TOUCH STONE
PAMPHLET#14

Young against old?

What's really causing wealth inequality?

While there is no doubt that young people have seen significant falls in living standards, this pamphlet challenges the myth that these are the result of older people hoarding all the wealth. Drawing on new analysis, the pamphlet argues that young people's deteriorating prospects are a consequence of growing wealth inequalities across UK society. It also shows that tackling these effectively will require a far more ambitious and progressive strategy than advocates of cutting pensioner benefits admit.

Acknowledgements

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About the author

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Foreword

by Frances O'Grady, TUC General Secretary

Over the last five years households across the UK have experienced unprecedented falls in their living standards, with young people hit particularly hard. High unemployment, declining job quality, rapidly rising rents and house prices and rocketing student debt have left many young people locked out of the economic recovery. Milestones like finding a steady job, setting up home, starting a family and saving for a pension are now beyond their reach.

Under the last government, life got a lot harder. Higher tuition fees, a failure to build new homes and an historic earnings squeeze exacerbated this new generation's difficulties. Big cuts to working-age social security benefits, combined with relative protection for some pensioner benefits, sparked divisive debate about intergenerational inequalities and whether the so-called baby boomer generation have been feather bedded at the young's expense.

But while it is right to argue that today's young adults are facing severe labour and housing market challenges, the blame cannot be dumped at the door of older workers and pensioners. As James Lloyd argues in this new Touchstone pamphlet (which draws heavily upon new analysis from the Personal Finance Research Centre at the University of Bristol), the UK's problem is not that older people are hoarding all the wealth, but that we face growing wealth inequalities across generations.

While public spending cuts have hit young people hard, many of the poorest pensioners have lost out too, particularly as services including social care have been pared back. It is also those of working age, rather than pensioners, who are currently most likely to be wealthy, with a very large proportion of our national wealth held by a very few households, regardless of age. Young or old, only a lucky elite benefit from inequality while life gets tougher for everyone else.

So solutions to young people's problems will not be found, by example, by reducing winter fuel allowances for pensioners. Instead, improving the new generation's chances requires profound changes in how we structure our economy and distribute wealth. That means significantly increasing the taxation of assets (including housing), ambitious investment to increase the supply of new affordable and council homes, tougher regulation of rented properties and delivery of job security and fair pay across society. Young people have not been held back by today's pensioners but by poor political choices that have polarised opportunities, income and wealth. The last government shattered the promise of each generation that our children should have a better life than we did. This pamphlet is designed to kickstart a new debate about how we put that right.

Executive summary

There has been growing concern in UK political debate about the economic outlook and lifetime prospects of younger generations. Particular attention has focused on:

- unprecedented levels of graduate debt following the increase in the cap on undergraduate tuition fees in England to £9,000 per year
- house price inflation and ensuing difficulties for younger households in becoming owner-occupiers
- high levels of youth unemployment and fewer good quality job opportunities, along with the long-term effect of these trends on young people's earnings.

An increasing number of stakeholders have argued that today's younger cohorts are likely to be the first generation that will be poorer than their parents over their lifetime.

Amid such concerns, there has been growing focus in public policy debate on the contrasting positions of the 'young' versus the 'old'. Commentators have argued:

- Given their wealth, public spending on pensioners should be cut to fund more spending on young people.
- Transferring public spending from the old to the young would be an effective way of both lifting young people's long-term economic outlook to the level of their parents, and of improving intergenerational fairness.

This discussion paper uses analysis of household wealth – in particular, new research undertaken by the University of Bristol using the UK Wealth and Assets Survey (WAS) – to explore these arguments.

In Chapter 2, the popular notion of the 'wealthy pensioner' is examined in more detail. It is noted that the wealthiest households in the population are mostly of working age. It is also found that tenure, geography and earnings are all strong predictors of being wealthy, raising questions both around why age has come to signify wealth in policy debate, and why pensioners should be the target of fiscal choices around tax and spending to increase support for young people.

Given the extensive public debate around cutting public spending on older people, Chapter 3 evaluates potential options, such as greater use of means testing, which could be used to release age-related public spending for transferring to younger cohorts. It notes that given the amounts involved, resources released

by means testing public spending on older people will have very little impact on intergenerational inequalities and the long-term prospects of younger cohorts. It also notes that means testing age-related public spending raises a number of issues, including reducing incentives to save for retirement among younger cohorts. The chapter concludes that transferring public spending from the old to the young would not in fact be an effective way of improving intergenerational fairness.

Chapter 4 examines in more detail how households can accumulate wealth over the life course – such as through savings, and investments in property and pensions – and the factors that influence whether households are able to do this. The chapter reviews evidence on different measures of financial wellbeing, and the different factors – notably earnings – influencing whether households can save from their income, and invest in property and pensions. While the analysis shows that there are particular challenges that today's young people face, the evidence suggests that the key factors determining whether young people are able to save and invest are their household incomes, the security of their employment and their tenure, with the recent increase in the proportion of the population renting privately a key change that has reduced young people's economic prospects.

Building on the evidence reviewed in the previous chapter, Chapter 5 explores how the long-term wealth outlook of young people could be improved through different policy options, besides transferring resources from age-related public spending. It notes that opportunities to accumulate wealth through property and pensions are determined by economic security, earnings levels, employment conditions, housing supply, and inequality of wealth within and across generations. Building on these insights, the chapter identifies policy options that would improve intergenerational fairness by improving the long-term economic outlook of young people, such as a shift in the 'tax base' away from income toward assets, higher salaries, increased job security, measures to ensure more equal access to home ownership, and measures which reduce wealth inequalities across society.

The report concludes with key messages for policymakers, and observations for debate on intergenerational fairness. It argues that amid concerns for the long-term prospects of younger cohorts, the intense focus on public spending on older people is misplaced, and risks distracting policymakers and the public from the real measures that will help younger cohorts secure a better start, with fairer access to opportunities across their lifetimes.

1. Introduction

Background

There has been growing concern in UK political debate about the economic outlook and lifetime wealth prospects of younger generations. Particular attention has focused on several issues.

Youth unemployment and poor quality work
There has been widespread concern at levels of youth unemployment in the period following the global financial crisis of 2008.

These concerns relate to loss of earnings, with consequences for young people's levels of savings and their scope to invest and accumulate wealth. In addition, periods of unemployment often see young people losing skills they have acquired, as well as failing to acquire new skills and experience. The evidence is unequivocal that substantial periods of unemployment can depress young people's long-term earnings and employment potential across their adult lives, as well as putting them at greater risk of future periods of long-term worklessness.[1]

High levels of youth underemployment are also a growing concern, with evidence that young people are at higher risk than other adults of finding themselves in insecure and short-hours work. The labour market for young people following non-academic routes into work has also become a tougher place than it was for previous generations, as structural change has made young people more dependent upon lower wage, unskilled jobs than in the past.[2]

Workplace pension provision
Recent reforms to workplace pension saving have succeeded in boosting participation rates through the implementation of auto-enrolment, guaranteed employer contributions and guaranteed access to a decent workplace scheme. Nevertheless, there is wide acceptance that the golden era of defined benefit workplace pensions, characterised by generous employer contributions and generous retirement income guarantees, is over. Instead, younger cohorts are more likely to be limited to defined contribution schemes with lower average levels of employer contribution.

Tuition fees

For many decades, up to the 1990s, undergraduates in England were not charged tuition fees for participating in higher education. However, successive UK governments have enabled institutions in England to charge fees, and repeatedly lifted the cap on what can be charged, most recently to £9,000 per year.

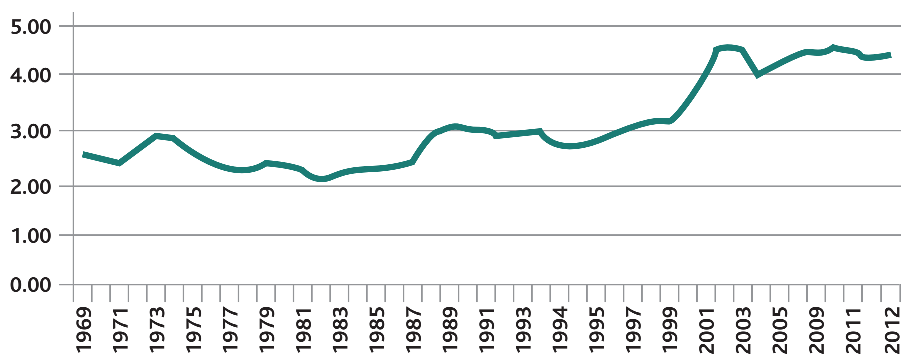
The result is that undergraduates in England can expect to leave university with far higher levels of personal debt than previous cohorts.

Home ownership

House price inflation in the UK has consistently outpaced growth in the economy for several decades. The average price of a home was £62,000 in 1990, but £251,000 in 2012.

The result has been that younger cohorts have had to borrow larger mortgages, relative to their earnings. The ratio of average house prices to the average income of first-time buyers increased from around 3:1 in 1990 to 4.5:1 in 2012, as Figure 1 shows:

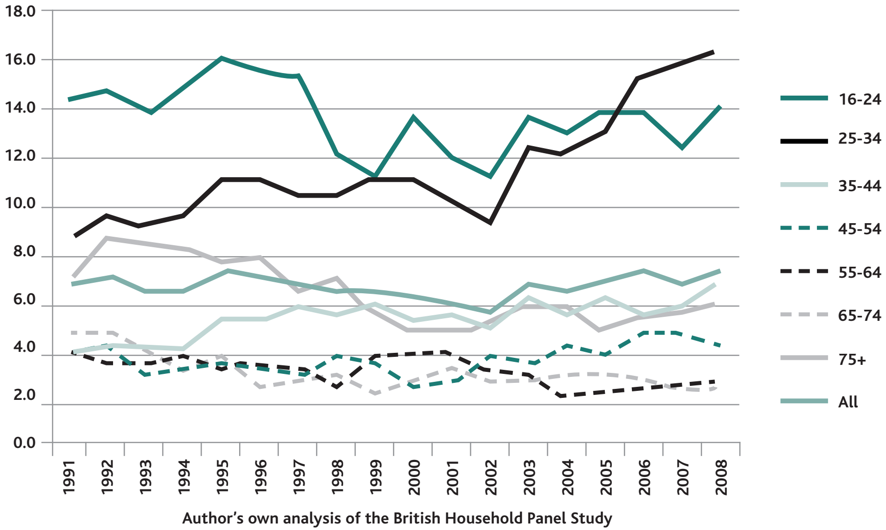
Figure 1: Ratio of simple average house price to income of first-time buyers



Source: ONS

In this way, younger cohorts today confront significantly higher house prices relative to their earnings, compared to previous cohorts of young people. Such pressures, along with a substantial fall in the numbers living in social housing, have resulted in a growing proportion of younger households living in the private rented sector for longer over the last decade, as Figure 2 shows:

Figure 2: PRS tenants as percentage of age group, 1991–2008



Source: Lord C *et al*. (2013) *Understanding Landlords*[3]

In parallel with these changes, there has been a steady increase in the number of private landlords as a proportion of the population.

