

## Section 5

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### Wealth and Assets

Pre-pandemic data showed that older adults held the majority of household wealth in Britain, with families from younger generations having, on average, less wealth than their predecessors held at the same age. These intergenerational gaps have been made worse by the economic consequences of the Covid-19 pandemic, which has driven significant changes in wealth, largely to the benefit of older working-age adults and, especially, pensioners.

The pandemic's impact on active changes in savings and debt varied by age but also by individuals' experience of the labour market and their personal circumstances. For example, younger people without children were most likely to report that their family's savings increased during the pandemic, driven by 'forced savings' (i.e. being unable to spend on goods and services that were shut down because of social distancing restrictions).

However, changes in household wealth were more affected by changing asset prices than by active changes in savings and debt. Average UK house prices were 12 per cent higher in August than their pre-pandemic level (February 2020) and world (non-UK) equities were approximately 20 per cent higher. These asset price increases benefited older adults, who were more likely to hold them: families headed by those aged 65 and older held 35 per cent of total household wealth before the pandemic, and accrued 42 per cent (£378 billion) of the total increase in British household wealth (£900 billion) between February 2020 and May 2021.

But when it comes to relative wealth gains accrued over the pandemic, we find something of an age-related 'U-shape' among those 30 and older, wherein both pensioners and those in their early 30s and 40s experienced a larger proportional increase in their family wealth than their counterparts in middle and later-working age. For example, among those in their early 30s, median family wealth rose by 13 per cent between February 2020 and May 2021, among those in their late 50s, it rose

by 3 per cent, and among those aged 80 and older, it rose by 7 per cent. In absolute terms, though, the largest gains went to those who held the most wealth before the pandemic hit.

Our Spotlight analysis assesses the costs and benefits of buying one's first home over the generations. The analysis is based on a thought experiment that estimates the fortunes of the typical first-time buyer purchasing in every year between 1974 and 2020. It finds that, although typical first-time buyers from older generations faced high interest rates, especially in the early years of ownership, today's typical first-time buyer must find significantly more cash upfront for a deposit, and must service a much larger mortgage than buyers in their parents' or grandparents' generation.

## Heading into the Covid-19 pandemic, wealth progress for younger generations had stalled

Household wealth, which we define as net property wealth, private pension wealth and net financial wealth, is centrally important for living standards.<sup>109</sup> A key reason for this is because it allows individuals and families to weather economic shocks by drawing down on savings, or monetising other assets, in order to meet living costs in the face of an income hit. It is also one way in which parents can affect the life-chances of their children, whether through direct transfers or inheritances.<sup>110</sup>

It has been noted for some time that household net wealth has been growing much faster than GDP or average earnings over recent decades: since 1991, the stock of net household wealth has almost doubled relative to GDP (from about three-and-a-half times as large to 7-times as large); since 2006-2008, the stock of household wealth has risen by over one and a half times the UK's GDP.<sup>111</sup> A large part of this has been due to increases in the value of underlying assets, and this additional fact has strong generational implications: it means that those who were old enough to hold wealth when prices began to grow rapidly will have experienced rapid increases in wealth, whereas those

<sup>109</sup> In line with others, we exclude physical wealth from our analysis, due to concerns about the way that survey respondents are asked to value it (respondents to the Wealth and Assets Survey (WAS) are mostly asked about the replacement value of their physical assets, which is generally much higher than its marketable value, but in some cases asked about insured value, again a different concept. This is different to the approach for other asset classes which rely on market value assessments). 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). We also exclude private business assets. There are good reasons to do so: data quality is poor (although has improved in recent survey periods); the ONS excludes them from its definition of wealth; and we don't have any way of calibrating changes in average business wealth during this crisis. If they were included, the level and distribution of wealth across the age range would be different because working-age people are more likely to have business wealth.

<sup>110</sup> See: A Davenport, P Levell & D Sturrock, *Why Do Wealthy Parents Have Wealthy Children?* Institute for Fiscal Studies, September 2021.

<sup>111</sup> See: G Bangham & J Leslie, *Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain*, Resolution Foundation, June 2020.

who are now priced out of the housing market have not been able to embark on a wealth trajectory as promising as those of their predecessors.<sup>112</sup>

As a result, well before the onset of the Covid-19 pandemic, cohort-on-cohort wealth progress for those born in the 1970s, 1980s and 1990s had stalled: those born during 1981-1985 had 25 per cent less wealth when aged 34 than those born during 1971-1975 at the same age, and those born during the early 1970s had made no progress on those born in early 1960s: at age 44, their wealth was 3 per cent lower than what it was for the 1961-1965 cohort when they were 44. Box 7 summarises what we know about intergenerational inequalities in wealth.

### BOX 7: Our previous Intergenerational Audits illustrated growing generational inequities in the underlying components of household wealth

Our 2019 and 2020 Intergenerational Audits highlighted the large and enduring generational differences in the ownership of different components of wealth: property and pensions wealth (the two largest components of total wealth; the other component is financial wealth, which makes up a smaller share).

Starting with net property wealth (the gross value of owned homes and any additional properties, less mortgage debts), our analyses highlighted the extent to which all cohorts born after 1960 had less property wealth than their predecessors born 10 years before them had at the same age. For example,

average net family property wealth at age 30 among millennials born during 1981-1990 was just over £28,000 – 23 per cent lower than the average amount of net property wealth that members of generation X born during 1971-1980 had at the same age. A combination of rising house prices (the value of which would accrue to generations that already owned homes) and falling home ownership rates among younger adults (discussed earlier in this report) are behind this stalling of cohort-on-cohort progress in property wealth.

A similar pattern prevails for private pensions wealth. Baby boomer and silent generation cohorts have

<sup>112</sup> Societal ageing (as older populations tend to hold more wealth), active saving and debt repayments also play a role, but as we have previously noted, their contribution is small in comparison to asset price rises. See: G Bangham & J Leslie, *Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain*, Resolution Foundation, June 2020. Our 2019 Intergenerational Audit examined the active and passive components of net property wealth increase between 1993 and 2014. It found that active behaviour (like buying a house, improving a home, or paying off mortgage debt) accounted for one-fifth of net property wealth gains, whereas above-inflation passive house price growth (passive effects) accounted for four-fifths of the increase in property wealth, with the biggest gains for cohorts born in the 1940s and 1950s. See: G Bangham et al., *An intergenerational audit for the UK: 2019*, Resolution Foundation, June 2019.

substantially more pension wealth than their predecessors had accumulated at the same age. And, although the share of younger cohorts contributing to a pension scheme had been on a rise (because of a rise in occupational pension scheme membership among younger adults and auto-enrolment policy, where employees are automatically enrolled into a workplace pension scheme<sup>113</sup>) the value of their pension wealth remained lower than their predecessors because they are much less likely to be enrolled on a Defined Benefit (DB) pension scheme and much more likely to be enrolled on a less generous and riskier Defined Contribution (DC) pension scheme.<sup>114</sup>

Net financial wealth (money in current accounts, savings accounts, ISAs, shares, gilts and other financial products, less any unsecured, non-mortgage debts) comprises the smallest of these three components underlying total wealth. Though small, it is still highly generationally-unequal, with our 2019 Intergenerational Audit noting that, during 2014-16, working-age cohorts recorded lower financial wealth than their predecessors at the same age, driven by their having lower gross

financial wealth (rather than higher amounts of debts).<sup>115</sup>

Our analyses setting out the value of these wealth components for different generations at different ages was primarily based on the ONS's biennial Wealth and Assets Survey (WAS). The latest WAS figures only run up to the 2016-18 period, so we are unable to update these figures for 2020-21. (We do at the end of this section provide an estimate for cohorts' total wealth holdings that is extrapolated from other data sources but, unlike our previous, WAS-based figures, these cannot factor in lifecycle effects for the 2019-21 period.)

However, because younger cohorts' access to the most valuable components of wealth is either slow to change (for housing) or rare (for the more valuable elements of private pension wealth, which tend to be found in Defined Benefit schemes), we do not anticipate that large-scale changes in the intergenerational wealth differences would have occurred over recent years.

<sup>113</sup> The roll-out of pensions auto-enrolment was particularly successful in extending pensions savings to groups who had previously been left out, including younger people, women and workers on lower incomes. As the roll-out is not complete, however, the increase in pension membership rises has slowed. See: L Gardiner & D Willetts, [More ambition, less risk – building on the success of auto-enrolment](#), Resolution Foundation, May 2019; 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.

<sup>114</sup> As discussed in previous Intergenerational Audits, The Wealth and Assets Survey values defined benefit pensions (and annuitized pension rights for the already retired) 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. Rising asset values have boosted the wealth of the already haves. See: 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.

<sup>115</sup> See: G Bangham et al., [An intergenerational audit for the UK: 2019](#), Resolution Foundation, June 2019.

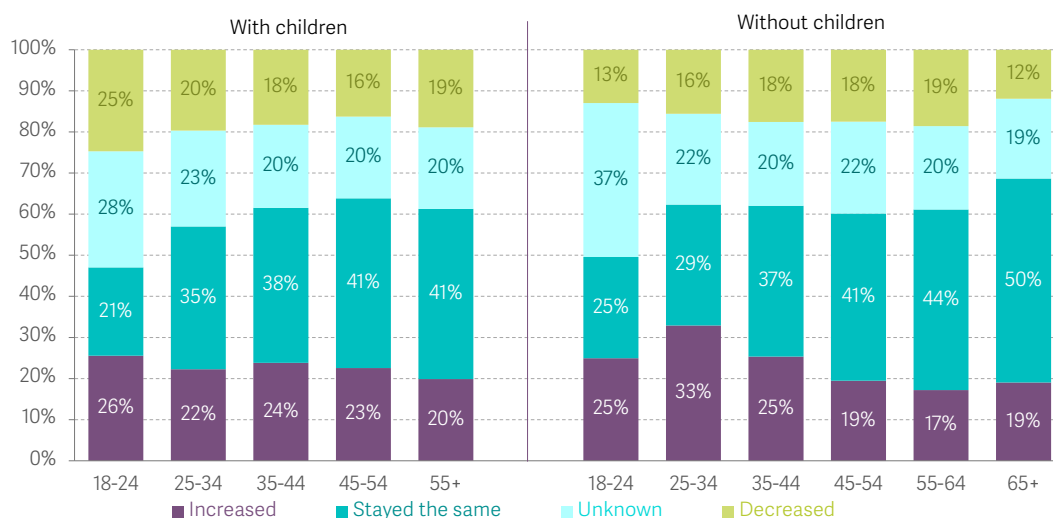
This section looks at how these intergenerational inequalities have shifted over the course of the pandemic. We first turn to an analysis of how active changes in savings and debt changed through the pandemic, and the reasons for those, across different age groups. We then put these changes into a wider wealth context, setting out how changes in total wealth over the course of those 16 months have varied by age, before estimating the current state of cohort wealth trajectories.

