Intergenerational Centre

CONNECTING GENERATIONS

Resolution Foundation

An intergenerational audit for the UK

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Executive Summary

The emerging cost of living crisis will be experienced differently across generations

Straight out of the worst of the Covid-19 crisis, the UK has seemingly entered a new phase of economic turmoil. The current cost of living crisis is already having devastating consequences for people of all ages and, while the impacts are expected to be particularly acute in the coming months, this is no longer expected to be just a 'winter crisis'. Instead, UK households face a deep and extended squeeze on their incomes.

This year, inflation entered double digits for the first time in four decades. Households are grappling with rising prices of energy, food and other essentials. At the same, and despite a tight labour market, wages have not kept pace with inflation, so the real value of take-home pay has been falling.

The Bank of England has responded by rapidly raising interest rates by more than 2 percentage points in the last year. Even ignoring the recent market disruption related to the September mini-budget, expectations of higher interest rates have led to higher mortgage payments for those renewing their mortgages or on variable rates, and many more households face higher mortgage costs in the coming months and years as fixed term deals come to an end. At the same time, higher interest rates have already depressed UK equity prices, and further adjustments in asset values are expected: in particular, a fall in house prices.

Many expect that the country is heading towards a painful recession that will cause unemployment to spike from the current historically low levels. The Government now faces very difficult fiscal decisions, balancing the need to show that it can prevent debt rising unsustainably with the need to help household and business who are facing the high cost of energy, but all while avoiding making the problem of high interest rates worse.

These rapid and sweeping changes are having varied effects across different age groups and generations. This fourth Intergenerational Audit for the UK – supported by the ESRC Connecting Generations research programme – provides a comprehensive assessment of how living standards have and will be affected by the current cost of living crisis.

Household incomes and costs

The colossal rise in energy bills facing households this winter, alongside the rising prices across the economy, has thrown the UK into a cost of living crisis. In response, the Government announced the Energy Price Guarantee (EPG), which means that a household with typical energy consumption will face a bill this winter capped at the equivalent of £2,500 a year. This will undoubtedly help reduce the scale of the living standards challenges this winter, but energy bills are still expected to be twice their pre-crisis levels across age groups. It is the middle-aged who are expected to spend the most on energy this winter: households headed by a 50-64-year-old and households headed by a 40-49-year-old are expected to spend £2,320 and £2,260 on energy in 2022-23 respectively (after accounting for the EPG and £400 energy bill rebate). Yet it is those of pension age that dedicate the largest share of their income to energy bills and may therefore experience the largest shock to their disposable incomes: those aged 75 and above are expected to spend 3 percentage points more of their disposable income on energy bills this financial year, compared to pre-crisis levels while under 50s are expected to spend 2 percentage points more.

This crisis has turned things on their head – former fortunes have become additional financial liabilities and traditional source of resilience may be less important than in past economic shocks. What was previously seen as an advantage – living in large and detached housing (which delivered more usable floor space and privacy from neighbours) – has now left these same residents more exposed to rising energy bills. As older people tend to live in larger and less energy efficient homes, the heating component of their annual energy demand is higher. In 2019-20, only a third of households headed by a person aged 65 and above lived in an energy efficient home, with an EPC rating of C or above, compared to around half of households headed by someone aged 44 or less. Older age groups, on average, also have larger houses to heat: more than 40 per cent of households headed by a person aged 65 and above live in a home with at least 90 square meters of usable floor area, compared to just 14 per cent of households headed by a 16-29-year-old.

Typically, we have considered the young as more resilient– their relatively higher labour market flexibility means they are better able to respond to economic shocks by changing their hours, occupation, industry or location when needed. Naturally this would suggest prioritising pensioners, who have considerably less flexibility, when designing support. Yet this crisis has impacts that are more nuanced. The cost pressures facing households, combined with the risk of rising unemployment, mean that labour market flexibility will provide less resilience than having flexibility over spending: in this crisis, resilience comes more from an individual's ability to adjust spending patterns or draw on savings to temporarily boost spending power.

So, despite higher estimated energy demand, it may be older age groups that are more able to manage higher energy prices. First, as they are less likely to have pre-payment meters they are more able to smooth the costs of higher energy consumption in the winter throughout the year. Almost one-in-five households headed by a 16-29-year-old are on prepayment meters compared to around one-in-twenty of households headed by a person aged 65 and above. On top of this, older age groups tend to have a

larger 'savings buffer' to cover unexpected or higher costs. For example, over two thirds of 20-29-year-olds had savings of less than one month's income, compared to a fifth of 65-74-year-olds. Instead, the young may be forced to resort to other coping mechanisms. But years of stalled pay growth and high housing costs have left the young in a financially precarious position entering this crisis. For these reasons, it should not come as a surprise that it is younger households who are reporting being more worried about their ability to pay their energy bills.

The Government has responded to rising cost of living pressures with a substantial support package that will offset some of the rising costs for all age groups. The largest measure in the cost of living support package is the EPG. The cash value of this policy to households will depend on their own energy consumption this winter, and so it is the middle-aged, who spend most on energy, who we expect will gain most from this policy. But other parts of the Government's support package this year have different favoured different age groups: those 65 and above benefited more from the cost of living payments, but the working-age population benefited from the increase in the threshold for, and the reversal of the rate rise on, National Insurance. Overall, though, those aged 65 and above are set to receive £500 less than those aged 40-49, on average, from the full package of measures implemented this financial year.

However, we should not look at the current cost of living support package in isolation. The Government has also announced several other policies taking effect over this Parliament, including freezing the Income Tax threshold and changes to the Universal Credit taper rate and work allowances. Despite gaining the most from the short-term cost of living support measures, by 2025-26 it will be 40-49-year-olds and 50-64-year-olds that will see their household incomes fall the most as a result of tax and benefit changes announced since 2020. Those 65 and above will be least affected by these longer-term policy changes, and will see an income fall just half of that experienced by the middle-aged; this difference is primarily due to the differential impact of freezing the Income Tax threshold on different age groups.

This skew towards policy favouring those 65 and above is reinforced when we look at changes to working-age benefits and the state pension that have happened since 2010. We find that non-pensioners are on average £816 a year worse off as a result of changes to working-age benefits since 2010, while pensioners are £666 a year better off. These changes to working-age benefits policy and State Pension uprating policy have, in part, contributed to disposable incomes of the poorest 20th percentile of pensioner households overtaking the poorest 20th percentile of non-pensioner households, with the poorest 20th percentile of pensioner households £1,250 a year better off than the poorest 20th percentile of non-pensioner households in 2020-21. And while these gains for pensioner households should be celebrated – these must not come at the expense of non-pensioner income growth.

Job, skills and pay

The post-pandemic labour market has been characterised by low unemployment, with the unemployment rate falling to its lowest rate since 1974. But this has masked a shrinking workforce. Since the start of the pandemic, the number of inactive working-age adults has increased by 312,000, with 50-64-year-olds contributing over 296,000 of these, or 91 per cent of the total rise in inactivity between 2019 and 2022. There has been an increase in inactive 50-64-year-olds reporting long-term sickness or disability – up by around 141,000 since the pandemic. However, recent research using longitudinal data has found that the increase in inactivity among 50-64-year-olds has been driven by older workers leaving the labour market for reasons not to do with ill-health – such as early retirement – and the rise in ill-health since the pandemic has been among existing inactive individuals. Either way, although the Government may want to get inactive workers back into the labour market, it is unlikely that older workers who have taken early retirement will ever return to the labour market, with only 5–10 per cent of retired people ever returning to paid work. Attempts to incentivise people to return to work using the benefit system will also likely be ineffective, as higher-income individuals that chose to retire early, are unlikely to have moved into the benefit system.

The shrinking workforce has combined with high vacancy rates to produce tight post-pandemic labour market conditions, which have contributed to strong nominal pay growth in the past year. But the high rate of inflation has meant that the real value of take-home pay has been falling since May 2022, with the youngest employees experiencing the largest falls in real wages: in the year to August 2022 annual real earnings fell by 2.6 per cent for employees aged 18-24, compared to 1.4 per cent for employees aged 25-34, 2.1 per cent for employees aged 35-49 and 2.4 per cent for employees aged 50-64. This poor real-terms pay performance follows a sustained period of stalled pay progress among the young, with early millennial cohorts having similar earnings to those cohorts 10 years before them at the same age. The combined effect of sustained weak pay progression and inflation eroding the real value of pay this year has left the young entering this Britain's looming living standards crisis in a precarious position.

The UK's record low unemployment could soon change, though, with the UK set to fall into a recession by the end of 2022. Younger workers are often thought to be more resilient in economic crises because they tend to have greater labour market flexibility: they are more likely than their middle- and older-aged counterparts to move jobs, occupations and industries. However, the structure of the labour market has likely left younger workers more exposed to labour market disruptions during a recession. Younger cohorts are more likely than their predecessors to work in insecure roles: in 2022, 5.7 per cent of workers aged 18-29 were employed on a zero-hours contract compared to 2.2 per cent of workers aged 30-64. Younger workers are also more likely to work in many of the sectors that may see demand contract most sharply as consumers curtail non-essential spending, including hospitality, entertainment and leisure.

Wealth and assets

The long-run trends in intergenerational wealth inequality are clear: wealth levels are highest for those in the 'boomer' generation – who now own more than half of Britain's wealth –

while millennials own just 8 per cent.

Despite expectations when the Covid-19 pandemic first arrived, the value of household wealth grew sharply since the start of the pandemic on the back of rapid asset price inflation. This follows the trend of recent decades, which has seen the stock of net household wealth grow from three-and-a-half times GDP in 1991 to almost eight times GDP in 2020. But the beneficiaries of these wealth booms have not been evenly distributed across age groups: asset price inflation has increased the value of wealth owned by those aged 65-74 by more than £13,000 on average between 2006-08 and 2018-20, while those aged 30-39 saw average passive wealth gains of around £5,000. This matters because stocks of wealth help determine different age groups' financial resilience during the cost of living crisis. All age groups are set to see their incomes squeezed sharply, but substantial wealth inequalities across age groups leaves young people more exposed to the cost of living crisis than their older counterparts because they have fewer financial assets to draw down.

Looking ahead, as incomes are squeezed, individuals will be less able to save or pay off existing debts, and so their ability to grow their household wealth through active accumulation is likely to fall. The proportion of adults reporting they do not expect to save any money in the next 12 months has been on an upward trajectory since the start of this year, with more than four in ten (44 per cent) adults not expecting to be able to save money in the next year at the start of October. This is particularly important for younger age groups who are more likely to accumulate wealth through active means (by saving income or paying off debt): between 2006-08 and 2018-20, active wealth accumulation was responsible for 65 per cent of the increase in wealth among those aged 30-39, compared to just 47 per cent across all adults.

However, passive wealth accumulation (gains from changes in asset prices) also looks set to be impacted by the current economic environment, in particular rising interest rates. All else equal, interest rates have a negative relationship with asset prices. Some assets – for example, UK equities – have already seen prices fall this year, while others, such as house prices, are

anticipated to fall in the coming months. And those who were the biggest winners from asset price inflation since the start of the pandemic are now set to be the biggest losers, at least in cash terms (although, expected nominal wealth falls between October 2022 and January 2024 are not predicted to fully offset gains seen since the start of the pandemic). In particular, those aged 65-74 could see their nominal wealth fall by around £18,000, on average, between October 2022 and January 2024, entirely through a fall in property wealth. 20-29-year-olds will see the smallest losses, reflecting their limited wealth holdings, with nominal wealth expected to fall by £2,500. However, in relative terms, the effect of asset price falls is set to be worse for younger age groups: 20-29-year-olds could see their nominal wealth fall by an average of 11 per cent between October 2022 and January 2024, while 65-74-year-olds could see their nominal wealth fall by 6 per cent. These relative changes in wealth are driven by the variation in the type of wealth held by different age groups: young people will be more exposed to large falls in house prices because property wealth makes up a larger share of their wealth.

Current high inflation, though, means the spending power of existing wealth is falling sharply. Those 65 and above are expected to see the real value of their wealth fall by £24,000 between January 2020 and January 2024 after accounting for the likely passive changes to wealth over this period. However, for younger age groups (under 40-year-olds) the passive gains from rising asset prices have outweighed the fall in the real value due to inflation. This difference is because the changes in wealth between 2020 and 2024 are mostly being driven by changes in the value of house prices and the young tend to be more highly leveraged and so their net property wealth is much more responsive to a given house price increase.

Higher interest rates have also pushed down the value of private pension wealth across all age groups. But falls in the value of private pension wealth will have greater consequences for those on the cusp on retirement because, unless they delay their retirement, they cannot wait for the market to recover before drawing down their pension. Younger workers will have also seen a fall in the value of their current private pension wealth,

but this is likely to be outweighed by higher returns in the future.

Housing costs and security

Housing costs have been an acute living standards headwind for young people for many years and, as a result, younger people now spend a higher share of their incomes on housing than their parents did at their age. Housing costs for families headed by a 30-year-old have increased from around 10 per cent of net income, for those born between in 1946 and 1950, to almost a quarter of their net income, if born between 1981 and 1985. This is one of the reasons why the young have less ability to adapt to the current cost of living crisis: more of their income is already taken up by essential costs.

The decade of stalled income growth combined with high housing costs has contributed to the decisions of an increasing share of young people to live with their parents. More than a third of 20-34-year-olds live with their parents and while the Covid-19 pandemic led to a clear spike in young adults living with their parents, this had been on a steadily increasing path for the last 15 years. Between the 2008 and 2022, the proportion of under 35s living with their parents increased by 8 percentage points. This choice is not without economic consequences: these individuals may face pay penalties due to their lower mobility and a lower likelihood of forming a first adult co-residential partnership. However, although the current pressures were not the reason these young adults chose to live with their parents, they are likely to now find themselves be less exposed to the rising cost of living pressures facing their contemporaries who live independently.

The majority of young adults who live independently of their parents live in the private rented sector and young people today are far more likely to live in the private rented sector than generations over the last 50 years. Those in the private rented sector face much higher housing costs relative to their incomes, but face less security, lower quality housing and more overcrowding, on average, than their counterparts. Renters,

who already dedicate a large share of their incomes to housing costs, also face rising rents as the cost of living crisis develops. Although the average rental price has lagged inflation, prices of new rental tenancy have spiked this year, suggesting private renters will face further acute cost pressures from rent increases.

Yet, it is the cost pressures facing homeowners that has received the most attention in recent months as interest rates feed into higher monthly mortgage payments in the coming months and years. Here, we show the middle-aged are most likely to be hit by higher mortgage payments, as more than half of households aged 35-54 have a mortgage on their homes. Those aged 35-44 will face paying an additional 6 per cent of their incomes on their mortgage each year on average (£3,370 per year) on top of higher costs for energy and other essentials.

The long-term, generational trend of declining homeownership means that only slightly over a third of households headed by a 25-34-year-old (36 per cent) have a mortgage, and just 5 per cent of households headed by under 25s have a mortgage. But those young homeowners that have managed to get on the housing ladder face the biggest risks from higher interest rates, as they tend to be early in their mortgage term, when interest rates make up a larger component of mortgage payments, and are highly leveraged. First-time buyers, 70 per cent of which are under 35, borrow on average more than three and a half times their incomes, exceeding the average loan-to-income ratios that preceded the financial crisis. As a result, young homeowners face the largest increase in mortgage costs: households headed by a 25-34-year-old face paying an additional 8 per cent of their incomes on their mortgages on average by the end of 2026. The – primarily young – first-time buyers who purchased their house in the last five years now face almost twice the real lifetime interest rate costs they may have expected and budgeted for, given the stable low interest rate environment in which they purchased their house: we estimate the real lifetime interest costs incurred when buying a first-time property in 2022 will increase from £74,000 to £153,000.

Young homeowners also face larger risks from the now widely expected fall in house prices, with market experts now

predicting that house prices will fall around 10 per cent from the combined pressure of higher interest rates and squeezed disposable incomes. As young homeowners tend to be earlier in their mortgage terms, a fall in house prices is more likely to result in them going into negative equity or high-risk loan to value ratios (of greater than 90 per cent). If house prices fell by 8 per cent, 4 per cent of homeowners aged 16-34 could go into negative equity and a further 12 per cent could end up with low equity (10 per cent of less). These mortgagors could be precluded from accessing cheaper mortgage deals, and may be forced to sell or even into bankruptcy if they cannot afford the mortgage payments at the higher standard variable rates. Older households are more likely to own their homes outright or to be later in their mortgage terms, so are less exposed to both higher mortgage costs and risks associated with going into low equity if house prices fall. Only 7 per cent of households headed up a 65-74-year-old have mortgages, and their increased mortgage costs would on average be just 3 per cent of their incomes.

Although existing homeowners might be stung by higher mortgage payments, the much larger share of young households that are prospective first-time buyers could be set to gain. Our past analysis suggests the biggest barriers facing young prospective buyers is the ability to save the required 10 per cent deposit – particularly during a period when house price growth has continuously outstripped income growth, returns on savings have been historically low, and private renters have had to commit ever larger shares of their incomes to paying rent. The combination of higher interest rates on savings and lower house prices could reduce the amount of years required to save enough for a deposit: given several illustrative assumptions, the estimated time to save for a deposit could fall from 15 years in 2022 to 13 years by 2024. However, this relies on household being able to continue saving the same share of their income while facing rising costs and possible unemployment shocks, with many already reporting they no longer expect to be able to save this year.

