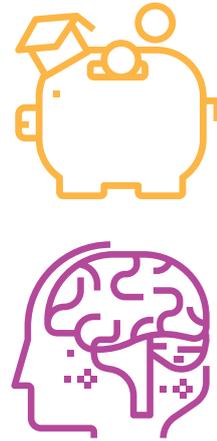


# Finances and mental health during the COVID-19 pandemic



## Introduction

The COVID-19 pandemic has hit the financial, physical and mental health of people across the UK. In particular, the national and regional restrictions that were brought in to protect the physical health of communities impacted many individuals' ability to do their jobs and to earn money to support themselves and their families. Although the UK government introduced a number of measures to try to alleviate the worst economic consequences for both individuals and businesses, many people across the UK have suffered a deep financial shock and the economic impact of the COVID-19 pandemic appears to have hit certain groups – including women,<sup>1</sup> young people<sup>2</sup> and the self-employed<sup>3</sup> – particularly badly.

While individual measures can show the extent to which people have lost income or accessed established support schemes through the pandemic, people's economic experiences tend to be multi-faceted and driven by a range of financial inputs (such as earnings) and outputs (such as spending). Therefore, this paper creates a typology of respondents based on multiple types of changes to their economic situation to reflect their overall financial experience through the first nine months of the COVID-19 pandemic.

## Key Findings



- There were six distinct financial experiences of the pandemic: people whose finances were largely unaffected (the “Undisrupted”); people whose finances improved (“Beneficiaries”); those who managed to cope with loss of income with little change to their lives (“Self-supporters”); people who used their savings to cover shortfalls (“Copers”); those who sought help from self-employment support schemes and Universal Credit to cover losses in income (“Help-seekers”); and people who faced multiple financial struggles who took advantage of many different types of non-work-based financial support (“Multi-strugglers”).
- People’s financial experiences differed by age. People who were “Undisrupted” tended to be aged 60 or older and less reliant on work-based income, while “Help-seekers” and “Multi-strugglers” were slightly younger than other groups.
- People from Black, Asian and Minority Ethnic backgrounds were twice as likely as White people to be “Help-seekers” who accessed new forms of financial help to cover their income losses.
- “Multi-strugglers” had the highest levels of mental distress before the pandemic began (39%). Following the onset of the pandemic in April 2020, this increased further to 54% before returning to pre-pandemic levels in January 2021.
- “Help-seekers” experienced the largest and most sustained increases in mental distress – 42% of people in this group reported being in poor mental health at the beginning of 2021, an increase from 29% before the crisis.
- Around 14% of “Multi-strugglers” had a new mental health diagnosis between May 2020 and January 2021, significantly higher than the 4% of people who benefited financially during the pandemic.

## Data and methods

Understanding Society (the UK Household Longitudinal Survey) has collected data from a representative sample of adults aged 16 or over in private households across Great Britain and Northern Ireland in 10 waves between 2010 and 2020. After COVID-19 hit the UK in early 2020, Understanding Society launched an additional, primarily web-based survey to track respondents' experiences through the pandemic and the economic and social disruption it caused. As well as asking respondents about their current financial situation at multiple points throughout the pandemic, it also asked about their situation at the start of 2020. This can be used to identify how individuals were hit by, and responded to, the economic consequences of the UK lockdown.

This briefing focuses on financial data collected from adults aged 16 or older from across the UK in the sixth wave of Understanding Society's COVID-19 study, fielded in November 2020. This allows us to identify individuals who experienced continued disruption to their individual and household earnings, changes to their levels of debt or savings or who took specific steps to mitigate any financial losses, such as borrowing from friends or family, finding new work or claiming additional state benefits. Individually, these questions can be used to highlight specific financial experiences of the pandemic but this briefing paper combines them to create specific groupings of respondents<sup>4</sup> based on their overall economic situation in 2020.