### Young families without children were the most likely to see their savings rise during the pandemic; young and middle-aged families with children were the most likely to see debts rise

Figure 51, which shows results derived from a Resolution Foundation-commissioned survey of adults age 18+, shows the proportion of respondents who report that their family savings had increased, stayed the same or decreased between February 2020 (immediately preceding the pandemic) and the start of June 2021.

**FIGURE 51: Young people without children are most likely to report an increase in their family’s savings between the start of the pandemic and June 2021**

Proportion of respondents reporting a change in family savings according to whether they have dependent children (left-hand panel) or not (right-hand panel): UK, February 2020 – June 2021



Base = all respondents who reported whether their family’s savings changed between February 2020 and June 2021. Sample size for those without dependent children is as follows: 18-24: 671; 25-34: 989; 35-44: 731; 45-54: 904; 55-64: 1,110; 65+: 1,988. Sample size for those with dependent children is as follows: 18-24: 61; 25-34: 358; 35-44: 651; 45-54: 452; 55+: 115. Figures for respondents with children aged 55-64 and 65+ have been combined to achieve a representative sample size. All figures have been analysed independently by the Resolution Foundation.

SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

Younger respondents are somewhat more likely than their older counterparts to have reported an increase in their family's cash savings over the course of the pandemic, but only among those who do not have dependent children living with them. For example, 25-34-year-old respondents without children (a third of whom reported increased savings) were more likely than other adults without children (for example, 19 per cent of those aged 45-54) to have seen an increase in their savings.

As with our findings on spending in Section 4, we find that savings changes also varied more by the presence of children than by age. Among those with children, age-related differences in savings were less marked, except among pensioners, who were somewhat less likely to have reported an increase in their savings than average – as would be expected, given typical life cycle profiles involve retired people reducing savings over time. Our survey analysis unsurprisingly finds that social distancing restrictions were the most common factor for rising savings among those whose savings increased, and income loss was the most common factor for savings falls, among those whose savings decreased. Box 8 looks into what those whose savings have increased are planning on doing with that money.

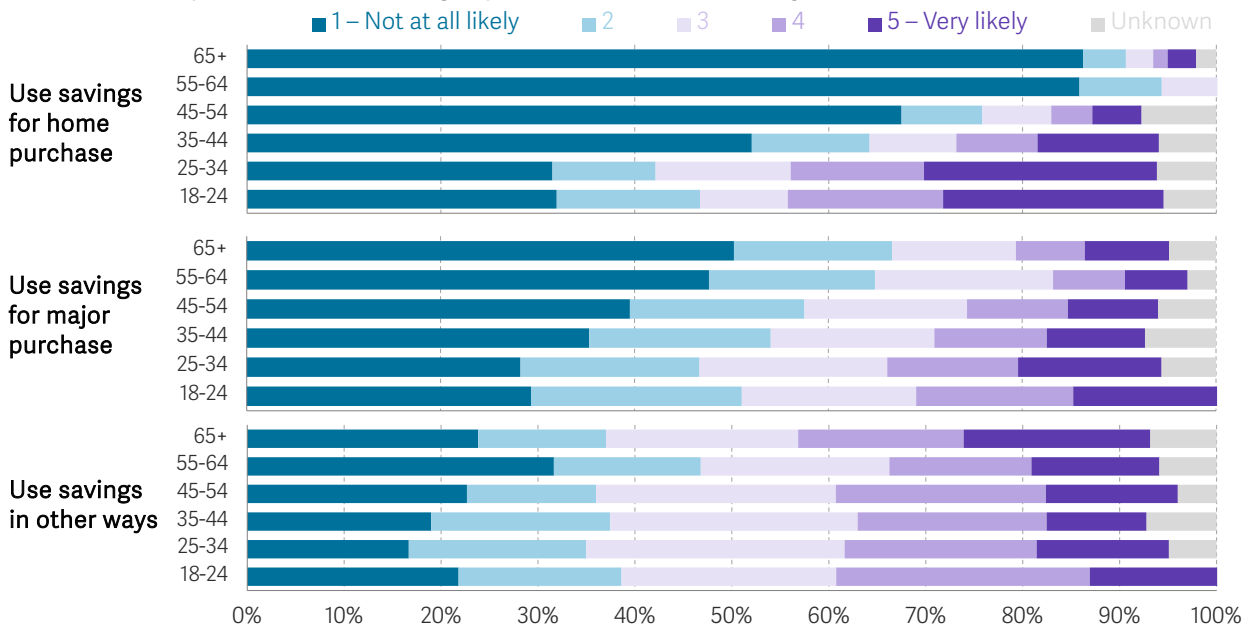
### BOX 8: Spending plans among those whose savings have increased during the pandemic

Focusing only on those respondents whose savings increased over the course of the pandemic, Figure 52 shows that older respondents are much less likely than their younger counterparts to have used their additional savings to buy a home (91 per cent of respondents aged 65 and older reported that it was 'not at all likely' or not likely compared with 48 per

cent of 18-24-year-olds) or to have put them towards a major purchase such as a car (67 and 48 per cent). These patterns are fairly unsurprising as they reflect spending changes we that would normally expect to occur over the course of the lifecycle: younger adults and families looking to make purchases that older adults have made decades before, like buying a home and or a car.

**FIGURE 52: Younger and older respondents plan to spend additional savings in different ways**

Proportion of families with increased saving that are planning to use additional savings for home purchase, other major purchase or in other ways: UK



NOTES: Base is all those whose savings increased and who reported planning to use their spending in each of the categories listed. Sample size for each category is as follows: 18-24: 225; 25-34: 509; 35-44: 411; 45-54: 353; 55-64: 273; 65+: 467. All figures have been analysed independently by the Resolution Foundation. SOURCE: RF analysis of RF/YouGov Covid-19 survey June 2021 wave.

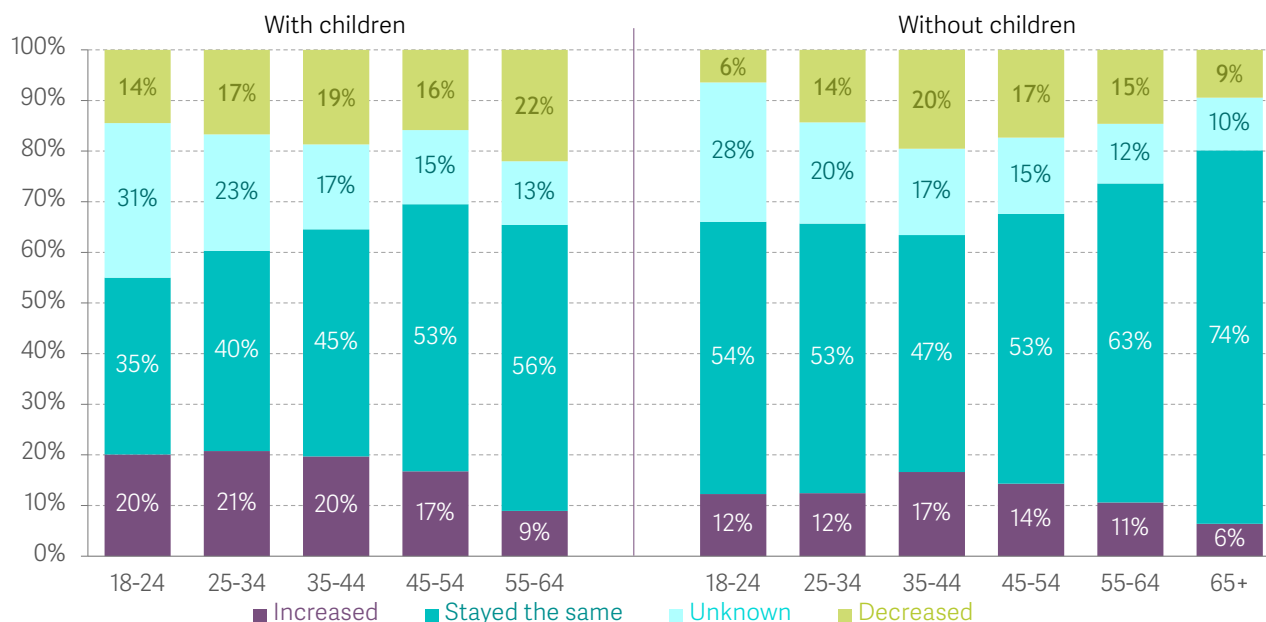
Debts also factor into family wealth. Figure 53 shows changes in respondents’ family debt according to their age and whether they have children (left-hand panel) or not (right-hand panel). As with the spending changes shown in Section 4, respondents with dependent children in their family were a little more likely to have reported increased debt between February 2020 and June 2021: 12 per cent of 25-34-year-olds without dependent children reported an increase in family debt, compared with 20 per cent of those with children.

Among those with children, the oldest respondents (those aged 55 and above) were half as likely to have reported an increase in debt (10 per cent) than their counterparts in either the 25-34 or 35-44-year-old age groups, where 20 per cent in each group reported a rise in family debt. Younger families appear particularly likely to have taken on increased debt: this is likely to be partly because they are among the age group that experienced employment change and income loss at the highest rate, and partly because they are also more likely to have faced increased spending pressures that have tended to affect those with dependent children. Among those without children, working-age, and especially middle-aged, respondents were more likely to have taken on additional debt, with pensioners particularly unlikely to have done so.



