Talkin' 'bout my generation: TUC briefing on intergenerational issues

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The Trades Union Congress (TUC) is the voice of Britain at work. We represent nearly six million working people in 52 unions across the economy. We campaign for more and better jobs and a better working life for everyone, and we support trade unions to grow and thrive.

Young people are currently on the sharp end of many of the worrying trends we see in today's labour market:

- Young people have been hardest hit by the fall in real wages experienced following the financial crisis; for example, Gregg and Machin showed that real wages for those aged 22-30 fell by 16 per cent between 2008 and 2014, compared to 10 per cent for all workers.[1]
- Young people make up the largest group of workers in many forms of insecure work; those aged 16-24 are the group most likely to be working on a zero hours contract or in agency or casual work (although a clear majority of both groups are aged 25 and over).[2]

The TUC's Young Workers campaign aims to improve the pay and prospects of this group, including by ensuring that they can experience the benefits of joining a union.[3]

These poor prospects for today's young people are sometimes seen as the result of a distributional conflict between generations – with older workers, and in particular the retired, using up resources that would otherwise be able to be spent on addressing the issues these young people face. This analysis places concern about inequality between generations above other inequalities in society.

We think there is little evidence to support this account. While older people are on average wealthier than younger people, some degree of inequality is to be expected as a consequence of the cycle of accumulation during one's working life and decumulation in old age.

This picture is confirmed by TUC research that shows housing tenure, occupation and geographical location are better markers of wealth than age.[4]

Meanwhile, the issues faced by young people should not blind us to the fact that many older people are also still facing significant disadvantage. The poverty rate for pensioners – defined as 60 per cent of median income after housing costs – has halved since 1994/95 but still stands at 14 per cent. This means that 1.5m pensioners currently live in poverty. Worryingly, progress on pensioner poverty has stalled in the last five years, a recent report, *Monitoring Poverty and Social Exclusion 2016*, published by the Joseph Rowntree Foundation concluded.[5]

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[1] http://cep.lse.ac.uk/pubs/download/ea024.pdf
[2] TUC (2016) *Living on the Edge: The rise of job insecurity in modern Britain*
[3] See https://medium.com/@abance/more-than-twitter-new-union-models-for-a-new-workforce-38efa521e3e5#.bmwebcat8 for more details of our work in this area.
[4] Lloyd J, *Young against Old? What's really causing wealth inequality?,* pp16-20 TUC 2015
[5] Tinson A, et al, *Monitoring Poverty and Social Exclusion* Joseph Rowntree Foundation 2016

Low income in retirement is often linked to earlier low pay, or time out of employment, for example, due to caring responsibilities, disability or unemployment. Among pensioners, women, those aged 80 to 84, single people living alone, private tenants, and Pakistani and Bangladeshi people are at greater risk of pensioner poverty. More than one in five pensioner households got means-tested benefits in 2014/15 although this proportion has fallen steadily from a high of 39 per cent in 1995/96.[6] We cannot therefore assume that all older people are wealthy.

And as we set out further below, there is little evidence to link the poor pension prospects currently experienced by young people to supposedly over-generous provision for the old.

Rather than see the debate as one which sees the relative wealth of some older people as the primary driver of young people's poorer prospects, we believe that policymakers should focus on changes to the labour market which have had a negative impact on everyone's prospects, with young people at the sharp end of these changes.

In this briefing we focus on the role played by unions in addressing intra- and intergenerational inequalities.

The problems faced by young workers

The disadvantages faced by young people are not unique to the UK. The International Labour Organisation (ILO) has warned that inequality between youth and older adults "is likely to reach a tipping point, potentially leading to social and political unrest, where high inequality between youth and adults combines with a critical overall labour market situation".[7] According to the Organisation for Economic Co-operation and Development (OECD) group of developed nations, young workers, more than any other cohort, are likely to be in insecure employment that is more vulnerable to the economic cycle. The OECD has also reinforced the message that the initial experience of the labour market can have a scarring effect on later working life.[8]

In the UK, the TUC has analysed the position of so-called 'young core workers' (YCWs) in the recent report *Living for the weekend? Understanding Britain's young core workers*. These are people at the sharpest end of labour market, who have huge amounts to gain from union membership. Just 9.3 per cent are trade union members, compared to 24.7 per cent of all UK employees. Improving their living standards could go part of the way to addressing issues of inter- and intra-generational inequality.

