Intergenerational Centre

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AN INTERGENERATIONAL AUDIT FOR THE UK: 2019

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FOREWORD

Since the advent of the welfare state, what could be described as an implicit social contract has existed between generations. Younger people would work and pay taxes which would help to support the older population, with the expectation that they themselves would experience wider opportunities, ongoing improvements in living standards and the prospect of a comfortable later life.

Developments over the past decade or so have increased the salience of these issues. The economic crisis and the events that followed it, alongside the changing demographic structure of the population, have sharpened interest in how opportunities and living standards are changing from one generation to the next and the social tensions that may result.

It is, of course, important to recognise that inequalities within generations are just as important as those between them. Furthermore, not everybody will be affected equally by intergenerational change, although there is a risk that the less well-off and the most vulnerable of all generations will be most adversely affected.

So, while it would be wrong to look at the world solely through an intergenerational lens, doing so provides a valuable perspective from which to assess how the economy and society are changing. It also challenges us to consider and anticipate the pressures that society may face in the future and how they may be addressed, in addition to helping to shape our thinking about where gaps in our knowledge remain and how they may be filled.

However, without good evidence we cannot separate speculation from fact, let alone establish how policy should respond. The intergenerational audit by the Resolution Foundation provides a valuable and timely body of evidence on one of the key social and economic issues of our times.

This work also aligns strongly with the Nuffield Foundation's wider interests. As set out in our 2017-22 Strategy, our aim is that the research we fund advances understanding of the significance of new trends and disruptive forces that are

affecting people's lives, including how social and economic outcomes are changing within and between generations and the determinants of inequalities in later life. We actively encourage high quality and innovative research proposals which respond to emerging issues and trends in society.

We firmly believe the intergenerational audit meets this brief and we are proud to be supporting it.

Mark Franks

Director of Welfare, Nuffield Foundation

EXECUTIVE SUMMARY

Intergenerational issues continue to rise up the agenda

Intergenerational issues are on the political, policy and research agenda in Britain in 2019, and their salience is rising. The Intergenerational Commission, hosted by the Resolution Foundation during 2016-18, was one element of a growing focus on the experiences of different cohorts compared to predecessors at the same age.

While large majorities across age groups in Britain believe that each successive generation should have a better life than the one before, pessimists about the prospects of today's younger generation outnumber optimists by two-to-one.[1] A body of analysis showed that in a range of areas related to economic living standards, this pessimism is at least partly justified.

But alongside this pessimism regarding young people's prospects, people are equally committed to the belief that the success of a society is measured by how well we provide for older generations. The Commission's analysis also weighed up the challenges (fiscal and otherwise) Britain faces in fulfilling that duty as lives get longer, and the large baby boomer generation moves into retirement.

A rounded view of our country's intergenerational challenges in the 21st century takes account of these two things. First, the extent to which younger generations are experiencing living standards improvements on predecessors. Second, the extent to which we are supporting older people to maintain their living standards in retirement, particularly the least well-off and most vulnerable.

Over the past couple of years, the focus on these twin intergenerational challenges has only intensified. The cash injection for the NHS at the 2018 autumn budget was a precursor to a deeper look at the country's spending priorities at the government's Spending Review later this year, in the context of an ageing population. Debate in this area is increasingly focused on where the revenues to pay for increased spending will come from, and it is notable that 2017 was the first election in around four decades in which neither main party offered up tax cuts.[2] The era of serious thinking not about whether, but about which, taxes will rise is upon us.

1 H Shrimpton, G Skinner & S Hall, ***The millennial bug: public attitudes on the living standards of different generations***, Resolution Foundation, September 2017

2 See: T Bell, 'New year, new era: tax and spend in 21st Century Britain', ***Resolution Foundation blog***, 3 April 2019. However, tax cuts are on the agenda in the 2019 Conservative leadership contest.

In terms of young people's prospects, notable studies have turned their attention to this theme; from recent high-profile polling by the new centre-right think-tank Onward,[3] to the Financial Conduct Authority's current focus on intergenerational fairness in the finance sector,[4] and the House of Lords select committee's report on tackling intergenerational unfairness.[5] And of course, all this is taking place against the backdrop of the UK's exit from the European Union. Apart from anything else, the age divide in preferences at the EU referendum throws other generational differences in society into sharper relief.

Generational analysis doesn't pit age groups against one another, but is essential to understanding what's going on in Britain

Cohorts, or generations, are just one framework through which living standards and lived experiences in Britain can be assessed. There are far more extensive traditions of analysis through the lenses of age, gender, ethnicity, region, income group and social class. Some are concerned that a new focus on differences between different cohorts at the same age diverts attention away from these deeper-rooted groupings, or promotes zero-sum, generational war-type thinking.

But intergenerational thinking should not be about who comes out on top in a generational power struggle. This bears no relation to how we live our lives within families. Instead, looking at the role, and limits, of intergenerational family transfers in supporting younger cohorts' living standards is a key focus.

More broadly, while generations are wide and should never be the only lens for analysis, the fact that cohort comparisons do show divergent trends is evidence enough that this analytical framework is a helpful one. Generations complement other analytical frameworks, and – as we seek to do throughout this report and, in particular in the online data and materials that accompany it – should be used in combination with them to really understand what life in Britain feels like for different people.

Indeed, the key lesson from a growing focus on intergenerational issues in recent years is that far from being just about advocating for this generation or that one, intergenerational thinking is essential to understanding what's changing in Britain. There was little public concern about home ownership in the 1990s or early 2000s, despite the fact that ownership for 25-34 year olds had been falling since 1989. That lack of focus represents a missed opportunity to pre-empt today's housing challenges. And understanding the life-course drivers of rapid declines in pensioner poverty during the 1970s and since the end of the 1980s is illuminating for understanding and tackling poverty at other ages. In short, thinking about the

3 W Tanner, N O'Brien & J Kanagasooriam, ***Generation Why? What is driving the growing age gap in British politics and how the centre right should respond***, Onward, April 2019
4 Financial Conduct Authority, ***Intergenerational Differences***, May 2019
5 House of Lords Select Committee on Intergenerational Fairness and Provision, ***Tackling intergenerational unfairness***, April 2019

experiences of cohorts ageing through their lives – as well as differences within them – is one way to understand Britain's challenges better.

The focus of this audit

This report – produced by the Resolution Foundation with the support of the Nuffield Foundation – takes stock of generational living standards differences in Britain according to the latest data. It does this by considering living standards within four domains:

- Jobs, skills and pay
- Housing costs and security
- Taxes, benefits and household income
- Wealth and assets.

In each of these domains, we first assess the different paths of cohort living standards, with a particular focus on the drivers of change over the most recent couple of years. We then zero in on one area where we dig deeper – providing novel 'spotlight' analysis that seeks to stay on the pulse of what's changing in Britain today, and move research and policy debates forward accordingly.

Our analysis in each of these four domains is purposefully separate, such that each section can be read independently by those interested in that issue area. In the remainder of this summary we pull together the key findings from each, and at the end of the summary reflect on what they tell us about generational experiences in Britain in the round.

Throughout this analysis, our focus is mainly on five-year birth cohorts. In order to bring these findings together and aid interpretation, we sometimes talk about generations using the definitions that are commonly used in the UK. These are:

- The lost generation, born 1881-95
- The forgotten generation, born 1896-1910
- The greatest generation, born 1911-25
- The silent generation, born 1926-45
- The baby boomers, born 1946-65
- Generation X, born 1966-80

- The millennials, born 1981-2000
- The latest generation, born 2001-15.

Jobs, skills and pay

Unemployment rose less in the most recent recession than in previous ones, a phenomenon of particular importance to millennials given young people tend to feel the sharpest effects of unemployment increases. Today, 5.7 per cent of 18-29 year olds are out of work, a figure that is a lot lower than at similar points in previous economic cycles. Even in the depths of the financial crisis, the generation X cohort born in the early 1970s, then in their late 30s, had an unemployment rate nearly one-third lower than those born in the early 1950s had at the same age (in the late 1980s, i.e. outside of a recession).

Alongside rising participation, this unemployment performance is part of the UK's remarkable jobs boom of recent years, which has benefited all generations. This is the latest chapter in a decades-long story of improving employment across the age range, but particularly for women and older people. Employment at age 65 and over has more than doubled to 11 per cent since 2001. This reflects a range of factors, such as improved health at older ages, the flexible opportunities provided by rising self-employment, and perhaps concerns about private pension sufficiency as life expectancy rises.

Within this headline trend are more nuanced stories. For example, the rising female state pension age has pushed up employment for older women in the last few years such that the employment rate at 62 for women born in 1956 is 15 percentage points higher than it was for those born just four years earlier (an increase from 39 per cent to 54 per cent). Of course, while it has boosted employment this policy change has also precipitated lower incomes for many women (particularly those from lower socio-economic backgrounds) who leave the workforce prior to state pension eligibility.

The flipside of relatively good news on unemployment and employment has been an unprecedented squeeze on wages, for all age groups but for young people in particular. Real hourly pay for 18-29 year olds fell 9.2 per cent between 2009 and 2014, compared to 7.3 per cent across the age range. By contrast, pay growth has been stronger over the past couple of years for those in their 20s than for those in their 30s. But this partly reflects the compositional effect of those who were in their 20s in the depths of the crisis carrying their suppressed pay into older age bands.

As a result, people born 1981-85 were earning 4 per cent less in their early 30s than those born 10 years before them were at the same age; while at age 28, members of the 1986-90 cohort were earning roughly the same as the cohort 15 years before

them. By contrast, all cohorts born before 1960 have real hourly earnings above their predecessors.

Combined with long-term trends like a slowdown in the rate of educational attainment and lower rates of job mobility, these pay outcomes are associated with a deterioration in job quality for younger cohorts. The share of 18-29 year olds working in relatively lower-paying occupations has risen from below 30 per cent to almost 40 per cent since the early 1990s, while staying flat across the workforce as a whole. And the share of 18-29 year olds working part-time or in a temporary job involuntarily has not fallen since 2017, whereas the proportion continues to fall for older age groups.

Spotlight: The impact of leaving education during a recession on earnings and employment

How unlucky is it to find yourself leaving education and beginning a career right in the midst of a recession, and how long do the 'scars' of doing so stay with you? Our detailed econometric analysis finds that those who left education right in the depths of the previous two downturns (modelled as a 3 percentage point elevation in the unemployment rate) experienced a reduction in real hourly pay of around 6 per cent one year after leaving education, compared to neighbouring cohorts that left education in better economic conditions. For those with lower levels of education, the chance of being in work falls by over 20 per cent, while for graduates the chance of being in a low-paying occupation rises.

Focusing on the most recent downturn and comparing graduates who left education in the eye of the storm to their less unlucky neighbours, there was a more pronounced rise in entrants, particularly graduates, working in lower-paid occupations. The chance of a graduate working in a low-paid occupation rose by 30 per cent, and remained elevated a full seven years later.

This matters because time spent in low-paying occupations reduces someone's future earnings prospects, not just because pay progression and training are weaker in these occupations but also because moving to higher-paying occupations is relatively rare and pay effects do not immediately unwind if and when someone does move.

This helps explain why the impact on pay was more enduring in the recent downturn. People's hourly wages took 50 per cent longer to recover (to the rates of pay enjoyed by those leaving education outside the downturn) after the financial crisis than in the aftermath of the 1990-91 recession, taking a full six years rather than four.

The good news in the recent downturn was that youth unemployment did not rise as high as in the early 1990s, and came down much faster. The bad news was that unlike previous downturns, the financial crisis brought with it nominal starting pay cuts for those entering work for the first time in 2008 and 2009.

This shows that the nature of the challenge has changed. Although unemployment still blights the early careers of many young people – particularly those with lower levels of education – policy should also seek to support those who have had their earnings trajectories and job prospects damaged by time spent in low-paying work.

Housing costs and security

While home ownership rates overall have only been falling since the early 2000s, the decline among young adults dates back to the late 1980s. Six-in-ten family units[6] headed by people born in the early-1950s were home owners by the age of 33, compared to just four-in-ten of those born in the early-1980s cohort when they were the same age – a fall of one-third. The latest evidence points towards a bottoming out of this decline: 18-29 year old family units experienced an increase in ownership rates from 7.9 per cent in 2016 to 9.2 per cent in 2018. However, the housing market fundamentals of high house prices and the associated deposit barrier are still with us. It would be wrong to hail this uptick as the end of the home ownership challenge for generation X and the millennials.

Housing changes both affect family lives and reflect broader societal trends in how family life is changing. The share of those in their late 20s living with their parents has increased since the financial crisis, from 24 per cent in 2007 to 32 per cent in 2018. However, older people have become less likely to live with other family members: 18 per cent of family units headed by someone aged 65 and over lived with their adult children in 1996, falling to 14 per cent by 2018. More millennials and members of generation X are becoming parents while living in the private-rented sector than their predecessors in years gone by: the share of children starting school living in a private-rented home has increased from 10 per cent in 2003 to 25 per cent today.

Housing costs have put increasing pressure on living standards for all generations alive today, compared to predecessors at the same age. In the year to 2017-18, housing-cost-to-income ratios fell faster (by 1 percentage point) for under-30s than for older family units (families headed by 30-49 year olds experienced a fall of 0.3 percentage points), but this does little to alter the long-term picture. At age 30, housing costs were equivalent to 24 per cent of income for millennials born

6 A family unit is a single adult or couple, and any dependent children. As such, on our measure of housing tenure, a young adult living in their parents' owned home is a separate family unit to their parents and is counted as an 'adult living in parents' home', not a home owner.

in the early 1980s and 21 per cent for members of generation X born in the early 1970s, compared to 10 per cent for members of the silent generation born in the early 1940s.

High interest rates pushed up the cost of servicing mortgages in the 1980s. Housing-cost-to-income ratios for mortgagors peaked at 26 per cent for the early-1960s baby boomer cohort when they were in their late 20s, with big effects on their short-run housing security. High housing costs for today's 20-somethings are a result of increases in ongoing housing costs across tenures since the 1980s, and a shift towards the highest-cost private-rented sector.

The larger number of younger families renting privately has contributed to a deterioration in younger generations' housing quality. Younger cohorts are more likely to live in overcrowded homes – between 1994-96 and 2016-18 the share of 18-29 year old family units in overcrowded homes has increased by almost one-third (from below 8 per cent to above 10 per cent) – and spend longer commuting.

Spotlight: Housing costs and labour market mobility

The received wisdom is that living standards gaps between different parts of the UK have widened over time, increasing the incentive for people to move for opportunities largely found in cities or in the South. In fact – when it comes to moving for work across areas, the complex topic that is the subject of this analysis – the rate at which we take up a new opportunity and change residence has fallen over the past two decades. This is especially true for younger age groups – a surprise finding given that young people are more likely to be graduates, non-UK born and private renters than in the past, changes that should have increased rather than decreased moves made for work.

So what can explain the fall in job-plus-home mobility we observe? While changing preferences may play a role, we focus on three possible economic explanations. Reduced variation in employment rates between local authorities means that the 'push' of a lack of employment has diminished over time. In addition, while earnings gaps are still considerable, reduced earnings variation between areas means the average 'wage premium' achieved as a result of moving has fallen since the turn of the century.

Third, we consider whether changing housing costs have acted as a headwind or tailwind when it comes to moving area for work. We find that the propensity of young private renters to move home and job fell by two-thirds between 1997 and 2018, and suggest that this partly reflects the fact that private

rents have risen faster in higher-paying areas of England. Rents have risen by almost 90 per cent in the highest-paying 30 per cent of local authorities over the past 20 years, compared to just over 70 per cent among the lowest-paying 30 per cent. As a result, not only has the earnings boost of moving to a more productive area diminished as a result of closing wage differentials; so, too, has the broader living standards uplift once housing costs are taken into account.

Small wonder, then, that job-plus-residence mobility rates have fallen over time, and that a larger share of those changing address are relocating to lower-housing-cost areas than in the past: 47 per cent of cross-local authority moves were to lower-rent areas in 2017-18 compared to 41 per cent in 2002-03. For those that do continue to move, this outcome means either working in less-productive areas than they might otherwise have, or accepting the cost and time impacts of a longer commute.

Taxes, benefits and household income

Disposable household income after housing costs brings together the impact of pay, employment, taxes, benefits and housing on living standards. It is people of pension age who have fared worst on this metric during recent years of relatively sluggish growth: typical pensioner incomes apparently fell 2.5 per cent in 2017-18 after accounting for inflation. While this figure does reflect some actual income pressures, there is evidence that it is also driven by measurement issues, including the fact that pension lump sums – more common since the introduction of 'pension freedoms' in 2015 – are not currently counted as 'income'.

Despite these recent fortunes, it remains the case that working-age cohorts are making the least generational income progress. In their early 30s, members of the 1981-85 cohort have income levels 3 per cent lower than those 10 years their senior did at the same age. Even younger baby boomers in their early 50s are managing to do no more than track the incomes of those born 10 years before them at the same age. In contrast, the corresponding figures for those comprising the 1951-55 cohort (in their early 60s) and the 1941-45 cohort (in their early 70s) are respectively 7 per cent and 20 per cent higher than those who came 10 years earlier.

A stalling of generational progress is even clearer in relation to consumption – often considered a more direct and detailed measure of current living standards. We find that the UK's consumption-fuelled growth since the EU referendum has owed much in particular to the spending of those aged 65 and over. This age divergence marks the continuation of a 21st century trend: 18-29 year olds are the only age group with lower non-housing spending in 2017-18 than they had in 2001-02. Their real-terms non-housing spending is 7 per cent lower, compared to increases of 11 per cent for 50-64 year olds and 37 per cent for people aged 65 and over.

In addition, millennials and members of generation X are today devoting a greater share of their spending to essentials than their predecessors at the same age at the turn of the century. 18-29 year olds and 30-49 year olds now devote slightly less of their non-housing spending to recreation, culture, restaurants and hotels than those aged 65 and over. This is in contrast to 2001-02, when their spending in these categories was 23 per cent and 18 higher than 65+ year olds', respectively.

Across consumption and income, trends in recent years suggest that the clearest dividing line in terms of different generations' experiences is between those currently near or over pension age and the rest, with the youngest baby boomers included in the latter group.

Turning to the role that taxes and benefits have been playing we find that, despite a recent boost offered by giveaways in the autumn budget, changes to the tax and benefit system since 2015 will reduce incomes for families headed by 30-45 year olds by around £385 on average by 2023-24. This is in comparison to an average gain of £100 for families headed by over-65s. The big challenge for taxes and benefits in future is maintaining current levels of healthcare and welfare provision as longevity continues rising and the large baby boomer population moves into retirement. Spending will need to rise by £36 billion by 2030 to do this. Meeting these rising costs needs to be done in a way that is sensitive to weak income performance for working-age cohorts and Britain's booming personal wealth.

Spotlight: Poverty over the life course for different generations

Discussions about relative poverty in the UK have largely focused on children and pensioners, since these are the life stages at which poverty has been highest on average since 1961. This general 'U-shaped' life-course pattern of relative poverty is greatly influenced by the additional income required to meet the costs faced by larger families as children arrive, and lower incomes in retirement when people stop working.

But overriding societal trends and other factors mean that no generation alive today has experienced the classic 'U-shaped' poverty pattern. It was during the big increases in inequality of the 1980s (albeit at a time of fast-growing living standards that drove down 'absolute' poverty) that all generations then alive experienced the highest rates of relative poverty in their lifetimes: in childhood for the millennials, mid-working life for the baby boomers and in later life for the greatest generation.

Other trends and factors have differential effects over the life course. Almost half of pensioners aged above 75 were in poverty in the 1960s. Since then, and

despite the pensioner-poverty uptick of the 1980s, relative after-housing-costs poverty for pensioners has fallen by over two-thirds to just 15 per cent for older members of the silent generation. This is due to a combination of increased pensioner income from employment and private pensions, lower relative housing costs and support from the social security system.

An upward trend in child poverty since the 1960s can partly be attributed to a shift away from a male-breadwinner model and towards dual-earning couples and single parents. This means that the arrival of children is more likely to give rise to income shocks as parents reduce working. Within this overall trend, however, child poverty declined from the mid-1990s onwards. It fell by 10 percentage points, from 35 per cent to 25 per cent, at the age of eight for the 2001-05 cohort when compared to the millennial cohort born 10 years earlier. This was due in part to increases in cash benefits for families. But cuts to the working-age benefit system have started to reverse some of these declines. Our projections show that the 2016-20 cohort is expected to face the highest rates of relative child poverty to date, at 35 per cent at the age of two.

Finally, significant housing cost increases since the 1980s, disproportionately focused on those on lower incomes, have pushed up relative poverty rates for all cohorts that were not insulated by home ownership at the time.

Wealth and assets

Britain's total net wealth (comprising net property wealth, net financial wealth and private pensions) has boomed since the 1980s, with recent increases going mainly to older cohorts. The increase in wealth between 2006-08 and 2014-16 experienced by cohorts born 1956-65 (i.e. the younger half of the baby boomers) was equal to nearly half (48 per cent) of the overall wealth rise. This is despite the fact that this group makes up only around one-sixth of the adult population.

However, a disaggregation of the wealth held by family units into that owned by men and women shows that women in these cohorts have not had an equal share of this boom. Historical labour market and savings patterns mean that women in the 1946-50 cohort (the oldest baby boomers) have just over half the individual wealth in their late 60s that their male counterparts do. The question is the extent to which future cohorts of women keep up with their male counterparts in wealth terms.

Net property wealth is only improving cohort-on-cohort for those born before the 1960s, with strong house price growth in the 1990s and early 2000s benefiting those cohorts that were old enough to own homes at the time. There is little evidence that more than a very small minority of the silent generation and the oldest baby boomers have consumed this wealth during their lifetimes via

downsizing. However, one-fifth of adults in prime age today (mainly members of generation X) state that they intend to support retirement incomes via downsizing in future.

Auto-enrolment has boosted pension wealth for younger cohorts: those born in the late 1970s and 1980s are 50 per cent more likely to be contributing to a pension in their 30s than their predecessors were 10 years before them at the same age. But defined benefit pensions continue to dominate in volume of wealth terms: pension 'valuation' effects, which inflate the relative value of defined benefit pensions and pensions in payment, explain three-quarters of the growth in pension wealth since the mid-2000s.

While the overall increase in wealth has acted to widen absolute wealth gaps, relative wealth inequalities have not grown in recent years. Inequality at each age, as measured by the Gini coefficient, is higher for those aged under 40 and then fairly flat at ages above that. And the pattern looks exactly the same today as it did eight years ago. Within-cohort wealth inequalities remain high, however, and not everyone in older cohorts is wealthy. In their late 50s the bottom tenth of the 1956-60 baby boomer cohort had £1,000 of wealth or less, while the top ten per cent of wealthiest adults all had at least £1 million each.

With increasing amounts of wealth not being consumed during lifetimes, intergenerational wealth transfers look set to widen absolute gaps further, with the already wealthy most likely to benefit from the coming inheritance boom. This is a long way off for millennials, though: their typical age of inheritance is predicted to be 61, and over the past six years the likelihood of inheritance receipt has risen by a fifth for 50-64 year olds while staying flat for under 30s.

Spotlight: The rise of multiple property ownership in Great Britain

Additional property wealth is a big deal in Britain today. There is a lot of it around – £941 billion in 2014-16, or almost one-sixth of the value of all property – and one-in-nine adults (11.2 per cent) have some in their family, up from 7.6 per cent in 2000. The value of additional property wealth has increased rapidly too, rising by one-fifth in just two years.

This century's rise in multiple property ownership is a British story: not more houses overseas (their number has not changed), but instead a rapid growth in the number of people buying houses in Britain to rent out, and a smaller growth in the number of second homes. Buy-to-let is nowadays the biggest part of Britain's multiple property wealth (almost 1.9 million people own buy-to-lets), as well as the fastest-growing.

Who are the owners of multiple property in Britain? In many ways their profile matches household wealth more generally, so they tend to be older, higher income and southern. In the top tenth of the household income distribution, 7.5 per cent of individuals own a second home and 13.6 per cent own a buy-to-let.

However, the generational distribution of additional property wealth is different compared to primary property wealth. The recent boom in multiple property wealth has benefited all generations, so while younger ones have failed to match the property wealth accumulation of previous generations – 37 per cent of people born in the 1980s lived in families with property wealth at age 29, compared to 50 per cent of people born in the 1960s – they are matching the additional property ownership rates of previous generations. The 1980s cohort reached the same rate of additional property ownership that the 1960s cohort did by age 29, with 7 per cent of adults living in families with some additional property wealth in each case.

As well as the consumption of more housing, additional properties support living standards by providing an income stream when they are rented out; providing a wealth windfall from their sale that appears to act as an additional pension upon entering retirement for some; or acting as a store for future bequests, more so than primary properties do. On average in 2016-17, over-50s who planned to leave large bequests had primary property wealth 13.5 times larger than those planning to leave no bequests. By contrast, over-50s planning to leave large bequests had 41.6 times more additional property wealth than those planning to leave no bequests.

Conclusion

Generational analysis and thinking – such as the range of evidence presented in this intergenerational audit for the UK – is not just about shining a light on the issues facing young people as a homogenous group. From employment for those approaching state pension age; to welfare changes affecting those in prime age with children; to the much lower levels of wealth held by women than men in those older cohorts that have gained most on average from fast wealth increases – a cohort and life-course approach reminds us of how Britain is changing, and how experiences differ within generations as well as across them.

Beyond this richness, three very broad conclusions can be drawn from the body of evidence presented in this report.

First, the most recent couple of years have brought some welcome good news on the living standards of young adults. This includes the strongest pay performance for those in their 20s; an uptick in home ownership and a reduction in housing-

cost-to-income ratios for those aged under 30; stronger income performance for those of working age than for pensioners; and rising pension contribution rates which mean that younger cohorts are more likely to be saving for a pension than predecessors at the same age. These trends reflect a mix of cyclical bounce back from the crisis, and positive policy choices.

Second, sitting behind this good news is evidence of continued long-standing and structural headwinds to living standards progress for successive generations. Stronger pay growth for those in their 20s contrasts with the experience of those in their 30s, who are carrying pay and occupational scars from the crisis with them as they age. The fundamentals of high house prices mean that home ownership declines for young people are unlikely to be reversed. And neither the youth home ownership uptick nor rising pension contributions can counteract the larger impact of wealth increases for those who have defined benefit pensions or were already home owners.

Third and finally, this assessment of generational living standards differences in different domains prompts us to consider how a society changes if assets rise relative to income. This is what has been happening in Britain as a result of demographics, a range of housing and pensions policy choices, the way in which we weathered the financial crisis, and stagnating productivity growth. This creates the prospect of a Britain in which inheritance from family may have more of an impact on your lifetime living standards than how much you earn, with implications for intra-generational inequality. And it is a society in which cohort-on-cohort living standards progress is less of a given.

Such prospects suggest that alongside an ongoing focus on protecting the least well-off in all generations, policy makers need to focus on how earnings and income growth can be re-booted for younger generations. And they should consider the mix of taxes – i.e. between those on incomes or consumption and those on wealth – that should be utilised to meet new costs. One such new cost is the growing healthcare and social security bill that will flow from the ageing of the large baby boomer cohort. It is questions such as these that the Resolution Foundation's Intergenerational Centre will continue to explore.

SECTION 1

Jobs, skills and pay

CHAPTER SUMMARY

Just 5.7 per cent of today's 18-29 year olds are unemployed, a figure that is a lot lower than at similar points in previous economic cycles. And the relative drop in the proportion unemployed at older ages has been even greater. Even in the depths of the financial crisis, members of the generation X cohort born in the early 1970s had an unemployment rate nearly one-third lower than those born in the early 1950s had recorded at the same age (their late 30s) in the non-recessionary years of the late 1980s.

The rising female state pension age has pushed up employment for older women in the last few years such that the employment rate at 62 for women born in 1956, at 54 per cent, is 15 percentage points higher than that for those born just four years earlier. This is the latest chapter in a decades-long story of improving female employment across the age range, with the most pronounced improvement occurring between older and younger baby boomer cohorts around childrearing age.

Real hourly pay fell furthest (by 9.2 per cent) for those aged 18-29 between 2009 and 2014, but has been stronger over the past couple of years for those in their 20s than for older groups. Pay rose by 2.4 per cent in the two years to 2018 for those aged 18-29, but by just 0.8 per cent for those aged 30-49. This partly reflects the compositional effect of those who were in their 20s in the depths of the crisis carrying their suppressed pay up the age range. By contrast, there was no pay squeeze in the five years to 2014 for those aged 65 and over, and their pay growth has remained above average in the past two years.

These pay outcomes are associated with a deterioration in job quality for younger cohorts. At a time when the overall proportion of people working in relatively lower-paying occupations has remained steady, the share of people aged 18-29 in these roles has risen from 30 per cent to almost 40 per cent.

Although young people's wage growth was slowing before the crisis, the downturn and its aftermath took a particular toll. In the first detailed assessment of the impact of the recent recession on those who left education in its midst, our spotlight analysis shows that those with the lowest levels

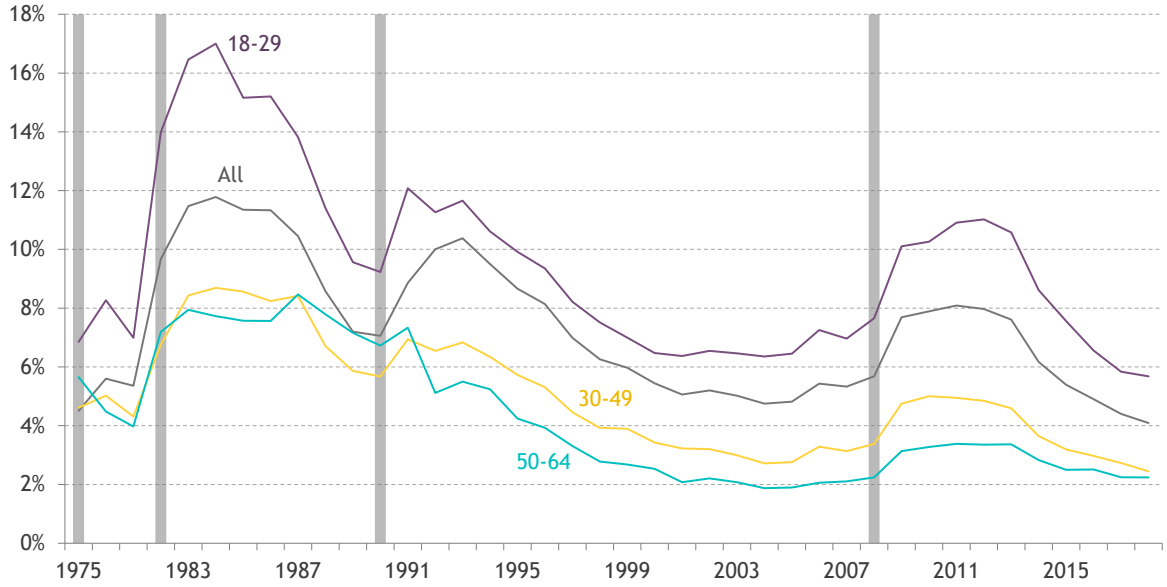
of education experienced the biggest employment falls – the same outcome found in relation to the 1990-91 recession. As in the 1990s, graduates again experienced the biggest increase in their chance of working in a low-paying occupation. But the increase was more pronounced this time around – up by 30 per cent and still elevated seven years later. This played a role in the fact that people's hourly wages took 50 per cent longer to recover to the rates of pay enjoyed by those leaving education outside of a downturn after the financial crisis than they did in the aftermath of the 1990-91 recession.

Unemployment is less of a scourge for young people than it once was

During economic downturns, it is generally less-experienced or less-qualified workers that bear the brunt of the adjustment.[7] When demand drops, firms usually find it easier to lay-off less-productive staff, or staff with less clout in the workplace. This may not always necessarily mean younger workers – older workers, particularly in declining industries, are also often at risk. However, Figure 1 shows that in periods following recessions (denoted by the grey bars) unemployment rates rise for all age groups, but they rise particularly sharply for those aged 18-29.

Figure 1: Downturns are usually followed by a spike in youth unemployment

Unemployment rate by age group: UK



Notes: 'All' refers to those aged 16+. Shaded bars denote recessions.
Source: RF analysis of ONS, *Annual Labour Force Survey (1975-91)*; ONS, *Quarterly Labour Force Survey (1992-2018)*

7 D Bell & D Blanchflower, 'Young People and the Great Recession', ***Oxford Review of Economic Policy,*** 27(2), July 2011

Unemployment for this age group peaked in the wake of the early-1980s recession, when almost one-in-five economically active young people were out of work. It rose again to 12 per cent following the early-1990s recession, despite the fact that this was a much milder downturn. It also took a long time to fall, remaining above 6 per cent on the eve of the millennium.

The recent downturn, however, was different. Despite output falling by even more than in the early 1980s, the financial crisis produced a far less dramatic employment response: 18-29 year old unemployment rose just 3 percentage points between 2007 and 2012, compared to an increase of 10 percentage points between 1979 and 1984. Having peaked, unemployment also fell much faster this time around. In the five years between 2012 and 2017, the unemployment rate for those aged 18-29 fell from 11 per cent to 6 per cent, a far faster decline than that which followed the recession of the early 1990s. The remarkable jobs boom of recent years means that unemployment (overall and for 18-29 year olds, for whom it stands at 5.7 per cent) is now at or near record lows.[8]

The relatively muted unemployment response following the recent recession came as a surprise to many economists and commentators. As the size of the downturn became apparent it was widely expected that unemployment could rise to 1980s levels again.[9] That it did not is down to the fact that the economy adjusted through a different channel. Businesses responded to a fall in demand, less by shedding labour, and more by reducing the real wages of their staff. This was only possible because the downturn brought with it a period of high inflation. Inflation rose particularly sharply in the UK (compared to other advanced economies) because of a large depreciation (of around 25 per cent) in the value of sterling. The result was a squeeze on real pay far larger than other countries and far larger than the UK had experienced in living memory. As explored later in this section, real hourly pay declined by 7 per cent overall and by 9 per cent for those aged 18-29. Previous research has shown that without this inflation spike, unemployment would have increased by far more.[10]

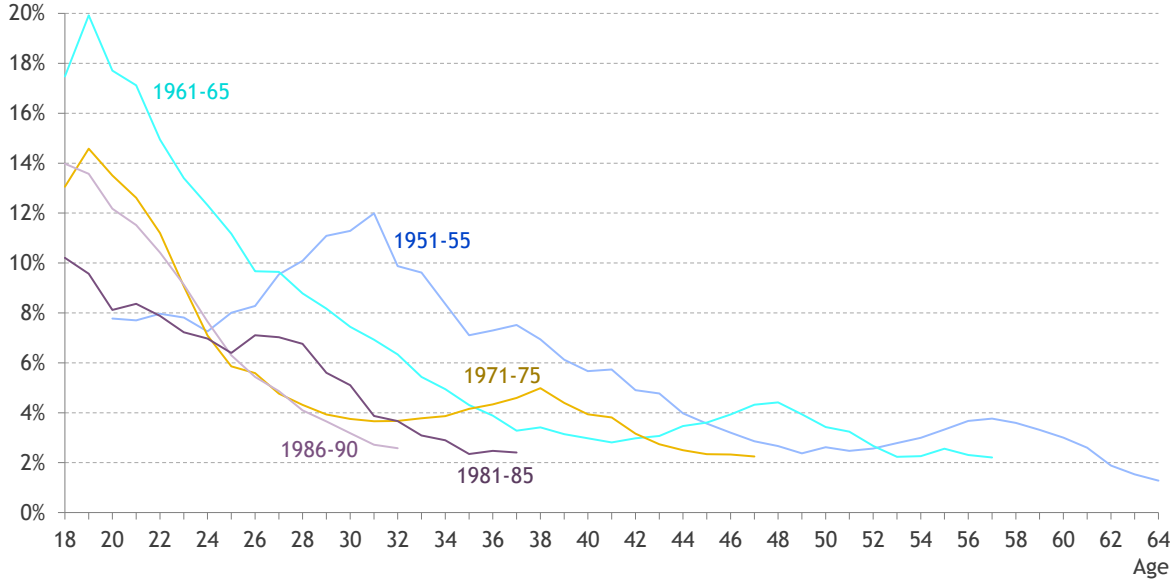
A smaller rise in unemployment during the latest recession means that recent cohorts – both young and old – have been less affected by unemployment than their predecessors. In order to properly gauge how people are faring today compared to previous generations, it is important to compare people at the same point in their lives. Figure 2 does this by presenting unemployment rates for people born between 1951 and 1990. Taking people at 20 (the age for which we have data on all cohorts) it is clear that those born in the early 1960s – the youngest baby boomer cohort – fared worse. This cohort was 20 between 1981 and 1985 and so came of age in the years running up to, or at the time of, the early 1980s recession. People born in the late 1980s, who came of age in the years preceding

8 The overall unemployment rate was lower in 1974.
9 See: 'UK unemployment expected to have risen', ***The Telegraph***, 17 June 2009
10 S Clarke & P Gregg, ***Count the pennies: Explaining a decade of lost pay growth***, Resolution Foundation, October 2018

or during the financial crisis, have been far less affected by unemployment than the early-1960s cohort and even the early-1970s cohort. As a result, at age 24 the cohorts born 10 and 20 years after were both over 40 per cent less likely to be unemployed than the 1961-65 cohort.

Figure 2: Younger cohorts have not experienced unemployment to the same extent as previous ones

Unemployment rate, by age and cohort: UK, 1975-2018



Source: RF analysis of ONS, *Annual Labour Force Survey (1975-91)*; ONS, *Quarterly Labour Force Survey (1992–2018)*

Unemployment has become less of a scourge at older ages too. Figure 2 shows that even in the depths of the financial crisis when they were in their late 30s, the cohort born in the early 1970s had an unemployment rate nearly one-third (28 per cent) lower than those born in the early 1950s had at the same age (in the late 1980s, when no recession was happening). This is both because the recent recession led to a smaller increase in unemployment and because, perhaps counterintuitively, the unemployment that did materialise was more skewed towards younger people than in previous downturns (see Box 1 for details). As Box 1 discusses, however, this national picture hides much deeper effects for both old and young in the worst-affected parts of the country during the 1980s.

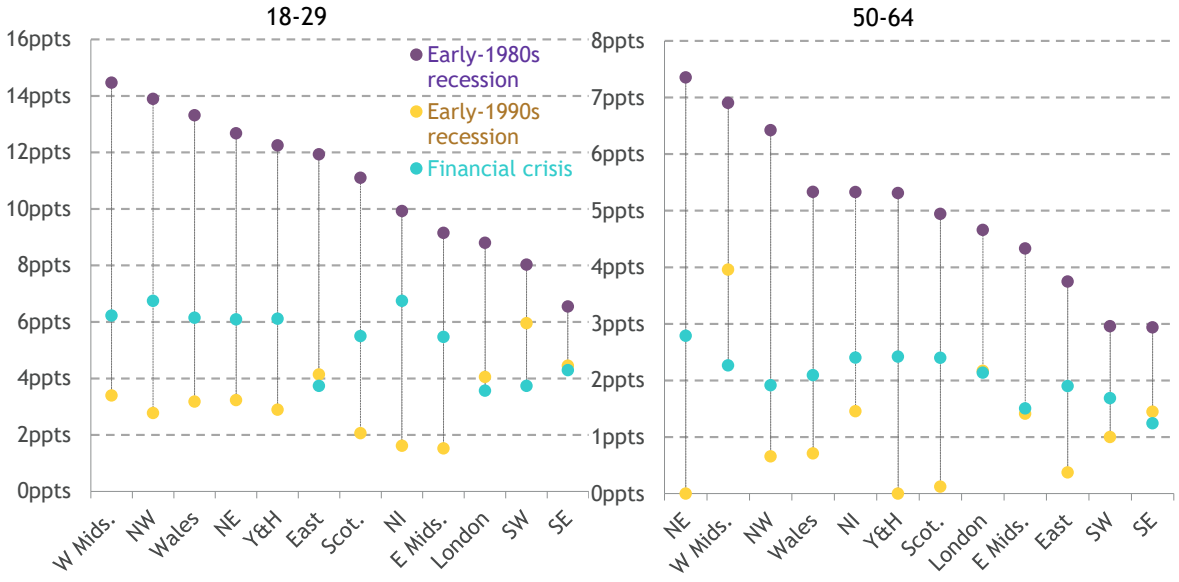
i Box 1: Your unemployment prospects are affected less by where you live than before

Younger cohorts have, on the whole, been less affected by unemployment than previous generations. Furthermore, at least geographically, unemployment has become more evenly spread. Indeed these two outcomes are likely to be related: the large overall increase in unemployment in the 1980s (at a time when real pay continued to rise) was the result of huge and enduring industrial shifts in particular parts of the country that were not experienced in places with different industrial mixes.

The early-1980s recession was felt much more keenly in the midlands and north of the England, Northern Ireland, Wales and Scotland. Industrial decline hit the areas of Tyneside, Yorkshire, South Wales, Western Scotland the West Midlands particularly severely. As a result, regional unemployment rates for both older and younger workers diverged sharply. Figure 3 shows the rise in the unemployment rate for those aged 18-29 and 50-64 for the regions and nations of the UK. In the 1980s, the unemployment rate rose most for young adults in the West Midlands and the North West, and least in the South East, South West and London. There was a lot of divergence in the experiences of different parts of the country, perhaps even more so for older workers.

Figure 3: The early-1990s and late-2000s recessions were far more geographically even than the early-1980s one

Change in unemployment rate (trough to peak), by age group and region: 1977-2018



Source: RF analysis of ONS, *Annual Labour Force Survey (1975–91)*; ONS, *Quarterly Labour Force Survey (1992–2018)*

By contrast, in the early 1990s the unemployment rate rose most in the South East, London and the East of England for younger workers. However, the magnitude of these increases were dwarfed by those a decade earlier, and importantly there was a lot less variation across the country. Finally, in the aftermath of the financial crisis, for both young and old, Northern Ireland, the North and Wales were most affected once again, though the difference in the impact across the country was lower still.

At the same time as geographical variation in unemployment changes has reduced, age variation has increased (albeit with a much lower overall unemployment change). In the late 2000s the unemployment increase for young adults was twice as high (104 per cent) as the overall rise, whereas it was only 65 per cent higher in the early 1980s and 79 per cent higher in the early 1990s.[11] The implications of this lower level of geographic variation in the recent recession than in the 1980s one is that relative unemployment prospects have become less determined by geography, and somewhat more determined by age.

Figure 1 showed the rapid reduction in unemployment for those aged 18-29 between 2012 and 2018. The most recent data shows that unemployment has come down to such a degree that most age groups now have lower unemployment rates than they did before the crisis.

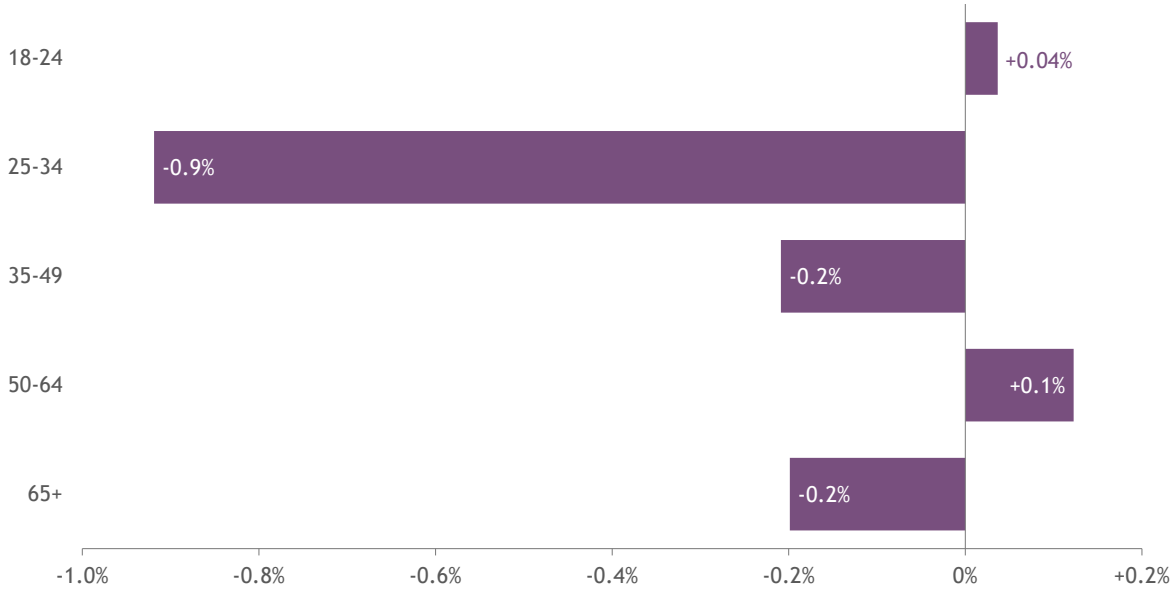
Figure 4 shows that only people aged 18-24 and those aged 50-64 have higher unemployment rates today than before the crisis (and the difference is marginal for the youngest age group). The fact that people aged 50-64 haven't performed as well as other groups reflects gender shifts within this group due to changes in the state pension age, an issue we return to later in this section.

At the same time as unemployment has been coming down, so has inactivity. Indeed, rising employment for those groups with high rates of inactivity has characterised the jobs boom of recent years. In the next subsection, we put this boom in the context of more than four decades of employment changes.

11 Resolution Foundation, *A New Generational Contract: The final report of the Intergenerational Commission*, May 2018

Figure 4: Unemployment rates are below pre-financial crisis lows for most age groups

Percentage point difference in unemployment rate for each age group from pre-financial crisis (2000–07 average) low: UK, January-March 2019



Source: RF analysis of ONS, *Labour Market Statistics*

Record employment has fed through to all working-age generations, coming on the back of particularly strong improvements for younger baby boomer women

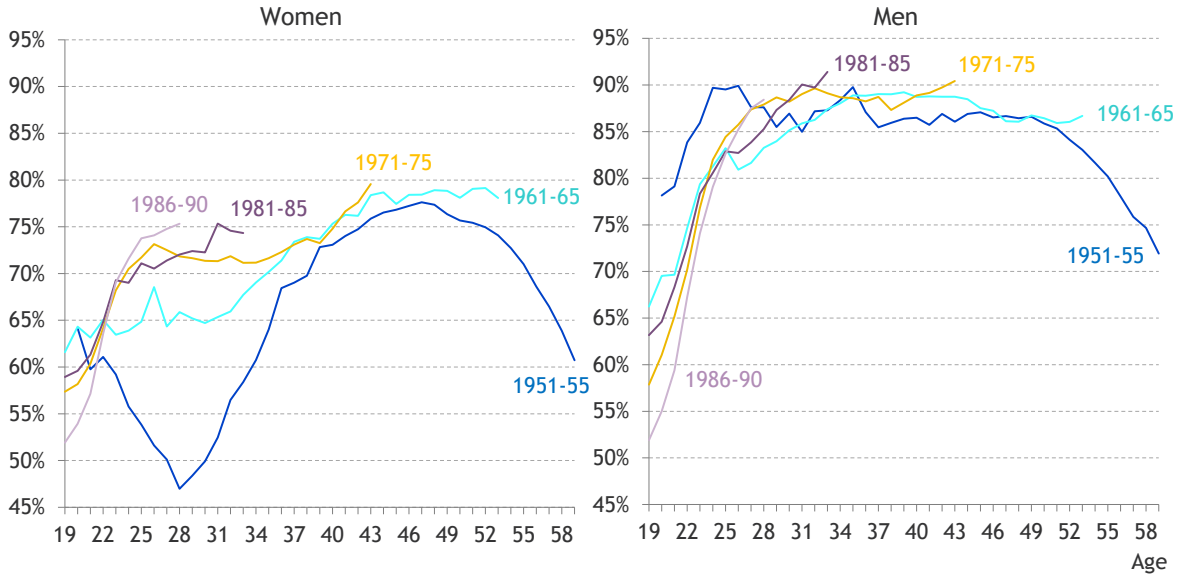
Employment has reached record levels in the last few years, with impacts across generations. Figure 5 puts this rise in its longer-term context. It shows that both sexes in younger cohorts have higher employment rates than predecessors did at the same age, emphasizing the fact that the fruits of a stronger jobs market have fed through to all age groups. Indeed, it is only below the age of 25 that younger cohorts have lower employment rates than previous ones, due to people staying in education longer.

Figure 5 also shows that employment rates for younger female baby boomers in their late 20s and early 30s improved particularly dramatically on the cohort 10 years their senior, which is related to policy and social change around childbirth.

Another important employment shift particularly affecting women has been the rising state pension age in recent years. The increase in the employment rate for older (50-64 year old) women began well before this, but the rising pension age has accelerated the trend. For instance, the employment rate for women aged 50-64 increased by an average of 0.8 percentage points a year between 2000 and 2005, while over the last three years it has increased by 1.1 percentage points a year.

Figure 5: Successive generations have benefited from employment increases

Employment rate, by age, cohort and sex: UK, 1975-2018



Source: RF analysis of ONS, *Annual Labour Force Survey (1975–91)*; ONS, *Quarterly Labour Force Survey (1992–2018)*

Figure 6 zooms in on the cohorts most affected by the rising state pension age. Women born in 1951 had a retirement age of 61, rising to 62 for women born in 1952 and then 63 for those born in 1953. Those born between 1951 and 1953 all had a participation rate of around 40 per cent at retirement, a rate that was maintained even as the state pension age rose.