### FIGURE 53: Young and middle-aged respondents with dependent children were most likely to report an increase in family debt during the pandemic

Proportion of respondents reporting a change in family debt according to whether they have dependent children (left-hand panel) or not (right-hand panel): UK, February 2020 – June 2021



Base = respondents who answered whether there was a change in their family debt levels between February 2020 and June 2021. Sample size for respondents without dependent children is as follows: 18-24: 671; 25-34: 989; 35-44: 731; 45-54: 904; 55-64: 1,110; 65+: 1,988. Sample size for respondents with dependent children is as follows: 18-24: 61; 25-34: 358; 35-44: 651; 45-54: 452; 55+ 115. Sample size was not sufficient to present findings for respondents aged 65+ with children. All figures have been analysed independently by the Resolution Foundation.

SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

In other words, debt increases were larger among families with dependent children than without, but it was younger and middle-aged families, regardless of their parental status, who were more exposed to debt changes, which is most likely driven by the fact that they were the most likely age groups to experience employment and income changes over the course of the pandemic.

But changes in household wealth have been dominated by passive gains, and the boom in asset prices means that older adults have accrued more than 60 per cent of the pandemic-era increase in total household wealth

As we showed earlier this year, recent growth in household wealth has been driven much more heavily by changes in underlying asset prices than by active changes to savings and debt.<sup>116</sup> Some asset prices, which had been rising steadily over recent years, accelerated

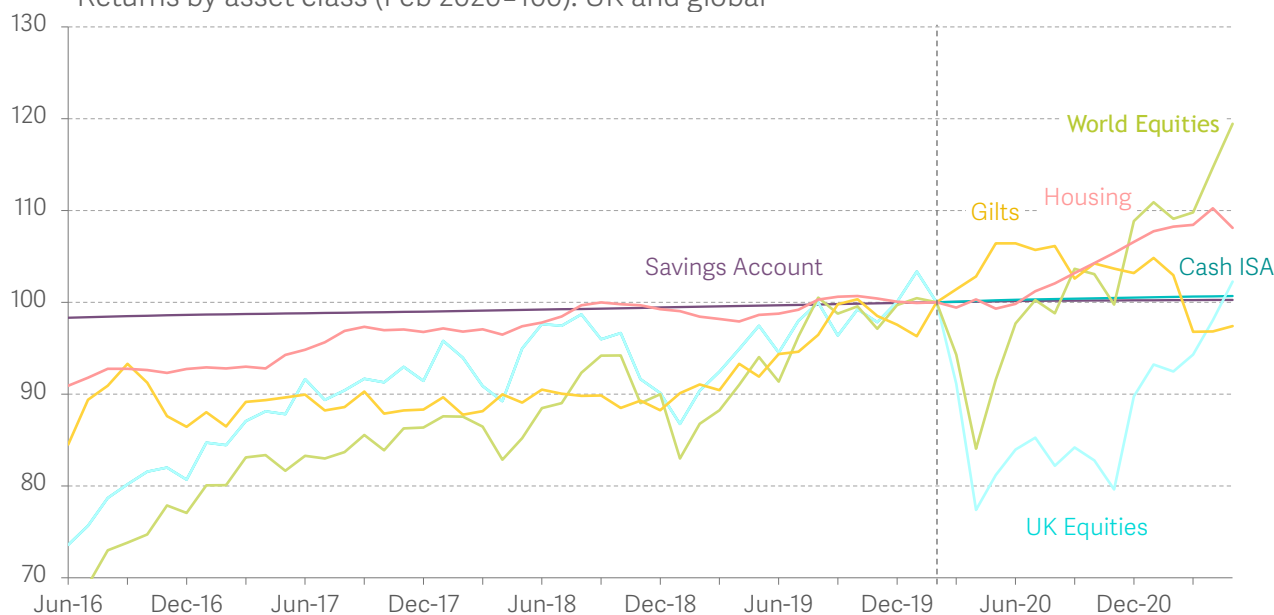
<sup>116</sup> See: G Bangham & J Leslie, *Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain*, Resolution Foundation, June 2020.



over the course of the pandemic: Figure 54 shows that UK house prices are now close to 10 per cent higher than their pre-pandemic level and global equities approximately 20 per cent higher. These asset changes have driven up net household wealth, with our estimate being that total household wealth in the UK grew by 6 per cent, or nearly £900 billion, between February 2020 to May 2021. Asset price changes account for 85 per cent of the total increase in wealth over this period.<sup>117</sup>

FIGURE 54: Asset prices have grown markedly since the start of the pandemic

Returns by asset class (Feb 2020=100): UK and global



SOURCE: RF analysis of Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

So how much has the pandemic changed wealth stocks among adults of different age groups? As we set out in Box 7, the underlying components of household wealth before the pandemic were not just unevenly distributed between generations, but more unevenly distributed than in the past, with cohorts born after the 1950s (and in some cases early 1960s) holding on average lower levels of net housing, private pension and net financial wealth than their predecessors had at the same age. Box 9 outlines how we have estimated the changes in net household wealth since the pandemic began.

<sup>117</sup> J Leslie & K Shah, *(Wealth) gap year: The impact of the coronavirus crisis on UK household wealth*, Resolution Foundation, July 2021.

## BOX 9: Methodology for calculating distributional impact of asset price changes and estimating complete distributional effects of the pandemic on family wealth

This analysis draws on previous Resolution Foundation research which offered the first complete picture of the impact of the Covid-19 crisis across the entire wealth distribution of the UK.<sup>118</sup> We provide here a brief overview of those estimates were calculated.

The Wealth and Assets survey (WAS) provides comprehensive and granular details on household wealth holdings, with the latest WAS data covering the period 2016-18. To estimate how asset price changes have affected wealth levels since then, we take observed wealth holdings in 2016-18 and roll forward the value of wealth until the pre-pandemic period using asset price growth across broad asset class groups. We make a number of assumptions relating to the rate of returns within

asset classes, changes in the composition of assets that a household has (we assume no change), and the value of defined benefit pensions.

In order to understand the impact of the pandemic on the wealth distribution, we combine results from our June 2021 YouGov survey on changes to savings and borrowing with data from WAS on asset holdings. Specifically, we model the likelihood that each observation family within the WAS would have experienced an active change in savings and debt during the pandemic based on the results of our survey. This can then be combined with aggregate-level data to ensure that the modelled changes in debt and borrowing match those aggregates since the start of the pandemic.

Thinking about changes in intergenerational wealth stocks in absolute terms, Figure 55 makes clear that the lion's share of wealth gains accrued during the pandemic went to the 'already haves.' For example, those aged 55 and older are estimated to account for 63 per cent of total family wealth; during the pandemic they accrued 63 per cent (£559 billion) of the total increase in British wealth (£900 billion).

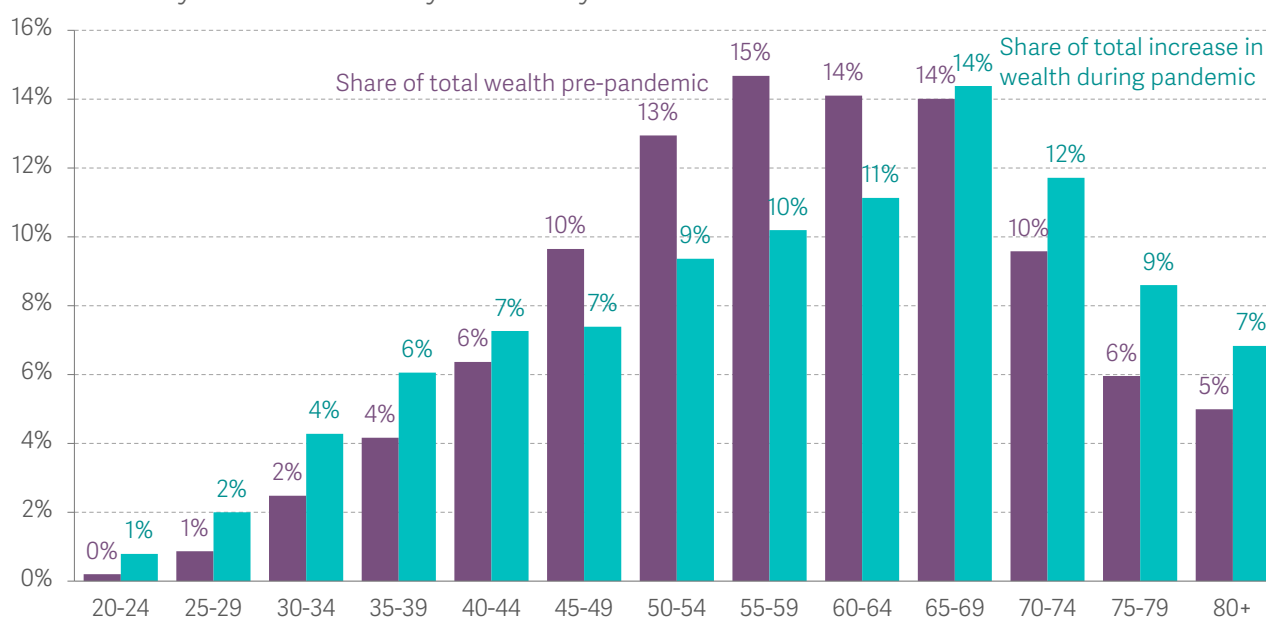
But in fact the gains from the pandemic exhibit something of a 'U-shape' among those aged 30 and older. In particular, those in their 30s and early 40's, and those aged 65 and older, saw a greater share of the pandemic wealth gains than was their share of pre-pandemic wealth; by contrast, those in later-working age (i.e. in their late 40s to

<sup>118</sup> J Leslie & K Shah, *(Wealth) gap year: The impact of the coronavirus crisis on UK household wealth*, Resolution Foundation, July 2021.

early 60s) saw a lower share of the pandemic wealth gains than was their share of pre-pandemic wealth. In fact, those aged 65 and older accounted for 42 per cent of the total increase in wealth, or £378 billion, despite owning 35 per cent of the pre-pandemic stock of household wealth.<sup>119</sup>

**FIGURE 55: Respondents aged 55 and older accounted for 63 per cent of the increase in total household wealth during the pandemic**

Share of total wealth and change in wealth during the pandemic, by age group: GB, February 2020 and February 2020 – May 2021



NOTES: Age is based on the age of the survey's 'household reference person' and so other adults within the family could fall into a different age group.