[6] Keen R, *Pensions and Pensioner Incomes 2016*

[7] Reinecke, G and Grimshaw, D. Labour market inequality between youth and adults: a special case? In *Labour markets, institutions and inequality: building just societies in the 21st century*, edited by Berg, J, 2015

[8] OECD, *Off to a good start? Jobs for Youth*, 2015.

We term Britain's young core workers as:[9]

- Aged 21-30
- predominantly working in the private sector
- working full- or part-time
- not in full-time education
- earning low to average wages

Double the proportion of YCWs live in the social rented sector than young employees (14.2 versus 7.5 per cent).[10]

The challenges faced by this group include:

Low pay

By definition, YCWs are either low- or averagely- paid. In calculating 'low to average wages', we focus on the bottom 60 per cent of earners aged 21-30. There are approximately 3.5m workers in this category.

Poor-quality jobs

Almost half (47 per cent) of YCWs work in retail, accommodation, food, health and social care industries, sectors more likely to be characterised by low pay.

We also know that young workers are more likely to experience insecurity at work, with 16-24 year olds making up the largest groups of those working on a zero hours contract or in agency or casual work.[11]

Lack of training opportunities

YCWs are least likely to engage in work-related training or education, with 65.6 per cent experiencing neither – compared to 59.9 per cent of young workers and 61.8 per cent of all employees.[12]

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[9] For a fuller description of how we came to identify this group, see: Bates, F. *Living for the weekend? Understanding Britain's young core workers*, TUC, September 2016, §3.

[10] *Based on Labour Force Survey 2015 Q4 data.*

[11] TUC (2016) *Living on the Edge: The rise of job insecurity in modern Britain*

[12] The Labour Force Survey records data on training and education taking place 'in the last three months'.

Research has identified that training offered at the lower end of the labour market often meets the minimum statutory requirements, but is rarely linked to employee development and progression.13

Weak opportunities for progression

While it is reasonable that greater responsibility should come with greater experience, YCWs are even less likely to be managers or supervisors than other young people. Some 80.1 per cent of YCWs are neither, compared to 73.6 per cent of young employees.

Research by the Joseph Rowntree Foundation found that in retail, care and hospitality industries few employers actively supported the progression of staff: "the general view of employment in each of the sectors appears to emphasise employment as a 'job' rather than as a stepping stone to a career within the sector".[14]

Underemployment

Some 16.1 per cent of YCWs are underemployed, compared to 12.3 per cent of young workers and 10 per cent of all employees.15 35.7 per cent of YCWs work part-time because they cannot find a full-time job. It is likely that the higher levels of underemployment for this cohort is associated with the sectors in which they work.[16]

Pressure on working parents

The TUC estimates that almost a third (28.7 per cent) of YCWs have at least one dependent child, against one in five (20.9 per cent) of young employees; 5.9 per cent of YCWs are single parents, against 4.4 per cent of all employees and 3.4 per cent of young employees.

EHRC data show that mothers aged under 25 are more likely than average to have negative and potentially discriminatory experiences. For example, six times as many young mothers reported being dismissed from their job (6 per cent relative to 1 per cent of mothers of all ages).

They were also more likely to report feeling under pressure to hand in their notice on becoming pregnant, or being treated so badly that they felt they had to leave work.[17]

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[13] See: Joseph Rowntree Foundation, *Progression of low-paid workers in the retail, catering, and the care sectors of the economy* 2014; Keep, E. and James, S, 'What incentives to learn at the bottom end of the labour market?', 2010

[14] Joseph Rowntree Foundation: *Progression of low-paid workers in the retail, catering and care sectors of the economy* 2014

[15] Bates, F.: *Living for the weekend? Understanding Britain's young core workers*, p. 24, TUC 2016

[16] See: TUC: *Decent jobs deficit: the human cost of zero-hours working in the UK*, TUC 2013

[17] See Bates pp. 25-6.

A lack of voice at work

Few YCWs are members of a trade union. Many low-paid workers – particularly in the sectors in which YCWs are concentrated – have purely functional relationships at work and do not consider them central to their identity.[18]

The TUC is working to address this, kicking off six months of user research with the young people that aren't in unions, and planning to test new models for how unions can support and organise young core workers.