The social, demographic and wider economic characteristics of these groups are presented, along with the levels of mental distress experienced by each group before and during the pandemic. Mental distress was measured using the General Health Questionnaire (GHQ-12) which has been included in every pre- and post-pandemic wave of Understanding Society. These questions are designed to assess common psychiatric conditions. The GHQ-12 consists of 12 items, each assessing the severity of a mental health problem over the past few weeks. These can be used to generate an overall measure of mental distress by counting the number of items for which respondents selected the most symptomatic response options, creating a scale running from 0-12, with higher values reflecting greater distress. A threshold score of four or more was used as a marker of a clinically significant level of mental distress on this scale.

Further evidence draws on two focus groups with 14 members of the Money and Mental Health Research Community, a group of 5,000 people who have lived experience of mental health problems or of caring for someone who does. Participants were recruited through an online survey between 22-25th January 2021 and focus groups were carried out one week later. These focus groups discussed COVID-specific government interventions and services designed to mitigate the financial harm of the pandemic on individuals' incomes and household finances.

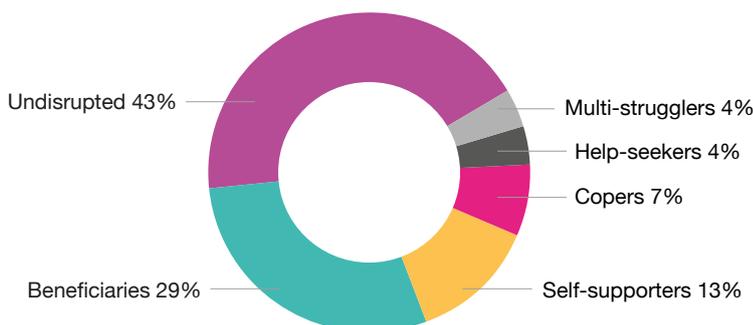
## Grouping financial experiences

Individuals were allocated to mutually exclusive groups based on their responses to a series of questions about their financial situation and how this had changed between January/February 2020 (before the COVID-19 pandemic hit the UK) and November 2020 (when wave 6 of Understanding Society's COVID study was collected). Using a statistical technique called latent class analysis, we have identified six discrete groups of people with different financial experiences of the pandemic:

1. Undisrupted (43%) – people whose financial situation in November 2020 was largely the same as it had been at the start of 2020.
2. Beneficiaries (29%) – people who reported higher individual and/or household income in November 2020 than at the start of 2020, many of whom were able to reduce their debt in this period.
3. Copers (7%) – people who suffered a hit to their individual and/or household income but didn't need to change their behaviour much to cover this.
4. Self-supporters (13%) – people who suffered a hit to their individual and/or household income and used their own savings or cut their spending to cover this.
5. Help-seekers (4%) – people who suffered a hit to their individual and/or household income and looked for external help, such as borrowing, benefits or new employment, to cover this.
6. Multi-strugglers (4%) – people who needed to take advantage of many different types of non-work-based financial support (additional benefits, borrowing and use of savings) despite being less likely to suffer income losses over 2020.

For the majority of the population, finances were either unaffected by the pandemic or improved. For those whose financial circumstances deteriorated, two groups (Copers and Self-supporters) managed to rely on informal or internal support and two groups (Multi-strugglers and Help-seekers) needed external support.

Figure 1: Population distribution of financial experiences of the pandemic.



## Which groups of the population are affected the most?

Although COVID-19 is a greater physical threat to older people, many older people have avoided the worst financial consequences of the pandemic in the UK. As [figure 2](#) shows, people aged 60 or older make up two thirds of the “Undisrupted” group. Although this is unsurprising, given that many in this age group will be retired and do not rely on work-based income, this reflects the different levels of economic disruption felt by people in and out of the workforce during the pandemic. Help-seekers and Multi-strugglers tended to be slightly younger than other groups.

The negative financial impact of the pandemic has disproportionately affected Black, Asian and Minority Ethnic (BAME) groups.