Indeed, a sustained house price fall will reduce the real lifetime cost for first-time buyers, which by 2024 could fall to its lowest

level since 2017. Our analysis shows that a significant fall in house prices would bring down the real lifetime cost of buying a house from recent all-time highs in 2022, with real lifetime costs in 2024 falling from £326,000 in 2022 to £282,000 (following an 8 per cent house price fall) or £252,000 (following an 18 per cent house price fall). However, the fall in lifetime costs should not deflect from the fact that higher interest rates will make the early years of homeownership extremely tough –house prices would need to fall by almost 40 per cent to offset the higher interest rates on their year one mortgage payments, which is very unlikely. Finally, although first-time buyers' real lifetime costs may fall, they will remain above those facing buyers in the 1970s, 1980s and 1990s, and so these house price falls alone are unlikely to substantially reverse the decades of decline in young adults' homeownership rates.

Section 1

Introduction

Understanding generational analysis

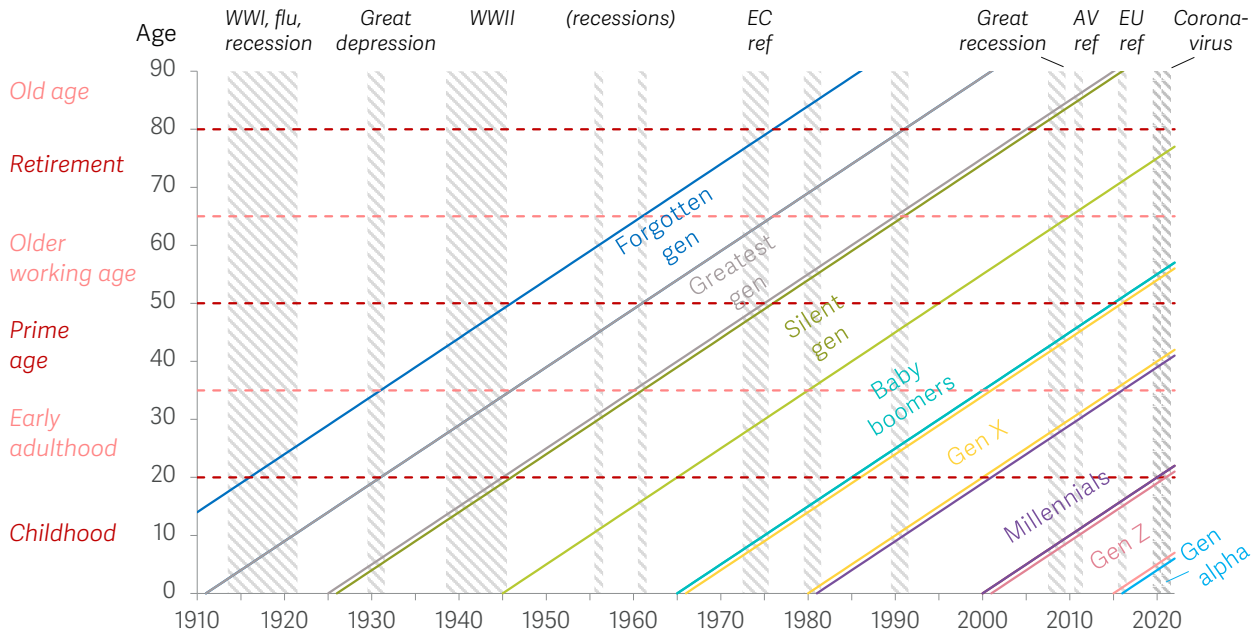
As a nation, we are currently living through the start of what is likely to be a long-lasting and deep cost of living crisis. It is already clear that this crisis will have very different impacts across different generations, and that it will potentially shape lives in different ways going forward.

Generational analysis builds on a long tradition of distinguishing groups in society according to their years of birth. The importance of generations as a framework for understanding the world derives from two related ideas. The first is that generations have some degree of collective identity deriving from shared economic experience, values and cultural norms – particularly during their formative years.[1] This can lead to perceived membership of the same group, and identification of these groups in public discourse can have important feedback effects. Using this idea, we can distinguish generations or cohorts (defined by year of birth) from life stages (defined by age at a given point in time). Cutting across these are period effects, or changes affecting everyone at a particular time. Figure 1 provides a representation of these generational concepts as commonly defined in the UK.

1 In their work defining generations throughout US history, William Strauss and Neil Howe refer to this as 'peer personality'. See: W Strauss & N Howe, Generations: The history of America's future, 1584 to 2069, Perennial, 1991.

FIGURE 1: **The cost of living crisis will represent a new 'period' effect**

A framework for intergenerational analysis: generations, life stages, and period effects: UK



NOTES: Period effects shown include world wars, technical recessions, pandemics and national referenda. This is an updated version of Figure 6 in: L Gardiner: Stagnation generation: The case for renewing the intergenerational contract, Resolution Foundation, June 2016.

The second phenomenon that supports a generational framework for analysis is that the relative size of generations can play an important role in determining their shared experiences and outcomes. Looking at the raw birth numbers is a good starting point for this. Birth numbers fluctuate, in what we might call birth 'booms' and 'busts'. The booms and busts of these generations have implications for public spending across various domains, such as funding for state pensions, schools and early years education. As set out in the Third Intergenerational Audit, past birth numbers suggest that the country will see a large cohort of young Baby Boomers born in the early 1960s turn 65 during this decade. At the other end of the age distribution, there will be an increasing number of 18-year-olds going through the education system and entering the workplace over coming years.[2] In recent years, we have also seen a rapid decline in birth rates suggesting the next generation will be relatively smaller than those that came before it: total fertility rates (number of children per woman) fell between 2015 and 2020. They rose marginally in 2021, but remains lower than it has been at any point since the start of the second world war.[3]

2 M Gustafsson & D Willets, A return to boom and bust (in births), Resolution Foundation, October 2021.
3 ONS, Births in England and Wales: 2021, August 2022.

Intergenerational issues continue to rise up the policy agenda in Britain, but it is far from the only analytical lens

As our Intergenerational Audits have noted in previous years, the publication of The Pinch in 2011 renewed policy debates around intergenerational fairness. The Resolution Foundation's 2016-2018 Intergenerational Commission, inquiries by the Financial Conduct Authority, various parliament select committees including the Lords' Intergenerational Fairness and Provision Committee and the Youth Unemployment Committee, the release of new books on the subject (Generations: Does When You're Born Shape Who You Are? By Bobby Duffy), and others, are indications of the growing appreciation of the importance of intergenerational analysis.[4]

But of course, generational differences is not the only useful analytical lens to consider. Other established traditions of analysis are those of gender, ethnicity, region, income group and social class. We consider these different lenses as complementary.

It is also important to emphasise that intergenerational analysis is not about pitting generations against each other. Strong intergenerational relationships, for example how we live our lives within families, and the strong public support that exists across age groups for principles of intergenerational living standards progress and mutual dependence is as important as ever.[5] The objective of the growing focus on intergenerational issues is to draw attentions to changes in the relative circumstances of different generations in order to help us to understand Britain's challenges better in order to design better and fairer policy.

The focus of this audit

This report – produced by the Resolution Foundation as part of the ESRC- funded Connecting Generations partnership – takes stock of generational living standards differences in Britain according to the data available to us. It does this by considering living standards within four domains:

- Household incomes and costs;
- Jobs, skills and pay;
- Wealth and assets; and
- Housing costs and security.

4 See: D Willets, The Pinch: How the Baby Boomers Took Their Children's Future - And Why They Should Give it Back, Atlantic Books, May 2011; K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021; L Gardiner et al., An intergenerational audit for the UK: 2020, Resolution Foundation, October 2020; L Gardiner et al, A New Generational Contract: The final report of the Intergenerational Commission, Resolution Foundation, May 2018; B Duffy, Generations: Does When You're Born Shape Who You Are?, Atlantic Books, September 2021.

5 H Shrimpton, G Skinner & S Hall, The millennial bug: Public attitudes on the living standards of different generations, Ipsos MORI/ Resolution Foundation, September 2017.

In each of these domains, we summarise the latest developments in cohort living standards up to the current cost of living crisis, drawing on the most comprehensive data and honing in on what's changed in recent years. However, most of this data pre-dates the onset of cost of living crisis now facing the UK. Therefore, we also provide novel and up-to-date analysis, including market forecasts, in order to assess the impact of the cost of living crisis across generations in the UK. Some of these sources and techniques have limitations, which we set out throughout this report. Undertaking this analysis, it is not always preferable or possible to use the same units of the population across different data sources. The unit being used in each part of the analysis will be clearly referred to but there are three types of units frequently used in this report with distinct difference set out below:

1. Individuals – this gives the share of or cost to the average person within a specific group, for example the share of all people aged 18-24-years-old.
2. Households – this gives the value for all people living within one household. When grouped by age, the age band represents the age of the household reference person (which is based on who has the highest income in the household). Young adults living with their parents will typically not be the household reference person.
3. Family units – family units can be single individuals, couples or families with children. Several family units can live in the same household: for example two couples living together would be one household but two family units. Adults (individuals aged 19 and above plus those aged 18 and not in full-time education) living with their parents would also be considered a separate family unit from their parents.[6]

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. As shown in the figures above, these are:

- The lost generation, born 1881-1895;
- The forgotten generation, born 1896-1910;
- The greatest generation, born 1911-1925;
- The silent generation, born 1926-1945;
- The baby boomers, born 1946-1965;

6 For more information see: Office for National Statistics, Families and household statistics explained, March 2022.

- Generation X, born 1966-1980;
- The millennials, born 1981-2000;
- Generation Z, born 2001-2015; and
- Generation Alpha, born 2016-2030.

Section 2

Household incomes and costs

In response to the colossal rise in energy bills facing households this winter, the Government has introduced the Energy Price Guarantee (EPG) which means that a household with typical energy consumption will have their annual energy bill capped at £2,500 until April 2023. The EPG and other support measures announced this year will help reduce the scale of the living standards challenges this winter, but all age groups will have to spend more on their energy bills this year than in previous years. However, it is the older working-age that are expected to spend the most on energy in 2022-23. The typical energy bill for households headed by a 40-49-year-old and 50-64-year-old is expected to be around £2,260 and £2,320 in 2022-23 respectively, both up by around £1,000 on 2019-20. But exposure to rising energy bills looks different when considering energy spend as a share of income. It is the oldest age groups that will need to dedicate the highest share of their income to energy bills this winter: those 75 and above are expected to spend 8 per cent of disposable income on energy bills this financial year, but this falls to 5 per cent for those under 50. Older age groups are also expected to see the biggest rise in the share of disposable income spent on energy bills with those aged 75 and above expected to spend 3 percentage points more of their disposable income on energy bills this financial year, compared to pre-cost of living crisis.

There are several reasons why older age groups will need to spend a higher share of their income on energy bills this year. Older age groups are more likely to live in less energy efficient homes: only a third of households headed by someone aged 65 and above live in a property with an EPC rating of C or above. Older age groups also live in larger homes, and therefore have more space to heat: in 2019-20, 40 per cent of households headed by someone aged 65 and above lived in a home with a useable floor area of 90 square meters of above, compared to 14 per cent of households headed by a 16-29-year-old (and compared to a typical usable floor area of homes across England of 78 square meters). On the other hand, not every square metre needs to be heated: on average, households headed by those aged 65 and above had 1.6 spare bedrooms, and each non-heated bedroom potentially cuts £140 from heating costs this year.

Despite higher estimated energy demand, older age groups may be more able to manage higher costs. Between June and September 2022, 54 per cent of people aged 25-34 were finding it difficult or very difficult to afford their energy bills between June and September compared to 42 per cent of those 75 and above. There are a number of reasons for this. First, young people are more likely to be on pre-payment meters: in 2019-20, 19 per cent of households headed by a 16-29-year-old were on a pre-payment meter for their electricity and 17 per cent were on a pre-payment meter for their gas, compared to 5 per cent and 4 per cent of households headed by someone aged 65 and above. This is problematic both because pre-payment meter customers face higher unit prices for energy and they cannot smooth their energy costs over the whole year as those who pay by direct debits can. Second, unlike older age groups, the young are less likely to have a substantial 'savings buffer' to dip into in when hit by an income shock or an unexpected expense: prior to the pandemic, over two thirds of 20-29-year-olds had savings of less than one month's income, compared to a fifth of 65-74-year-olds and 15 per cent of people aged 75 and above. This means the young must resort to other coping mechanisms, such as getting financial help from family and friends. Finally, years of stalled pay growth and high housing costs (both explored in detail in later sections) also put young people in a financially precarious position as they entered this financial crisis.

The Government support announced this year to help households through the winter also has an intergenerational skew. Older working-age adults are set to benefit the most from the total package of cost of living support measures announced this year: individuals aged 40-49 and 50-64 are set to see their household income rise by around £2,880 and £2,810 respectively in 2022-23. Despite receiving the most in one-off cost of living payments, individuals aged 65 and above are expected to gain the least from the support measures announced, and are set to receive an average of £500 less from the cost of living support measures than those aged 40-49.

However, it is important to consider these short-term support measures alongside longer-term tax policies announced this parliament. 40-49-year-olds and 50-64-year-olds will see their household incomes fall the most as a result of personal tax and benefit changes announced this parliament. This is being driven by the four-year freeze on Income Tax thresholds from 2022-23 to 2025-26. Those aged 65 and above are also set to see a fall in household income in 2025-26, but to a much lesser extent than the middle-aged: those aged 65 and above are set to see an income fall of just half of that of the experienced by the those aged 40-49 and 50-64.

This skew towards policy favouring those aged 65 and above is reinforced when we look at changes to working-age benefits and the state pension since 2010. Non-

pensioners are on average £816 a year worse off as a result of changes to working-age benefits policy since 2010, while pensioners are £666 a year better off, primarily due to the way that the State Pension is triple-locked. These changes to working-age benefits policy and State Pension uprating policy have, in part, contributed to disposable incomes of the poorest 20th percentile of pensioner households overtaking the poorest 20th percentile of non-pensioner households. While both pensioners and non-pensioner households in the bottom 20th percentile are particularly vulnerable to the current cost of living crisis, in 2020-21, the poorest 20th percentile of pensioner households were about £1,280 a year better off than the poorest 20th percentile of non-pensioner households.

All age groups will have to spend more on energy bills this year compared to pre-crisis levels, but particularly older householders in large, leaky homes

Earlier this year, households looked to be facing a colossal rise in energy bills this winter. The first major act Liz Truss made as Prime Minister was to announce a large-scale and universal support to cap the increase in all households' energy bills from 1st October.[7] The Energy Price Guarantee (EPG) will mean that a household with typical energy consumption will pay the equivalent of an annual £2,500 bill until April 2023.[8] Together with the previously announced £400 energy bill rebate and the one-off payments to those receiving benefits and the state pension, this will help reduce the scale of the living standards challenges this winter.

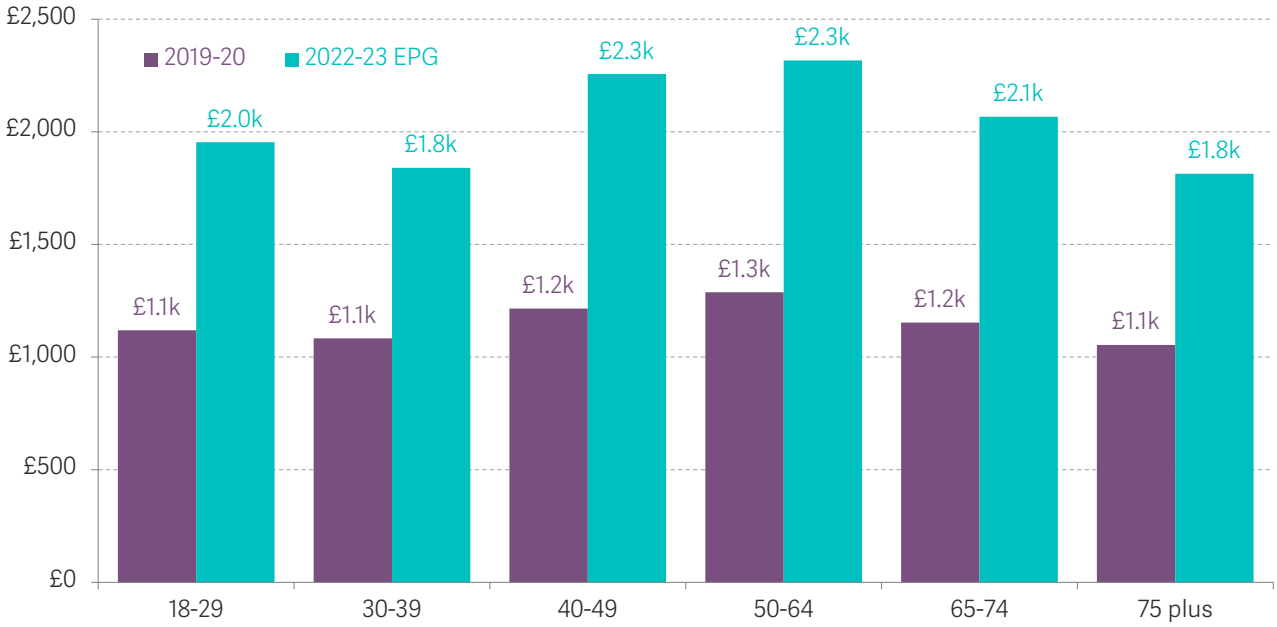
Nevertheless, even with the support measures in place, the typical household energy bill will be 83 per cent higher than pre-crisis levels.[9] Figure 2 shows that it is the middle-aged that are expected to spend the most on energy in 2022-23. Assuming no changes in behaviour associated with high prices this winter, the typical household energy bill for 50-64-year-olds is expected to be around £2,320 in 2022-23, up by around £1,030 on pre-crisis levels. 40-49-year-olds will also see a huge rise in their household energy bill, from around £1,220 in 2019-20 to £2,260 in 2022-23. This is, in part, driven by the number of people in a household. In 2019-20, the average household size was biggest for households headed by someone aged 35-44 and 45-54 (3.2 and 2.8 people, respectively) while the