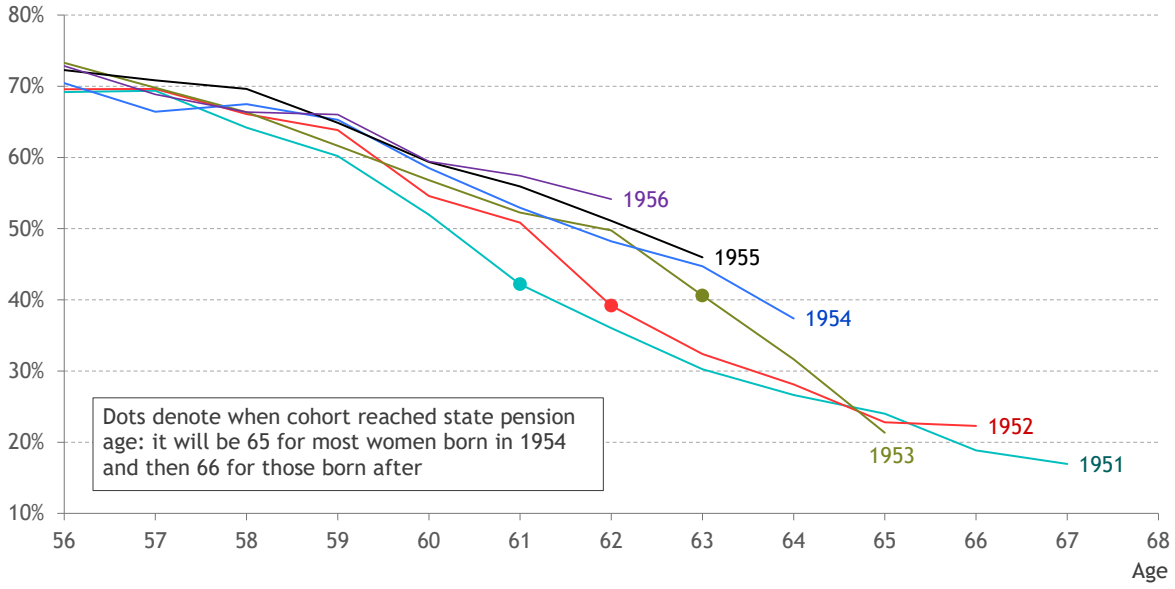
Of course, while it has boosted employment, this policy change has also lowered the incomes of women aged 60-64 who are not in work (particularly those from lower socio-economic backgrounds, who also have lower life expectancies), relative to what they otherwise would have received.[12]

Future rises in the state pension age will affect both men and women, so we are likely to observe the same effect across the sexes.[13] This will double down on already impressive employment increases for those aged 65 and over in recent decades: the 65+ employment rate stood at 11 per cent in early 2019, up from 10 per cent a year earlier and 5 per cent in 2001.[14]

12 Department for Work and Pensions, ***Independent Review of the State Pension Age: Smoothing the Transition,*** March 2017
13 J Cribb & C Emmerson, 'Retiring at 65 no more? The increase in the state pension age to 66 for men and women', ***IFS Observation***, 5 March 2019
14 Source: ONS, ***Labour Market Statistics***

Figure 6: The rising state pension age has increased female participation rates

Female participation rate, by age and single-year birth cohort: UK, 2007-18



Source: RF analysis of ONS, *Quarterly Labour Force Survey*

A range of forces are likely to have driven this, and should continue to do so in future. Some of these will be positive, such as improved health and the opportunities provided by self-employment (which we discuss in more detail below). Others, such as concerns about pensions sufficiency, less so. There are opportunities too for government to support these shifts, by making it easier for people to combine employment and caring responsibilities or partially draw down pensions and continue working, for instance. Such reforms could particularly help lower-income older people who are more likely to retire before reaching state pension age than their more affluent counterparts.

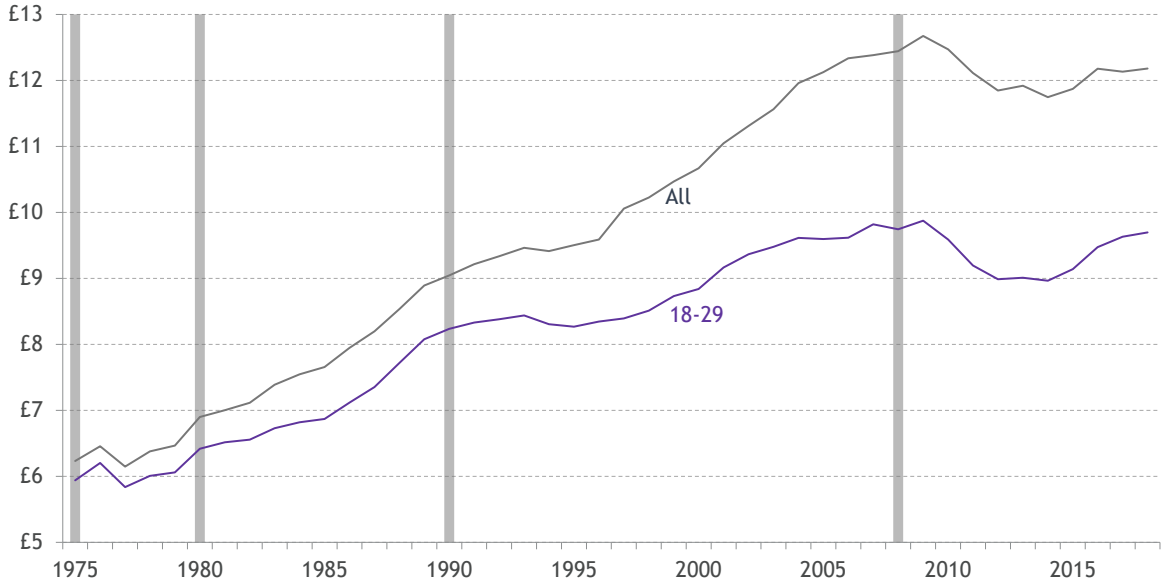
In some respects then, the jobs market challenge has now shifted. The 1980s and 1990s recessions showed us how important it is to focus on unemployment, and in particular the damaging effects that unemployment in someone's formative years can have. The good news is that this is less widespread than in the past. However, the result is that those people still out of work, either in unemployment or inactivity, face significant barriers to work. We now need to make the most of a tight labour market and focus more on those with low skills, health problems, or other barriers to employment. Alongside this should be a broader focus on progression for those in work, something which is particularly important given the disastrous decade for pay.

An unprecedented pay squeeze has created new problems

As touched upon above, the counterpoint to a relatively benign recession in terms of unemployment (particularly given the size of the downturn) was a far more marked squeeze on real earnings. Figure 7 highlights this phenomenon, with the fall in real-terms median pay that followed the financial crisis dwarfing anything that had come before.

Figure 7: The slowdown in young people's pay began before the recession

Median real hourly employee pay (CPIH-adjusted to 2018 prices), by age group: GB



Notes: A consistent CPIH series is available from 1989 onwards, which we project back to 1975 using changes in an estimated historic series of CPI inflation.
Source: RF analysis of ONS, *New Earnings Survey (1975-97);* ONS, *Annual Survey of Hours and Earnings (1997-2018)*

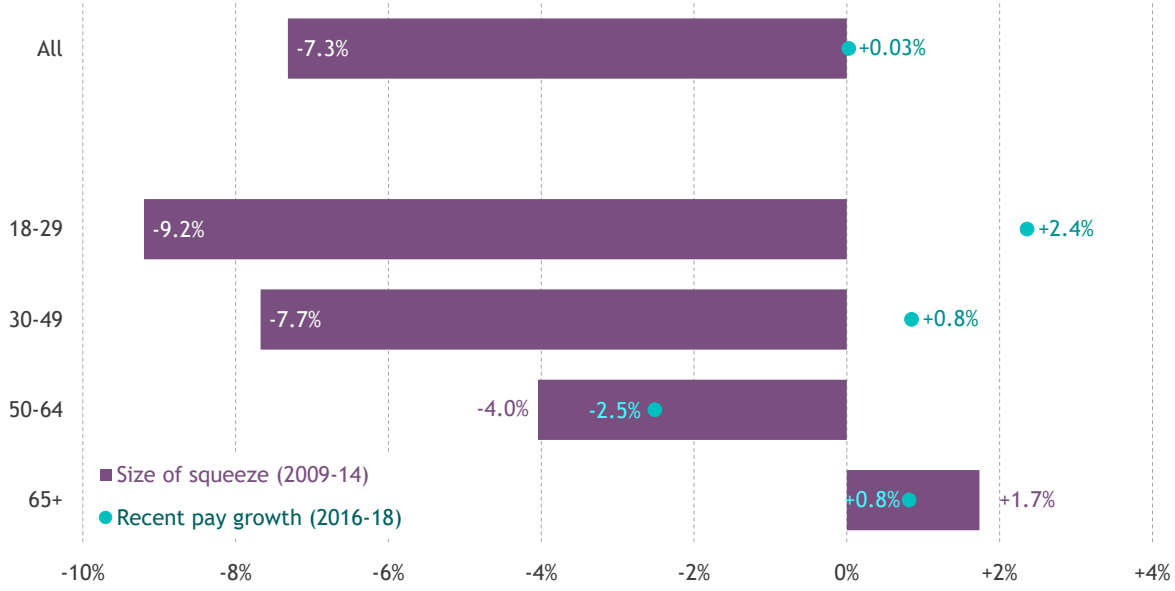
The chart also compares the overall median with typical hourly pay for younger employees, and shows that the post-crisis pay squeeze was substantially tighter in the 18-29 group. But the two measures began diverging well before the crisis, with the gap between the earnings of younger employees and the rest widening since the early 1990s. Real-terms median pay growth slowed down markedly for the 18-29 age group some years before the 2008 downturn. As we shall discuss below, this longer-term slowdown was caused in part by a deceleration in occupational improvements for this group.

Focusing first on the crisis period though, Figure 8 shows that real pay declined by 9.2 per cent (peak to trough) for the 18-29 age group, compared to 7.3 per cent overall. More recently however, the same age group has recorded the strongest pay growth: hourly wages increased by 2.4 per cent between 2016 and 2018, compared with an overall average of 0 per cent. This partly reflects rises in the National Living Wage, which particularly benefit this group given their lower

hourly earnings levels. But just as, if not more, important is the fact that the 18-29 year olds of 2016 are different people to those who were 18-29 in 2009. As we discuss below and in our spotlight analysis at the end of this section, more of them will have entered the labour market after the worst effects of the financial crisis had waned.

Figure 8: Younger workers experienced the biggest pay squeeze, but growth has been more robust recently

Change in median real hourly employee pay (CPIH-adjusted to 2018 prices), by age group: GB



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

Conversely, pay fell for the 50-64 age group between 2016 and 2018. This could reflect the fact that women (who, on average, are paid less than men) now make up a larger proportion of this group, due in part to the state pension age increases discussed above.

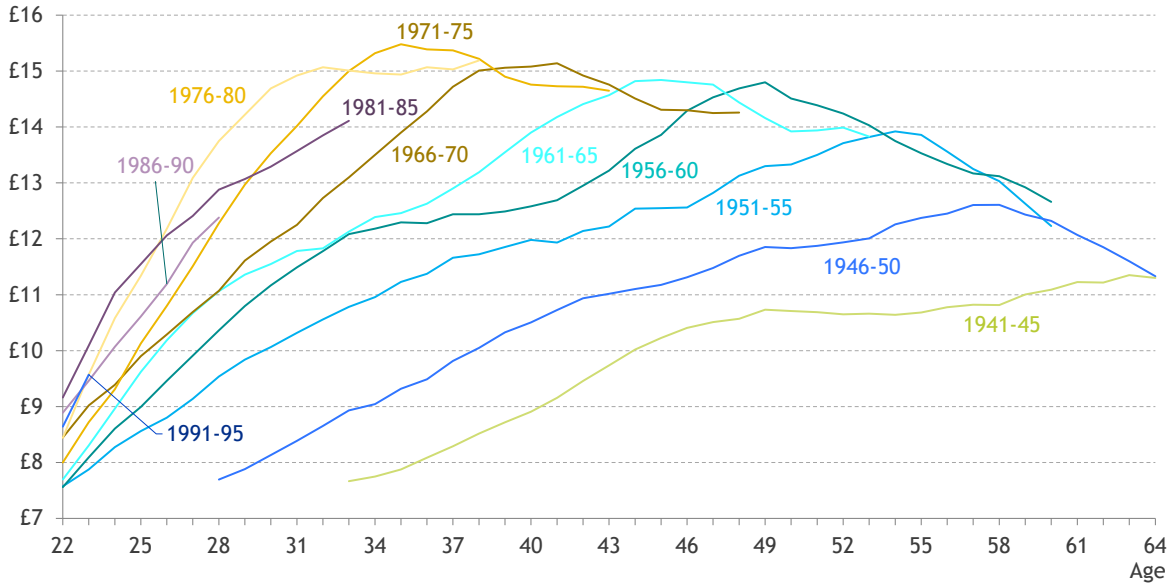
While no other age group has suffered negative pay growth in this period, it is worth noting that it has been no more than sluggish for the 30-49 group. Many within this group today are the same people who suffered the worst of the immediate post-crisis pay squeeze as members of the 18-29 age group. We can speculate therefore, that the lower wage trajectories some of these individuals find themselves on are now dragging on the average wage growth figures recorded in the 30-49 age group. This emphasizes the importance of taking into account how cohorts not just age groups have fared; as a cohort ages it carries its experiences with it and, as we shall see, poor pay growth when young continues to affect people as they age.

Analysing cohort data reveals that both the pre-crisis slowdown and the recession-induced pay squeeze have weighed on the earnings of those born since 1980 (though there is some variation across the UK, see Box 2).

Figure 9 shows that those born in the late 1980s have likely been worst affected, having started their careers either in the mid-2000s when pay growth was slowing, or in the aftermath of the crisis. For those born 1986-90, pay was 7 per cent lower at ages 24-26 than those born 1976-80 recorded at the same ages. Hourly pay growth was also pretty sluggish for those born in the early 1980s. In their early-30s (age 30-33) members of the 1981-85 cohort were earning 4 per cent less than those born 1971-75. The situation is almost identical in terms of weekly earnings.

Figure 9: Pay growth has stalled for those born in the 1980s

Median real hourly employee pay (CPIH-adjusted to 2018 prices), by age and cohort: GB, 1975-2018



Notes: A consistent CPIH series is available from 1989 onwards, which we project back to 1975 using changes in an estimated historic series of CPI inflation.
Source: RF analysis of ONS, *New Earnings Survey (1975-97);* ONS, *Annual Survey of Hours and Earnings (1997-2018)*

The wage growth experienced by those born in the 1980s compares unfavourably to earlier cohorts, with every five-year birth group from 1941-45 to 1976-80 recording cohort-on-cohort wage progress in their 20s and 30s.

Hourly earnings have picked up a bit recently and the 1991-95 cohort is earning marginally more than the 1986-90 cohort, perhaps reflecting the fact that most would have entered the labour market after the worst of the pay squeeze had

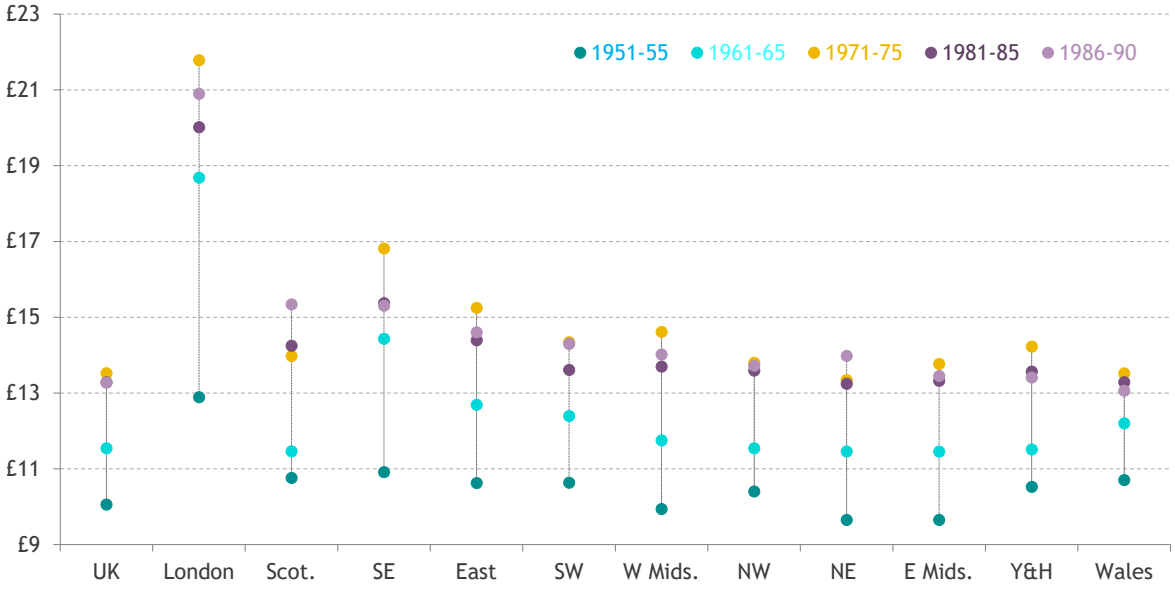
passed. Although it is obviously too soon to be definitive, the evidence to date would suggest the post-crisis damage to earnings has been most severe for the late-1980s cohort. This is a topic that our spotlight analysis at the end of this section explores in detail.

i Box 2: Where has the pay squeeze for younger workers been most felt?

The national picture, presented above, is that younger cohorts (particularly those most affected by the post-crisis pay squeeze) are earning less than their predecessors were at the same age. However this picture doesn't necessarily hold everywhere. Figure 10 shows that in Scotland and the North East of England, the youngest cohort shown (born 1986-90) had higher weekly earnings at age 30 than all other cohorts. In all other parts of the country, though, the 1971-75 cohort (the 1976-80 cohort in the South West) was earning the most at age 30.

Figure 10: Younger cohorts have bucked the trend in Scotland and the North East of England

Median real hourly employee pay (CPIH-adjusted to 2018 prices) at age 30, by cohort and region: 1975-2018



Notes: A consistent CPIH series is available from 1989 onwards, which we project back to 1975 using changes in an estimated historic series of CPI inflation.
Source: RF analysis of ONS, *New Earnings Survey (1975-97)*; ONS, *Annual Survey of Hours and Earnings* (1997-2018)

The degree of intergenerational progress (or lack thereof) also varies. In percentage terms, the hourly earnings of the 1986-90 cohort are furthest away from the 1971-75 cohort in the South East (-9 per cent) and in

Yorkshire and Humberside (-5.7 per cent), compared to a much smaller (-0.3 per cent) gap in the South West. This matters because the vast majority of people work in the same part of the country for most of their lives,[15] and so a lack of generational progress is something that can be felt at the local level.

A rise in atypical work and low-paid occupations has disadvantaged younger cohorts

We have shown that there was a slowdown in pay growth for people aged 18-29 in the aftermath of the financial crisis, but that their pay was also performing less well in the run up to it. One of the main drivers of this was a growing proportion of younger people working in lower-paying occupations and a relatively (at least compared to other age groups) slow increase in the proportion working in higher-paying occupations.

Figure 11 shows that 28 per cent of young people worked in one of the three lowest-paying occupational groups in 1992. This peaked at 43 per cent in 2012, before dropping back to 39 per cent in 2018. This outcome partly relates to part-time working by a growing body of students, and the impact of more young migrants working in service sector jobs, but the same pattern is clear when focusing on native-born non-students.

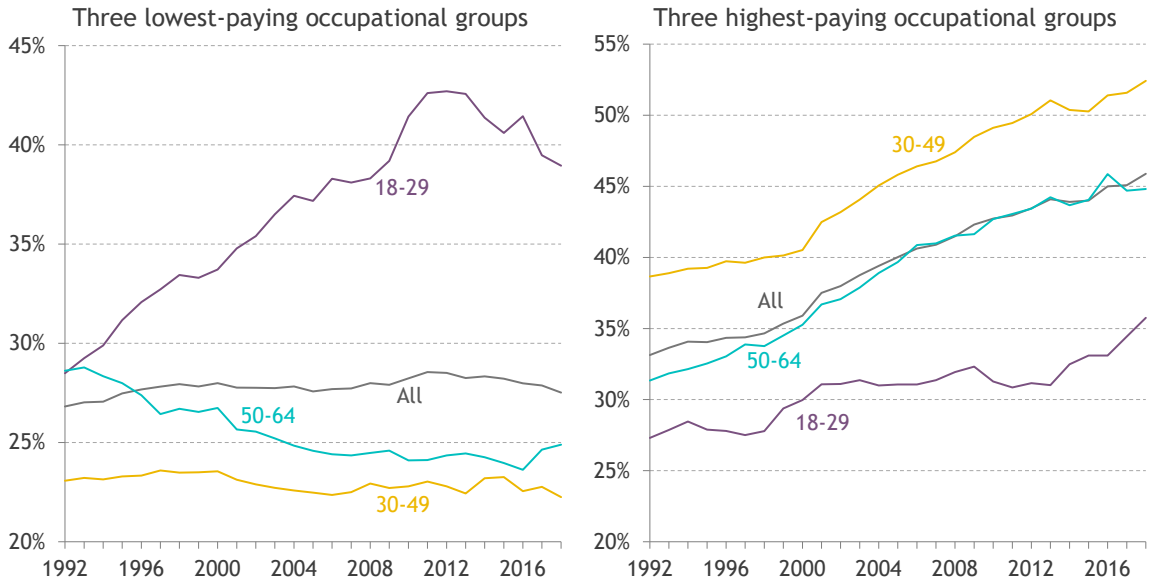
By contrast, at a time when the overall share of people working in lower-paying occupations has stayed relatively flat, the share of 50-64 year olds working in them has fallen. The share of this age group working in the three highest-paying occupational groups has risen. This means that today's 50-64 year olds (roughly composed of those born in the early 1960s) are 10 per cent more likely to work in one of the three highest-paying occupational groups than 50-64 year olds born in the early 1950s.

At the same time, young people haven't benefited as much as older workers from occupational upgrading and the increase in higher-paying occupations. Although the proportion of 18-29 year olds in higher-paying occupations has increased over the past two decades, the rate of improvement has been dwarfed by that of other age groups. This points to labour market bifurcation, or 'hollowing out', for young people.[16]

15 C Bosquet & H Overman, 'Why does birthplace matter so much?', ***Journal of Urban Economics***, 110, March 2019
16 S Clarke & N Cominetti, ***Setting the record straight: How record employment has changed the UK***, Resolution Foundation, January 2019

Figure 11: There has been a sharp rise in the share of young people in low-paying occupations

Proportion of people in employment in each age group working in low- and high-paying occupations: UK



Notes: Occupations are categorised based on average hourly earnings. The three lowest-paying occupational groups are elementary occupations, sales and customer service occupations and caring, leisure and other service occupations. The three highest-paying occupational groups are managers, professionals, associate professionals and technical occupations.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

These trends are even more concerning given ongoing educational improvements. The expansion of higher education since the early 1990s in particular has meant that each cohort of young people is entering the jobs market with higher qualifications than predecessors. Despite these tailwinds, we have moved from a position in 1992 where younger and older workers were equally as likely to be working in a low-pay occupation, to today where younger workers are 56 per cent more likely to be doing so.[17] The fact that silent generation and baby boomer cohorts have benefited from continued career progression in later working life is welcome. The recent experience of young adults is much less so given that our spotlight analysis at the end of this section suggests that the effects of the occupations people start their careers in endure.

Turning to the future, it is possible that occupational improvements may continue to be slow. While each cohort entering the jobs market continues to be more educated that the one that came before it, the pace of that attainment growth has slowed. Indeed, it has halved since the early 2000s. This has most affected those born since the mid-1980s and will be most felt by those groups

17 Furthermore, the increase in the share of 18-29 year olds in higher-paid occupations is entirely driven by graduates. If you split the 18-29 year old population into graduates and non-graduates, the proportion of non-graduates in higher-paying occupations has remained constant at around 20 per cent, while the proportion of graduates in higher-paying occupations has actually fallen from 75 per cent in 1992 to 67 per cent in 2018.

with relatively low levels of educational attainment.[18] This also partly explains the non-cyclical slowdown in cohort pay progression that preceded the financial crisis.

The economic downturn increased unemployment, and it also increased 'underemployment' and the share of people in 'atypical' forms of employment. This was the result of firms responding to a fall in demand and then an uncertain path for future growth by reducing working hours, or making use of flexible contractual arrangements. Unsurprisingly, it was younger workers who were most affected by this, for much the same reason that this group usually bears the brunt of any rise in unemployment.

Figure 12 shows the evolution of a range of 'atypical' forms of work. Where we have data both pre- and post-crisis, a clear downturn-linked spike is visible. In the case of zero-hours contracts (ZHCs), the picture is clouded by the fact that media-induced awareness of these increased significantly around 2012, giving rise to survey respondents being more likely to accurately describe their contract status from this point. But we can be confident that the increase (although overstated) represents a genuine rise.[19]

Figure 12 shows that 18-29 year olds experienced faster increases in ZHCs and involuntary part-time work, and that rates remain elevated for this group despite subsequent tightening of the labour market. The share of people working part-time involuntarily increased by 180 per cent for 18-29 year olds and remains 70 per cent higher than it was in 2004. The rise for the 30-49 year old group was marginally smaller (150 per cent) and remains less elevated (up 50 per cent). And for 50-64 year olds the share of people working part time involuntarily increased by 135 per cent and remains elevated by 35 per cent.

It is non-graduates, particularly men, who were most affected by the increase in these forms of atypical work. The share of 18-29 year old non-graduate men working part time involuntarily rose from 3 per cent to 5.5 per cent between 2006 and 2018. There were also rises of a similar magnitude in 18-29 year old non-graduate men on ZHCs and working through an agency over this period.

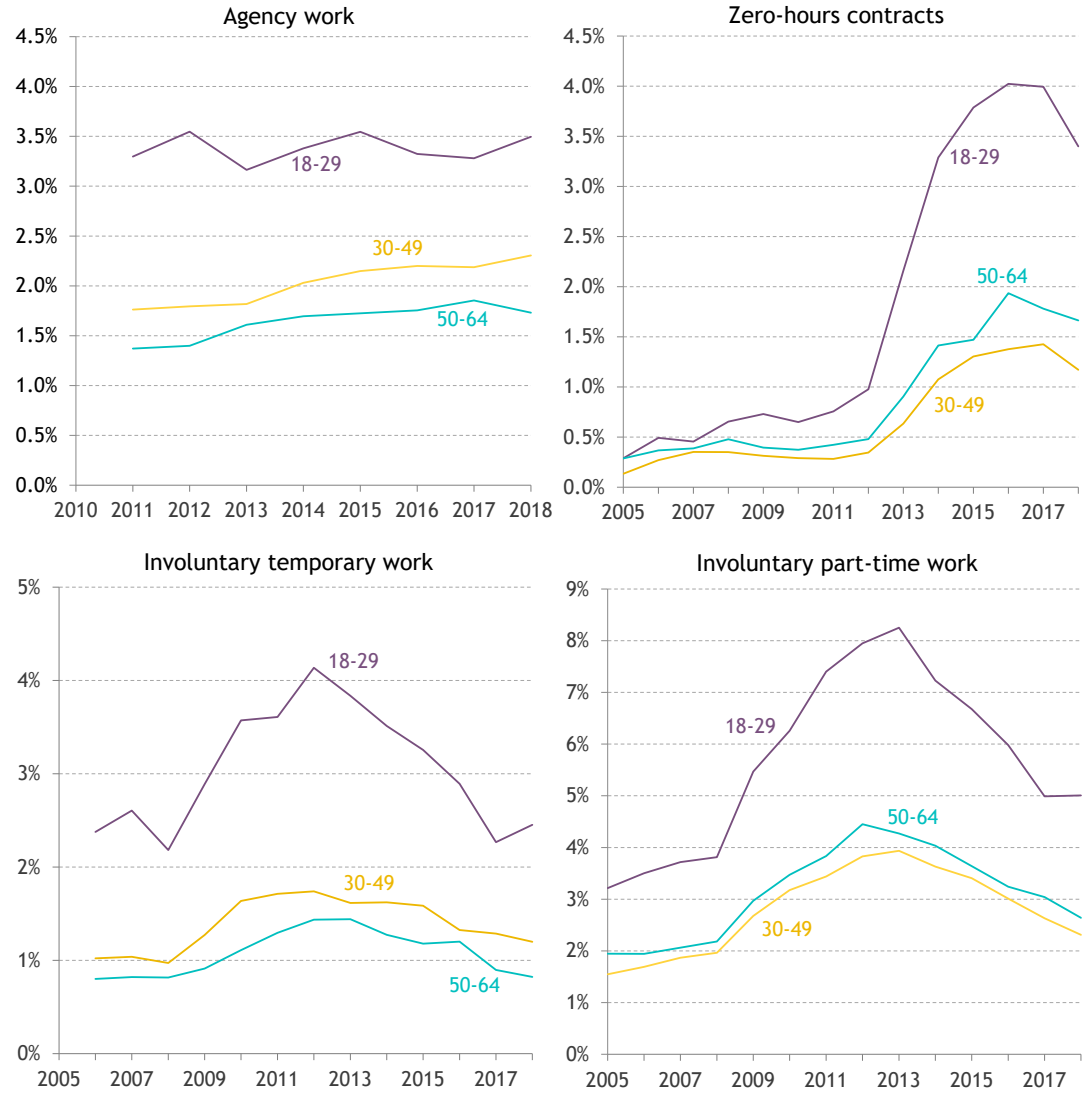
Not all people in these forms of work are dissatisfied. There are a range of estimates but it is likely that between a quarter and half of people on a ZHC would prefer a regular contract.[20] Likewise around a quarter of agency workers want a different job, compared to approximately 5 per cent of full-time employees.[21] Given the heightened level of dissatisfaction among people

18 K Henehan, ***Pick up the pace: The slowdown in educational attainment growth and its widespread effects,*** Resolution Foundation, March 2019
19 D McVicar, ***Zero Hours Contracts, Job Quality and Impacts on Workers***, NI Assembly KESS Briefing, January 2017
20 N Datta, G Giupponi & S Machin, ***Zero Hours Contracts and Labour Market Policy***, Paper for Economic Policy 68th Panel Meeting, 4-5 October 2018, Vienna; D Tomlinson, 'The UK's tight labour market and zero hours contracts', ***Resolution Foundation blog***, 21 February 2018
21 S Clarke & N Cominetti, ***Setting the record straight: How record employment has changed the UK***, Resolution Foundation, January 2019

on these contracts, and the fact that they tend to offer fewer opportunities for advancement, it is a problem that the rise in and endurance of these forms of work has most affected people under 30.

Figure 12: The recession led to an increase in 'atypical' work

Proportion of people in employment in each age group working atypically, by atypical work category: UK



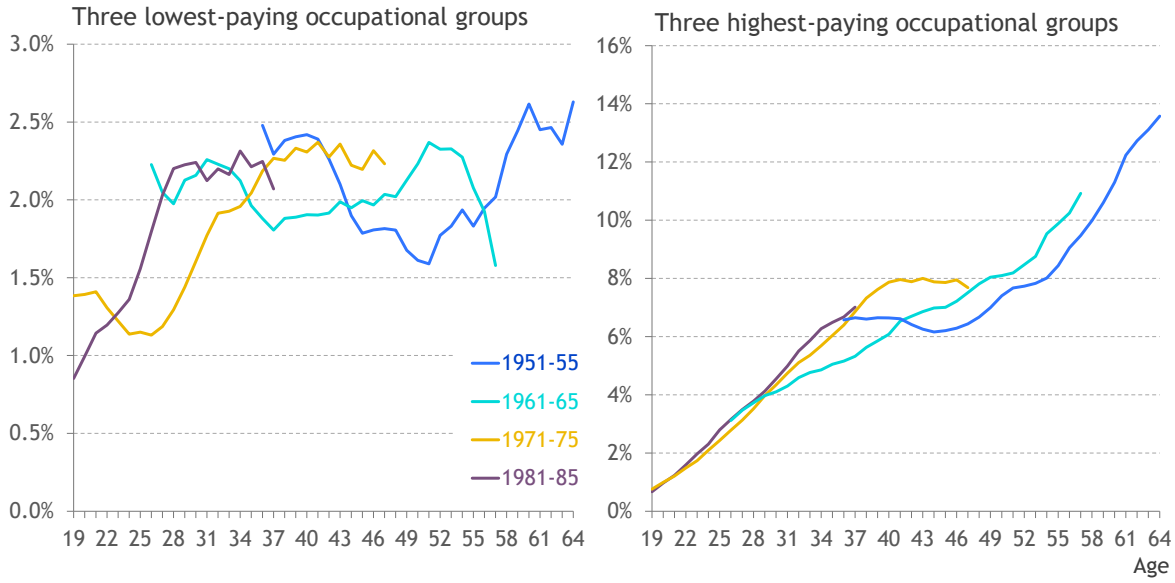
Notes: 'Involuntary' refers to those who are in temporary work or work part time, but report that they would like to work in a permanent or full-time role.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

Another facet of the rise in atypical work which has become a big part of the discussion of the 'gig' economy is the increase in self-employment. As a proportion of those in work, self-employment increased from 12 per cent in 2002 to 15 per cent today. However, this increase has played out differently across generations.

Figure 13 shows the proportion of people in work who are self-employed and in either the three lowest-paying occupational groups or the three highest-paying ones, for four cohorts going back to 1951. The left-hand side of the chart shows that members of the 1981-85 cohort were overall more likely to be in low-skilled self-employment in their 20s than those in older cohorts were. However older cohorts have also experienced a rise in lower-paid self-employment later in life. This reflects the significant increase in overall self-employment among older workers over the past decade or so. Insofar as some of this work will be done by people at the end of careers, it is perhaps less of a concern than for younger people whose first experience of employment may be in a relatively lower-paying and insecure role, with few opportunities for training and progression.

Figure 13: Younger baby boomers have higher rates of high-paid self-employment than older ones

Proportion of people in employment who are both self-employed and in either a low- or high-paying occupation, by age and cohort: UK, 1992-2018



Notes: Occupations are categorised based on average hourly earnings. The three lowest-paying occupational groups are elementary occupations, sales and customer service occupations and caring, leisure and other service occupations. The three highest-paying occupational groups are managers, professionals, associate professionals and technical occupations.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

Turning to the right-hand side of Figure 13, we find that millennials are no more likely than those who came before them to have been in higher-skilled self-employment early in their careers. In their 30s and 40s, the 1961-65 and 1971-75 cohorts both had higher rates of self-employment in the three highest-paying occupational groups than previous cohorts, whereas the 1981-85 cohort has, at least so far, the same rate of higher-skilled self-employment as the 1971-75 cohort. The rise in self-employment at older ages is again clear: nearly 14 per cent of the

1951-55 cohort in employment in the lead up to retirement were in a higher-skilled self-employed role, and we observe a similar rise for the 1961-65 cohort.

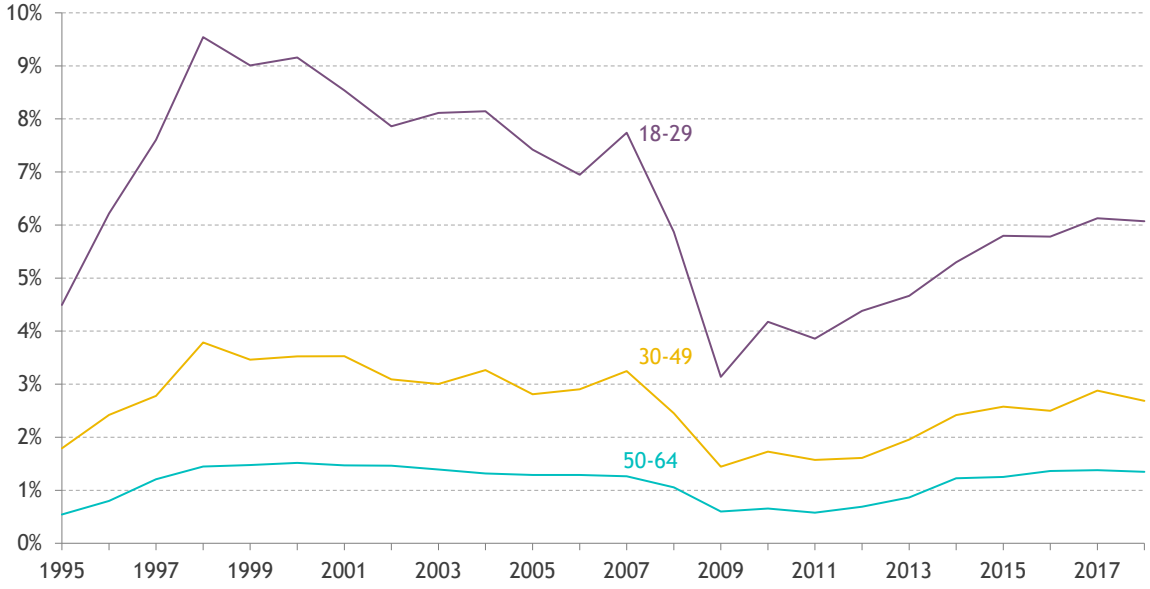
Taken as a whole, Figure 13 suggests that it is wrong to understand the recent rise in self-employment as simply reflecting the rise of atypical or insecure forms of work. Rather, there appears to be at least two distinct tribes of the self-employed that have grown: a higher-skilled group, which is more likely to comprise older individuals; and a lower-skilled group that includes both young and old.

Lower job mobility is a headwind to pay progression and moving out of atypical work

Insofar as the recent rise in atypical work reflects cyclical forces, it is important to understand why – despite a tightening labour market – we have not witnessed the fall in these forms of work we may have expected.

Figure 14: The rate of job mobility remains subdued for young people in particular

Proportion of workers in each age group voluntarily moving from one job to another each year: UK



Notes: This measure captures the proportion of workers who report having resigned from their last job and who have been in their current job for fewer than three months, on an annualised basis. Note that this is slightly different to the measure used by the ONS (which is based on longitudinal data and captures all job-to-job moves including those not triggered by a resignation).
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

A lack of job mobility is part of the reason. The proportion of people voluntarily moving job fell dramatically after the financial crisis, as economic uncertainty and a lack of vacancies took their toll. However, Figure 14 shows that rates have remained subdued even as the economy has recovered and the labour market

tightened. Despite record-high numbers of vacancies,[22] the proportion of people moving job remains around a third below the highs of the late 1990s. And the deficit is even higher for those aged under 30: in 1998, 9.5 per cent of people aged 18-29 moved jobs voluntarily each year; as of 2018 this figure was just 6.1 per cent. That means 18-29 year olds are 36 per cent from peak, compared to 29 per cent for 30-49 year olds and 11 per cent for those aged 50-64.

A lack of job mobility is particularly problematic for younger workers because job moves when young are an important way in which to progress in careers and increase earnings. Someone switching jobs can expect to get over seven times the annual pay rise earned by someone remaining in the same job.[23]

It is difficult to know exactly why younger workers are switching jobs less, though the impact of the recession is likely to be important. In polling and focus groups we conducted with younger workers, a lack of belief about the opportunities available to them, combined with a lack of confidence in their own abilities, meant many were unwilling to risk trying to find a new job.[24] In addition, as the spotlight analysis in Section 2 sets out, uneven growth in housing costs in different places appears to have acted as a headwind to moving to more productive parts of the country for work.

Whether or not, or the extent to which, the decline in job quality (broadly defined) for younger people is a transient phenomenon, the question of who has been most affected by the changes to the economy over the past decade is an important one. A large body of research has shown that periods of unemployment when young can have a lasting impact on people's future prospects.[25] It remains to be investigated the extent to which the recent downturn – where unemployment was less prevalent than previous recessions – will have a permanently damaging effect on those cohorts that came of age in its aftermath. It is to this question that the spotlight analysis that follows turns.

22 Office for National Statistics, ***Vacancies and jobs in the UK: May 2019***, May 2019
23 In 2018, the typical pay rise for people who switched jobs was 4.5 per cent and the rise for those remaining with the same employer was 0.6 per cent. See: N Cominetti, ***The RF Earnings Outlook: Q3 2018***, February 2019
24 S Clarke & C D'Arcy, ***The kids aren't alright: A new approach to tackle the challenges faced by young people in the UK labour market***, Resolution Foundation, February 2018
25 P Gregg, 'The impact of youth unemployment on adult unemployment in the NCDS', ***The Economic Journal***, 111(475), November 2001; W Arulampalam, 'Is Unemployment Really Scarring? Effects of Unemployment Experiences on Wages', ***The Economic Journal***, 111(475), November 2001

SPOTLIGHT

The impact of leaving education during a recession on earnings and employment

Downturns scar younger workers, but this is the first time we have analysed the impact of the recent recession

The 2008-09 recession was the biggest in living memory. The downturn that followed the financial crisis took a particularly big toll on younger people: more than one-in-six 18-22 year olds were unemployed in 2012, twice the rate for the population in general. This is consistent with what we know about recessions: their effects are most keenly felt by those least able to bear the impact including the less-educated, those on lower incomes, and – the focus of this section – the young.

In this spotlight feature we analyse how recessions affect people who leave education in their midst. A decade on from the financial crisis we are now in a position to analyse its effects on those people beginning their careers, and what the long-term impacts have been. The analysis presented below is a summary of a longer paper which provides more detail on methods and a broader presentation of results.[26]

There is a body of evidence that shows that leaving education and entering the labour market in the midst or aftermath of a recession is bad for a young person's prospects. This is because recessions mean that fewer jobs are available, that the jobs that are available may be of worse quality, and that firms may engage in wage restraint or cut back on human capital development. Furthermore, recessions do not just affect the choices someone makes immediately after leaving education – they can have long-lasting effects.

Recessions also provide researchers with an opportunity to learn more about the effects of time spent out of work or in low-quality employment in general. This is because a recession is – from an individual's point of view – an entirely random event. Some people are unlucky enough to enter the labour market during one,

26 S Clarke, *Growing Pains: The impact of leaving education during a recession on earnings and employment*, Resolution Foundation, May 2019

allowing us to separate the impact of time spent out of work from other factors (someone's qualifications, aptitude, work-ethic, etc.) that also influence how they get on in the labour market. By observing what happens to these individuals - are their pay or employment prospects depressed compared to similar individuals who do not enter the labour market during a recession, and for how long? - we get some sense of the lasting impact that entering the jobs market in a recession has upon people.

There are a number of notable papers that do this using data from the US and Canada.[27] There has also been some recent work examining the same question in the UK, comparing people who entered the labour market in the aftermath of a recession to those who did so at another time.[28] These studies all reach relatively similar conclusions: they find that recessions, and by extension time out of work or in low-paid employment, tend to have persistent effects on people's wages, while long-lasting employment effects are limited to, or more severe for, people with lower levels of formal education. There is also evidence that time out of work leads to other poor outcomes later in life, such as increasing the likelihood that young people will turn to crime.[29]

Below we present analysis that goes further in a number of ways. First we specifically test the impact that the last recession has had on the current crop of young people in the UK. Our data includes both the aftermath of the early-1990s recession and the build-up to, and aftermath of, the financial crisis, running to 2018. This allows some – albeit limited - comparison of the impact of the 1990s downturn with that of 2008-09. Second, we do not limit ourselves to analysing just wages and employment, but also analyse the types of jobs people are doing, disaggregate our analysis by qualification level, and analyse what happens to the career trajectories of those who come of age in a downturn.

When you enter the labour market matters for your chances of being employed, your pay, and the type of job you do

People who enter the labour market in the aftermath of a recession, when unemployment tends to be elevated, are less likely to find employment. Figure 15 shows the employment rate for two pairs of cohorts. The first pair (denoted by the red and pink lines) left education either at the end of (1991), or four years after (1995) the early-1990s recession. The second (denoted by the purple lines) left education at the end of (2009), or four years after (2013), the recent recession. These cohorts are similar to those we have analysed in the main body of this

27 P Oreopoulos, T von Wachter & A Heisz, 'The Short- and Long-Term Career Effects of Graduating in a Recession', ***American Economic Journal*: *Applied Economics,*** 4(1), January 2012; H Schwandt & T von Wachter, 'Unlucky Cohorts: Estimating the Long-term Effects of Entering the Labor Market in a Recession in Large Cross-sectional Data Sets', ***NBER Working Paper No. 25141,*** October 2018; L Kahn, 'The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy', ***Labour Economics***, 17(2), 2010

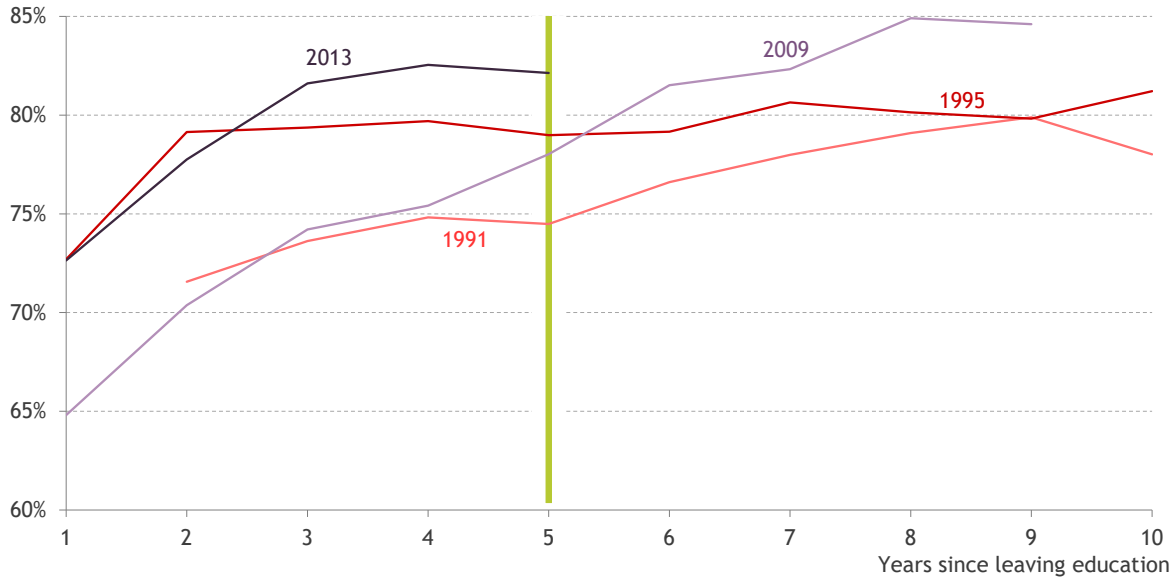
28 J Cribb, A Hood & R Joyce, ***Does leaving education in a recession have a lasting impact on living standards?***, Institute for Fiscal Studies, November 2017

29 B Bell, A Bindler & S Machin, 'Crime Scars: Recessions and the Making of Career Criminals', ***The Review of Economics and Statistics***, 100(3), July 2018

section, except here we base our classification on the year people left education rather than the year they were born.[30] The advantage of this approach, for the purposes of this analysis, is that people leave education at different times. So, if our question is the particular impact of entering the world of work in a downturn (as opposed to just experiencing one at some point after entering), it is fairer to group people by the year they left education rather than the year in which they were born.

Figure 15: Employment rates are lower for cohorts that enter the labour market during a downturn

Employment rate for educational cohorts, by years since leaving education: UK, 1992-2018



Notes: Green bar denotes comparison point five years after leaving education.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

Taking the point five years after leaving education (when most people will have had to enter the labour market, and when we have comparable data for all cohorts) it is clear that the two cohorts that left education during a downturn have significantly lower employment rates. The 1991 cohort has the lowest employment rate, followed by those who left education in 2009. Interestingly, the employment rate for the 2013 cohort was also relatively low a year out from leaving education, but rose swiftly over the next four years. Comparing the two cohorts who left education during the downturn to the two who left subsequently, there is still around a 4 percentage point penalty five years after entering the labour market.

30 See: Resolution Foundation, *A New Generational Contract: The final report of the Intergenerational Commission*, May 2018

Figure 15 also gives a sense of how long it has taken different cohorts to recover from the effects of a downturn. The 1991 cohort had the lowest employment rate four years after leaving education, and its employment rate only caught up a decade on. By contrast, the fortunes of the 2009 cohort show that the recent recession was a fundamentally different downturn. Although the 2009 cohort initially looked similar to the 1990 cohort (despite the recent recession being a lot more severe), the fact that its members recovered so much more quickly shows that adjustment must have happened elsewhere, as well as reflecting the unexpected rise in employment that has characterised the period since 2012.[31]

Indeed, there is a contrasting picture when it comes to pay. Figure 16 shows earnings in the years after leaving education as a proportion of average earnings across the economy as a whole. We use earnings as a proportion of average earnings to account for the fact that earnings (unlike employment rates) tend to rise over time. Five years after leaving education, members of the 1995 cohort were earning over 8 percentage points more than those who left education in 1991. Likewise, members of the 2013 cohort were earning almost 7.5 percentage points more than those in the 2009 cohort. However, both 21st century cohorts are earning less (as a proportion of average earnings) than their respective 20th century cohorts.

Figure 16: Hourly pay for those who left education following the recent downturn is even lower compared to average earnings

Median hourly pay as a proportion of average pay across the economy for educational cohorts, by years since leaving education: UK, 1992-2018

Notes: Green bar denotes comparison point five years after leaving education.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

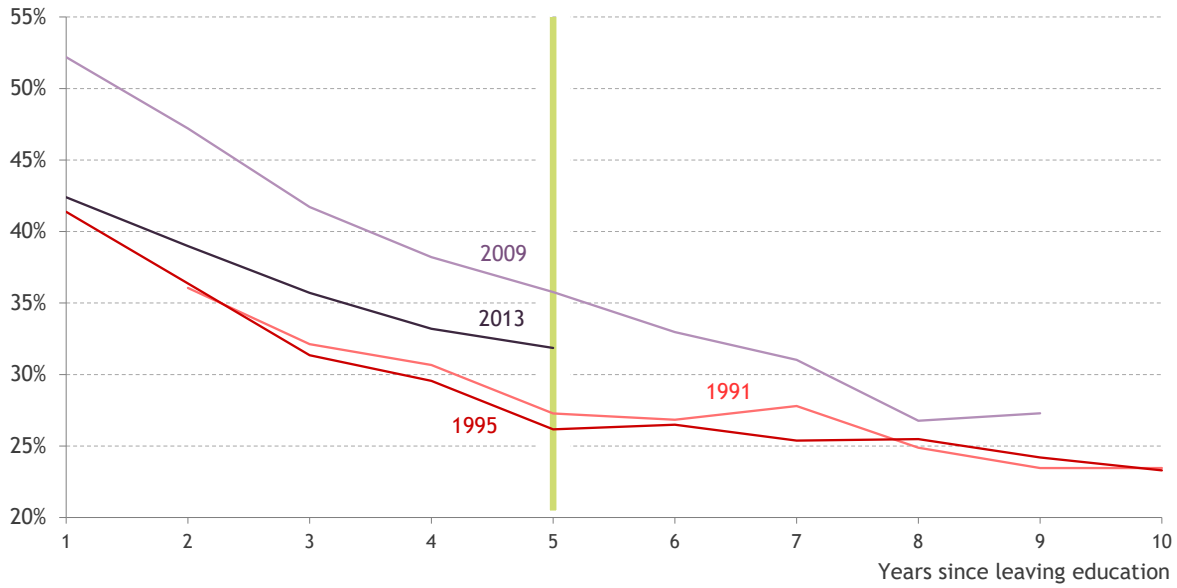
31 S Clarke & N Cominetti, *Setting the record straight: How record employment has changed the UK,* Resolution Foundation, January 2019

Recessions have a big impact on both employment and wages. However, we have tended to analyse the latter without taking into account the types of jobs people end up doing. What is becoming evident is that young people's pay performance (both starting salaries and subsequent earnings growth) has been so poor because of the types of jobs they have increasingly found themselves in.