In line with being the oldest group, people in the Undisrupted group were also the least likely to have children living in their household (11%) or to have been in work at the start of 2020 (27%), as shown in [figure 3](#). They were also slightly more likely to be female than male, but this is also in line with older age groups more generally. Members of the Help-seekers group were the most likely to be female (64%) and to have children (41%). The majority of Beneficiaries, Copers, Self-supporters and Help-seekers were in work in January/February 2020 in contrast to the minority of the Multi-strugglers and the Undisrupted.

Very few people in the Beneficiaries group lived in low-income households (measured as those in the bottom quintile of the household income distribution). Only one in 15 members of this group (7%) were in low-income households compared to half (52%) of the Multi-strugglers group. This suggests a widening in financial inequalities as those who were

Figure 2: Age differences in financial experiences of the pandemic.

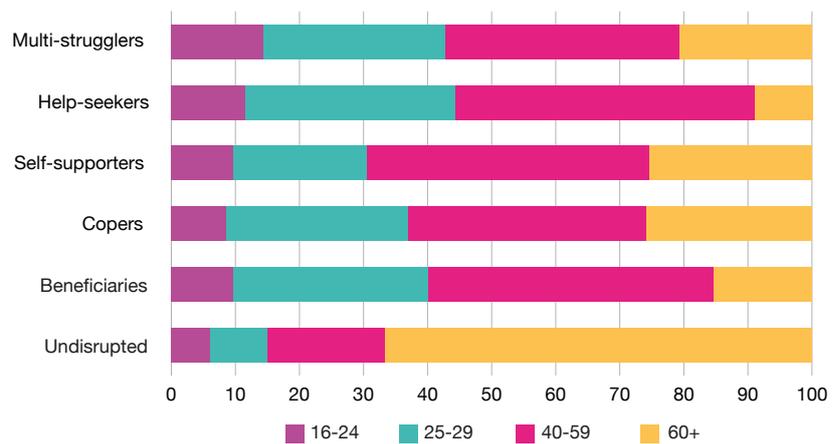


Figure 3: Household and individual characteristics of each group of financial experiences of the pandemic.

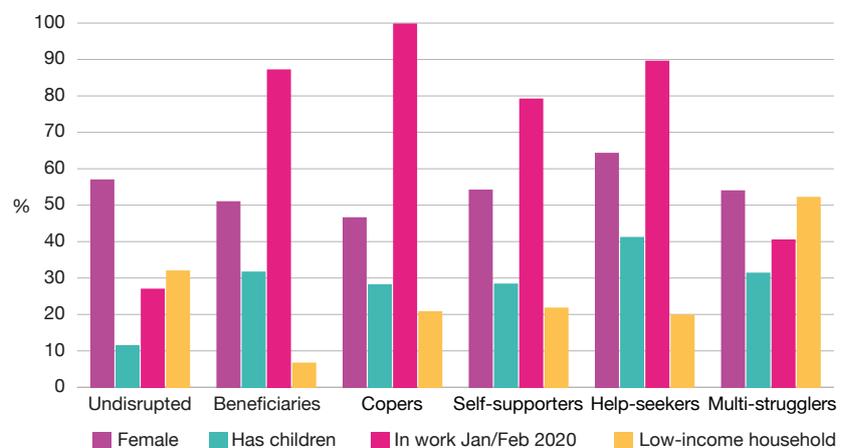
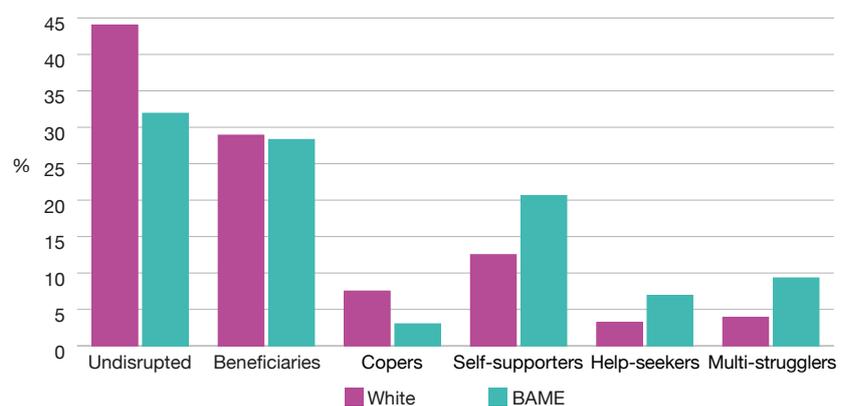


Figure 4: Ethnic differences in financial experiences of the pandemic.



worst off have struggled further during the pandemic whereas people who were better off have often benefited from an increase in household or individual income.

