# A new generational contract

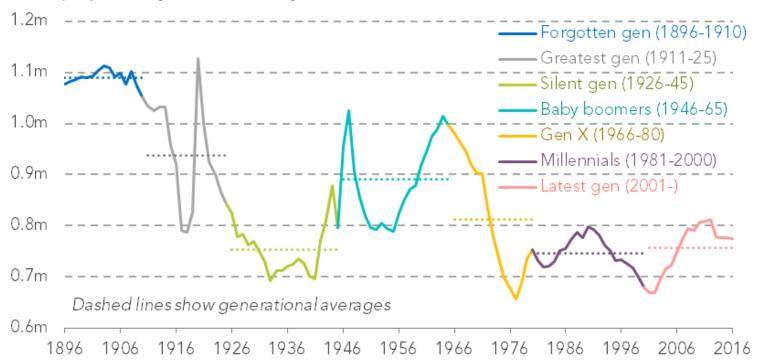
June 2018





### Changes in births rates are driving large fiscal pressures

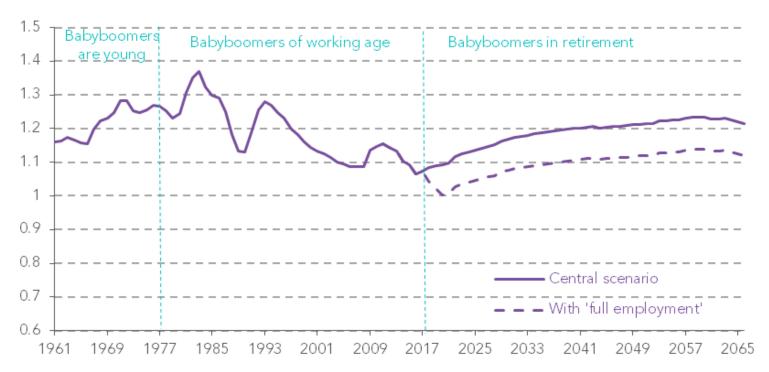
#### Births per year and generational averages: UK



Source: ONS, Birth Characteristics (England and Wales); NRS, Births Time Series Data (Scotland); NISRA, Live births, 1887 to 2015 (Northern Ireland)

## The transition of the large baby boomer generation into old age is accelerating population ageing...

Ratio of non-workers to workers: UK, 1961-2066



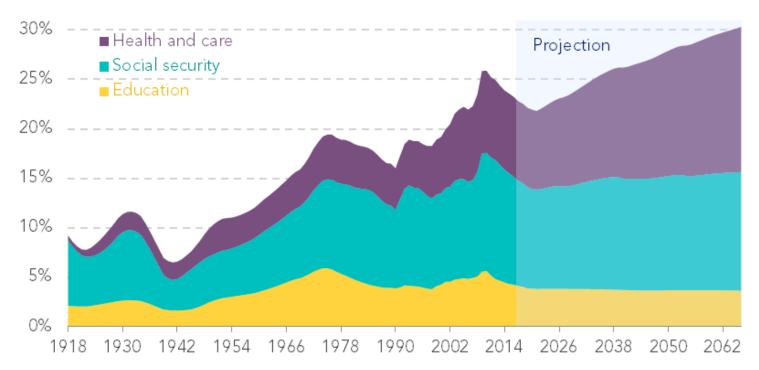
Notes: Estimates do not take account of the impact of Brexit on employment levels or the population. Any large-scale impact on employment levels is likely to be temporary and this analysis looks to highlight long-term trends.