SOURCE: RF analysis of ONS, Wealth and Assets survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

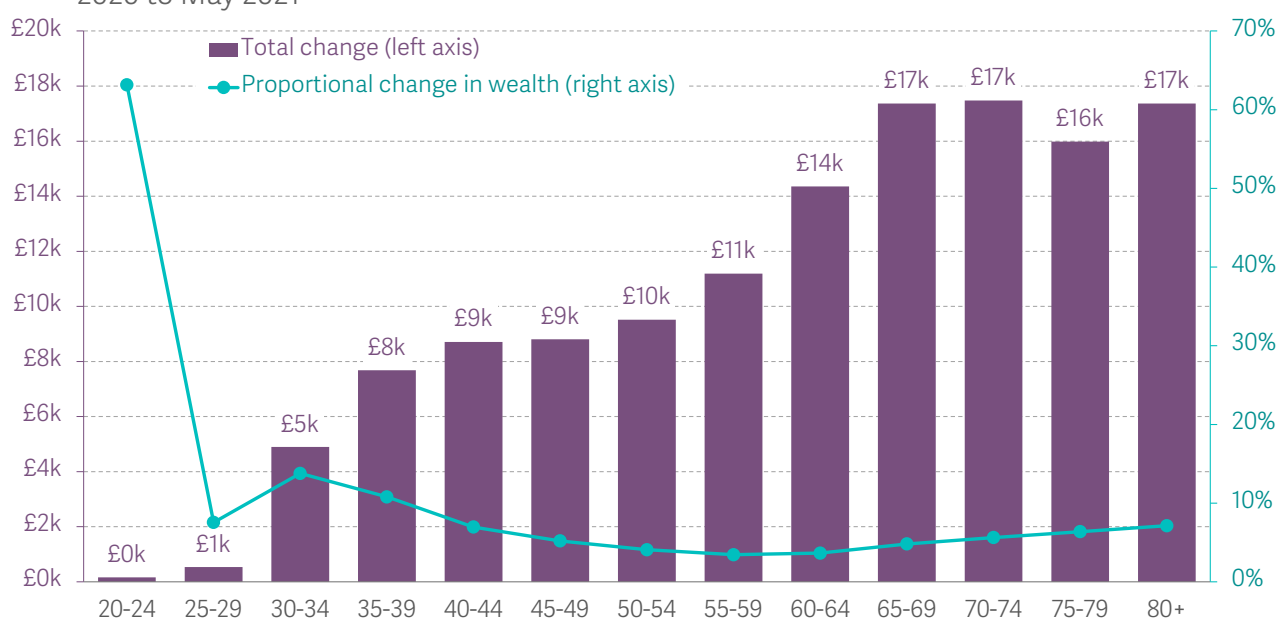
An alternative way of presenting the changes in shown in Figure 56, which plots the percentage and absolute change in median wealth levels for people of different ages. This again shows the 'U-shape' among those aged 30 and older in the percentage change in wealth (for example, those in their early thirties experienced a 13 per cent increase in family wealth between February 2020 and May 2021, those aged 80 and older experienced a 7 per cent rise, whereas those in their late 50s experienced a 3 per cent rise). (In proportional terms, those in their 20s experienced the largest increase in proportional wealth, but these changes reflect the small-to-nil wealth holdings this age group had on average to begin with.)

<sup>119</sup> For further discussion of the size, distribution and recent changes in household wealth and its underlying components, see: J Leslie & K Shah, (Wealth) gap year: The impact of the coronavirus crisis on UK household wealth, Resolution Foundation, July 2021.

However, although younger people saw a greater percentage increase in their net wealth than their older working-age counterparts, Figure 56 makes clear that the absolute wealth gaps between the generations have not shrunk, reflecting the sizable generational differences that existed pre-pandemic.

**FIGURE 56: Younger and older family experienced the greatest proportional increases in wealth during the pandemic**

Median change in family wealth per adult during the pandemic, by age GB, February 2020 to May 2021



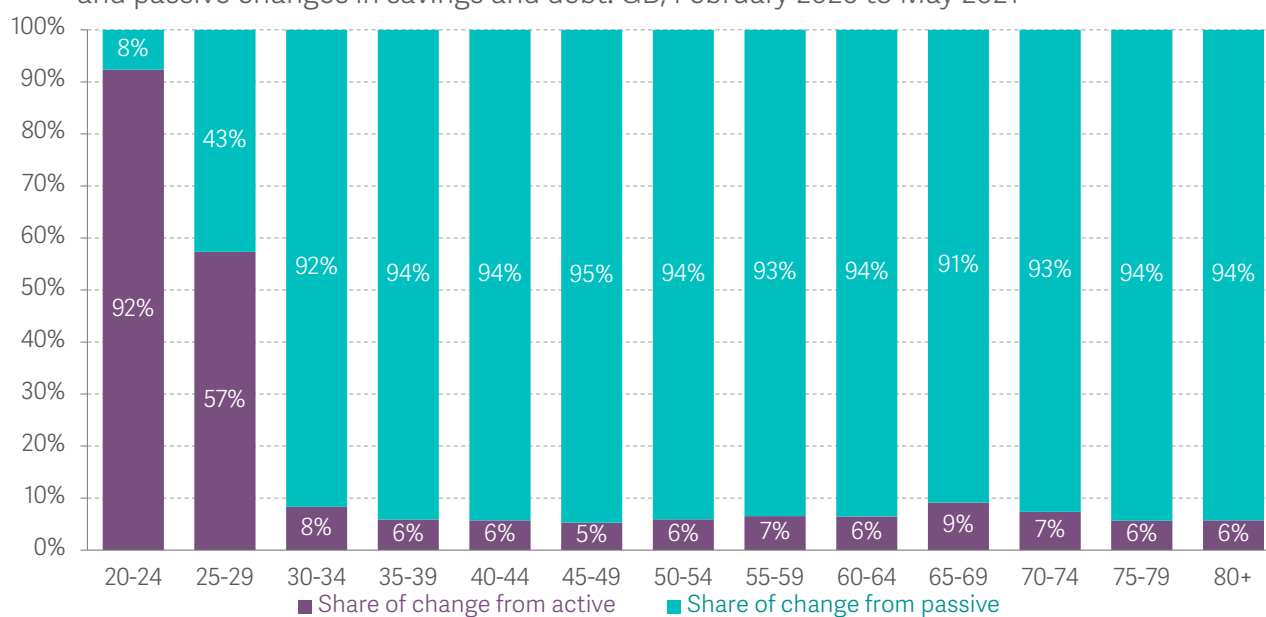
NOTES: Age is based on the age of the survey's 'household reference person' and so other adults within the family could fall into a different age group.

SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index; YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

Because, as discussed in Box 7, younger households are much less likely to hold assets which were exposed to asset price growth over the course of the pandemic (like housing and pensions), the bulk of their increase in wealth over the course of the pandemic will have come from active changes in savings and debt. Indeed, as Figure 57 shows, nearly all of the change in median wealth among those aged 20-24 came from changes in savings or debt, as did 57 per cent of the median wealth change among those aged 25-29. By contrast, wealth changes among those 30 and older were dominated by passive wealth increases, which for example, accounted for 95 per cent of typical family wealth change among those aged 45-49.

### FIGURE 57: Asset price effects explain the vast majority of the increased wealth of those aged 30 and older

Proportion of median change in family wealth during the pandemic deriving from active and passive changes in savings and debt: GB, February 2020 to May 2021



NOTES: Age is based on the age of the survey's 'household reference person' and so other adults within the family could fall into a different age group.

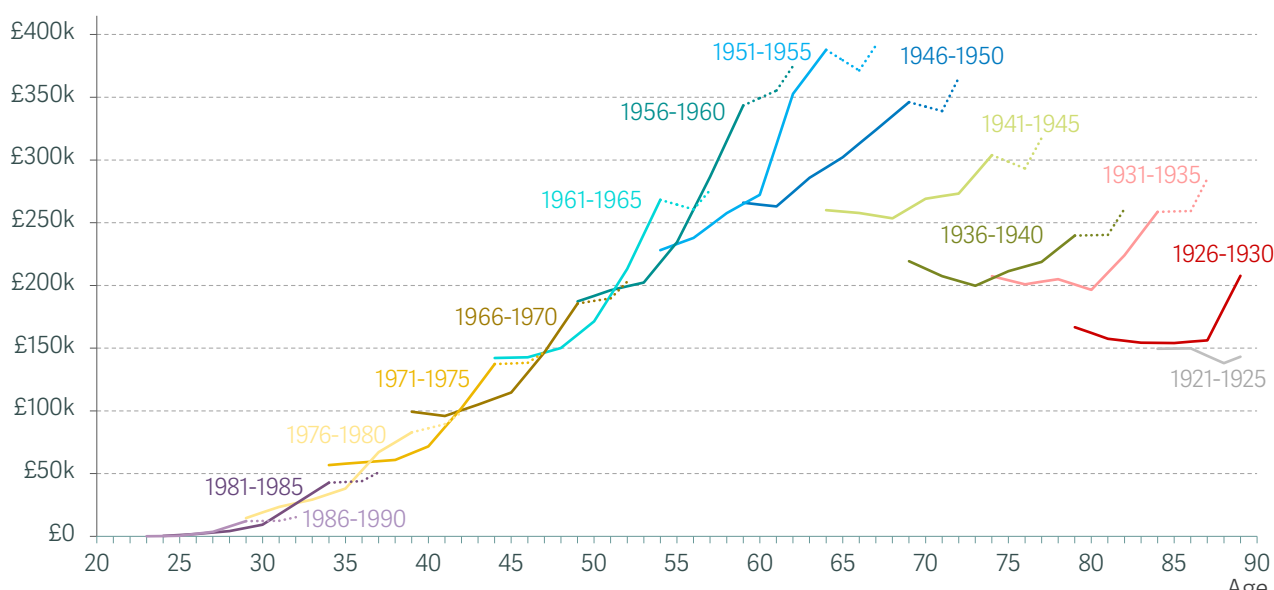
SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index; YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

## Pandemic-era changes to wealth holdings will hold back generational wealth progress and could exacerbate future wealth inequalities within younger generations

The large increase in family wealth that occurred over the course of the pandemic is likely to aggravate pre-existing generational wealth inequalities (in absolute terms). It also means that we are increasingly unlikely to see the stalled rates of generational wealth progress, discussed at the start of this section, come unstuck anytime soon. For example, Figure 58 shows our latest estimates reflecting the pandemic changes: we estimate that typical household wealth for those born during 1981-1985 was, at age 36, 23 per cent less than typical wealth held by those born during 1971-1975 at the same age. By contrast, at age 66, typical household wealth for those born during the early 1950s was 44 per cent higher than that held by those born in the early 1940s when the same age.