7 This comes at a time when households' energy needs are expected to surge: nearly half of domestic gas demand occurs in January, February and March.
8 Those households who do not pay direct for mains gas and electricity – such as those living in park homes or on heat networks – will receive a one-off payment of £100 under the 'Alternative Fuel Payments'. Since the EPG was first announced, the Government has said that it will not apply a universal form of support after April 2023, but we do not discuss further what that might look like nor what are its likely intergenerational implications.
9 A Corlett et al., A blank cheque: An analysis of the new cap on energy prices, Resolution Foundation, September 2022.

average household size was smaller among older age groups (there are an average of 1.7 adults in households headed by someone aged 65 and above).[10]

FIGURE 2: **It is the middle-aged who spend the most on energy**

Median household energy spend in 2019-20 and expected median household energy spend in 2022-23, by age group: GB



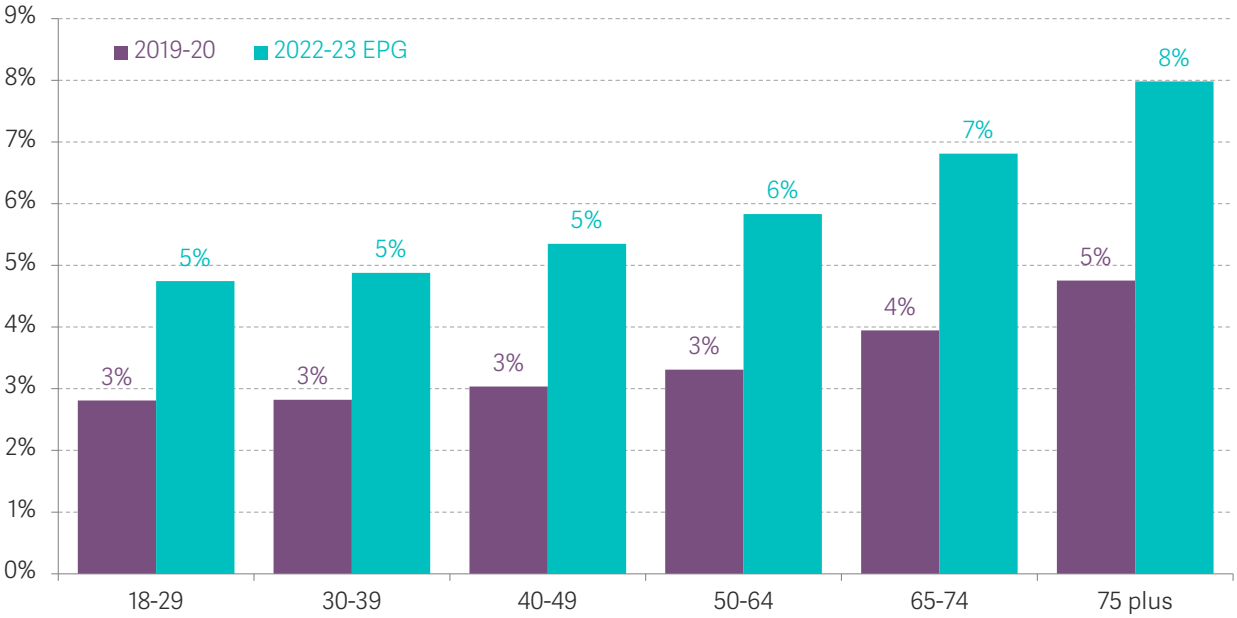
NOTES: Energy spend in 2022-23 estimated based on increases to energy price cap, and implied energy use data in 2019-20. Includes EPG £2,500 price cap and universal £400 payments. Consumption levels do not account for likely changes in behaviour associated with high prices this winter.
SOURCE: RF analysis of ONS, Living Costs and Food Survey.

But exposure to rising energy bills looks different in the context of energy spend as a share of disposable income, as shown in Figure 3. It is the oldest age groups that are expected to spend the largest share of their household income on energy bills this financial year. Even after considering the EPG and the universal £400 Energy Bill Support scheme, at the median, those aged 75 and above are expected to spend 8 per cent of their after housing costs income on energy in 2022-23, compared to a typical budget share of 5 per cent among the under 50s (again, assuming no change in energy use compared to previous years). Older age groups are also expected to see the biggest rise in the share of disposable income spent on energy bills. Those aged 75 and above are expected to spend 3 percentage points more of their disposable income on energy bills this financial year, compared to pre-crisis levels while under 50s are expected to spend 2 percentage points more.

10 Source: RF analysis of ONS, English Housing Survey.

FIGURE 3: **Those 75 and above are expected to spend the highest share of income on energy bills**

Median household energy spend in 2019-20 and expected median household energy spend in 2022-23 as a share of household income after housing costs, by age group: GB



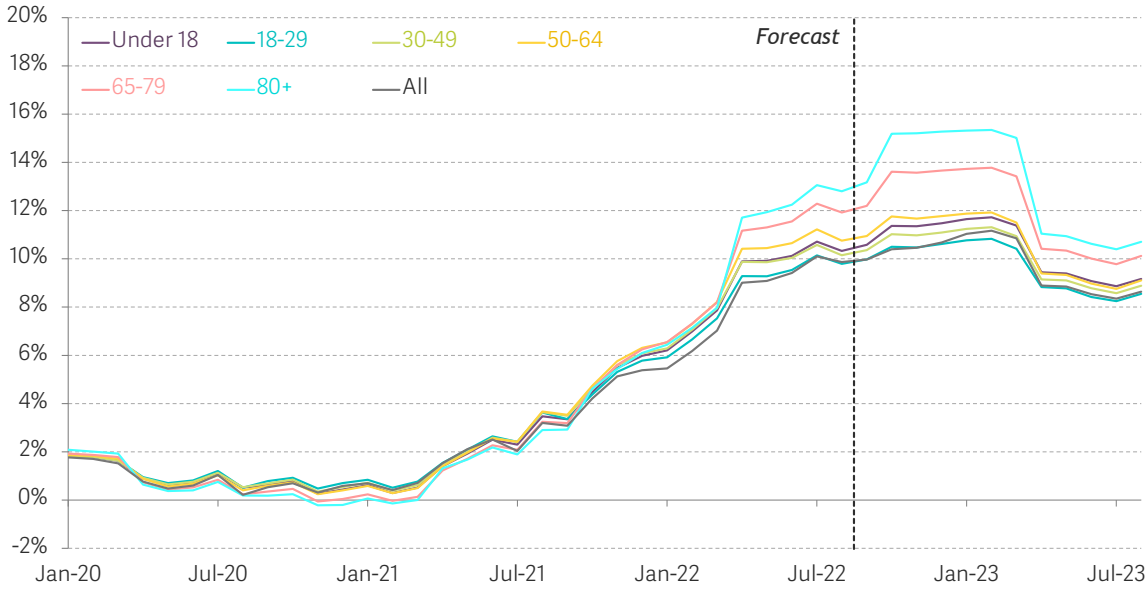
NOTES: Energy spend in 2022-23 estimated based on increases to energy price cap, and implied energy use data in 2019-20. Includes EPG £2,500 price cap and universal £400 bill rebate. Consumption levels do not account for likely changes in behaviour associated with high prices this winter.
SOURCE: RF analysis of ONS, Living Costs and Food Survey.

BOX 1: Recent inflationary pressures are worse for older age groups

Figure 4 shows that recent inflationary pressures have created a particularly sharp inflation spike among older age groups. This winter, a person aged 80 or above could face inflation rates of around 15 per cent – this is around 5 percentage points higher than the expected inflation rates of a person aged 18-20. Higher inflation rates among older age groups are being driven by this age group devoting a higher share of their expenditure on energy, but also on other essentials, such as food, which have seen faster rises in prices this year. Younger age groups tend to devote a greater share of their budget on housing which currently has a relatively low rate of inflation.

FIGURE 4: **Inflation rates are currently highest for older age groups**

Estimated CPI-consistent annual inflation rates, by age group: UK



NOTES: Data prior to 2022 are ONS-produced estimates. After 2022, these are calculations from Resolution Foundation constructed to be consistent with the overall CPI index.
SOURCE: RF analysis of ONS, Consumer Prices & Living Costs and Food Survey.

There are several reasons why older age groups look set to spend a higher share of their income on energy bills this year, and below we discuss two: the energy efficiency of a property, and its size.

Previous research found that families in energy-inefficient homes will have significantly higher bills than those who live in equivalent homes that already meet the Government's efficiency target (EPC C).[11] Figure 5 shows that older age groups are more likely to live in less energy-efficient homes: half of households headed by someone aged 16-29 live in homes with an A-C EPC rating (this corresponds to an energy efficient home; the Government has a target for all homes to reach this standard by 2035) compared to around a third of those headed by someone aged 65 and above.

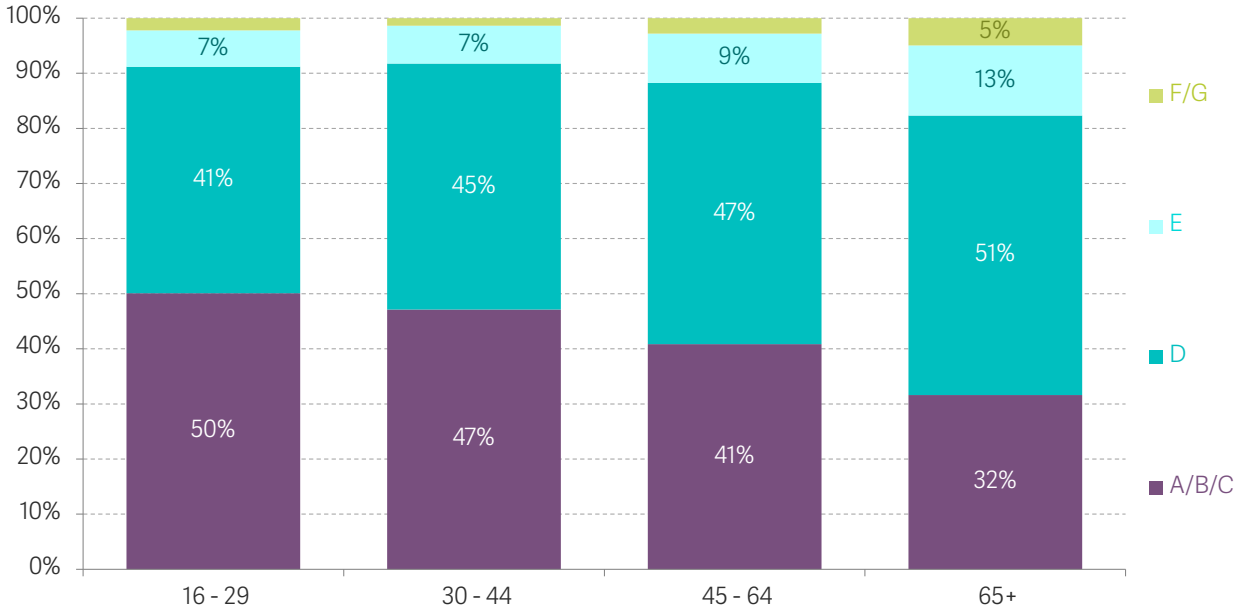
Property efficiency is driven by the age and type of a property. Here, older age groups are the least likely to live in newer homes: only 12 per cent of households headed by a person aged 65 and above lived in a property built after 1990, compared to 18 per cent of households headed by a 44-64-year-old and 29 percent of households headed by a 16-29-year-old. This is important because almost all dwellings in England and Wales built since 2012 have an EPC rating of C or above, compared with just 12 per cent of assessed homes built before 1900 in England, and 8 per cent of homes built before 1900 in Wales.[12] Young people are also more likely to live in low-rise and high-rise flats than their older

11 K Handscomb & J Marshall, Cutting back to keep warm, Resolution Foundation, August 2022.
12 Office of National Statistics, Age of the property is the biggest single factor in energy efficiency of homes, January 2022.

counterparts: 43 per cent of households headed by a 16-29-year-old and 15 per cent of those headed by someone aged 65 and above, and this matters because only 35 per cent of houses or bungalows had an A-C EPC rating compared to 63 per cent of low-rise flats and 75 per cent of high-rise flats.

FIGURE 5: **Older adults tend to live in less energy-efficient homes**

EPC rating of property by age group of household reference person, 2019-20: England

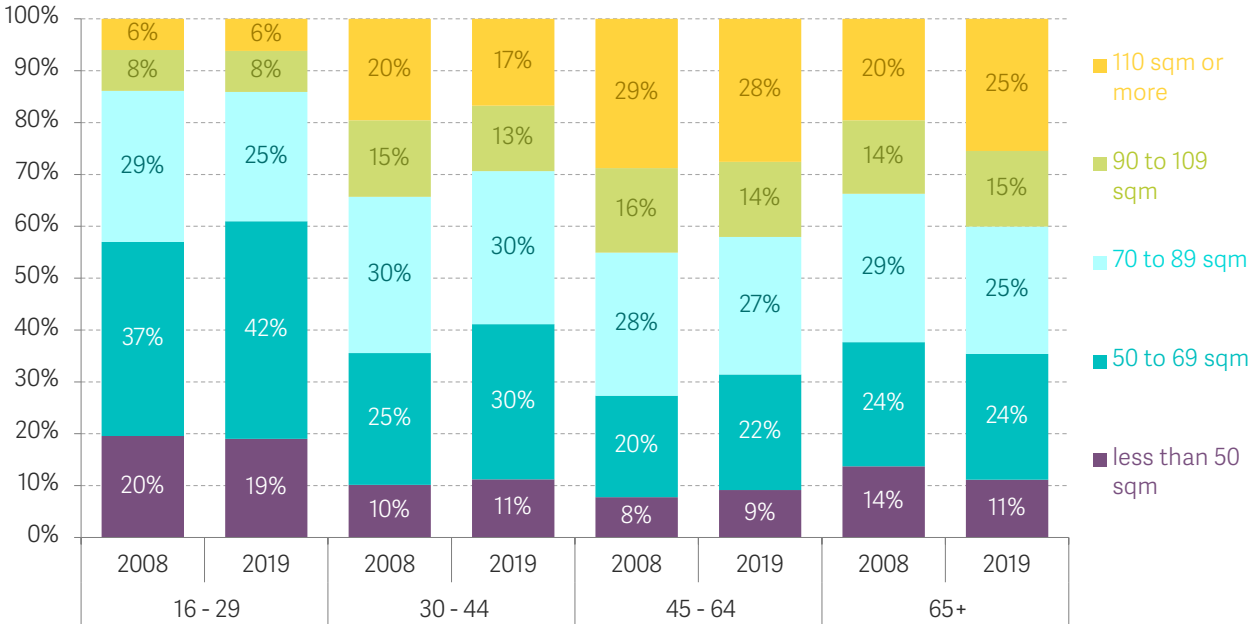


NOTES: Age group of household reference person. A represents the most energy efficient and G the least.
SOURCE: RF analysis of Department for Levelling Up, Housing and Communities, English Housing Survey.

Secondly, older age groups tend to live in larger homes, meaning that they have more space to heat. Figure 6 shows that 45-64-year-olds tend to have the largest homes: in 2019-20, 42 per cent of households headed by a 45-64-year-old had a useable floor area of 90 square meters of above. Those households headed by those aged 65 and above also tended to have large homes, with a similar proportion (40 per cent) having a useable floor area of 90 square meters of above. Unsurprisingly, and as we discuss more in the section on housing, young people live in the smallest homes. In 2019-20, the typical usable floor area across all households in England was 78 square meters. Over half (57 per cent) of households headed by someone aged 16-29 were living in smaller homes than this, and almost one fifth had less than 50 square meters of usable space – this is equivalent to around one-fifth of a tennis court. This matters because, at the per-unit prices under the EPG, the typical annual heating cost for a home in England is expected to be £16 per square metre.