Source: Resolution Foundation analysis using: Bank of England, Three centuries of macroeconomic data; ONS, 2014-based mid-year population estimates; ONS, 2014-based population projections; OBR, Economic and Fiscal Outlook, March 2016; OBR, Fiscal Sustainability Review, June 2015



## ...driving a £24 billion a year rise in welfare state spending by 2030 and £63 billion a year rise by 2040

Historic and projected welfare spend as a proportion of GDP: UK



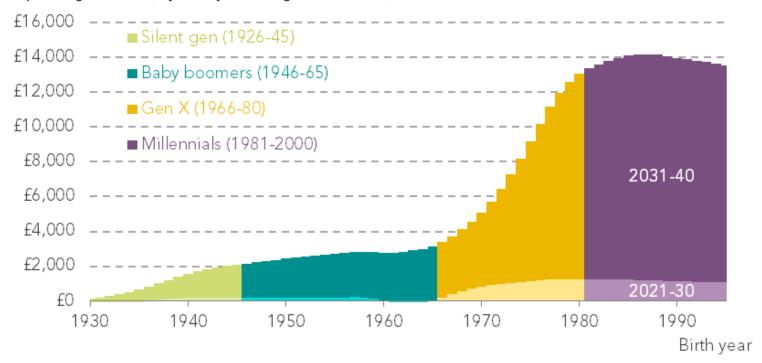
Notes: Data for years prior to 1966 are presented as five-year rolling averages. Total spend is based on the categories used in Hills (2004), so does not map precisely to HM Treasury and Office for Budget Responsibility totals.

Source: RF analysis of ÓBR, Fiscal Sustainability Report – January 2017, January 2017; HMT, Public Expenditure Statistical Analyses; J Hills, Inequality and the State, Oxford University Press, October 2004



### ...turning to the usual taxes on income and consumption would bear down on millennials first...

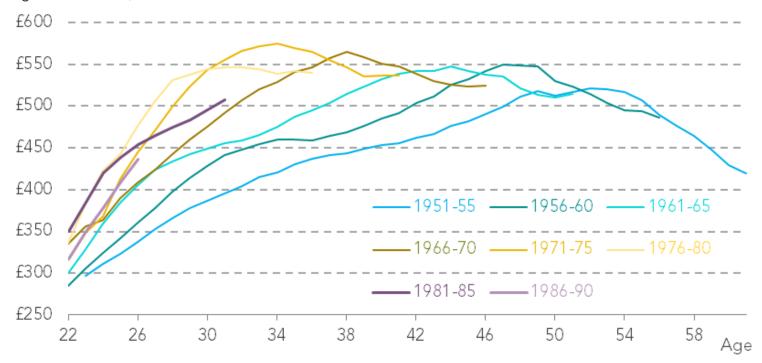
Cumulative additional tax revenue (GDP-adjusted to 2017 prices) required per person in 'rising welfare spending' scenario, by birth year and generation: UK, 2021-40



Source: RF analysis of OBR, Fiscal Sustainability Report – January 2017, January 2017; HMT, Public Expenditure Statistical Analyses; ONS, 2016-based mid-year population estimates; ONS, 2016-based population projections; J Hills, Inequality and the State, Oxford University Press, October 2004

## ...but millennials have already been hit with declines in generational pay progress

Median real household annual net income after housing costs (CPI-AHC-adjusted to 2017 prices), by generation: GB, 1961-2016

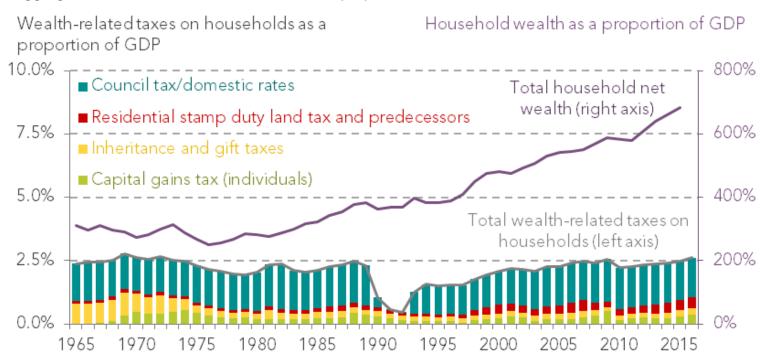


Notes: Incomes are equivalised to account for differences in household size. See notes to Figure 2 in: A Corlett, As time goes by: Shifting incomes and inequality between and within generations, Resolution Foundation, February 2017
Source: RF analysis of IFS. Households Below Average Income: DWP, Family Resources Survey