Figure 17 assesses the proportion of people in the three lowest-paying occupational groups for the two pairs of cohorts we focused on above. Five years after leaving education, the 1991 cohort had about the same chance of being in a low-paying occupation as the 1995 cohort. By contrast, the cohort that graduated in the midst of the last recession had a low-paying occupation rate 4 percentage points higher than the cohort that left education in 2013.

Figure 17: Recessions lead to a higher proportion of people in lower-paying occupations

Proportion of people in each educational cohort in employment in three lowest-paying occupational groups, by years since leaving education: UK, 1992-2018



Notes: Occupations are categorised based on average hourly earnings. The three lowest-paying occupational groups are elementary occupations, sales and customer service occupations and caring, leisure and other service occupations. Green bar denotes comparison point five years after leaving education.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

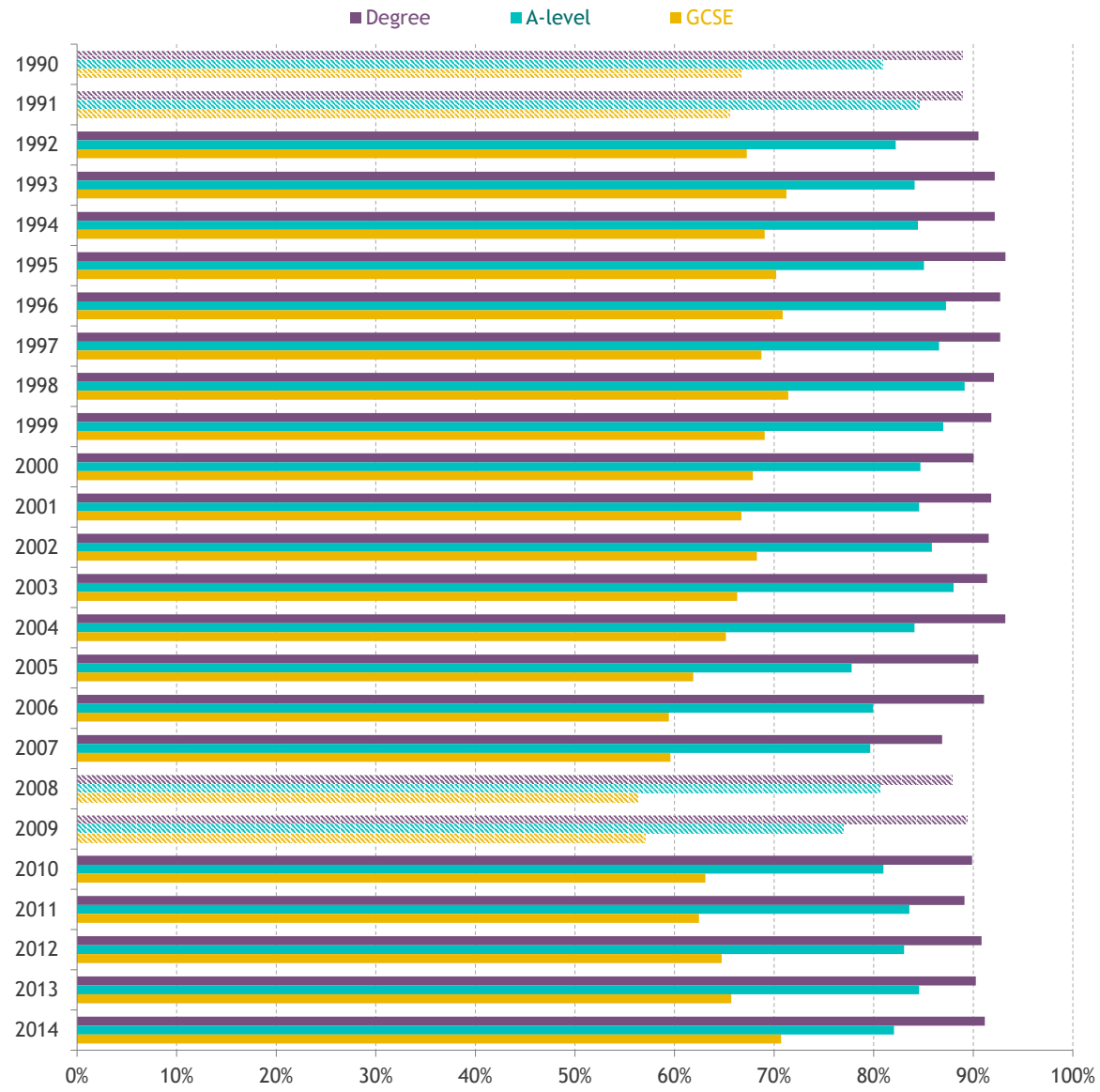
Different groups are affected in different ways

Recessions affect people in different ways. Although a poor economy increases the probability that anyone will be out of work, some people are more susceptible to unemployment than others. We would expect that the employment rates of lower-qualified people would be more sensitive to changes in the macro-economy. Figure 18 suggests that this is the case. Between the 2002 and 2008 cohorts the

employment rate, four years after leaving education, for those educated only to GCSE level fell by 12 percentage points, from 68.3 per cent to 56.3 per cent. Over the same period, the employment rate for graduates fell by 3.7 percentage points, from 91.5 per cent to 87.8 per cent.

Figure 18: Less-qualified people are more likely to find themselves out of work after a recession

Employment rate four years after leaving education, by year left education and highest qualification: UK

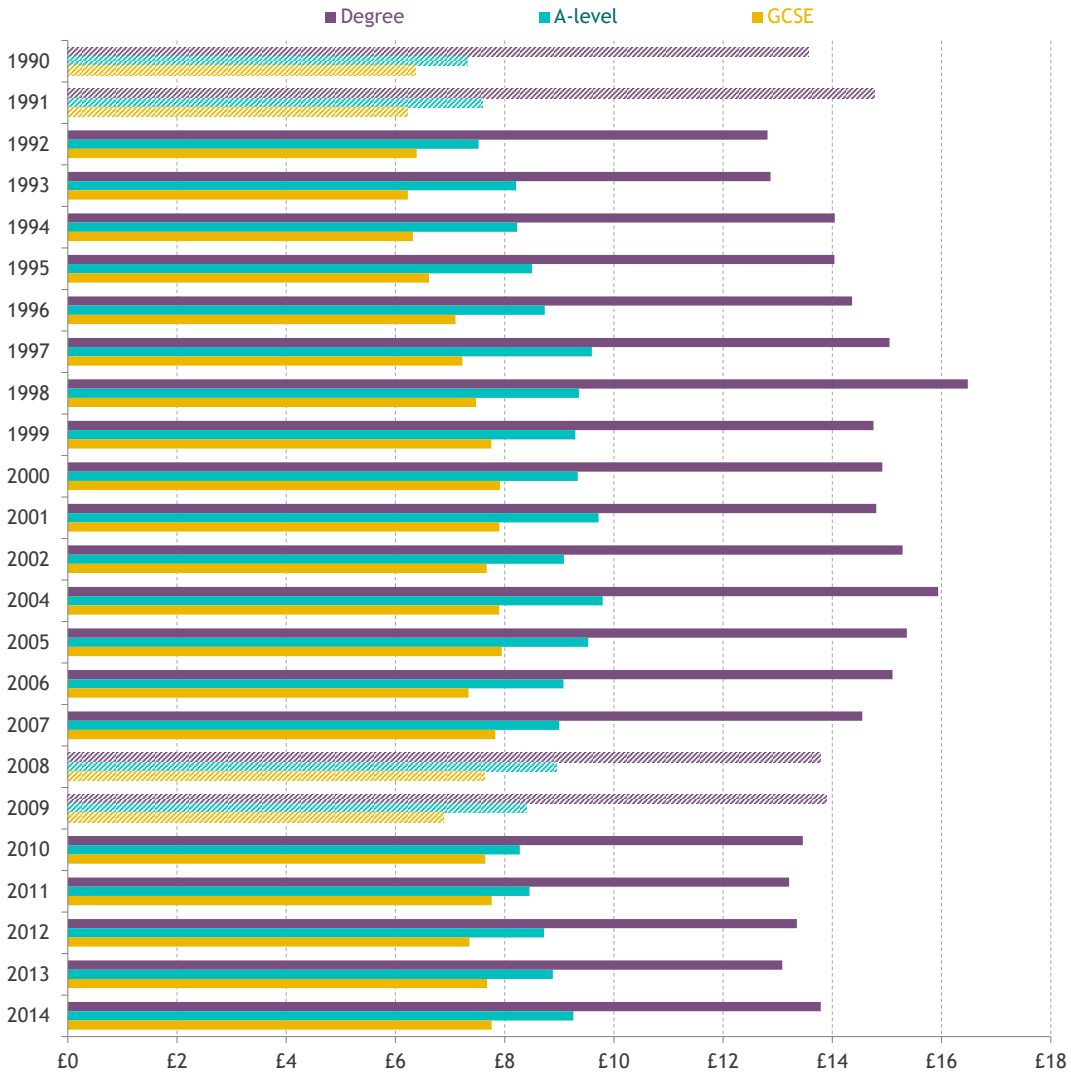


Notes: Recession years are indicated by hatched bars.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

On the other hand, the wage penalty associated with leaving education during, or soon after, a recession is higher for more qualified people. Figure 19 shows the average hourly wage for each cohort four years after leaving education. The real hourly earnings of graduates fell 10 per cent, from £15.30 to £13.80, between the 2002 and 2008 cohorts. By contrast, the real hourly earnings of people with just GCSE-level qualifications fell just 0.6 per cent (from £7.70 to £7.60). This may be due to a combination of factors, including the fact that adjustment for this group happens more through unemployment, that there may be less scope for cutting wages in lower-paid occupations, and that in the recent recession the lowest paid were afforded some protection by the minimum wage.

Figure 19: The wages of higher-qualified people are more affected by downturns

Typical real hourly pay (CPIH-adjusted to 2018 prices) four years after leaving education, by year left education and highest qualification: UK



Notes: Recession years are indicated by hatched bars.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

Although the evidence in our analysis appears clear, there is some debate in the wider literature as to whether or not more- or less-educated people experience bigger pay penalties during downturns. Some studies find that the impact on graduates is greater,[32] yet others the opposite. For example, Schwandt and Wachter find that those with less than 12 years of schooling experience the biggest earnings penalty, and Cribb, Hood and Joyce find that the earnings of those with low- or mid-levels of education fall the most.[33] This could be because the first paper analyses the US, where the minimum wage is less generous, while the latter paper takes the whole period from 1978 to 2015-16, during the majority of which there was no minimum wage in the UK. Given this, it is important to extend the analysis of what happens to young people who leave education in the midst of a downturn to the recent recession.

We now turn to more formal analysis of this, first taking the 1990s recession and the most recent one together, and then splitting the most recent downturn out.

The last two recessions harmed young people's prospects, and the effects took many years to unwind

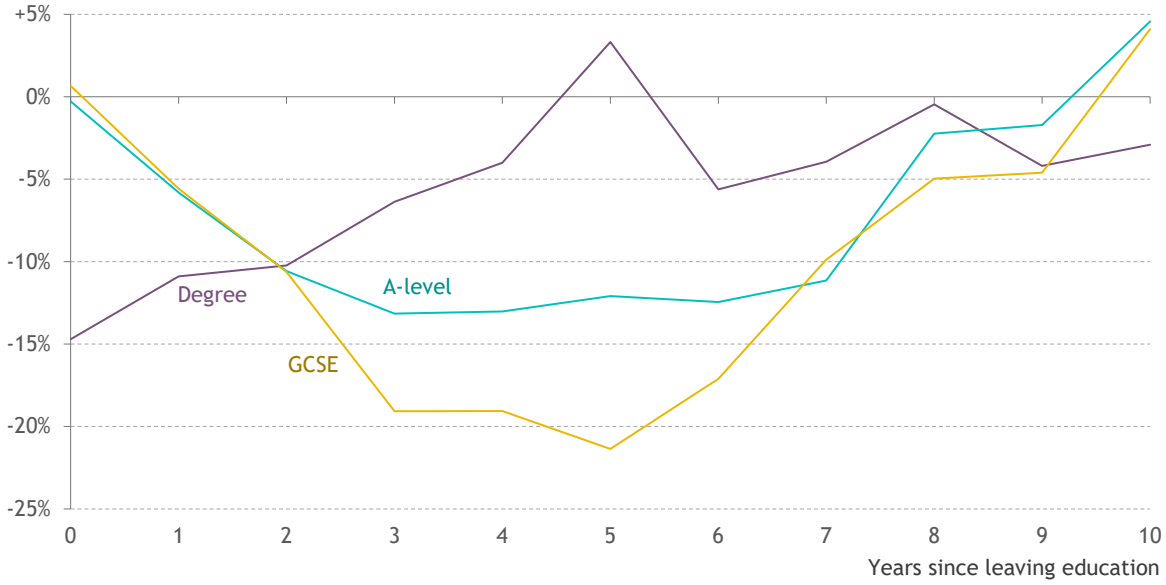
On the face of it, both the 1990s recession and the recent downturn had a big impact on those unfortunate enough to enter the labour market in the eye of the storm. To test this more formally, we build an econometric model and test it on repeated cross-sections of pooled microdata from the quarterly Labour Force Survey (LFS) from 1992 to 2018. This timeframe allows us to estimate how the last two recessions have affected people entering the labour market in and around the downturns.[34]

Starting with the impact on employment, Figure 20 shows the change in the likelihood of being in work for a 3 percentage point increase in the unemployment rate the year after someone leaves education. We have chosen a 3 percentage point increase as this was the average increase in the unemployment rate following the 1990-91 and 2008-09 recessions. We use the unemployment rate in the year after someone leaves education as we do not know the month someone left education, and so using the following year means we can be certain this is the unemployment rate that would have confronted people. Using direct data on the year in which people left education is a big advantage over some previous studies, which relied on estimating the time when people left education based on their age and qualifications.[35]

32 B Cockx, 'Do youths graduating in a recession incur permanent losses?', ***IZA World of Labor***, 281, August 2016
33 H Schwandt & T von Wachter, 'Unlucky Cohorts: Estimating the Long-term Effects of Entering the Labor Market in a Recession in Large Cross-sectional Data Sets', ***NBER Working Paper No. 25141***, October 2018; J Cribb, A Hood & R Joyce, ***Does leaving education in a recession have a lasting impact on living standards?***, Institute for Fiscal Studies, November 2017
34 Full details of our modelling approach can be found in: S Clarke, ***Growing Pains: The impact of leaving education during a recession on earnings and employment***, Resolution Foundation, May 2019
35 H Schwandt & T von Wachter, 'Unlucky Cohorts: Estimating the Long-term Effects of Entering the Labor Market in a Recession in Large Cross-sectional Data Sets', ***NBER Working Paper No. 25141***, October 2018

Figure 20: High unemployment when leaving education reduces the probability that an individual will find work

Change in chance of being employed associated with a 3 percentage point increase in the unemployment rate in year after leaving education, by years since leaving education and highest qualification: UK, 1992-2018



Source: RF modelling using ONS, *Quarterly Labour Force Survey*

Figure 20 shows that people – particularly those with lower levels of education – are more likely to find themselves out of work if they enter the labour market in the midst of a downturn. High unemployment at the time of leaving education has a far more pronounced effect on non-graduates. Although the probability that graduates will be in work does fall, at least initially, this effect is statistically insignificant. By contrast, the probability that someone is in employment five years after leaving education falls by 12 per cent for those educated to only A-level-equivalent, and by 21 per cent for those educated to only GCSE level.

It is interesting that there is a delay in these effects, with the largest impact occurring three to seven years after leaving education. This is likely to be because this analysis includes the run-up to and aftermath of the financial crisis, but just the aftermath of the early-1990s recession. If we just analyse the latter period, a far more immediate fall in employment for lower-qualified people is observed.[36] To put these effects in context, between 1990 and 1993 the employment rate for 18-29 year olds fell by 9 per cent. Figure 20 suggests that the effect of downturns upon the employment prospects of lower-qualified individuals who have just left education is larger, and takes a very long time to unwind.

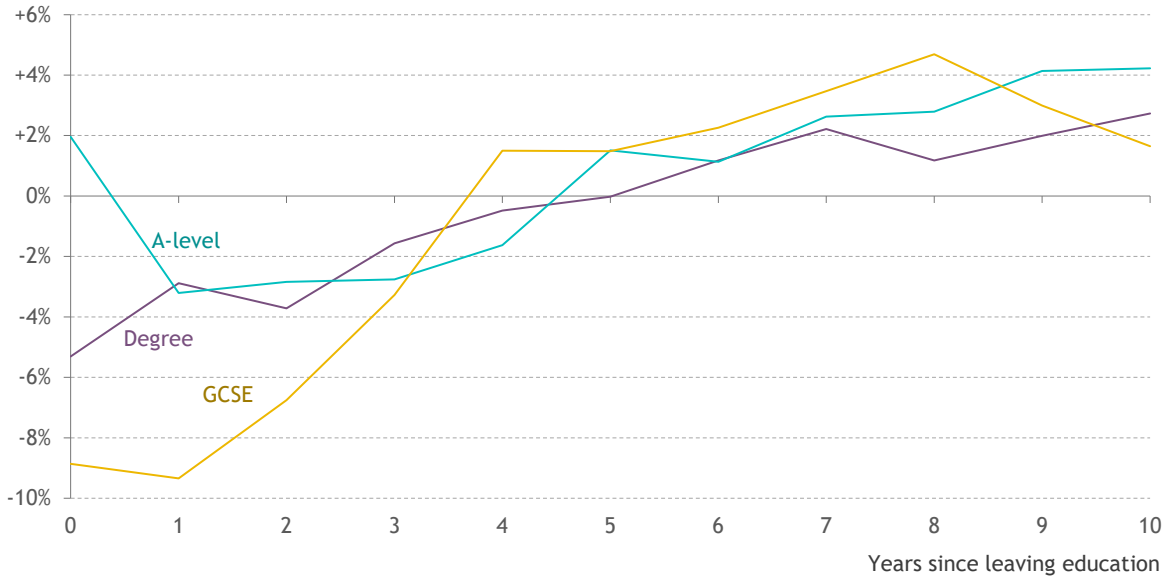
Turning to the impact on pay, Figure 21 shows that people leaving education when unemployment is elevated experience an initial pay penalty of up to 9 per cent.

36 See Figure 18 in S Clarke, ***Growing Pains: The impact of leaving education during a recession on earnings and employment***, Resolution Foundation, May 2019

This persists: for around four years for those educated to GCSE level, and for five years for those with a degree. Those with only GCSE-level qualifications initially fare worse, a finding supported by other papers, as discussed above. However, we saw in Figure 19 that the pay of graduates (compared to that of lower-educated people) fared worse in the recent downturn, whereas the converse appears to be the case in the aftermath of the 1990-91 recession, driving the overall trend shown in Figure 21. This perhaps reflects the fact that minimum (and living) wages afforded some protection in the recent downturn.

Figure 21: Higher unemployment rates when people enter the labour market are associated with lower rates of pay

Change in average hourly pay associated with a 3 percentage point increase in the unemployment rate in year after leaving education, by years since leaving education and highest qualification: UK, 1992-2018



Source: RF modelling using ONS, *Quarterly Labour Force Survey*

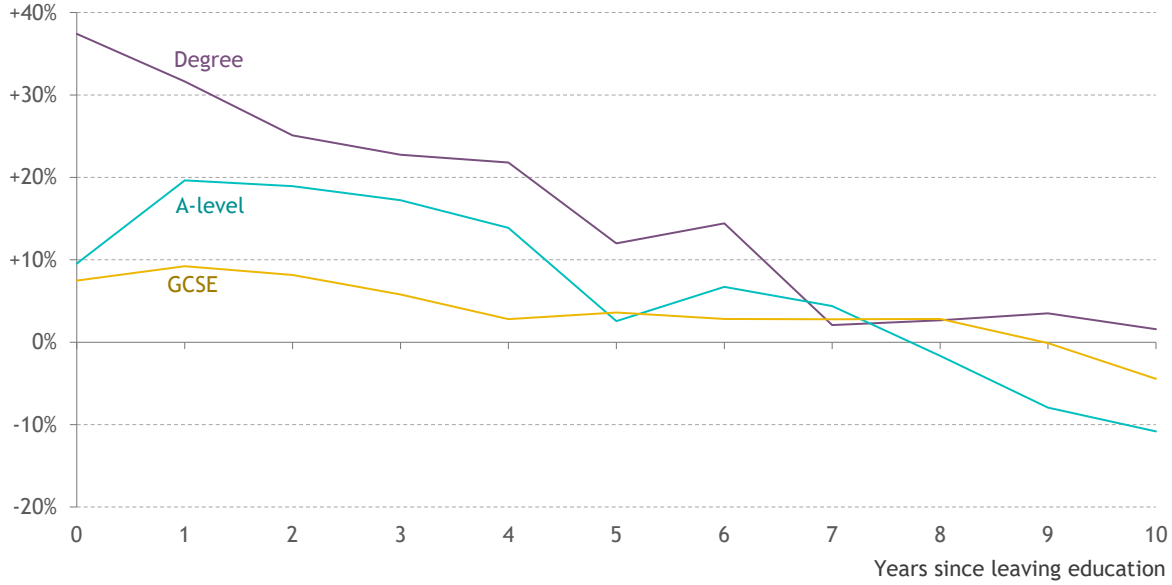
How large are these effects? To put them in context, it is helpful to compare them to the average annual increase in cohort starting salaries. Between 1993 and 2005, the real hourly earnings for a cohort two years after leaving education increased by an average of 3 per cent per year. By contrast, those entering the labour market after a spike in unemployment can expect their earnings to be up to 9 per cent lower and remain lower half decade later. This is a big effect, and of similar magnitude to other studies.

While people with lower qualifications find themselves out of work in the midst of a downturn, higher-educated workers appear to accept worse jobs than they would perhaps have accepted in a more buoyant economy. Figure 22 shows that the probability of being in one of the three lowest-paying occupational groups increases the most for graduates. Up to one year after leaving education,

graduates who enter a depressed labour market are 30 per cent more likely to be in a low-paying occupation, and remain much more likely to be in such a job almost a decade after graduating.

Figure 22: Leaving education when unemployment is elevated increases the chance that someone will end up working in a low-paid occupation

Change in chance of being in three lowest-paying occupational groups associated with a 3 percentage point increase in the unemployment rate in year after leaving education, by years since leaving education and highest qualification: UK, 1992-2018



Notes: Occupations are categorised based on average hourly earnings. The three lowest-paying occupational groups are elementary occupations, sales and customer service occupations and caring, leisure and other service occupations.
Source: RF modelling using ONS, *Quarterly Labour Force Survey*

There is evidence that time spent in a lower-paying occupation has a long-lasting impact on someone's future earnings trajectory. Time spent in such roles – or working part time – is, in terms of someone's earnings prospects, less valuable because wage progression is lower and so returns to tenure are worse. Between 2008 and 2018, the typical annual hourly pay rise for an 18-25 year old in one of the three highest-paying occupational groups who had been employed for between one and two years, was 54p. That's far higher than the typical pay rise for someone working in a low-paying occupation, where the increase was 32p.

There is also evidence that moves from lower- to higher-paying roles are relatively uncommon. Between 2008 and 2018, only 4 per cent of job-to-job moves by 18-25 year olds were from one of the three lowest-paying occupational groups to one of the three highest-paying ones. That compares to 21 per cent between higher-paying occupations. Furthermore, the typical hourly wage, after moving, for an 18-25 year old moving from a lower-paying to a higher-paying occupation, was £7.40,

whereas it was £10 for someone moving between higher-paying occupations. The implications is that even if a young person moves into a higher-paying role, they do not immediately make up the lost ground.

The recent recession may have had a more lasting impact on the prospects of younger workers, particularly graduates

In the early-1990s recession, hourly earnings for those aged 18-29 fell by 2 per cent peak-to-trough. In the recent downturn, this group's wages fell by over 9 per cent. On the face of it, then, it appears that the recent downturn has had a larger effect on the earnings prospects of younger people. But what about the impact on those who left education right in the midst of the financial crisis versus those who entered work during the 1990s recession?

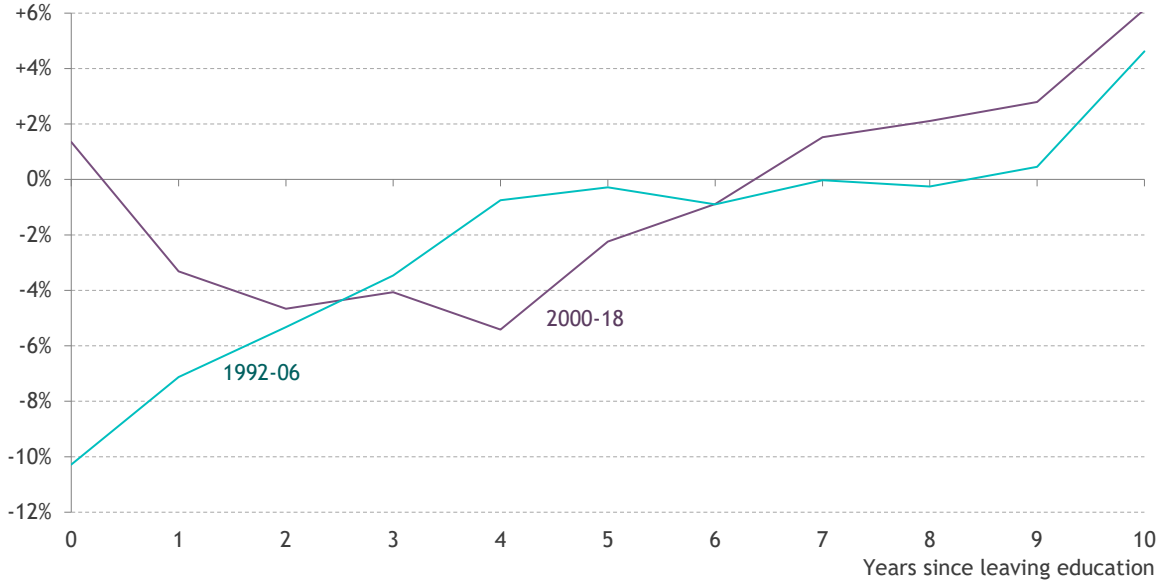
To try and isolate the specific impact that leaving education in the more recent downturn had we can run separate models for two time periods. The first covers the aftermath of the early-1990s recession up to the financial crisis, while the second covers the period from 2000 to 2018. We choose these periods because the quarterly LFS only begins in 1992, so we are unable to capture the run-up to the early-1990s recession. Our second period starts in 2000 because this is the point at which the unemployment rate returned to the level it was at before the 1990s recession (i.e. roughly the end of the previous cycle).

Figure 23 shows the result of the model run over the two time periods. Despite the initial reduction in pay being smaller in 2000 to 2018, the impact lasts 50 per cent longer. A 3 percentage point increase in unemployment is associated with a fall of 4 per cent in hourly pay one year after leaving education, and pay remains noticeably lower six years later, compared to four years in the wake of the 1990-91 downturn.

Some of this is consistent with what we know about the recent recession; the pay squeeze endured for far longer than in the 1990s. Similarly the recovery from the recent downturn – at least in terms of pay – has been far more sluggish. Starting salaries for those leaving education rose by an average of 4 per cent a year between 1993 and 1999; they grew by just 1 per cent a year between 2012 and 2016. Those cohorts that entered the labour market after the early 1990s recession benefited from more of an uptick in pay than those who entered the labour market following the recent recession. Furthermore, as mentioned above, the impact on higher-educated people was more marked in the last downturn. Two years after leaving education, pay was depressed by between 5 per cent and 6 per cent for people educated to A-level or who have a degree, whereas the pay penalty for people with just GCSE's was an insignificant 1 per cent.

Figure 23: Recession pay effects appear to have lasted longer after 2008 than was the case in the 1990s

Change in average hourly pay associated with a 3 percentage point increase in the unemployment rate in year after leaving education, by years since leaving education and time period: UK

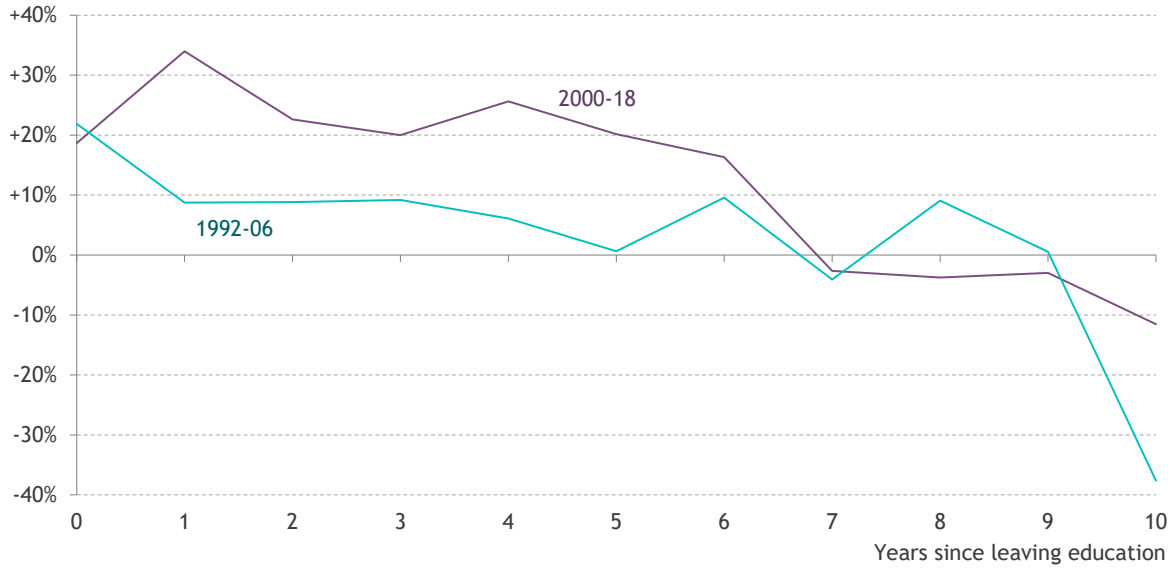


Source: RF modelling using ONS, *Quarterly Labour Force Survey*

The greater impact on those with higher levels of education is down to the fact that these groups, particularly graduates, were more likely to find themselves in lower-paying occupations than in previous downturns. Figure 24 shows the change in the probability of graduates being in one of the three lowest-paying occupational groups for the two time periods. One year after leaving education, a graduate who entered the labour market at a time of high unemployment between 2000 and 2018 was 34 per cent more likely to be in a lower-paying occupation. By contrast, the figure for the 1992 to 2006 period was 9 per cent.

Figure 24: The recent downturn had a far more pronounced impact on the probability of a graduate working in a low-paying occupation

Change in chance of a graduate being in three lowest-paid occupational groups associated with a 3 percentage point increase in the unemployment rate in year after leaving education, by years since leaving education and time period: UK



Notes: Occupations are categorised based on average hourly earnings. The three lowest-paying occupational groups are elementary occupations, sales and customer service occupations and caring, leisure and other service occupations.
Source: RF modelling using ONS, *Quarterly Labour Force Survey*

Conclusion

This analysis extends what we know about recessions, telling us something new both about how their effects on pay occur and about the recent downturn in particular. In line with previous studies, we have found that recessions have lasting effects on those unfortunate enough to enter the labour market in their midst or in their immediate aftermath. The last recession was no exception (although the impact on employment was more muted), and yet it has also thrown up some new challenges. Our occupational analysis suggests that wage falls are mostly transmitted through a combination of people taking up lower-paid occupations and pay being squeezed in mid-paid occupations, rather than as a result of pay being squeezed in higher- and lower-paid occupations.

We find also that, although there is no clear evidence that the recent downturn had a larger initial impact on young people entering the labour market in its midst, there is some evidence it persisted for longer. Furthermore the recent downturn led to a far more pronounced rise in the share of people in lower-paying occupations. Graduates in particular were a lot more likely to be in low-paid or involuntary part-time work and to remain in such roles many years after leaving education. This is something we did not encounter in the aftermath of the 1990s downturn.

It is too soon to know what the full, long-term, impact of the recent recession on those who graduated in its midst will be. Previous research shows that the impact of a period of unemployment on people's future prospects may still be observed over 10 years later.[37] The econometric analysis presented here suggests that, on average, cohorts that entered the labour market during downturns had seen their wages catch up after around six years. More specifically though, the wages and job prospects of the 2009 cohort – who left education in midst of the recent recession – may not yet have recovered. Compared to average pay its members are still earning less nine years after entering the labour market than those who left education in 1991.

Determining exactly how long the impact of the recent recession persists on those most affected is important, but more important is establishing that these effects last a long time. For policy makers this means that, accepting that recessions do occur, mitigating their worst effects should be a priority.

37 P Gregg, 'The impact of youth unemployment on adult unemployment in the NCDS', ***The Economic Journal***, 111(475), November 2001; W Arulampalam, 'Is Unemployment Really Scarring? Effects of Unemployment Experiences on Wages', ***The Economic Journal***, 111(475), November 2001

SECTION 2

Housing costs and security

CHAPTER SUMMARY

Home ownership rates for young adults have fallen substantially since the late 1980s. While the latest evidence points towards a bottoming out of this decline – family units headed by 18-29 year olds experienced an increase in ownership rates from 7.9 per cent in 2016 to 9.2 per cent in 2018 – the fundamentals of high house prices and deposit requirements remain a significant barrier to ownership. As a result, millennials and members of generation X who are currently raising children are far more likely to find themselves in the insecure and high-housing-cost private-rented sector than their predecessors at the same age.

These housing changes both drive and reflect wider societal trends. The share of those in their late 20s living with their parents has increased since the financial crisis, from 24 per cent in 2007 to 32 per cent in 2018. Over a longer time-period, between 1996 and 2018, multi-generational living in old age has declined (from 18 per cent of families to 14 per cent) as older people have become less likely to live with their adult children and more likely to live with partners (the proportion living alone has stayed flat).

Housing costs have put increasing pressure on living standards for all generations alive today, compared to predecessors at the same age. Housing-cost-to-income ratios fell faster (by 1 percentage point) for families headed by under-30s than for older family units in the year to 2017-18, but this does little to alter the long-term picture. At age 30 housing costs were equivalent to 24 per cent of income for millennials born in the early 1980s, and 21 per cent for members of generation X born in the early 1970s. That compares to 10 per cent at the same age for members of the silent generation born in the early 1940s.

Younger cohorts are more likely to live in overcrowded homes: between 1994-96 and 2016-18, the share of family units headed by 18-29 year olds in overcrowded homes increased by almost one-third (from below 8 per cent to above 10 per cent). Younger cohorts spend longer commuting too.

Our spotlight analysis focuses on the fact that changes in housing costs could be having a more wide-ranging effect on living standards too. The residential mobility rates of young people have fallen in the last two decades, with the decline particularly acute for those living in the private-rented sector. Our analysis suggests that this may be related to the fact that, while the earnings uplift renters can achieve by moving local authorities remains significant, faster increases in rents in higher-earning areas than in lower-earning areas have eroded this living standards gain. Rents have risen by almost 90 per cent in the highest-paying 30 per cent of local authorities over the past 20 years, compared to just over 70 per cent among the lowest-paying 30 per cent. Combined with less variation in employment rates between local authorities than there was two decades ago, the suggestion is that this reduced variation in after-rental-costs earnings has reduced the attractiveness of moving around the country for work.

Large tenure changes have taken place in the UK over the past 30 years

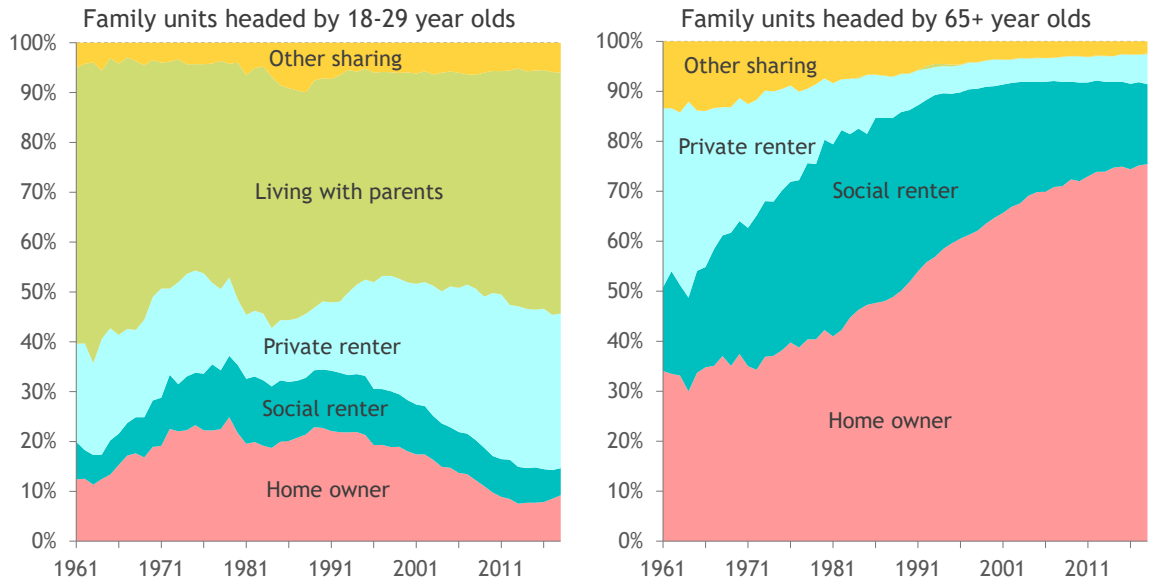
The decline in home ownership rates in the UK is well evidenced, and is a large part of the reason that housing has gained political salience of late. Tenure change is often measured on a household basis, however this fails to capture the living arrangements of many young adults who live in homes owned by friends or older family, or who rent as a group. For this reason we instead track tenure over time with a focus on the family unit.[38]

Home ownership rates have fallen in recent decades, while the private-rented sector (PRS) has grown. But detailed tenure trends have been far from uniform across the age range. The home ownership rate of family units headed by someone aged 18-29 fell by 60 per cent (from 23 per cent to 9 per cent) between 1989 and 2018. Over a similar period, the home ownership rate for 30-49 year old family units declined by a quarter (from 68 per cent to 51 per cent). In contrast, the rate for family units headed by someone aged 65 and over increased by 40 per cent (from 54 per cent to 75 per cent). Changes for the youngest and oldest age groups, along with changes in all other tenure patterns, are documented in Figure 25.

38 L Judge & A Corlett, 'Only half of families own their own home – how do the other half live?', ***Resolution Foundation blog***, 27 December 2016

Figure 25: Home ownership rates are a long way from their peak for younger age groups

Housing tenure by age group: UK, 1961-2018



Notes: A family unit is a single adult or couple, and any dependent children. 18 year olds that live with parents and are not full-time students are not counted as separate family units and do not appear in these statistics. These people are likely to be in education at sixth form or college, and so are still 'dependent children'.
Source: RF analysis of IFS, *Households Below Average Income (1961-83)*; ONS, *Annual Labour Force Survey (1984-91)*; ONS, *Quarterly Labour Force Survey (1992-2018)*

It's not just home ownership that has declined: social renting is also less common now than in the past. The decline in social renting started earlier – towards the beginning of the 1980s – and is broader-based across age bands than the decline in home ownership. The proportion of family units headed by 18-29 year olds that rent socially has fallen by more than half since 1982 (from 13 per cent to 5 per cent), with the share of those aged 65 and over in social rent falling by a similar relative amount (from 40 per cent to 16 per cent). For those at younger ages, it is private renting that has filled the gap left by the decline of owning and social renting, implying more housing insecurity today than in the past.

These tenure changes reflect big social trends for young and old

These tenure changes both affect and reflect wider societal shifts in education, family caring, and how we choose to live our lives. Here we focus on two of these: older adults not returning to the family home, and young adults staying in it.

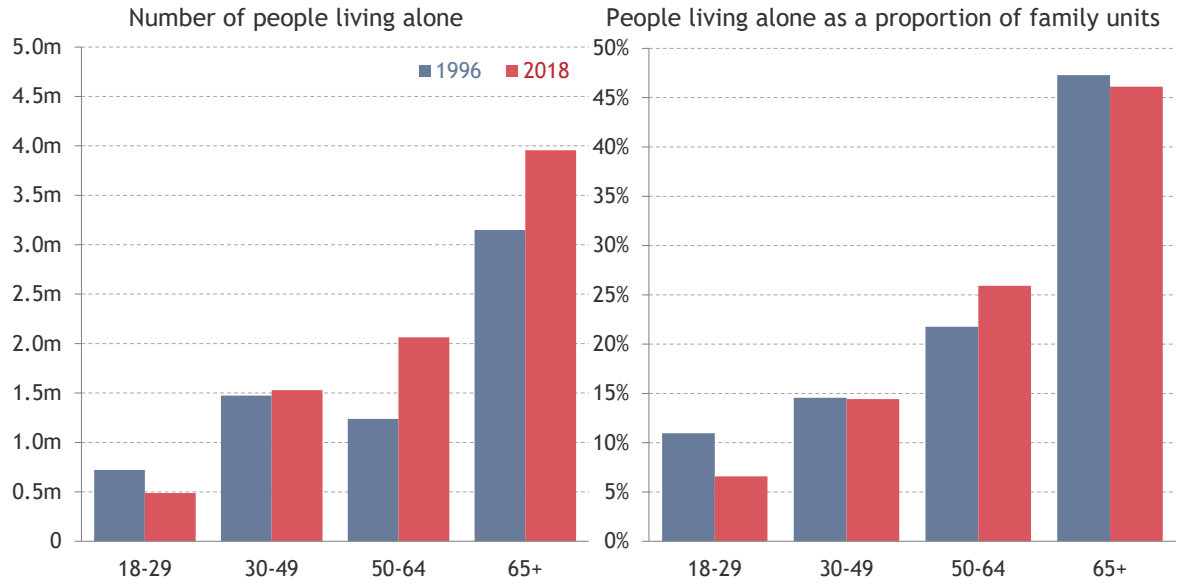
The living arrangements of older people have been the focus of much research and policy attention of late, with an increase in the number of older people living alone raising important questions about care as well as the impact on physical and mental health of solitary living into old age.[39]

39 K Dryer et al., *The association between living alone and health care utilisation in older adults: a retrospective cohort study of electronic health records from a London general practice*, BMC Geriatrics, December 2018

There has been a sharp rise in the number of older people living on their own over the past two decades. As can be seen in the left-hand panel of Figure 26, between 1996 and 2018 the number of people aged 65 and over living alone increased by a quarter, from 3.1 million to 4 million. However, it is not the case that longer lives have caused an increase in the propensity for older people to live alone. As the right-hand panel of Figure 26 shows, the share of older family units that are single adults living on their own has stayed roughly the same over the past two decades. In 1996, 47 per cent of those aged 65 and over lived on their own; in 2018 this figure stood at 46 per cent.

Figure 26: Older people are no more likely to live alone than they were two decades ago

Number of people and proportion of family units living alone, by age group: UK



Notes: A family unit is a single adult or couple, and any dependent children.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

Although the likelihood of living alone in old age has changed little in the past two decades, there has been a trend away from older generations living with their adult children in so-called 'multiple family unit' households. In 1996, 18 per cent of family units headed by someone aged 65 and over lived with another family unit (e.g. with their adult children), but by 2018 this share had fallen to 14 per cent. Instead, a higher share of older family units are living in couples: up from 35 per cent in 1996 to 39 per cent today.

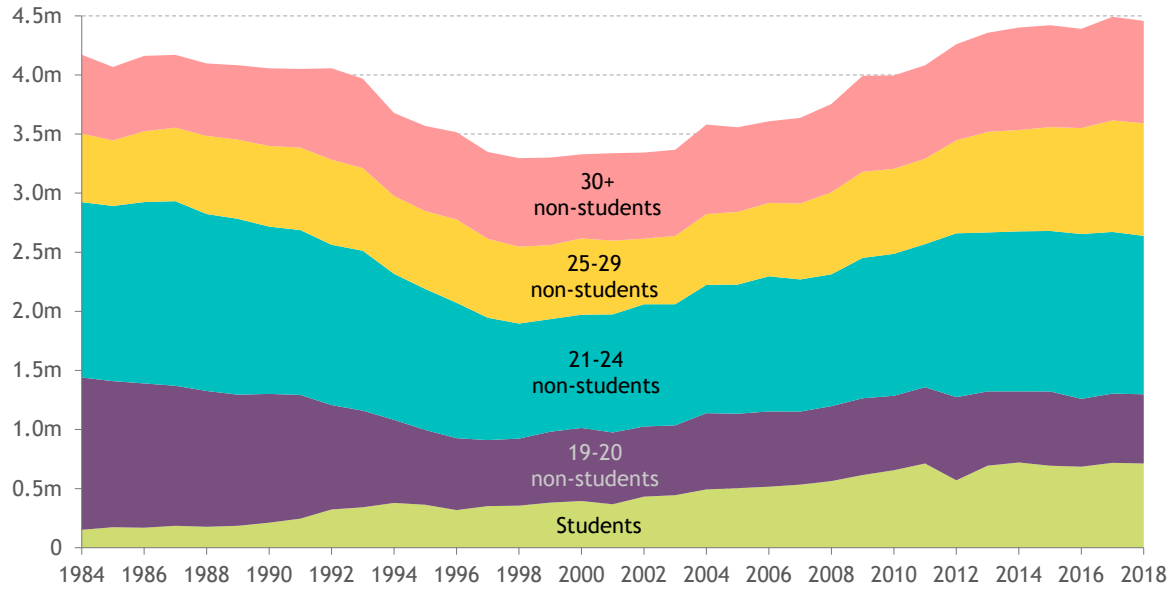
So, even though solo living is not becoming more common for those in old age, couple living is. And it comes at the expense of multi-generational living. This has important implications for the way in which care and support for older individuals with health needs is delivered by different members of the family. As

older generations have become less likely to live with their children, the burden of care will be more likely to fall on their partners and on the state.

Turning to young adults, we saw in Figure 25 that the most common living arrangement for under 30s is not private renting as independent adults, but living at home with parents. In 2018, almost half (48 per cent) of young adults aged 19-29 lived with their parents. The extent to which this share has increased since the mid-1990s has garnered much attention, but here we place this rise in the context of the fall that took place in the preceding decade.[40] Indeed, the share of 19-29 year olds living at home with their parents was even higher in 1984 (50 per cent) than it is today (although this overall trend does not control for big increases in student numbers). As shown in Figure 27, the number of people of any age living at home with their parents has increased by much less than some might imagine too – from 4.2 million in 1984 to 4.5 million in 2018.

Figure 27: The fall and rise in people living with parents

Number of adults living with their parents, by age group and student status: UK



Source: RF analysis of ONS, *Quarterly Labour Force Survey*

There has, however, been a large change over this time period in the composition of people living at home with their parents. The two most notable changes are the switch from young non-students living at home to students doing so, and the post-financial crisis increase in those aged 21 and over living with their parents. Here we look at both of those shifts in turn.

In 1984, over 31 per cent (1.3 million) of those living with parents were aged 19-20 and not full-time students, and just 4 per cent (150,000) were students. By 2018, the relative sizes of these groups had reversed and just 13 per cent (590,000) of those

40 D Bentley & A McCallum, *Rise and Fall: The shift in household growth rates since the 1990s*, Civitas, February 2019

living at home were non-student 19-20 year olds while 16 per cent (710,000) were students.

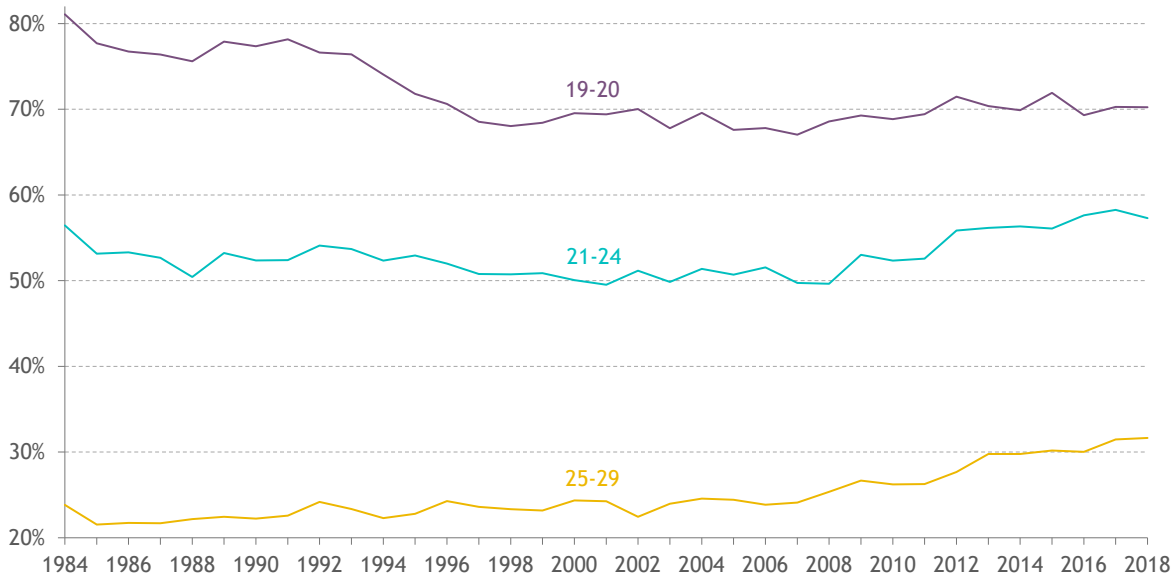
This shift has two elements. First, the rapid expansion of the private-rented sector in the 1990s (following the 1989 deregulation of private rents) led to a significant fall in the numbers of young non-students living at home. In 1990, 1.1 million non-students aged 18-20 lived at home. Within less than a decade this number had almost halved, reaching 560,000 in 1997. It has remained near this level ever since.