We set out below why helping more young people to join a union could be critical to addressing many of the challenges they face. But first we examine the evidence as to whether the issues faced by young workers should be seen as related to the position of older generations.

Has over generous pension provision harmed the prospects of young workers?

The story told about pension provision across the generations is often a simplistic one. It tells of a cossetted pensioner generation benefiting from generous defined benefit (DB) workplace provision and a state pension that rises ahead of inflation and earnings. Meanwhile, young people, already struggling with high housing costs and an inhospitable labour market, receive rock bottom pension contributions. To make matters worse, the defined contribution (DC) schemes they have been enrolled in lands all the investment and underfunding risk on their shoulders. If they ever manage to retire, so the story goes, the State Pension will be a distant memory.

Sometimes causal links are drawn between the two caricatures: the expense of funding DB pensions for older people is weighing on the pensions, and perhaps pay, of the young.

We believe that there is little evidence to suggest that pension provision for the older generation reduces the wages or pension benefits of a younger generation. It is also increasingly clear that the cost of pensions is partially due to the distorting effect of recent pension regulation and practice.

Occupational pensions

There has been a great shift in the nature of pension provision since the 1980s. DB pensions, which pay out an income based on salary and length of service, were long the mainstay of occupational pension provision (partly due to the tax advantages they received). A range of factors including changes in the labour market and government enthusiasm for personal provision have meant these schemes have withered away. In 2014, DB schemes, including those in the public sector, represented less than half of

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[18] See Hodder, A.: *Young people: attitudes to unions and work*, 2016 and Joseph Rowntree Foundation: *What do low-paid workers think would improve their working lives?* 2015

total workplace pension membership (49 per cent) for the first time. In 2015, this fell further to 45 per cent coverage.

In their place have come defined contribution schemes, often attracting far lower levels of contribution. Until the introduction of automatic enrolment from 2012, many companies simply provided no pension scheme at all. Nevertheless, DB provision is not a legacy of the remote past. Around 11m people have benefits built up in DB pension schemes established by their companies. A similar number have public sector DB pensions.

There is a major difference in scheme quality. DB schemes typically receive far higher contributions than DC schemes. The 2013 Occupational Pension Schemes Survey (OPSS) found that the average total contribution rate (employee plus employer contributions) for private sector DB occupational pension schemes was 20.6 per cent, while for DC schemes it was 9.1 per cent. To compound their disadvantage, those who were members of DC schemes were often enrolled in poor value schemes with high expenses, as revealed by the Office for Fair Trading's Defined contribution workplace pension market study of 2013.

But it would be a mistake to conclude from this that we have a straightforward case of intergenerational inequality whereby younger people in DC schemes are being systematically disadvantaged to the benefit of their older peers. We have identified four principal reasons to be way of such a conclusion.

It is not necessarily the youngest generation who are most badly placed in occupational pension saving. The situation is far more complex. The recent report *Retirement Income Adequacy* by the Pensions and Lifetime Savings Association[19] suggests that the generation most at risk of a poor standard of living in retirement is Generation X (those currently aged between 35 and 54) rather than Millennials (those born from 1980) who are most commonly held to be at a disadvantage. This is because, while Millennials could build sufficient savings if further DC reforms are implemented, those in Generation X with DC savings have insufficient time to drastically improve their lot. Those in Generation X are more likely than Millennials to have amassed, or be amassing, some relatively secure DB savings. Yet still some one in four Millennials have some form of DB pension entitlement.[20] To further muddy the picture, half of baby boomers (aged 55-64) who have not yet retired have poor pension savings. A purely intergenerational perspective doesn't give an especially useful picture.

The generosity of DB pensions, and the link with their current expense to the employer can be overplayed. The typical payment from a DB scheme is less than £7,000, according to the PLSA. The relative expense of funding a DB pension at the moment is a reflection of the distorting impact of much current practice in DB valuations, rather than excessively high pay-outs. Many schemes base their valuations on a gilts-based discount method. Yet these are artificially depressed due to quantitative easing, among

[19] Pensions and Lifetime Savings Association, *Retirement Income Adequacy*, 2016
[20] PLSA DB Taskforce Interim Report, 2016

other factors, making funding look weak. A strong case can be made that gilts no longer provide a guide to the performance of other securities. Yet, one consequence of the gilts-based method is that scheme trustees feel obliged to invest in matching assets, often bonds. This can lock in very low returns.[21]

Other structural inefficiencies in DB provision, such as the prevalence of a large number of very small schemes, also make such pensions look expensive.