### FIGURE 58: The pandemic has not improved generational wealth progress for generation X or millennials

Actual and estimated median family wealth per adult, by year of birth and age: GB



NOTES: We were unable to account for life cycle effects in wealth accumulation and decumulation between 2016-18 and 2021. This means wealth levels are underestimated for those with the strongest active saving (i.e. those just before retirement) and overestimated for those dissaving (later retirees).  
SOURCE: RF analysis of ONS, Wealth and Assets survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

Our 2019 Intergenerational Audit noted that, although inequalities in wealth between generations had been holding flat in relative terms, the rising importance of household wealth compared to income meant that absolute (i.e. cash-level) wealth gaps – both within and between cohorts – have been growing. These gaps are sizeable: for example, when in their late 50s, the bottom tenth of the 1956-60 birth cohort had £1,000 or less of net wealth per adult, while the top ten per cent of wealthiest adults all had at least £1 million each.

And these large wealth gaps will in turn have consequences for future wealth inequality: because wealthier adults are unlikely to consume all of their wealth, and will instead pass it on through inheritances (the beneficiaries of which, previous research shows, will have above average wealth), we can expect absolute wealth gaps to grow even further within younger generations.<sup>120</sup> The pandemic-era increase in wealth, which has gone importunately to older adults whose asset holdings allow them to benefit from passive increases (e.g. through individuals who already have housing, pension and financial wealth) is likely to push this trend further.

<sup>120</sup> For further discussion, see: L Gardiner, [The million dollar be-question: Inheritances, gifts, and their implications for generational living standards](#), Resolution Foundation, December 2017; A Corlett, [Passing on: options for reforming inheritance taxation](#), Resolution Foundation, May 2018; P Bourquin, [Inheritances and inequality over the life cycle: what will they mean for younger generations?](#), Institute for Fiscal Studies, April 2021; A Davenport, P Levell & D Sturrock, [Why Do Wealthy Parents Have Wealthy Children?](#) Institute for Fiscal Studies, September 2021.

## Spotlight: Stakes and ladders: The costs and benefits of buying a first home over the generations<sup>121</sup>

### The costs and benefits of buying a home have changed over the generations

Owning one's home is an enduring ambition for many families in the UK today.<sup>122</sup> The English Housing Survey 2019-2020 suggests, for example, that 60 per cent of private renter households 'expect' to buy their own home at some point in time, alongside 28 per cent of those living in social rent.<sup>123</sup> The appetite for home ownership is unsurprising given the tenure's many virtues: it usually provides a stable shelter;<sup>124</sup> can bring with it a sense of belonging and connection to a community;<sup>125</sup> and for many, it is an important signal of identity and achievement.<sup>126</sup> But beyond these benefits, home ownership is also valued as a means of accumulating wealth: buying a home enforces saving and, during periods of house price inflation, can also be the source of considerable capital gains.

Housing is a key way in which wealth is held in the UK, especially compared to similar European countries.<sup>127</sup> But home ownership is costly. Alongside maintenance, insurance and the like, the majority of families need to take out a mortgage in order to purchase a home. The cost of buying that home over the length of the mortgage depends on four key determinants: the price at the point of purchase; the loan-to-value (LTV) ratio, which will determine the size of the deposit required; the interest rates that prevail over the course

<sup>121</sup> This is a summary of a longer Spotlight published during June 2021. This summary abbreviates that original publication, which included a more detailed analysis of the underlying components in the lifetime costs of home ownership for first-time buyers across different generations. See: L Judge & J Leslie, [Stakes and ladders: The costs and benefits of buying a first home over the generations](#), Resolution Foundation, June 2021.

<sup>122</sup> For a discussion of the distinction between housing aspirations, expectations and choices, and the multiple determinants of each, see: J Preece et al., [Understanding changing housing aspirations: A review of the evidence](#), Housing Studies 35(1), 2020.

<sup>123</sup> Ministry of Housing, Communities and Local Government, [English Housing Survey: Headline Report 2019-2020](#), Annex Table 1.20, December 2020.

<sup>124</sup> In 2018, for example, we estimate 9 in 10,000 mortgaged home owners were repossessed compared to 35 in every 10,000 renter families (based on RF analysis of MHCLG, Mortgage and Landlord Possession Statistics Quarterly - Statistical Tables; ONS, Labour Force Survey).

<sup>125</sup> See, for example: L Gardiner, [VoteMcVoteFace: Understanding the growing turnout gap between the generations](#), Resolution Foundation, September 2016, which shows renters of all generations vote in lesser numbers than their homeowner counterparts of the same age.

<sup>126</sup> See, for example: A McDonnell & C Ibbetson, [What are the signs of being a grown-up?](#), YouGov, March 2021, which suggests the public view owning one's own home as the most important signifier of adulthood.

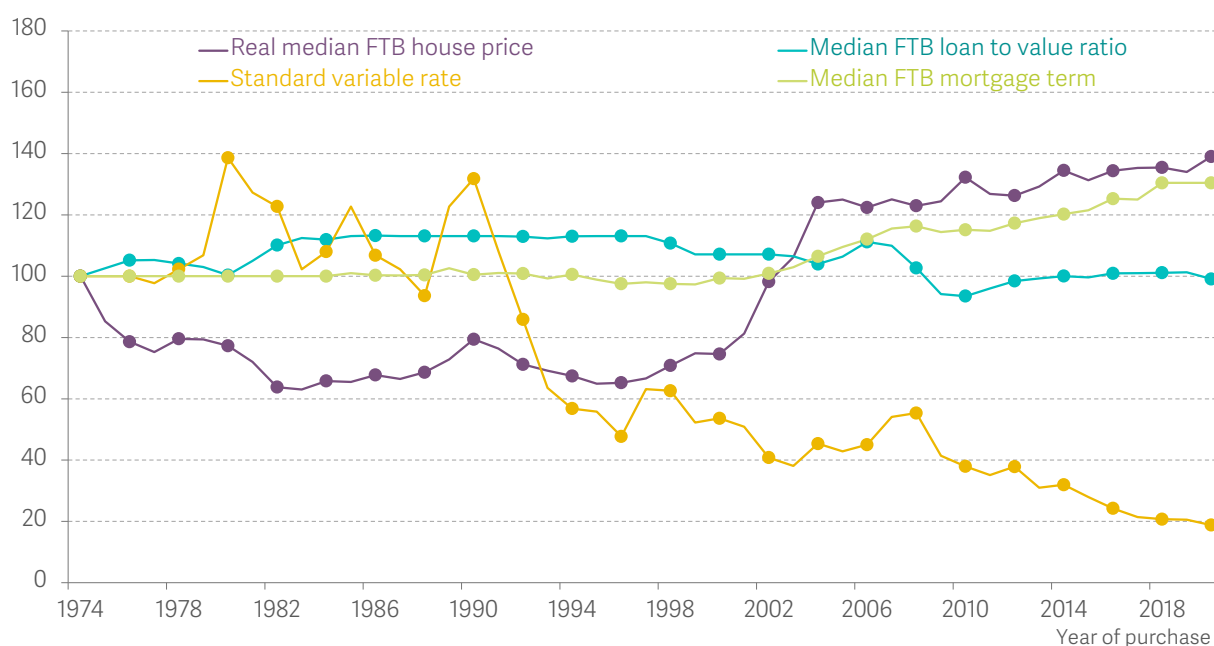
<sup>127</sup> See, for example: M Gustafsson et al., [Aftershocks: Financial resilience before and during the Covid-19 crisis](#), Resolution Foundation, April 2021, which shows that housing wealth is both higher and more evenly distributed in the UK compared with France and Germany.



of the mortgage; and the length of the mortgage term. Likewise, the passive returns on home ownership depend on house price appreciation over the mortgage period. Yet, as Figure 59 shows, each of these factors has shifted considerably over time (there are, of course, non-trivial interdependencies between all four).<sup>128</sup> As a result, it is not obvious ex ante whether the costs and benefits of purchasing a home for a typical first-time buyer have risen or fallen over the generations.

**FIGURE 59: The determinants of the typical cost of buying a home have shifted significantly over time**

Index of first-time buyer mortgage cost determinants (1974=100): UK



NOTES: First-time buyer house price deflated using average earnings to 2020 nominal wage values.

SOURCE: RF analysis of Council for Mortgage Lenders; ONS, House Price Index; ONS, Labour Market Statistics; Bank of England, Bankstats; Financial Conduct Authority, Product Sales Data; DWP, Family Resources Survey.