FIGURE 6: **Older adults tend to live in larger homes**

Usable floor area by age group of household reference person, 2008-09 and 2019-20: England

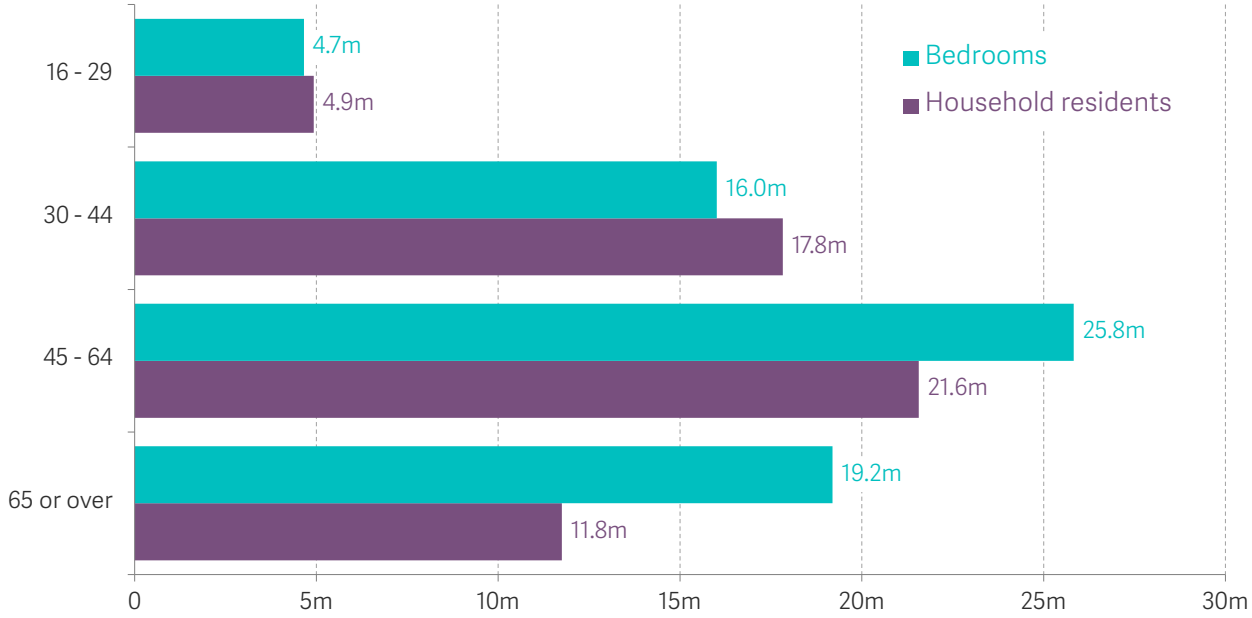


SOURCE: RF analysis of Department for Levelling Up, Housing and Communities, English Housing Survey.

But the prevalence of spare rooms among older age groups can potentially help offset higher energy costs, as each non-heated bedroom could cut £140 from heating costs this financial year. Figure 7 shows that households headed by someone aged 65 and above have the most extra bedrooms: in 2019-20 the 11.8 million household residents aged 65 and above had a total of 19.2 million bedrooms between them. But, taking into account the number of bedrooms required, this means that households headed by someone aged 65 and above had, on average, 1.6 spare bedrooms, compared to 1.2 spare rooms among households headed by a 45-64-year-old, 0.8 among households headed by a 30-34-year-old and 0.6 among households headed by a 16-29-year-old. Therefore, older age groups have, in general, more flexibility around the extent to which their whole property is heated and could, in theory, reduce heating demand to some extent without health risks, although it is recognised that limiting heating to selected rooms may have an impact upon mental health and well-being.

FIGURE 7: **Older adults have more capacity to reduce their heating demand**

Total number of household residents and total number of bedrooms, by age group of household reference person, 2019-20: England



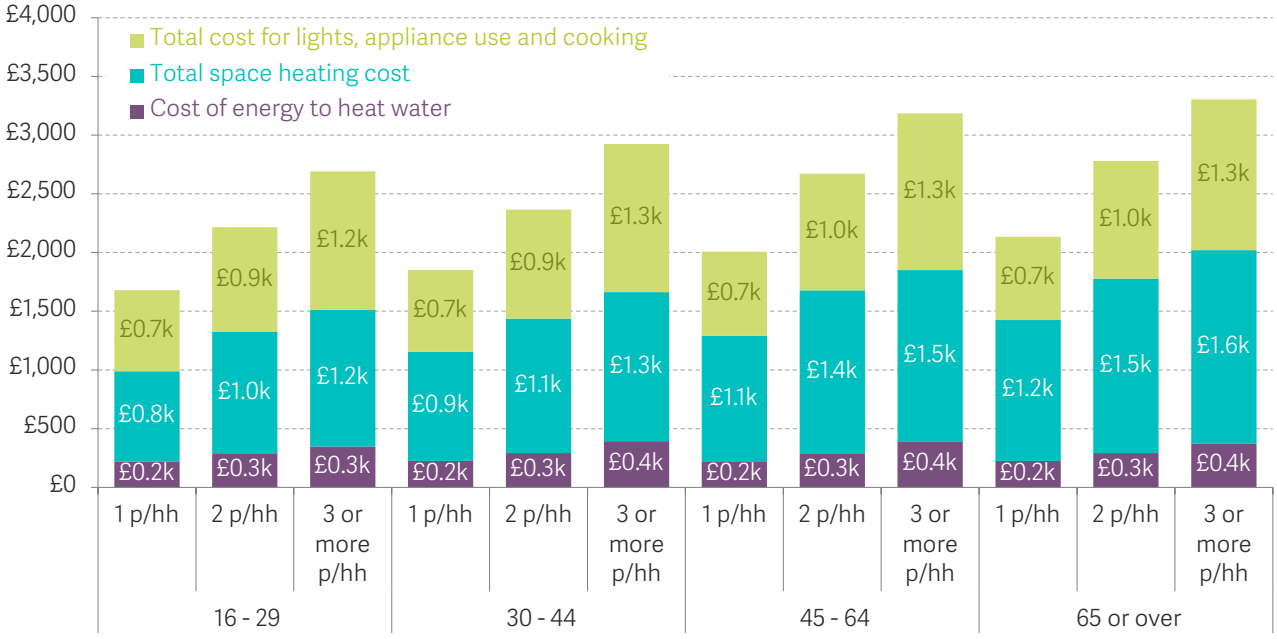
SOURCE: RF analysis of Department for Levelling Up, Housing and Communities, English Housing Survey.

In Figure 8, we bring together the effect of these two factors – living in larger but also older and leakier homes – to show that older age groups have higher energy requirements even when we account for differences in household size.[13] For example, in 2019-20, a household headed by a person aged 65 and above living alone had a typical annual energy requirement of around £2,100; this was around £280 more than the energy requirement of a household headed by a 30-44-year-old living alone. Similarly, the typical annual energy requirement of a three-person household headed by a person aged 65 and above was £380 more than a three-person household headed by a 30-44-year-old.

13 Energy requirement considers a variety of factors relating to the property and its occupants, such as property size, building materials, type of heating system, the extent of under-occupancy and heating regime (distinguishing between those that not at home in the day and those that are). See: Department for Business, Energy & Industrial Strategy & Building Research Establishment, Fuel Poverty Methodology Handbook (Low Income Low Energy Efficiency), February 2022.

FIGURE 8: **Large and less energy-efficient houses mean higher heating cost requirements**

Median cost of energy required by number of individuals in household and age group of household reference person, 2019-20: England



NOTES: Excludes those whose main fuel type is oil or solid fuels.
SOURCE: RF analysis of Department for Levelling Up, Housing and Communities, English Housing Survey.

But older people are currently less likely to report difficulties to afford their energy bills

Despite their lower energy requirements, data collected this summer showed that older people were the least likely to report difficultly affording their energy bills (see Figure 9). An ONS survey conducted between June and September 2022 found that almost half (49 per cent) of bill-payers were struggling to pay their energy bills (we note that this excludes those who answered "don't know" and "prefer not to say", which was a particularly common response among people aged 16-24, and so we urge caution in interpreting results for that age group). But there is some variation across age groups: 54 per cent of 25-34-year-olds were finding it difficult or very difficult to afford their energy bills between September and June compared to 42 per cent of those aged 75 and above. This survey was conducted before the rise in the price of energy on 1 October, and well before the colder months when most energy is used (78 per cent of annual gas demand occurs between October-March). Therefore, it seems very likely that the proportion of people struggling to pay their energy bills will rise across all age groups.

FIGURE 9: **Younger adults are finding it more difficult to pay their energy bills**

Proportion of those who pay energy bills finding it easy or difficult to afford their energy bills, by age group: GB

NOTES: Excludes those that answered "don't know" and "prefer not to say".
SOURCE: RF analysis of ONS, Impact of increased cost of living on adults across Great Britain: June to September 2022.

The way in which people pay for energy contributes to how easy or difficult it is to afford their energy bills. Those on pre-payment meters are particularly at risk of cash-flow problems this winter as they cannot spread this winter's energy cost surge over the year as a whole in the way that those who pay by direct debits will do.

Previous research found that the cost of the energy used by a typical household in January 2023 is set to be to £264 (allowing for the EPG and the Energy Bill Discount).[14] Median disposable income of a household with a pre-payment meter is less than £1,250 per month,[15] therefore, come January, energy bills will consume over a fifth of these families' budgets; this is similar across the age distribution ranging from 22 per cent for households headed by a person aged 16-29 to 19 per cent for those headed by a person aged 65 and above.

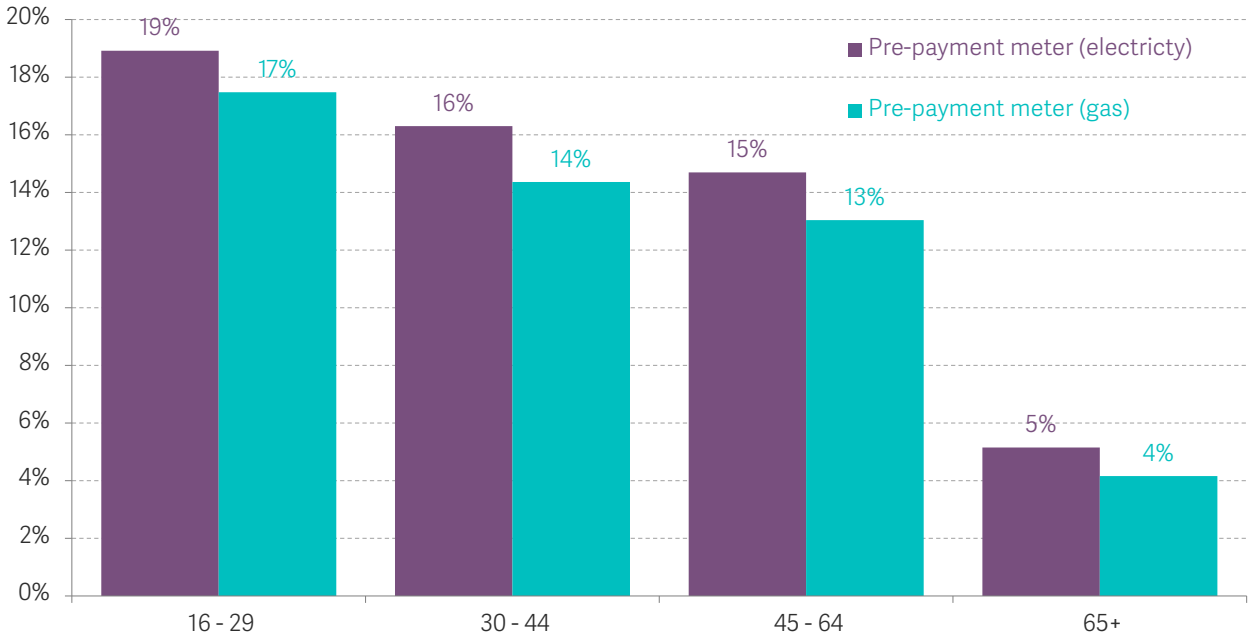
Young people are more likely to be on a pre-payment meter for their gas and electricity. Figure 10 shows that 19 per cent of households headed by a person aged 16-29 were on a pre-payment meter for their electricity and 18 per cent were on a pre-payment meter for their gas, compared to 5 per cent and 4 per cent of households headed by someone aged 65 and above. This is part because of the relation between the use of pre-payment meters and housing tenure. 40 per cent of households in the social

14 A Corlett et al., A blank cheque: An analysis of the new cap on energy prices, Resolution Foundation, September 2022.
15 The median annual equivalised after housing costs income of an English household that pays for electricity via a pre-payment meter is £1,243, Source: RF analysis of English Housing Survey data.

rented sector were on a pre-payment meter for their gas compared to just 17 per cent of households in the private rented sector and 3 per cent of owner households. There are a similar proportion of households headed by a 16-29-year-old and headed by a person aged 65 and above in the social rented sector: 16 per cent and 15 per cent respectively. This suggests that the difference in pre-payment use between young and old can be explained by the prevalence of young people in the private rented sector (56 per cent of households headed by a 16-29-year-old compared to 5 per cent of households headed by those 65 and above).

FIGURE 10: **Older adults are less exposed to pre-payment meters**

Proportion of households on a pre-payment meter for gas and electricity by age group of household reference person, 2019: England



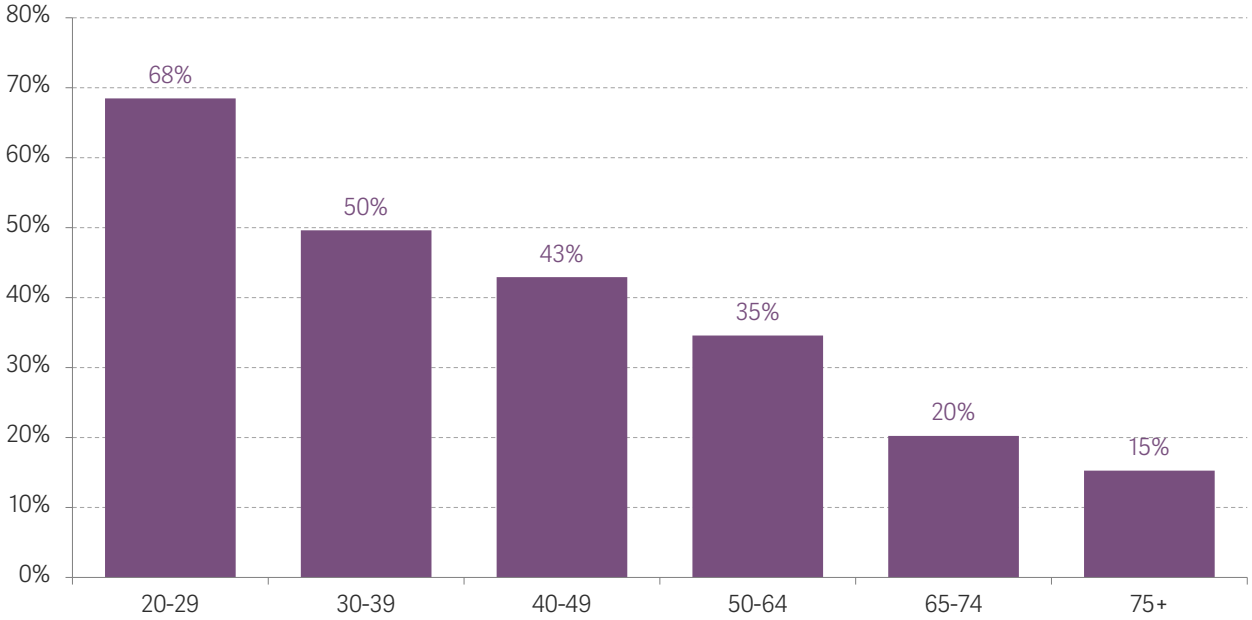
NOTES: Excludes those whose main fuel type is oil or solid fuels.
SOURCE: RF analysis of Department for Levelling Up, Housing and Communities, English Housing Survey.

Young people also have very low levels of financial resilience. As Figure 11 shows, over two thirds of family units headed by 20-29-year-olds had savings of less than one month's income, compared to a fifth of families headed by 65-74-year-olds and 15 per cent of aged 75 and above (and one month's income is considerably lower than what is usually thought prudent, which would be least three months of income).[16] We revisit the issue of intergenerational wealth inequality and what it means for how people experience the current crisis in 0, but this data indicates that young people are less able to rely on their savings to absorb rising energy prices.

16 Family units includes single people, couples and families. Multiple family units can live together in one household. See introduction for more details.

FIGURE 11: **Assets are important for financial resilience and young people are far more likely to have no savings**

Share of individuals with savings worth less than one month's income, by age group: GB, 2018-20



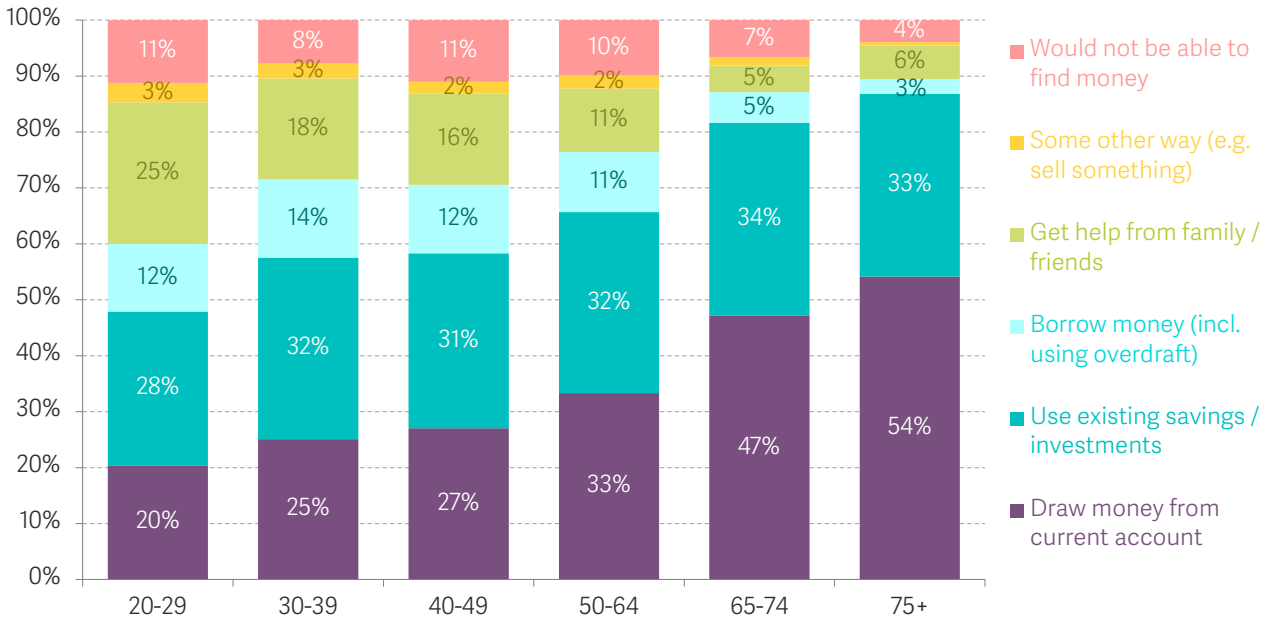
NOTES: Mean family wealth per adult is used to calculate savings per individual. Savings defined as current accounts in credit, value of savings account, value of ISAs and value of national savings products. However not all these savings will be liquid. Cash is not included.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Drawing on the findings above, Figure 12 reiterates that older age groups on average are more able to draw money from their existing assets to deal with an income shock: over four fifths of people aged 65-74 and 75 and above said that they would be able to use money from their current account or draw down existing savings and investments to cover an unexpected expense. This coping mechanism was available to less than half (48 per cent) of 20-29-year-olds. Instead, young people were more likely than their older counterparts to say they would need to rely on family and friends to cover an unexpected expense – a quarter of 20-29-year-olds said they would get help from family and friends, compared to 11 per cent of 50-64-year-olds. This demonstrates the important role intergenerational relationships play in providing a safety net from many young people today. But reliance on family and friends won't be available to all. Previous research finds that there is a large difference in the probability of receiving a wealth transfer based on pre-existing wealth and income, with wealthier families significantly more likely to receive intergenerational transfers.[17] Therefore, this financial safety may not be an option for those young people who need it most.