The negative financial impact of the pandemic has disproportionately affected Black, Asian and Minority Ethnic (BAME) groups. [Figure 4](#) shows that people in the BAME

group were less likely (32%) than the White group (44%) to be financially undisrupted by the pandemic. Meanwhile people in the BAME group were approximately twice as likely as those in the White group to be classed as Self-supporters (21% v 13%), Help-seekers (7% v 3%) or Multi-strugglers (9% v 4%) during the pandemic.

## What financial help was used?

Around two in five (41%) Multi-strugglers had successfully applied for Universal Credit since the start of the pandemic. They were not, however, more likely to have been furloughed under the Coronavirus Job Retention Scheme or received a government grant from the Self-Employment Income Support Scheme (SEISS), though this is likely due to their lower level of employment at the start of 2020.

Help-seekers were the second most likely group to have been awarded Universal Credit, but they were also the group with the highest proportion of self-employed people and, as shown in figure 5, the most likely to have received a self-employment grant. While Help-seekers experienced similar levels of furloughing as Copers and Self-supporters in November 2020, nearly a quarter of Help-seekers (23%) had received the self-employment grant.

## How have the economic shocks of the pandemic affected mental health?

All groups recorded an increase in mental distress at the start of the UK lockdown in April 2020 compared to before the pandemic (Figure 6). Although elevated levels of mental distress started to return to pre-pandemic levels as the UK started to re-open in summer 2020, distress once again increased in November 2020 as the pandemic worsened and social and economic restrictions increased. As figure 6 shows, levels of mental distress have varied between these groups before and since COVID-19 hit the UK. People who were financially Undisrupted and who were Multi-strugglers have consistently recorded the lowest and the highest levels of mental distress across almost all time periods.

By January 2021, mental distress among people who had experienced multiple financial issues had returned to pre-pandemic levels. However, a

Figure 5: Proportion of people receiving financial interventions by financial experiences of the pandemic.

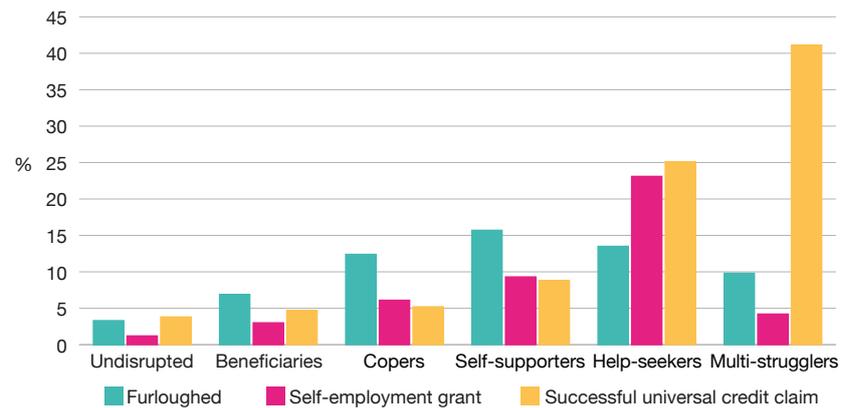


Figure 6: Proportion of respondents reporting significant mental distress by financial experience of the pandemic.