Second, the expansion of higher education in the 1990s and 2000s led to an increase in student numbers, from around 720,000 in 1991 to 1.9 million by 2011. However, despite widening access to higher education, the propensity of students to live with their parents is broadly unchanged, remaining at a rate of around 35 per cent to 40 per cent from the early 1990s until 2018. More students are living at home (250,000 were in 1991, compared to 710,000 in 2011) simply because there are more students, not because the likelihood of studying while at home has significantly increased.

Figure 28: 20-somethings have become more likely to live at home since the financial crisis

Adults living with their parents as a proportion of family units, by age group: UK

Notes: A family unit is a single adult or couple, and any dependent children.



Source: RF analysis of ONS, *Quarterly Labour Force Survey*

The more recent shift back toward living with parents is not about changing demography, but about the financial crisis. After around a decade of little to no change in the share of young people living with parents, from 2007 onwards the

share of young people living with their parents (many of whom will have gone to university and then returned – so-called 'boomerang' children) began to rise.

Figure 28 shows that both those in their early and late 20s have become more likely to live at home. In 2007, half of family units headed by 21-24 year olds lived at home; by 2018 almost 60 per cent of this group were living at home. In a similar vein, 24 per cent of those in their late 20s lived at home in 2007; by 2018 this share had increased to 32 per cent, an increase of almost one-third.[41]

Overall, there are half a million more 20-somethings living with their parents today than would have been the case if the pre-crisis stasis hadn't been disrupted. These trends are likely to be partly a product of the financial pressures that younger people faced in the immediate aftermath of the crisis and since – real terms pay falls and an increase in youth unemployment are more easily weathered at home. But it seems that the continued elevated levels are likely to be a product of housing-related challenges. Saving for a deposit while paying market rents might be possible, but with such high house prices, young adults who want to buy look to have taken the view that living with parents for longer is worthwhile.

Despite a recent uptick in youth ownership, big home ownership rate gaps persist between cohorts

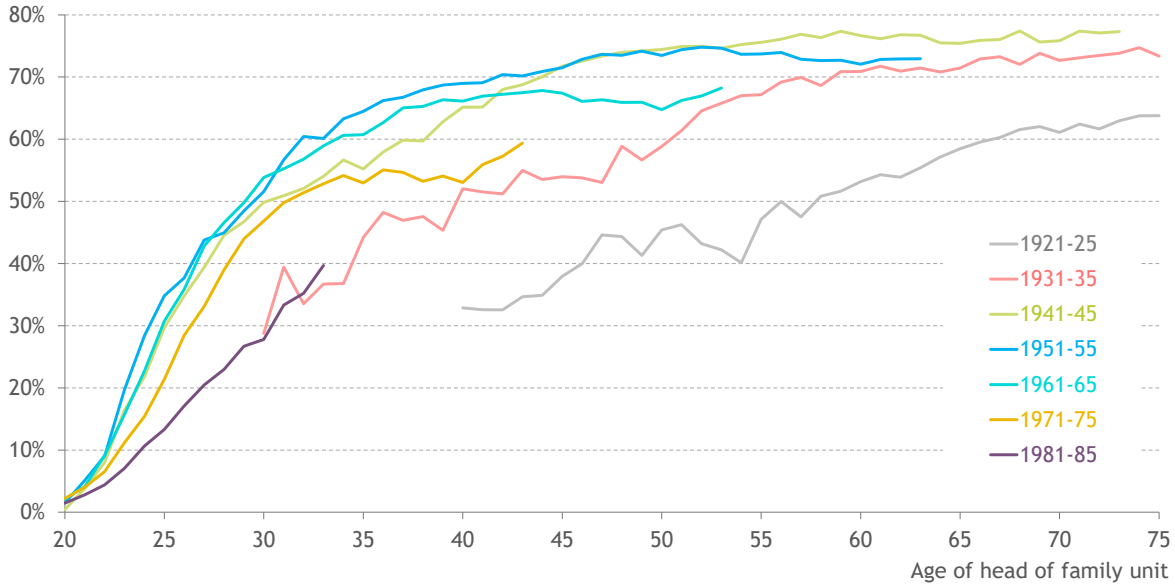
There is in fact tentative evidence of an increase in home ownership rates for younger age groups. In 2018, 9.2 per cent of 18-29 year old family units owned their own home, up from 7.9 per cent in 2016. This change can be seen on the left-hand panel in Figure 25 at the start of this section. The rise is not confined to just one part of the country, it has occurred in the majority of the UK's nations and regions.[42] A similar picture is also evident in the US: home ownership rates have stopped falling and are now rising once more for younger age groups.[43]

We can observe this uptick in ownership rates in a different light if we transform the age group trends shown in Figure 25 into cohort curves. Figure 29 shows that home ownership rates for the millennials and generation X have been increasing at a relatively fast pace in recent years. For example, there was little change in the home ownership rate of the cohort born in the early 1970s as they moved from their mid- to late-30s (which took place in the years immediately following the financial crisis). But more recently the share of family units in this cohort that are home owners has increased sharply.

41 The 2012 extension of the 'shared accommodation rate' of Local Housing Allowance to most single housing benefit claimants in the private-rented sector under the age of 35 (rather than the previous age threshold of 25), may have been a factor in these trends – affecting the decision to move out of the parental home for low-income young adults.
42 D Tomlinson, 'Home ownership is rising, but the crisis is far from over', ***Resolution Foundation blog***, 22 December 2018
43 W Emmons, ***Millennials and Gen Z Are Not Doomed to Rent Forever,*** Federal Reserve Bank of St. Louis, March 2019

Figure 29: Younger cohorts' home ownership rates are rising, but still comparatively low

Home ownership rates, by age and cohort: UK, 1961-2018



Notes: A family unit is a single adult or couple, and any dependent children. Figures for each cohort are derived from a weighted average of estimates by single year of age; cohorts are included if at least five birth years are present in the data.
Source: RF analysis of IFS, *Households Below Average Income (1961-83)*; ONS, *Annual Labour Force Survey (1984-91)*; ONS, *Quarterly Labour Force Survey (1992-2018)*

However, even with two years of fast increases in home ownership, there are still significant differences between the home ownership rates of different cohorts when compared at the same age. For example, six-in-ten family units in the early-1950s cohort were home owners by the age of 33, compared to just four-in-ten of those born in the early 1980s when they were the same age; a fall of one-third.

But what are the prospects for home ownership rates in the years ahead? There are some reasons for positivity. First, despite the large gaps between cohorts, the recent trend is in line with the path of home ownership projected in the 'optimistic' scenario we outlined two years ago.[44] Second, the 'worst' may be behind us in terms of fast growth in house prices (average house prices are now falling in London and the South East of England, for example).[45] And low interest rates – which are a key long-run driver of high house prices[46] – will not stay at rock-bottom levels forever.

However, despite a welcome calming of the market, the fundamentals of high house prices and the associated large deposit barrier remain. For example, the average deposit paid by first-time buyers in the UK is still 4.7 times the typical income for 25-34 year olds, a ratio that has doubled in magnitude since the late

44 A Corlett & L Judge, ***Home Affront: Housing across the generations***, Resolution Foundation, September 2017
45 Office for National Statistics, ***UK House Price Index: March 2019***, May 2019
46 I Mulheirn, ***Forecasting UK house prices and home ownership: a report for the Redfern review into the decline of home ownership***, Oxford Economics, November 2016

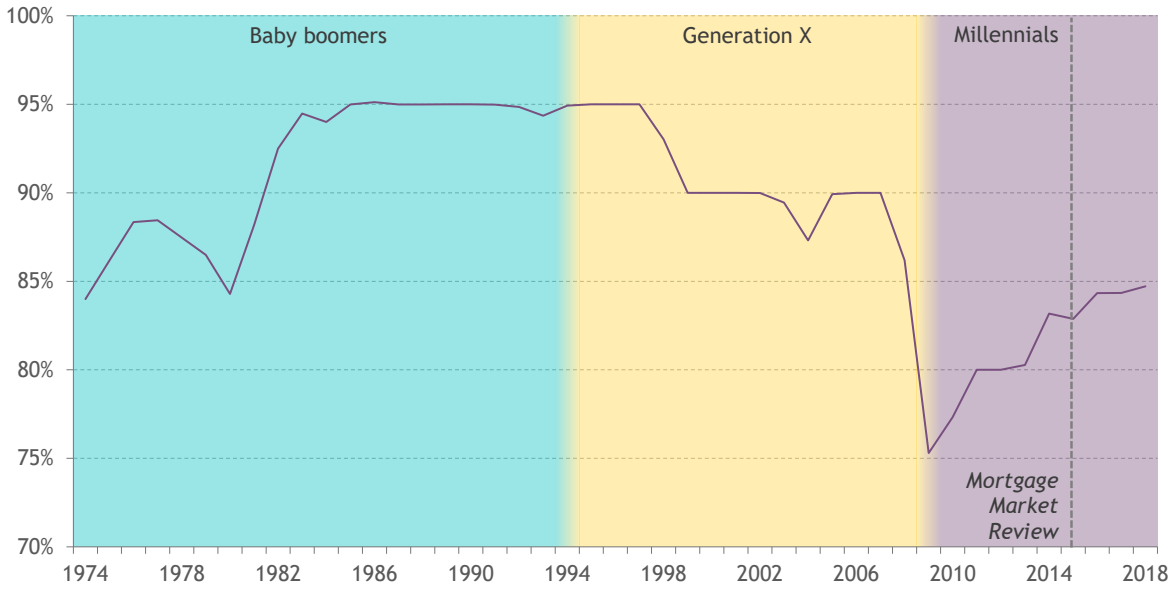
1990s. In addition, despite welcome returns to income growth between 2013-14 and 2016-17, the latest data shows that typical after-housing-costs income across all households fell in real terms in 2017-18.[47] And even if an increase in interest rates did precipitate a slowdown or fall in house prices, this would also drive an increase in the cost of servicing mortgages, which would act as a barrier to entry into ownership via the ongoing costs channel rather than the deposit channel. The implication is that the home ownership challenge will be with us for the foreseeable future.

Regulation matters less than the crisis when it comes to first-time buyer credit conditions

The availability of credit is central to first-time buyers' prospects. Potential first-time buyers struggled in the wake of the financial crisis not only because of weak income growth, but also because lenders became more risk-averse.

Figure 30: The crisis has driven lender behaviour towards first-time buyers

Median loan to value for first-time buyers: UK



Notes: Shading denotes the rough time-periods in which each generation made up the bulk of first-time buyers.
Source: RF analysis of *CML, Table ML2*

As Figure 30 shows, the typical loan-to-value ratio (LTV) dropped sharply between 2007 and 2009, from 90 per cent to 75 per cent. This was not a result of regulation, but rather a reassessment by lenders of their exposure to risk. Lenders became less willing to make loans available at favourable pre-crisis terms, as evidenced by the increase in size of the hurdle that prospective first-time buyers needed to surmount: a typical LTV of 75 per cent implies a deposit of 25 per cent.

47 Department for Work and Pensions, ***Households Below Average Income: An analysis of the UK income distribution: 1994/95-2017/18,*** March 2019

Figure 30 also demonstrates that credit conditions have loosened since 2009. The typical first-time buyer LTV reached 85 per cent in 2018, roughly equal to the previous lows in this time-series observed in the 1970s, when older baby boomers were moving into home ownership. However, this credit easing has slowed following the suite of reforms to lending practices implemented as part of the Mortgage Market Review (MMR) which came into force in 2014.

The MMR didn't directly limit lenders' ability to provide mortgages with high LTVs. But it did put new requirements on lenders to stress test the affordability of mortgages, and has reportedly led to the advent of specific rules and restrictions around certain groups such as the self-employed.[48] In addition, more recent regulation has limited lenders' ability to offer mortgages more than 4.5 times borrowers' income.[49] As such, even though new regulation doesn't directly demand higher deposits, in practice it has resulted in larger deposits (and lower LTVs) than otherwise would have been the case.

It may well be that the median LTV would have continued increasing at the same rate post-2014 if tighter regulation was not implemented. But it's not yet clear how much the ceiling on LTVs that looks to have been reached is due to regulation imposed on lenders, or lenders themselves self-regulating the riskiness of their loans. The evidence points towards a large element of self-regulation – LTVs didn't shoot back to 90 per cent in the early 2010s, and nor have they declined rapidly since regulation was introduced. Regardless of the precise impact on lending from recent regulatory changes, it's not at all likely that future increases in home ownership will come about through a loosening of credit.

The private-rented sector is home to many more families today than in years gone by

The result of reduced ownership rates, and a depleted social housing sector, is that many more families are living in the PRS today than in years gone by. Data from the English Housing Survey shows that in 2017-18 there were 1.6 million families with children in the PRS, up from 600,000 in 2003.[50] This is a big societal change. Young parents are now significantly less likely to be able to bring up children in a home that they can call their own – with the associated stability and security that home ownership brings.

Most renters in England and Wales have assured shorthold tenancies (ASTs) that can be ended by landlords without reason and with as little as two months' notice

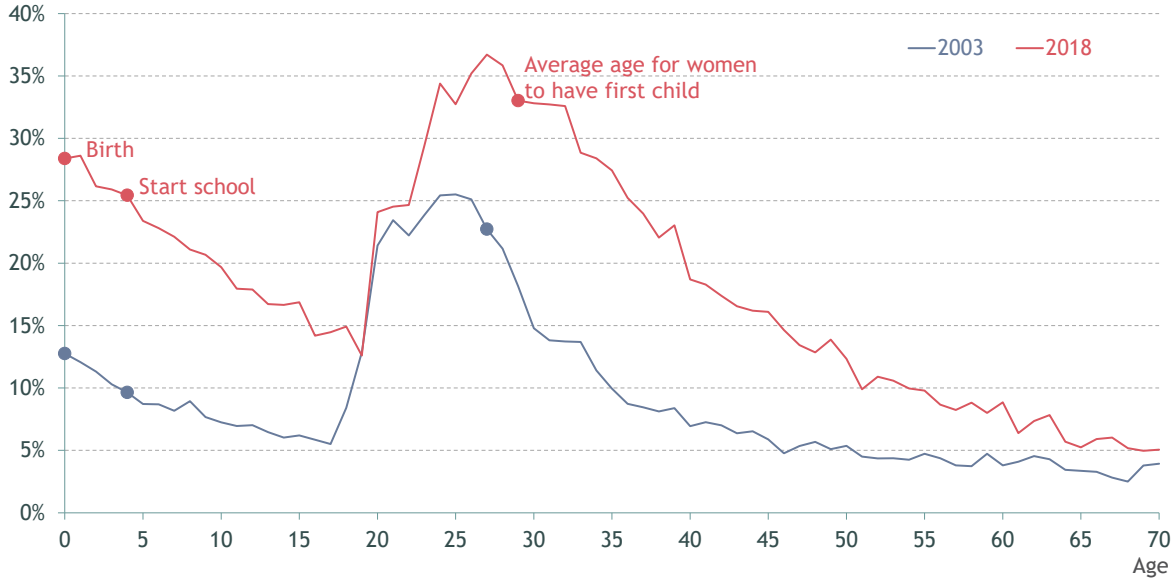
48 Policis, N*ew approaches to mortgage market regulation: The impact of the MMR and the risks and benefits for consumers, society and the wider economy*, 2014
49 Financial Conduct Authority, ***The Financial Policy Committee's recommendation on loan to income ratios in mortgage lending: General Guidance,*** February 2017
50 Ministry of Housing, Communities & Local Government, ***English Housing Survey 2017 to 2018: headline report,*** January 2019

once the initial fixed term has expired.[51] Families with children living in the PRS with an AST are unable to guarantee that they'll always be able to live near their child's school, GP practice or not too far from grandparents and other family support networks. The government is currently consulting on abolishing 'Section 21' of the 1988 Housing Act that allows landlords to behave in this way, although whether this policy will be implemented in full remains to be seen.[52]

Figure 31 provides a detailed picture of the scale of the increase in the size of the PRS by analysing how likely individuals are to live in this sector at each single year of age, at two points in time. It shows how significant the change in the likelihood of private renting has been in just 15 years. It reveals how one-in-four children are starting school today living in the PRS – up from just one-in-ten in 2003.

Figure 31: Young families are more likely to live in the private-rented sector

Proportion of individuals living in the private-rented sector, by age: UK



Source: RF analysis of ONS, *Quarterly Labour Force Survey*

Housing consumes a large share of young families' income

The private-rented sector is not only providing homes for more adults later in their lives and more children earlier on in their lives, it is also more expensive today than it once was. Indeed, housing costs have become more of a burden across tenures.

51 J Rugg & D Rhodes, *The Evolving Private Rented Sector: its Contribution and Potential,* University of York Centre for Housing Policy, September 2018
52 Ministry of Housing, Communities and Local Government, 'Government announces end to unfair evictions', 15 April 2019

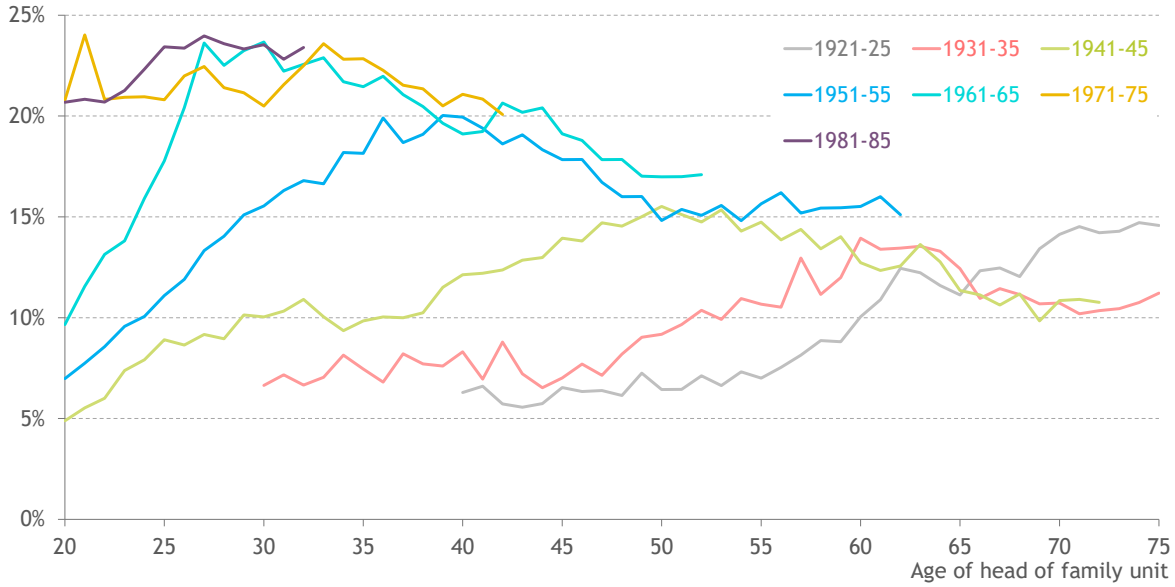
It is true that housing-cost-to-income ratios (HCIRs) have been relatively flat overall since the financial crisis, with gentle declines for younger family units in particular. Typical HCIRs for 18-29 year old family units fell slightly between 2016-17 and 2017-18 (from 21 per cent to 20 per cent), and are down from 23 per cent in 2009. By contrast, for family units aged 65 and over they have stayed flat over this period (at 11 per cent). But these recent changes do little to alter the long-term picture of cohort-on-cohort increases for all generations alive today.

Across all tenures, housing costs as a share of income increased significantly in the 1980s. This increase was most pronounced for private renters, but was felt across tenure types, and has not reversed in the decades since.

Figure 32 shows that the 1951-55 baby boomer cohort spent twice as much as a proportion of income on housing at age 35 as the 1941-45 silent generation cohort did just 10 years before them. As we discuss below, this relates to the cost of servicing mortgages in the late 1980s. Younger cohorts are also starting out their adult life with much higher housing costs than their predecessors. For example, at age 30 housing costs were equivalent to 24 per cent of income for millennials born in the early 1980s and 21 per cent for members of generation X born in the early 1970s, compared to 10 per cent for members of the silent generation born in the early 1940s.

Figure 32: Housing costs have increased relative to incomes for all generations alive today

Proportion of net income spent on housing costs, by age and cohort: GB, 1961-2018



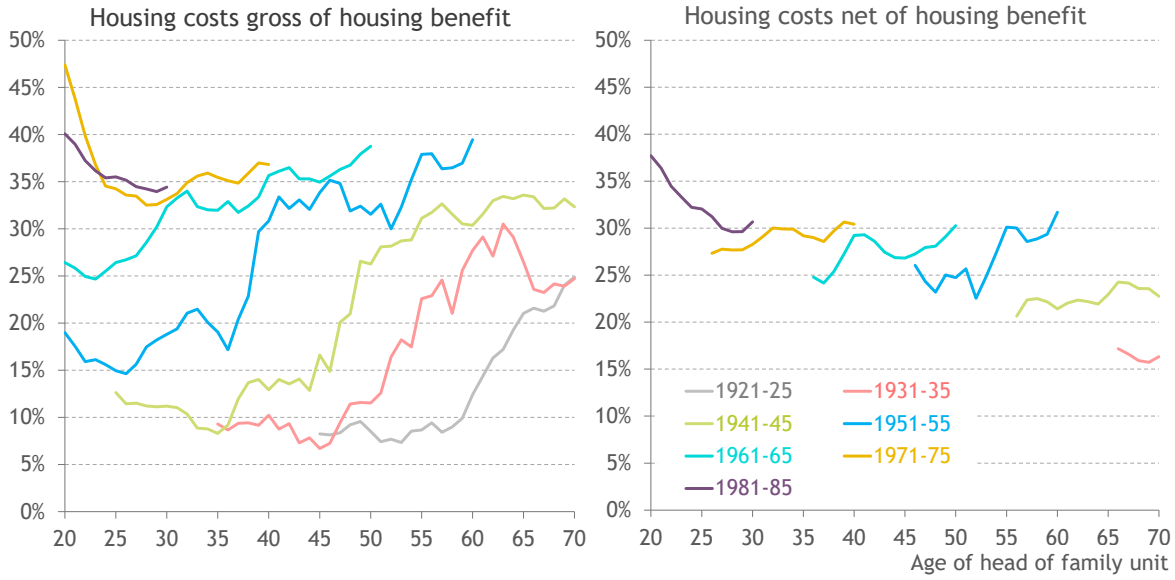
Notes: Excluding principal repayment and including housing benefit (in both incomes and housing costs). Incomes and housing costs are assumed to be shared equally within households. Figures for each cohort are derived from a weighted average of estimates by single year of age; cohorts are included if at least five birth years are present in the data.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2018)*

Alongside increases in housing costs across tenures in the 1980s and 1990s, a large part of the reason for younger cohorts facing high HCIRs is that private renters have higher average HCIRs, and family units in younger cohorts are more likely than their predecessors to be renting privately. 35 per cent of family units headed by adults born in the early 1980s were renting privately by the age of 25, compared to just 13 per cent of those in the 1960s cohort.

This compositional shift – away from lower-cost housing tenures and towards the PRS – has pushed up overall HCIRs for younger cohorts. Cohort differences in HCIRs in the private sector are larger still if we exclude housing benefit (HB) from the analysis. The data in Figure 32 is gross of HB, with HB included in income and not deducted from rent. We can more accurately represent the true day-to-day cost of private renting by deducting HB from both income and rent. This 'net' of HB analysis is presented in the right-hand panel of Figure 33.

Figure 33: Housing-cost-to-income ratios are highest for private renters, particularly so when measured net of housing benefit

Proportion of net income spent on housing costs by private renters, including and excluding housing benefit, by age and cohort: GB, 1961-2018



Notes: Incomes and housing costs are assumed to be shared equally within households. Figures for each cohort are derived from a weighted average of estimates by single year of age; cohorts are included if at least five birth years are present in the data.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2018)*

Removing HB from the cost of renting (and from income) reduces HCIRs for renters in all cohorts (compared to the left-hand panel in Figure 33, which is gross of HB), but by a smaller amount for those born more recently. This is not actually a product of HB being especially ungenerous for younger family units that receive the benefit – it covers a similar proportion of rents for all cohorts. Rather, there is a higher share of renters who receive no HB at all in younger cohorts. For

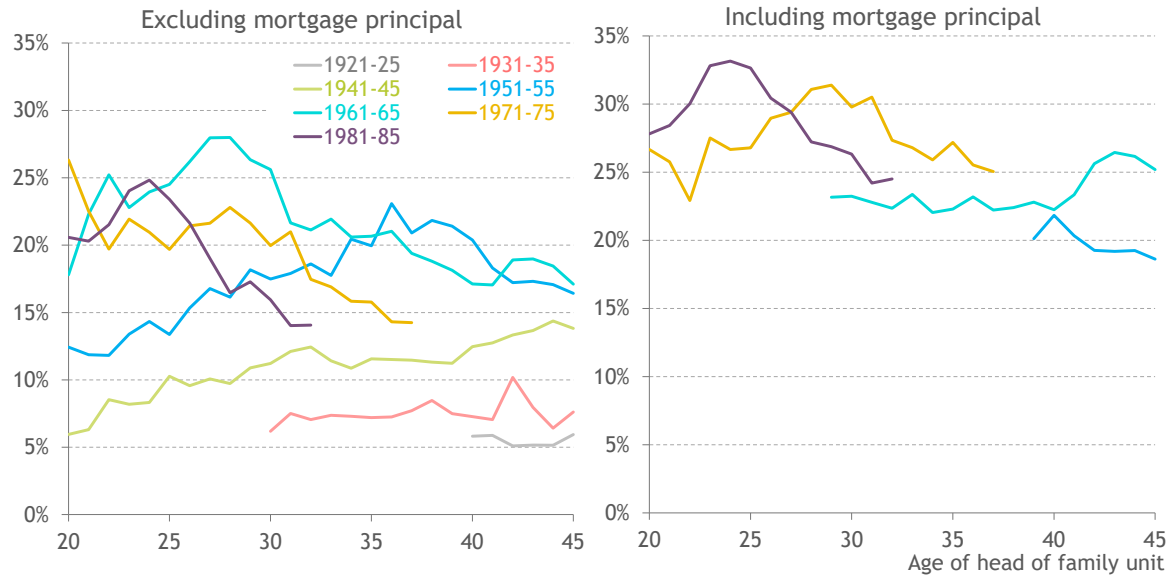
example, around one-in-six private renting family units in the cohort born in the early 1980s received HB in their early 30s, in comparison to around one-in-four of those in the 1966-70 cohort at the same age. In other words, as private renting has become a more plural tenure, the role of HB has waned.

For baby boomers, when they were younger, it was not rents that were driving high housing costs, rather mortgages were. High interest rates (the Bank of England's base rate hovered around 15 per cent for much of 1979, 1980 and 1981) pushed up the day-to-day cost of servicing a mortgage, which is the reason for the rapid increase in HCIRs experienced by the early 1960s cohort as it aged from its early to late 20s.

Figure 34 focuses on HCIRs for mortgagors (owners who haven't paid off their mortgage), and demonstrates the scale of increase recorded among those in this tenure category.

Figure 34: Mortgagor cost-to-income ratios have moved with interest rates, but the house price effect matters too

Proportion of net income spent on housing costs by mortgagors, including and excluding mortgage principal, by age and cohort: GB, 1961-2017



Notes: Income and housing costs both include housing benefit. Incomes and housing costs are assumed to be shared equally within households. Figures for each cohort are derived from a weighted average of estimates by single year of age; cohorts are included if at least five birth years are present in the data.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2018)*

The left-hand panel shows how, if the repayment of the mortgage principal is excluded from housing costs (as is common practice), members of the early-1960s cohort had very high housing costs when in their late 20s – peaking at an average of 26 per cent of income. In comparison, younger cohorts of mortgagors are spending less on servicing their mortgage, as a result of low interest rates. The

1980s was a time of greater economic turbulence, with households being more exposed to unemployment than today for instance (as discussed in the previous section). As such, these high HCIRs had a profound impact on short-run living standards as well as actual and perceived housing security for those (mainly baby boomers) who were new owners.

However, the subsequent interest rate falls are one of the underlying drivers of the house price rises of the 1990s onwards. As shown in the right-hand panel of Figure 34, the cost of paying down the capital on the larger mortgages associated with high house prices means that the day-to-day effect of making mortgage payments on income is in fact much more similar between cohorts, once the costs of the principal repayment is included.

This is a more accurate picture of the day-to-day spending on housing felt by mortgagors, although – of course – repayment of principal is not about 'consuming' housing but about accumulating an asset. Ultimately, both millennials and baby boomers will own a similar value of assets once they have repaid their mortgage. Older cohorts did face high interest rates and a short period of acute housing cost pressures, but benefited from lower house prices, smaller deposits (allowing easier access to housing) and loans that shrunk in relative terms as high inflation quickly eroded their magnitude. Younger cohorts of mortgagors are benefiting from today's low interest rate environment. But higher deposits (restricting access to home ownership), the need for larger loans (which also act as a barrier due to loan-to-income limits) and longer mortgage repayment terms are the other side of this coin.[53]

Housing costs have increased faster in some parts of the country than others

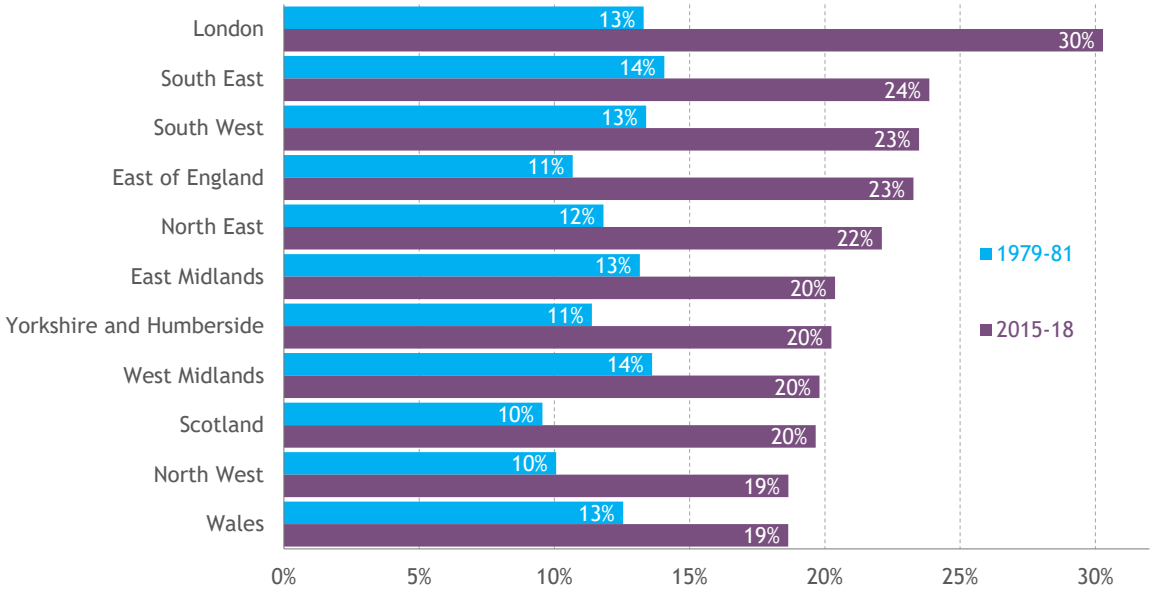
Higher housing costs as a share of income have materialised in every part of Great Britain over recent decades. However, the size of this increase has not been uniform across the country.

As shown in Figure 35, London is the part of the country in which HCIRs have increased the most. The average HCIR for a 30-34 year old living in London was 13 per cent in 1979-81; by 2015-17 this had more than doubled to 30 per cent.

53 J Cribb & P Simpson, ***Barriers to homeownership for young adults***, Institute for Fiscal Studies, October 2018

Figure 35: Regional differences in housing costs, gross of housing benefit, have widened

Proportion of net income spent on housing costs by family units headed by people aged 30-34, by cohort and region: GB



Notes: Excluding principal repayment and including housing benefit (in both incomes and housing costs). Incomes and housing costs are assumed to be shared equally within households.
Source: RF analysis of IFS, *Households Below Average Income (1961-91);* DWP, *Family Resources Survey (1994-2018)*

Figure 35 also provides evidence of a widening geographical spread of housing costs as a share of incomes. The impact of these widening gaps on job mobility is discussed in more detail in the spotlight analysis below.

The young are getting less for their money in terms of space, and are spending longer commuting

High housing costs may well reflect things that we all welcome: better quality housing, a willingness to pay for more space and the ability to accumulate an asset, for example. It's certainly true that as incomes rise, demand for housing increases, and it could be the case that higher HCIRs are simply a reflection of people paying more for housing to get more in return.[54]

However, although this is likely to be the case for some, the evidence points towards families enjoying less space, with an increase in the likelihood of overcrowding. This isn't surprising: the ratio of housing stock to family units has been declining since the early 1990s in England.[55]

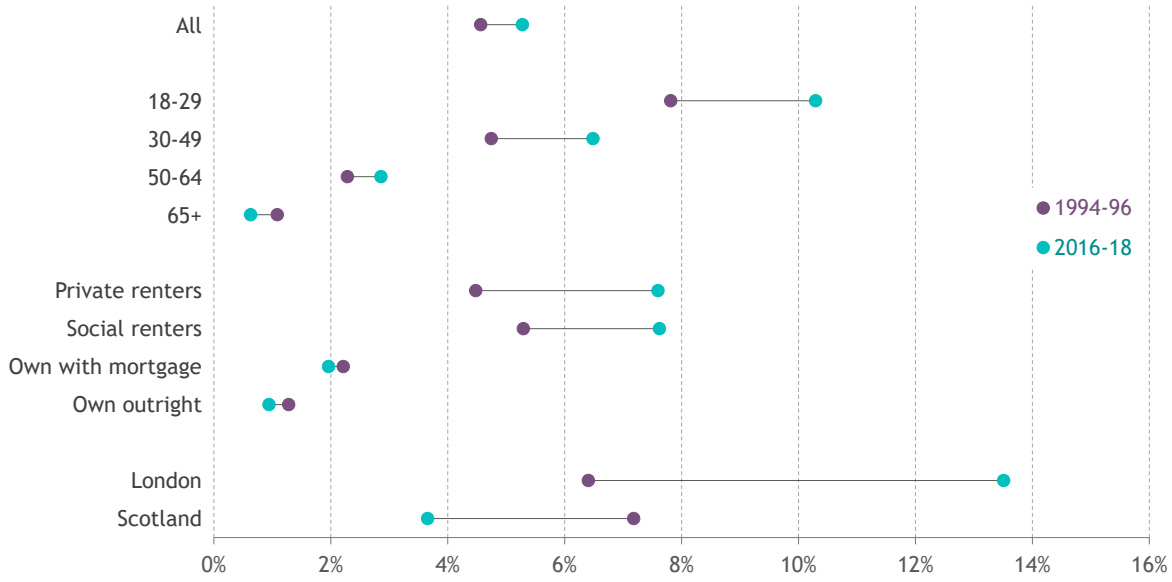
Overall, the proportion of family units that live in overcrowded housing has increased slightly from 4.6 per cent in 1994-95 to 5.3 per cent in 2015-17.[56] This

54 T Auterson, ***Forecasting house prices,*** Office for Budget Responsibility, July 2014
55 L Judge, The one million missing homes?, ***Resolution Foundation blog***, 12 January 2019
56 We define a family as overcrowded if it lives in a household with too few bedrooms to meet the 'bedroom standard' commonly used in social housing allocation schemes.

relatively small increase masks very significant differences by age, tenure and region. Family units headed by someone over 50 have become less likely to be overcrowded over the past two decades, whereas younger family units are much more likely to be so. As Figure 36 shows, the share of 18-29 year old family units in overcrowded homes has increased by almost one-third (from below 8 per cent to above 10 per cent).

Figure 36: For some groups, overcrowding has increased substantially over the past two decades

Proportion of family units living in overcrowded accommodation, by selected groups: GB



Notes: Age ranges refer to the head of the family unit. A family unit is a single adult or couple, and any dependent children. A family unit is overcrowded if it lives in a household with too few bedrooms to meet the 'bedroom standard' commonly used in social housing allocation schemes.
Source: RF analysis of ONS, *Family Resources Survey*

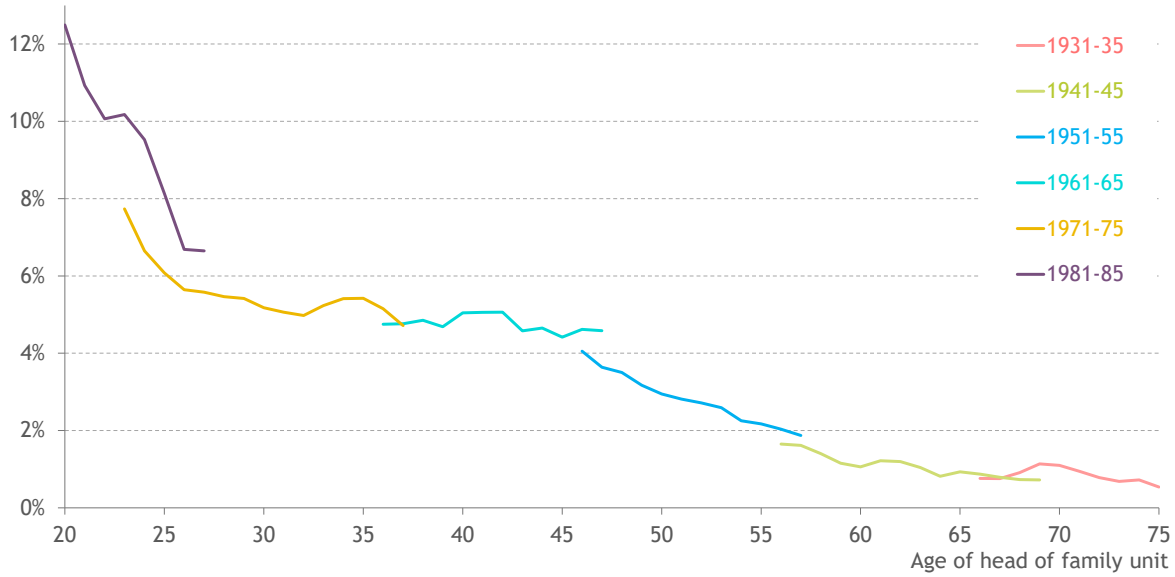
This is reflected in the patterns of change in overcrowding by tenure. Private and social renters are both now significantly more likely to be overcrowded than in the mid-1990s. For example, the overcrowding rate has increased by 70 per cent among families in the PRS, from 5 per cent to 8 per cent. London, being a region with a relatively young population and with a high share of private renters, is the region of Great Britain in which overcrowding has increased the most – it has more than doubled from 6 per cent to 14 per cent between 1994-96 and 2016-18. By contrast, in other parts of the country, such as Scotland, the trends in overcrowding have moved in the opposite direction.

Switching to a cohort perspective on these trends, we can see that overcrowding is highest for those in their 20s, and declines rapidly over the life course. In addition we find that, even if just to a small extent, each cohort is slightly more likely to be living in overcrowded accommodation today than the cohort born a

decade earlier. As Figure 37 shows, this is particularly the case for the early-1980s cohort, whose members are 20 per cent more likely to be living in overcrowded accommodation in their late 20s than those born in the early 1970s cohort were when they were the same age. But it is clear that older cohorts have not been spared from overcrowding pressures over the past decade.

Figure 37: Younger cohorts have a higher incidence of overcrowding than their predecessors

Proportion of family units living in overcrowded accommodation, by age and cohort: GB, 1994-2018

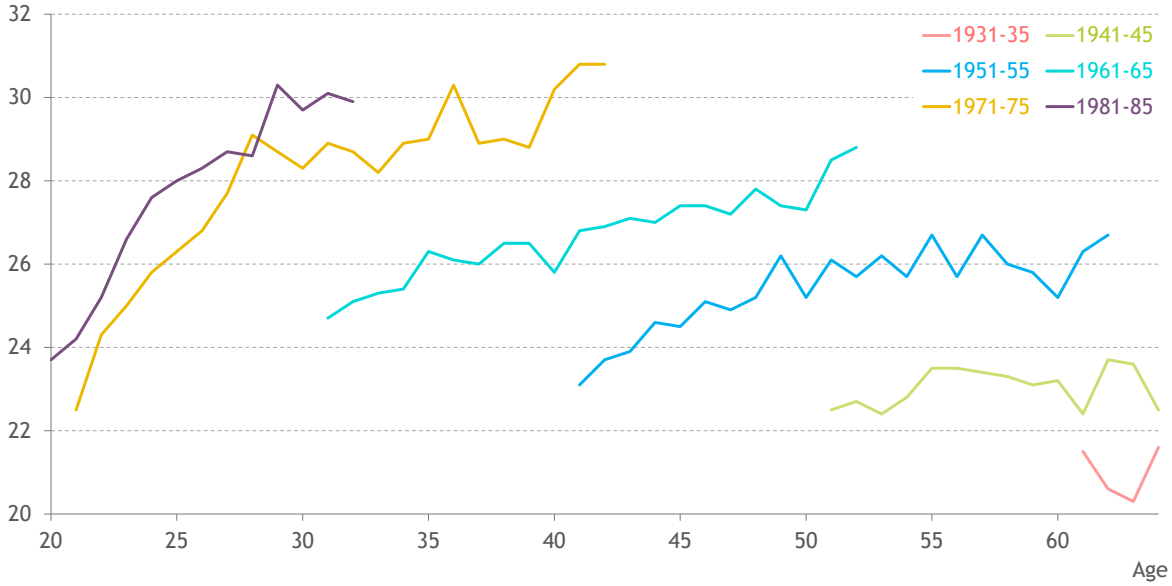


Notes: A family unit is a single adult or couple, and any dependent children. A family unit is overcrowded if it lives in a household with too few bedrooms to meet the 'bedroom standard' commonly used in social housing allocation schemes. Figures for each cohort are derived from a weighted average of estimates by single year of age; cohorts are included if at least five birth years are present in the data.
Source: RF analysis of ONS, *Family Resources Survey*

As well as being more likely to live in overcrowded accommodation, younger cohorts are also facing longer commutes than their predecessors did at the same age. As Figure 38 shows, those born in the early 1980s commute for slightly longer than those born 10 years earlier did at the same age. A larger gap, of 5 minutes per journey, exists between the commuting times of those born in the early 1980s at age 31 and those born in the early 1960s when they were the same age. This equates to 10 minutes a day, or almost an hour of extra commuting each full working week – an extra two days commuting a year for a full-time worker.

Figure 38: Younger cohorts spend more time commuting than predecessors at the same age

Mean travel to work time in minutes, by age and cohort: UK, 1992-2017



Notes: Travel to work times are one-way.
Source: RF analysis of Office for National Statistics. Social Survey Division, Northern Ireland Statistics and Research Agency. *Central Survey Unit.* (2018). *Labour Force Survey Adult Datasets*, 2002-2018: Secure Access. [29/05/2019]. 14th Edition. UK Data Service. SN:6727

Today's cohorts of young adults appear to be at the sharp-end of the housing squeeze, more likely to be in the less secure private-rented sector, with longer commutes and more overcrowding. But, in different ways, rising housing costs have borne down on living standards for all generations alive today. The spotlight analysis that follows explores the implications of these housing cost increases for residential and labour market mobility.

SPOTLIGHT

Housing costs and labour market mobility

All age groups are moving jobs less frequently than before, but the fall for young people is especially pronounced

Moving matters for living standards, but there appears to be less of it going on. This spotlight analysis – a detailed summary of our longer briefing note on this topic – examines the role that housing costs may be playing in this decline, alongside other economic factors.[57]

While many receive a pay rise as their time in, and mastery of, a role grows, the evidence is clear that the real boosts to earnings are achieved by moving jobs. Critically, taking a new post in a different firm has a larger pay uplift than simply being promoted within the same organisation,[58] and moving to denser, more productive areas comes with an even bigger pay premium.[59] We know that job mobility is especially important at the start of an individual's working life, when progression depends on testing out new roles and developing new skills[60], with an agile workforce generally viewed as good not just for the individuals concerned, but also for the economy.[61]

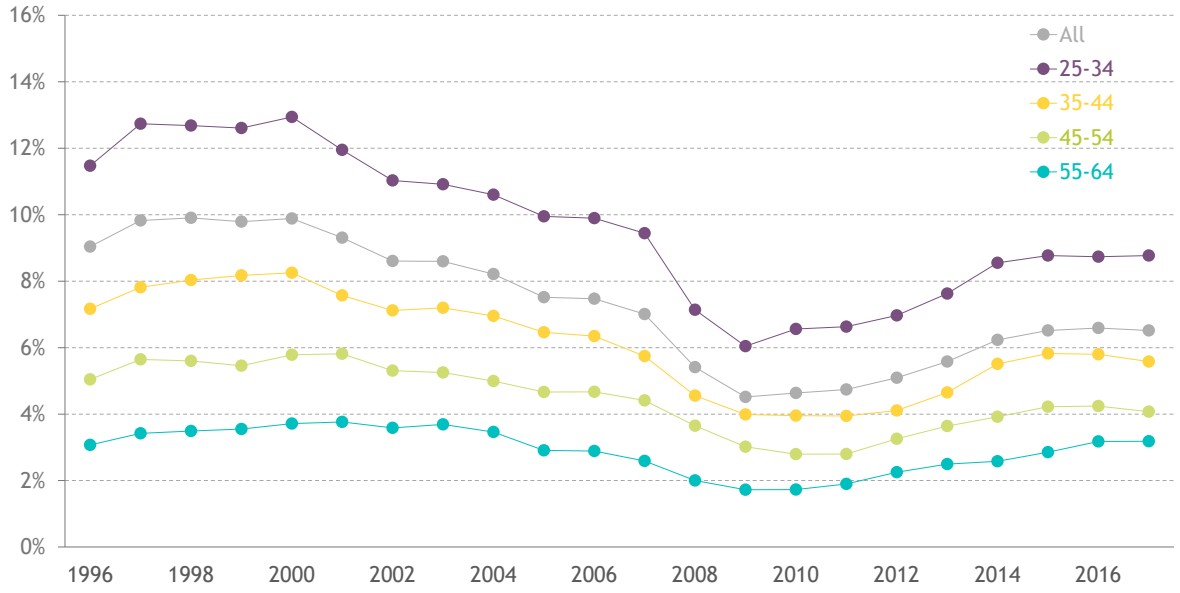
Figure 39, then, should give us all pause for thought. As this makes clear, the share of those moving jobs has fallen over the last two decades, from around one-in-ten in 1996 to one-in-seventeen by 2018.[62] Even more worryingly, the sharpest decline has occurred among young people: the job-to-job move rate of 25-34 year olds has fallen by one-quarter over the period, belying the idea that they are all working more nimbly than previous generations or 'gigging'. In fact, while four times as many 25-34 year olds made a job move as their 55-64 year old peers in 1996, today they are little more than twice as likely to change roles as older workers.

57 L Judge, ***Moving matters: Housing costs and labour market mobility***, Resolution Foundation, June 2019
58 See, for example: S Clarke, ***The RF Earnings Outlook: Q4 2017***, Resolution Foundation, March 2018
59 E Moretti, ***The New Geography of Jobs***, Houghton Mifflin Harcourt, 2012
60 L Gardiner & P Gregg, ***Study, Work, Progress, Repeat? How and why pay and progression outcomes have differed across cohorts***, Resolution Foundation, February 2017
61 A Haldane, ***The UK's productivity problem: hub no spokes***, Speech given at Academy of Social Sciences Annual Lecture, London, June 2018
62 While previous Resolution Foundation research has explored voluntary (i.e. following a resignation) job-to-job mobility, here we expand our measure slightly to include all job-to-job moves,.

Figure 39: Young people's job mobility has fallen especially steeply over time

Proportion of working population moving jobs in year, by age group: UK

Notes: Job entry indicates those moving from one job to another, and those moving into work from unemployment, inactivity or study. Excludes full-time students. Year indicates latest year, e.g.1997=1996-97.



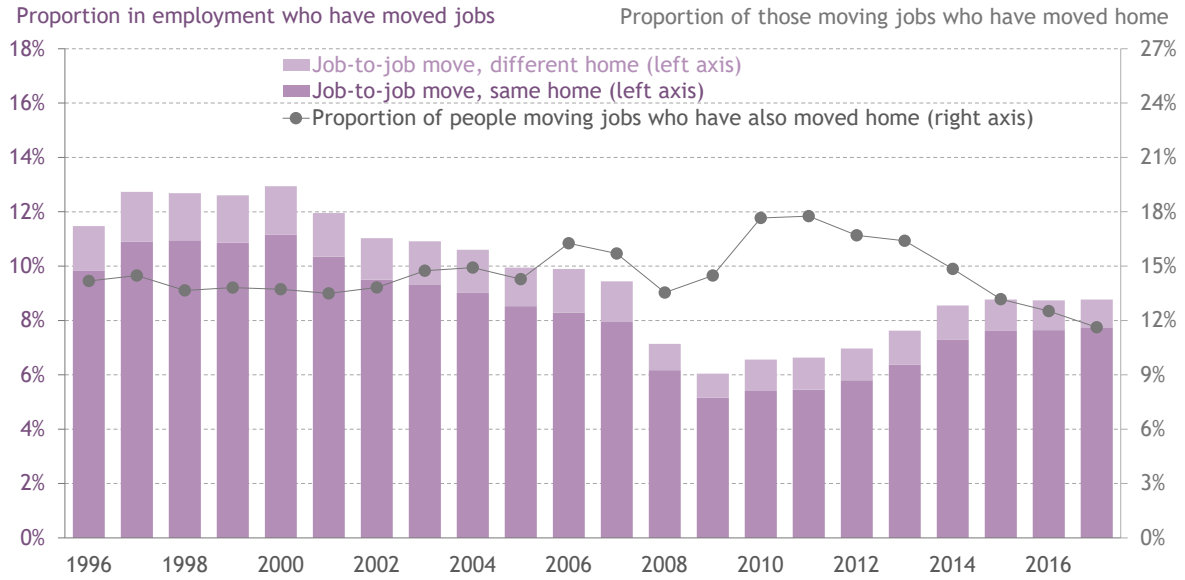
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

So what could lie behind this picture? We begin our exploration of this question with Figure 40, which identifies not just the share of young people making a job-to-job move each year but also those who changed address at the same point. Three things are worthy of note. First, the vast majority of job moves do not coincide with a change of address, indicating how localised labour markets are, even for this most mobile segment of the population.[63] Second, job and home moves appear more resistant to the economic cycle than job moves alone. But third, it is clear that young people today move home and work less than they did in the past, not just in absolute terms (the rate of such moves has fallen by a third) but also relative to overall job entry rates. In 1996-97, for example, 15 per cent of all job entries made by 25-34 year olds involved a change of address; by 2017-18, that figure had fallen to 12 per cent.