17 J Leslie & K Shah, Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families, Resolution Foundation, February 2022.

FIGURE 12: **Coping mechanisms vary considerably across ages**

Share of family units reporting how they would find money for an unexpected major expense, by age group, 2018-20: GB



NOTES: Respondents were asked how they and their partner would find the money to meet an unexpected major expense, as a result, family averages are calculated using the response of the household reference person only.
SOURCE: RF analysis of ONS; Wealth and Assets Survey.

By the end of Parliament, all age groups are set to see a fall in incomes

The analysis above reflects the impact of the EPG, which was brought in to prevent households facing catastrophic fuel bills this winter. But this is not the only form of financial support for households provided by the Government this year. During his time as Chancellor, Rishi Sunak announced a significant package of support to help households through the cost of living crisis. The key measures included: an increase in the National Insurance threshold from £9,880 to £12,570 in July; a universal £400 rebate on electricity bills that is being paid this winter, a £150 Council Tax rebate for households in Bands A to D paid earlier in 2022, payments of £650 to over 8 million households on means-tested benefits; an additional £300 on top of the usual Winter Fuel Payment this winter going to all pensioner households; and an additional £150 to around 6 million people who receive a disability benefit.

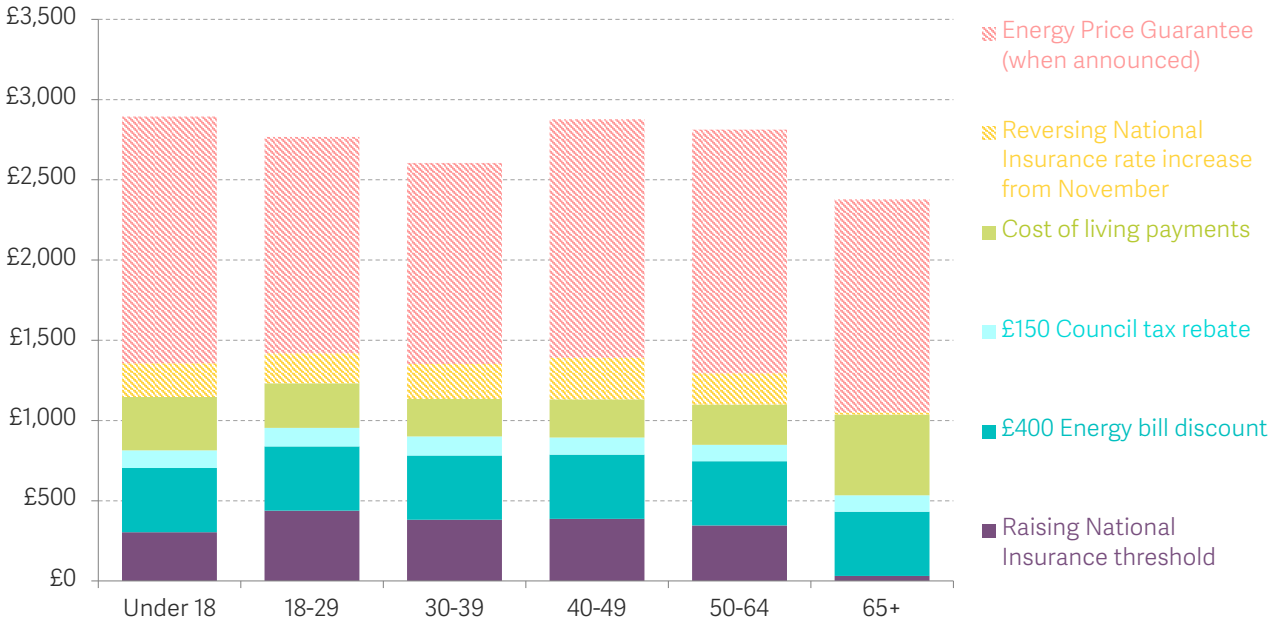
Figure 13 shows the average impact of these measures on household incomes across age groups. All age groups are set to gain from these measures, but 18-29-year-olds were set to gain the most with a £1,230 boost to their household incomes this financial year (2022-23). Despite older age groups receiving the most from the various cost of living payments – around £500 – they were set to gain the least from the full package (around £1,040). This

is because they saw almost no gain from the changes to National Insurance, as workers do not pay National Insurance after State Pension age.

Since September, the Government has announced the EPG and has decided to reverse (from November 2022) the National Insurance rate rise introduced in April 2022. If we consider these measures together with those announced before September, the middle-aged are set to benefit the most from the full package of cost of living support measures taking effect this year, with 40-49-year-olds and 50-64-year-olds set to see their household income rise by around £2,880 and £2,810 respectively this financial year. Those aged 65 and above will receive £500 less from the cost of living support measures than those aged 40-49, principally because they do not benefit from the two reductions in National Insurance contributions.

FIGURE 13: **Those 65 and above will receive the least support from the cost of living support measures in 2022-23**

Average gain from cost of living support measures, by age group: UK, 2022-23



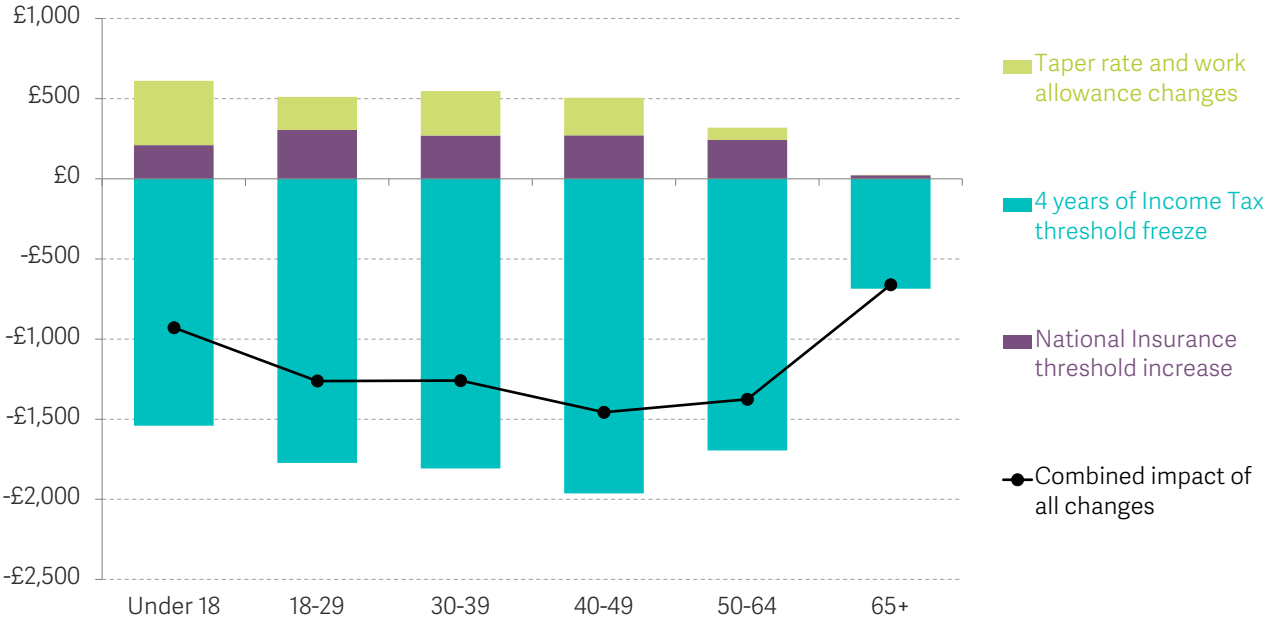
NOTES: Value of EPG support based on forecasts of Ofgem's energy price cap made as the EPG policy was announced. The actual value of the EPG will change in line with changes to gas prices this winter. Cost of living payments include £650 for low-income benefit families, £150 for disability benefit claimants, and £300 addition to the winter fuel payments.
SOURCE: RF analysis of DWP, Households Below Average Income; DWP, Family Resources Survey using the IPPR Tax-Benefit Model; ONS, Living Costs and Food Survey.

However, it is important to consider these short-term support measures alongside longer-term tax and benefit policies announced this parliament. Figure 14 shows that, despite gaining the most from the short-term cost of living crisis support measures, in 2025-26, 40-49-year-olds and 50-64-year-olds will see their household incomes fall the most as a result of personal direct tax and benefit policies announced since 2020:

40-49-year-olds and 50-64-year-olds are set to see an annual fall in household income of around £1,460 and £1,380 respectively in 2025-26. This is being driven by the freeze on the Income Tax thresholds from 2022-23 to 2025-26. Those aged 65 and above are also set to see a fall in household income in 2025-25, but by only around £660 (this is less than half the fall in incomes seen by older working-age people).

FIGURE 14: **By the end of the Parliament, personal tax changes will mean that incomes fall for the middle-aged by twice as much as those 65 and above**

Impact of personal direct tax and benefit policies announced since 2020 on household income by age group, in 2022-23 prices: UK, 2025-26

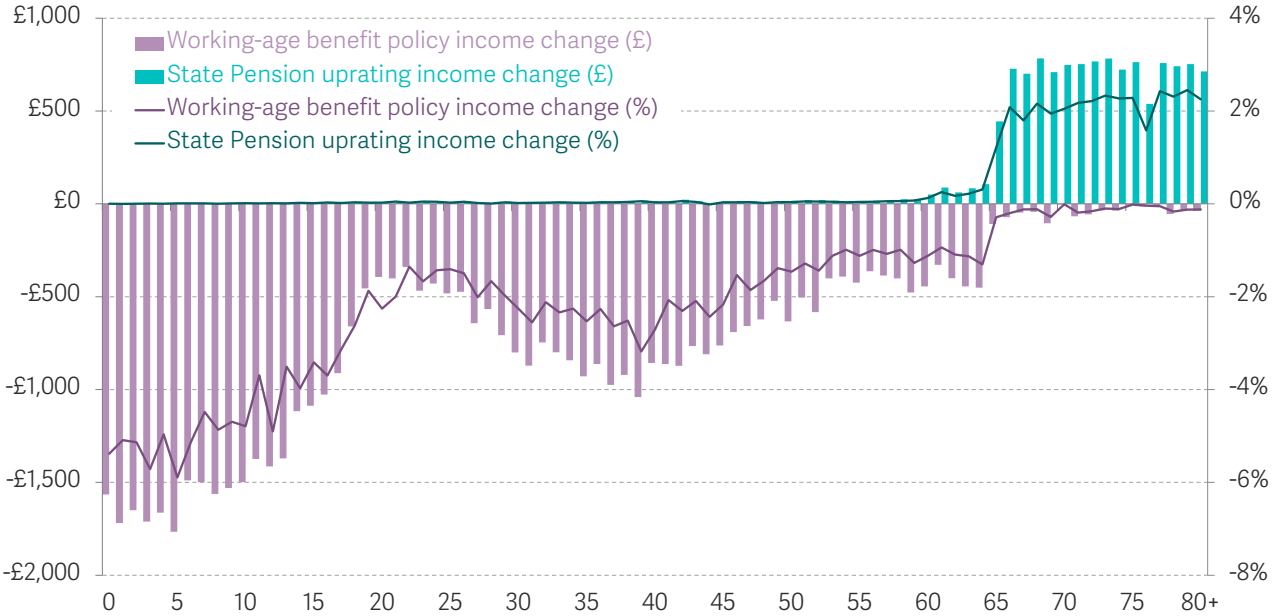


SOURCE: RF analysis of DWP, Households Below Average Income; DWP, Family Resources Survey using the IPPR Tax-Benefit Model.

These longer-term tax and benefit changes favouring older age groups come off the back of a reduction in the generosity of working-age benefits. Figure 15 shows that non-pensioners are on average £816 a year worse off as a result of changes to working-age benefits since 2010, while pensioners are £666 a year better off, principally due to the operation of the triple lock. This shows that the decisions of policy makers and the actions of successive governments have played a central role in shaping living standards outcomes for different generations – with children seeing the largest direct negative consequences.

FIGURE 15: **Benefit changes since 2010 have hit children the hardest, while those aged 66 and above have seen their incomes boosted**

Change in average annual family income as a result of changes to working-age benefits and State Pension since 2010, by age: UK, 2022-23



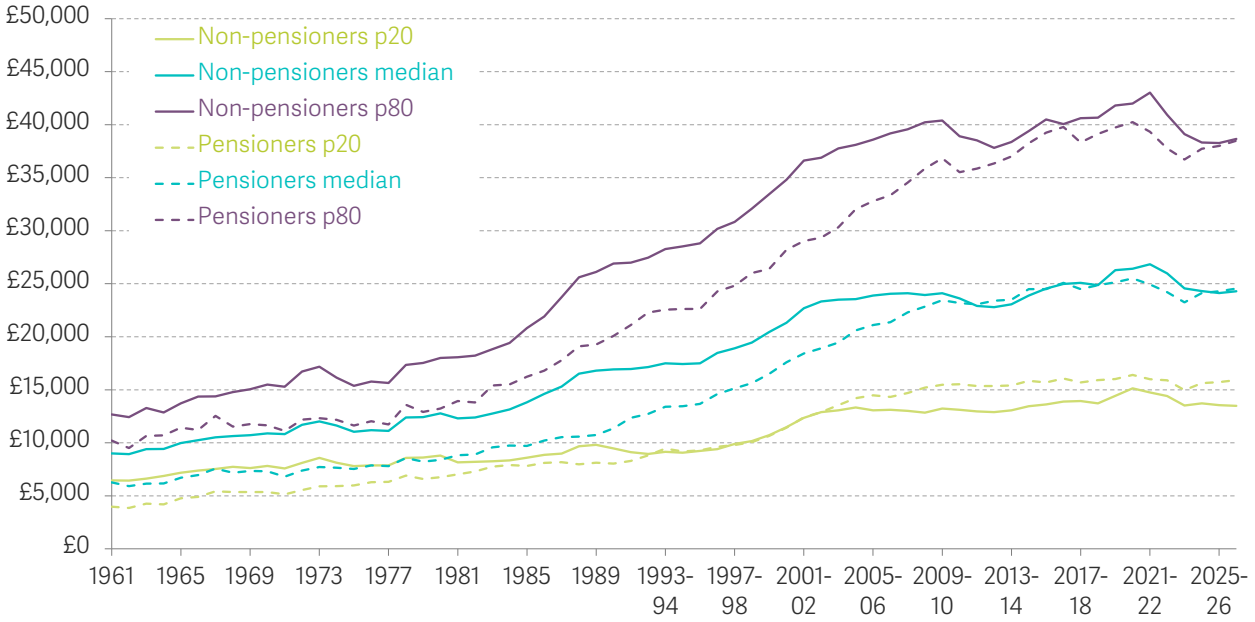
NOTES: Policy changes include: reduction in benefit uprating, two-child limit, removal of the family premium, introduction of the UC first-child rate, introduction of the benefit cap, reduction in Council Tax Support, introduction of the Bedroom Tax, removal of the limited capability for work addition, means-testing of Child Benefit, freezing LHA rates since 2020, the effect of uprating State Pension by inflation rather than earnings. Full roll-out of UC is assumed. Incomes are equivalised to account for household size.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR Tax-Benefit Model.

The reduction in the generosity of working-age benefits has contributed to income gains for pensioners at the expense of income progress among non-pensioners. Figure 16 shows that, in 2021, the 20th percentile of pensioner households were about £1,250 a year better off than the 20th percentile of non-pensioner households; by comparison, throughout most of the 1990s, the 20th percentile for these groups was very similar. Pensioner incomes are also catching up to non-pensioner incomes at other points in the distribution: for example, the gap between typical pensioner and non-pensioner disposable incomes has also closed. This has been driven by the introduction of Pension Credit in the mid-2000s, the triple lock in 2010, and recent cohorts of pensioners reaching retirement with higher employment rates and private savings than their predecessors.[18]

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

FIGURE 16: **Typical pensioner incomes continue to match working-age incomes**

Real-terms (2021 prices, CPI-adjusted) household net annual income after housing costs, by life stage: UK



SOURCE: RF analysis of DWP, Households Below Average Income; DWP, Family Resources Survey using the IPPR Tax-Benefit Model.