## However, the taxation of assets has not kept up with the growth of Britain's wealth...

Aggregate wealth and wealth-related taxes as proportions of GDP: GB/UK



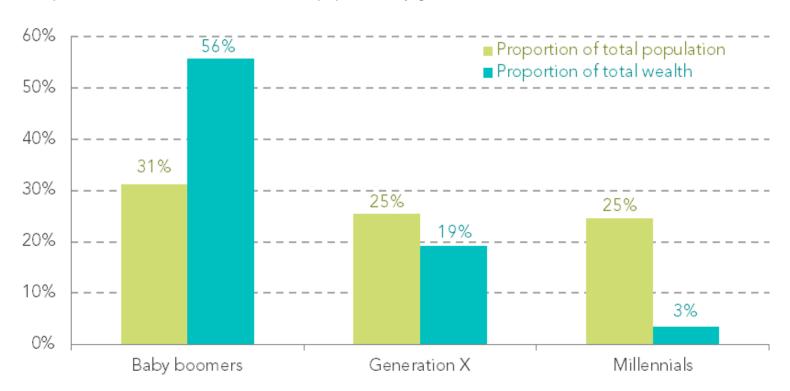
Notes: Total household net wealth covers Great Britain; tax and GDP data cover the UK. See notes to Figure 1 in: Home affairs (Intergenerational Commission report 18)

Source: RF analysis of ONS, Wealth in Great Britain; ISER, British Household Panel Survey; ONS, UK National Accounts; D Blake & J Orszag, 'Annual estimates of personal wealth holdings in the United Kingdom since 1948', Applied Financial Economics, 9, 1999; OECD.Stat



### ...which younger generations have also missed out on

Proportion of total household wealth and population by generation, 2014-16



Notes: Excludes physical wealth.

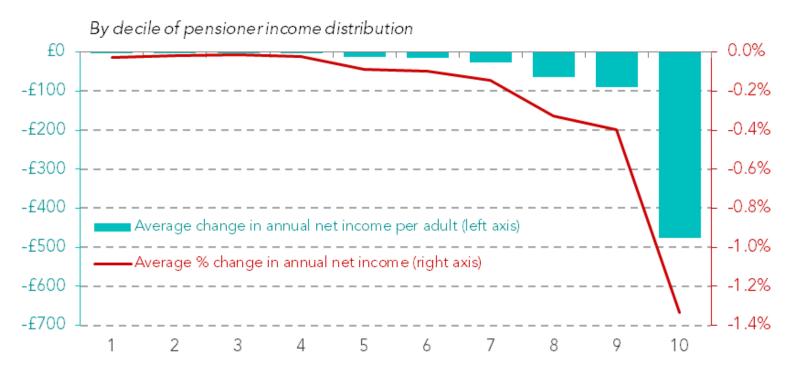
Source: RF analysis of ONS, Wealth and Assets Survey



How to fund health and social care services in a generationally fair way

## A £2.3 billion 'NHS levy' via National Insurance on the earnings of those above State Pension age...

Impact of levying employee and self-employed NICs on pensioners' employment income, by pensioner income decile: UK, 2020-21



Notes: Pensioner income distribution based on equivalised net household incomes before housing costs of all adults aged 66 and over. See notes to Figure 8 in: A budget for intergenerational fairness? (Intergenerational Commission report 11)