The replacement of much DB provision with DC led to many employers cutting contribution rates. DC contributions in general are unreasonably low. They are very unlikely to provide members with a good standard of living in retirement. The introduction of automatic enrolment with a starting contribution of one per cent of a portion of salary from each of the member and employer has further distorted the DB/DC comparison. If DC pensions are to play a role in ensuring workers have an adequate income in retirement, it is clear that contributions to such schemes will have to rise significantly. In particular, we need a long-term routemap to bringing minimum auto-enrolment contributions up to a level that gives a good chance of a decent income in retirement. This will make the difference in contribution levels with DB pensions far less stark.

There is little evidence that the cost of servicing DB obligations is the reason for many employers providing little in the way of DC provision. The Pensions Regulator reports that among the FTSE350 companies paying both Deficit Recovery Contributions (DRCs) to improve scheme funding and dividends, half of them paid 11 times more in dividends than they did in DRCs.[22] We have seen no evidence that the very many companies without DB liabilities offer higher wages, or better DC contributions, than their rivals. Nor, for that matter, does investment appear to be lower at firms with DB schemes.

State pension

The so-called triple lock in workplace pensions has become a totem of excessively generous provision for older people. The lock has been in place since 2011. The aim of the policy is to gradually raise the value of the State Pension. Its value had dwindled following the decision in 1980 to end its link with earnings and uprate it in line with, typically lower, inflation.

Under the triple lock, the basic State Pension or the new State Pension (for those who retired after April 2016) is increased each April by the higher of the growth in average earnings, the Consumer Prices Index (CPI), or 2.5 per cent.

With lacklustre wage growth and rock bottom inflation, the 2.5 per cent increase has been invoked more than many expected. This has prompted claims that older people are

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[21] See for example, Dennis Leech *Pensions Deficits: Mark-to-market valuation is the elephant in the room* 2016

[22] Andrew Warwick-Thompson, DB Deficits – the true story, 2016

doing excessively well at a time when disposable incomes for many low and middle income workers are being squeezed.

However, this attitude underplays the role the triple lock and the State Pension more generally play in both reducing poverty among the current cohort of pensions and for future pensioners.

The Pensions Landscape, recently published by the Pensions Policy Institute, concluded that the triple lock had done the vast bulk of work in improving pensioner incomes in recent years. But it also noted that the triple lock is more important to the retirement income of today's young workers than those currently in or close to retirement.[23]

As income from workplace pensions starts to decline as the next cohort reaches state pension age in the coming five to ten years, people will be relying to a greater extent on the state pension than in the past.

Even today, some 45 per cent of pensioner couples and 71 per cent of single pensioners receive more than half their income from state pensions and benefits. Among the current generation entering retirement many, though not all, supplement their state pension with decent DB pensions that pay out an income based on length of service. But in the next few years more and more people will be getting into later life with little in the way of private saving.

Rather than focusing on distributing a declining pool of pension savings between different generations, we believe that the key question asked about pension policy should be how we can ensure the increase in pension contributions necessary to secure an adequate retirement across the board.

The role of unions in improving young people's prospects

If the blame for the poor prospects of young people cannot be laid at the door of older people's pension provision, the TUC believes that policymakers should consider the changes to the labour market which have placed young people at the sharp end of falling pay and rising insecurity. We believe that declining union density can help explain these changes, and that strengthening the role and membership of unions must therefore play a key part in reversing these trends.

There is clear evidence that low union density and poor collective bargaining coverage is strongly related to wage inequality across the labour market and among the sexes, generations, and native and migrant workers.