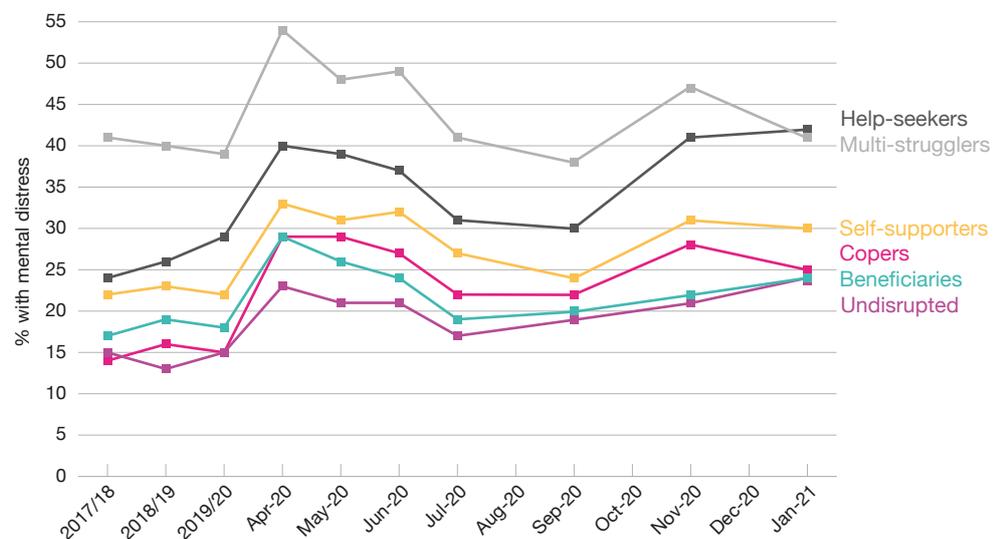
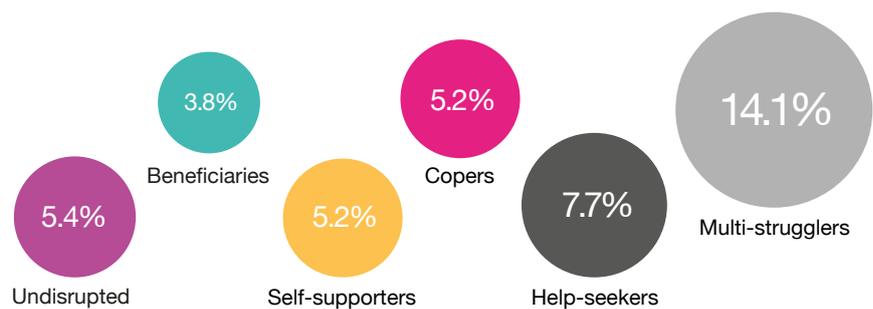


Figure 7: Proportion of respondents who reported a new mental health diagnosis between May 2020 and January 2021 by financial experience of the pandemic.



considerable increase in distress continued to be seen amongst the Help-seekers group; 42% of this group were experiencing significant mental distress in January 2021, compared to 29% before the pandemic and 30% only two months earlier. As the UK re-entered stricter lockdown restrictions throughout October and November the biggest hit to mental health appears to have been felt

by those seeking financial support from outside their household.

As well as reporting consistently high levels of mental distress, the most economically vulnerable group of individuals who reported long term and multiple financial difficulties (Multi-strugglers) were also more likely to report a new diagnosis for a mental illness between May 2020 and January 2021.

## How do financial circumstances affect mental health?

The association between increasing financial difficulties and poorer mental health is clear but the mechanism driving this link is more complex. In order to understand more about how someone's financial position might directly affect their mental health, focus groups including people with lived experience of mental health problems discussed some of the practical reasons for how financial difficulties impacted the mental health of some of the hardest hit groups during the pandemic.

These experts by experience spoke of how support for self-employed workers was particularly lacking during the pandemic.

These experts by experience spoke of how support for self-employed workers was particularly lacking during the pandemic. This may explain why the Help-seekers group, 3 out of 10 of whom were self-employed workers during the pandemic, experienced the largest increase in mental distress. The Self-employment Income Support Scheme support grant required potential claimants to understand eligibility criteria and proactively apply for grants, in contrast to automatic entitlement to the furlough scheme and increased payments to Universal Credit claimants. Applicants therefore required greater clarity of thought, concentration and an ability to interpret complex information to apply for self-employment support. All of these can be adversely affected by experiencing mental health problems.