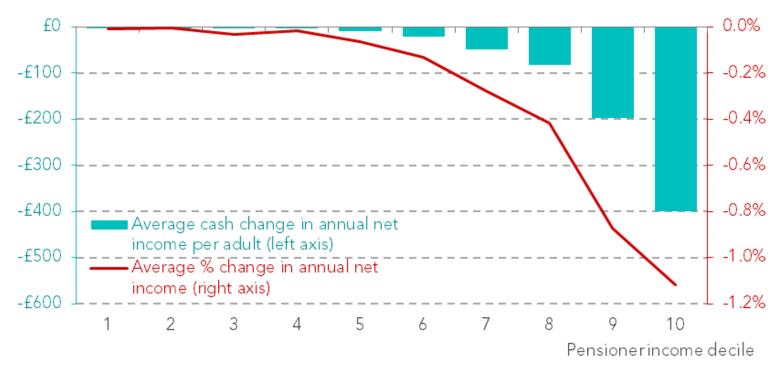
Source: RF analysis using the IPPR tax-benefit model; ONS, 2016-based National Population Projections; OBR, Fiscal sustainability report – January 2017,

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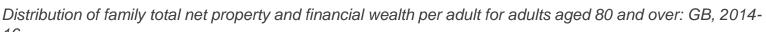
#### ...and limited National Insurance on occupational pension income.

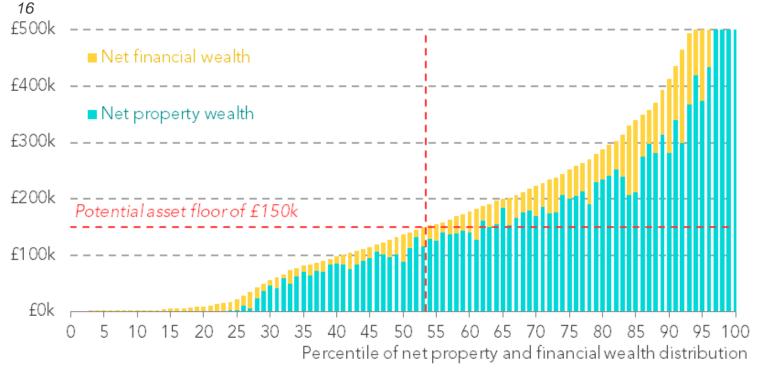
Impact of levying employee NICs (but with a reduced main rate of 6 per cent, and only on earnings above the personal tax allowance) on occupational pension income, by pensioner income decile: UK, 2020-21



Notes: Distribution based on equivalised net household incomes before housing costs of all adults aged 66 and over. Estimates include the impact of population change at different ages to 2020-21.

### Increase property-based contributions towards care costs, but with an asset floor of £150,000

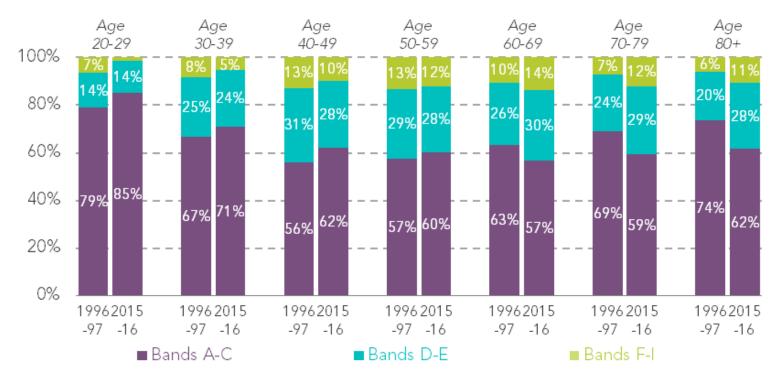




Notes: Data refers to older adults in Great Britain, however social care is a devolved policy area and our policy suggestions are directed at England. Source: RF analysis of ONS, Wealth and Assets Survey

## And raise an additional £2.3 billion from a reformed property tax which would replace a council tax system that disproportionately burdens younger households