Looking ahead, we expect both pensioner and non-pensioner incomes to fall by the end of this Parliament. Between 2020-21 and 2026-27, typical non-pensioner and pensioner incomes are expected to fall by £2,130 and £970 respectively. Given that the State Pension is inflation indexed under the 'triple lock' – which uprates the State Pension in line with whichever of the following three things is highest: inflation, average earnings, or 2.5 per cent – pensioner incomes are somewhat protected from the costs of high inflation. The same cannot be said for the typical non-pensioner whose income is mostly comprised of wages. As a result, by 2026-27, we expect the typical (median) pensioner income to be the almost the same as the typical non-pensioner income.

Section 3

Jobs, skills and pay

The post-pandemic labour market has so far been characterised by low unemployment and high vacancy rates, with the unemployment rate this summer falling to its lowest rate since 1974. However, headline record-low unemployment has masked a decline in labour market participation, particularly among older working-age adults. Since the start of the pandemic, older workers have left the labour market at a considerable rate: between 2019 and 2022 economic inactivity among those aged 50-64 increased by over 296,000, accounting for 91 per cent of rising inactivity over this period. There has been an increase in inactive 50-64-year-olds reporting long-term sickness or disability, up by around 141,000 since the pandemic. However, recent research has found that the rise in the number of people who are inactive due to ill-health does not necessarily imply that all these people have left the labour force as a result of ill-health. Instead, the increase in inactivity appears to have been driven by older workers leaving the labour market for other reasons, such as early retirement, and it is a rise in existing inactive individuals reporting health issues. Policy makers are keen to encourage potential workers – particularly older potential workers – to return to the labour market. But, if the rise in economic inactivity does indeed reflect high-income workers retiring early, it is unlikely these workers will ever return to the labour market (previous research has found that only 5-10 per cent of retired people ever return to paid work). There has also been a small uptick in the number of 19-29-year-olds who are economically inactive – up by around 30,000 since 2019. Again, some of this rise is a result of long-term sickness and disability among younger people. But there has also been an increase in full-time education participation: there are 86,600 more young people aged 18-29 in full-time education in 2022 than in 2019.

The fall in labour force participation has resulted in a tight labour market which has brought with it strong nominal pay growth. But high inflation means that real pay has deteriorated across all age groups, with real pay falling most quickly among the youngest employees. In the year to August 2022 annual real earnings fell by 2.6 per cent for employees aged 18-24, compared to 1.4 per cent for employees aged 25-34, 2.1 per cent for employees aged 35-49 and 2.4 per cent for employees aged 50-64. This

poor real pay performance follows years of stalled pay progress among the young, with early millennial cohorts having similar earnings to those received by the cohorts 10 years before them at the same age. Stalled pay progression for younger workers has been exacerbated by the UK's decade and a half of pay stagnation: 8 million younger workers have never worked in an economy with sustained average wage rises. This sustained lack of pay progress has contributed to young adults' lack of financial resilience today, leaving them in a more precarious position as they entered Britain's living standards catastrophe.

But the UK's post-pandemic record low unemployment could soon change, as the UK is expected to enter into recession by the end of 2022. This will have repercussions for all workers, but younger workers tend to experience more labour market disruptions during past recessions, including higher and longer-lasting unemployment following recessions. Younger workers are more likely to work in a lower-paid occupation and to work in jobs with insecure working conditions or insecure contracts than older workers. For example, 5.7 per cent of workers aged 18-29 were employed on a zero-hours contract compared to 2.2 per cent of workers aged 30-64 in the first half of 2022. Young workers are also more concentrated in sectors, like hospitality, entertainment and leisure, that are likely to see a sharper contraction in demand as incomes are squeezed by higher spending on essentials like energy, food and housing costs.

The post-pandemic labour market has been characterised by low unemployment and high vacancy rates, but this is masking a shrinking workforce

The Covid-19 pandemic arrived in the UK during a period of record-high employment, with the 16-64-year-old employment rate reaching 76.6 per cent at the end of 2019.[19] In the two years since the start of the pandemic there was significant labour market disruption affecting millions of workers.[20] However, the labour market has made an unexpectedly strong recovery, and is currently characterised by low unemployment and high vacancy rates. The latest labour market data showed a fall in the unemployment rate to 3.5 per cent in the three months to August 2022: this is the lowest rate since 1974.[21]

But, while unemployment has returned to pre-pandemic levels unexpectedly quickly, labour market participation has been falling since the start of the pandemic: Figure 17 shows that the number of people aged 18-64 who are economically inactive has risen

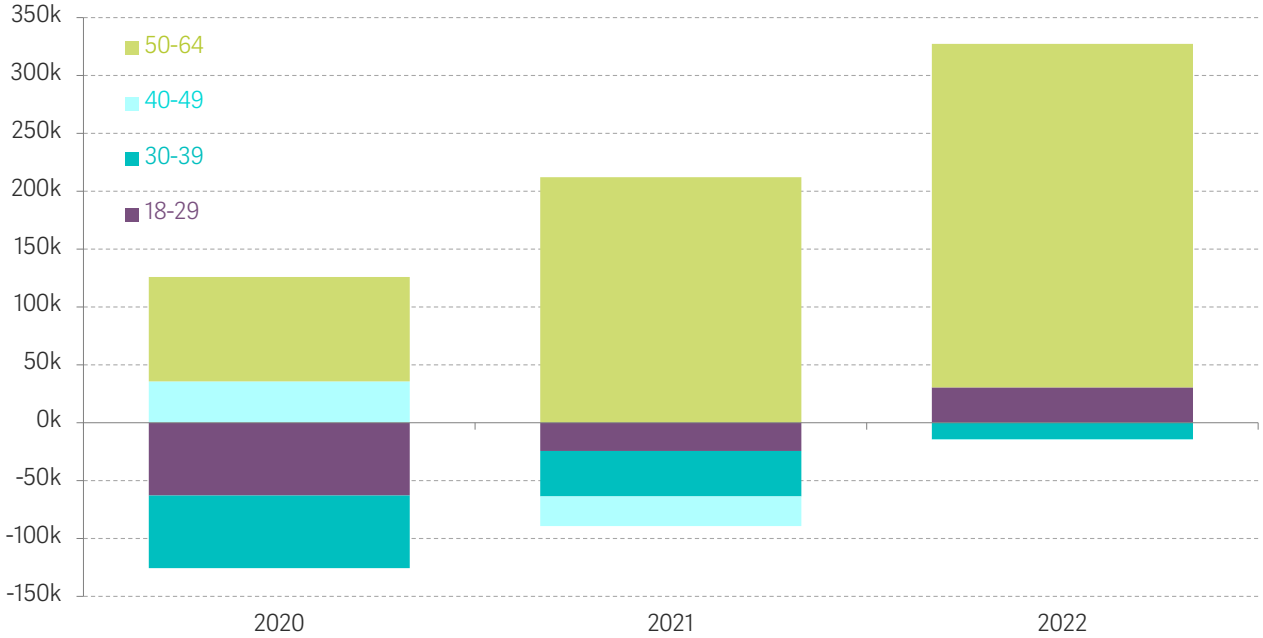
19 K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021.
20 M Brewer, C McCurdy & H Slaughter, Begin again?: Assessing the permanent implications of Covid-19 for the UK's labour market, Resolution Foundation, November 2021.
21 G Thwaites, Low unemployment belies a labour market in poor health, Resolution Foundation, October 2022.

by over 312,000 since 2019. The rise in inactivity has been mostly driven by fewer older workers in the labour market. Between 2019 and 2022 the number of inactive workers aged 50-64 rose by more than 296,000, 91 per cent of the rise in inactivity over this period.

There has also been a recent small uptick in the number of young people who are economically inactive, with 30,000 more inactive adults aged 18-29 since 2019. However, previous Resolution Foundation work has highlighted important gender differences: inactivity has been falling for young women (down 8 percentage points between 1995 and 2021) – driven by a decline in the number of young women who are economically inactive for family care reasons – while inactivity has been rising for young men (up 4 percentage points over the same period).[22] We explore the reasons for economic inactivity further below.

FIGURE 17: **Economic inactivity has been rising since the Covid-19 pandemic, particularly among older workers**

Cumulative change in economic inactivity since January-March 2020 by age group: UK



NOTES: 2022 based on January to June data.
SOURCE: RF analysis of ONS, Labour Force Survey.

Figure 18 shows that there has been an increase in the number of inactive 50-64-year-olds who report long-term sickness or disability – up by around 141,000 since the pandemic. Recent research has found that the increase in inactivity has been driven by individuals leaving the labour market for reasons other than health, often to retire early. The increase in the number of inactive 50-64-year-olds reporting long-term sickness instead reflects a change in the number of already-inactive individuals now reporting

22 L Murphy, Not working: Exploring changing trends in youth worklessness in the UK, from the 1990s to the Covid-19 pandemic, Resolution Foundation, June 2022.

health issues.[23] This recent increase in inactive 50-64-year-olds reporting long-term sickness or disability continues a pre-pandemic trend. In the five years prior to the pandemic (2014 to 2019), the number of people aged 50-64 who were inactive due to long-term sickness or a disability grew by over 50,000. But this trend has accelerated since the pandemic, with long Covid and long NHS waiting lists being cited as possible explanations.[24]

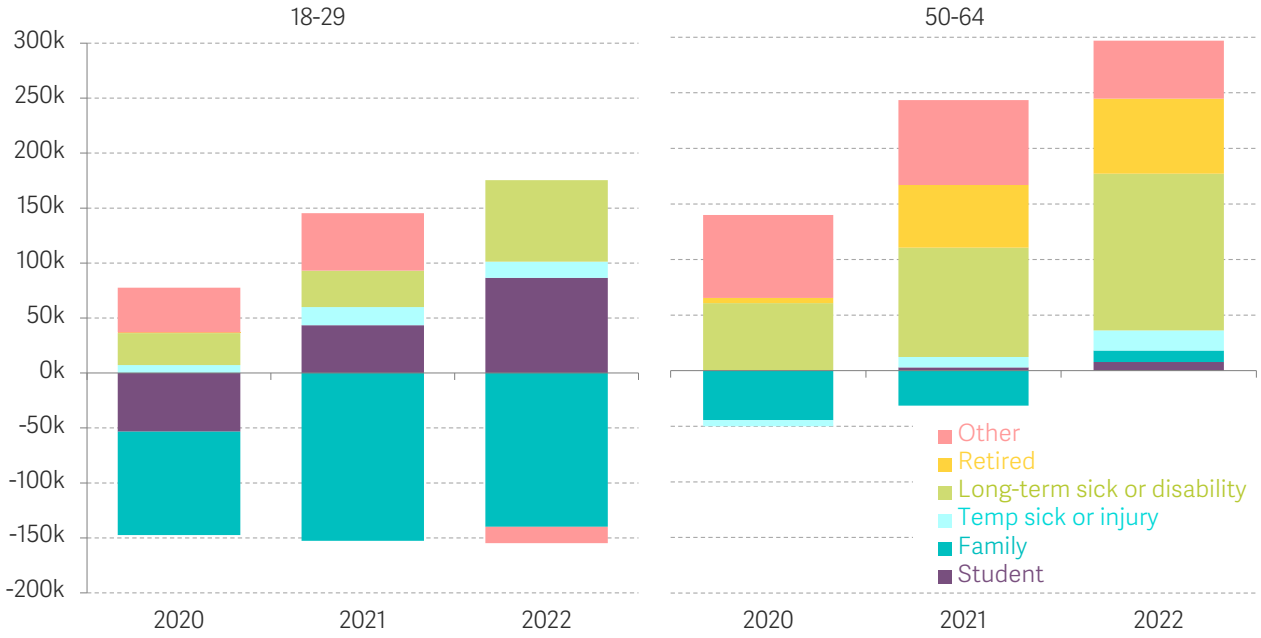
There has also been a rise in the number of adults aged 18-29 who are economically inactive because of long-term sickness or disability: this has risen by more than 74,000 since the pandemic. Previous research on young people who are economically inactive due to long-term sickness has shown that mental health problems, including anxiety and depression, are the most common category of health problem, and that the incidence of mental health problems has been rising quickly.[25]

Another of the lasting impacts of the Covid-19 pandemic on young people is an increase in full-time education participation. Figure 18 shows that there were 87,000 more young people aged 18-29 in full-time education in the first half of 2022 than there were in 2019. This rise in young people in full-time education doesn't appear to be driven by demographics: the share of people aged 18-29 in full-time education rose from 20 per cent in 2019 to 23 per cent in 2022. A rise in higher education participation is good for the economy in the long run – particularly as labour force participation falls and the quality of labour supply becomes all the more important for growth and prosperity.[26] Furthermore, greater human capital accumulation among younger cohorts can lead to higher-paid jobs in the future, though the 'graduate premium' is falling over time.[27]

23 B Boileau & J Cribb, Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?, Institute for Fiscal Studies, October 2022.
24 A Tinson, A Major & D Finch, Is poor health driving a rise in economic inactivity?, The Health Foundation, October 2022.
25 L Murphy, Not working: Exploring changing trends in youth worklessness in the UK, from the 1990s to the Covid-19 pandemic, Resolution Foundation, June 2022.
26 Resolution Foundation & Centre for Economic Performance, LSE, Stagnation nation: Navigating a route to a fairer and more prosperous Britain, Resolution Foundation, July 2022.
27 Graduates born in 1990 earned 11 per cent more than non-graduates at age 26, compared to the 19 per cent graduate premium enjoyed by graduates born in 1970. See: G Boero et al., The return to a degree: new evidence based on the Birth Cohort Studies and the Labour Force Survey, HESA and the Department of Economics at Warwick University, October 2019.

FIGURE 18: **There has been a post-pandemic rise in the number of people who report being inactive due to long-term sickness or a disability**

Cumulative change in economic inactivity since 2019 by reason, adults aged 18-29 and 50-64: UK



NOTES: 2022 based on January to June data.
SOURCE: RF analysis of ONS, Labour Force Survey.

Given the rise in inactivity among older workers and the tightness of the labour market, policy makers are keen to encourage older workers to return to work. However, if the rise in economic inactivity does reflect high-income workers retiring early as a result of changed preferences or priorities, policy makers will need to be realistic about the extent to which they are likely to return. Previous research has found that only 5-10 per cent of retired people ever return to paid work.[28] It is likely the squeeze on incomes felt during this current crisis will not be enough to encourage recent retirees to forego their lifestyle change and return to the labour market. One option that has received attention recently is to incentivise people to return to work through the use of the benefit system.[29]

But this relies on workers who have left the labour market moving into the benefit system, which is unlikely to be the case for those high-income workers choosing to retire early (the ongoing reclassification of benefit recipients as part of the rollout of Universal

28 B Boileau & J Cribb, The rise in economic inactivity among people in their 50s and 60s, Institute for Fiscal Studies, June 2022.
29 For example, The Growth Plan 2022 speech delivered by former Chancellor Kwasi Kwarteng suggested intensifying the use of sanctions for benefit recipients so as to encourage them into work.

Credit, makes it difficult to determine whether or not this is true).[30] Instead, policy makers should opt to remove barriers that prevent people from working as much as they would like.

High inflation in the current cost of living crisis is leading to weak real pay growth across all age groups

The increase in economic inactivity has means that labour supply is currently falling faster than is labour demand, and this is resulting in a tight labour market and rapid growth in nominal pay. However, with inflation remaining close to a 40-year high, real pay packets are still shrinking. Annual real earnings fell by 2.9 per cent across employees of all ages in the year to August 2022, close to the record low of 3.0 per cent we saw earlier this year.[31]

This real pay squeeze is being felt across all age groups, but it is the youngest employees who are seeing the sharpest falls in real wages (Figure 19). In the year to August 2022, annual real earnings were down by 2.6 per cent for those aged 18-24, compared to 2.1 per cent for employees aged 35-49 and 2.4 per cent for employees aged 50-64.[32]

The poor real pay performance of employees aged 50-64 is surprising given that inactivity has increased the most among this age group, but it could reflect compositional changes if higher-paid older workers have been more likely to retire early. This could support the argument that some of this withdrawal from the labour market among older workers is voluntary and reflects their belief they can manage financially without working.