Prospects for wealth accumulation

Against the backdrop of these trends, a growing number of commentators have argued that today's younger people confront challenges not experienced by previous cohorts that will significantly reduce their incomes and prospects for wealth accumulation over their life course, particularly in comparison to the 'baby-boom' generation. Commentators have noted:

- Today's younger cohorts face paying off university debts for many years in the wake of increased university tuition fees.
- Given historically high house prices, younger cohorts have to save for much longer toward a (larger) deposit to buy their first home – if they are able to get on the property ladder at all, while those in the increasingly large private rented sector pay rents that are rising faster than earnings in many areas.
- Although many young people do have long-term secure employment, wider labour market trends are toward flexible, short-term contracts and insecure employment, including the rise of so-called 'zero-hours contracts', which risk holding down young people's incomes and reducing access to financial products including mortgages and employer supported pensions.
- Despite workplace pension reforms, the higher debt and housing costs discussed above are squeezing young people's ability to save for retirement.
- Opportunities to save in a workplace pension are increasingly limited to defined-contribution schemes, rather than the more generous defined benefit schemes experienced by previous cohorts.

As a result of such trends, some have concluded that today's younger cohorts are likely to be the first generation that will be poorer than their parents over their lifetime, and that younger households will be poorer than individuals from a similar background of previous generations.

Debate on intergenerational fairness

One response to these trends has been a growing focus in public policy debate on the contrasting positions of the 'young' versus the 'old'. Commentators have invoked notions of 'intergenerational fairness' to argue:

- Given their wealth, public spending on pensioners should be cut to fund more spending on young people.
- Transferring public spending from the old to the young would be an effective way of both improving the outlook for young people, as well as redressing levels of intergenerational fairness.

The result has been a contemporary policy debate that has increasingly presented the young and old as locked in a zero-sum game, in which the best way to improve the economic outlook for the young and lift the lifetime wealth prospects of younger cohorts to those experienced by the older generation is through 'sacrifices' imposed on pensioners, such as cuts to public spending on age-related entitlements.

Aims of this paper

This discussion paper provides new insight and analysis for the UK debate on intergenerational fairness and how best to improve the long-term outlook for today's younger cohorts.

The paper uses a range of sources, but draws significantly upon new research commissioned by the Trades Union Congress (TUC) from the Personal Finance Research Centre at the University of Bristol, using data from the UK Wealth and Assets Survey (WAS).[4]

The paper uses this evidence to critically examine some of the assumptions in public debate on intergenerational fairness and the wealthy old, including:

- Are pensioners now the wealthiest group in society?
- Is age the best predictor of household wealth?
- Should politicians target retirees in order to provide greater support to the young?
- Can public spending on older people easily be cut or rationed?
- Would transfers from age-related public spending be an effective way of improving intergenerational fairness?

The analysis concludes that while retirees are more likely to be wealthy than the youngest cohorts – an inevitability given the realities of life course asset accumulation – it is in fact adults in their 40s and 50s, high earners and homeowners who are most likely to be the wealthiest. While the UK is certainly characterised by extreme wealth inequalities, it is wrong to assume that age primarily predicts their distribution.

The paper acknowledges that there are real and unprecedented challenges and problems facing younger cohorts in the UK, which previous generations did not confront. However, it goes on to argue that these will not be alleviated by simply shifting public spending from older to younger cohorts, and indeed that such a strategy risks substantial detriment to young people's interests in the longer-term (particularly given rapidly increasing longevity). The paper therefore concludes that reducing public expenditure on pensioners – in addition to existing spending cuts implemented since the 2008 financial crisis – as a means to increase spending on young people would not provide the answer to the challenges today's new labour market entrants face, leaving wider inequalities untouched and young people even worse off as they grow older themselves.

Instead, the pamphlet recommends that public policy should focus on addressing the economic and wealth inequalities that are reducing many young people's life opportunities relative to those of previous cohorts, and on increasing young people's potential access to financial and other assets. Building on these insights, the report identifies policy options that would improve intergenerational fairness by improving the long-term economic outlook of young people, such as a shift in the tax base away from income toward assets, higher salaries, increased job security, measures to ensure more equal access to home ownership, and measures which reduce wealth inequalities across society.

2. The wealthy old?

Discussion of 'wealthy pensioners' has increasingly featured in UK policy debate on young people and intergenerational fairness. This chapter therefore considers whether older households are wealthy, and if being a pensioner is now the best predictor of being wealthy.

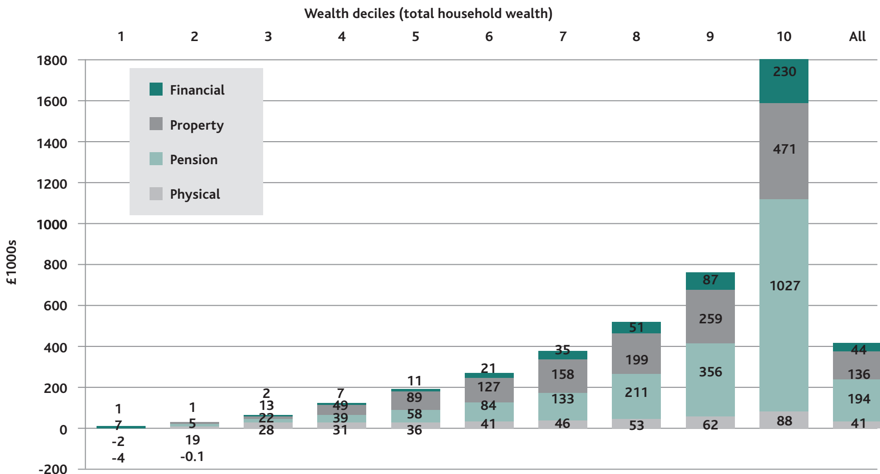
The distribution of UK household wealth

To begin thinking about household wealth, it is important to recognise that different types of household wealth exist, the prevalence of which will vary at different points in the life course. Four broad categories can be identified:[5]

- financial wealth – 'liquid' financial assets held as current account deposits, savings and investments (including savings held informally in cash), net of 'liquid' financial liabilities from consumer credit commitments and informal borrowing from family and peers
- pension wealth – private (non-state) pension saving, whether from workplace pension schemes or personal pension plans, as well as the net present value of private 'pensions in payment'[6] to those who have already retired
- physical wealth – such as cars, computers, jewellery, etc.
- property wealth – the total value of all owned properties, net of mortgage debt.

On this basis, the composition of wealth by household wealth decile, for the years 2008–10, can be shown as follows:

Figure 3: Mean total wealth by component, by wealth deciles (£1,000s)



Source: Finney A (2013) *What Makes the Wealthy Wealthy?*

This chart shows two points frequently made in relation to the distribution of wealth in the UK:

- Pension wealth and property wealth comprise far larger shares of household wealth than financial or physical wealth.
- Wealth is unequally distributed among households.

In particular, a large percentage of overall wealth held by the population is possessed by a relatively small number of households.

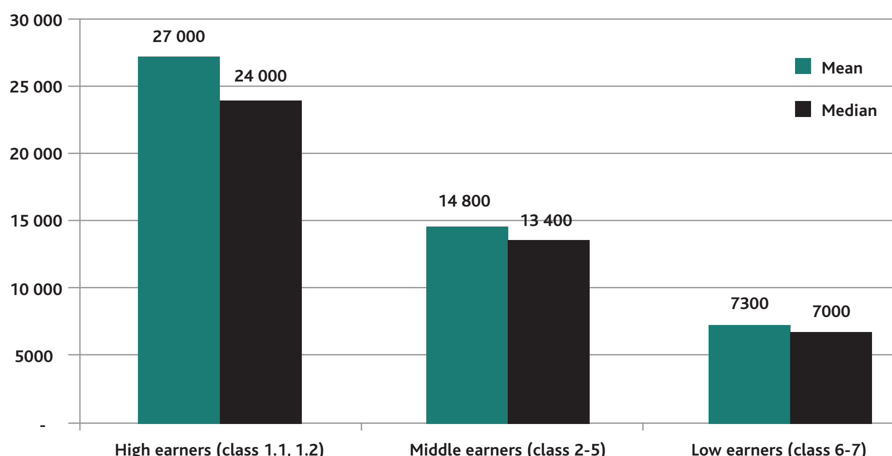
In addition, as the authors of the above research note, the increase from each wealth decile to the next is not constant. For example, decile 2 hold £22,400 more mean wealth than decile 1, while decile 5 hold £68,300 more than decile 4 and decile 9 hold £243,300 more than decile 8.

Particularly noteworthy is the inequality that exists even among the wealthiest groups. The 10 per cent of wealthiest households have more than £1m more in mean wealth (£1,053,400) than the next wealth (decile 9), which is equivalent to 2.4 times the wealth of those in the lower decile group.

Importantly, wealth inequalities are wider than inequality in earnings among working-age individuals.

Figure 4 shows the average level of earnings for three composite employment classifications, from managerial to routine occupations.

Figure 4: Average (mean and median) earnings by earnings class (£)



Source: Finney A et al. (2013) *Hard Times: Financial well-being among low and middle earners*

Wealth and Assets Survey, wave 1, cross-sectional weight applied Base is all wave 1 respondents of working age classified into one of the eight occupational classes (n=41,698). Estimates are rounded to the nearest £100.

Comparing this chart to the preceding chart on wealth deciles shows the relative inequality in average earnings across different groups is smaller than inequality in wealth across all households (notwithstanding that at the household level – the level used in the previous chart – this may be more disparate).

Are pensioners the wealthiest households in society?

Contemporary policy debate on 'intergenerational fairness' and the 'wealthy old' has repeatedly drawn attention to the wealth of pensioners in the UK, relative to younger cohorts.

However, are the wealthiest households in society dominated by pensioners? Analysis of the Wealth and Assets Survey (WAS) shows that the wealth 'decile' occupied by different households varies considerably by age, denoted by the age of the 'household representative person' (HRP).

Table 1: Proportion of population in each household wealth decile by age group of HRP

Wealth decile	1	2	3	4	5	6	7	8	9	10	All
Age group (of HRP)											
16-24	12	6	2	1	1	0	-	-	-	-	2
25-34	26	23	31	23	16	9	7	4	2	1	14
35-44	20	22	24	25	24	22	20	18	17	10	20
45-54	15	15	14	15	17	20	20	25	26	27	19
55-64	9	11	9	12	13	14	18	22	27	38	17
65-74	7	9	8	11	12	14	18	18	19	17	13
75-84	6	9	9	9	12	14	14	11	8	6	10
85 and over	3	5	3	4	4	6	4	2	1	1	3

Source: Finney A (2013) *What Makes the Wealthy Wealthy?*

Despite policy debate around the 'wealthy old', this table shows that among the wealthiest 10 per cent of households – decile 10 – only around one quarter have an HRP who is aged 65 and over, even when – as with this data – 'pensions in payment' are considered (i.e. future pension income guarantees are treated as a form of wealth).

In contrast, two-thirds (65 per cent) of households in the wealthiest decile are aged between 45 and 65. As such, the large majority of the top 10 per cent of wealthy households are not in fact pensioners.

More broadly, the data set out above also reveals the extent of wealth inequality within age groups, including among pensioners. For example, those aged 75-84 comprise six per cent of the wealthiest decile, but also comprise six per cent of the very poorest decile.