“It was difficult to follow all the government changes and there seemed to be no central place you could turn to for help and advice, we are all so individual and often we do not fit into boxes for filling in forms.” *Expert by experience*

Given that mental health problems are over-represented in part time self-employed workers,<sup>5</sup> these individuals faced additional barriers to support. This may have exacerbated their conditions and widened both financial and mental health inequalities experienced by this group.

Although Help-seekers experienced the biggest overall decline in mental health of all groups over the course of the pandemic, the highest levels of mental distress – both before and during the pandemic – were consistently measured amongst those who struggled with multiple financial issues. These Multi-strugglers were the most likely to be in the low-income group. This provides further evidence of the significant income gap between those with and without experience of mental health problems.<sup>6</sup>

Interventions to support the incomes of Multi-strugglers in receipt of benefits have focused on enhancing the rate of Universal Credit. This increase, however, was not extended to people in receipt of ‘legacy’ benefits, such as Job Seekers Allowance, Employment Support Allowance or Working Tax Credit. It was therefore not available to many individuals who had been out of work for a longer period of time, including those not working due to ill-health or disability. There was a feeling of injustice and resentment from participants that the uplift had not been extended to legacy benefits and that this had served to exacerbate existing inequalities.

“None of these were applicable to me as I’m on ‘legacy’ benefits, so I’ve had nothing to help cover the extra costs a disabled person faces under COVID.”  
*Expert by experience*

Findings from our focus groups chime with a growing body of evidence highlighting how this crisis is disproportionately impacting the most vulnerable. For many of the participants, pre-existing financial precarity and barriers to accessing support meant that many had faced – and expected to continue to face – impossible choices.

“I have to choose between paying my mortgage, eating & heating. I expect to lose my house by the end of 2021.”  
*Expert by experience*

As well as establishing how increasing financial disadvantage was associated with declining mental health, findings from the focus groups also underline how services must ensure interventions are designed and implemented with people with mental health problems in mind. Without access to appropriate support, the financial and mental wellbeing of the most disadvantaged groups will continue to be put at risk.

## Limitations

The snapshot of individuals' financial situation over the past year was collected in November 2020 and does not reflect any earlier or prolonged periods of financial distress respondents could have experienced and may therefore mask greater variation in financial distress. Although the GHQ-12 is widely used to measure levels of mental distress, it does not reflect clinical diagnosis of mental health disorders. It is also used in this analysis to measure mental distress in January 2021 – two months after respondents' financial situation was measured – by which time there may have been greater divergence in individuals' financial circumstances. The sub-sample of participants who took part in the November 2020 survey may not be representative of the UK population due to drop-outs over time, though weights were used to adjust for differential non-response in this analysis.

## Conclusions

Levels of mental distress increased in the UK during the strictest lockdowns to curb the spread of COVID-19, but the largest and most worrying increases have been seen amongst those groups who were in the weakest financial position at the onset of the pandemic and who have required access to greater levels of financial support throughout the pandemic. While people struggling with multiple financial issues experienced the highest levels of distress both before and during the pandemic, people newly seeking financial support appear to be particularly vulnerable to the pandemic

The largest and most worrying increases have been seen amongst those groups who were in the weakest financial position.

effects. This group of Help-seekers experienced a considerable increase in distress when the pandemic first hit the UK in Spring 2020 and the largest increase in the second national lockdown, introduced in Winter 2020-21. They have needed to access many of the financial support mechanisms put in place to support people through the pandemic – with high levels of self-employment support and new Universal Credit applications within this group.

Although increased mental distress has been seen within the general population as a consequence of the COVID-19 pandemic,<sup>7</sup> these increases have clearly been amplified within people experiencing economic difficulties and those who have needed to seek financial help. As the economic fallout of the pandemic is expected to continue far beyond the period in which the lockdown measures are in place, the financial and mental health of those individuals relying on these additional measures should not be ignored.

## Acknowledgements

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