63 See: A Manning & B Petrongolo, 'How Local Are Labor Markets? Evidence from a Spatial Job Search Model', ***American Economic Review***, 107(10), October 2017

Figure 40: Young people moving job and home has fallen by one-third in the last 20 years

Proportion of working 25-34 year olds changing job and residence over a year (two-year rolling average): UK



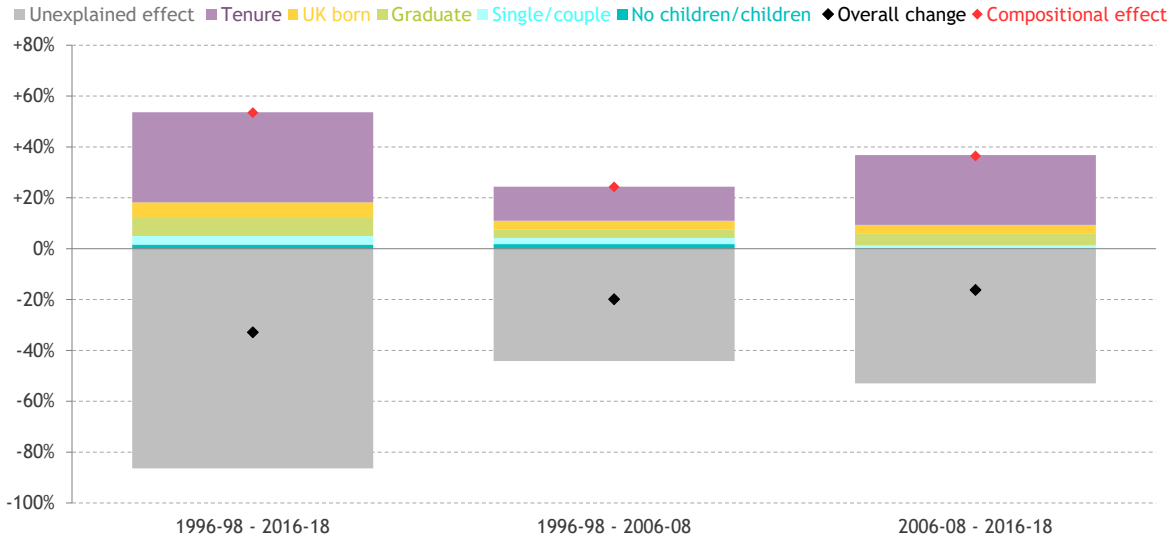
Notes: Excludes full-time students. Year indicates latest year e.g.1997=1996-97.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

While this change is not dramatic, it is surprising given the way that the composition of the population has changed over this period. To begin, young people today are more highly educated than their counterparts two decades ago; they are more likely to have been born outside the UK; they couple and have children later than they did in the past; and critically, they are much more likely to live in the private-rented sector than their predecessors.

We explore the way each of these factors should have affected mobility rates in Figure 41, which presents the results of a decomposition exercise. Looking at the 1996-2018 period as a whole, we can see that such population change should have served to drive up the share of young people switching jobs and homes today: in fact, all else being equal, such moves should have increased by 50 per cent, rather than falling by one-third. Moreover, splitting this out pre- and post-crisis shows that compositional change should have acted to increase job-plus-residence moves in both periods, but the upward effect of tenure in particular should have been stronger in recent years.

Figure 41: Compositional change means more young people should be moving jobs and homes today

Compositional effects on average change in job-plus-residence mobility rates of those aged 25-39, various time periods: UK



Notes: Age range used here is 25-39 to increase sample size, therefore overall change does not match previous chart precisely. To calculate compositional effects, we estimate a regression equation to determine the job-plus-home mark-up for various characteristics, including a quarterly time dummy to capture time-specific effects. We then calculate the effects of compositional changes for the group concerned by applying the estimated coefficients to the profile of personal characteristics in each time period. In other words, we apply the job-plus-home mark-ups to the population mix to assess whether compositional changes are predicted to result in rising or falling levels of mobility, controlling for time-specific effects. Finally, we compare the estimated compositional effects to actual change in mobility to derive the relative contribution of 'within group' effects and compositional effects.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

There are 'good' labour market reasons why mobility has fallen over time

This presents us with an intriguing question: what sits behind the large, unexplained effect that has served to drive down the share of younger people moving work and home over the last two decades? Setting aside shifting norms and preferences, in this spotlight analysis and the more detail briefing note it is based on,[64] we identify three possible economic explanations for this mobility decline.

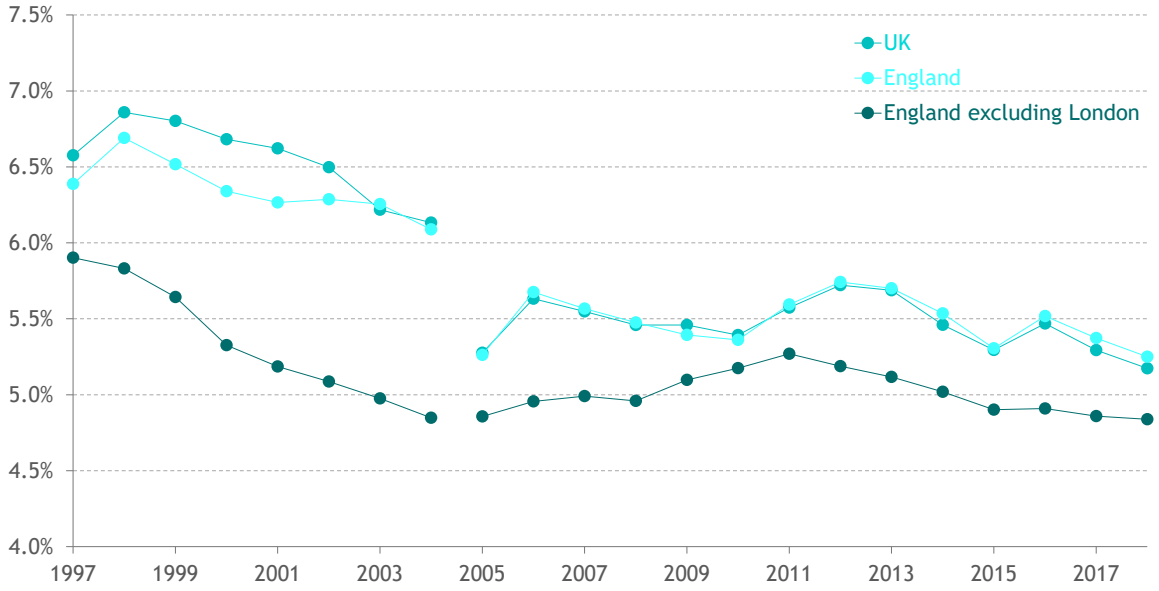
We identify two positive reasons why young people are less mobile than they were in the past. First, as Figure 42 shows, there is simply less need to make a job-plus-residence move today than there was in the 1990s because of unemployment. When we look at the variation of employment rates across local authorities we note that this has fallen over time, meaning that the 'push' to leave an area has diminished. While it would be wrong to think that 'left behind' areas are entirely

64 L Judge, *Moving matters: Housing costs and labour market mobility*, Resolution Foundation, June 2019

a thing of the past, Figure 42 suggests that it is easier to find at least some type of work in one's local authority than it was in the 1990s.[65]

Figure 42: It is easier today to find work in one's home area, reducing the 'push' to move

Standard deviation of employment rates across local authorities: UK



Notes: Break in series relates to the gap between the Local area Labour Force Survey and the Annual Population Survey series.
Source: ONS, Local area *Labour Force Survey (1997-2003)*; ONS, *Annual Population Survey (2005-18)*

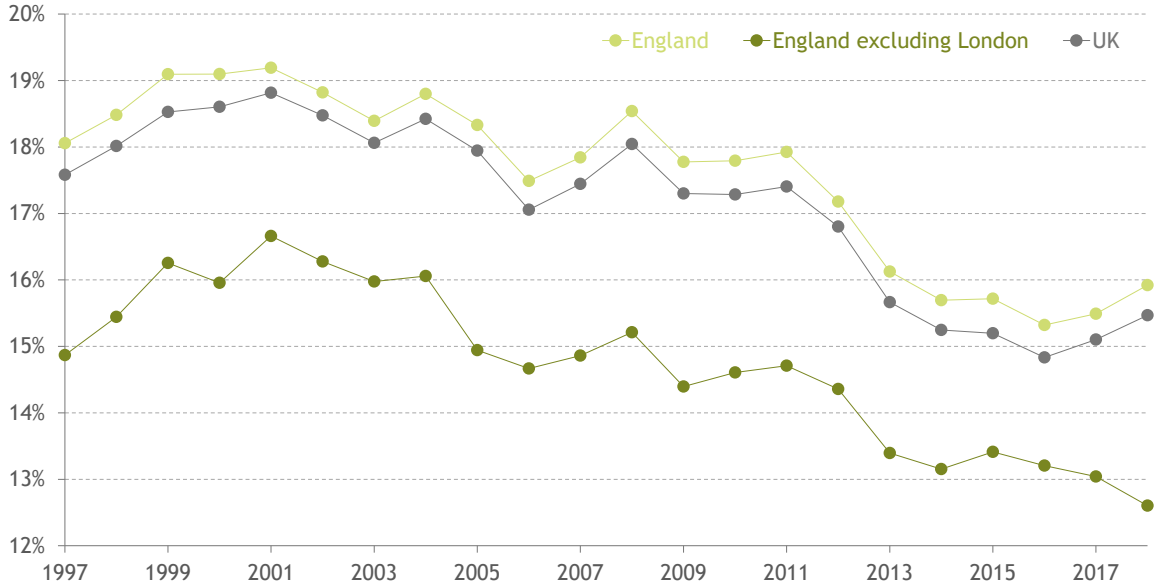
If the 'push' of a lack of employment to move across local authorities has diminished over time, has the wage 'pull' from areas with better paid jobs attenuated in much the same way?

In Figure 43 we show this has indeed been the case, with the variation in earnings levels observed at the local authority level falling over the period.[66] That is not to say the pay premium of moving to a more buoyant area is no longer substantial – average weekly pay was 62 per cent higher in UK local authorities in the top earnings decile in 2018 compared to that in the bottom pay decile. But this 'productive area premium' has fallen over time: in 1997, the higher-paying areas offered an average weekly wage 80 per cent larger than the lowest-paying local authorities.[67]

65 See Box 1 in: L Judge, ***Moving matters: Housing costs and labour market mobility.*** Resolution Foundation, June 2019 for a discussion of whether the types of jobs available in higher-earning local authorities have changed over time so that they increasingly do not 'fit' the skills of those who are keen to move from less productive areas.
66 We measure the variation in earnings using a coefficient of variation. This is the ratio of the standard deviation of a set of data to its mean. It can be interpreted in the same way as a standard deviation.
67 The same result is observed when we repeat this analysis with hourly rather than weekly median earnings.

Figure 43: The gap in earnings levels between local authorities has closed over time, reducing the 'pull' to move

Coefficient of variation of weekly median earnings across local authorities: UK



Notes: The coefficient of variation is the ratio of the standard deviation of a set of data to its mean. Earnings used are weekly residence-based.
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

The propensity of young private renters to move jobs and homes has dropped dramatically

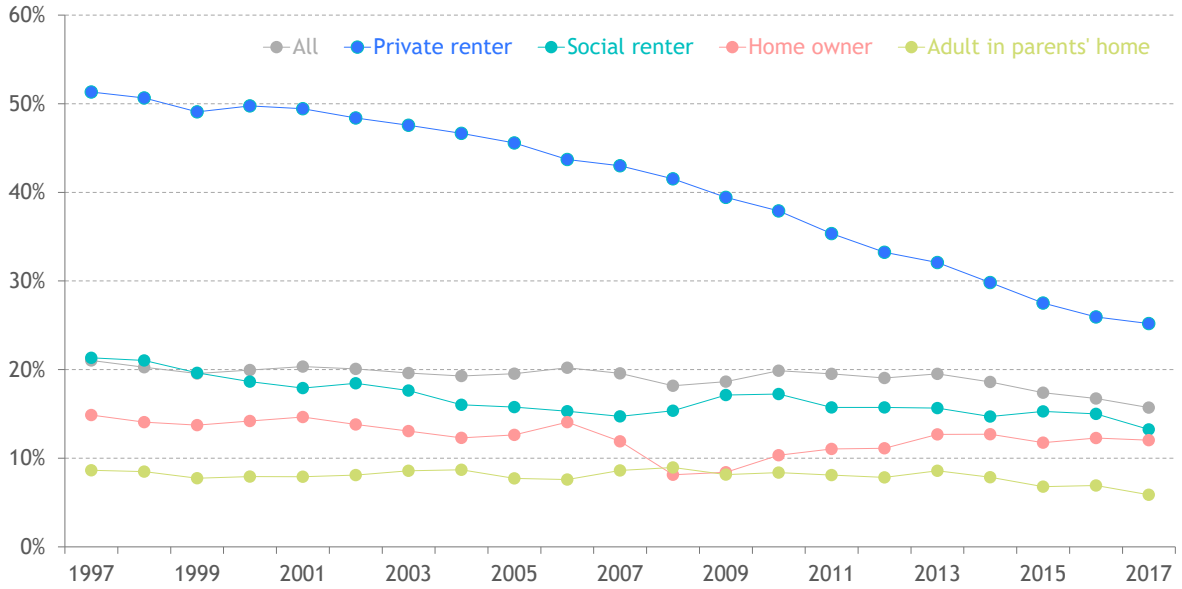
So far we have identified two positive economic reasons why young people's propensity to move both jobs and homes has fallen over time. But could there be something less benign at work which has also changed the incentives to move to a more productive part of the country? In Figure 41 we noted that tenure change especially should have acted to increase the rates at which young people relocate for work. Given this, we now turn to our attention to how housing tenure affects job-plus-residence mobility rates.

The academic literature exploring the housing-mobility interface largely focuses on the way that home ownership and social tenancies have acted as a drag on movement.[68] But as Figure 44 shows plainly, when we look at residential mobility by tenure, it is young private renters who have recorded the steepest drop in rates. While those living in the private-rented sector (PRS) are still more likely to move home than owners or social renters, their propensity to do so has fallen by more than half in the last two decades, from 53 per cent in 1996 to just 25 per cent in 2018.

68 See, for example: Y Cho & C Whitehead, 'The immobility of social tenants: is it true? Does it matter?', ***Journal of Housing and Built Environment***, 28(4), March 2013; D Blanchflower, ***Not working: where have all the good jobs gone?***, Princeton University Press, January 2019

Figure 44: Private renting is still associated with higher residential mobility rates than other tenures, but this has fallen sharply over time

Proportion of 25-34 year olds moving home in year, by tenure (two-year rolling average): UK



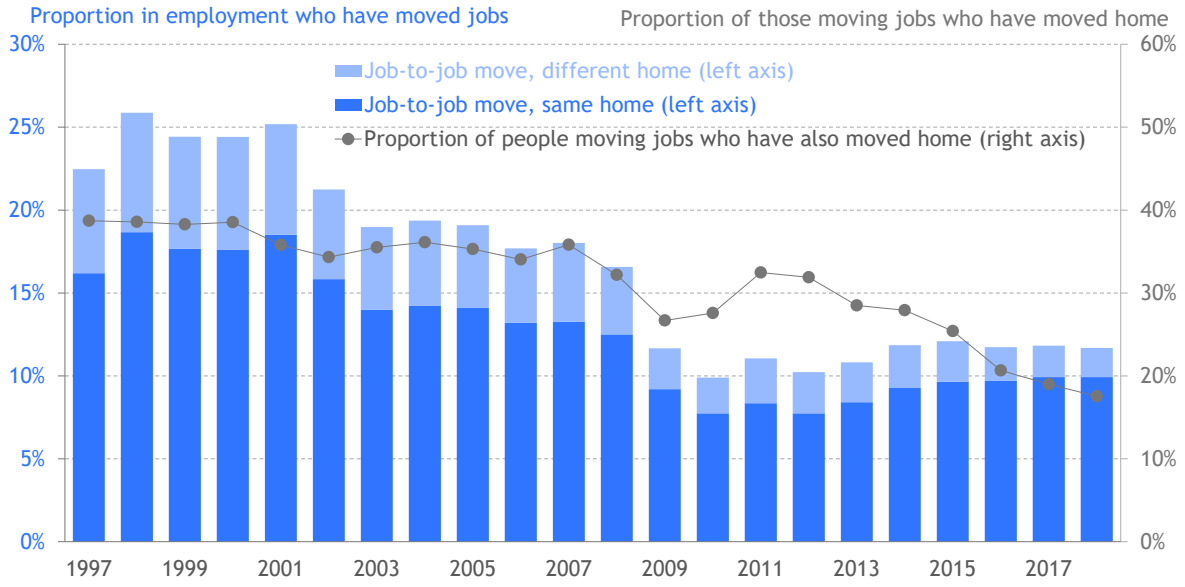
Notes: Adults in parents' home includes full-time students. Tenure indicates that in which adult currently lives. Year indicates latest year in the rolling average, e.g. 1997=1996-97.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

This finding is very much at odds with the received view of PRS. Although private renting has the lowest level of security, the highest level of unaffordability and the poorest quality of any tenure, its redeeming feature is generally thought to be its flexibility. Compared to home ownership, the transaction costs a private renter encounters when moving are low (and recent government action to protect deposits from unscrupulous landlords and ban agency fees will have reduced them still further). Likewise, private renters clearly have far more agency when it comes to choosing where to live than those in the social sector.

In theory then, the PRS should afford tenants the flexibility to move for work more easily, thereby allowing them to match efficiently in the labour market and maximise their earnings. Yet when we brings jobs back into the picture, as we do in Figure 45 (which is the same as Figure 40 but restricted to private renters only), it is striking that the likelihood that young private renters change both their job and residence has fallen not just in absolute terms but also relative to the overall mobility rate over time. Whereas close to two-in-five young private renters starting a new job moved house in 1996-97, today that figure has fallen to below one-in-five.

Figure 45: Young private renters are only one-third as likely to switch jobs and homes as they were 20 years ago

Proportion of 25-34 year olds renting privately changing job and residence over a year (two-year rolling averages): UK



Notes: Job entry indicates those moving from one job to another, and those moving into work from unemployment, inactivity or study. Excludes full-time students. Year indicates latest year e.g. 1997=1996-97.
Source: RF analysis of ONS, *Quarterly Labour Force Survey*

Again, we should be alert to the changing characteristics of younger private renters over the period. Younger cohorts today are more like to be renting privately later in the life course because they have yet to be able to buy a home (or access social housing). As a result, it is far more common for private renters to be in couples or to have children than it was in the past. However, a decomposition exercise once again shows that over the entire period 1996-2018, compositional change should have served to drive up the mobility of younger private renters by around 5 per cent (although the rising number of private renters with children has acted as a weak compositional drag in recent years), as opposed to the significant fall we actually observe.[69]

Faster rents growth in more productive areas is acting as a deterrent to labour market mobility

So what could lie behind this fall in the propensity of young private renters to move for both jobs and homes over the last 20 years? Work from the US has shown that while there are higher earnings to be found in more productive states, the returns to moving to these better-paying areas have diminished since the mid-1990s because higher housing costs have absorbed much more of the gain.[70] Is it

69 For further details, see: L Judge, ***Moving matters: Housing costs and labour market mobility***, Resolution Foundation, June 2019

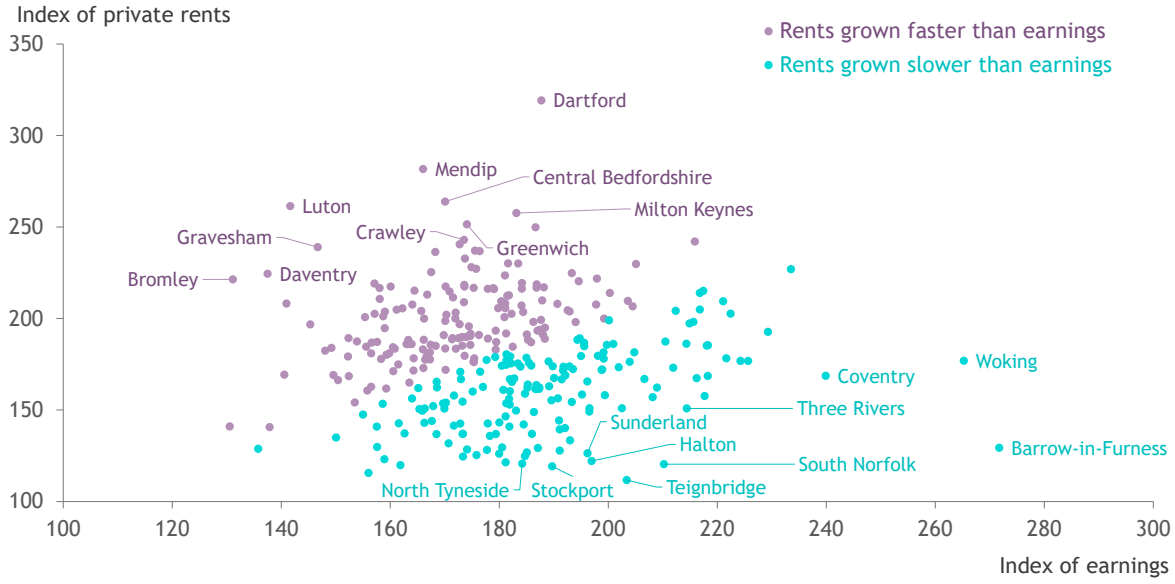
70 P Ganong & D Shoag, 'Why Has Regional Income Convergence in the U.S. Declined?', *Journal of Urban Economics*, 102, 2017

possible that the same dynamic explains (at least in part) the significant decline in job-plus-residence mobility rates (especially of young private renters) in the UK?

When we set rental and earnings data side by side we can see that their respective rates of change at the local authority level over the last two decades have been very mixed.[71] Whereas we would expect private rents to rise broadly in line with earnings across the board, as Figure 46 illustrates, no such relationship is observed (the R-squared of this series is non-existent). In fact, rents growth outstripped earnings growth in 165 out of 324 English local authorities over the period, but grew at a slower rate in the remainder.

Figure 46: Rents have grown faster than earnings in just over half of English local authorities in the last 20 years

Index of nominal local authority earnings and private rents (1997=100): England, 1997-2018



Notes: Earnings used are weekly residence-based.
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*; Resolution Foundation private rents data series

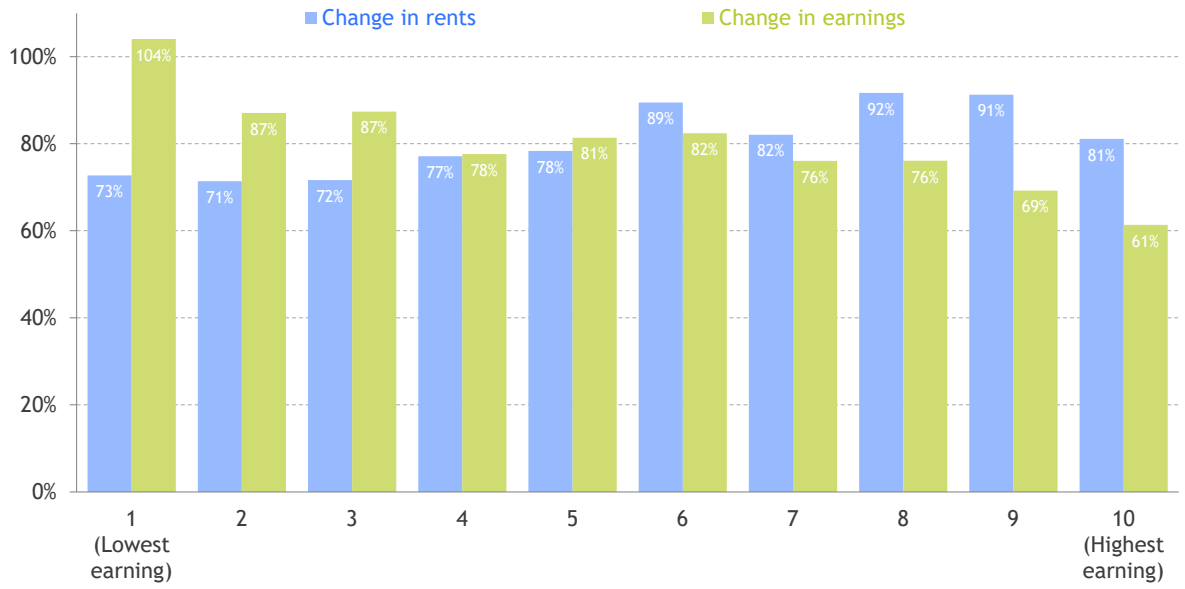
When we look in more detail at the local authorities which have recorded faster rent than earnings growth however, an interesting pattern emerges. In Figure 47 we show how private rents and earnings have changed by wage decile: that is, from the 10 per cent of areas with the lowest earnings levels in 1997 (the 1st decile) to the 10 per cent of areas with the highest earnings levels (the 10th decile). We find that median earnings have grown faster than average rents in the bottom half of areas, making them relatively more attractive today than in the past, from a living standards perspective. Conversely, rents have outstripped earnings in

71 See Annex 1 in: L Judge, ***Moving matters: Housing costs and labour market mobility***, Resolution Foundation, June 2019 for further details of the private rents data used. Due to data limitations, the rents and earnings analysis in the following sub-sections is England only.

areas with higher pay levels, meaning the living standards premium attached to moving to such areas has diminished over time.

Figure 47: While earnings have grown faster than rents in lower-earning areas, they have lagged behind in more productive local authorities

Nominal change in median private rents and earnings, by 1997 local authority earnings decile: England, 1997-2018



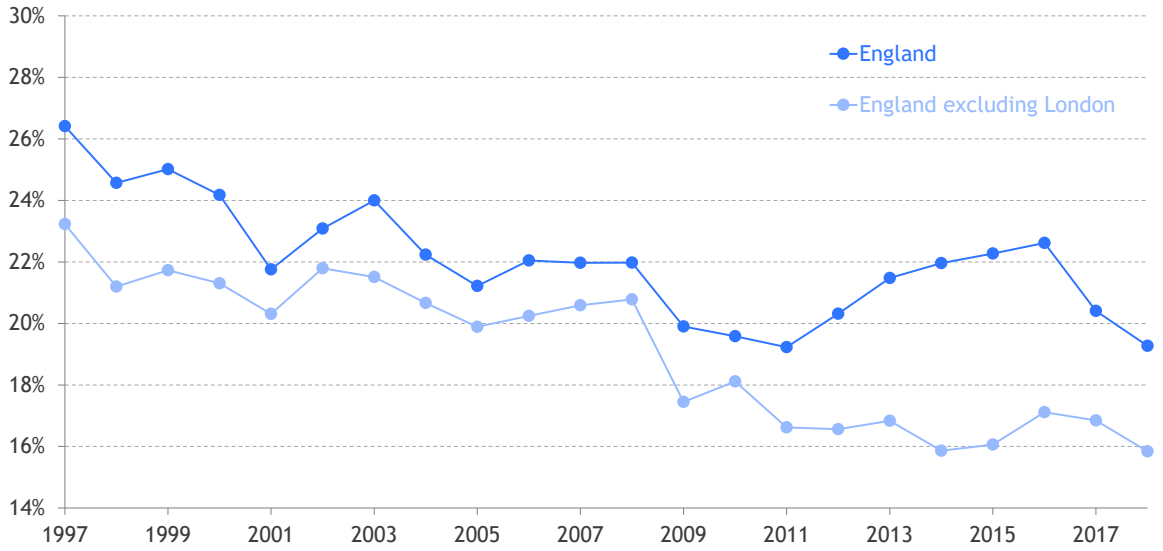
Notes: Earnings used are weekly residence-based.
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*; Resolution Foundation private rents data series

The living standards impact of rising housing costs

Put another way, the difference across local authorities in living standards after accounting for housing costs is smaller today than it was two decades ago, thereby reducing the incentive for private renters to move. We confirm this conclusion formally in Figure 48, which shows the coefficient of variation between local authorities' after-housing-costs earnings (where a higher value indicates larger variation in our constructed metric of after-housing-costs earnings between local authorities in the year in question). Moreover, the downward trend is still observed when we remove London from the picture, indicating that it is not just the capital's well-documented housing affordability problems which are driving this conclusion.

Figure 48: After-housing-costs earnings have become more equal between local authorities over time

Coefficient of variation of after-housing-costs earnings across local authorities: England



Notes: The coefficient of variation is the ratio of the standard deviation of a set of data to its mean. Earnings used are weekly residence-based.
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*; Resolution Foundation private rents data series

Of course, not all young people are private renters; nor do many want to stay in the tenure even in the short to medium term.[72] Likewise, as we showed at the outset of this analysis job mobility rates have fallen for older age groups who are also more likely to be home owners. It is worth thinking, then, how the 'pull' of higher-paid areas has changed not just for renters but also for those who own (or aspire to do so at a future point).

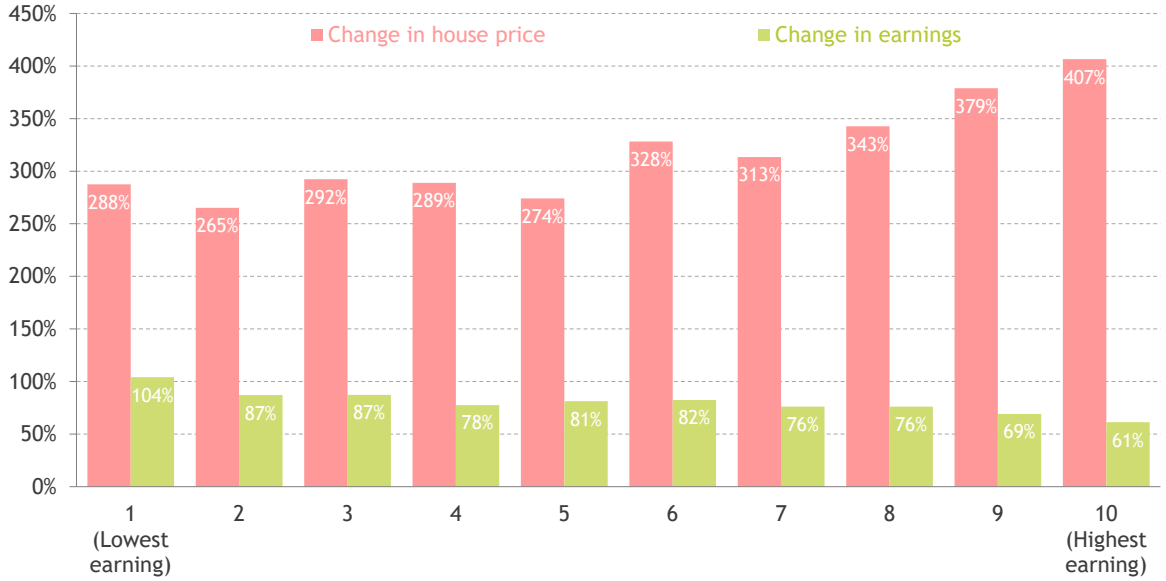
While the ongoing costs of home ownership are, of course, not the same as the house price, the latter does determine the former to a significant extent, as well as potentially creating a barrier to moving if the deposit required is unaffordable. Given this, we repeat our previous analysis with house prices instead of private rents to explore how the incentive to take a new job that requires an address change has shifted over time for owners. Figure 49 sets out the results. As this makes clear, while house prices have increased 2.8 times in the bottom 10 per cent of local authorities when ranked by earnings levels, they have grown by more than a factor of 4 in the top 10 per cent. Put differently, while it has always been more expensive to buy a home in a more productive area, current (and indeed putative) owners who wish to move to higher-earning places now need considerably more equity, or other forms of savings, to bridge the gap. Rising

72 For example, 58 per cent of private renters expect to own a home, with more than a quarter expecting to buy within the next two years. For more details, see Annex Table 1.11 in: Ministry of Housing, Communities and Local Government, *English Housing Survey 2017 to 2018: headline report*, January 2019

house price differentials can go beyond simply acting as a disincentive to move then, instead often actively functioning as a barrier.

Figure 49: House prices have grown at a far faster rate in higher-earning areas over the last two decades

Nominal change in median private rents and earnings, by 1997 local authority earnings decile: England, 1997-2018



Notes: Earnings used are weekly residence-based.
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*; ONS, *UK House Price Index*

Those who do move today are more likely to choose cheaper areas than in the past

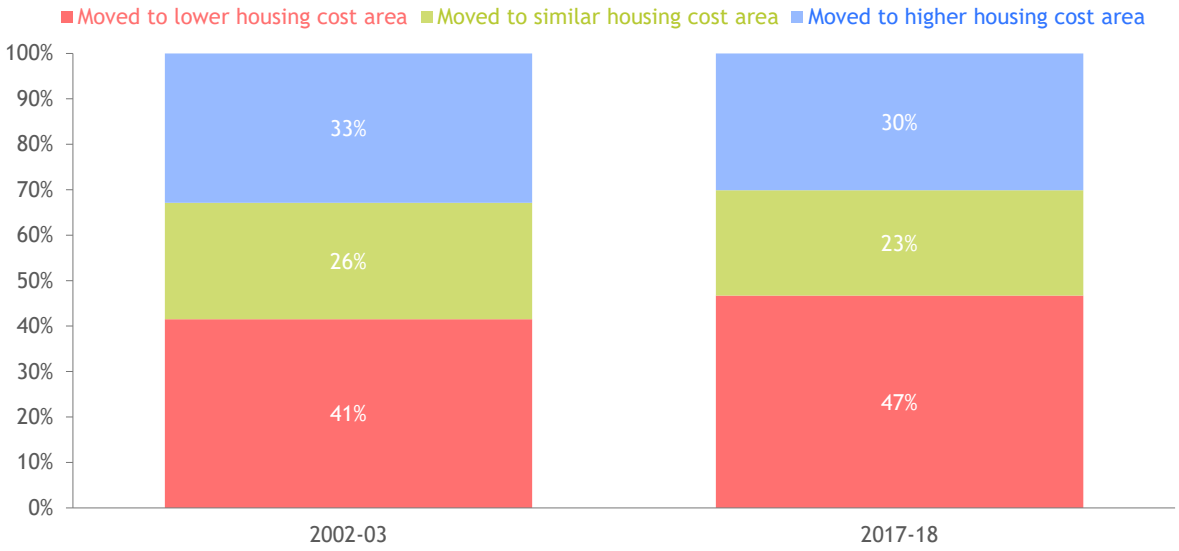
Whether a renter or home owner (actual or prospective), we have shown that the living standards 'pull' of higher-paying areas has diminished over time as housing costs absorb more of one's earnings in such places, and house prices potentially act as a barrier. But how has this diminishing 'pull' factor played out in practice?

Figure 50 sets out the profile of actual residential moves based on the housing costs (i.e. rents) of the origin and destination local authority.[73] We find that more moves made today are to lower-rent areas compared to the early 2000s (47 per cent and 41 per cent respectively), whereas the share of those changing residence to areas with the same level of rents or higher housing costs have both fallen by 3 percentage points over the period.

73 Sample size issues mean that we are unable to break down new-job-plus-residence moves into our three cost brackets. Consequently, here we use all cross-local authority moves as a proxy for a job-plus-residence move.

Figure 50: When working-age adults do relocate, they are moving more to cheaper areas than in the past

Share of cross-local authority residential moves by working-age adults, by housing costs bracket: England



Source: RF analysis of Office for National Statistics. *Social Survey Division*, Northern Ireland Statistics and Research Agency. Central Survey Unit. (2018). *Labour Force Survey Adult Datasets, 2002-2018*: Secure Access. [29/05/2019]. 14th Edition. UK Data Service. SN:6727; Resolution Foundation private rents data series

As well as answering the question of whether moves to higher-cost, higher-productivity areas have fallen - Figure 50 makes clear that they have in relative terms, alongside the absolute fall in new-job-plus-home moves for young adults shown in Figure 40 – we note two further potential drags to living standards entailed by the moves that do happen.

First, if a move to a lower-housing-cost area goes hand-in-hand with the decision to also change jobs to one in that same area, such movers might be trading down when it comes to pay (as we said above, pay and housing costs are very strongly correlated across areas). Second, those that choose to move to cheaper housing cost areas but stay in the same job – or to move both job and home but to live in a cheaper area further away from where the job is located – will need to travel further to work each day with all the extra time, costs and indeed impact on the environment that this will entail. Our finding earlier in this section that commuting times have increased for all working-age cohorts compared to predecessors at the same age is evidence that this is a choice that many families are making.

Conclusion

Young people today are very much at the sharp end of the housing challenge. They are more likely than previous generations to be renting privately as they

approach child-bearing age; less likely to have the security and living standards protection afforded by a social tenancy; and more likely to be encumbered with a large debt if they have been lucky enough to get on the housing ladder. But in this spotlight section we have shown that the living standards impact of housing goes beyond the immediate; rising rents in more productive areas are having a second order effect too, by acting as a headwind to labour market mobility.

SECTION 3

Taxes, benefits and household income

CHAPTER SUMMARY

Despite weaker income growth for pensioners than working-age adults over the past couple of years, it remains the case that working-age cohorts are making the least generational income progress. In their early 30s, the 1981-85 cohort had incomes 3 per cent lower than those 10 years their senior did at the same age. Even younger baby boomers in their early 60s are managing to do no more than track the incomes of those 10 years before them at the same age. In contrast, the figure for members of the 1941-45 cohort in their early 70s is a 20 per cent increase.

The 18-29 year old age group is the only one with lower non-housing spending in 2017-18 than in 2001-02. The real-terms non-housing spending of 18-29 yeard olds was 7 per cent lower, compared to an increase of 11 per cent for 50-64 year olds and 37 per cent for people aged 65 and over.

18-29 year olds and 30-49 year olds also now devote slightly less of their non-housing spending to recreation, culture, restaurants and hotels than those aged 65 and over do. This is in contrast to 2001-02, when the spending of these two younger cohorts was respectively 23 per cent and 18 per cent higher in these categories than 65+ year olds'.

Despite a recent boost offered by giveaways in the 2018 Budget, changes to the tax and benefit system since 2015 will reduce incomes for families headed by 30-45 year olds by around £385 on average by 2023-24. This is in comparison to an average gain of £100 for families headed by over-65s.

Our spotlight analysis focuses on poverty across generations and over the life course, bringing together six decades of data. We note that discussions about poverty in the UK have largely focused on children and pensioners, the life stages at which relative poverty rates have tended to be highest on average since 1961. As such, poverty over the life course can be assumed to follow a 'U-shaped' pattern. But in practice no generation alive today has itself experienced this 'U-shape', with economic and policy shifts – such as the big increase in overall income inequality recorded in the 1980s – meaning poverty peaked at different ages for different cohorts.

Another dominant feature has been big declines in poverty for pensioners: pensioner poverty has fallen by over two-thirds since the 1960s to just 15 per cent for older members of the silent generation. Child poverty declined from the mid-1990s onwards, falling from 35 per cent to 25 per cent at the age of eight for the eldest cohort of the latest generation (born in the first decade of this century) compared to those born 20 years earlier. But it is now rising again and is expected to return to its joint-highest level in early childhood (35 per cent) for those born 1916-20.

Generational income progress has faltered for younger baby boomers, generation X and millennials

The disposable household income after housing costs measure brings together employment within households, pay, the impact of direct taxes, benefits, private pension contributions and the cost of housing. In this sense, incomes bring together many of the themes explored in the previous two sections.

After a couple of years of reasonable household income growth in 2014-15 and 2015-16, more recent data on household incomes has been weak. Across all households, real annual household income growth was below 2 per cent in 2016-17, and turned negative at -0.2 per cent in 2017-18.[74] Within this muted picture it is pensioners who have fared worse: typical pensioner incomes apparently fell 2.5 per cent in 2017-18.

Alongside actual income pressures (such as private pension uprating falling behind inflation in some instances and some pensioners being exposed to housing benefit cuts), there is the suggestion that some of this outcome relates to statistical and policy oddities. These include the fact that a rising female state pension age has shifted the definition of 'pensioners' up the age range towards ages where they are less likely to work;[75] data oddities with survey questions relating to widows' pensions;[76] and the fact that pension lump sums – increasingly more common since the introduction of 'pension freedoms' in 2015 – are not currently counted as 'income' in the data. Given people in retirement are less able to act to respond to income shocks, any evidence of particularly weak pensioner income performance should not be taken lightly. However, the suggestion is that the very latest changes should at least be taken with a pinch of salt.

74 A Corlett, 'Last year saw living standards stagnate and poverty rise', ***Resolution Foundation blog***, 28 March 2019

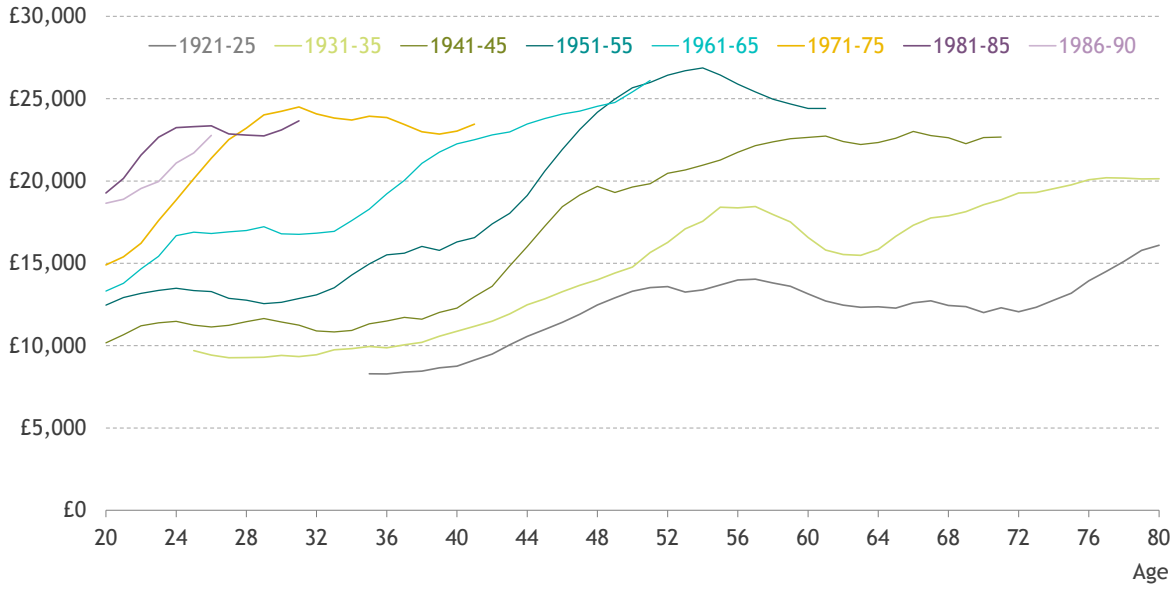
75 Pensioners refer to people in family units where at least one person is over state pension age, meaning that many non-retired people are included in this category. In 2009-10, a fifth of pensioner family units had at least one person in work, e.g. a couple in which both adults were aged 61 and the man was still in work but the woman was above state pension age. As the female state pension age has risen from 60 to 65, all else equal these people would be redefined as 'working age', and therefore employment among 'pensioner' family units would fall. This compositional change is a part of the story of the boom and fall of 'pensioner' incomes.

76 The number of people with widows' employee pensions fell from 1.1 million in 2016-17 (similar to the previous four years) to 0.7 million in 2017-18; and the amount of income from these fell by a third from £7.0 billion to £4.7 billion. In all likelihood, this reflects changes to the relevant survey question made in 2017-18, rather than a real change.

Figure 51 switches to a cohort perspective and puts these recent changes in their longer-term context. We find that despite clear upticks in incomes in the most recent data for millennial, generation X and younger baby boomer cohorts (compared to flat trajectories for older cohorts), these younger cohorts continue to experience the least generational progress.

Figure 51: Cohorts in or approaching pension age have made the most generational income progress

Median real household annual net income after housing costs (CPI-AHC adjusted to 2018 prices), by age and cohort: UK, 1961-2018



Notes: In contrast to our previous assessments of generational income patterns, here we present trends in household income for each individual, rather than just for the head of the household. Incomes are equivalised to account for differences in household size. Data for 1992 and 1993 have been interpolated. Northern Ireland data is missing for 1994-2001. Figures for each cohort are derived from a weighted average of estimates by single year of age for each single birth year; cohorts are only included if all five birth years are present in the data. Data is smoothed using three-year rolling averages.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2018)*

In their early 30s, members of the 1981-85 cohort had incomes 3 per cent lower than their predecessors at the same age; in their early 40s, those in the 1971-75 generation X cohort are making slightly more progress with a 4 per cent increase; and in their early 50s, members of the 1961-65 cohort are tracking those 10 years their senior at the same age. In contrast, the increases enjoyed by those in the 1951-55 cohort in their early 60s and the 1941-45 cohort members in their early 70s are 7 per cent and 20 per cent respectively.

Weak income growth over the past 15 years means that cohort-on-cohort income improvements have stalled across the board, but cohorts in working age have clearly felt the worst effects of this stagnation.

A stalling of generational progress is even clearer in relation to consumption than in relation to income

A body of evidence suggests that consumption – the amount spent by households on goods and services from week to week – is a more direct way of capturing people's current standard of living than the disposable income measures that are more commonly used.[77] Consumption data also provides more detail and nuance: not just how much people spend, but their decisions to allocate that spending to different items, gives a rounded picture of how much of income is used up, and in what ways.

As such, research for the Intergenerational Commission summarised half a century of changing consumption patterns – detailing the increasing role of spending on housing, the shift away from essentials, and the growth in the spending of older working-age people compared to young adults between 2000-01 and 2014.[78] Here we build on this research by exploring what recent trends tell us about the consumption of different generations during the 21st century (as well as by improving the quality of the consumption data so that firmer conclusions about trends over time can be drawn).[79]

One of the motivations for the Intergenerational Commission's examination of consumption was the perception in some quarters that, while generational progress has stalled for today's young people in income or earnings terms, near-term living standards are being maintained by the focusing of limited resources on meeting current wants rather than investing for the longer term.[80] We found no evidence to support such assertions up to 2014. Updating that work to cover the more recent period also fails to uncover any such evidence. In fact, the opposite is true.

UK economic growth in the period since the EU referendum in 2016 has been supported by households continuing to spend more, despite an inflation-driven stagnation in real incomes. Overall, real consumer spending per person has increased by £980 a year since the introduction of the EU Referendum Act, while

77 For example, see: M Brewer & C O'Dea, ***Measuring living standards with income and consumption: Evidence from the UK***, Institute for Fiscal Studies, July 2012; R Blundell & I Preston, 'Income, Expenditure and the Living Standards of UK Households', Fiscal Studies 16:3, August 1995; B Meyer & J Sullivan, ***Measuring the Well-Being of the Poor Using Income and Consumption***, NBER Working Papers, June 2003; H Noll, ***Household consumption, household incomes and living standards***, GESIS, 2007; H Noll & S Weick, 'Consumption expenditures and subjective well-being: Empirical evidence from Germany', International Review on Economics 62, November 2014

78 D Hirsch, L Valadez-Martinez & L Gardiner, ***Consuming forces: Generational living standards measured through household consumption***, Resolution Foundation, September 2017

79 Consumption in each detailed spending category in each year is reweighted to figures from the National Accounts (on a per-household, per week basis). This corrects for growing under-recording of consumption expenditure in the Living Costs and Food Survey and its predecessors, detailed in Box 1 in: D Hirsch, L Valadez-Martinez & L Gardiner, ***Consuming forces: Generational living standards measured through household consumption***, Resolution Foundation, September 2017. This re-weighting method is based on that in: Office for National Statistics, ***The Distribution of Household Income, Consumption and Savings, an OECD study,*** November 2015

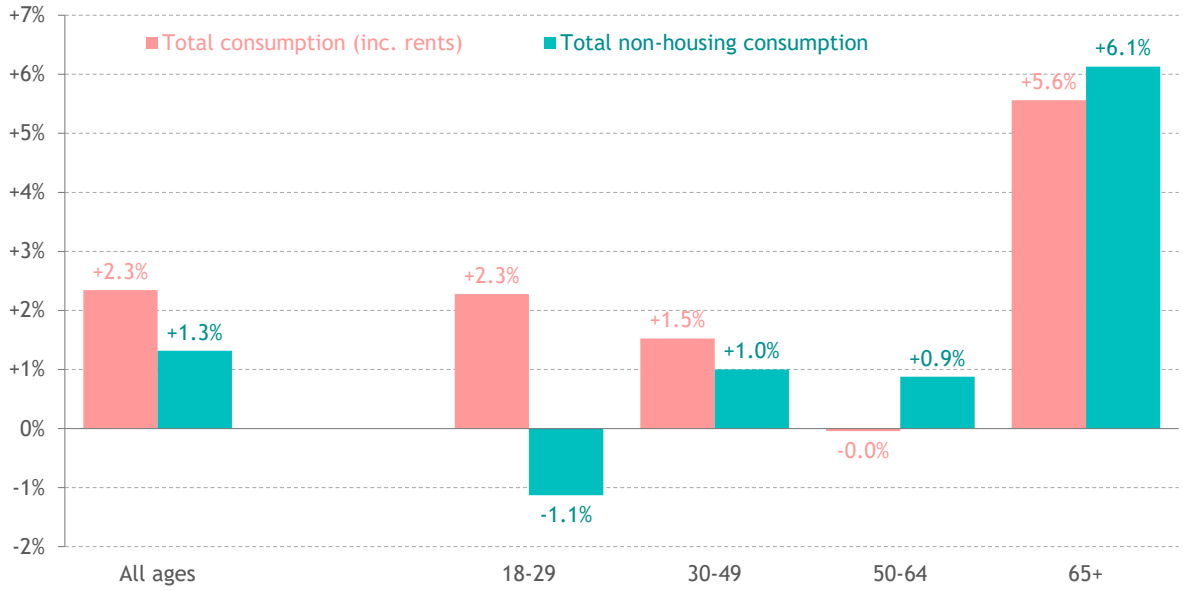
80 For example, see: A Williams, 'Best of Money: Why millennials go on holiday instead of saving', ***Financial Times***, 12 February 2016; S Levin, 'Millionaire tells millennials: If you want a house, stop buying avocado toast', ***The Guardian***, 15 May 2017; R Muir, 'A Record 91% of UK Millennials Own a Smartphone; Apple Devices Secure 78% Video Ad Completion Rate', ***ExchangeWire***, 16 July 2015

income per person has risen by only £140. Correspondingly, the saving ratio has fallen significantly over this period.[81]

Detailed consumption data allows us to understand which age groups have driven this increase in consumption, with Figure 52 showing that – whether looking at consumption including or excluding rental costs[82] – older people have clearly increased their consumption most. Real non-housing consumption grew by 6 per cent for those aged 65 and over in the two years to 2017-18, but fell by 1 per cent for those aged 18-29.