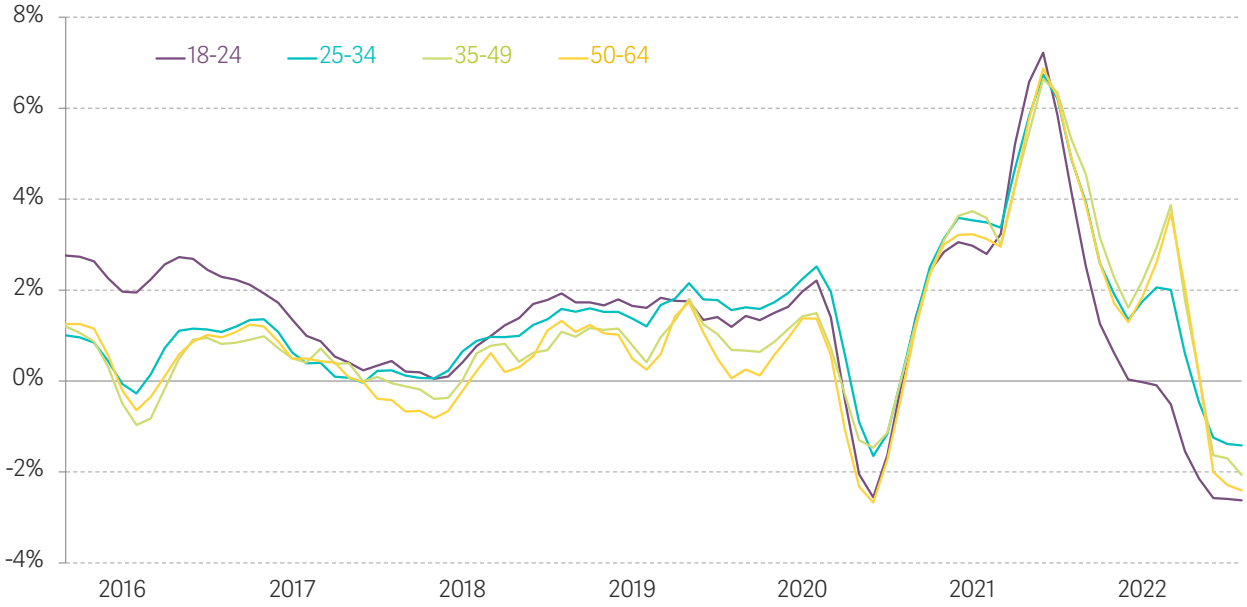
30 Evidence suggests that there might have been an increase in economically inactive benefit claimants between November 2019 and February 2022. For example, the number of inactive benefit claimants aged 50-64 increased by around 215,000 between November 2019 and February 2022. Excluding retirees, this is relatively close to the 229,000 fewer workers aged 50-64 in the labour market between 2019 and the first half of 2022. However, there have also been big increases in the number of inactive benefit claimants across other age groups despite inactivity remaining flat, or even falling over a similar period. The number of inactive benefit claimants aged 30-39 increased by around 206,000 between November 2019 and February 2022 according to administrative data from DWP, but inactivity among this age group fell by around 15,000 between 2019 and the first half of 2022 according to the LFS. This suggests that the reclassification of benefit claimants is making it difficult to assess recent trends in inactivity. Source: RF analysis of DWP, Stat-xplore.

31 These figures are for workers of all ages. For more on this, see: G Thwaites, Low unemployment belies a labour market in poor health, Resolution Foundation, October 2022.

32 The average for groups of working-age employees is lower than the average for all employees as this includes data for those aged 0-17, who saw their annual real earnings fall by 7.6 per cent. However, this age group makes up only a small share of total employees.

FIGURE 19: **Younger workers have seen the sharpest fall in their earnings this year**

Annual growth in real-terms average weekly employee earnings, by age group: UK

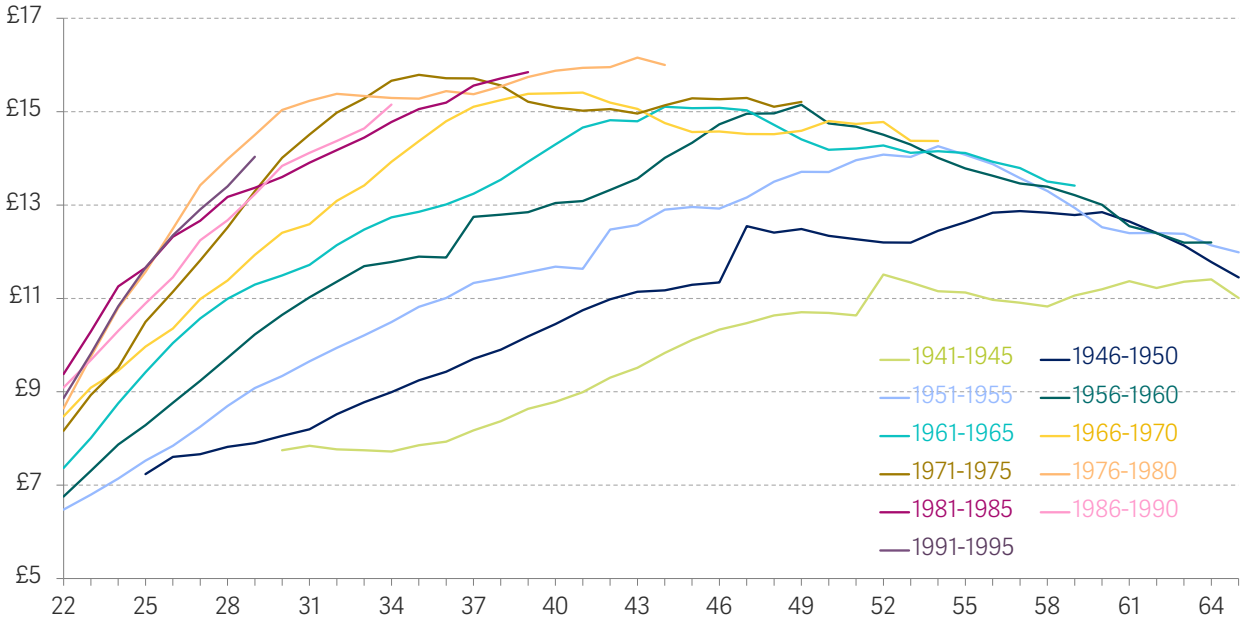


NOTES: Growth is year-on-year change in three-month average. Pay is total pay, i.e. includes bonuses and arrears.
SOURCE: RF analysis of ONS, Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted.

This recent fall in real earnings follows a longer-term trend of stalled pay progression for younger workers. Figure 20 shows that cohorts born up until the late 1970s could expect to be paid more than their predecessors when at the same age, but this cohort-on-cohort progression has stalled (and in some cases reversed) for those born in the 1980s and 1990s. For example, those born in the late 1970s (1976-1980) earned £15 per hour at age 30 (in 2022 prices): this was 21 per cent more than those born 10 years before them, but also 8 per cent more than those born 10 years after them at the same age as real pay progress reversed.

FIGURE 20: **Generational pay progress has stalled for those born after 1980**

Median real (CPIH-adjusted) hourly employee pay (2022 prices), by cohort: UK, 1975-2020



NOTES: 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. Data is smoothed using three-year rolling averages.
SOURCE: RF analysis of ONS, New Earnings Survey (1975-97); ONS, Annual Survey of Hours and Earnings (1997-latest).

Stalled generational pay progression has been exacerbated by the UK's decade and a half of pay stagnation: real wages grew by an average of 33 per cent a decade from 1970 to 2007, but this fell to below zero in the 2010s. As a result, 8 million younger workers – around a quarter of people in employment today – have never worked in an economy with sustained average wage rises.[33] This has contributed to a cohort of young people with limited financial resilience, leaving them particularly exposed to the current cost of living crisis, as we discussed in Section 2.

The UK's record low unemployment could soon change

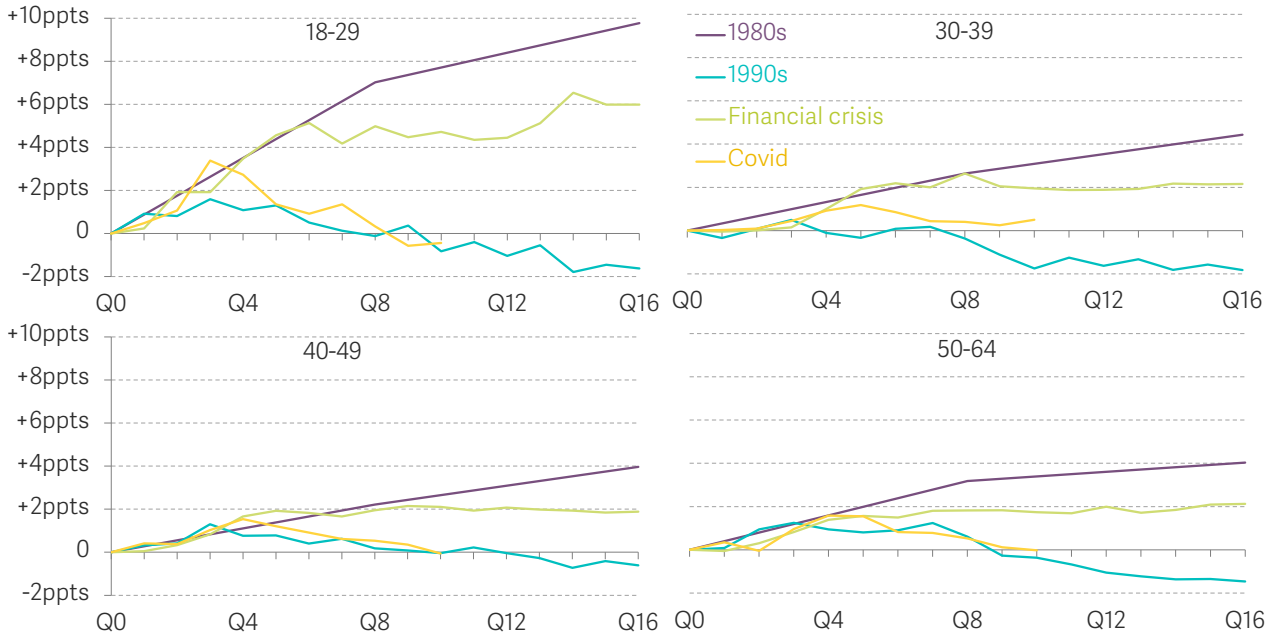
In the three months to August 2022, UK unemployment hit its lowest rate since 1974. However, forecasts from the Bank of England suggest that record low unemployment may be short-lived. The UK is expected to fall into a recession by the end of 2022, as rising energy prices and higher mortgage rates weigh on household spending, and this in turn is expected to lead to higher unemployment next year, with the Bank forecasting the UK's unemployment rate to reach 5.9 per cent in 2024, rising further to 6.4 per cent by the end of 2025.[34]

33 8 million of those employed in 2022 were not yet 16 in 2007. See: Resolution Foundation & Centre for Economic Performance, LSE, Stagnation nation: Navigating a route to a fairer and more prosperous Britain, Resolution Foundation, July 2022.
34 Bank of England, Monetary Policy Report, November 2022.

This looming recession and the associated increase in unemployment places younger workers in a particularly precarious position. Historically, younger workers have seen sharper rises in unemployment during recessions. As Figure 21 shows, the unemployment rate among younger workers during the financial crisis rose by 5 percentage points between Q1 2008 and Q2 2010 (from 8.8 per cent to 13.8 per cent). Over the same period, unemployment among workers aged 30-39 rose by 2.6 percentage points and older workers saw even smaller rises in unemployment. The recession that followed the Covid-19 pandemic was unusual in how little it affected unemployment – in fact, the country saw the smallest rise in unemployment of any recession in living memory – but it was still young people who experienced the highest rates of furlough and unemployment: unemployment rose by 3 percentage points between Q4 2019 and Q3 2020 for those aged 18-29. However, as the crisis progressed, the relative risk of employment disruption shifted up the age range, as younger workers experienced faster improvements in their employment rates than their older counterparts.[35]

FIGURE 21: **Previous recessions have affected younger workers more than older workers**

Change in the proportion of people unemployed during recent recessions by age: UK



SOURCE: RF analysis of ONS, Labour Force Survey.

Younger workers are often thought to be more resilient in economic crises because they tend to have greater labour market flexibility. Young people are more likely than their middle- and older-aged counterparts to move jobs, occupations and industries. For example, in 2019, 0.9 per cent of individuals aged 18-29 had moved jobs in the past three

35 K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021.

months, compared to 0.4 per cent and 0.2 per cent for individuals aged 30-49 and 50-64 respectively. Similarly, between 2017 and 2019, 10 per cent of people aged 18-29 moved occupations, and 12 per cent moved industries, compared to around 3 per cent of people aged 50-64.[36] But, as last year's Intergenerational Audit discussed, the labour market characteristics of younger workers – in particular, the above-average share working in lower-paid, insecure jobs – left them more exposed to furlough and unemployment during the pandemic and will also put them at higher risk in future recessions.[37] For example, data for the first half of 2022 indicates that 5.7 per cent of younger workers were employed on a zero-hours contract compared to 2.2 per cent of their counterparts aged 30 and above. Similarly, those aged 18-29 were slightly more likely to work for an agency (3.1 per cent) than their counterparts aged 30 and older (2.1 per cent).[38]

As well as being in insecure jobs, 18-29-year-olds in the labour market were more likely to work in a lower-paid occupation than older workers: 35 per cent of working 18-29-year-olds worked in one of the three lowest-paying occupations during 2021, compared to 21 per cent of 30-64-year-olds.[39] These low-paid young workers are also concentrated in sectors such as hospitality, entertainment and leisure. As people tighten their belts in response to rising cost pressures, the same sectors hit by the pandemic will once again face the sharpest falls in demand, threatening the employment prospects of young people.

The increased likelihood of young people working in lower-paid, insecure jobs has consequences for more than just their professional life. As Box 2 discusses, increased economic precariousness also influences decisions made about family life too.

BOX 2: Uncertain steps into adulthood: economic precariousness hinders forming a first co-residential partnership – research from the Centre for Population Change as part of Connecting Generations

Recent research, by the ESRC Connecting Generations research programme, has examined whether economic precariousness delays co-residential partnerships in the UK.[40]

In the UK and other western countries, marriage rates have declined significantly. While couples are increasingly living together outside of marriage, entry into any sort of co-

36 M Broome, Big welcomes and long goodbyes: The impact of demographic change in the 2020s, Resolution Foundation, May 2022.
37 K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021.
38 RF analysis of ONS, Labour Force Survey.
39 K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021.
40 L Palumbo et al., Uncertain steps into adulthood: Does economic precariousness hinder entry into the first co-residential partnership in the UK?, Population Studies 1-27, September 2022.

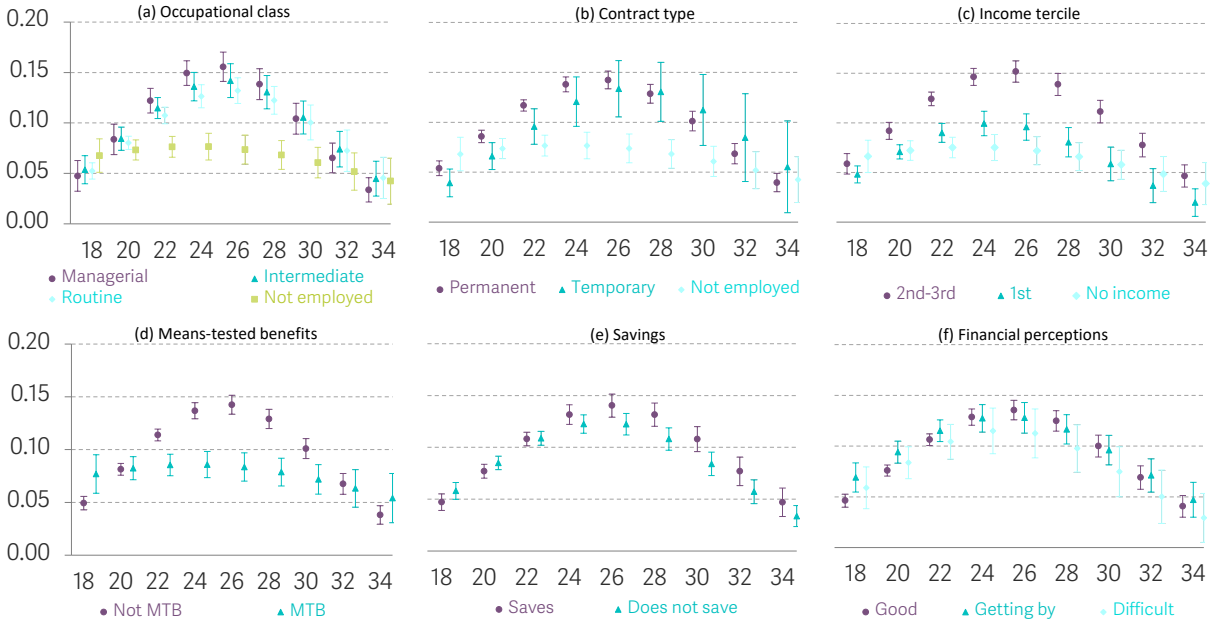
residential partnership is happening at later ages than in the past. Traditional explanations for this include ideological changes regarding the role of women, increased secularisation, as well as the later age at which men and women leave full-time education. More recently, increased economic precarity among young people has been recognised as also contributing to this trend. Young adults may experience precarity in a variety of ways: because they are unemployed, because they have a job which is only temporary or low-paid, because they do not have any savings to fall back on, or because they are in receipt of welfare benefits.

The research investigated both objective and subjective indicators of economic precarity over a 27-year period from 1991-2018, using nationally representative survey data from the UK Household Longitudinal Survey and British Household Panel Survey. Evidence suggests that economic precariousness is associated with a delay in partnership formation among both men and women. But the association is different depending on the reason for precarity, the age of the respondent, and the historical time period.

The negative impact of economic precarity is strongest among those in their 20s, when most young adults enter the labour market and form their first co-residential partnership, and the proportion forming a first co-residential partnership among the least precarious is roughly double that among the most precarious (see Figure 22). Those not employed or on low incomes, and those in receipt of means-tested benefits, were less likely to form a co-residential partnership. For example, 14 per cent of those on permanent contracts and 15 per cent of those in managerial classes and high earners begin a union each year; this compares with 7-8 per cent for those not employed and a slightly higher share of low earners. Differences according to whether the young adult receives means-tested benefits are similar: among men in their mid-twenties, those not in receipt of benefits were almost twice as likely to form a co-residential partnership each year than those in receipt of means-tested benefits each year (around 14 per cent compared with around 8 per cent) Those living with their parents also have a lower likelihood of forming a first partnership.