As would be expected, younger households are not represented in the very wealthiest households, having had less time to accumulate wealth. Nevertheless, some younger households are wealthy: three per cent of 25- to 34-year-olds are in deciles 9 or 10.

In short, this table shows that the 'old' are not all wealthy, and the wealthiest households in society are not old, but in fact, mostly comprise those of working age.

Why are the old seen as wealthy?

If many older households cannot be considered wealthy, and the wealthiest households are mostly of working age, why have pensioners repeatedly been described as 'wealthy' in contemporary policy debate?

To explain this phenomenon, two explanations can be posited:

- Life course asset accumulation to fund retirement ensures pensioners – particularly those close to retirement age – will always be relatively more wealthy on average than, for example, younger people entering the labour market.
- The potential for unprecedented 'property wealth windfalls' (if and when homes are sold) among the older generation resulting from house price inflation in the UK.

Economic theory predicts that rational individuals will engage in a process of life course asset accumulation and decumulation, in order to smooth their 'consumption' (how much they can spend) over their lifetime. In particular, to avoid a sudden drop in income at retirement, individuals should build up wealth during the working-age period (the 'accumulation phase'), and spend this wealth down during retirement (the 'decumulation phase').

In order to encourage individuals to engage in this sort of behaviour, UK pension policy deploys a range of measures, notably tax relief, 'auto-enrolment' into workplace pension saving and mandatory employer contributions to workplace pension schemes.

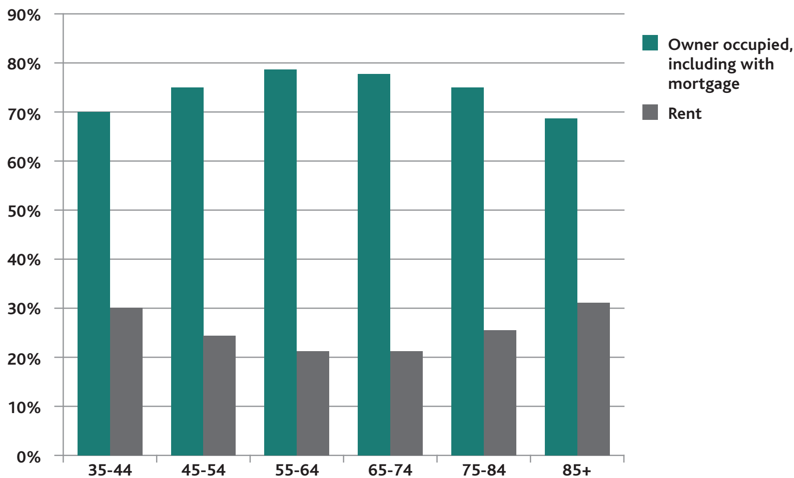
As a result, individuals at retirement would be expected to have greater levels of wealth than those just entering the labour market. This means that – other things being equal – at any point in time, individuals around retirement age should be expected to be wealthier than other age groups. In addition, older households who own their home have had a longer period to pay off their mortgage and build up housing equity than younger homeowners.

Put simply, if the 'old' appear wealthy, this should not be a surprise, and can be considered a success for government policy. However, it also means that older people will always appear to be wealthy, relative to other age groups, who are at a different stage of this process of life course asset accumulation and decumulation.

Nevertheless, in addition to life course asset accumulation, a distinctive factor contributing to the wealth of the contemporary retired population in the UK is relatively high rates of home-ownership among older generations (notwithstanding variation within them), combined with extended periods of above-inflation increases in house prices, resulting in a potential 'property windfall' for UK pensioners.

As Figure 5 shows, among those aged 55 to 74, the proportion living in owner-occupied housing is as high as 79 per cent, althought it is below 70 per cent among those aged 85 and over:[7]

Figure 5: Tenure among individuals by age group, Wealth and Assets Survey Wave 3 (2010–12)

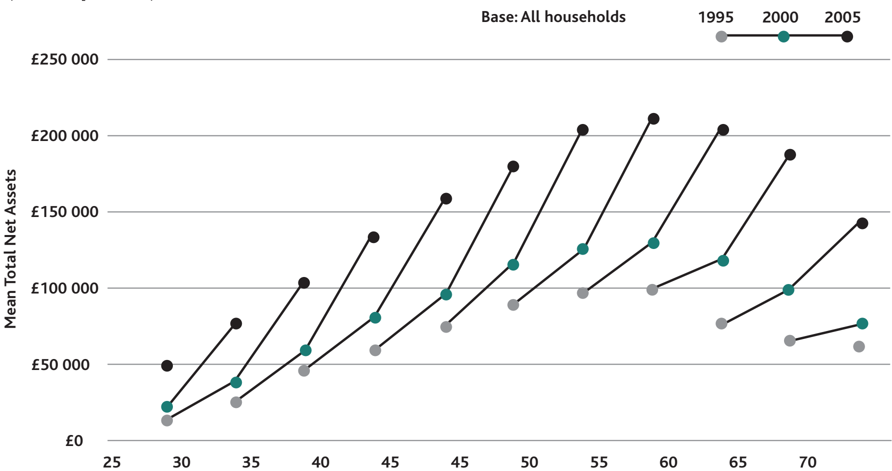


Source: Lloyd J and Lord C (2015) *Defined Capability*

This means more households in these age groups are therefore exposed to the 'wealth effect' of rising property prices, although of course owner occupiers in all age groups benefit from such effects.

The transformation in household wealth owing to UK house price inflation was identified in previous research by the current author, which looked at the change in net household wealth by age group for the period 1995–2005:[8]

Figure 6: Trend in mean total net household wealth, by age, 1995–2005 (2005 prices)



Source: Boreham R and Lloyd J (2007) *Asset Accumulation Across the Life Course*

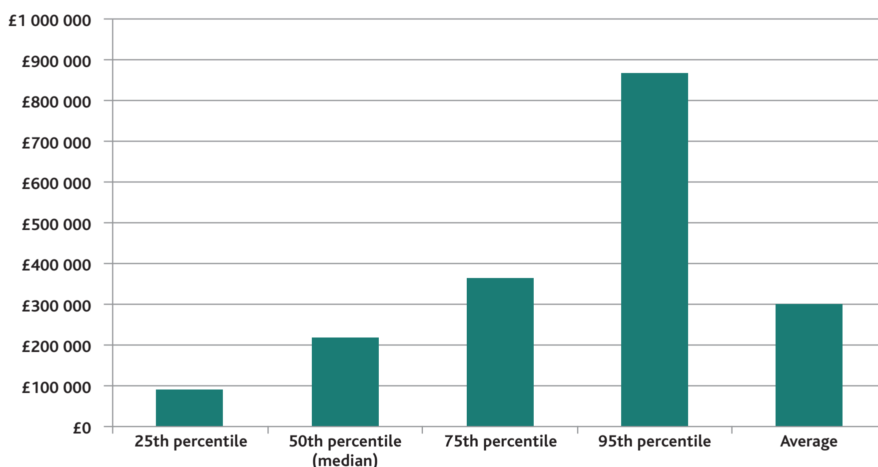
As this chart shows, those aged between 65 and 75 in 1995 experienced a doubling in their household wealth during retirement, almost entirely due to rising property prices – in effect, subverting expected patterns of life course asset accumulation and decumulation.

In this way, UK house price inflation has seen some older households accumulate as much wealth during retirement as during their working lives. This unprecedented outcome has undoubtedly contributed to perceptions of the wealthy old even though – as the previous section identified – the wealthiest households in society are still those of working age.

It is also important to note that owing to both regional variations in UK house price inflation, and to the fact that some pensioners do not own their homes, significant wealth inequality in the retired population exists, as shown in Figure 8 below.

Indeed, previous research published by the Strategic Society Centre highlights the gap in wealth among pensioners in England between the poorest and wealthiest quarter of individuals, after adjusting for the number of people in the household ('equivalisation').[9] This suggests that some older people may struggle to be able to afford to retire, let alone come close to realising substantial wealth.

Figure 7: 'Equivalised' total net wealth, 65+ individuals, England (2010)



Source: Lloyd J and Ross A (2013) *Attendance Allowance in England*

Is age the best predictor of wealth?

The previous sections suggest that the prominence given to 'wealthy pensioners' in contemporary policy debate may be misplaced: the wealthiest households in the population are mostly of working age and, although some groups of pensioners have seen significant wealth gains in recent years, there is substantial inequality among pensioners.

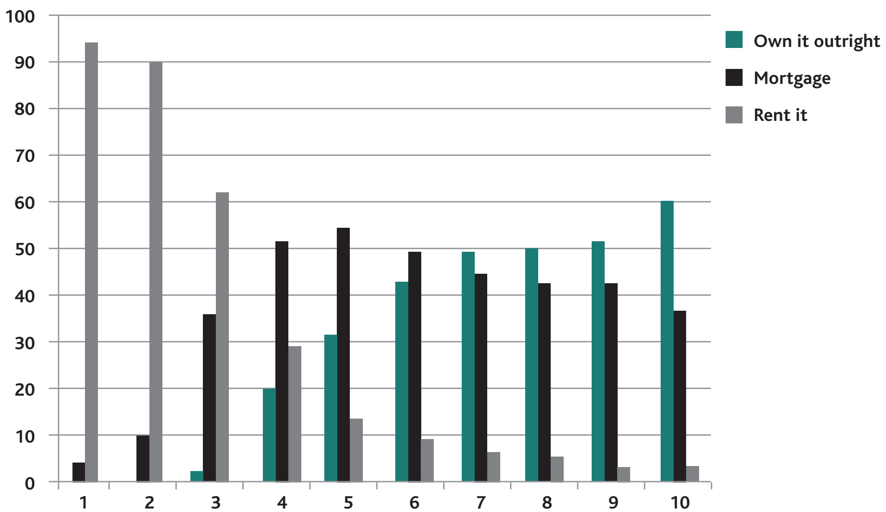
However, is age the best predictor of wealth available? To explore this question, the following charts review other potential predictors of wealth besides age, drawn from original research on what makes the wealthy wealthy?[10] The charts focus on three potential predictors:

- tenure
- geography
- earnings

Tenure

As would be expected (particularly given the importance of property assets to overall household wealth), Figure 8 shows the close association between wealth and home-ownership. The wealthiest households are far more likely to own their home, whether outright or with a mortgage, than to rent it.