But how can we best make sense of all these shifting determinants and produce a consistent measure that enables us to compare experiences across the generations? We tackle this challenge with a thought experiment that tracks the fortunes of a typical family purchasing their first home in each of the years between from 1974 to 2020.<sup>129</sup> For simplicity's sake, we estimate the costs and benefits over the entirety of this hypothetical first mortgage, although we recognise that, in reality, large numbers of first-time buyers

<sup>128</sup> For example, for an excellent discussion of the role that easier and cheaper credit has played in driving up house prices over time, see: *The Redfern Review into the decline in home ownership*, November 2016.

<sup>129</sup> We assume that our typical first-time buyer takes out a standard repayment mortgage. However, it is important to note that some birth cohorts had a far wider range of mortgage options available. Most obviously, interest-only mortgages were much more commonplace in the run-up to the financial crisis. See, for example: S Galaiya, *The rise and fall of interest-only mortgages*, Bank Underground, February 2018.

trade up (or down) before they reach that point.<sup>130</sup> Put differently, our thought experiment tells us how the typical first-time buyer in each of the years between 1974 and 2020 stood – or would stand – at the end of their first mortgage (we use a plausible set of future assumptions to project forward for more recent first-time buyers). To compare over time, we adjust for changes in affordability by putting all figures into 2020 average wages values.<sup>131</sup> Box 1 in the longer version of this publication provides more details on the data and the primary method we employ throughout.<sup>132</sup>

## Older generations were at the sharp end of high interest rates, but that effect was blunted by policy

We begin our investigation, then, by considering how the interest a typical first-time buyer would have paid over the life course of their first mortgage would have changed over the years (see Figure 60). Those who purchased their first home in the 1970s, 1980s and very early 1990s paid significantly more interest in real terms than those purchasing in the years thereafter. This is unsurprising: the interest rate on a standard variable rate mortgage was consistently above 10 per cent over the whole of this period (it hit a peak of 15.3 per cent in 1980) and rates were also higher in real terms (so even when accounting for higher inflation and wage growth at the time). But Figure 60 also shows that mortgaged home owners in those high interest rate years received considerable policy support. Mortgage Interest Relief At Source (MIRAS), a tax relief applied directly by the lender, reduced the lifetime interest paid by the typical first-time buyer purchasing in the years 1974 to 1984 by at least one-quarter, and continued to provide material help to others for some years to come.<sup>133</sup>

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<sup>130</sup> That said, the notion of the property ladder up which families rapidly shin is perhaps overstated. The English Housing Survey suggests that in 2017, the median length of residence of a first-time buyer family was between 10 and 19 years (RF analysis of MHCLG, English Housing Survey 2017). For a discussion of the decline in second-steppers and other home movers in recent years, see also: N Hudson, *Missing movers: A long-term decline in housing transactions?*, Council of Mortgage Lenders, June 2017.

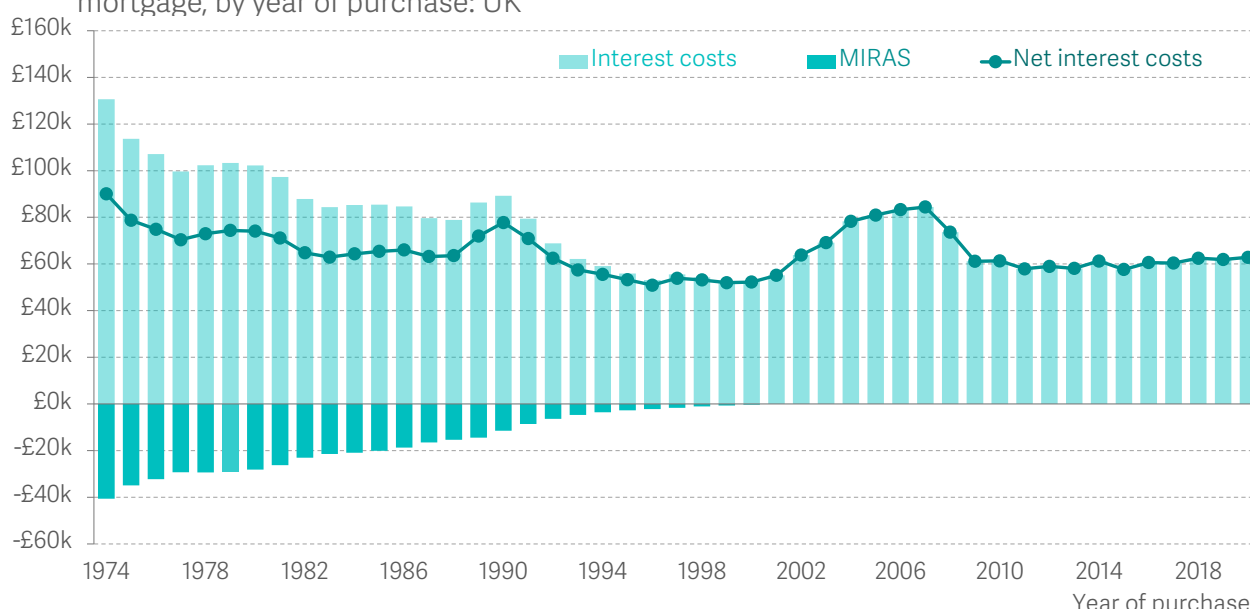
<sup>131</sup> We view earnings as a better deflator than consumer prices for this exercise for two key reasons. First, all else equal, house prices should move in line with wages meaning that, had no other inputs in our analysis changed, our estimate of housing costs over the mortgage period would have remained constant (if we compared to the slower growth in consumer prices they would have risen despite no fundamental changes in housing cost). Second, the ability to save for a deposit will largely be dependent on wages and so this measure of housing cost will better track the real experience of prospective first-time buyers. Naturally, income and wages are not identical, but over a long horizon and for the typical first-time buyer, wage growth will be the dominant factor in determining income.

<sup>132</sup> See: L Judge & J Leslie, *Stakes and ladders: The costs and benefits of buying a first home over the generations*, Resolution Foundation, June 2021.

<sup>133</sup> MIRAS was reduced from 1988 and finally abolished in 2000. For further information on the tax relief, see: B Pannell, Mortgage Interest Relief, Housing Finance No. 20, November 1993.

**FIGURE 60: Those purchasing their first home in the run-up to the financial crisis look set to have the highest real interest costs of any generation**

Estimated real present value of lifetime interest cost of a typical first-time buyer mortgage, by year of purchase: UK



NOTES: Figures deflated using average earnings to 2020 nominal wage values.

SOURCE: RF analysis of Council for Mortgage Lenders; ONS, House Price Index; ONS, Labour Market Statistics; Bank of England, Bankstats; Financial Conduct Authority, Product Sales Data; DWP, Family Resources Survey.

As a result, typical first-time buyers in the years preceding the financial crisis had the same, if not higher, real lifetime interest costs than those from previous generations (a function not of high interest rates, of course, but also the higher value loans they have had to take out as real house prices began to rise). That is not to say, however, that the interest burden was not acutely felt by first-time buyers from older generations. In the longer version of this Spotlight, we show that the real interest costs were far more front-loaded for the average purchaser in 1974 than in 1992 and 2000.<sup>134</sup> Conversely, the typical first-time buyer purchasing in 1974 had an easier ride at the back-end, spending less in real terms on annual interest payments in the latter half of their mortgage term than those purchasing in 1992 and 2020.

## The rapid rise of real house prices in the 2000s has driven up the cost of buying a home

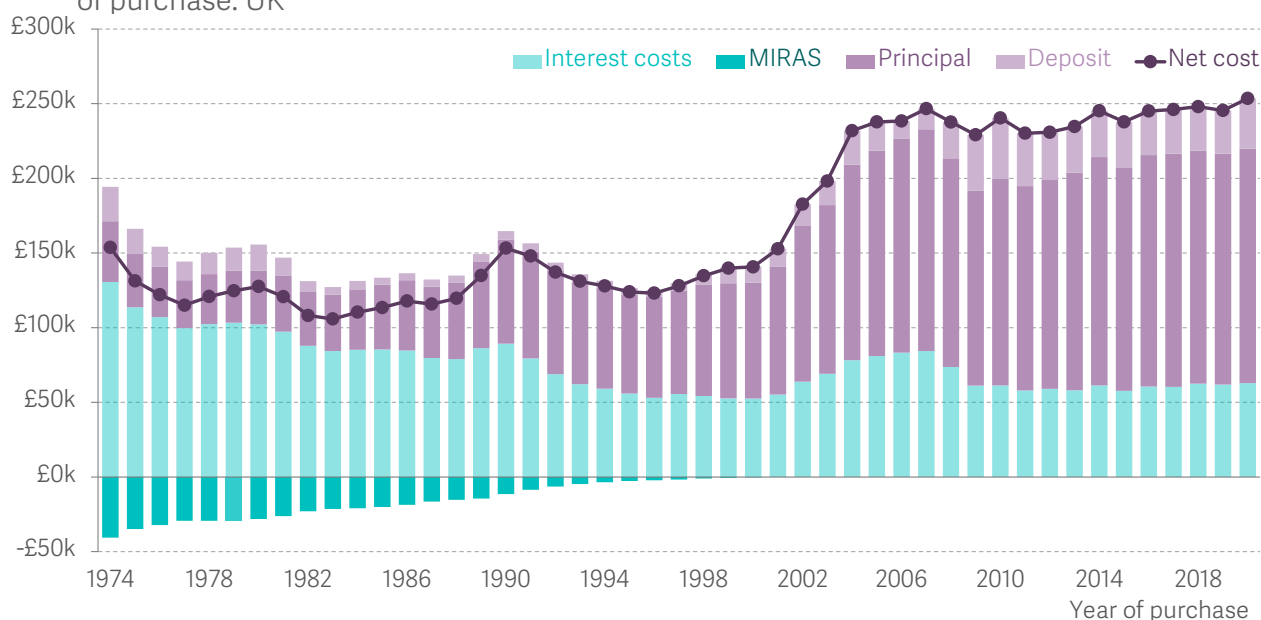
Although older generations had to contend with high interest rates, which often stretched them thin in the early years of ownership, in recent years first-time buyers have faced significantly higher real house prices. We factor in this cost element into

<sup>134</sup> See: L Judge & J Leslie, *Stakes and ladders: The costs and benefits of buying a first home over the generations*, Resolution Foundation, June 2021.