Claims are sometimes made that by pushing up wages, collective bargaining can harm employment levels. But this is not supported by the evidence. As a recent study

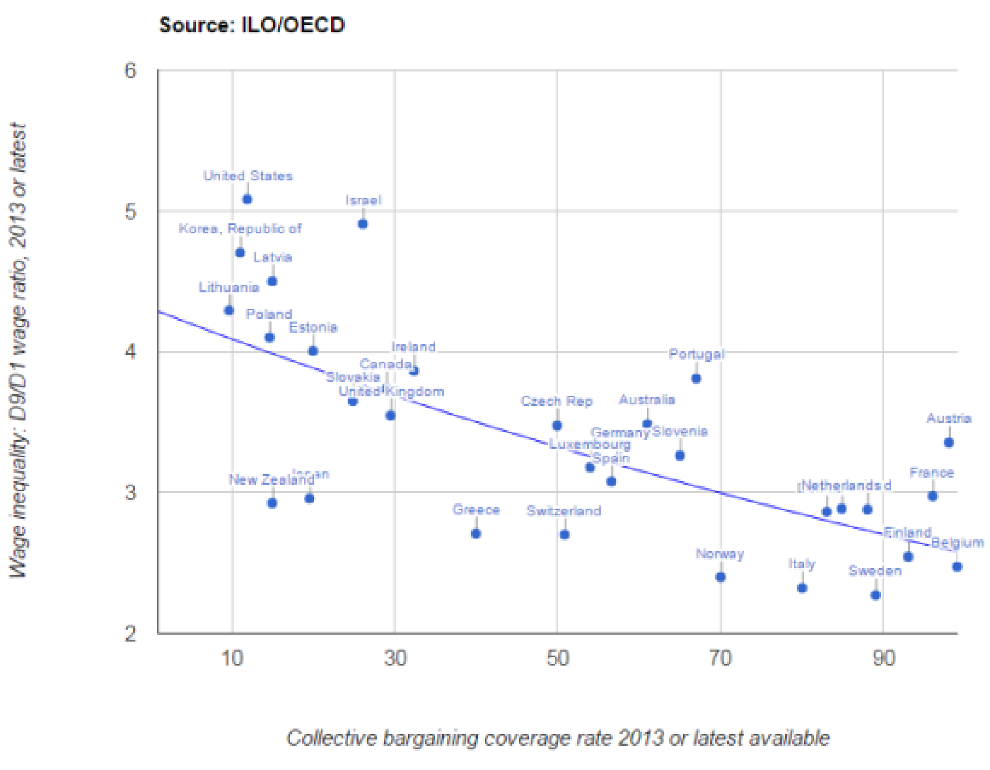
[23] Wells, J et all, *The Pensions Landscape,* 2016

concluded, there is “no robust evidence to suggest that institutionally shaped wages raise unemployment”.[24]

Recent studies of ILO and OECD data have found that there is a strong correlation between low levels of collective bargaining and wage inequality. This is because unions have a strong track record of negotiating equal pay and improved rates for workers at the low end of the income spectrum, making sure workers are paid for additional working hours, and arguing for better redistributive policies.[25]

The graph below measures the ratio between the top (D9) and bottom (D1) ten per cent of workers in relation to collective bargaining coverage. It identifies a clear relationship between equality and collective bargaining, with the highest rates of income equality in countries where collective bargaining is lowest and vice versa:

D9/D1 ratio and collective bargaining rate in developed economies



The extent of the impact of unionisation in reducing wage inequality depends on whether systems are exclusive or inclusive. Exclusive systems – like those in the US, Canada and UK, grouped higher on the wage inequality axis above – limit collective bargaining agreements to bargaining units, whereas inclusive systems tend to involve

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[24] *Labour markets, institutions and inequality: building just societies in the 21st century*, edited by Berg, J, 2015 p. 08. See also OECD 2006, Bassanini and Duvel 2006, Howell and Huebler 2005.
[25] Hayter, S. Want to tackle inequality? Shore up collective bargaining, 2015.

multi-employer bargaining settings where collective agreements exceed union membership.

Unsurprisingly, inclusive systems – grouped towards the bottom of the inequality axis above – are associated with much lower levels of wage inequality. Examples of inclusive systems include Scandinavia, the Netherlands, Belgium, Italy, Portugal, and France.

However, improved wage parity within exclusive systems can have a 'spill over' effect, providing a positive impact on equality across the labour market. Evidence in a series of studies on exclusive systems have found that whilst wage inequality is much smaller within union sectors than outside, "the magnitude of unionisation offsets the dis-equalising effect between union and non-union workers and sectors".[26]

This indicates that in the UK, unions are playing a part in levelling the labour market playing field, but much more could be done; an inclusive system would generate much better results.