Figure 8: Tenure of private households by household wealth decile

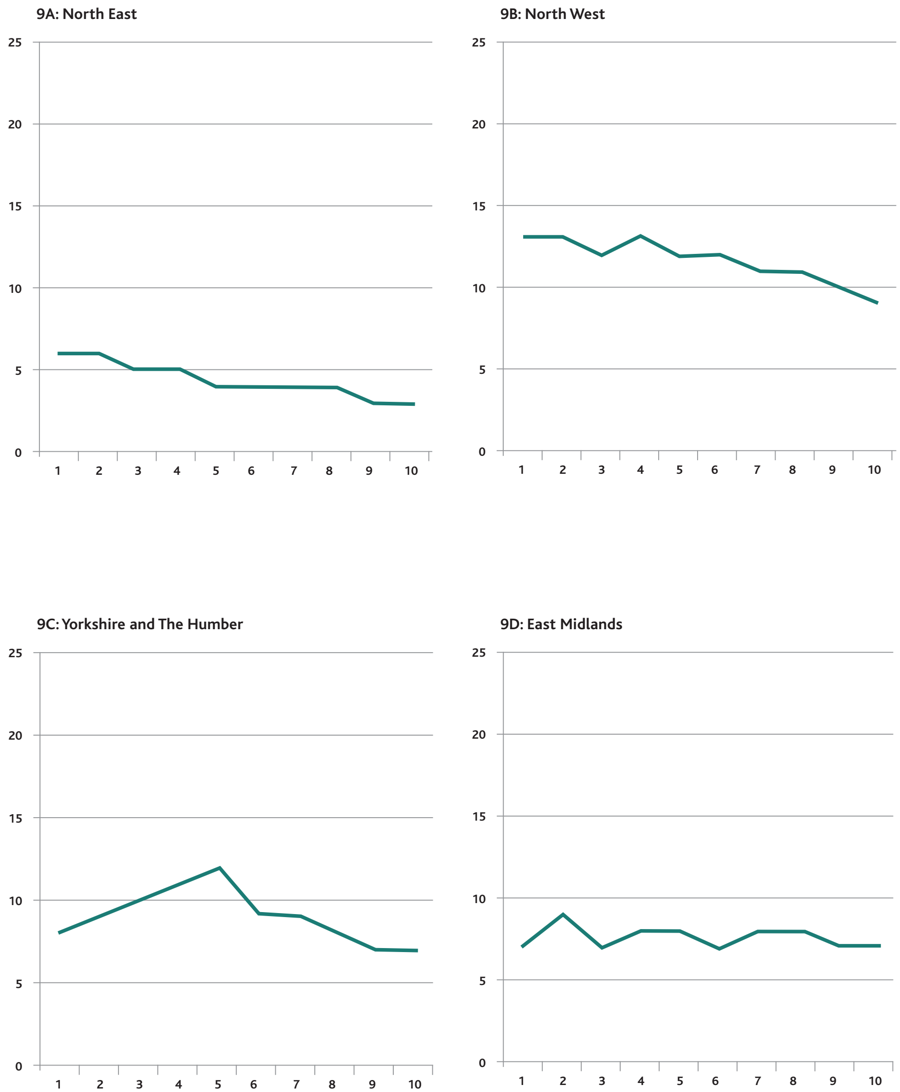


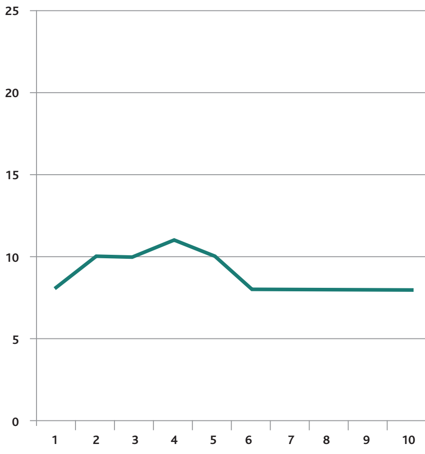
Source: Finney A (2015) *What makes the Wealthy Wealthy?*

Geography

Figure 9: The proportion of households in different wealth deciles by UK region

There are also significant wealth variations by region and nation. The graphs below show that wealthier households are far more likely to live in London and the South East, compared to Wales, the North East and other regions.




9E: West Midlands
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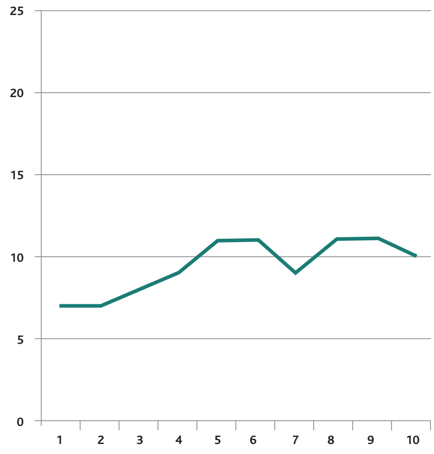
9F: East of England
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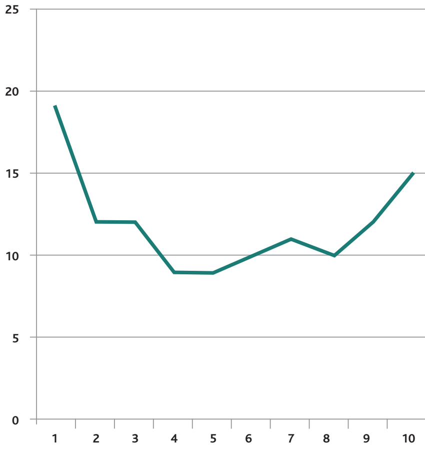
9G: London
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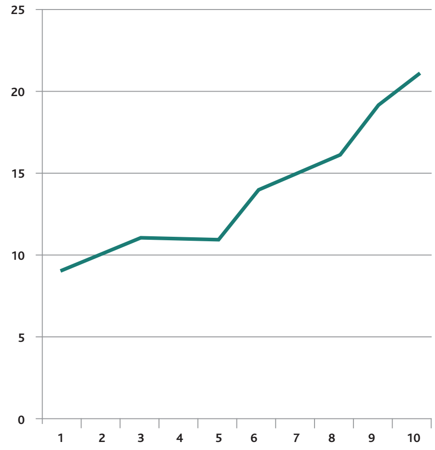
9H: South East
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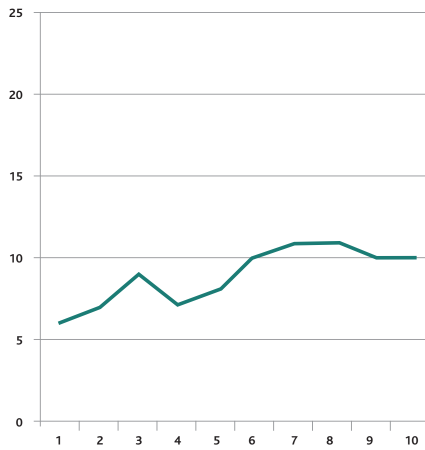
9I: South West
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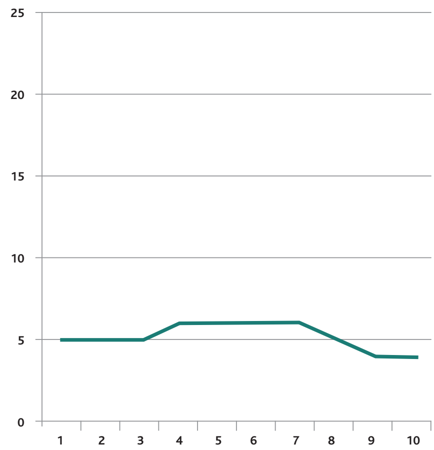
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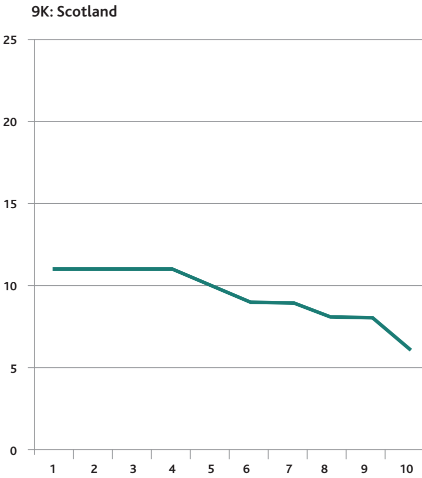


Earnings

It would be reasonable to expect that a person's earnings class – i.e. their skills and occupation – would strongly influence their level of wealth.

Among working-age households – i.e. those for whom occupational class is relevant – Figure 10 overleaf maps household wealth decile using four principal occupational classifications:

- high earners, comprising those in 1) large employers and higher managerial and administrative occupations, and 2) higher professional occupations
- middle earners, comprising those in 1) lower managerial, administrative and professional occupations, 2) intermediate occupations, 3) small employers and own account workers, and 4) lower supervisory and technical occupations
- low earners, comprising those in 1) semi-routine occupations, and 2) routine occupations
- never worked and long-term unemployed.

Figure 10: Deciles of wealth by earnings class

Source: Finney A (2013) *What Makes the Wealthy Wealthy?*

As would be expected, this chart shows that low earners are most commonly found in lower-wealth households, while for high earners, the reverse is true.

Indeed, even though high earners only represent 15 per cent of the population – as displayed in the bar on the far right of the chart – they comprise 40 per cent of those in the top wealth decile and 25 per cent of those in the second highest decile. As such, earnings class is also a good predictor of wealth.

The wealthy old?

Policy debate on the 'wealthy old' has consistently highlighted the wealth of older households in contrast to younger households. On this basis, commentators have called on the government to reduce public spending on pensioners in order to transfer such spending to younger cohorts and to improve intergenerational fairness.

However, this review of household wealth in the UK has shown:

- Those households most likely to be in the top wealth decile are those aged 45 to 64, not pensioners.
- There is significant wealth inequality among pensioners. For example, those aged 75 to 84 comprise six per cent of the wealthiest decile, but also comprise six per cent of the very poorest decile.
- Life course asset accumulation and decumulation suggests that pensioners and those at retirement should be expected to have more wealth than younger cohorts. Indeed, low or negligible levels of household wealth among pensioners would be considered a failure of government policy.
- Other attributes besides being a pensioner are good predictors of wealth.

Contrary to the emphasis on the 'wealthy old' found in public policy debate, the evidence set out above suggests that living in London and the South East, being an owner-occupier or being a mid-to-high earner are all strong predictors of occupying the top wealth deciles (at least among those of working age).

In this context, it appears odd that contemporary policy debate has focused so extensively on age as a predictor of wealth, compared to other factors.

Although some retirees have experienced exceptional above-inflation increases in property wealth during their retirement, it is unclear why this would be enough to transform old age into being perceived as a universal indicator of wealth.

Nevertheless, commentators have in recent years focused extensively on age as indicating wealth rather than other factors, have invoked notions of intergenerational fairness and have repeatedly called for cuts to public spending on pensioners as a desirable way of increasing public spending on younger cohorts and improving fairness between the generations.

Given this focus on public spending on older people in debate on intergenerational fairness, the next chapter evaluates age-related spending in more detail.

3. Is age-related public spending the route to intergenerational fairness?

The previous chapter explored how the wealthiest households are mainly of working age, with high levels of wealth associated with tenure, earnings and location.

However, despite such evidence, in UK policy debate on improving the economic outlook for the youngest cohorts, commentators have repeatedly argued that cuts to age-related public spending should be used to fund additional spending on younger people, and that such transfers would improve levels of 'intergenerational fairness'.

This chapter therefore considers the different types of age-related spending, and their respective costs to the government. It also looks at the arguments made by those who believe that age-related spending should be reduced.

