some within the remainder of the UK's population are able to save the considerable sums likely to be way in excess of their needs, which we know is certainly the case for a very relatively small percentage of people at the top of the wealth distribution.

My purpose in writing the Taxing Wealth Report 2024 has been to suggest:

- a) The capacity to tackle inequality by imposing additional taxes on those with income and wealth does exist.
- b) Imposing those taxes does not require the creation of new and decidedly complicated wealth taxes, for which the gestation period would be long and disputatious. Instead, it lies in the much more appropriate taxation of existing, identifiable, measurable, and inherently assessable forms of income and gains, all of which could be subject to additional taxation if desired with relative ease.
- c) The sums that could be collected as a result are material. They easily exceed the amounts required for investment in infrastructure in the UK present, given the physical constraints on our capacity to actually use such funding. They do, therefore, provide a real opportunity for redistribution of both income and wealth, which is very obviously what we actually require.

So, why didn't the Resolution Foundation talk about redistribution as a mechanism for tackling the problem that is identified? Why did it, instead, suggest that those without savings solve this problem themselves when their capacity to do so is clearly very constrained by existing power structures on reward distribution within society? I wish I knew the answer to that because what they have come up with looks very like an extraordinarily neoliberal solution to a problem to which neoliberalism has no answers.

As it is, the Resolution Foundation has identified a problem. They have also identified some useful potential reforms within the pension system, but they have failed to identify a systemic solution to a problem created by poverty that is impacting at least 30% of the population, which was always there, staring them in the face, if only they

looked at data on wealth distribution and realised that skewed distribution is, in itself the problem that they need to address. That is what is hard to understand.