Figure 61, which starkly illustrates how different the capital costs of home ownership have been across the generations. Simply comparing the start and end points of our time series makes the point: the capital required to purchase a home for the typical first-time buyer in 1974 was just shy of £87,000 (all figures in 2020 nominal wage terms), bringing the total lifetime cost (i.e. interest plus capital) to £154,000. In contrast, the equivalent family purchasing in 2020 looks set to pay more than double that amount in capital (£190,000), and a total of £250,000 when we bring interest into the picture as well.

**FIGURE 61: The total cash cost of purchasing a home has increased by two-thirds over the last five decades**

Estimated real present value lifetime cost of a typical first-time buyer property, by year of purchase: UK



NOTES: Figures deflated using average earnings to 2020 nominal wage values.

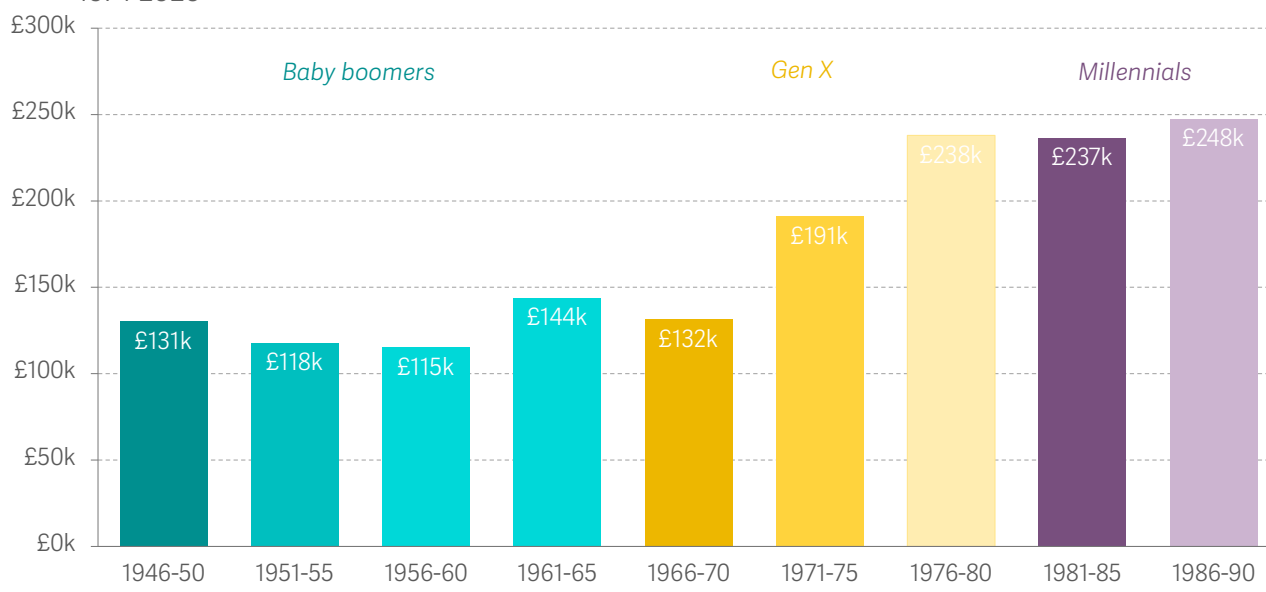
SOURCE: RF analysis of Council for Mortgage Lenders; ONS, House Price Index; ONS, Labour Market Statistics; Bank of England, Bankstats; Financial Conduct Authority, Product Sales Data; DWP, Family Resources Survey.

But, as Figure 61 makes clear, these high costs faced by millennial first-time buyers in recent years are not a new phenomenon. It is not just the most recent generation of young people who have faced high costs over the life course of the mortgage; first-time buyers have faced consistently high costs from the early 2000s. Figure 62 makes the point in a different way. Here, we show the total (capital plus interest) cost of buying one's first home averaged for five-year birth cohorts, a presentation that makes the intergenerational disparities abundantly clear. The millennial experience does not differ significantly from that of the later generation X birth cohorts. Instead, what is most striking is the very rapid escalation of costs between the baby boomers and generation

Xers: the typical first-time buyer born between 1966-1970 spent on average £132,000 purchasing their first home, but those born just ten years later (between 1976-1980) faced an average cost of £238,000.

**FIGURE 62: Older generations had to spend considerably less purchasing their first home than later generation Xers or millennials**

Estimated real lifetime cost of a typical first-time buyer property, by year of birth: UK, 1974-2020



NOTES: Figures deflated using average earnings to 2020 nominal wage values. Values for birth cohorts are based on the median age at which those born in a given year bought a house – so people buying houses before or after the median age for their birth cohort may have faced different housing costs to those shown in this chart.

SOURCE: RF analysis of Council for Mortgage Lenders; ONS, House Price Index; ONS, Labour Market Statistics; Bank of England, Bankstats; Financial Conduct Authority, Product Sales Data; DWP, Family Resources Survey.

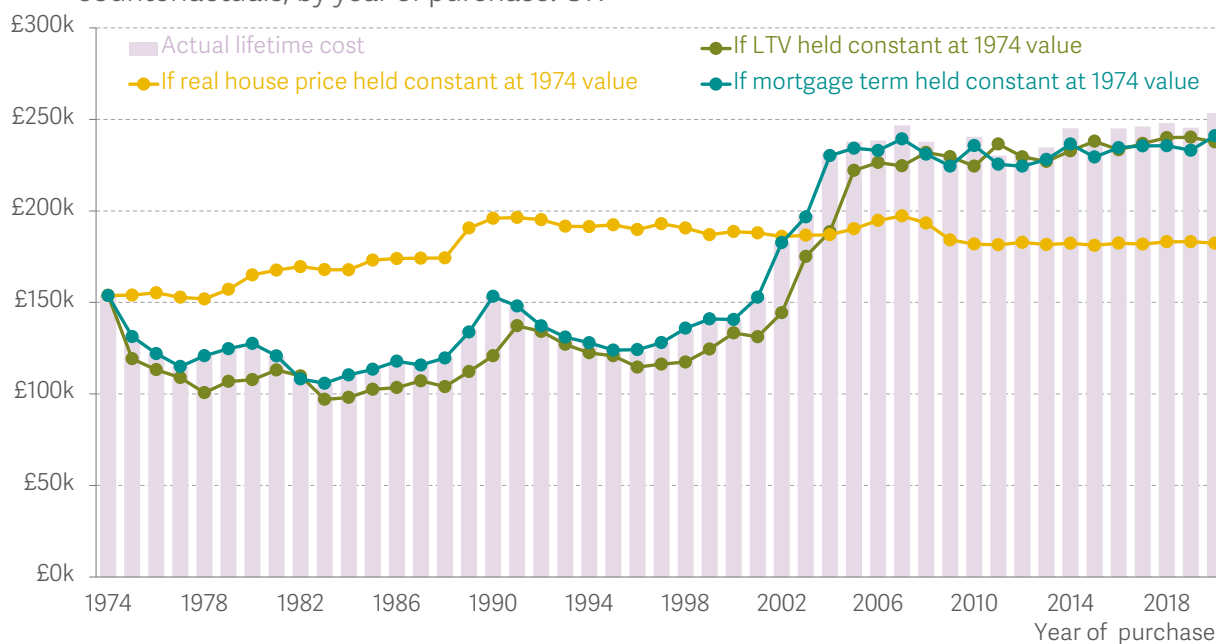
Is the intergenerational pattern we observe here driven solely by rising real house prices? Figure 63 suggest that, yes, this is the case. Here, we isolate the effect of the various determinants of the lifetime cost of buying a home (although, as noted above, in reality a change in one could have knock-on effects on the others). If house prices had remained constant in real terms at 1974 levels, then the estimated lifetime cost of buying one's first home in 2020 would be considerably lower than it is in actuality (£182,000 compared to £253,000).<sup>135</sup> Moreover, this house price effect dwarfs the other changes we have observed over the period. If mortgage terms were the same in 2020 as they were in 1974 (23 years as opposed to the actual 30 years), then the lifetime costs of ownership would be slightly lower for more recent first-time buyers. And for those who took out their first mortgage when credit was more readily available (in 1986, for example, the median first-time buyer LTV was over 95 per cent) have seen their lifetime costs somewhat inflated as

<sup>135</sup> Assumes no change in interest rates over the period. However, as previously noted, in reality there is a strong relationship between lower interest rates and rising house prices over the period.

a result (because they will have paid more interest on a larger principal). But given that the typical first-time buyer LTV in 2020 barely differs from 1974 (83 per cent compared to 84 per cent), there is little net effect from this source in recent years.

**FIGURE 63: Real house price increases largely explain intergenerational changes in the lifetime cost of buying one's first home**

Estimated real present value lifetime cost of a typical first-time buyer property and counterfactuals, by year of purchase: UK



NOTES: Figures deflated using average earnings to 2020 nominal wage values.

SOURCE: RF analysis of Council for Mortgage Lenders; ONS, House Price Index; ONS, Labour Market Statistics; Bank of England, Bankstats; Financial Conduct Authority, Product Sales Data; DWP, Family Resources Survey.