Age-related public spending

The principal forms of universal (i.e. non-means tested) age-related public spending are:

- the basic State Pension, which is currently worth £113.10 for an individual
- Winter Fuel Payments, which are universal cash transfers to pensioners paid at the start of winter as a contribution toward fuel costs (higher for the over 80s)
- TV licenses for the over-75s
- concessionary transport, such as free bus passes
- disability benefits, comprising Disability Living Allowance (DLA) paid to over-65s and Attendance Allowance (AA), which are payable to pensioners with defined levels of disability.

From April 2016, the basic State Pension is to be replaced with a higher New State Pension, for those entering retirement from that date, with sufficient years of National Insurance Contributions (NICs).[11] The New State Pension will be set at or above the level of the government's 'minimum income guarantee', thereby significantly reducing eligibility over time for means-tested Pension Credit.

Means testing – determining levels of eligibility to public support through an assessment of a household's income and wealth – is already used in several areas of public spending on older people:

- local authority financial support for social care, which is particularly used by those in old-age, is means tested in England and Wales
- the current universal basic State Pension, is set below the government's 'minimum income guarantee' – the government's income poverty threshold – and as such, is 'topped up' through means-tested Savings and Pension Credit for those without adequate private pension income.

It is also worth noting that although not formally age-related public spending, many low-income pensioners also receive means-tested Housing Benefit, which provides support for rental costs, and Council Tax Benefit, which comprises financial support toward a household's Council Tax bills.

Age-related public spending: the cost to the government

Most age-related public spending occurs via the Department for Work and Pensions (DWP), and its most notable feature is the dominance of the cost of the State Pension.

According to the DWP, expenditure on pensioners in the UK during 2012–13 was £109.9bn.

Within pensioner expenditure, the State Pension costs £83bn, and means tested Pension Credit cost £7.5bn. Winter Fuel Payments cost £2.16bn, free TV licenses for over-75s cost £0.6bn and disability-related Attendance Allowance cost £5.48bn. Concessionary transport for pensioners is estimated to cost around £0.5bn per year.[12]

It is important to note that despite this, since the 2008 financial crisis, some aspects of public expenditure on older people have been cut. For example, analysis of the distributional impact of spending cuts in services set out in the 2010 Comprehensive Spending Review by household type estimated that single pensioners would experience an 11.1 per cent cut in spending.[13]

Policy approaches advocated to reduce age-related public spending on older people

Those who advocate reducing public spending on older people to improve intergenerational fairness have noted several options for doing so:

- cutting, i.e. reducing the value of an entitlement, or scrapping it completely
- changing eligibility, e.g. raising the age-threshold for entitlement
- freezing the value of an entitlement, such as the State Pension, so that its 'real value' is eroded over time by inflation
- means testing, i.e. linking eligibility, or the level of support, to pensioner income or wealth.

In debates on intergenerational fairness, extending the scope of means testing across age-related public spending has received considerable attention. Those who have supported means testing have suggested it could be undertaken in several ways:

- Income tax system – some propose that this could be used as a system for means testing, whereby eligibility for certain entitlements would be determined by whether or not a pensioner pays income tax. In the UK, around 46 per cent of pensioners pay basic rate (20 per cent) income tax and 5 per cent of pensioners pay higher-rate (40 per cent).[14]
- Pension Credit – some also suggest that the means testing system used by the DWP to determine eligibility for Pension Credit could also be used to means test other entitlements, such as Winter Fuel Payments.

However, extending the scope of means testing would confront several key issues:

- Retirement saving incentives – any form of pensioner means testing undermines incentives to save for young cohorts; if individuals save, they effectively disqualify themselves from entitlements they would have otherwise received. Although the actual effect of retirement means testing on pension saving behaviour is unclear, DWP ministers have repeatedly expressed the view that it must “pay to save”, reflected in the introduction of the Single Tier pension from 2016.
- Limited gains to the public finances – with only five per cent of pensioners paying higher rate income tax, restricting entitlements to those in this group would raise little additional revenue.
- Limitations of targeting systems – means testing systems typically fail to provide support to all of those who would be entitled to it, often because ‘stigma’ inhibits take-up. For example, the DWP estimates that take-up of Pension Credit among those entitled to it is between 62 per cent and 73 per cent overall.[15] So, any current universal benefit that was means tested via the Pension Credit system would only go to around two-thirds of eligible, low-income pensioners, thereby excluding hundreds of thousands of pensioners living in poverty.
- Future of Pension Credit – as described above, the basic State Pension is due to be replaced with the New State Pension, which will result in a reduction in the number of individuals entitled to means-tested Pension Credit. This will likely result in a significant downscaling of the means-tested Pension Credit system, reducing its usefulness and suitability for mean testing other areas of age-related public spending and making it harder to target benefits at those on very low incomes.
- Outcomes – it is important to note that any changes to age-related public spending would change outcomes in the lives of pensioners. For example, evidence shows that because of a ‘labelling effect’, the Winter Fuel Payment does ‘nudge’ individuals to increase fuel expenditure at a time that many may be ‘afraid of the heating switch’.[16] As such, scrapping or means testing Winter Fuel Payments might be expected to reduce household fuel expenditure, which could in turn have significant implications for rates of preventable excess winter deaths, and the cost of cold-related illness to the NHS, neither of which are restricted to the poorest pensioners.[17]

What would transfers from age-related public spending to younger cohorts mean for the economic outlook of young people and intergenerational fairness?

Increased public spending on younger people – funded through cuts to age-related public spending – could take the form of cash transfers, income tax cuts, free or subsidised services.

However, the impact of increased public spending on the long-term economic outlook of younger cohorts would ultimately depend on the size of the transfers.

In this context, it is important to note that even significant cuts to public spending on older people would be likely to have little impact on the long-term prospects of younger cohorts in the UK and levels of intergenerational fairness, given the deep structural drivers that have increased wealth inequalities and have limited access to wealth accumulation among young people.

For example, scrapping Winter Fuel Payments completely would release £2.16bn of DWP public spending – less the cost associated with behavioural changes resulting from decreased use of heating by older people, and ensuing cold-related healthcare costs.

However, if £2.16bn were distributed to those aged 16–30, this would enable additional average public spending of £181 per person, which would have negligible impact on the long-term prospects of this cohort.

If instead £2.16bn were distributed to a specific group, such as the more than four million people living in the private rented sector in the UK[18] – who are mostly drawn from younger cohorts – this would amount to around £500 per person, which would have a negligible impact on the proportion of this group who succeed in becoming owner-occupiers. Alternatively, if this money were distributed among the 1.48 million UK undergraduates in higher education, it would amount to around £1,500 each. Such an amount is far from insignificant, but nevertheless must be put in the context of the increase in the cap on tuition fees for English students to £27,000 for a three-year degree.

Although £2.16bn could be targeted at a small, high-needs group of young people – such as those not in education, employment or training – such a transfer would have no impact on levels of intergenerational fairness across society, as only a very small group would be affected.

As such, given the scale of the wealth inequalities set out in Chapter 2, it is unclear how even a significant transfer of public spending from older to younger cohorts – such as scrapping Winter Fuel Payments – would have any meaningful impact on 'intergenerational fairness', and reducing wealth inequalities over the life course.

Although bigger cuts to age-related public spending could be implemented, larger transfers would only be possible through cuts to the budgets of low-to-medium income pensioner households. It is also important to remember that young people will,

in time, benefit from age-related public spending as they become older themselves. Cuts in support for older people will eventually become cuts in support for today's young workers.

As the next chapter explores in more detail, wealth accumulation over the life course occurs principally via owner-occupation, and investments through pensions and other financial products. To the extent that there are new age-related inequalities emerging, it is through policy change in the distribution of these rewards, and in access to the opportunities to acquire them, that inequalities and intergenerational fairness will be addressed.

Conclusion

This chapter has briefly reviewed age-related public spending, options for means testing and associated issues.

It has shown that even relatively significant cuts to age-related public spending, such as scrapping Winter Fuel Payments, would have limited impact on the long-term wealth prospects of younger cohorts, and by extension, levels of intergenerational fairness across society.

Although transfers from public spending on older people could be targeted on small, vulnerable groups among younger cohorts, such targeted transfers would have no impact on the broader cohort and the wider, structural changes driving concerns that today's young people will be poorer than their parents over the lifetime.

This suggests that transferring public spending from the old to the young would not in fact be an effective way of improving 'intergenerational fairness', and that alternative measures should be considered by policymakers to improve the long-term economic outlook for young people.

To inform the development of such measures, the next chapter explores which factors are associated with different levels of financial wellbeing among low to middle-earners and influence a household's ability to accumulate wealth.

4. Understanding wealth accumulation and financial well-being

Policy debate on intergenerational fairness has highlighted the challenges to the economic outlook of younger cohorts in the UK, and the prospect that today's younger generations may be the first to be poorer than their parents over their lifetime.

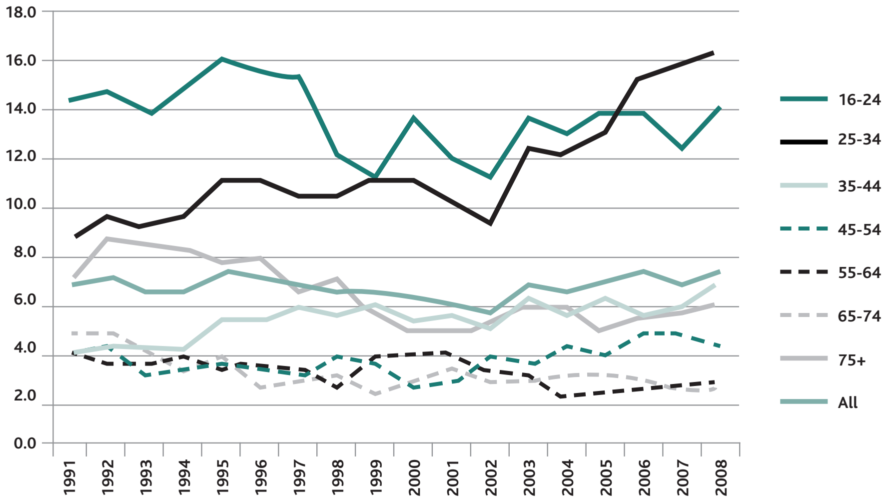
Concerns around the long-term economic prospects of younger cohorts have been driven by evidence that many of the current cohort of young people face poorer prospects than previous generations:

- The increase in the cap on undergraduate tuition fees in England to £9,000 per year is increasing levels of graduate debt and the private costs of going to university for new students, compared to previous cohorts.
- High levels of youth unemployment and reduced access to high quality employment opportunities, particularly in the period following the global financial crisis of 2008, risk having a long-term effect on young people's wealth, skills and earning potential.
- House price inflation is increasing the average age of first-time buyers and ensuring more of young people's lifetime earnings are spent on rent, with some younger households unlikely to ever move into owner-occupation.

While previous chapters have shown that being wealthy is not determined primarily by being over retirement age, it is nevertheless the case that there are long-term trends in play which are reducing some young people's opportunities to accumulate wealth over the life course.

In particular, analysis of long-term trends shows that many young people may end up renting throughout their entire lives, or spend a greater proportion of their lifetimes renting, and therefore not repaying a mortgage or possessing this form of investment.