Figure 52: Older people's consumption grew fastest in the two years to 2017-18

Change in median real equivalised household consumption between 2015-16 and 2017-18, by age group: UK



Notes: Consumption in each detailed spending category in each year is reweighted to match figures from the National Accounts (on a per-household, per week basis), in order to correct for growing under-recording of consumption expenditure in surveys. Consumption is deflated using deflators specific to each spending category. We present trends in consumption for each individual, rather than just for the head of the household.
Source: RF analysis of ONS, *Living Costs & Food Survey*

This stands in contrast to the recent performance of household incomes, which have been weakest for those in pension age, as discussed above. But medium-term income performance at this age has been more positive. And, as Section 4 sets out, it is older cohorts that have enjoyed the most pronounced increases in wealth compared to predecessors at the same age. The introduction of 'pension freedoms' in 2015 may have particularly facilitated the use of wealth to support pensioners' consumption in recent years. These longer-term and broader trends perhaps

81 M Whittaker, *Spring Forward or Fall Back? The questions facing the UK economy ahead of the Spring Statement 2019*, Resolution Foundation, March 2019

82 Mortgage costs for owner-occupiers are not typically included in consumption measures. For consistency across people living in different housing tenures, and because we discussed housing costs in detail in the previous section, in what follows we focus on consumption after housing.

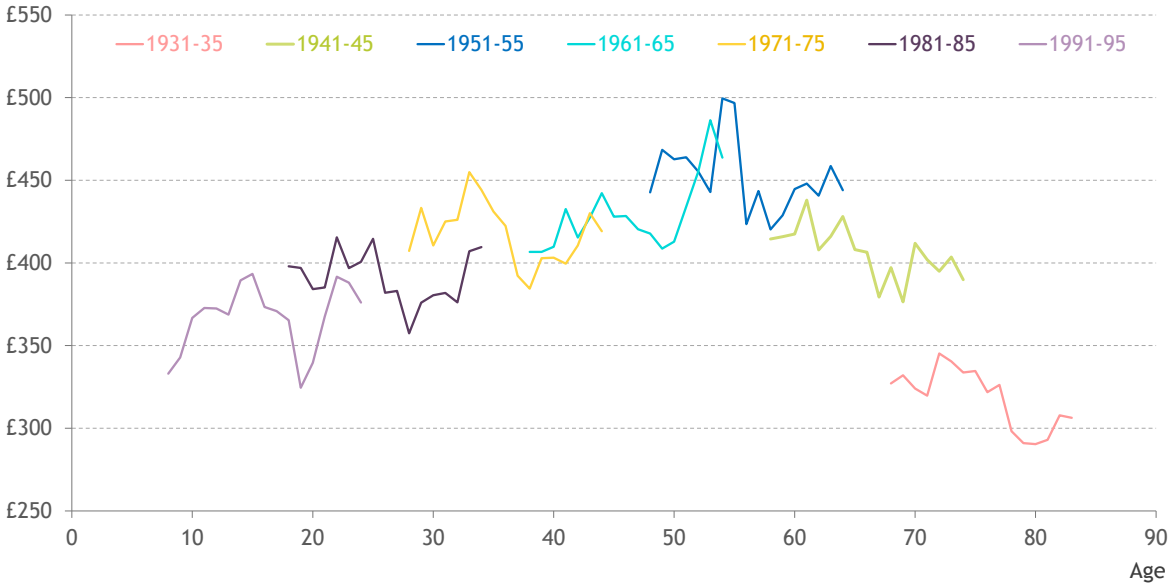
help to explain the role of the consumption of those aged 65 and over in driving consumption-income divergences since the EU referendum.

The recent weakening of consumption growth recorded among young adults in fact marks a continuation of a 21st century trend. Taking housing costs (discussed in detail in Section 2) out of the equation and focusing instead on non-housing spending, 18-29 year olds are the only age group with lower spending in 2017-18 than they had in 2001-02. The group's real-terms non-housing spending is 7 per cent lower, compared to an increase of 11 per cent for 50-64 year olds and 37 per cent for people aged 65 and over.

Figure 53 shows what this means for the consumption trajectories of five-year birth cohorts, each 10 years apart. The picture is one of clear generational divergence, with non-housing spending higher than predecessors at each age for baby boomer and silent generation cohorts, but lower for generation X and the millennials.

Figure 53: Millennials and generation X are spending less than preceding cohorts at each age

Median real equivalised weekly non-housing household consumption (CPIH-adjusted to 2017-18 prices), by age and cohort: UK, 2001-18



Notes: Consumption in each detailed spending category in each year is reweighted to match figures from the National Accounts (on a per-household, per week basis), in order to correct for growing under-recording of consumption expenditure in surveys. Consumption is deflated using deflators specific to each spending category. We present trends in consumption for each individual, rather than just for the head of the household.
Source: RF analysis of ONS, *Living Costs & Food Survey*

Excluding housing costs, members of the 1981-85 cohort were spending 8 per cent less in their mid-30s than those in the cohort born 10 years before them were at the same age. Even starker is the fact that the 1986-90 cohort (not shown on the chart) was spending 11 per cent less around the age of 30 than the cohort born 15 years earlier was at that age; and the 1991-95 cohort was spending 13 per cent less than the cohort born 15 years before it was when its members were in their mid-20s.

By contrast, the 1951-55 cohort had non-housing spending in 2017-18 that was 4 per cent higher than the cohort born 10 years before it had at the same age. And the 1941-45 cohort had spending a full 17 per cent higher than the cohort 10 years before it. These findings mirror trends in household incomes, but with somewhat stronger generational divergence. This will partly relate to survey and measurement differences, but may also imply that younger households are devoting more of their after-housing-costs income to non-consumption items, such as mortgage principal repayments, saving, or paying off debts (issues we return to in the Section 4).

The clear picture in terms of day-to-day living standards as measured through household consumption is of generational progress for older generations, and generational decline for younger ones.

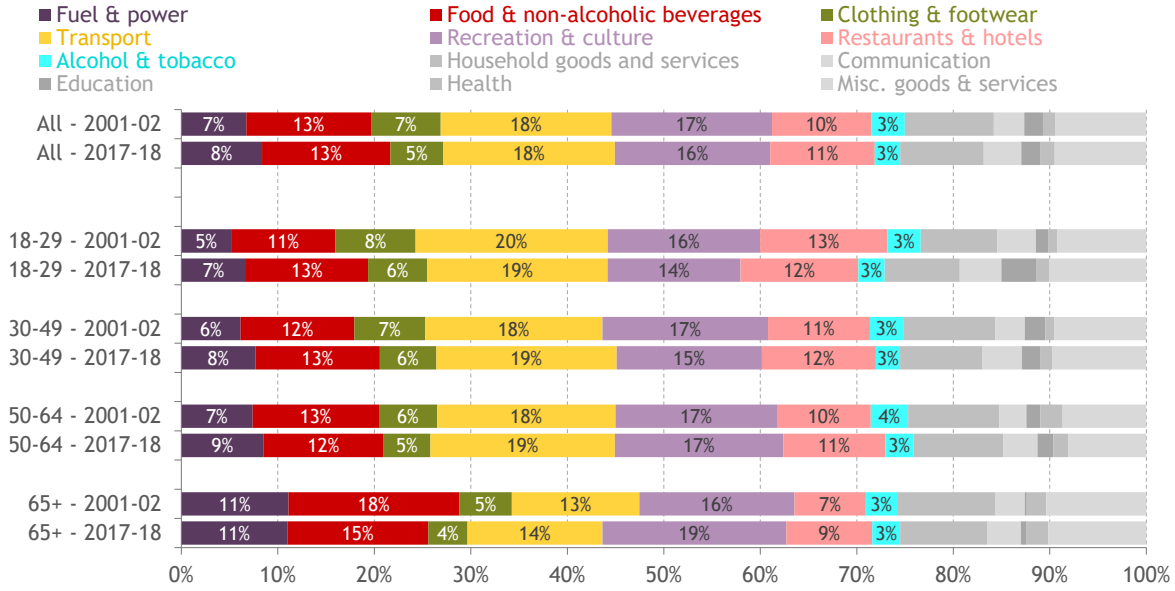
Beyond overall non-housing spending trends, what are different generations spending their money on? Previous analysis has explored this question in detail, busting a number of myths in the process – such as the idea that young people are devoting growing pots to eating in restaurants and cafés (be that those that serve avocado-on-toast or others) or flying abroad.[83] Bringing the picture forward to 2017-18, as Figure 54 does, reinforces these conclusions.

The share of spending devoted to essentials other than housing (fuel, food and clothing, shown by the darker sections in Figure 54) is fairly flat across the age distribution. But it has grown for adults aged under 50 during the 21st century at the same time as it has fallen for older ones.

83 D Hirsch, L Valadez-Martinez & L Gardiner, ***Consuming forces: Generational living standards measured through household consumption,*** Resolution Foundation, September 2017

Figure 54: The proportion of spending devoted to 'essentials' has grown for adults aged under 50

Proportion of equivalised non-housing household consumption in each spending category, by age group: UK



Notes: We present trends in consumption for each individual, rather than just for the head of the household. Unlike our other analysis of consumption, this figure is derived from raw survey-based consumption data.
Source: RF analysis of ONS, *Living Costs & Food Survey*

Additionally, it is worth noting that 18-29 year olds and 30-49 year olds now devote slightly less of their non-housing spending to recreation, culture, restaurants and hotels than those aged 65 and over do (26 per cent, 27 per cent and 28 per cent, respectively). This is in contrast to 2001-02, when 18-29 year olds' share of spending in these categories was 23 per cent higher than 65+ year olds', and 30-49 year olds' spending 18 per cent higher. These trends will be a reflection of the generational divergence in overall non-housing consumption discussed above, with essentials comprising a greater share of spending baskets at those ages where spending is falling (or growing less quickly).

Overall, these changes in what people spend their money on support the conclusion that the 21st century has been characterised by a squeeze on spending – especially spending that is discretionary, or just plain 'fun' – for millennial and generation X cohorts. Building on the theme of Section 2, a big part of this is about the growing share of family budgets that housing costs take up – particularly for younger and working-age families. But shifts within non-housing spending are also evident. By contrast, the spending of older households (particular those of retirement age) has grown strongly and is increasingly less about covering the essentials.

Across consumption and income then, the clearest dividing line in terms of different generations' experiences in recent years is between those currently at or

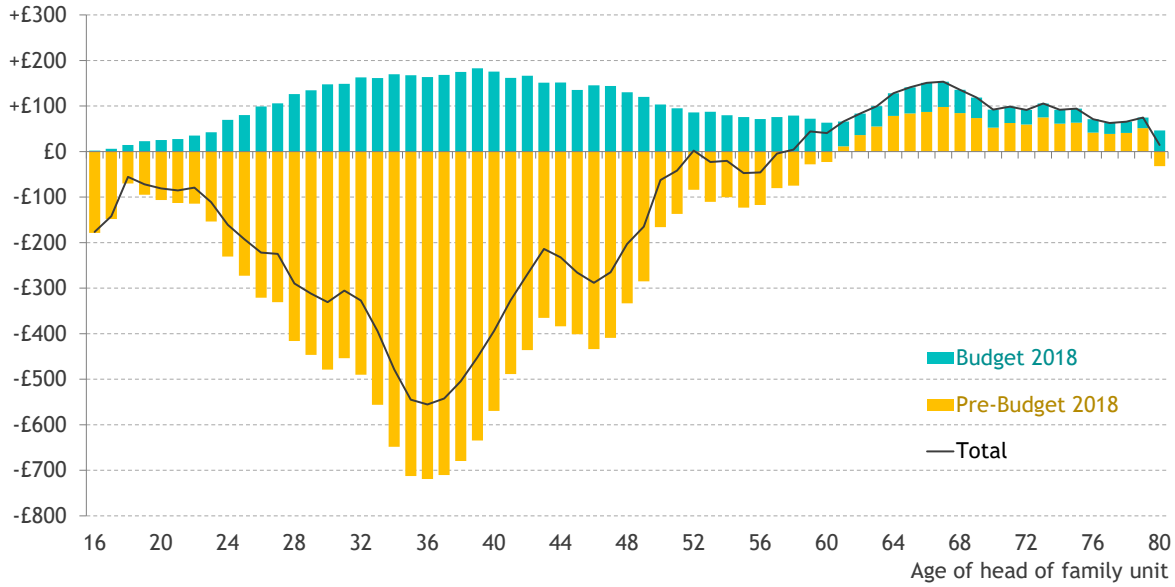
near to pension age and the rest, with the youngest baby boomers included in the latter group.

Declines in the generosity of working-age benefits have hit working-age income particularly hard

Over recent years, the slowing of income progress has been exacerbated by a reduction in the generosity of benefits, particularly for working-age households. However, in the 2018 Budget, recognising the continued squeeze on household budgets, the Chancellor offered a boost to household finances via cuts to personal taxation and increases in benefit spending. Figure 55 shows that the combination of increases in the generosity of Universal Credit and income tax reductions, as well as other changes, will reduce the impact of benefit cuts since 2015 by an average of around £100 for working-age families by 2023-24.

Figure 55: The 2018 Autumn Budget offered a boost, but the bulk of benefit cuts since 2015 remain

Impact of tax and benefit policies announced since the 2015 General Election on annual net family income (nominal), by age: 2023-24



Notes: Income tax cuts include related National Insurance changes. Only those policies that directly affect household incomes are modelled.
Source: RF analysis using IPPR tax-benefit model

Yet, while the Budget boost offered some relief to household budgets, the overall impact of the cuts continues to disproportionately affect working-age families. At the current level of taxation and benefit receipt, working-age families can still expect to lose an average of around £180 from their annual incomes by 2023-24 from policy changes announced since 2015. This rises to an average of around £385 for families headed by 30-45 year olds (comprising older millennials and younger

members of generation X). And it stands in comparison to an average gain of £100 for families headed by over-65s.

These recent increases in spending commitments have been made possible by improvements to the public finances. However, significant pressures remain if the state is to meet all of its commitments into the future, particularly as the costs of maintaining the NHS and social care are set to rise with the ageing of comparatively large baby boomer generation. Box 3 explores this issue in further detail.

i Box 3: The fiscal windfall and future spending pressures

Recent improvements in employment and earnings (and more generally the tax-'richness' of growth) have produced higher-than-expected tax revenues. This, coupled with lower debt interest, has delivered big improvements in the public finances over the past year. As such, the Chancellor was delivered a windfall of £74 billion in the 2018 Budget and a further £37 billion windfall over the six years from 2018-19 to 2023-24 in the 2019 Spring Statement.[84]

The large 2018 Budget windfall enabled the Chancellor to increase spending on the NHS and offer a boost to household incomes through tax and benefit changes, while keeping headroom against his fiscal 'mandate' – to have cyclically adjusted net borrowing below 2 per cent of GDP by 2020-21 – almost entirely unchanged at £15.4 billion, or 0.7 per cent of GDP. Following the further fiscal windfall of this year's Spring Statement, the Chancellor's headroom against his 'mandate' in 2020-21 is set to rise to 1.2 per cent of GDP (£26.6 billion).

Although the public finances have improved over the short term, longer-term spending pressures remain, and have much more predictable and enduring drivers than the short-run ability to correctly predict tax receipts and interest payments. The movement of the large baby boomer generation into retirement, along with welcome improvements in longevity, mean that, after continuing falls since the 1970s, the dependency ratio – the ratio of the working-age to the non-working age population – is now rising. With an ageing population, public spending is set to rise rapidly in the near future.

Figure 56 sets out the historical and estimated future path of public spending (according to Office for Budget Responsibility estimates). It shows that welfare spending will need to rise to over 30 per cent of GDP by 2066, just to maintain current commitments.

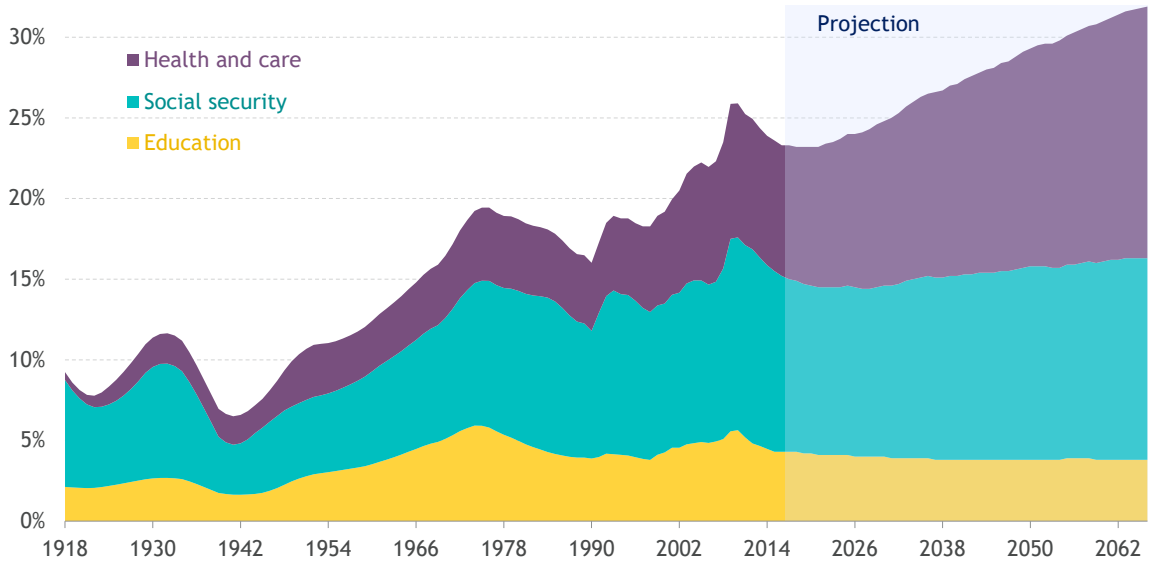
84 Resolution Foundation, *Super, smashing, great: Spring Statement 2019 response,* March 2019

Half of these increases are set to come from the rising costs of health and care,[85] with a further 12.5 per cent coming from increases to social security costs. In cash terms, spending will need to rise by £36 billion by 2030 and £83 billion by 2040.

Meeting the rising costs set out above poses significant challenges for the state. The £83 billion figure for 2040 is equivalent to 19p on the basic rate, if funded entirely through income tax. But decisions to raise taxes for working-age adults need to be considered in line with already mounting pressures on their incomes, as well as wider considerations about distributional impacts and the growth of personal wealth in recent decades.

Figure 56: Increases in health, care and social security costs are driving long-term spending pressures

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 OBR totals.
Source: RF analysis of OBR, Fiscal sustainability report – July 2018, July 2018; HMT, *Public Expenditure Statistical Analyses;* J Hills, *Inequality and the State*, Oxford University Press, October 2004

Differences within generations are large and enduring

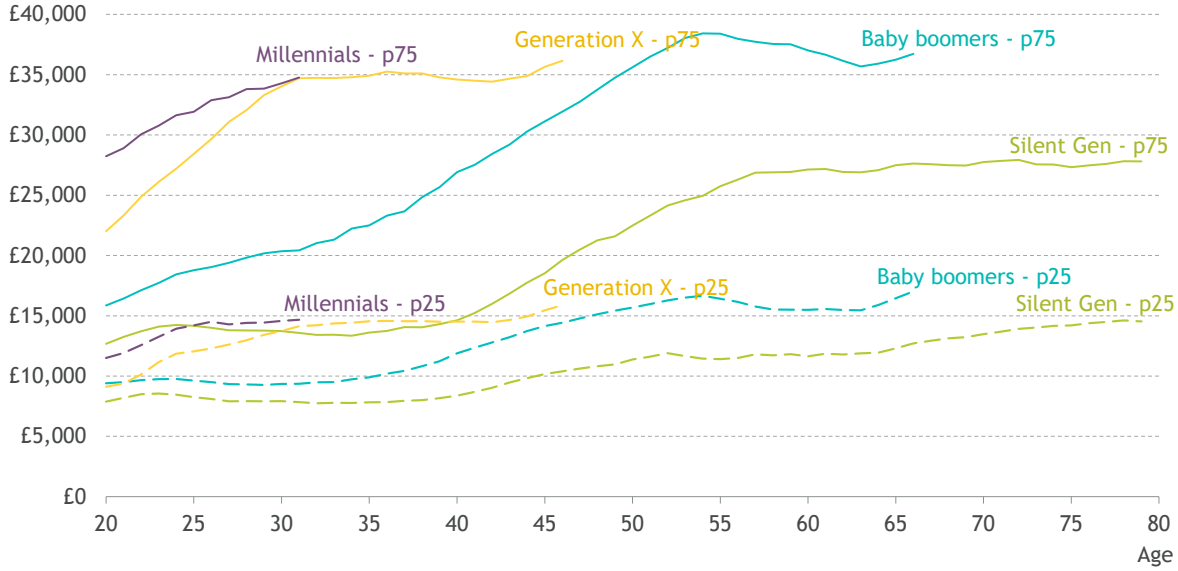
Most of the analysis in this report focuses on average or typical (median) generational or cohort experiences, but it is always worth remembering how wide the variation in experiences around these averages is. Figure 57 plots the income trajectories of those in each generation with incomes 25 per cent and

85 Projections of future healthcare costs differ somewhat depending on assumptions that underpin them. The healthcare cost projection presented here, taken from the Office for Budget Responsibility (OBR), assumes that costs will increase faster than GDP growth following an historic trend of health costs per capita rising relative to GDP. In effect, the OBR has built in a ratchet effect on healthcare costs which is the key driver of differences in the central EU and OBR scenarios, for example. This ratchet assumption is similar to those made by the OECD and IMF.

75 per cent of the way up within-generation distributions. Cross-generation patterns are similar at these two points in the distribution, but the growing gaps within generations following inequality increases in the 1980s mean that generation X and millennials have experienced the highest intra-generational inequality when young.

Figure 57: Income gaps within generations are large

Percentiles of real household annual net income after housing costs (CPI-AHC-adjusted to 2018 prices), by age and generation: UK, 1961-2018



Notes: In contrast to our previous assessments of generational income patterns, here we present trends in household income for each individual, rather than just for the head of the household. Incomes are equivalised to account for differences in household size. Data for 1992 and 1993 have been interpolated. Northern Ireland data is missing for 1994-2001. Figures for each cohort are derived from a weighted average of estimates by single year of age for each single birth year; cohorts are only included if all five birth years are present in the data. Data is smoothed using three-year rolling averages.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2018)*

Our spotlight analysis that follows takes this consideration of within-generation inequalities further, by exploring what these trends at different points in the distribution mean for relative poverty rates for different generations, and how poverty varies at different points in the life course.

SPOTLIGHT

Poverty over the life course for different generations

Poverty ebbs and flows – over the course of people's lives and over time

Political attention on poverty has waxed and waned, with the targets established by the Child Poverty Act 2010 partially abolished in 2016, and wider living standards stagnation over the past decade at times superseding the focus on the experiences of people in poverty in particular. But today, with expectations of rising child poverty in coming years[86] and a broader debate about inequality gaining traction,[87] the issue has re-entered mainstream public discourse.

To provide context for this debate, this spotlight analysis takes a step back to look at the incidence of relative poverty through the life course and how this has changed through the generations over the past six decades. The analysis presented here is a detailed summary of a longer paper which provides more detail on methods and a broader presentation of results.[88]

Our contention is that to understand poverty is to recognise that it is not a static thing, but rather that it ebbs and flows along two key dimensions:

First, poverty varies over an individual or cohort's lifetime, as costs (such as those associated with having children) and income shifts (such as the loss of labour market income in retirement) put different pressures on the living standards of people of different ages.

Second, broader societal changes, and changes in policy, drive differential experiences of poverty at different points in time, and therefore for different generations.

Exploring these ebbs and flows is the task of this analysis, with the view that a granular picture of the extent to which poverty affects people at different stages of life, and how this has changed over time, aids understanding of poverty's

86 A Corlett, ***The Living Standards Outlook 2019***, Resolution Foundation, February 2019
87 R Joyce & X Xu, ***Inequalities in the twenty-first century: introducing the IFS Deaton Review***, Institute for Fiscal Studies, May 2019
88 F Rahman, ***The generation of poverty: Poverty over the life course for different generations,*** Resolution Foundation, May 2019

drivers and effects. This understanding is as relevant to policy makers today as it ever has been.

Throughout, we employ a relative poverty measure in order to determine poverty rates. On this measure, a person is in poverty in a particular year if their equivalised household income (our central focus is on after-housing-costs income) is below 60 per cent of the median, or typical, income in that year. But given the complexity of poverty as an issue there is no single metric for capturing it. Rather, there are a number of ways in which poverty can be measured with each offering different benefits.

Material deprivation indicators provide one alternative, assessing whether people can meet basic needs such as heating their home or putting aside a small amount of savings. Material deprivation fell between 2012 and 2016, as the impacts of the crisis have unwound. This improvement was felt across all age-groups, but particularly those aged over 40 who now have material deprivation levels that are lower than they were pre-crisis.

A second common alternative is a measure of absolute poverty, which holds the poverty line constant at 60 per cent of the median income in a specific year, uprated by inflation (currently the most widely used absolute poverty line is based on 2010). On this measure, poverty declines over time and through the generations fairly consistently. It did so particularly rapidly during the 1980s, when economic growth was strong.

A growing economy means we would always expect absolute poverty to decline over time. This is important context for the focus on shifting poverty rates through generations in this analysis. There is no doubt that even the poorest people today can afford a greater range of goods and services than people in the 1960s – any alternative would represent economic disaster. As such, relative poverty is a more appropriate metric when considering poverty experiences over long periods of time.

For a fuller discussion of absolute poverty and other poverty definitions, see Box 1 in our longer briefing note. For a discussion of recent trends in the related measure of material deprivation, see Box 2 in that note.[89]

On average, children and pensioners have had the highest rates of poverty over the past six decades

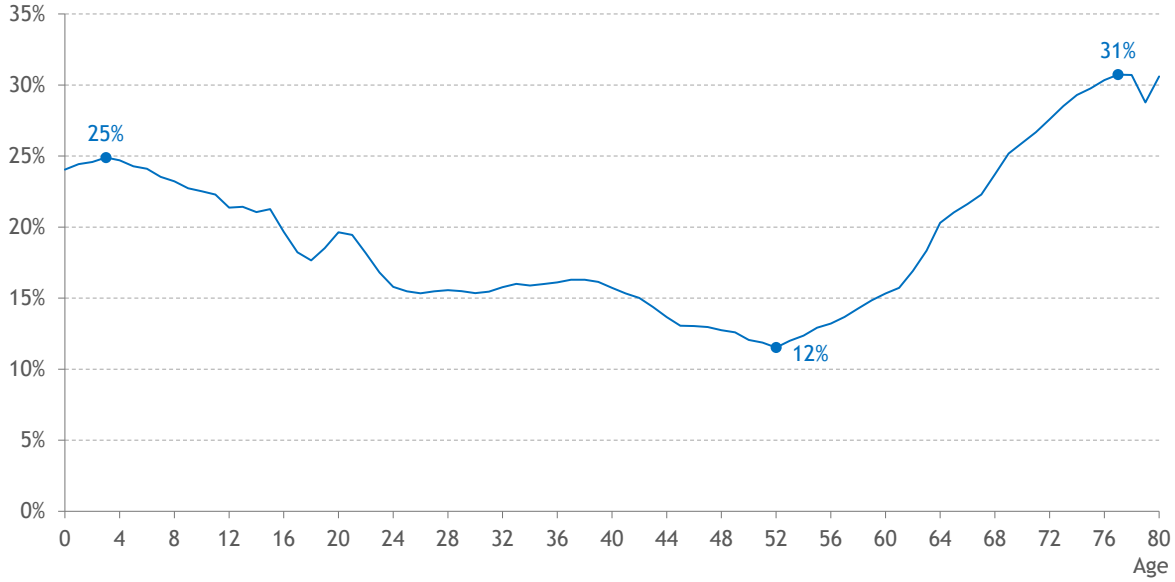
Discussions about poverty in the UK have largely focused on children and pensioners. Since these are the life stages at which relative poverty rates have been at their highest on average since 1961, this concern is evidently warranted.

89 F Rahman, ***The generation of poverty: Poverty over the life course for different generations,*** Resolution Foundation, May 2019

The general pattern of poverty over the life course is shown in Figure 58. In the period from 1961-2017, an average of 25 per cent of the population experienced poverty in early childhood (at age 3). These high rates of poverty have typically declined throughout working life to a low of 12 per cent around the age of 50, but risen again in old age, with almost a third of those in their late 70s (over the course of these six decades as a whole) living below the poverty line.

Figure 58: Poverty has been highest among children and the elderly over recent decades

Average proportion of people in relative poverty (after housing costs) by age: UK, 1961-2017 pooled data



Notes: Northern Ireland data is missing for 1994-2001.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2017)*

These patterns across the life course reflect different drivers of poverty. The additional incomes that people require when they have children (which are accounted for in poverty measures by 'equivalising' incomes to account for household composition), coupled with the fact that having children is often associated with reducing market income by reducing working hours or leaving the labour force, mean that child poverty rates are generally higher than rates at other life stages. Similarly, poverty rates are higher in the earlier half of working life than in the latter half, as these are the ages at which more people will be raising their children.

In contrast, at older ages it is the income drop associated with retirement rather than the costs (or, more specifically, the household-size-adjusted income requirement) of larger families that drive increases in relative poverty. As well as mitigating the effects on unemployment and ill-health across the life course, it is these risks of higher costs when having children and lower incomes when

in retirement that the social security system is, in general terms, designed to counteract. This reflects both traditionally higher poverty incidence, and the fact that children and the very old are the most vulnerable members of our society and the least able to take actions to escape poverty.

However, the fact that this life-cycle pattern is true on average since the 1960s does not mean it is true for every cohort. Each individual cohort or generation has their own life-cycle poverty picture, with the differences between them driven by the ebbs and flows of policy and wider societal and economic changes.

The incidence of poverty at different ages has shifted dramatically since the 1960s

One of the most important determinants of how people's living standards vary over time is those big societal trends that affect all of society in a given period. When it comes to the jobs market, the financial crisis and its after-effects dominate the story of the past decade, for example. When it comes to relative poverty, the most important big trend of the post-war period was the overall increase in inequality in the 1980s, which was driven by a number of factors including unequal earnings growth, changes to the tax and benefit systems, and changing household structures and employment patterns.[90] As a result, the Gini coefficient for after-housing-costs household income increased from 25 in 1978 to 38 in 1998.[91]

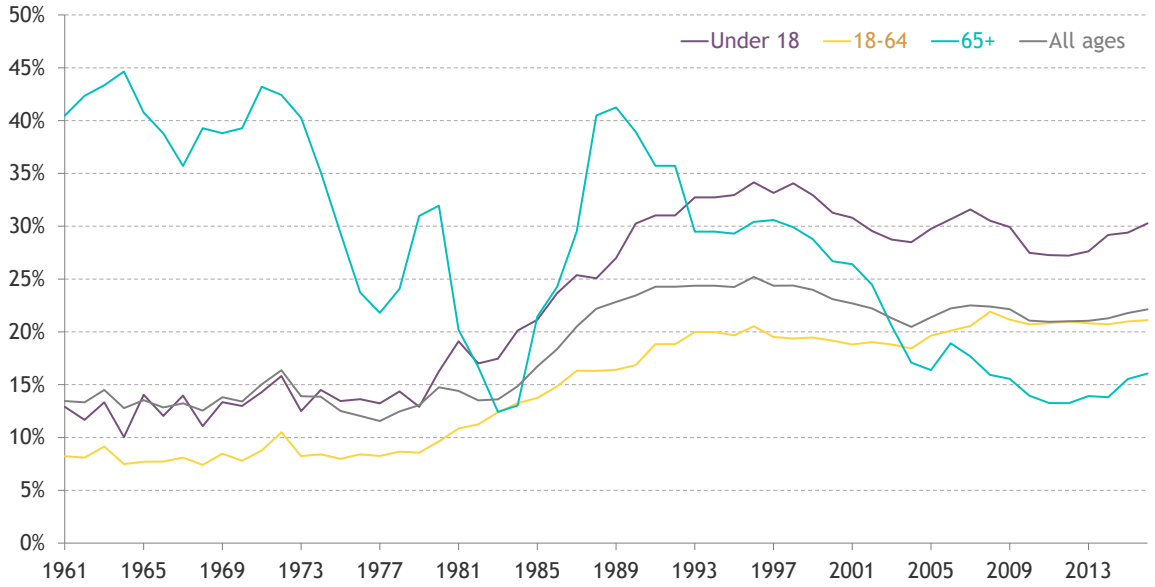
Accordingly, the after-housing-costs relative poverty rate for people of all ages increased from 12 per cent in 1978 to 24 per cent in 1991, as shown in Figure 59. These changes fed through across the age range, as incomes grew much faster in the middle of the distribution than they did towards the bottom. In 1961, the child poverty rate was roughly in line with the all-ages average, at just 13 per cent. But the rising inequality of the 1980s meant that, in the three decades to 1991, this figure increased to a high of 31 per cent. For very young children (aged 3) the increase was even higher – almost tripling from 13 per cent to 36 per cent, and far exceeding the all-ages average poverty rate.

For pensioners (aged 65 and above), rates of relative poverty after housing costs increased from 24 per cent in 1979 to 41 per cent in 1989. This inequality-driven relative poverty surge did much to unwind welcome developments for pensioners in the preceding decade. For the very old (in their late 70s), close to half experienced poverty in the 1960s, a shockingly high figure and the highest incidence of relative poverty recorded for any age group over the six decades we analyse.

90 J Cribb, ***Income Inequality in the UK***, Institute for Fiscal Studies, February 2013
91 The Gini coefficient is measured on a scale of 0-100, where 100 represents a situation in which all income in a country is held by just one household. See Institute for Fiscal Studies, ***Inequality, Poverty and Living Standards Data***, 2017-18

Figure 59: The relative poverty rates of children and pensioners have diverged since the 1980s

Proportion of people in relative poverty (after housing costs), by age group: UK, 1961-2017



Notes: Data for 1992 and 1993 have been interpolated. Northern Ireland data is missing for 1994-2001.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2017)*

Since the big increase in relative poverty at all ages in the 1980s, the experiences of different age groups have diverged. At first, poverty fell for both children and pensioners, driven in part by concerted efforts to reduce it via the social security system, including the introduction of tax credits and Pension Credit in the 1990s and 2000s. But since then, relative poverty rates for these groups have gone in opposing directions. For pensioners, poverty has fallen significantly, reaching below 15 per cent by 2010. In contrast, progress on child poverty stalled in the 2000s and has more recently resurged to 30 per cent in 2016-17.

Part of this divergence relates to shifting family structures since the 1960s. The move away from the male-breadwinner model and towards dual-earner and single parent households is partly positive in terms of living standards and gender equality. But it has meant that having children is more likely to bring about income shocks as a parent stops working, or works less.[92]

The divergence between poverty for children and pensioners also relates to relatively stronger underlying income growth at older ages, driven by strong employment growth up to and above pension age and improving private pension incomes.[93] These trends have run alongside relative improvements in housing

92 For dual-earning households, a more equal sharing of work between partners is likely to mean that incomes overall are lower if one partner stops working, compared to the counterfactual of only one (usually male) earner bringing in all the income in under the 'male-breadwinner' model.

93 For a fuller discussion of the drivers of falling pensioner poverty, see: D Finch & L Gardiner, ***As good as it gets? The adequacy of retirement income for current and future generations of pensioners,*** Resolution Foundation, November 2017

costs for pensioners (which we discuss in detail below). Coming on the back of earlier improvements these trends mean that, while pensioners used to be concentrated at the bottom of the overall household income distribution, they are now roughly equally spread across it: in 1961, over 30 per cent of pensioners were in the bottom decile, falling to just 4 per cent in 2014-15. In contrast, the proportion at the third decile and above has grown from 51 per cent to 87 per cent.[94]

In addition, the divergence of relative poverty trends at different ages reflects recent welfare cuts for working-age families with children via policies like the benefits freeze – cuts that in the main do not affect pensioners.

These trends highlight the fact that the social security system has, over the past decade, protected pensioners while reducing support for children and working-age adults. One important caveat to this conclusion is in relation to childcare. Government spending on (in-kind) support towards childcare costs has increased in recent years via policies such as additional free childcare hours and the introduction of the tax-free childcare scheme. As essentially cost-reduction measures, our income-based poverty measures do not capture this increased support. Nonetheless, the big picture on shifts in overall state spending in recent years (i.e. beyond measures that directly boost incomes via the social security system) is of a shift towards those at older ages.[95]

These diverging trends in recent years for different age groups – relative poverty falling for pensioners while rising for children and working-age adults – combined with strong employment increases and poor pay growth, have meant that the majority of people in relative poverty now live in households in which someone works.[96] While not a central focus of this analysis, understanding and addressing the household and job characteristics associated with in-work poverty must be a central task of policy makers.

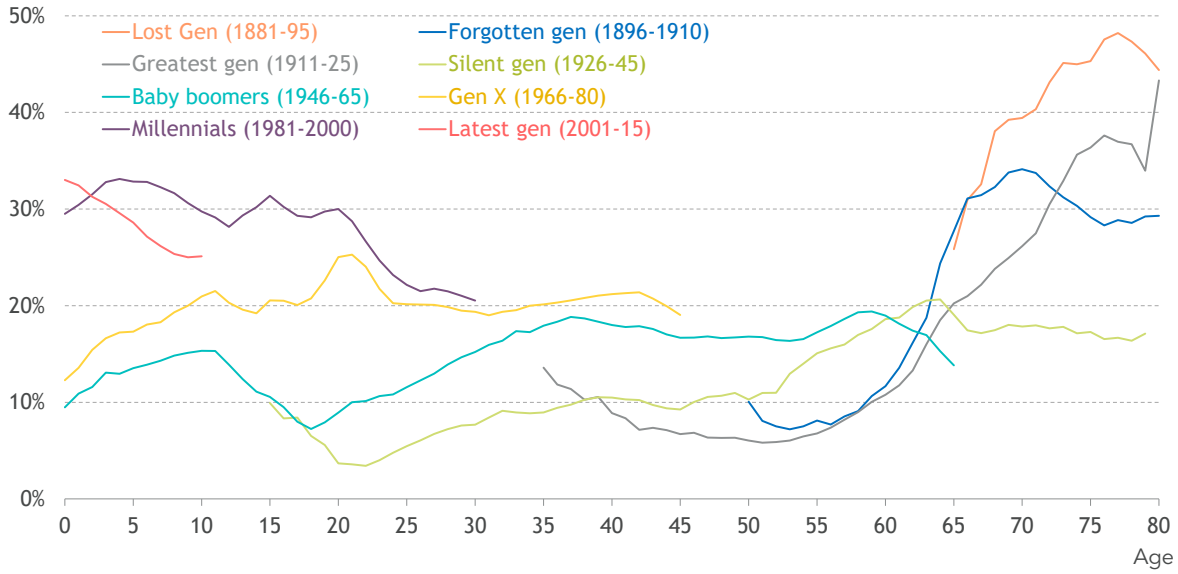
These trends feed through to very different life-cycle poverty patterns for different generations

Given these changing rates of relative poverty over time, generational experiences of relative poverty have rarely mirrored the average 'U-shaped' life-cycle pattern shown in Figure 58. Figure 60 charts generational experiences of relative poverty, by age, since 1961. Although the general 'U-shape' life-course pattern is again apparent, patterns for individual generations are hugely varied.

94 A Corlett, *As time goes by: Shifting incomes and inequality between and within generations*, Resolution Foundation, February 2017
95 M Whittaker, A Corlett & D Finch, *Shape shifting: The changing role of the state during fiscal consolidation*, Resolution Foundation, November 2015
96 In 2017-18, 56 per cent of people in poverty lived in working households. Source: Department for Work and Pensions, *Households Below Average Income: An analysis of the income distribution 1994/95 to 2017/18*, March 2019

Figure 60: Poverty in later life has fallen significantly through the generations

Proportion of people in relative poverty (after housing costs), by age and generation: UK, 1961-2017



Notes: Data for 1992 and 1993 have been interpolated. Northern Ireland data is missing for 1994-2001.
Source: RF analysis of IFS, *Households Below Average Income (1961-91);* DWP, *Family Resources Survey (1994-2017)*

Tellingly, no individual generation has actually experienced the 'U-shape' life-course poverty pattern so far. For instance, the baby boomers and generation X both had comparatively low child poverty rates in relation to millennials. At the age of five, the poverty rate was just 13.5 per cent for baby boomers and 17 per cent for generation X; but around a third of millennials and the latest generation experienced poverty at the same age. In addition, contrary to the general pattern shown above, poverty was as high around later working life for both baby boomers and generation X as it was during their childhoods. Furthermore, the boomers show little sign of seeing rising poverty rates in old age.

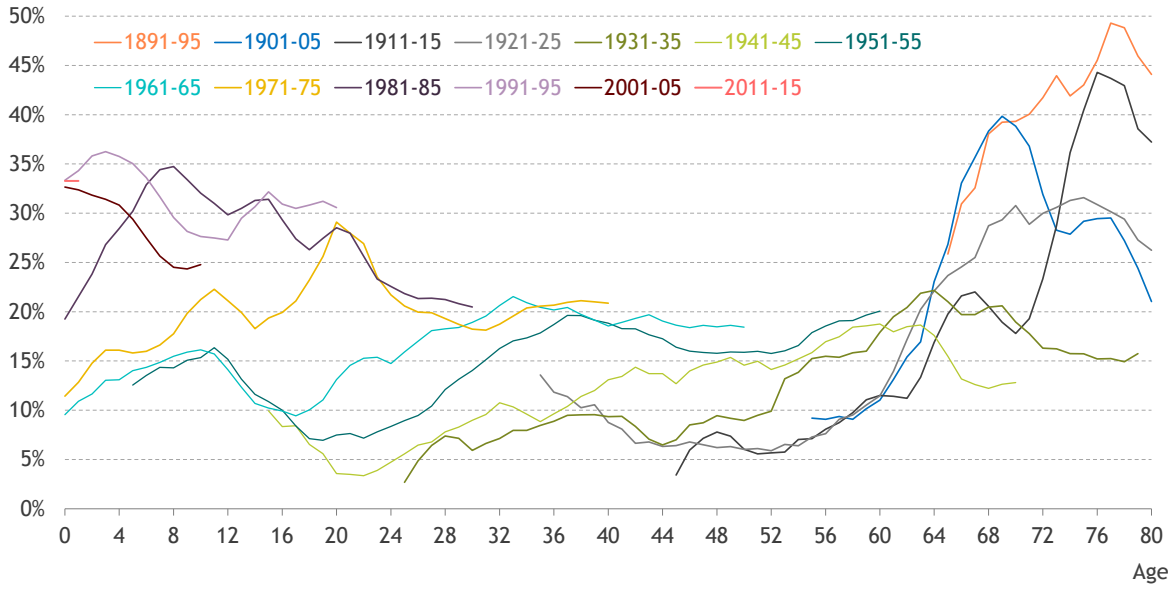
Despite the comparatively high working-age poverty rates recorded by baby boomers, lifetime relative poverty profiles have been lower and flatter on average for both that generation and the silent generation. This is because they avoided the high rates experienced by other generations, not only in childhood, but also in retirement. For instance, pensioner poverty was exceptionally high in the 1960s, reaching close to 50 per cent for the lost generation when aged between 76 and 80. While relative poverty rates at this age have fallen by an average of 30 percentage points since then, that fall was interrupted by the increase in pensioner poverty following the 1980s. Generationally, that meant that the silent generation have pensioner poverty rates as low as 17 per cent on average, and that this figure is likely to fall further for the baby boomers. However, their predecessors, the greatest generation, actually recorded higher poverty rates in their late 70s than their own predecessors, the forgotten generation. Pensioner poverty has fallen

over the decades, but not without ebbs and flows that left some generations with high poverty rates in retirement.

These fluctuating patterns of relative poverty become more apparent when looking at the experiences of smaller five-year cohorts, shown in Figure 61. While the greatest generation did experience higher pensioner poverty rates than the forgotten generation, it was the earlier cohort of this generation, born 1911-15, that bore the brunt of this, with rates reaching almost 45 per cent at the age of 76. For the cohort 10 years younger than them (born 1921-25), this figure dropped back down to around 30 per cent. As such, the lifetime pattern of relative poverty differed greatly for both cohorts despite being part of the same broader generational grouping.

Figure 61: The latest generation are experiencing a resurgence of child poverty

Proportion of people in relative poverty (after housing costs), by age and cohort: UK, 1961-2017



Notes: Data for 1992 and 1993 have been interpolated. Northern Ireland data is missing for 1994-2001.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2017)*

It is clear from the patterns shown above that while there may be a general propensity for poverty to be higher at certain life stages, wider factors such as economic circumstances and policy choices discussed above also play a large part and often trump life-cycle effects. This is most apparent in the fact that most extreme instances of high (or increasing) poverty rates occur around the time of the big increases in inequality in the 1980s and early 1990s, which fell during the childhood years of the millennials, mid-working life for the baby boomers and in later life for the greatest generation (particularly its older members).

In a similar vein, the biggest reductions in relative poverty from one cohort to the next appear to coincide with concerted efforts to tackle the issue. For instance, by the time the silent generation had reached later life, improved market incomes and continued efforts by recent governments to support pensioner incomes via the social security system (brought on by the incredibly high pensioner poverty rates experienced by earlier cohorts) meant that poverty fell by two-thirds from almost 45 per cent to 15 per cent for the 1931-35 cohort, when compared to those born 20 years earlier. The implication is that although we should never lose focus on supporting lower-income pensioners, incomes in retirement are, on average, less of a poverty driver than they once were.

The effect of concerted efforts to tackle poverty is just as apparent in relation to child poverty rates. Relative poverty grew rapidly throughout the childhood years of generation X and early millennial cohorts in the 1980s and early 1990s. In effect, poverty rose because child-related benefits were not increased in response to rising inequality (as well as the shift away from the male-breadwinner model driving income shocks upon having children, as discussed above). But a turning point in the mid-1990s, due in part to increases in the cash benefits offered to families with children that both directly supported incomes and facilitated increases in maternal employment. This mean that child poverty started to fall for the first time in two decades just as the latest cohort of millennials were being born (1996-00). As a result, poverty fell by 10 percentage points from 35 per cent for the 1981-85 cohort to 25 per cent for the eldest cohort of the latest generation (born 2001-05) at the age of 8.

In more recent years however, the cuts to the working-age benefit system discussed above have started to reverse some of these falls, resulting in an uptick in child poverty rates such that the 2011-15 cohort are being born with slightly higher rates of relative poverty than their predecessors.

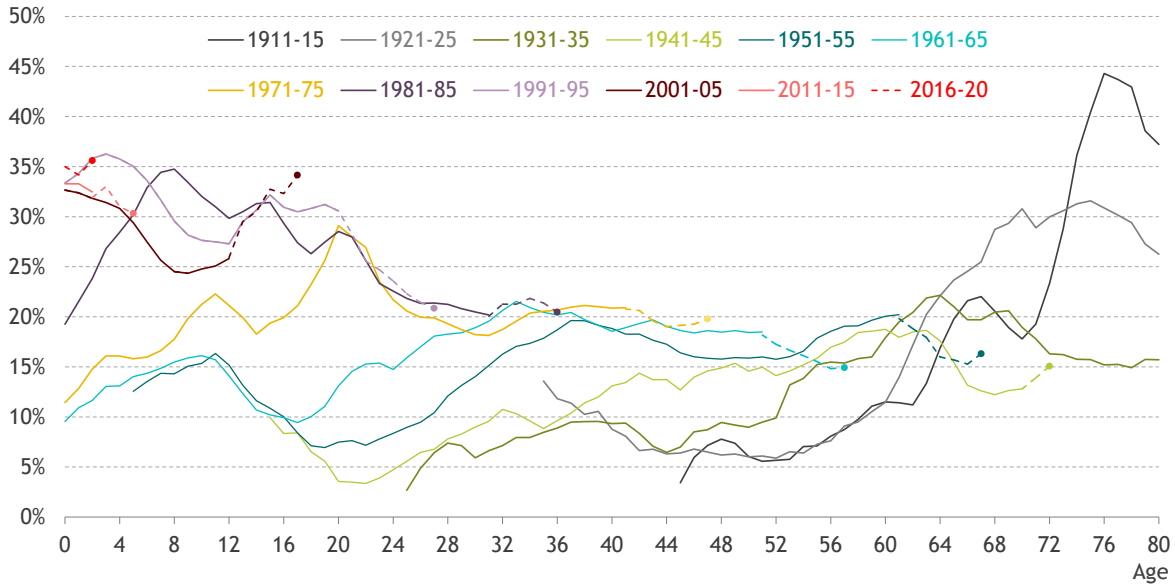
Child poverty is set to increase in the coming years

Our projections for the future,[97] shown in Figure 62, suggest that this recent uptick in child poverty is set to continue. Members of the 2016-20 cohort are expected to face the joint-highest rates of child poverty to date, at above 35 per cent by the age of two. Moreover, poverty will continue to grow for the latest generation such that the 2011-15 cohort is expected to have a poverty rate 4 percentage points higher than that of the cohort 10 years its senior, at the same age.