Proportion of households in each council tax band, by average age of adults: GB



Notes: This analysis covers primary residences only. For further details, see: Home Affairs (Intergenerational Commission report 18) Source: RF analysis of DWP, Family Resources Survey

## Futureproofing pensions for millennials

## Average pensioner incomes are now higher than working-age incomes

Real household net annual income after housing costs (CPI-AHC-adjusted to 2017 prices), by life stage: UK



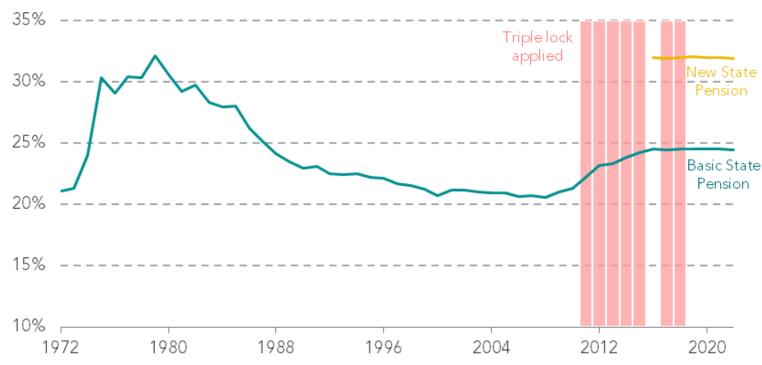
Notes: 'p20' refers to incomes at the 20th percentile within each age group; 'p80' refers to incomes at the 80th percentile within each age group. Dotted lines show 2016-17 nowcast. Incomes are equivalised to account for differences in household size. See notes to Figure 1 in: As good as it gets? (Intergenerational Commission report 12)

Source: RF analysis of DWP, Family Resources Survey; RF nowcast



### ...largely due to the triple lock and the new state pension

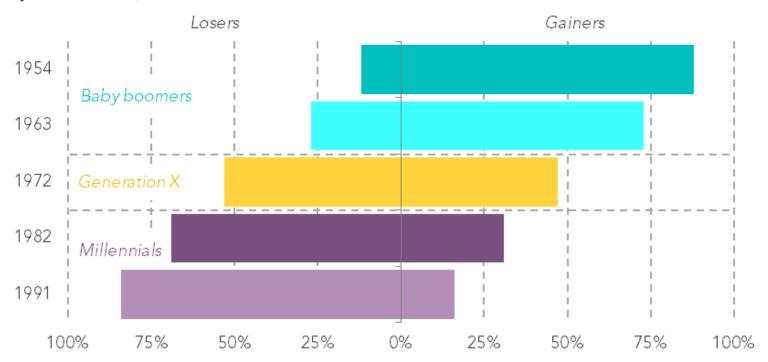
#### State Pension as a proportion of median weekly earnings: UK



Source: RF analysis of DWP, Abstract of statistics; OBR, Economic and Fiscal Outlook

## But younger cohorts are likely to loose out from the new State Pension reforms

Impact of the new State Pension reforms compared to the system they replaced across life in retirement, by year of birth: UK, 2020-60



Source: RF analysis of DWP, Impact of new State Pension (nSP) on an individual's pension entitlement – longer term effects of nSP, January 2016

## Additionally, the switch to DC pensions mean younger adults shoulder greater risks

- Under DC provision pension holders shoulder the risk of low investment returns
  which could deplete private pension incomes for todays young people
- This is compared to large valuation effects which boosted pension incomes by a total of £800 billion across Baby Boomer families
- Moreover, longevity and health and social care cost risks are also borne by individuals under DC provision
- And the decline in pay progress may lower pension incomes through lower savings rates