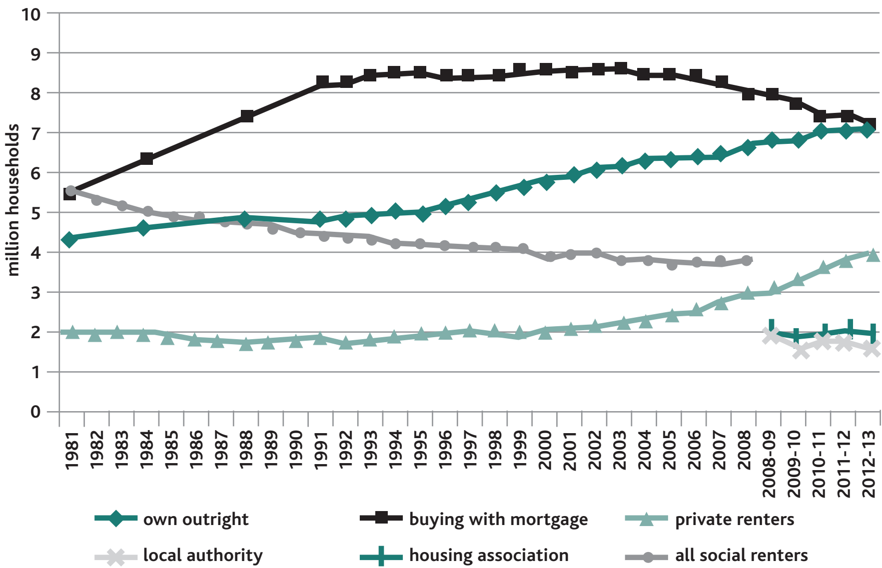
Figure 11: Private rented sector (PRS) tenants as percentage of age group, 1991–2008



Source: Lord C et al. (2013), *Understanding Landlords*

The proportion of households living in the private rented sector (PRS) has increased steadily over the last decade,[19] suggesting a corresponding increase in the proportion of the housing stock that is rented privately:

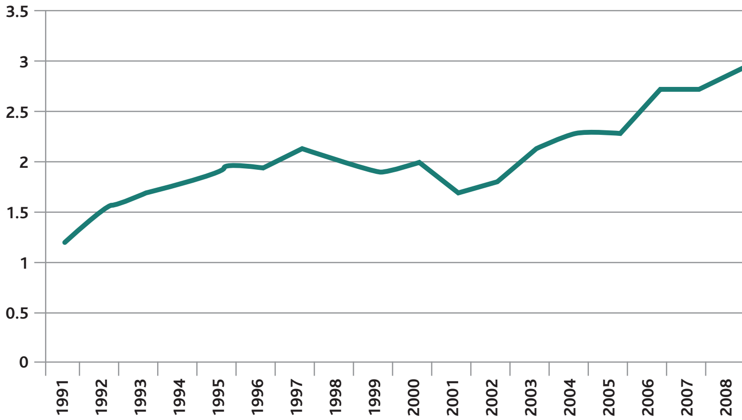
Figure 12: Trends in tenure: 1981 to 2012–2013



Source: DCLG (2014) English Housing Survey: annual report on England's households, 2012–13, London

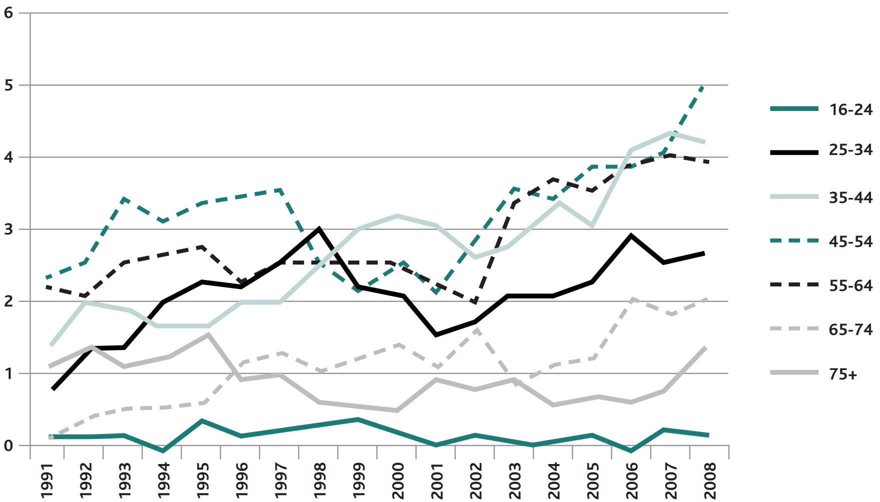
The growth of households living in the private rented sector has also been matched by a growth in the number of PRS landlords as a proportion of the population (a trend evident across nearly all age groups):

Figure 13: PRS landlords as percentage of 16+ population, 1991–2008



Source: Lord C et al. (2013)[20]

Figure 14: PRS landlord as percentage of age group, 1991–2008



Source: Lord C et al. (2013)

This suggests that wider changes in the housing market, and the ability of today's young people to access it, are substantial drivers of young people's reduced economic prospects.

However, despite the focus of policy debate on 'intergenerational fairness', cuts to age-related spending will do little to challenge the drivers behind the long-term wealth prospects of younger households, as the previous chapter noted.

This suggests policy debate on intergenerational fairness should be informed by a clearer understanding of routes to wealth accumulation, and the barriers to wealth accumulation for younger households, which this chapter therefore provides.

Improving the long-term wealth prospects of the young

The principal mechanisms for households to accumulate wealth over the life course comprise:

- inheritance – receiving financial transfers from relatives
- saving – putting money aside from income
- investments – i.e. growth in the value of investments, such as property and shares, whether owned directly or through financial products such as pensions.

Importantly, as described in Chapter 2, property wealth and pension wealth comprise the largest share of wealth for the richest households, suggesting these are the principal mechanisms through which households accumulate wealth.

In relation to receipt of inheritance, parental and family characteristics (along with government policy on inheritance tax) represent the principal factors influencing whether younger households will accumulate wealth through inheritance and the amounts they receive.

However, for accumulating wealth through saving and investments, multiple individual and household factors are likely to play a role in determining wealth accumulation, which may be directly influenced by public policy design.

This chapter therefore reviews new evidence on several measures of 'financial wellbeing' as indicators of whether someone can participate in the accumulation of wealth through these routes. The chapter examines:

- financial position at the end of the month – i.e. are a person's outgoings exceeding their income
- savings behaviour – does an individual save money from their income
- participation in pension saving – whether someone is contributing to a pension.

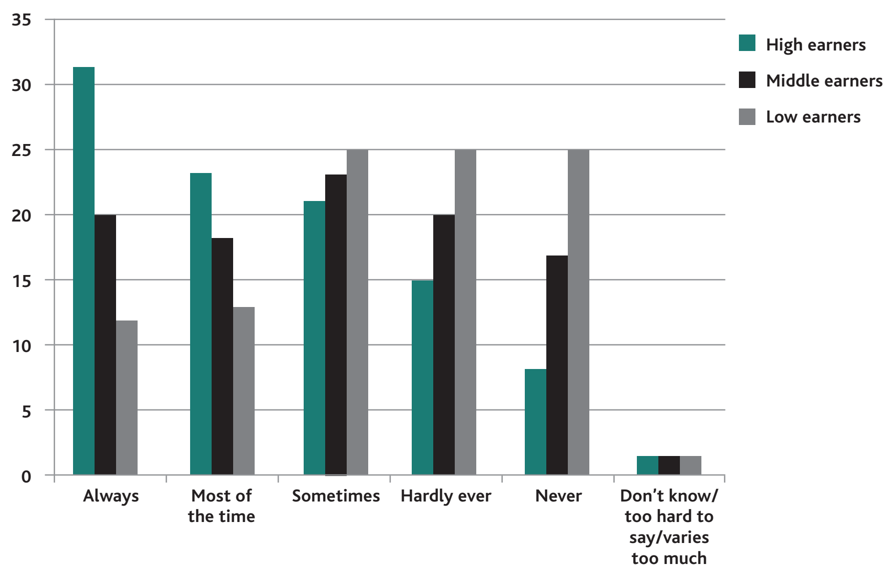
Clearly, a principal factor determining a household's scope to build wealth through saving and investments is level of earnings. However, to investigate additional factors, this chapter explores what factors are associated with variations in 'financial wellbeing' among different earnings classes.

Financial position at the end of the month

A useful indicator of financial wellbeing is someone's financial position at the end of the month, i.e. just before their next pay cheque. In part, this will depend on someone's financial management and planning skills. However, it will also be determined by level of income and major items of expenditure, such as housing costs in the form of rent or mortgage repayments.

Figure 15 shows variations in how often people say they have money left over at the end of the month by earnings class.

Figure 15: How often someone had money left over in the last 12 months by earnings class

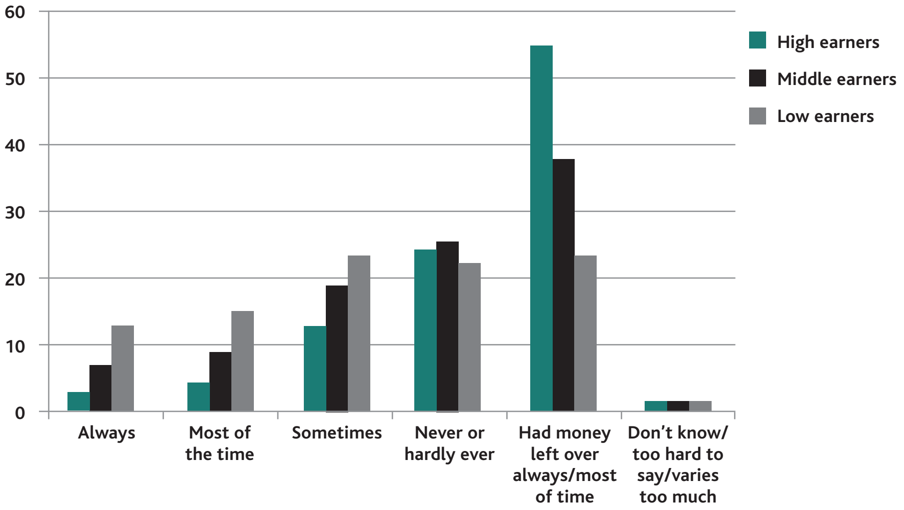


Source: Finney A et al. (2013) *Hard Times: Financial well-being among low and middle earners*

The chart shows that among low earners one half never, or hardly ever, have money leftover at the end of the month.

Conversely, it is possible to look at the opposite aspect of financial wellbeing: propensity to run out of money at the end of the month. Figure 16 overleaf shows that individuals in lower earnings classes are more likely to run out of money.

Figure 16: How often someone had run out of money in the last 12 months by earnings class



Source: Finney A et al. (2013) *Hard Times: Financial well-being among low and middle earners*

Such evidence reveals the close association between earnings and spare income, which in turn will closely influence whether or not a household can invest or contribute to a pension.

The same research found that compared with the average of the 20 per cent of low and middle earners overall who reported having run out most or all of the time, the following types of low and middle-earners were at particular risk:[21]

- young adults, aged 16 to 24 (31 per cent), compared, for example, with only 13 per cent of 55- to 64-year-olds
- lone parents (37 per cent)
- people living in rented homes (31 per cent)
- those feeling worse off due to a change in household income (37 per cent) or circumstances (39 per cent).