97 For full details of the methodology, see: A Corlett, ***The Living Standards Outlook 2019***, Resolution Foundation, February 2019

Figure 62: Poverty is set to rise significantly for the newest generation of children

Actual and projected proportion of people in relative poverty (after housing costs), by cohort: UK, 1961-2024



Notes: Solid lines show outturn, dashed lines show projections. For detail on method used for projections, see: A Corlett, The Living Standards Outlook 2019, Resolution Foundation, February 2019. Data for 1992 and 1993 have been interpolated. Northern Ireland data is missing for 1994-2001.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2017)*; RF nowcast and forecast

These projections are based on current policy choices and economic forecasts, both of which are likely to change in coming years. Nonetheless, with the continuation of cuts to benefits for parents, the likelihood is that their incomes will fall further behind relative to others.

Relative poverty rates are also expected to rise for working-age adults, such that millennial and generation X cohorts are likely to face among the highest working-age poverty rates to date. We project that more than one-fifth of the younger millennial cohort (born 1991-95) will be in relative poverty in their late 20s as they begin to raise children of their own. This is the result of a deterioration of younger adults' relative earnings and housing costs compared to older groups, and significant cuts to working-age benefits.

In contrast to child and working-age poverty rates, poverty in later working life and early retirement is set to continue falling in the near-term, indicating the continuing strength of both underlying incomes and efforts to support them via the social security system.

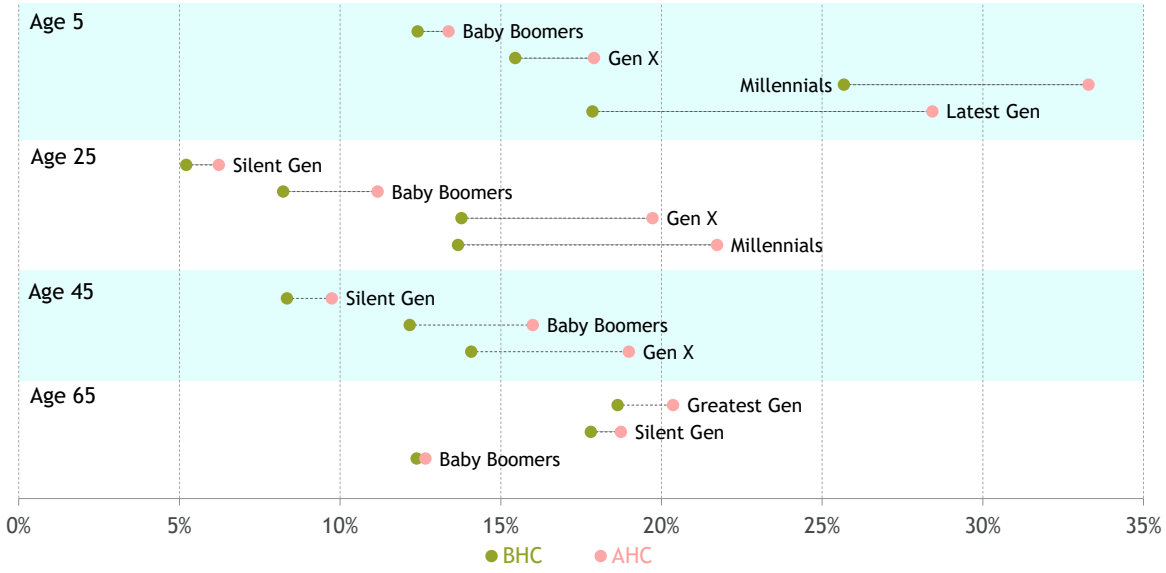
Increases in poverty rates are in part down to higher housing costs for younger generations and renters

While pensioner incomes have been largely protected due to a higher proportion of pensioners already being home owners when housing costs rose, housing costs have chipped away at the incomes of younger generations. This has led to much higher rates of after-housing-costs (AHC) poverty for millennials and the latest generation, when compared to before-housing-costs (BHC) poverty rates.

For instance, the AHC poverty rates shown above average 32 per cent for millennials and 29 per cent for the latest generation from birth to the age of 10. However on a BHC measure, they average 24 per cent for millennials and just 18 per cent for the latest generation. Growing gaps between BHC and AHC poverty imply that people in lower-income households (particularly those in younger generations) are facing higher housing cost increases (relative to their incomes) than those in the typical household. In contrast, poverty levels on both AHC and BHC measures are roughly similar for generations older than the baby boomers in later life.

Figure 63: Differences between BHC and AHC poverty rates have increased for generations since the silent generation

Before- and after-housing costs relative poverty rates at selected ages, by generation: UK, 1961-2017



Notes: Data for 1992 and 1993 have been interpolated. Northern Ireland data is missing for 1994-2001.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2018)*

The differences in AHC and BHC poverty rates are shown in Figure 63. These differences have grown for successive generations since the silent generation at ages five and 25. For example, there is an 11 percentage point difference for the latest generation and an 8 percentage point difference for millennials at age five. This is compared to differences of 2.5 percentage points and 1 percentage point for generation X and the baby boomers, respectively.

Likewise, in early adulthood (aged 25) the difference between BHC and AHC poverty rates is 8 percentage points for millennials compared to a slightly smaller difference of 6 percentage points for generation X. And the differences for baby boomers and the silent generation are much smaller at 3 percentage points and 1 percentage point respectively.

In contrast, these differences are near to non-existent in later life, and have shrunk over time due to higher home ownership among older adults protecting them from much of the housing cost increases that confronted renters or those becoming owners in later years. At age 65, AHC poverty rates are just 0.2 percentage points higher than BHC rates for baby boomers, and 1 percentage point higher for their predecessors, the silent generation.

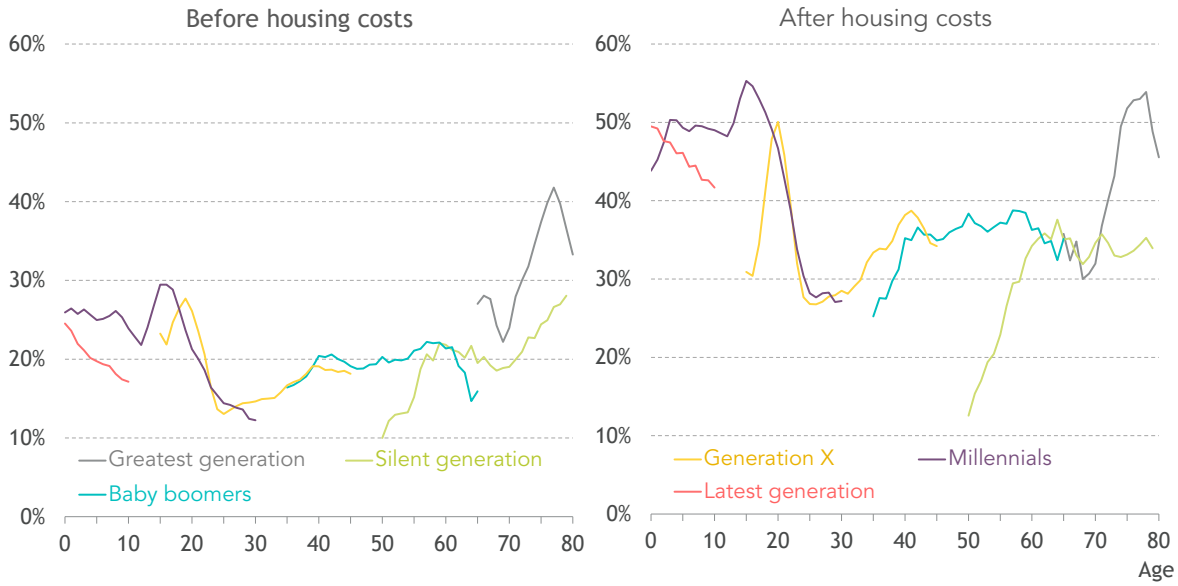
These generational shifts in the effects of housing costs on poverty rates, especially for younger generations, are largely due to changes to the nature of the housing market over the past few decades, as discussed in Section 2. Housing costs have risen by 8 per cent relative to incomes for the bottom half of the working-age population, compared to a fall of 1 per cent for those with incomes above the median in the period from 1994 to 2016. And housing costs have fallen by 25 per cent relative to incomes for pensioner households. Together, this is what explains the divergence in BHC and AHC poverty rates over time, and the ways this has played out differently over the life course.

Given that younger generations are most likely to live in rented accommodation, in which the difference between BHC and AHC poverty rates is the largest, it is no surprise that they are most affected by the rising costs of housing. However, around one-in-six families headed by over 65-year-olds still live in the social-rented sector and around one-in-sixteen live in the private-rented sector (PRS).[98] As such, these issues evidently remain pressing across the age distribution. Figure 64, which shows generational poverty rates by age in the PRS, affirms this. Patterns of generational poverty rates are roughly similar on both the BHC and AHC measures. However, unlike the overall generational poverty rates shown in Figure 63, rates in later life are much higher on the AHC measure than the BHC measure.

98 Source: RF analysis of ONS, ***Family Expenditure Survey***; ONS, ***Labour Force Survey***

Figure 64: Differences in AHC and BHC poverty rates are large across generations in the private-rented sector

Proportion of people in the private-rented sector in relative poverty (before- and after-housing costs), by age and generation: UK, 1961-2017



Notes: Data for 1992 and 1993 have been interpolated. Northern Ireland data is missing for 1994-2001.
Source: RF analysis of IFS, *Households Below Average Income (1961-91)*; DWP, *Family Resources Survey (1994-2017)*

For instance, at the age of 65 the difference in poverty rates between the two measures is roughly 18 percentage points for members of the baby boomer and silent generations in the PRS. This is compared to differences of between 0.2 percentage points and 1 percentage point overall. Moreover, the AHC and BHC differences at older ages in the PRS are actually larger than for young adults. At the age of 25 millennials and generation X were just 13 percentage points more likely to be in poverty on the AHC measure than on the BHC measure, if they lived in privately rented homes. Of course it is important to remember that, while this figure is smaller than PRS differences in later life, it is much higher than the average figures for young adults shown in Figure 63.

The policy successes that have improved outcomes in later life must be replicated for children and working-age adults

This analysis of poverty across the life course and through the generations is an illuminating reminder of the drivers of poverty at different ages: poverty results from the additional income requirements associated with the arrival of children, and the risk of low incomes in old age (albeit a diminishing risk given the strong performance of underlying pensioner incomes in recent decades). The social security system has traditionally sought to mitigate against both these drivers of poverty, although its emphasis has been shifting away from the young in recent years. And housing costs have provided a headwind, but one that has not been

felt equally across the age range given the different housing situations people at different life stages and in different generations find themselves in.

It is clear that concerted efforts to reduce pensioner poverty, along with improvements in employment and pension incomes, and reductions in relative housing costs have gone a long way in improving living standards for this age group. Pensioners are no longer the group most likely to be in poverty, as they historically have been, and incomes have improved such that average non-housing spending levels are now in line with those of other age groups. These are great successes that now need to be replicated across the age distribution. As housing costs have gone up and incomes have been squeezed, poverty rates have increased for children and working-age adults. The majority of people in poverty now find themselves in a household in which someone is working. Unless adequate solutions are found, our outlook for the coming years suggests that poverty rates will continue to increase for these groups.

SECTION 4

Wealth and assets

CHAPTER SUMMARY

Total net wealth in Britain has grown rapidly since the 1980s, with recent increases going mainly to older cohorts. As a result, no cohort born since 1960 has recorded any substantial progress on their predecessors in relation to wealth accumulation, whereas members of the 1951-55 cohort, for example, have 28 per cent more wealth (in real terms) in their early 60s than the cohort born just five years earlier held at the same age.

Women in these older cohorts have not had an equal share of this wealth boom. Historical labour market and savings patterns mean that women in the 1946-50 cohort have just over half the individual wealth in their late 60s that their male counterparts do.

Strong house price growth in the 1990s and early 2000s, benefiting those cohorts that were old enough to own homes at the time, means that net property wealth is only improving cohort-on-cohort for those born before the 1960s. There is little evidence that more than a very small minority of the silent generation and the oldest baby boomers have consumed this wealth during their lifetimes via downsizing. However, one-fifth of adults in prime age today (mainly members of generation X) state that they intend to support retirement incomes via downsizing in future.

Younger cohorts have higher rates of pension saving than older ones: those born in the late 1970s and 1980s are 50 per cent more likely to be contributing to a pension in their 30s than their predecessors were 10 years before them at the same age. But defined benefit pensions, more common in older cohorts, continue to dominate in terms of the overall volume of wealth.

Although relative (proportional) wealth inequalities are relatively flat at present, absolute (cash-level) wealth gaps – perhaps more important in terms of the role that wealth plays in supporting living standards and the difficulty of moving from one part of the wealth distribution to another – are rising. Future intergenerational wealth transfers look set to drive these gaps up, with the already wealthy most likely to inherit.

Our spotlight analysis explores the rise of multiple property ownership in Britain. £941 billion of wealth was held in additional properties (mainly buy-to-let properties and second homes) in 2014-16, or almost one-sixth of the value of all property. 11.2 per cent of adults had some in their family, up from 7.9 per cent in 2001. All cohorts are more likely to hold wealth in additional properties than their predecessors at the same age, apart from those born in the 1990s who are only equally likely to do so at age 29 as those born in both the 1970s and 1980s were. Given that millennials have much lower levels of primary property ownership than predecessors, the fact that they are tracking on additional property ownership represents a concentration of housing assets within these cohorts.

As well as deriving an income from renting out properties or consuming the gains from their sale in retirement, additional properties may act as a store for future inheritances: wealth in them is much more concentrated among older adults with large bequest intentions than wealth in primary residences is.

Britain's total net wealth has boomed, with recent increases going mainly to older cohorts

Relative to its national income, Britain is a wealthy country. Household wealth has been growing considerably faster than incomes for four decades. Between the 1950s and the early 1980s, the ratio of household wealth to national income held reasonably constantly between two and a half and three. It has increased to close to seven times GDP today however.[99]

To understand this wealth boom and its effects across generations, we can divide wealth into its component parts: net property wealth, private pension wealth and net financial wealth.[100] The former two categories are easily the largest, accounting for 77 per cent of the total in the most recent data available (for Great Britain in 2014-16). Net property wealth totalled £4.6 trillion and private pension wealth amounted to £5.3 trillion of Britain's £12.8 trillion of total net household wealth.

However, before turning to each of these components of wealth we assess trends in total wealth since 2006-08 (the start of the period for which we have granular data across wealth components captured in the ***Wealth and Assets Survey***) across different cohorts. We consider wealth at the family level and on a per-adult basis, since this best reflects the influence of family size, throughout this section (apart

99 C D'Arcy & L Gardiner, ***The generation of wealth: asset accumulation across and within cohorts***, Resolution Foundation, June 2017

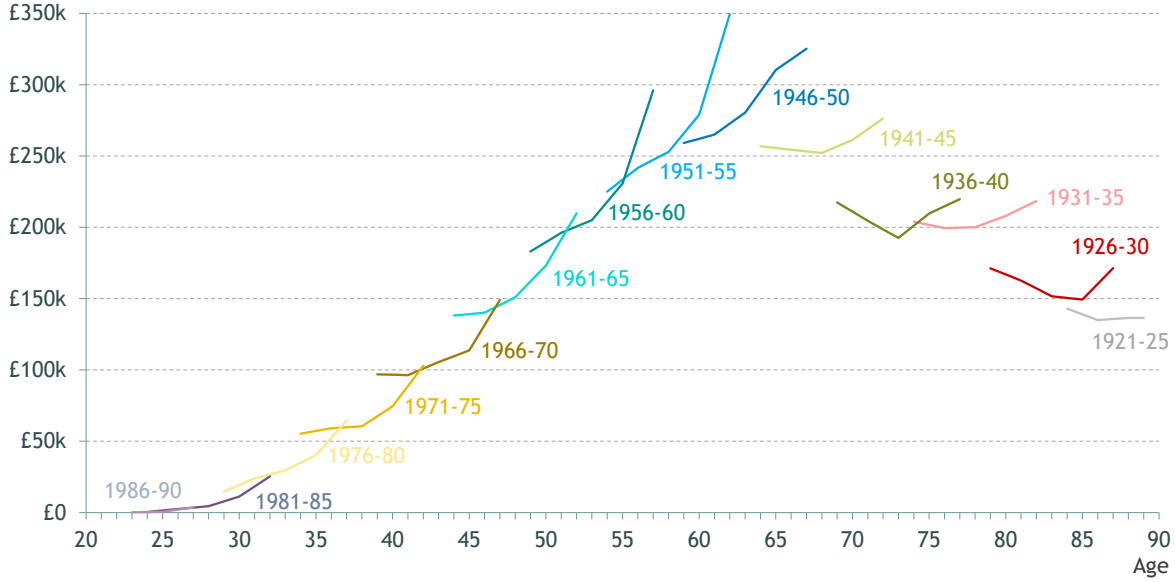
100 In line with others we exclude physical wealth from our analysis, due to concerns about the way survey respondents are asked to value it (respondents are asked about the replacement value of their physical assets, which is generally much higher than its marketable value). For more information, see: R Crawford, D Innes & C O'Dea, ***The Evolution of Wealth in Great Britain: 2006-08 to 2010-12***, Institute for Fiscal Studies, November 2015

from in Box 4 which disaggregates wealth by gender).[101] What we find is that the country's wealth boom has persisted even in the post-crisis period, growing strongly in a way we haven't seen with earnings and incomes.

Earnings growth can drive both pay progress for each cohort as it ages, and cohort-on-cohort progress, as younger cohorts see more years of that progress. But the same cannot be said for wealth. Because wealth is essentially a stock rather than a flow measure, gains are not just about saving to build up assets but also include changes in asset prices for those things that families already hold. Figure 65 shows that this crucial difference means that no cohort born since 1960 has recorded any substantial progress on their predecessors in relation to wealth accumulation, in direct contrast to the experience of older cohorts. Consider, for example, that members of the 1951-55 cohort have 28 per cent more wealth (in real terms) in their early 60s than the cohort born just five years earlier held at the same age.

Figure 65: Only cohorts born before the 1960s are experiencing cohort-on-cohort wealth progress

Median real family total net wealth per adult (CPIH-adjusted to 2018-19 prices), by age and cohort: GB: 2006-16



Source: RF analysis of ONS, *Wealth and Assets Survey*

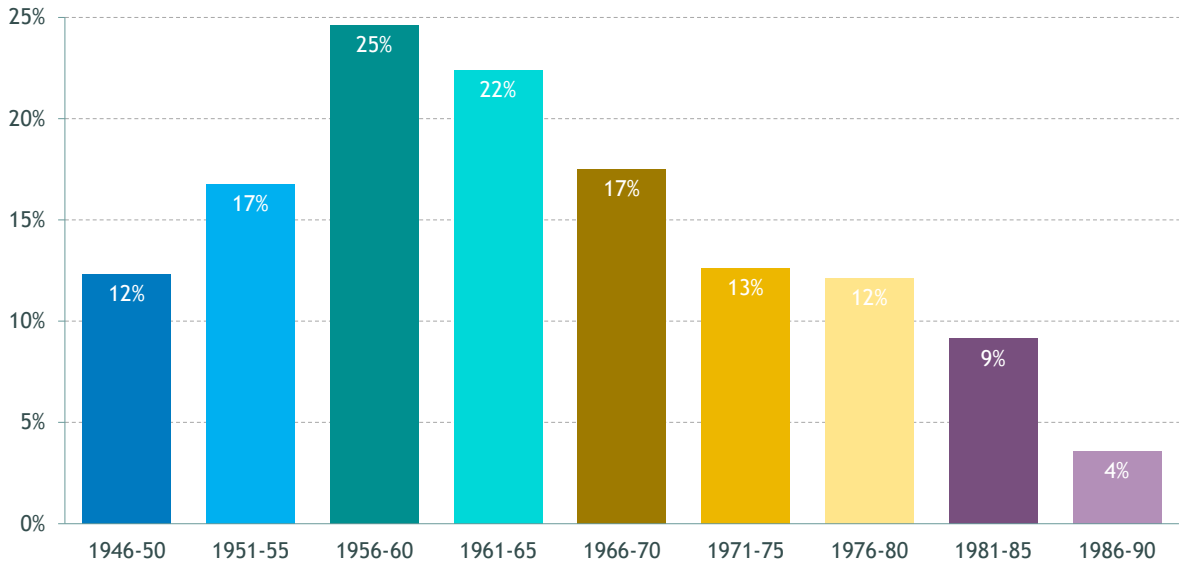
Over 2006-08 to 2014-16, total household wealth has increased by £2.7 trillion in real terms.[102] Figure 66 shows that the increase in wealth between 2006-08 and 2014-16 experienced by cohorts born 1956-65 (i.e. the younger half of the baby boomers) was equal to nearly half (47 per cent, or £1.3 trillion) of the overall

101 A family unit is a single adult or couple, and any dependent children. One household may contain more than one family, in which case all property wealth is assumed to sit with the primary benefit unit.
102 2018-19 prices.

wealth rise,[103] despite this group making up only around one-sixth of the adult population. The fact that these cohorts have disproportionately benefited is unsurprising: Figure 65 made clear that wealth has a strong life-course pattern – rising during working age and then running down in retirement – so we would expect those approaching retirement age to be accumulating fastest. But the sheer concentration of the wealth boom within this narrow age cohort is nonetheless notable.

Figure 66: Those born in the late 1950s have accumulated the largest share of the post-crisis wealth increase

Each cohort's share of the aggregate increase in total net wealth: GB, 2006-08-2006-16



Source: RF analysis of ONS, *Wealth and Assets Survey*

Effectively 'pooling' wealth across adults in the same family unit is a reasonable approach to thinking about how wealth is shared. But it hides gender differences, which become particularly important in the event of family breakdown. These differences are discussed in Box 4.

103 Offsetting this is the fact that some cohorts experienced falling wealth over this period.

i Box 4: The gender wealth divide for older baby boomers and the silent generation

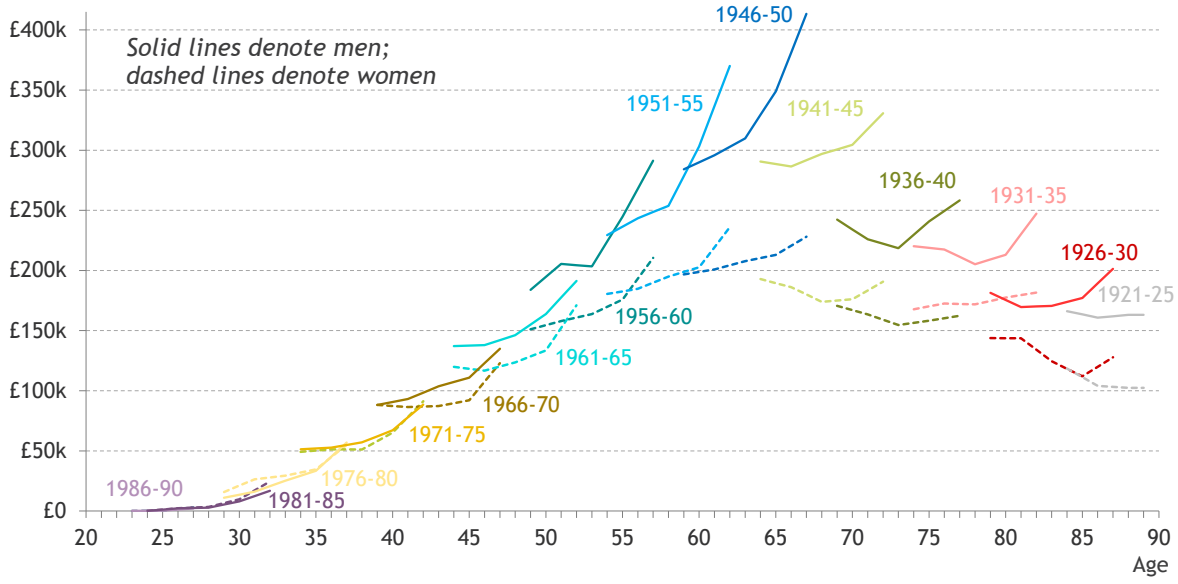
Our approach to pooling wealth within family units – effectively assuming that couples share both the wealth in the homes they live in (and any other properties they have), as well as their private pension and financial wealth, is a reasonable approach to conceptualising how wealth is shared.

But not all families will take this approach, and family breakdown and mortality (to the extent that some forms of pension rights cannot be fully transferred to spouses) can leave individual adults with less wealth to support their lifetime living standards than they previously thought.

As such, here we instead look at wealth from the individual perspective This means that each adult in a couple has half their family's net property wealth, plus their own pension and financial wealth (these latter two components of wealth are measured at the individual level, whereas property wealth is not). Our results, in Figure 67, show that men and women have relatively similar amounts of individual net wealth until their 50s. After this however, a big gender divide opens up: women in the 1946-50 cohort (the oldest baby boomers) have just over half the wealth in their late 60s that their male counterparts do.

Figure 67: Women born before the 1960s have substantially less wealth than their male counterparts

Median real individual total net wealth (CPIH-adjusted to 2018-19 prices), by age, cohort and sex: GB, 2006-16



Notes: Unlike other charts in this section in which we share all components of wealth equally between adults in the family unit, here men and women in couples are assigned their individual pension and financial wealth.
Source: RF analysis of ONS, *Wealth and Assets Survey*

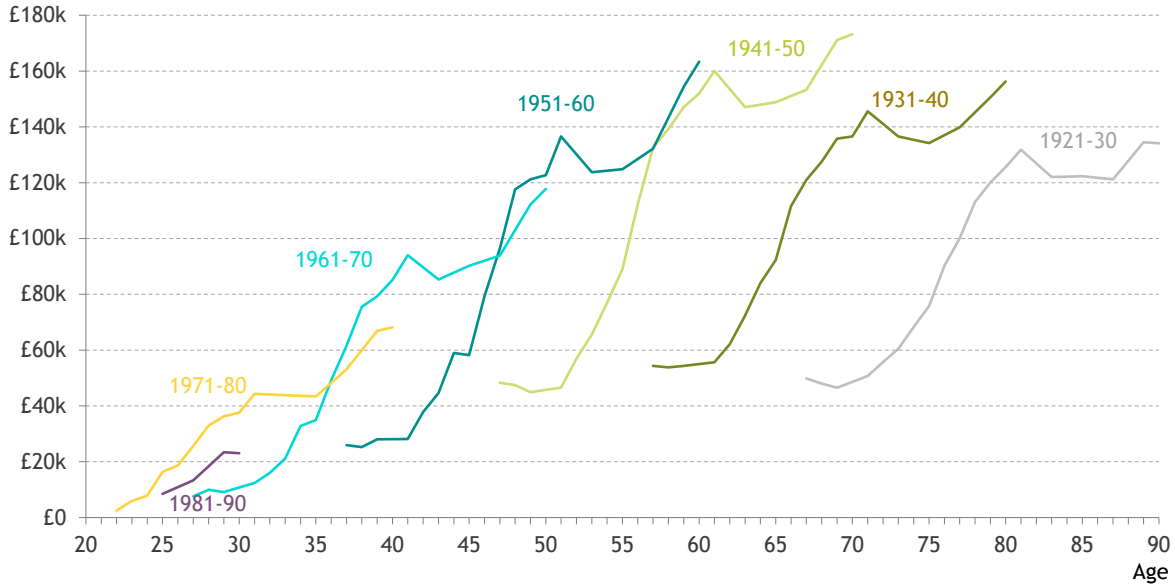
This will reflect the different career trajectories of men and women in these cohorts, discussed in Section 2. Lower lifetime earnings drive lower financial and pension asset accumulation, and generous defined benefit pensions were historically more common in jobs and sectors in which men are concentrated. With improvements in women's' pay and employment outcomes and more equal pension provision, the big question for the future is whether or not the gender wealth gap suffered by older women will prove to be a cohort effect that no longer applies as today's younger women age.[104]

Net property wealth is only improving cohort-on-cohort for those born before the 1960s

To further understand these trends in total wealth, it is helpful to break it down into its component parts. We turn first to net property wealth (the gross value of owned homes and any additional properties, less any mortgage debts).

Figure 68: Cohort-on-cohort property wealth progress has stalled for those born since the 1960s

Mean real family net property wealth per adult (CPIH-adjusted to 2018-19 prices), by age and cohort: GB, 1993-2017



Notes: Trends observed in the British Household Panel Survey and Understanding Society are used to index those observed in the Wealth and Assets Survey backwards and forwards.
Source: RF analysis of ISER, *British Household Panel Survey (1993-2007) / Understanding Society (2015-17)*; ONS, *Wealth and Assets Survey (2006-16)*

Figure 68 shows trends through decadal cohorts. We find that while the 1941-50 cohort has 27 per cent more wealth than the cohort 10 years before it did

104 For previous considerations of this question, see: Warren, T. et al., 'Female finances: gender wage gaps, gender asset gaps', ***Work, Employment & Society***, 15(3), September 2001

at age 69, all cohorts born from 1960 onwards have less property wealth than their predecessors 10 years before them did at the same age. Members of the 1990s millennial cohort are pegged back furthest, however, with 39 per cent less property wealth than those born 10 years before them had at age 30.

The rapid pace of property wealth accumulation for older cohorts, seen in Figure 68, is largely due to the windfall effect of the house price boom of the mid-1990s to the mid-2000s, which is discussed later in this section. Trends in total net property wealth, particularly at younger ages, are additionally affected by the home ownership patterns discussed in Section 2. This means that even if future large house price increases were to occur, we would not see the same level of property wealth accumulation in younger cohorts as their predecessors experienced. The other factor underlying these cohort property wealth trends – at least since the turn of the century – is the increase in additional property ownership we have observed, particularly among generation X, baby boomer and silent generation cohorts. Patterns of additional property ownership are the subject of our spotlight analysis at the end of this section.

Are these higher levels of property wealth than in the past going to be consumed during these cohorts' lifetimes, or passed on in bequests? The hassle and costs associated with releasing wealth from primary residences would suggest that downsizing is not a common pursuit, something that recent data bears out. Box 5 explores these trends.

i Box 5: A bigger role for downsizing than in the past?

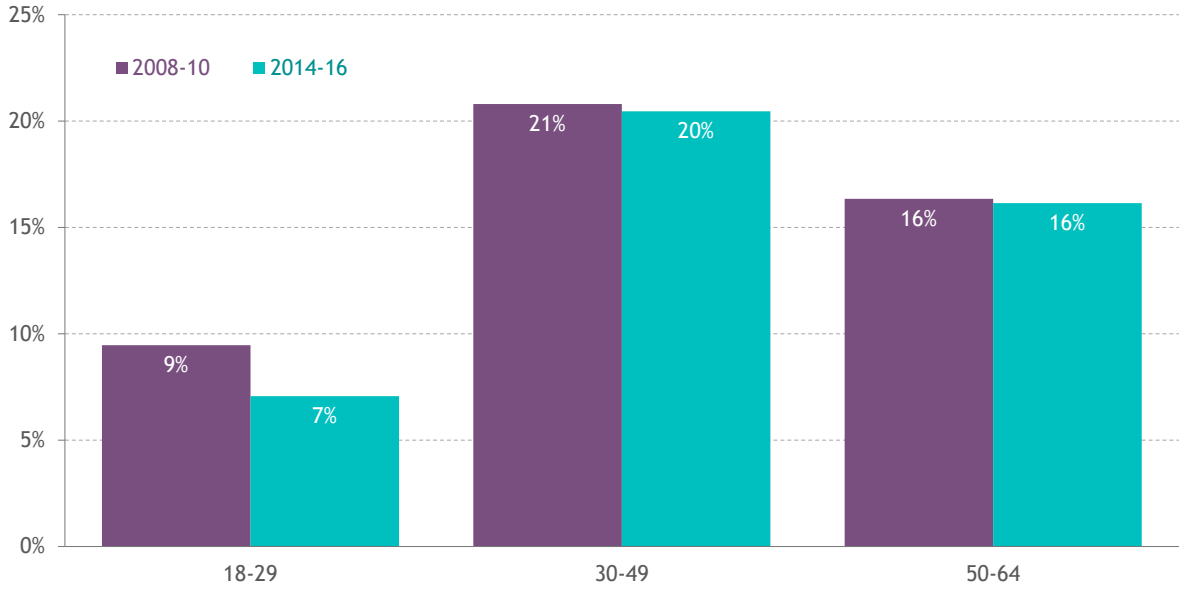
Previous analysis suggests that downsizing to lower-wealth properties is not a common occurrence at older ages. Between 2006-08 and 2012-14, just 3 per cent of adults in both the 1941-50 and 1931-40 cohorts (mainly in their 60s and 70s at the time), and 6 per cent of adults in the 1921-30 cohort (in their late 80s at the time), made property moves consistent with downsizing.[105] This may reflect a lack of interest in downsizing, or structural and practical barriers to doing so.

Turning to the future, we find that a substantial proportion of working-age adults expect to fund their retirements by downsizing or moving to a less expensive home. Figure 69 shows that these aspirations peak in prime age: one-fifth of adults aged 30-49 in 2014-16 intend to downsize in future to support retirements.

105 C D'Arcy & L Gardiner, *The generation of wealth: asset accumulation across and within cohorts*, Resolution Foundation, June 2017

Figure 69: One-fifth of adults in prime age intend to downsize in future

Proportion of working-age adults who expect to fund retirements by downsizing or moving to a less expensive home, by age group: GB



Source: RF analysis of ONS, *Wealth and Assets Survey*

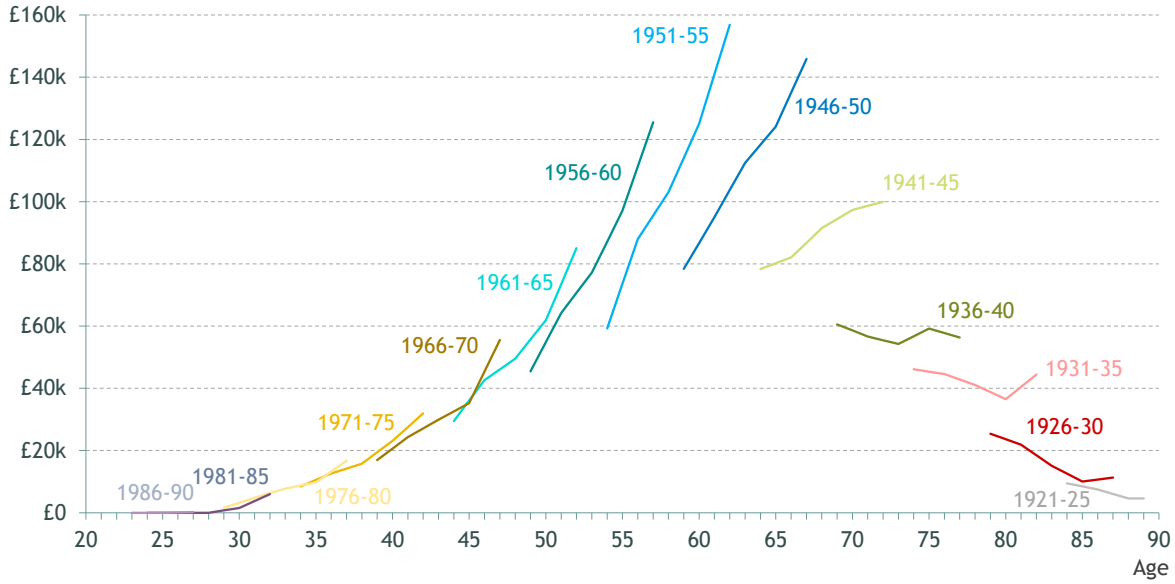
There is little evidence that these aspirations have changed in recent years, although fewer under-30s now expect to downsize in order to fund retirements than did in 2008-10. Given a low incidence of downsizing among silent generation and older baby boomer cohorts currently in old age, the question is whether the aspirations of these baby boomers, members of generation X and older millennials will diminish. If not, policy makers may need to consider what more can be done to remove structural barriers to downsizing as part of a wider effort to encourage the efficient allocation of housing.

Auto-enrolment has boosted pension saving for younger cohorts, but defined benefit pensions continue to dominate aggregate pension wealth

Turning to private pension wealth, Figure 70 sets out the same cohort patterns as shown for total wealth, above. We see millennial and generation X cohorts tracking their predecessors at the same age, while baby boomer and silent generation cohorts have substantially more pension wealth than predecessors. For those in later life, unsurprisingly given how pensions operate, we see a clear pattern of decumulation. Those born in the 1940s appear to be bucking that trend so far, however. Compositional factors relating to morbidity and divorce will affect this picture, but more important is the way that defined benefit pensions and annuitized pensions in payment are valued.

Figure 70: Private pension wealth has soared for cohorts approaching or just past retirement age

Median real family private pension wealth per adult (CPIH-adjusted to 2018-19 prices), by age and cohort: GB, 2006-16



Source: RF analysis of ONS, *Wealth and Assets Survey*

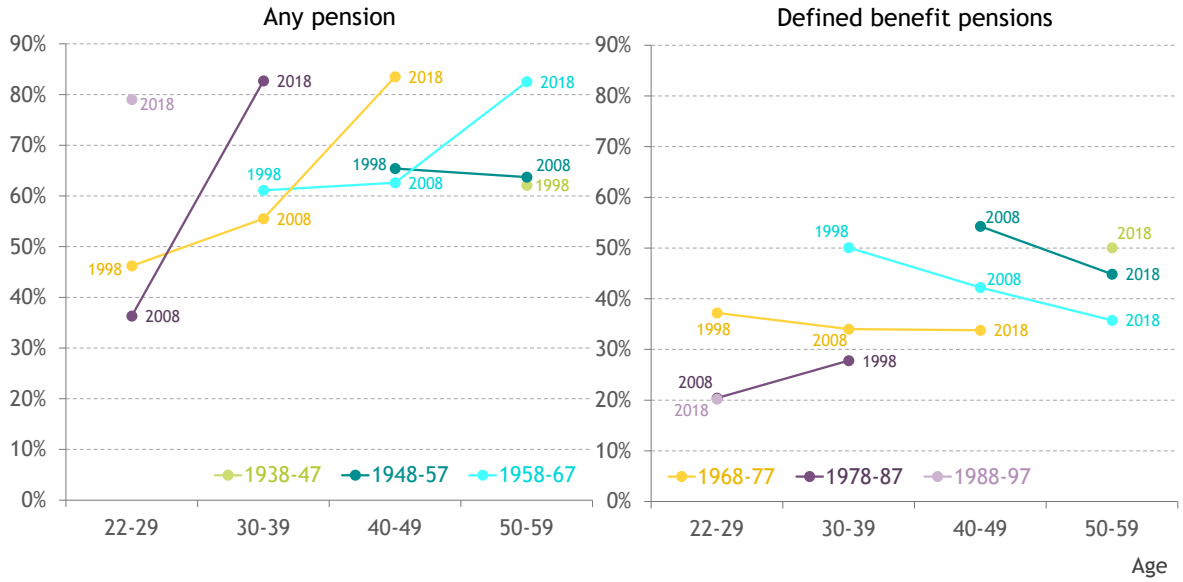
To measure them in a consistent way to defined contribution pension pots, the ***Wealth and Assets Survey*** values defined benefit and annuitized pension rights at the level of the pension pot that would be required to purchase them in the annuities market at that point in time. Rising life expectancies (which have been the main driver of changes in annuity factors and discount rates) and low interest rates have served to continually inflate the value of defined benefit pensions and pensions in payment in each wave of the survey. Previous analysis has explored these trends in detail, showing that in the six years to 2012-14, three-quarters of the growth in pension wealth was down to these 'valuation' effects rather than active changes in pension saving.[106]

The latest figures suggest that participation of young adults in defined benefit pensions is actually rising from its 2012 low (contribution rates for under-30s have risen from 16 per cent then, to 20 per cent in 2018). Nonetheless, the long-term decline in defined benefit pension schemes, shown from a cohort perspective in the right-hand panel in Figure 71, means that these increases in the effective value of defined benefit schemes and pension schemes currently paying out have mainly accrued to older cohorts.

106 C D'Arcy & L Gardiner, ***The generation of wealth: asset accumulation across and within cohorts***, Resolution Foundation, June 2017. See also: R Crawford, D Innes & C O'Dea, ***The Evolution of Wealth in Great Britain: 2006-08 to 2010-12,*** Institute for Fiscal Studies, November 2015

Figure 71: All cohorts have much higher pension scheme membership rates than predecessors at the same age

Occupational pension scheme membership among employees, by age, cohort and type of pension: UK, 1998-2018



Notes: Cohorts are approximate in the 22-29 age range, given it spans less than 10 years.
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

Also notable in Figure 71 (in the left-hand panel) is the much higher rates of overall pension saving for younger cohorts today compared to predecessors at the same age. Those born in the late 1970s and 1980s are 50 per cent more likely to be contributing to a pension in their 30s than their predecessors were 10 years before them at the same age. This outcome partly reflects the successful roll-out of auto-enrolment into defined contribution pension saving in recent years.[107] However, given that these schemes tend to be much less generous overall, these patterns don't feed through to cohort-on-cohort wealth improvements at younger ages in Figure 70. In addition, research for the Intergenerational Commission raised concerns about the level of risk borne by individuals in defined contribution pension schemes compared to the defined benefit schemes of old.[108]

Working-age cohorts are not improving on the financial wealth of predecessors

Net financial wealth – money in current accounts, savings accounts, ISAs, shares, gilts and other financial products, less any unsecured (non-mortgage) debts – is the smallest of the three components of wealth we consider. It therefore plays less of a role in explaining overall wealth shifts. But it is the most unequally shared form of wealth, and so still merits attention.

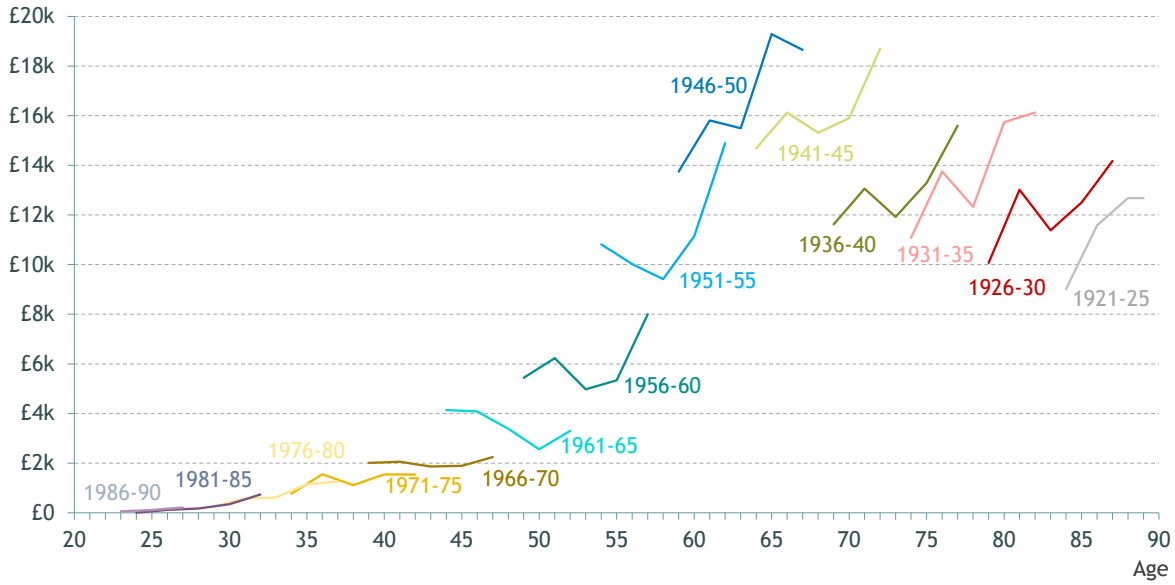
107 D Willetts & L Gardiner, 'More ambition, less risk – building on the success of auto-enrolment', ***Resolution Foundation blog***, 4 April 2019
108 Resolution Foundation, ***A New Generational Contract: The final report of the Intergenerational Commission***, May 2018

Figure 72 compares median net financial wealth across five-year birth cohorts over the period 2006-08 to 2014-16. We find that working-age cohorts are recording lower financial wealth than predecessors at the same age, which is driven by lower gross financial wealth rather than higher debts. On the other hand, at age 67 the 1946-50 cohort, on average, had 19 per cent more net financial wealth than the cohort five years before it had at the same age.

Figure 72: Working-age cohorts have lower net financial wealth than predecessors

Median real family private pension wealth per adult (CPIH-adjusted to 2018-19 prices), by age and cohort: GB, 2006-16

Source: RF analysis of ONS, *Wealth and Assets Survey*



In contrast to the story told elsewhere in this section, it is clear that in relation to financial wealth, baby boomers (apart from the oldest cohort) are part of the group missing out on cohort-on-cohort progress.

'Passive' wealth increases have driven the wealth boom

We turn next to the question of why wealth gains in recent years have been so skewed towards a few age groups born in the mid-20th century.

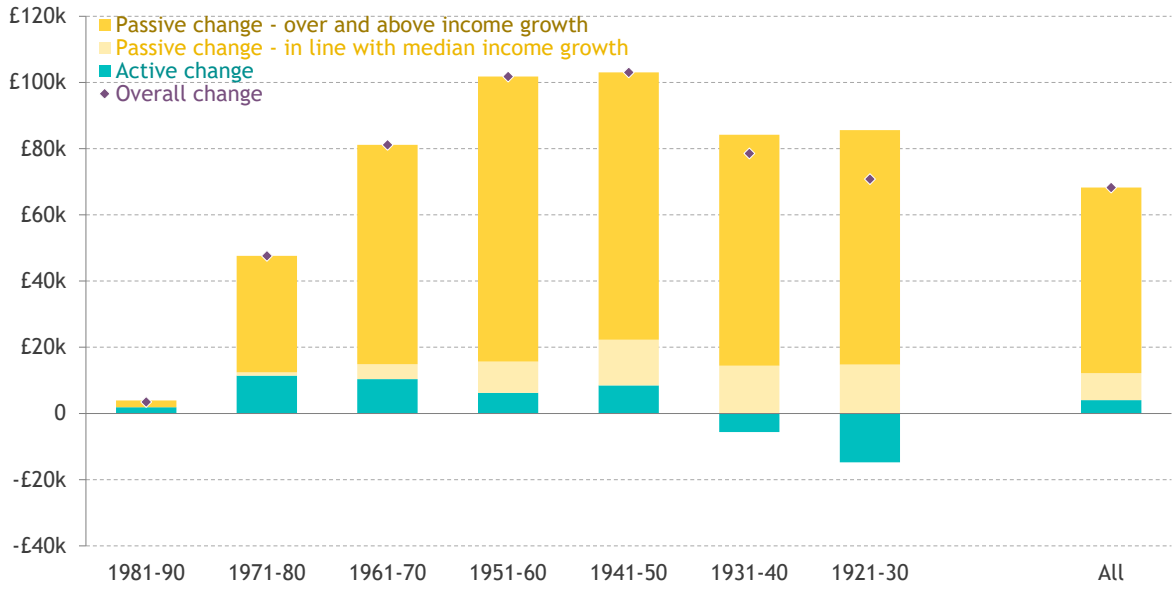
In recent years one of the most high-profile analyses of the development of wealth inequality has been the view that capital owners have been getting wealthier due to their greater ability to invest and to gain outsize returns from capital. That is, wealth has begotten wealth due to the returns to capital outstripping the rate of economic growth, as popularised in Thomas Piketty's

famous r > g inequality.[109] But returns to capital have not accounted for the bulk of the substantial increase in net wealth in Great Britain over the past decade. In fact it has been an interrelated mix of rising longevity, falling interest rates, rising house prices, and a minor role for quantitative easing in the more recent period[110] – a mix associated with declining returns to capital investments – that has been the driver of growing wealth.

These effects were touched on above in relation to the 'valuation' effects driving up wealth in defined benefit pensions and pensions in payment. Figure 73 explores the same kinds of trends in relation to property wealth, splitting out active behaviour like buying a house, improving a home, or paying off mortgage debt from passive house price effects (after a normal rate of return, assumed to track income growth, has been accounted for). We find that four-fifths of the increase in property wealth since the early 1990s has derived from these above-inflation passive effects, with the biggest gains for cohorts born in the 1940s and 1950s.

Figure 73: 'Passive' changes have played the dominant role in the growth in net property wealth over the past two decades

Nominal change in family net property wealth per adult explained by 'active' and 'passive' effects, by cohort: GB, 1993-2014



Source: RF analysis of ONS, *Wealth and Assets Survey*

While the drivers of growth in recent decades in the UK are not what Piketty's thesis suggested – it has been rising asset values rather than asset returns – the

109 T Piketty, ***Capital in the Twenty-First Century***, Harvard: Harvard University Press, 2014.
110 Quantitative easing can be assumed to have had an upward effect on asset (including housing) prices. See: B Broadbent, ***The history and future of QE***, Bank of England speech to the Society of Professional Economists, London, May 2018

implications are similar: outsized growth accrues to those who already have wealth. It is this fact that goes a long way to explaining the cohort patterns that we have presented in this section – more people in older cohorts owned wealth at the right time to benefit from these effects.