Employment law reforms enacted in the 1980s - combined with changes in the make-up of the labour market - have considerably weakened the coverage of UK trade unions. A series of studies have found that these reforms and the continued decline in collective bargaining have played a significant role in increasing wage inequality.[27] Declining collective bargaining has also been associated with greater wage inequality in states including the US, Germany, Mexico and Israel. Even in Denmark and Sweden (where firm- rather than centralised-level bargaining has increased), research has identified that decentralisation has been linked to greater wage dispersion.[28]

Evidence also suggests that collective bargaining can help protect against wider intergenerational inequality directly, as well as through the spillover effects of a broader reduction in wage dispersion. Reinecke and Grimshaw have investigated wider labour market inequality between generations, identifying a link between low levels of collective bargaining and poor labour market outcomes for young workers in particular. They find that lack of unionisation is an obstacle for young workers in labour markets where there is a higher proportion of people in low wage jobs. Here lower levels of union membership and collective bargaining makes transitioning out of low-paid work – an issue predominantly effecting the young and with scarring effects – less likely. This implies that young workers remaining in the same firm (or sector) are unlikely to advance in pay, skill level or responsibilities. Conversely, they demonstrate that stronger

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[26] Hayter, S. 'Unions and collective bargaining', in Berg, J (ed) *Labour markets, institutions and inequality: building just societies in the 21st century,* Cheltenham: Edward Elgar, 2015 p. 106.
[27] For example: Machin 'The decline of labour market institutions and the rise in wage inequality in Britain' *European Economic Review*, 1997; Bell, D.B., and Pitt, M.K. 'Trade union decline and the distribution of wages in the UK: evidence from kernel density estimation' *Oxford Bulletin of Economics and Statistics* 60(4), pp. 509-28 1998; Gosling, A. and Lemieux, T. *Labour market reforms and changes in wage inequality in the UK and US,* National Bureau of Economic Research 2001.
[28] See Hayter, pp. 114-5.

labour market regulations provide incentives – and compensation – for transitions out of informal or unprotected work.[29]

The authors also highlight the benefits to young workers of inclusive collective bargaining systems. Here, there are higher shares of school leavers in quality apprenticeships and vocational training and much lower labour market inequality between generations. In these cases social partners have a greater role in participating and cooperating in skills policy and programmes. In contrast, it is more likely that young – especially the lower qualified – workers in the UK and US experience greater wage differentials and less training – holding progress back further.[30]

This evidence suggests that measures to amplify workers' voices in the workplace could reduce inequality. Specifically, the potential for improved outcomes for marginalised groups is greater through collective bargaining – including sector-wide agreements – and collective consultation.[31] For instance among the 3.5m people the TUC classes as young core workers, 1.6m have spent at least two years with their current employer (so are key targets for unionisation).

Conclusion

Viewing society primarily through the exclusive prism of intergenerational inequality risks overlooking other important elements, including inequalities within generations.

It is clear that the UK has not solved the problem of pensioners in poverty. Some 1.5 million older people, the majority of them women, live in poverty. And within younger generations challenges vary depending on the economic status of those concerned. The TUC has particular worries about poor collective bargaining coverage and the situation of young core workers.

Apparent inequalities can be down to factors other than decisions to favour one cohort of workers over another. For instance, older workers are more likely to be enrolled in high quality defined benefit pension schemes. But it is evident that much of the apparent expense of such schemes is down to the impact of evolving pension legislation and practice, rather than the value of the benefits. It is also not at all clear that the cost of providing these benefits weighs on the emoluments granted to younger workers. However, newer entrants to the workforce are at higher risk at being enrolled in inadequate pension arrangements.

It is therefore vital that policy attention focuses on wider characteristics and causes of inequality. The TUC is committed to fighting for better working conditions for all, in

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[29] Reinecke, G and Grimshaw, D. Labour market inequality between youth and adults: a special case? In *Labour markets, institutions and inequality: building just societies in the 21st century*, edited by Berg, J, 2015, pp. 29-30, 378.
[30] Ibid,. pp. 381-3.
[31] Further justifications for these policies relate to boosting skills, productivity and creating good jobs for everyone. See *A TUC submission to the 2016 Autumn Statement: a country that works for everyone*, TUC 2016.

particular those young workers who are particularly exposed to the poor employment practices. We are also committed to the struggle for better state and workplace pension provision so that all workers have the chance of a decent standard of living in retirement. The role of collective bargaining in addressing these causes is an essential consideration.