There were also significant variations depending on people's work status, with the following groups being particularly likely to say they had run out of money all or most weeks or months:[22]

- those whose work status had changed in the preceding two years (32 per cent)
- people who were unemployed (48 per cent).

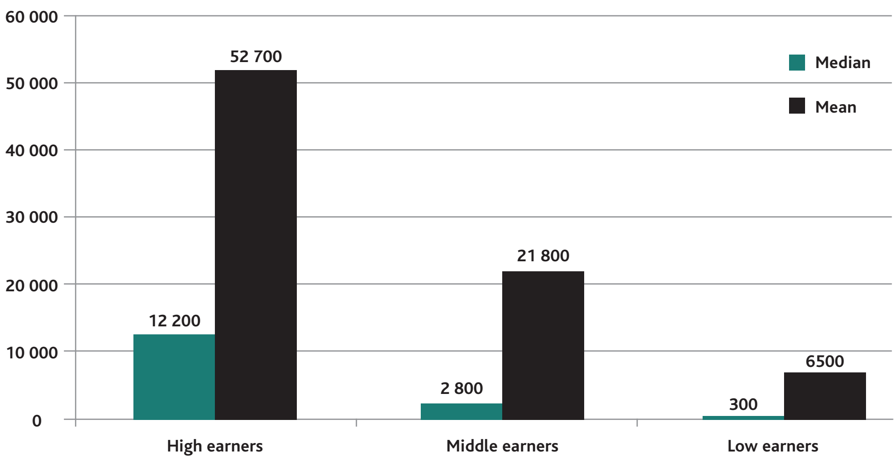
Why does this matter? Financial position at the end of the month is a useful indicator of financial wellbeing, and specifically, how households are coping given their income and expenditure. Changes in income and employment status, renting and being a lone parent all appear to be correlated with struggling financially, and individuals with such characteristics may be expected to be less likely to be good at accumulating wealth.

Savings behaviour

Savings are important, both as a form of investment, and as an 'insurance fund' or 'buffer' to protect households in the face of adverse events, such as unemployment or unexpected costs.

The ability to save from income, and level of savings, are both therefore important indicators of financial wellbeing. As would be expected, levels of savings are very different across earnings classes:

Figure 17: Median and mean amount held in savings by earnings class (£)

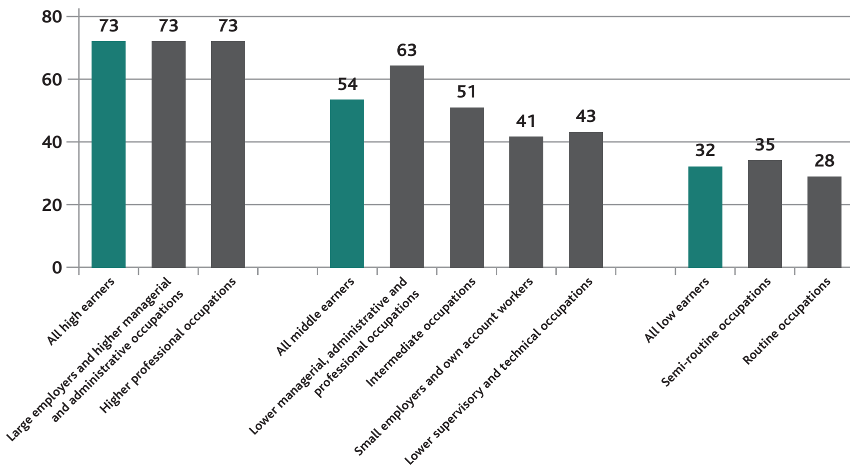


Source: Finney A et al. (2013) *Hard Times: Financial well-being among low and middle earners*

This chart shows that while high earners have median savings of £12,200 on average, middle earners have median savings of only £2,800, while for low earners, median savings are just £300.

Figure 18 shows propensity to save by occupation and earnings class.

Figure 18: Median and mean amount held in savings by earnings class (£)



Source: Finney A et al. (2013) *Hard Times: Financial well-being among low and middle earners*

Subsequent analysis of wave 2 of the Wealth and Assets Survey (WAS) found considerable variation in the likelihood that someone had saved in the last two years by a number of demographic and work-related characteristics. Compared with the average of 46 per cent of low and middle earners overall who had done so, the following groups were particularly likely to have saved:[23]

- low and middle earners living in couple households with children (59 per cent)
- those living in a home owned outright (60 per cent)
- people who felt better off compared to two years ago due either to a change in household or income (65%) or circumstances (64 per cent)
- those in work at the time of their (WAS) interview (52 per cent), those who had moved into a lower earnings class since wave 1 (55 per cent) and those who had gone without their usual pay at some point since wave 1 (55 per cent)
- current employees (53 per cent) and those working full-time (55 per cent)
- those working in the public sector (60 per cent).

Those less likely to have saved included:[24]

- people in lone parent households (25 per cent)
- those living in rented homes (28 per cent)
- people feeling worse off due to a change in household income (30 per cent) or circumstances (29 per cent).

Regression analysis of savings behaviour revealed the influence of housing tenure, a change in financial wellbeing due to a change in household income and current work status were particularly strong predictors of saving.

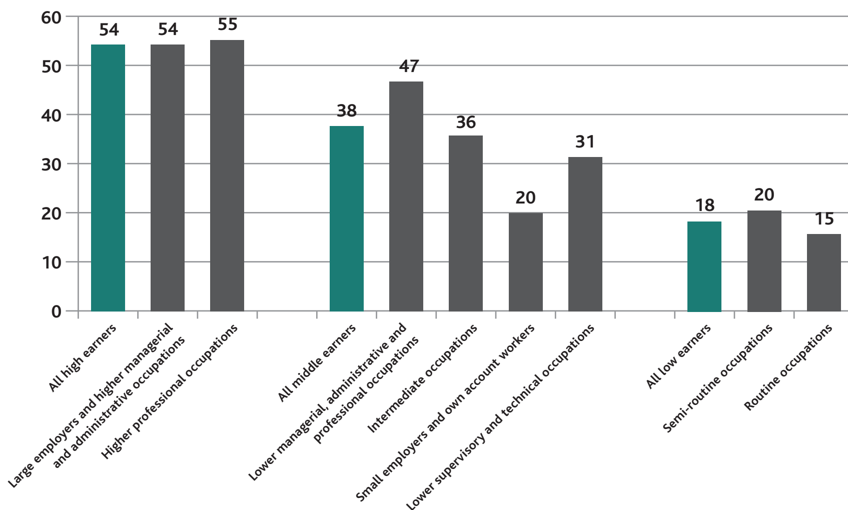
Why does this matter? Possessing liquid savings can be framed as an essential pre-requisite to wealth accumulation in several respects:

- Most individuals would only participate in long-term 'illiquid' investments once they had built up an acceptable level of 'buffer' savings. For example, someone with no savings would be unlikely to lock away their spare income in a pension, but to prioritise building up a certain level of liquid savings first.
- In order to become owner-occupiers, households need a defined level of savings in order to be able to access mortgage credit (aside from a brief period in the decade up to 2008 when 100 per cent 'loan-to-value' mortgages were widely available). As such, savings are a prerequisite and first-step to owner-occupation, which is a key driver of wealth accumulation.

Pension saving

In addition to liquid saving, participation in pension saving is also a useful indicator of financial wellbeing. Although pension saving is heavily incentivised – in the form of both tax-relief and, for many workers, employer contributions – individuals have to be sufficiently confident about their future financial situation if they are to put money aside that they will not, under current rules, be able to access before the age of 55.

Figure 19: Percentage of people saving into a private pension at the time of the interview by earnings and occupational class



Source: Finney A et al. (2013) *Hard Times: Financial well-being among low and middle earners*

On average, 31 per cent of low and middle earners save into a pension. Subsequent analysis showed the likelihood of pension saving varied by age, household type, housing tenure, whether someone felt better or worse off as a result of a change in household income or circumstances. Pension saving was noticeably higher among:[25]

- low and middle earners aged 45 to 54 (39 per cent)
- those living in a home owned with a mortgage (40 per cent)

- those feeling better off due to either a change in household income (41 per cent) or circumstances (47 per cent).

Unsurprisingly, variations in pension saving were found to be related to work status and working arrangements among low and middle earners:[26]

- Thirty-nine per cent of those in work were contributing to a pension, while barely one per cent of the rest (i.e. those not in work) were doing so.
- People whose pay had not been interrupted by a period of no or reduced pay since wave 1 (45 per cent), employees (41 per cent), full-time workers (42 per cent) and public sector workers (64 per cent) were all far more likely than the average to be paying into a pension.

As the authors note, these findings suggest stability and security of employment are important correlates of pension saving, reflected also in the fact that 36 per cent of low and middle earners whose work status had not changed since wave 1 of WAS were saving into a pension (compared with seven per cent whose work situation had changed).

Subsequent regression analysis underlined that strong predictors of pension saving were age, housing tenure and current work status, the latter being the most noteworthy.

Why does this matter? First, pension savings – which experience investment growth in their value – were shown in preceding chapters to comprise an important form of wealth, for the wealthiest households. Second, participation in pension saving indicates an individual's willingness to lock away savings until retirement, i.e. to engage in long-term investment. As previous chapters showed, long-term investments such as property and pensions comprise by far the largest proportion of the wealth of wealthier households.

Wealth accumulation and financial well-being

Policy debate on intergenerational fairness has highlighted concerns about the long-term economic outlook of younger cohorts, and the prospect that today's young households may be poorer than their parents over their lifetime. Despite a focus in debate on potential cuts to age-related public spending, the previous chapter found such measures would have negligible impact of young people's economic prospects and 'intergenerational fairness'.

The paper has also found that age is not the primary driver of wealth inequalities, with high earners and those able to access the property market the most likely to be wealthy. While the analysis has also shown that there are particular challenges that today's young people face, the evidence in this chapter has suggested that (besides inheritance) the key factors determining whether young people are able to save and invest are their household incomes, the security of their employment and their tenure.

Building on these insights, the next chapter explores potential policy interventions that would improve young people's long-term economic and wealth prospects, and in this way – without cutting age-related public spending – improve intergenerational fairness.

5. Improving the long-term economic outlook for the young

The preceding chapters have unpacked the notion of the 'wealthy old', and the argument that the long-term economic prospects of younger cohorts – and intergenerational fairness – can be significantly improved by cuts to age-related public spending.

Instead, the preceding chapter explored how variations in key aspects of financial wellbeing that affect wealth accumulation through savings and investments are influenced by multiple factors, such as:

- level of earnings
- being a lone parent (and its associated impact on having a lower household income)
- tenure
- changes in household income, work status or circumstances.

This chapter therefore asks: amid concern for the long-term economic prospects of younger cohorts, what measures would be effective at improving their outlook, and consequently equity between the generations? It considers:

- earnings
- take-home incomes
- access to home ownership
- security of income
- pension saving.

Improving earnings

The primary mechanism for policymakers to improve the long-term economic prospects of younger cohorts is to lift their earnings, which would increase ability to save, as well as to invest in property and pensions. This could be achieved through:

Investment in skills
At an individual and societal level, average earnings could be raised through increased public investment in skills, or incentives to encourage greater private investment by employers.