### Reducing risks around younger generations' pensions





Auto-enrolment for low earners and the self-employed

Flatter pensions tax reliefs

Sharing risk

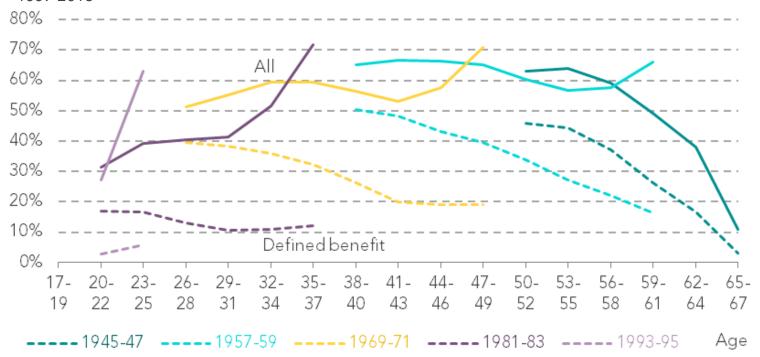


A legislative framework for new 'collective defined contribution' pensions to better share risk

A default track to a guaranteed later life income

## The success of 'auto-enrolment' to date indicates benefits of extending policy

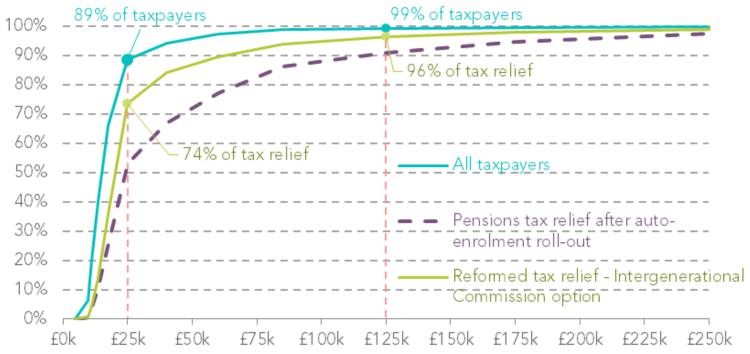
Occupational pension scheme membership among male private sector employees, by age and cohort: GB, 1997-2016



Source: RF analysis of ONS, Annual Survey of Hours and Earnings

## Averaging the rate of pensions tax relief and exempting employee pension contributions from National Insurance would provide greater incentives to save among low- and middle-earners

Cumulative distribution of taxpayers and pensions tax relief under different tax relief systems, by gross individual income: UK, 2015-16

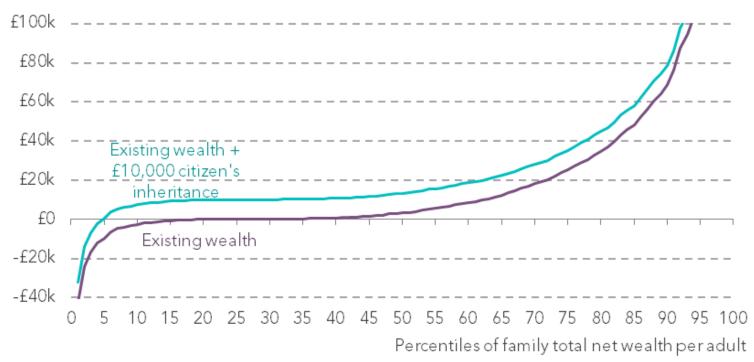


Notes: See notes to Figure 10.4. The reform option assumes current coverage rates and the 8 per cent contribution rates that will be required under auto-enrolment from April 2019 applied in 2015-16. It also excludes tax relief attached to lump sum payments from pension pots in retirement. Source: RF analysis of HMRC, Personal incomes statistics; DWP, Family Resources Survey



### A 'citizen's inheritance' would boost asset ownership among the young and double the wealth of two-thirds of adults in their late 20s

Distribution of family total net wealth per adult for 25-29-year-olds with and without a £10,000 citizen's inheritance: GB, 2014-16



Notes: Excludes physical wealth.

Source: RF analysis of ONS, Wealth and Assets Survey



# A new generational contract

June 2018