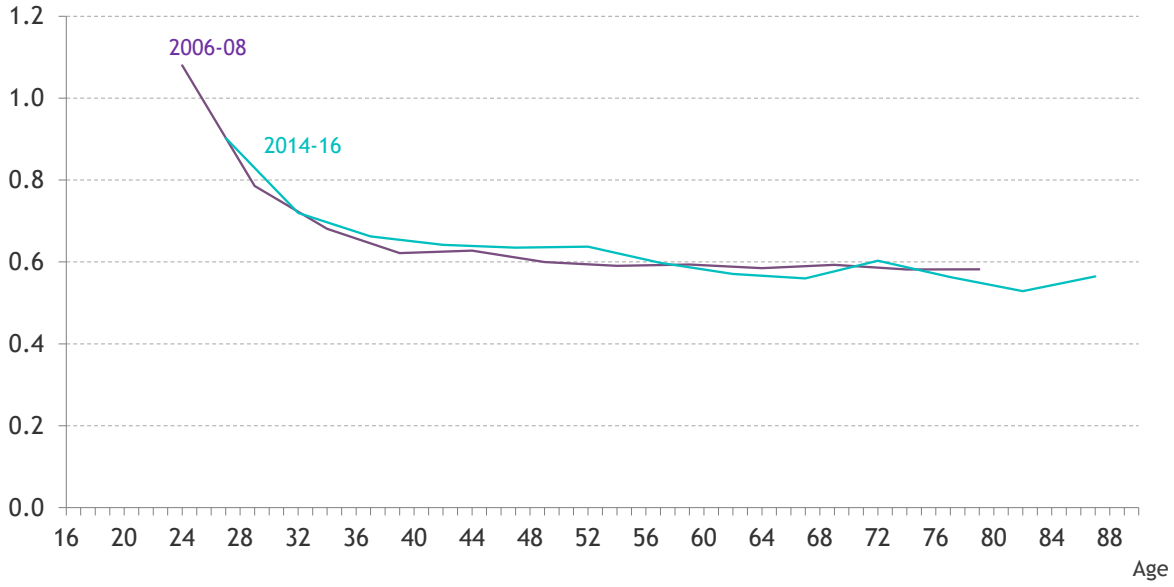
Relative wealth inequalities have not risen in recent years, but future intergenerational wealth transfers look set to drive absolute gaps up

Wealth is very unequal in relative terms, with around twice the Gini coefficient of household income.[111] Nonetheless, relative wealth inequality fell through much of the 20th century due to rising home ownership, and has since been flat, with rising property wealth inequality offset by expanding pension coverage.

Figure 74 shows that this flat pattern also holds within age bands. Relative wealth inequality at each age is higher for those aged under 40 and then fairly flat at ages above that, but these patterns have not shifted at all over the past eight years.

Figure 74: Within-cohort relative wealth inequality has not shifted in recent years

Gini coefficient for median family total net wealth per adult within smoothed five-year age bands, by age and cohort: GB



Source: RF analysis of ONS, *Wealth and Assets Survey*

Although relative (proportional) wealth inequalities are fairly flat at present, absolute (cash-level) wealth gaps – perhaps more important in terms of the role that wealth plays in supporting living standards and the difficulty of moving from one part of the wealth distribution to another – are rising. This fact serves

111 C D'Arcy & L Gardiner, ***The generation of wealth: asset accumulation across and within cohorts***, Resolution Foundation, June 2017

as a reminder that in relation to wealth, treating cohorts or generations as a homogenous group is perhaps even less appropriate than it is in other areas. Even in the cohorts that experienced the biggest wealth increases, many people owned very little and so felt little of the 'passive' effects described above. As such in their late 50s, the bottom tenth of the 1956-60 baby boomer cohort had £1,000 of net wealth or less per adult, while the top ten per cent of wealthiest adults all had at least £1 million each.

Given that much of the growing wealth held by older generations is not being consumed during lifetimes but rather passed on at death, previous research has demonstrated that future inheritances will push up absolute wealth gaps in younger generations. This is because it is the already wealthy who will disproportionately benefit from the coming inheritance boom.[112] This is a long way off for the millennials, though: their typical age of inheritance is predicted to be 61.[113] And over the past six years, the likelihood of inheritance receipt over a two-year period has risen by a fifth (from 5 per cent to 6 per cent) for 50-64 year olds, while staying flat (at 3 per cent) for under 30s.

As such, greater consideration of the role and drivers of intergenerational wealth transfers in driving up intra-generational or wider social inequalities in future is warranted. This is one of the themes picked up in our spotlight analysis which follows, which explores the theme of wealth held in additional properties.

112 L Gardiner, ***The million dollar be-question: Inheritances, gifts, and their implications for generational living standards,*** Resolution Foundation, December 2017
113 Ibid.

SPOTLIGHT

The rise of multiple property ownership in Great Britain

Rising additional property ownership has been the flipside of falling main property ownership

In recent years there has been considerable media attention devoted to the ownership of second homes and buy-to-let (BTL) property. In this spotlight analysis – a detailed summary of our longer briefing note on this topic[114] – we explore who owns additional property, the reasons for holding it, and the implications for the living standards of different generations and income groups.

Media attention has partly been due to political efforts to change the taxation of additional property. These efforts have led to the phased removal of tax reliefs on additional property mortgages and on second and empty homes, and to an increase in the stamp duty payable on additional property purchases.

Perhaps more importantly, the issue of multiple property ownership has become more salient in recent years as rates of overall home ownership have fallen. As discussed in Section 2, home ownership peaked in 2003 at 58 per cent of families, and then declined until 2016, before picking up a little since. Among families headed by people aged under 35, it has been declining since 1989. The implication of this fall in the proportion of families who own housing wealth is that more and more families are renting their homes, many for the long term.

Falling home ownership has not of course meant that the total number of houses has diminished. Instead, a greater proportion of the housing stock has been bought by existing home owners as additional property, precipitated by the liberalisation of credit for buy-to-let mortgages and the deregulation of rents and introduction of assured shorthold tenancies in the 1980s.[115] Some of this will have been the owners of multiple properties buying yet more of them, while some will be explained by people making their first entry into multiple property ownership.

Supporting this conclusion is the fact that only a small proportion of rented properties are thought to be owned by institutional investors.[116] And the

114 G Bangham, ***Game of Homes: The rise of multiple property ownership in Great Britain***, Resolution Foundation, June 2019

115 L Judge & D Tomlinson, ***Home improvements: Action to address the housing challenges faced by young people***, Resolution Foundation, April 2018

116 94 per cent of rental properties in England are owned by individuals. See: Ministry of Housing, Communities and Local Government, ***English Private Landlord Survey 2018***, January 2019

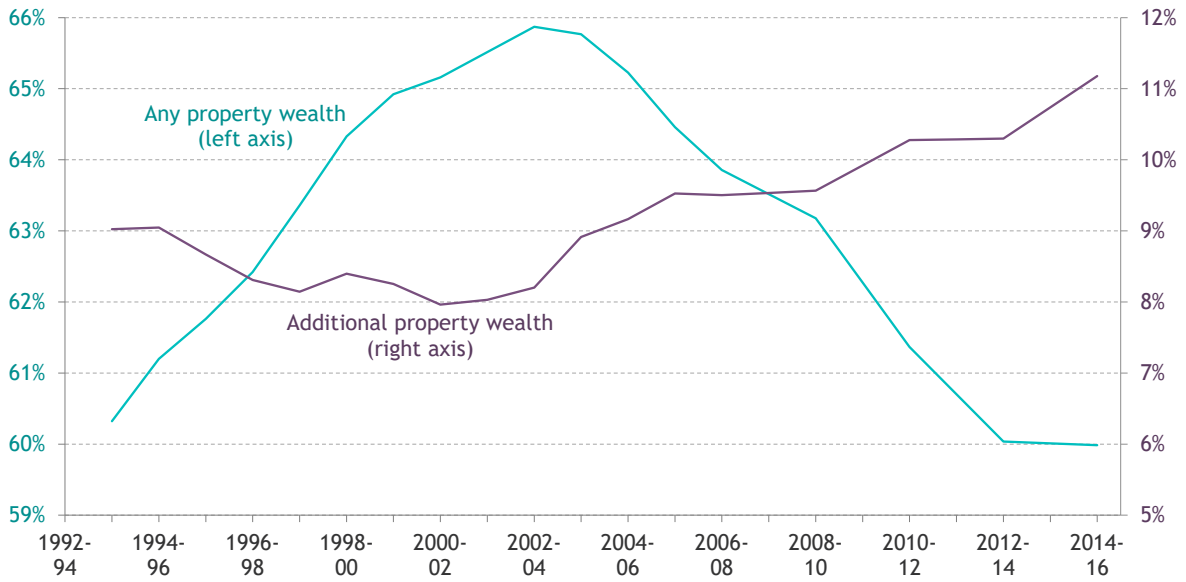
expansion of the private-rented sector has not substantially increased the total supply of housing, given that more than half of landlords buy from existing housing stock rather than new-builds and that a substantial number of private-rented properties (over half a million) used to be publicly owned.[117]

The proportion of adults with additional property wealth in their family has grown over the past 25 years

Measuring since the mid-1990s, we find that the rise in the number of people owning additional property has taken place particularly since the turn of the millennium. As Figure 75 shows, the proportion of adults who live in a family with property wealth outside their main residence rose from 7.9 per cent (3.6 million people) in 2001, to 11.2 per cent (5.5 million people) in 2014-16 (the latest time period for which the highest-quality data is available). This corresponds with the decline in the proportion of family units with any property wealth. As Figure 75 suggests, the proportion of adults whose families had any property wealth started falling soon after the proportion who had additional property wealth started rising.

Figure 75: The prevalence of additional property wealth has been rising since the turn of the century

Proportion of adults living in families with any property wealth and additional property wealth: GB, 1993-2016



Notes: Levels of wealth ownership from the *Wealth and Assets Survey* are rolled back to 1993 using trends observed in the British Household Panel Survey. Lines show three-year moving averages.
Source: RF analysis of ISER, *British Household Panel Survey (1993-2007)*; ONS, *Wealth and Assets Survey (2006-16)*

117 J Rugg & D Rhodes, *The Evolving Private-rented Sector: its contribution and potential,* University of York Centre for Housing Policy, September 2018

The total gross value of all additional property wealth held by households, across Great Britain in 2014-16, was £941 billion (in 2018-19 prices). This is an inflation-adjusted rise in value of over one-fifth (21.5 per cent) on the period two years earlier, and a rise of 54 per cent since 2001. To put this in context, additional properties accounted for 15.8 per cent of the total £6.0 trillion of gross property wealth held by households in Great Britain in 2014-16, compared to 13.7 per cent in 2006-08. The typical family that held additional gross property wealth held £85,000 of it per adult (the median) in 2014-16, compared to the median family in the wider population which held no additional property wealth at all. And these families' median primary property wealth was £159,000 per adult, considerably higher than the £69,000 median for the whole population.

Focusing on individual owners rather than families that benefit from additional property wealth, we find that approximately one-in-ten British adults reported holding some form of additional property themselves in 2014-16, over 4.3 million people. Figure 76 gives a breakdown of this population by the different types of additional property that they own. It shows that buy-to-let property accounts for the largest group of additional property owners (1.9 million people), followed by second homes (1.4 million) and then overseas property (970,000 people, including owners of time-shares and holiday homes).

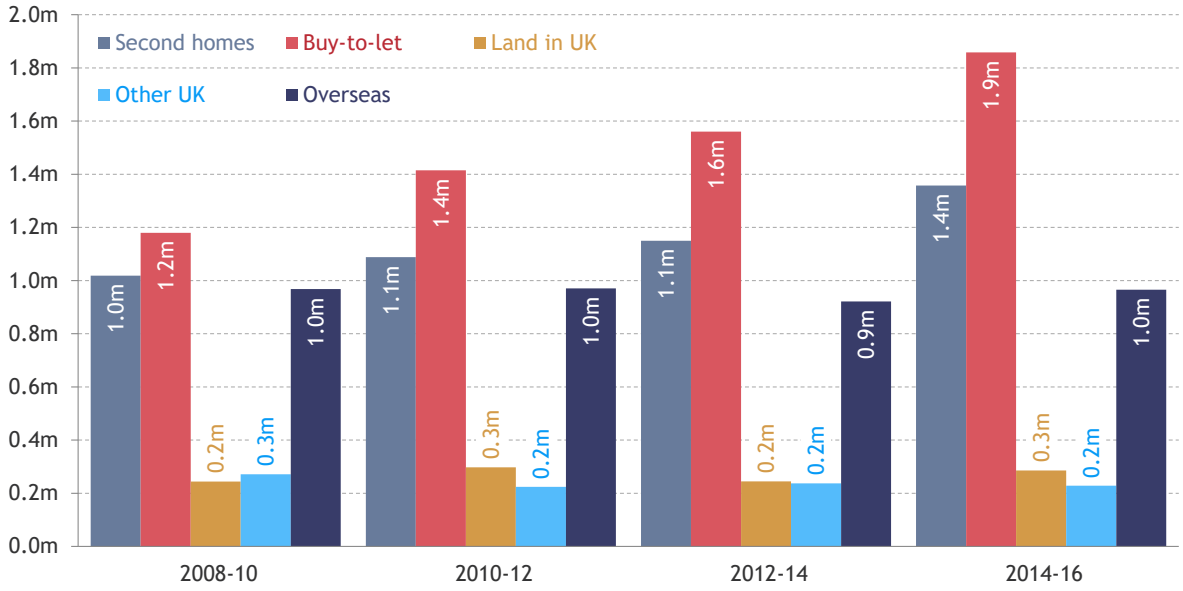
Looking at change over time, the biggest component of the increase in additional property ownership from 2008-10 to 2014-16 was in buy-to-let properties. The number of people owning buy-to-let property has risen by more than 50 per cent over this eight-year period. This is consistent with our story of rising multiple property ownership being partly the complement to rising private renting across the population. However, the number of second home owners has been rising too, from 1.0 million to 1.4 million over this eight-year period. The proportion of additional property owners owning property overseas has fallen from 30 per cent in 2006-08 to 22 per cent in 2014-16.

It's worth noting that alternative data can give a somewhat different picture of the number of additional property owners in these different categories. See Box 1 and the discussion around it in our longer briefing note for details of the different estimates and data sources.[118]

118 G Bangham, ***Game of Homes: The rise of multiple property ownership in Great Britain***, Resolution Foundation, June 2019

Figure 76: Buy-to-let is the most widespread type of additional property, and also the fastest-growing

Number of individuals holding additional property wealth, by property type: GB



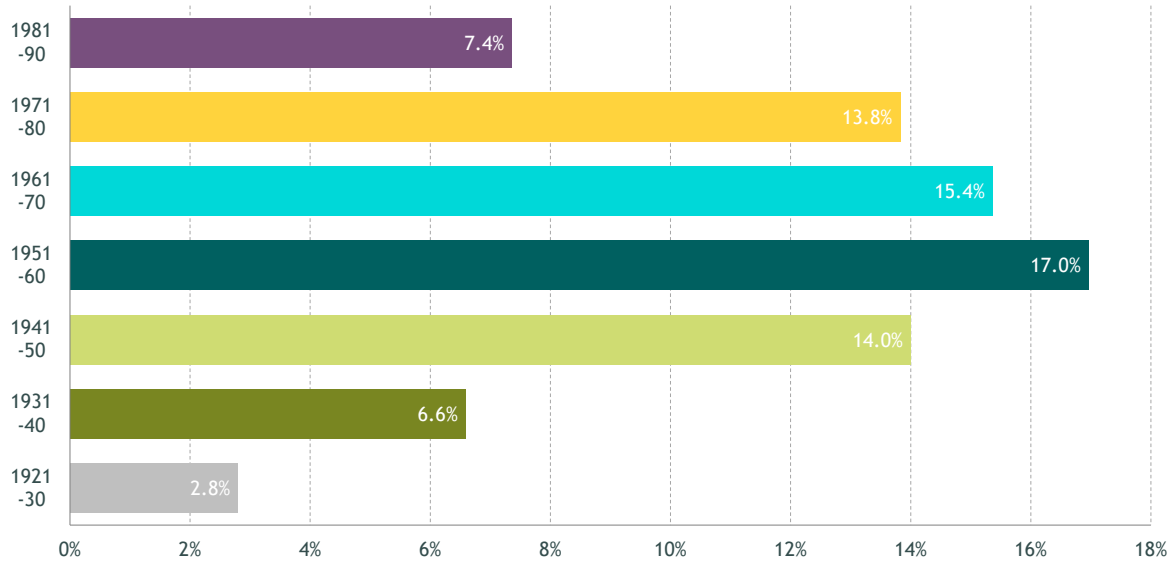
Notes: The sum of people across all categories is larger than the sum of all additional property owners, since some people own more than one type of additional property wealth.
Source: RF analysis of ONS, *Wealth and Assets Survey*

Generation X, the baby boomers and the silent generation have had cohort-on-cohort increases in additional property ownership

We turn now to the distribution of additional property wealth between different generations. Dividing up the adult population into ten-year cohort by their dates of birth, Figure 77 shows that the highest prevalence of additional property wealth in 2014-16 was among people born in the 1950s, followed by those born in the 1960s. Around one-in-six of those born in the 1950s had additional property wealth in their family in 2014-16.

Figure 77: People born in the 1950s have the highest prevalence of family additional property wealth

Proportion of cohort that lives in a family with additional property wealth: GB, 2014-16



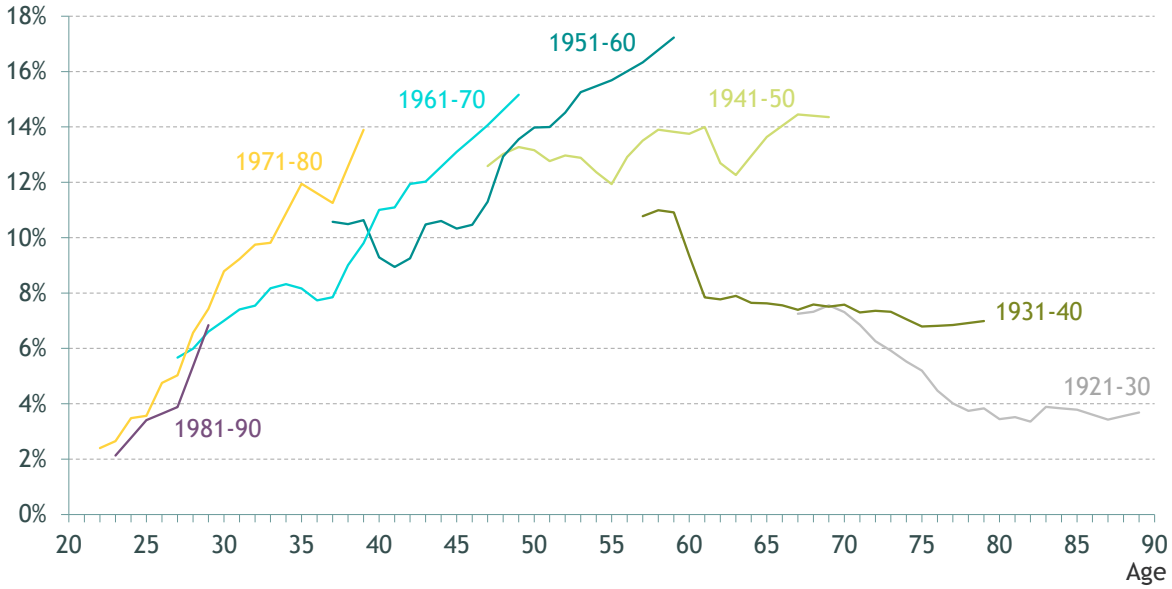
Source: RF analysis of ONS, *Wealth and Assets Survey*

Figure 78 puts these latest figures in their longer-term context, charting the pattern of the ownership of additional property wealth since the early 1990s, for different birth cohorts. Cohorts born since 1960 have failed to reach the same levels of main property wealth as their predecessors. For example, at age 39, 75 per cent of those born in the 1950s lived in families with primary property wealth, falling to 72 per cent for those born in the 1960s. And then at age 29, 50 per cent of the cohort born in the 1960s lived in a family with primary property wealth, falling to 37 per cent for the cohort born in the 1980s. On this basis, it might be expected that the story for additional properties is a similar one, with younger cohorts falling back substantially. But this is not the case.

Figure 78 instead shows that cohorts born between 1960 and 1980 have also exceeded their predecessors' rates of additional property ownership, despite a declining proportion of them owning any property. People born in the 1980s are not doing quite so well, essentially tracking those born in the 1970s, but a substantial and fast-growing proportion of this group are still becoming multiple property owners.

Figure 78: Generation X, the baby boomers and the silent generation have experienced the greatest cohort-on-cohort increases in additional property ownership

Proportion of adults in families with additional property wealth, by age and cohort: GB, 1993-2016



Notes: Levels of wealth ownership from the *Wealth and Assets Survey* are rolled back to 1993 using trends observed in the *British Household Panel Survey*.
Source: RF analysis of ISER, *British Household Panel Survey (1993-2007)*; ONS, *Wealth and Assets Survey (2006-16)*

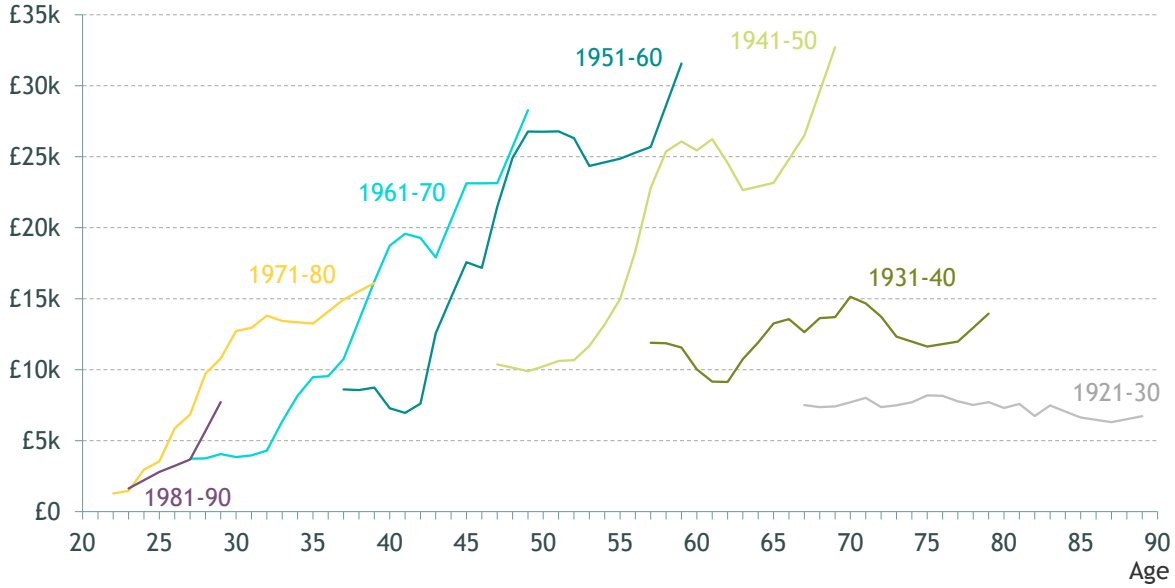
Figure 78 shows that the biggest cohort-on-cohort gains took place for the generation X cohort born in the 1970s, and the youngest silent generation and oldest baby boomer cohort born in the 1940s. These two cohorts – now in their late 30s and late 70s – are each around 60 per cent more likely to hold additional family property wealth than the cohorts born a decade prior to them were at the same age. Finally, it appears that people born before the 1940s have largely been excluded from the boom in additional property ownership that has taken place over the past two decades.

In Figure 79 we turn from ownership rates to the amount of additional property wealth that different cohorts possess. The picture here is a little different from the trends over time in additional property ownership. Cohort-on-cohort increases are small or non-existent for people born in the 1960s and 1970s, although remain for older cohorts. This suggests that although a higher proportion of people born in the 1960s held additional property wealth at age 45 than people born in the previous decade, the value of the additional properties held by people born in the 1960s was lower.

Figure 79: Cohort-on-cohort increases in additional property wealth have been largest for those born in the 1940s

Mean real additional family property wealth per adult (CPIH-adjusted to 2018-19 prices), by age and cohort: GB, 1993-2016

Notes: Wealth levels from the Wealth and Assets Survey are rolled back to 1993 using trends observed in the British Household Panel Survey.
Source: RF analysis of ISER, *British Household Panel Survey (1993-2007)*; ONS, *Wealth and Assets Survey (2006-16)*



Second home and buy-to-let ownership is mainly a richer, wealthier phenomenon

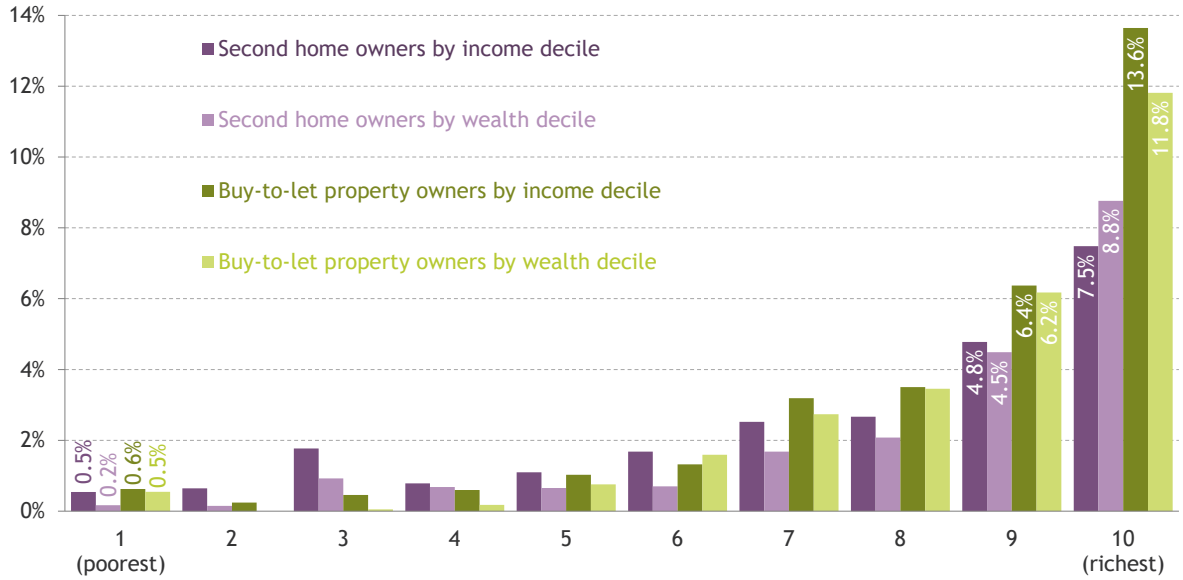
A claim that is frequently made about second home owners and landlords is that they are simply 'ordinary people' like anyone else.[119] But, although there are additional property owners spread right across the income and wealth distributions, they tend to be considerably richer and more affluent than the average.

Figure 80 divides all British households into ten equally-sized groups ('deciles'), having ranked them by income, and by wealth. It shows that in the top tenth of the household income distribution, 7.5 per cent of individuals own a second home, compared to less than half of one per cent in the bottom tenth. The distribution of buy-to-let properties is even more skewed towards high-income and high-wealth households, with 13.6 per cent of individuals in the top tenth of households by income owning a buy-to-let. In general, the distributions are quite similar regardless of whether we sort households by wealth or by income.

119 G Norwood, 'A New Year's Resolution for every landlord – make someone love you', ***Estate Agent Today***, 27 November 2015

Figure 80: Second home and buy-to-let ownership is skewed towards wealthy, high-income households

Proportion of individuals in each household net income and net wealth decile owning a second home or buy-to-let property: GB, 2014-16



Source: RF analysis of ONS, *Wealth and Assets Survey*

A different way to approach the question of concentration of ownership is to look at the number of buy-to-let properties that people own. Overall, of the population of individuals who reported owning a buy-to-let property in 2014-16, only one-in-three (32 per cent) said they own more than one buy-to-let. This gives some support to the popular notion that much of the non-institutional buy-to-let sector is more of a 'cottage industry' than a big business. However, one-in-ten landlords have more than three properties. Looking only at BTL landlords in the top tenth of households (by income), that figure rises to more than four in ten (40.8 per cent). This suggests that higher-income landlords are also substantially more likely to be the landlords of multiple properties. By comparison, second homes are much more of a piecemeal pursuit: 89 per cent of second home owners said they owned only one second home.

How has the skew in multiple home ownership towards wealthier and more prosperous households changed over time? Our data limits us to comparing 2014-16 with 2010-12, but this time period is enough to see some changes underway. The proportion of people living in the top half of the household income distribution who own buy-to-let properties has increased markedly, by around 1 percentage point in the top two deciles (1.1 and 0.8 percentage points in deciles nine and ten respectively). The proportion of people who own second homes has risen in every household income decile except the poorest one. Looking at variation over time in the wealth distribution, however, reveals far less change over this time period.

There was a 1.5 percentage point rise in buy-to-let property ownership in the top income decile, but no clear pattern of change elsewhere in the distribution.

Buy-to-let ownership varies more across regions than second home ownership does

Geographic inequalities in additional property ownership are also notable. As we might expect, given that higher-income households are more likely to own multiple properties, additional property ownership is more common in the highest-income parts of the country – the South West, London and the South East. However, it is generally quite evenly spread across regions, and has grown over time in all of them. 8 per cent of adults hold some additional family property wealth even in the lowest-ownership region (the West Midlands), though the gap compared to the highest-ownership region has widened over the period covered by this data.

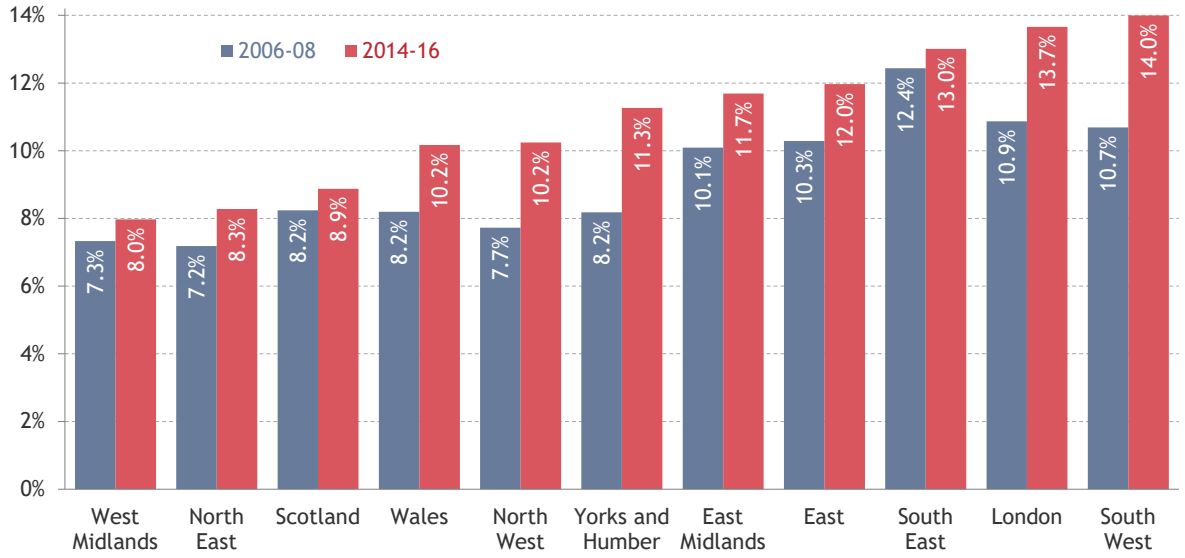
It is also important to note that the pattern of where the owners live does not necessarily map onto where the additional properties themselves are located. For buy-to-let owners, evidence suggests they tend to live in the same region as the property or properties they rent out,[120] but the opposite is likely to be true for second home owners.

A more interesting geographical disparity lies in the comparison between buy-to-let properties and second homes. The regional distribution of buy-to-let ownership is much more uneven that that of second homes. The East Midlands nudges ahead of London in the ranking of regions and nations by their rates of buy-to-let ownership, while the areas with the highest proportion of second home ownership are the South West, Wales and Scotland.

120 On the other hand, the higher the value of homes in the area, the less likely landlords are to live there. In the North East, 94 per cent of landlords live in the same area as the properties they rent out, whereas in the South East 69 per cent do. See: MHCLG, ***English Private Landlord Survey 2018***, January 2019. In Scotland, according to the Scottish Landlord Association, 7.2 per cent of their members have a non-Scottish address.

Figure 81: Additional property wealth has grown in all regions and nations, though disparities have also widened

Proportion of adults living in families with additional property wealth, by region and nation



Source: RF analysis of ONS, *Wealth and Assets Survey*

The motivations for additional property ownership

To better understand what has driven recent trends in additional property wealth, we can consider in more detail why people might want to own more than one property. Housing wealth is not – status considerations aside – an end in itself, but rather it can be used to support people's living standards over the course of their lives and the lives of their relatives. People who own multiple properties may attain higher living standards simply by 'consuming' the services those properties provide, for example by taking a holiday in their holiday home.

Additional property also functions as an asset, and may do so alongside or instead of its role in providing a service. A major study in 2018 categorised landlords into four categories of motivation: 'episodic' landlords who are letting due to life course events (e.g. inheriting a house); 'pension plan' landlords; 'portfolio' landlords who are building up an investment; and 'divesting' landlords who are running down their portfolio.[121] For example, the ***English Private Landlord Survey*** found that around 40 per cent of landlords fell in to the category of 'accidental' landlords in 2018, having first acquired their rental property either to live in themselves, or via inheritance or receipt of a gift.

We present a slightly different categorisation of landlords' motives, focusing on the latter three categories set out above, and looking at them over the longer

121 J Rugg & D Rhodes, *The Evolving Private-rented Sector: its contribution and potential*, University of York Centre for Housing Policy, September 2018

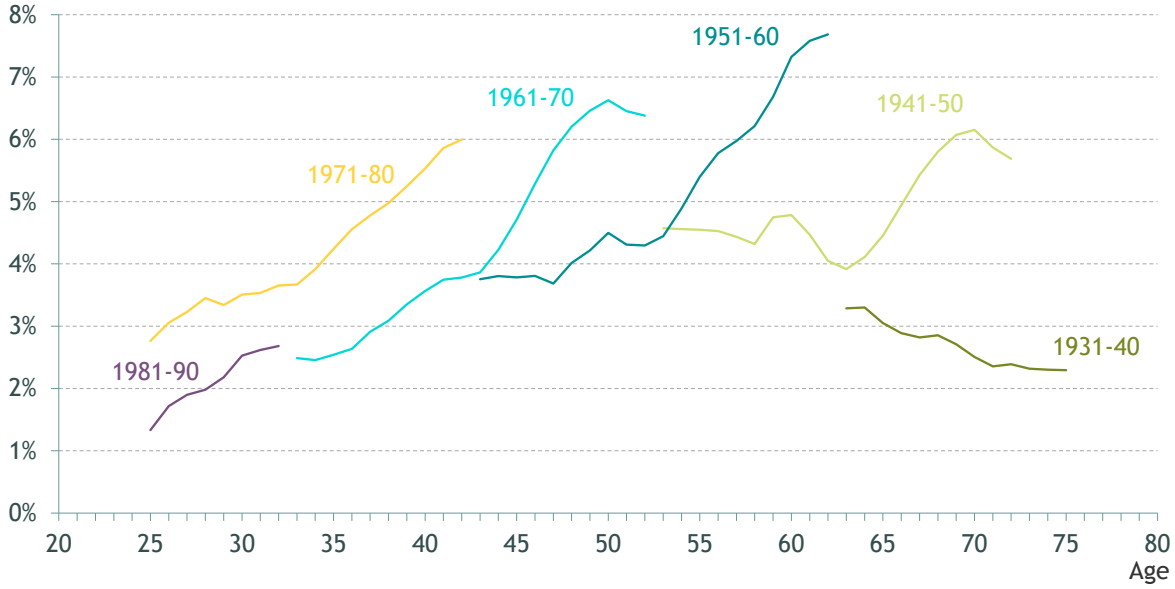
term. We categorise the purposes of holding additional property as: providing an income stream from an investment; support for people's retirement; and as a store of wealth to bequeath to younger family members.

Purpose 1: Provision of rental income

Over the past two decades, additional property has been an attractive destination for investment, allowing people to convert savings into a relatively high-yielding investment to provide a steady monthly income. Buy-to-let investment was made particularly attractive by a combination of policy and market developments: mortgage interest tax relief on rental properties, assured shorthold tenancies that allow landlords to remove tenants with relative ease, and the development of interest-only buy-to-let mortgages. A majority of buy-to-let landlords do not in fact set out to buy their properties outright, opting for interest-only mortgages that allow them to extract rental income from these properties' tenants. They then hope to realise future asset gains by selling the properties at a profit. Other motivations for people to invest in rental property have included the sharp rise in the number of private renters, and changes in bond markets and interest rates that have made other asset classes relatively less attractive to investors when compared with property.

Figure 82: People born in the 1950s are most likely to receive income from rents

Proportion of adults living in a family receiving income from property rent, by age and cohort: GB, 1993-2018



Notes: Levels of rental income receipt from the *Wealth and Assets Survey* are extended back in time before 2006-08 using trends observed in the *Family Resources Survey*. *The Family Resources Survey* measure includes income from property rent measured before tax but after paying for loans, repairs, rents, insurance and other costs on properties, and includes rental properties, holiday homes and second homes which are let, both in the UK and abroad.
Source: RF analysis of DWP, *Family Resources Survey (1993-2007)*; ONS, *Wealth and Assets Survey (2006-16)*

To get an idea of the importance of additional property as an income-yielding asset, we can look at the proportion of families who derive a part of their income from rents. Figure 82 shows that a substantial portion of each cohort born since the 1950s receives an income from rents. The ten-year birth cohort with the largest proportion of members receiving income from rents (those born in the 1950s) is also the cohort with the highest rate of additional property ownership.

Taking a generational (rather than ten-year-cohort-based) approach shows that over half (52 per cent) of all rental income is received by baby boomers (born 1946-65), with another quarter (25 per cent) received by members of generation X (born 1966-80).

Purpose 2: Provision of retirement income security

The second way in which additional property can boost living standards is via the provision of an income in retirement. This is partly a continuation of the first point, in that additional property can provide an income from the rent received when letting it out. But investing in additional property also provides the possibility of liquidating that investment in the future by selling it and (probably) receiving capital gains – or liquidating it gradually via forms of equity release. The downward slope of the trends in older cohorts' additional property ownership in Figure 78 may be evidence that people do indeed sell off additional properties over the course of their retirement.[122]

How important is additional property in people's retirement plans? The latest ***English Private Landlord Survey*** found that 44 per cent of landlords took this route to contribute to their retirement income. Evidence from the 2014-16 ***Wealth and Assets Survey*** on the sources of income that working-age people plan to rely on in their retirement shows that while pensions and savings are by far the largest planned sources of income, property also features in the plans of many people, either via downsizing or by additional properties yielding a regular income. Income from additional property features in the retirement plans of more than one in ten working-age adults (10.8 per cent of them), a slight increase compared to the previous years in which this survey was conducted.

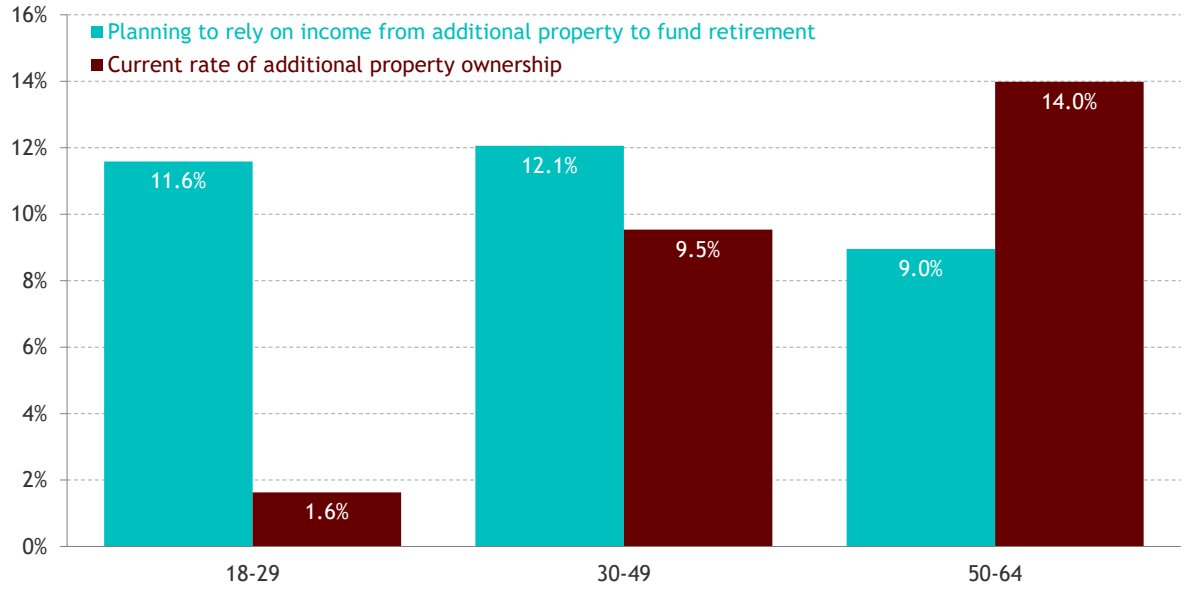
Figure 83 contrasts different age groups' plans to fund retirement via income from additional property with their present rates of additional property ownership. It suggests that around 10 per cent of under-30s must be expecting to acquire additional property by the time they have retired, in order to fund retirement, while among the over-50s there is a substantial number of additional property owners who do not expect to have to rely on that property to provide for their retirement. Further analysis of the over-50s suggests that the proportion

122 In addition, part of the falling rate of ownership may be due to compositional factors, such as those relating to morbidity and divorce.

planning to rely on the state pension (93 per cent) and personal pensions (67 per cent) are both higher than in the wider population.

Figure 83: There are significant disparities between cohorts' additional property ownership and their aspirations to use it to fund retirement

Proportion of working-age individuals planning to rely on income from additional property to fund retirement, and current rate of ownership, by age group: GB, 2014-16



Source: RF analysis of ONS, *Wealth and Assets Survey*

What are the characteristics of the people who plan to use income from additional property to help fund their retirement? Are they a representative slice of Britain's families? One distinctive feature is that their incomes are high: one-third of them are in the richest tenth of households, while fully 89 per cent of them are in the top half of the household income distribution (though this is skewed somewhat by the fact that people in the richest tenth are also much more likely to own additional properties in the first place). In addition, it does not appear that people who plan to fund their retirement partly with income from additional properties do so because they have less in the way of pension provision. Looking at the average pension wealth held by people who do and don't plan to use additional properties to fund retirement shows that those who are planning to fund retirement in this way have family pension wealth provision at least as good as those who are not.[123]

Purpose 3: Bequests and inheritance

A third, longer-term aim for the owners of additional properties may be to

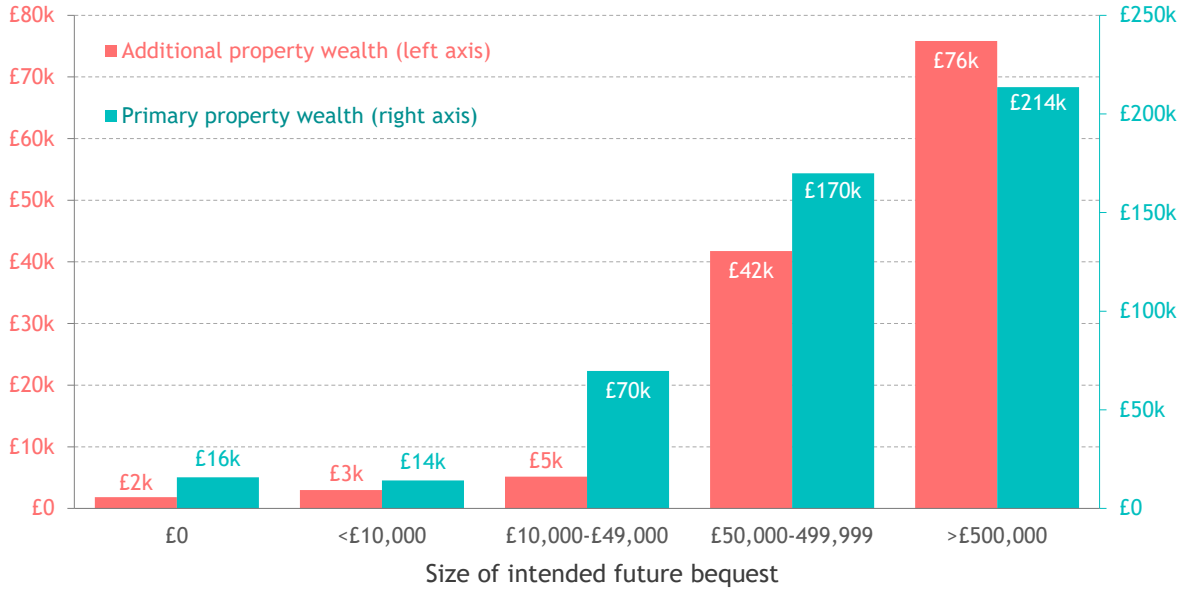
123 For more details, see: G Bangham, *Game of Homes: The rise of multiple property ownership in Great Britain*, Resolution Foundation, June 2019

leave them to their descendants, as bequests. Figure 84 shows that people in England aged over 50 who are planning to leave large bequests also tend to have substantially larger amounts of additional property wealth.

At one level of course, it is unsurprising that wealthy people plan to leave larger bequests, since they have more wealth to give. But the relative difference in additional property wealth between people planning to leave no bequests and people planning to leave large (over £500,000) ones is much bigger than the relative difference in their main property wealth. On average in 2016-17, people over 50 who planned to leave over £500,000 in bequests had property wealth 13.5 times larger than those planning to leave no bequests. By contrast, over-50s planning to leave large bequests had 41.6 times more additional property wealth than those planning to leave no bequests. Additional property wealth is thus more correlated with bequest intentions than the wealth people hold in primary residences. This suggests that additional properties may act more as a vehicle for future inheritances than do other forms of wealth, though multiple property ownership is far from the only reason why wealthy people plan to leave large inheritances.

Figure 84: Additional property wealth is more correlated with people's bequest intentions than primary property wealth

Mean level of family primary and additional property wealth per adult, by size of intended future bequest: England, 2016-17



Source: RF analysis of *English Longitudinal Study of Ageing*

Conclusion

The proportion of the UK's housing stock that is held by multiple property owners has risen over the past two decades. Owners of additional property are mainly adults in prime age or early retirement. They are rich and wealthy, they are most likely to be living in the south of England, and they often intend to pass their property wealth on in bequests to the next generation of their family. Of course there are many individual exceptions, but the big picture is that multiple property owners represent some of the most affluent and fortunate members of society.

In fairness to policy makers, additional property ownership is one aspect of the shifting patterns of wealth accumulation in 21st century Britain that they have woken up to in recent years. Stamp duty surcharges on second homes were introduced in 2016, and mortgage tax relief for those engaged in buy-to-let began to be reduced in April 2017.

Given the role that additional property ownership plays as a flipside to falling home ownership, today's changing policy situation leaves much more to be reformed. In an era when 'generation rent' coexists with the highest levels of property wealth that the country has ever experienced, there is a case for thinking more broadly about how to ensure that housing is taxed fairly and efficiently, and how to reduce its concentration so that each generation has a fair opportunity of a home of their own.

CONCLUSION

The issue of intergenerational equity has risen up the political and economic agenda in recent years. This reflects widespread pessimism among the British public about young people's prospects of improving on the living standards of predecessors at the same age – something that people think should represent the norm. Alongside this pessimism is an equally firmly held belief that the success of a society should be measured by how well we provide for older generations.

A rounded view of Britain's intergenerational challenges takes account of both the extent to which younger generations are experiencing living standards improvements on predecessors, and the extent to which we are supporting older people to maintain their living standards in retirement. The report has sought to provide such a view, as a complement to more extensive analytical frameworks through the lenses of gender, ethnicity and class. The purpose is not to stoke generational war, which bears no relation to how we live our lives in families. Rather, assessing living standards through a generational lens is an essential tool for understanding what's changing in Britain.

Reflecting where concern about generational living standards progress lies, much of our analysis focuses on the experiences of young adults today compared to their predecessors at the same age. In terms of the latest changes, there is certainly some good news. This includes the strongest pay performance for those in their 20s; an uptick in home ownership and a reduction in housing-cost-to-income ratios for those aged under 30; a reversal at recent fiscal events of some welfare cuts that mainly affect younger families; and rising pension contribution rates boosting saving for younger families in particular. Cyclical bounce back and the release of pent-up demand following the crisis have played a role here, as have policy choices.

However, there are long-standing headwinds to generational living standards progress sitting behind this good news. Non-housing consumption has been persistently weak for young and even prime-age adults, with the money they do spend increasingly swallowed by essentials. The fundamentals of high house prices mean that home ownership declines for young people are unlikely to be reversed in any significant way. And neither the youth home ownership uptick nor rising pension contributions can counteract the larger impact of passive wealth increases for those who have defined benefit pensions or were already home owners.

Indeed, the fact that this older-cohort-focused wealth boom is outstripping income growth is perhaps one of the defining economic features of Britain in recent decades. It points to a country in which inheritance from family may have more of an impact on individuals' lifetime living standards than how much they earn, with implications for intra-generational inequality. And with stagnant productivity one of the key drivers of weak income performance, it is a society in which cohort-on-cohort living standards progress is less of a given.

As well as what it feels like to progress into and through adulthood in Britain today, this report provides new insights into living standards differences at older ages. From employment for those approaching state pension age; to a reduction in elderly parents living with their adult children; to the much lower levels of wealth held by women than men in older cohorts, we provide rich detail on experiences across all cohorts, and within them too.

Future intergenerational audits for the UK, and the wider work of the Resolution Foundation's Intergenerational Centre, will continue to shed light on generational trends such as these. This is how we make sure that Britain delivers on the twin aims of support and care for the old – particularly the least well-off and most vulnerable – and the promise of generational living standards progress for those coming behind.

Intergenerational Centre

RF

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- undertaking research and economic analysis to understand the challenges facing people on a low to middle income;
- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

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