## Buying a first home still makes good economic sense, but today's first-time buyers will have to give up more to make it happen

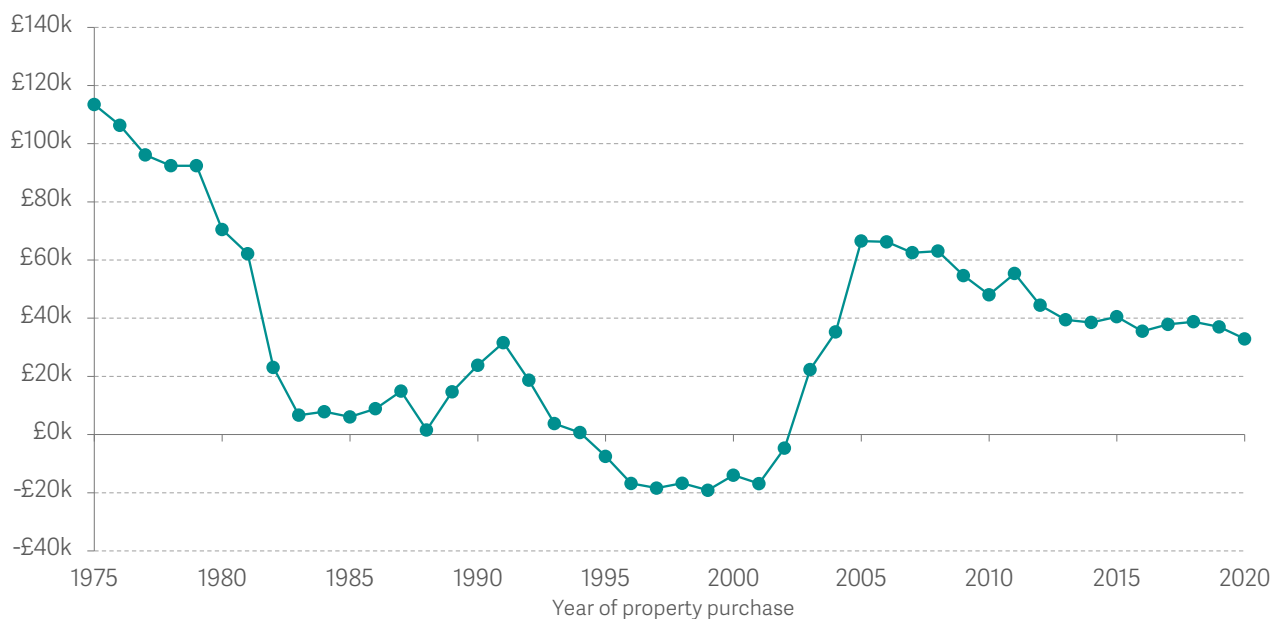
Finally, it is worth considering how the cash-flow analysis we have presented thus far compares with the user cost of home ownership measure that is generally preferred by economists (see Box 2 in our longer publication for more details of the method and data sources used to construct this measure).<sup>136</sup> We present the results of this exercise in Figure 64, which adds further nuance to the intergenerational home ownership story. To begin, this shows that typical first-time buyers in the 1970s and early 1990s had to incur quite a considerable pure economic cost in order to become a home owner. From 1994 to 2004, however, the headwind of rising real house prices made it excellent economic sense to buy one's first home, with the returns during this period often substantially

<sup>136</sup> See: L Judge & J Leslie, *Stakes and ladders: The costs and benefits of buying a first home over the generations*, Resolution Foundation, June 2021.

outweighing the costs. In the period running up to the financial crisis, this picture inverted once again but, since 2012, the pure economic costs of home ownership have gradually drifted down once again.

### FIGURE 64: The economic costs of home ownership have waxed and waned over time

Estimated real user cost of home ownership over lifetime of a typical first-time buyer's mortgage, by year of purchase: UK



NOTES: Figures deflated using average earnings to 2018 nominal wage values.

SOURCE: RF analysis of Council for Mortgage Lenders; ONS, House Price Index; Financial Conduct Authority, Product Sales Data; Bank of England, Bankstats; ONS, Labour Market Statistics.

In Figure 65 we draw out the generational implications more clearly by showing the user cost of home ownership over the term of the first mortgage averaged for birth cohorts. The luck of one's birth year could not be more apparent. For the median first-time buyer born in the years 1946-1950, home ownership over the term of the first mortgage was a particularly costly business (an average of £85,000 in real terms). In stark contrast, the equivalent purchaser born between 1966-1970 benefited on average to the tune of £16,000 as a result of buying their first home. But, perhaps most tellingly, on this measure the typical first-time buyer in our two millennial birth cohorts (those born 1981-85 and 1986-1990) actually look set to incur costs purchasing their first home that are not significantly higher than those faced by large parts of the baby boomer generation.

Setting the user cost measure against our cash-flow measure is highly revealing: the former suggests young people today are not significantly disadvantaged compared to previous generations when it comes to buying their first home, while the latter suggests they are. Both measures serve a purpose, but in our view the latter is a more honest

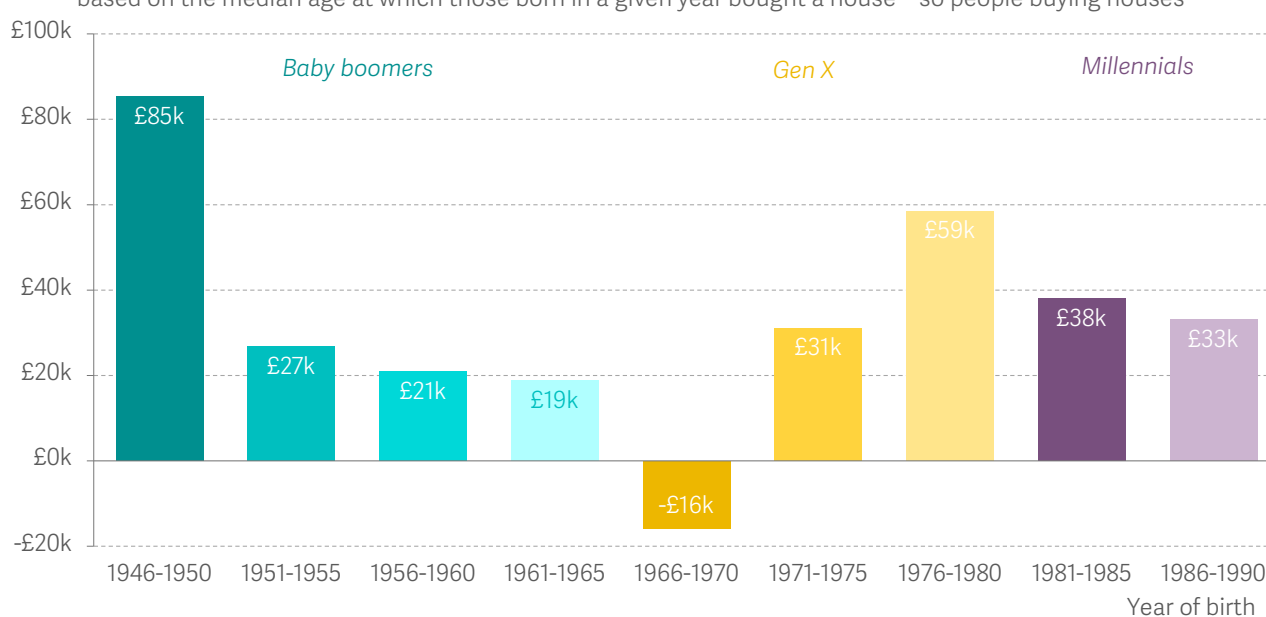


representation of the lived experience of first-time buyers; failing to foreground the required deposit, and indeed the additional capital repayments required during the mortgage life, to purchase one's first home misses a key living standards part of the intergenerational story.

### FIGURE 65: The pure economic cost of buying one's home is as high for the typical millennial first-time buyer as many a baby boomer

Estimated average real user cost of home ownership over lifetime of a typical first-time buyer's mortgage, by year of birth: UK

NOTES: Figures deflated using average earnings to 2018 nominal wage values. Values for birth cohorts are based on the median age at which those born in a given year bought a house – so people buying houses



before or after the median age for their birth cohort may have faced different user cost of home ownership to those shown in this chart.

SOURCE: RF analysis of Council for Mortgage Lenders; ONS, House Price Index; Financial Conduct Authority, Product Sales Data; Bank of England, Bankstats; ONS, Labour Market Statistics. Our analysis of the experiences of the typical first-time buyer between 1974 and 2020 leads to a clear conclusion.

Despite home ownership still being a very good deal for those that manage to get on the housing ladder, millennials need to expend a significantly more than previous generations to purchase their first home. Small surprise, then, that the probability that young people today can do this is significantly lower than it was for previous birth cohorts, as we detail further in the longer version of this Spotlight. Since the tightening of credit in the wake of the financial crisis, the typical first-time buyer has been required to provide a far larger deposit than in previous years in order to access a mortgage. So,

not only do today's aspiring first-time buyers need a larger income relative compared to previous generations, they also require more savings upfront in order to begin to build up property wealth.

## Conclusion

Taken together, our findings suggest that the intergenerational home ownership story can only be appreciated fully by looking at cost and benefits in the round, and in real terms over time. While it is true that the typical first-time buyer from older generations contended with often very high interest rates, policy in the form of MIRAS softened this blow. In contrast, today's first-time buyers have to stump up more cash than ever before over the course of their mortgage in order to purchase their first home. Although this will leave them at the end of the process with more housing wealth than previous generations, less of this will stem from passive gains as a result of house price appreciation (under the assumption that future house prices grow in line with wages).

As a result, it is far harder for those lower down the income distribution to build up property wealth in the first place, a function of both the higher deposit required to enter home ownership and the need for a significant income to service the mortgage over time. So, what should policy do to tackle this issue? The current Government approach of stimulating housing supply is clearly part of the solution, although questions abound about the realism of the 300,000 homes a year target,<sup>137</sup> as well as the speed at which new supply feeds through to prices.<sup>138</sup> But if the Government is truly serious about helping prospective first-time buyers, it must rebalance demand between existing owners and aspiring purchasers, rather than simply stoke up a housing market that already excludes many.<sup>139</sup>

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<sup>137</sup> For a recent discussion of the countercyclicality of housing supply, see L Judge & C Pacitti, [Housing Outlook Q1 2021: The impact of Covid-19 on housing supply](#), Resolution Foundation, January 2021.

<sup>138</sup> See, for example, [The Barker review on housing supply](#), March 2004.

<sup>139</sup> For a comprehensive overview of policy solutions that can rebalance demand, see: L Judge & D Tomlinson, [Home improvements: Action to address the housing challenges of young people](#), Resolution Foundation, April 2018.