In addition to ensuring investment in skills, improved careers guidance could be provided, for example, in the form of a proposed Youth Employment and Skills Service that would bring together the job-related support provided through Jobcentre Plus with the Careers Service for those aged under 25.[27]

Labour market wage interventions
Earnings could be improved through interventions in the labour market, most notably more generous minimum-wage policies, and measures to facilitate pay bargaining.

Other potential labour market interventions would include job guarantees for young people aged 18 to 24, in the model of the Future Jobs Fund.

Improving take-home incomes

In addition to lifting overall earnings, the take-home incomes of workers could be improved through:

Changes to the UK tax base
As widely noted, the UK tax system emphasises taxation of income (income tax, National Insurance Contributions) and consumption (VAT), but not wealth. For example, capital gains tax is not applied to the investment gains for a person's primary owned home, with the result that individuals can experience significant, unearned capital windfalls through inflation in house prices, which remain wholly untaxed.

Such a tax framework inevitably penalises individuals with earnings but low levels of wealth – such as younger people – rather than those with higher levels of wealth, with the result that younger households have less money to save, or invest in property and pensions.

As such, a fundamental change to improve the long-term economic prospects and wealth accumulation of younger households would be to implement a shift in the UK tax base away from income, toward wealth, thereby increasing take-home incomes among young workers, reducing the asset gains of the wealthy and reducing wealth inequalities overall. This could take the form of a capital gains tax (CGT) on primary homes, or an alignment between someone's top rate of income tax and their CGT, to reduce the incentive for people to transform income into capital gains for tax purposes.

Maintaining in-work support
In-work benefits (tax credits and, in future, Universal Credit) play an important role in raising household incomes and increasing labour market participation rates among working age adults. Protecting and enhancing these benefits, as the public finances permit, will be an important means to boost young people's incomes and employment rates and enable them to progress into better paid, more secure work.

Student debt
Young people who go on to study at university, and increasingly those who enter adult vocational education, are likely to start their working lives with levels of individual debt far beyond those of previous generations, at increasingly punitive

rates of interest. Action needs to be taken to remove such heavy burdens from young workers, ensuring they can put their earnings towards building their futures rather than to servicing substantial debts.

Improving access to home-ownership

As previous chapters have noted, home-ownership has proved a key route to wealth accumulation for pensioners in the UK, even as younger cohorts have in recent years found it harder to gain access to the 'property ladder', and the average age of first-time buyers has steadily increased.

Indeed, there is widespread recognition that the UK has a housing crisis – characterised by both expensive house prices and expensive rents – and that the housing market contributes to inequality in society. As such, few stakeholders regard this status quo as desirable or tenable.

It is important that all households have access to good quality, suitable housing, and that homes are not seen solely as investments.

Nevertheless, a key mechanism for policymakers to facilitate wealth accumulation among younger households and strengthen their long-term economic prospects would be through improving their access to home-ownership, i.e. measures to encourage owner-occupation among the young.

In the long-term, this would also reduce the number of working-age households who enter retirement as renters, and therefore become reliant on means-tested Housing Benefit to fund their rental costs in old age, with implications for public spending.[28]

Improving access to home-ownership among younger cohorts could be achieved through:

Building more homes (including social homes)
Increasing the supply of new housing would reduce the average price of homes for younger households, as well as reducing the average cost of rent for younger households in the private rented sector, which in turn would increase their ability to save.

Improving the market power of first-time buyers
Building more homes will be inadequate to improve access to home-ownership for first-time buyers if those new (and old) homes are sold to private landlords.

In this context, policymakers wanting to improve the economic outlook of young households through increased owner-occupation could both act to make homes more affordable through home building, and seek to enhance the 'market power' of first-time buyers. This could take the form of restricting the sale of (new) homes to private landlords, limiting the availability of buy-to-let mortgages and targeted mortgage subsidies. In addition, changes to capital gains tax payable on rented homes would reduce the attractiveness of residential property as an investment vehicle for landlords.

Improving security of income

Investment growth is primarily associated with more long-term, illiquid investments such as in property and pensions. Put another way: those willing to 'lock away' their money for longer can typically expect to secure better investment returns than those who want higher levels of liquidity, i.e. to be able to withdraw it at short notice.

As such, a household's willingness and ability to lock away money in more illiquid forms will directly affect their wealth accumulation over their life course.

However, households with higher levels of financial insecurity may be less willing to participate in illiquid investments. This suggests that policymakers could look to improve wealth accumulation and longer-term investment among younger households through:

Increasing job security
Policymakers could improve job security, for example, around longer notice periods, and through measures to limit the usage of so-called 'zero-hours' contracts, which provide no guarantee of paid work to individuals.

Improving income support for the unemployed
A key reason that individuals will maintain liquid, 'precautionary' saving is against the risk of unemployment and a cut in their income. As such, more generous income support for the unemployed should increase the willingness of households to lock away savings in illiquid investments.

Policymakers looking to improve the wealth accumulation of younger households by encouraging this form of investment could therefore consider more generous income support for unemployed people, for example, income-support with supplementary elements linked to previous employment history for the first six months of their unemployment.

Improving pension saving

As described in previous chapters, participation in pension saving represents an important route to accumulating wealth.

The government is currently engaged in wide-ranging reforms to workplace pension saving to increase participation rates, built around ensuring access to a decent workplace pension scheme, ensuring the availability of 'employer contributions', automatic enrolment of workers – with the option to withdraw – to overcome inertia and other barriers to pension saving.

Building on these measures, the government could improve wealth accumulation among younger households through:

Increasing the scope of workplace pension reforms
Policymakers could extend the reach of the 'auto-enrolment' workplace pension reforms beyond current regulations to the lowest-paid, to individuals working at the very smallest employers and to the self-employed.

Increasing employer and employee contribution levels

In addition to increasing participation in workplace pension saving, the government could increase benchmark contribution rates among both employers and employees.

Student debt

Young people who go on to study at university, and increasingly those who enter adult vocational education, are likely to start their working lives with levels of individual debt far beyond those of previous generations, at increasingly punitive rates of interest. Action needs to be taken to remove such heavy burdens from young workers, ensuring they can put their earnings towards building their futures rather than to servicing substantial debts.

Improving the long-term outlook of the young

This chapter has considered measures to improve the long-term outlook for younger cohorts through mechanisms that improve access to wealth accumulation.

This brief review has found there are multiple policies that could be deployed that would have a direct effect on long-term prospects for the young, through both increasing their capacity to achieve higher incomes and reducing overall wealth inequalities across society. These involve earnings policies, home-ownership, income security and pension saving.

6. Conclusion

There has been growing concern in recent years at the long-term economic prospects for younger households.

In particular, increased university tuition fees, poorer labour market opportunities and house price inflation have led a growing number of commentators to conclude the current cohort of younger people confront distinctive challenges, compared to previous cohorts.

The outlook for young people has been contrasted with the relatively high levels of wealth observable among older households, and commentators have posited that younger cohorts may be poorer than preceding generations for the first time.

This has resulted in growing calls to improve intergenerational fairness, with cuts to public spending on older people – such as means testing of Winter Fuel Payments – repeatedly identified as mechanisms to spend more on younger cohorts and increase intergenerational fairness.

However, this report has found that UK pensioner households do not comprise the majority of the wealthiest households across the population, and it is unclear why cuts to age-related public spending should be the focus of debate. Indeed, were public spending transfers to occur from pensioners to younger cohorts, it is likely that such transfers would have a very marginal impact on the economic outlook of younger households, and be of little relevance to 'intergenerational fairness'.

Indeed, there is a risk that such debates distract the public and policymakers from those potential policy interventions that are required to improve the long-term economic outlook of younger cohorts. In this sense, recent debate on intergenerational fairness and age-related spending has been a disservice to younger cohorts, as it has diverted policymakers from broader structural trends and changes, and those policy options that would have a significant impact on the wealth accumulation of younger households.

This pamphlet has shown that the primary drivers of wealth inequalities across age groups are earnings, household incomes and tenure. To the extent that new inter-generational inequalities are emerging, they are a result of the reduced opportunities young people have to access well-paid work, save and get a mortgage and the consequent relative improvements in wealth for those who are in this position.

Given the role of saving and investments in wealth accumulation, policymakers concerned with the outlook of younger households and intergenerational fairness

should focus on policy measures that improve access to these routes to wealth accumulation, such as earnings levels, job security that enables young households to borrow to invest and measures to improve access to owner-occupation – a key vehicle for wealth accumulation over the life course. They should also focus on measures which distribute the rewards of asset price growth more fairly so that existing access to property or other investments, or being born into a family where high levels of wealth have already been accumulated, doesn't become even more of a determinant of future life chances.

It is these types of measures – not tweaks to public spending on different groups – that should be the focus of those concerned with improving the long-term prospects of the young and increasing fairness between the generations.

Notes

1 For example, see Taylor M (2013) *The Labour Market Impacts of Leaving Education When Unemployment is High: evidence from Britain, Institute for Social and Economic Research, University of Essex*.

2 Brinkley I et al. (2013) *The Gender Jobs Split*, TUC, London

3 Lord C et al. (2013) *Understanding Landlords*, Strategic Society Centre, London

4 Finney A et al. (2015) *Hard Times: financial well-being among low and middle earners*, TUC, London
Finney A (2015) *What Makes the Wealthy Wealthy? The composition of wealth across the wealth distribution and its determinant*, TUC, London

5 These categories reflect the Office for National Statistics/Wealth and Assets Survey categorisation of wealth.

6 Since it represents a guaranteed form of income (unlike earnings) possessed by retirees, it is useful to include 'pensions in payment' from private pensions within definitions of private pension wealth. This approach also recognises that household liquidity – percentage of wealth held as income versus savings – varies across the life course, and so it is useful to compare this form of wealth with others.

7 Lloyd J and Lord C (2015) *Defined Capability* (forthcoming), Strategic Society Centre, London

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9 Lloyd J and Ross A (2013) *Attendance Allowance in England*, Strategic Society Centre, London

10 Finney A (2015) *What Makes the Wealthy Wealthy?*, TUC, London

11 For more information see www.gov.uk/new-state-pension/overview

12 Lloyd J (2012) *The Roadmap: England's choices for the care crisis*, Strategic Society Centre, London

13 For more information, see www.tuc.org.uk/economic-issues/budget/economic-analysis/tax/spending-review-will-hit-poorest-15-times-harder-rich

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20 Lord C et al. (2013) *Op Cit*

21 Finney A et al. (2015) Op Cit

22 Ibid

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24 Ibid

25 Ibid

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29 Lloyd J (2012) *The Future Cost of Housing Benefit for Older People*, Strategic Society Centre, London

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Today's young people are having to deal with falling wages, rising house prices and increasingly insecure jobs. But is cutting the winter fuel allowance for pensioners really the answer?

This pamphlet challenges the myths that all pensioners are rich and that reducing older people's benefits would be a solution to young people's problems. It sets out why real intergenerational justice will rely on an ambitious new approach to tackling the UK's growing wealth inequalities, showing that what we need is fair tax, more new homes and decent work.

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