FIGURE 22:**The negative impact of economic precarity is strongest among those in their mid-20s**

Predicted probability of entering a first co-residential partnership, by economic precarity dimension



SOURCE: L Palumbo et al., Uncertain steps into adulthood: Does economic precariousness hinder entry into the first co-residential partnership in the UK?, Population Studies 1-27, September 2022.

Differences in overall rates of partnership formation were small according to occupational class, contract type, the presence of savings, and current financial perceptions. However, the latter two indicators were important when considering the type of first partnership: those with savings and a positive financial outlook had higher probabilities of entering directly into marriage without first co-residing than did their counterparts who were experiencing a more precarious financial situation.

Financial insecurity does not affect the likelihood of entering a first co-residential partnership at the youngest ages. People in their late teens with no employment, receiving means-tested benefits, or perceiving they are 'getting by' were just as likely or even more likely to start a cohabiting partnership as their more advantaged peers.

In general, the relationship between economic precariousness and partnership formation was greater in 2008-2013, during and after the financial crisis. Figure 23 provides an example for contract type: there is a greater difference between the non-employed and those on a permanent contract in 2008-2013 than in any other time period studied.

FIGURE 23:**The relationship between employment status and partnership formation was greatest in 2008-2013, during and after the financial crisis**

Predicted probability of entering a first co-residential partnership, by contract type

SOURCE: L Palumbo et al., Uncertain steps into adulthood: Does economic precariousness hinder entry into the first co-residential partnership in the UK?, Population Studies 1-27, September 2022.

This research highlights the importance of employment and financial security for young adults. It emphasises the importance of income and pay in allowing young adults enough certainty to transition to a first co-residential partnership. This is especially relevant to the UK given the high level of housing costs incurred by young people (which we discuss in Section 5), and the current cost of living crisis (which we discuss in Section 2).

Section 4

Wealth and assets

Wealth has a strong life-course pattern – rising during working age and then running down in retirement – so we would expect those approaching retirement to have the highest wealth levels. However, this lifecycle component has been compounded in the past few decades by generational trends that particularly favoured older age groups (for example, changes to pension policy and asset price rises). As a result, those aged 55-75 (which closely approximates the boomers) owned more than half of Britain's wealth in 2018-20, while millennial cohorts owned just 8 per cent.

The distribution of wealth across the ages is particularly important now, as household wealth will play an important role in supporting families' living standards during the cost of living crisis. Wealth provides insurance against short-term income shocks, so substantial wealth inequalities across age groups leave young people more exposed to the cost of living crisis than their older counterparts.

The longer-term trends in intergenerational wealth inequality are closely related to the soaring value of household wealth: since 1991, the stock of net household wealth relative to GDP rose from about three-and-a-half times GDP to almost eight times GDP. This wealth boom has disproportionately benefitted older age groups. 65-74-year-olds saw their wealth increase by an average of £13,000 just from assets prices growth between 2006-08 to 2018-20, while those aged 30-39 saw average passive wealth gains of £5,000 over the same period.

The economic turmoil facing the UK today looks set to make it more difficult for people to benefit from both active and passive wealth accumulation. The proportion of adults reporting they do not expect to save any money in the next 12 months has been rising since the start of this year, with more than four in ten (44 per cent) adults not expecting to be able to save money in the next year. This will have greater consequences for young people as the majority of their wealth accumulation has been through active means (for example, by saving and paying off debt); in the 12 years leading up to 2018-20, active accumulation was responsible for 65 per cent of the increase in wealth among those aged 30-39.

Inflationary pressure and rising interest rates could put a dent in Britain's wealth boom. All else equal, interest rates have a negative relationship with asset prices. Some asset prices have already fallen (for example, UK equities have seen prices fall by 5.7 per cent from January to October 2022). If asset prices continue to fall, then the biggest winners from past asset price inflation could see the largest falls in their wealth in pound terms. Our analysis suggests those aged 65-74 could see their nominal wealth fall by around £18,000 between October 2022 and January 2024, which comes entirely from a fall in their property wealth. 20-29-year-olds will see the smallest absolute losses, reflecting their limited wealth holdings, with nominal wealth expected to fall by £2,500. However, as property makes up a larger share of young families total wealth, relative changes in wealth between October 2022 and January 2024 are set to be worse for younger age groups: 20-29-year-olds could see their nominal wealth fall by 11 per cent between October 2022 and January 2024, while 65-74-year-olds are could see their nominal wealth fall by 6 per cent.

Current high inflation, though, means the spending power of existing wealth is falling sharply. Those 65 and above are expected to see the real value of their wealth fall by £24,000 between January 2020 and January 2024 after accounting for the likely passive changes to wealth over this period. However, for younger age groups (under 40-year-olds) the passive gains from rising asset prices have outweighed the fall in the real value due to inflation. This difference is because the changes in wealth between 2020 and 2024 are mostly being driven by changes in the value of house prices – and the young are more exposed to changes in house prices rather than other asset prices on average.

The cost of living crisis will affect people's wealth holdings in a number of different ways and could see the trend of worsening intergenerational wealth inequality of the last decade finally starting to shift. But, given that wealth inequalities between age groups were so large ahead of the crisis, it is unlikely that the trends of low wealth accumulation among young people will be reversed entirely.

The baby boomers hold seven times more wealth than millennials

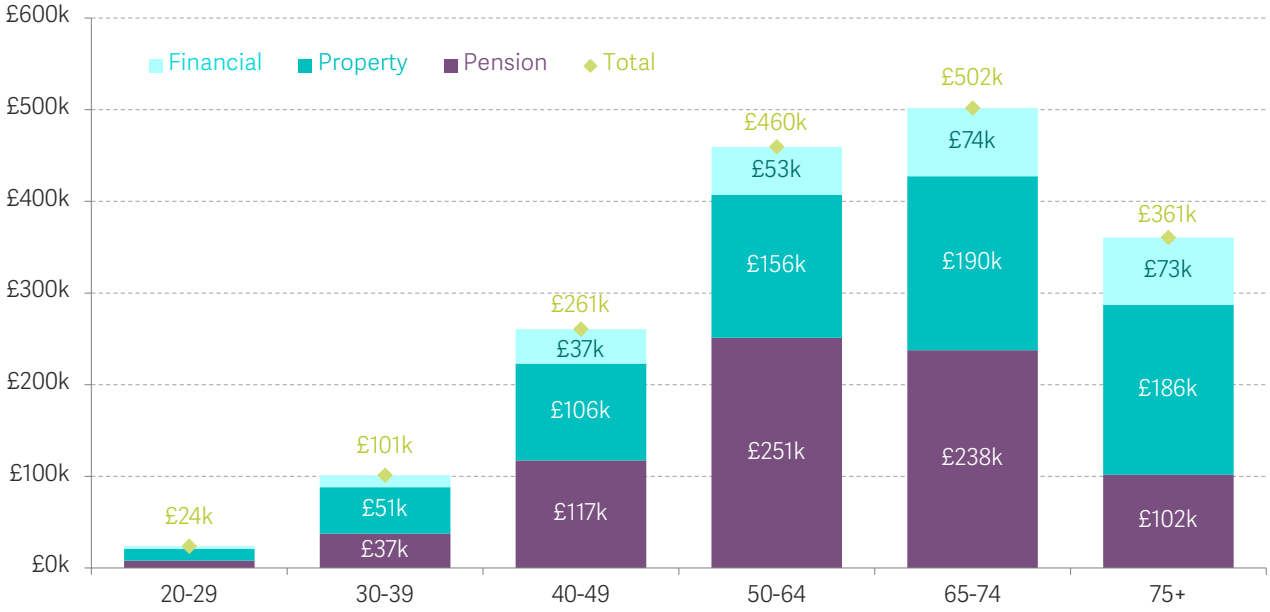
Household wealth – which we define as net property wealth, private pension wealth and net financial wealth – can help families weather income shocks by providing a buffer in

bad times.[41] It allows families to draw down savings, or monetise other assets, in order to meet inflated living costs. So, wealth is particularly important for living standards in the face of the current cost of living crisis.

There is indeed a strong lifecycle pattern to wealth. Young people tend to start with very little wealth and accumulate it as they age, with the idea being that wealth is then spent down in retirement. This is shown in Figure 24 with wealth peaking among 65-74-year-olds: in 2018-20 those aged 65-74 held, on average, over £500,000 of wealth compared to just £24,000 held by 20-29-year-olds. [42]

FIGURE 24: **On average, 65-74-year-olds had around five times more wealth than 30-39-year-olds and over 20 times more wealth than 20-29-year-olds**

Average family wealth per adult, by component of wealth and age group: GB, 2018-20



NOTES: Data is adjusted using CPIH into January 2020 prices. Those under the age of 20 have been excluded.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Lifecycle effects mean that we should expect older age groups to own a larger share of the nation's wealth, but, the share of wealth held by older age groups has risen: Figure 25 shows that the share of wealth held by those aged 65 and older has risen from 42 per

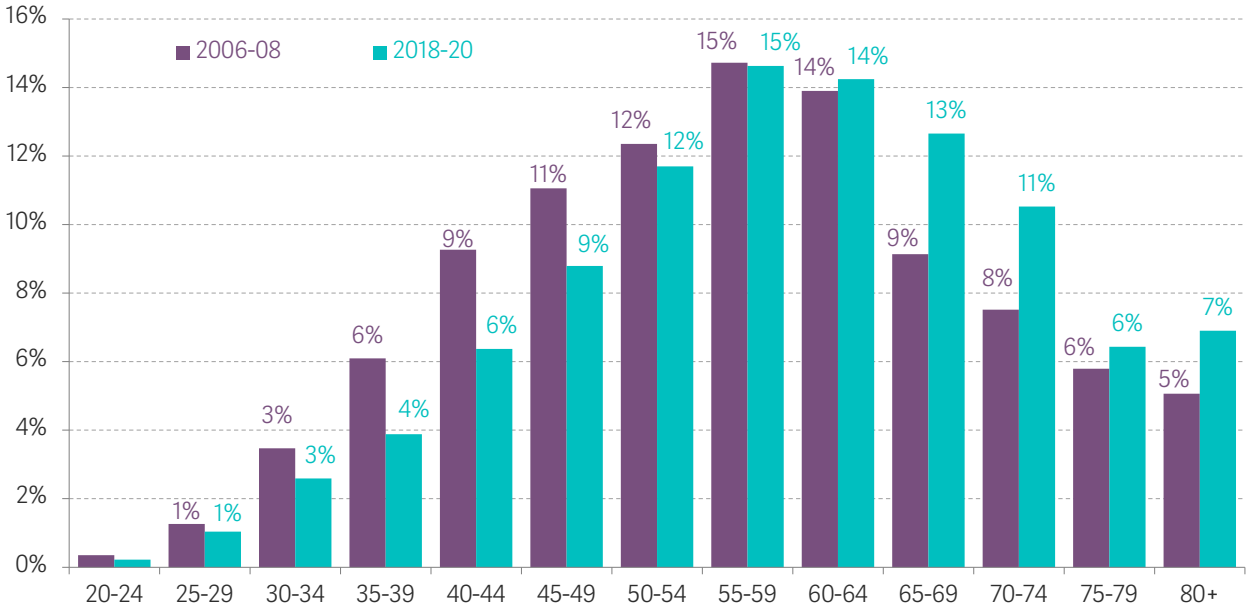
41 In line with others, we exclude physical wealth from our analysis, due to concerns about the way that survey respondents are asked to value it (respondents to the Wealth and Assets Survey (WAS): they are mostly asked about the replacement value of their physical assets (which is generally much higher than its marketable value), but in some cases asked about insurance 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.

42 This and subsequent charts develop the analysis in: M Broome & J Leslie, Arrears fears: The distribution of UK household wealth and the impact on families, Resolution Foundation, July 2022.

cent in 2006-08 to 51 per cent in 2018-20. This change is, in part, driven by younger age groups accumulating wealth at a slower pace than older age groups did at the same age, meaning that families from younger generations have, on average, less wealth than their predecessors at the same age. Those born during 1981- 1985 had 8 per cent less wealth (in real terms) when aged 35 than those born during 1971-1975 at the same age. As a result, in 2018-20, boomers aged 55-75 owned more than half (52 per cent) of Britain's wealth, worth over £7.2 trillion, compared to just 8 per cent owned by the millennial generation (£1.1 trillion).

FIGURE 25: **The share of total household wealth owned by older age groups has increased**

Share of total household wealth per adult by age: GB



NOTES: Those under the age of 20 have been excluded.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Household net wealth has been growing much faster than average earnings over recent decades: since 1991, the stock of net household wealth relative to GDP has risen from about three-and-a-half times GDP to almost eight times GDP.[43] The rise in the value of household wealth means that it is increasingly difficult for families to earn their way to being rich. Instead, families' ability to accumulate wealth is becoming more important in defining outcomes in life – for example, becoming a homeowner. Wealth inequalities across age groups explains why young people today have very low levels of financial resilience, and will be more exposed to the current rising cost pressures than their older counterparts.

43 RF analysis of: D Blake & J Orszag, Annual estimates of personal wealth holdings in the United Kingdom since 1948, Applied Financial Economics 9, 1999; ONS, UK National Accounts; ONS, Total Wealth: Wealth in Great Britain; ONS, Gross Domestic Product at market prices.

Rising asset prices have improved the financial resilience of older age groups ahead of the cost of living crisis

Our detailed assessment of wealth in Britain earlier this year showed that people benefit from both 'active' wealth accumulation (such as saving money, or paying down debt) and 'passive' wealth accumulation (where existing assets become more valuable due to asset price inflation). Since 2006-08 (when the Wealth and Asset Survey data was first collected), passive accumulation has been responsible for 53 per cent of the increase in average family wealth, with active accumulation responsible for the other 47 per cent.[44]

Figure 26 shows that the ways in which people accumulate wealth varies by age. Since 2006-08, younger age groups have accumulated more wealth through active means, with active accumulation being responsible for 65 per cent of the increase in average family wealth among those aged 30-39.

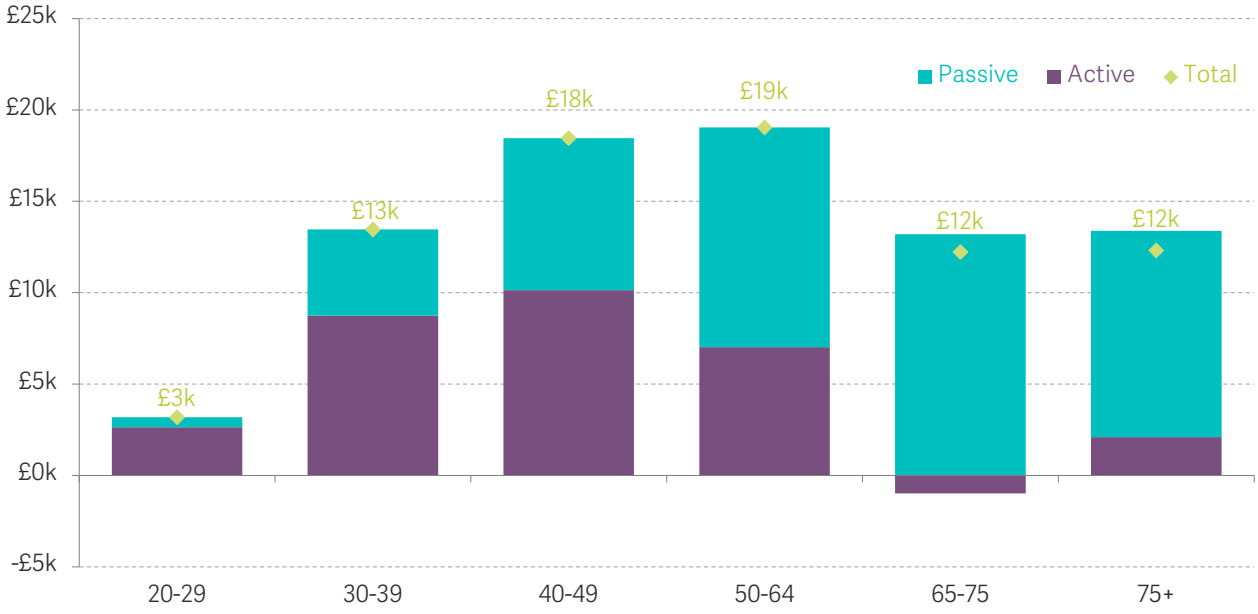
Those in early retirement (aged 65-74) are conforming to the broad lifecycle pattern of wealth being run down in retirement, but those in late retirement (aged 75 and above) appear to be defying expectations, on average. Active wealth accumulation was positive for 75 and above: this group accumulated around £2,100 through active means between 2006-08 and 2018-20. This is supported by recent research that examined wealth accumulation of retired elderly across in Europe: it found that less than half of the retired elderly in Europe are decumulating their wealth, and that the average wealth accumulation rate of the retired elderly in Europe is positive, though relatively moderate.[45]

The majority of wealth accumulation since 2006-08 among those aged 50 and above has been through returns on existing assets. 65-74-year-olds saw the largest passive wealth gains from 2006-08, followed by those aged 50-64 – gaining over £13,000 and £12,000 respectively. As shown in Figure 25, older adults hold the majority of household wealth and so benefit most from increases in asset prices. By comparison, the young have experienced little to no benefit from rising asset prices over the last decade, so passive wealth accumulation has stretched absolute wealth gaps across age groups.

44 M Broome & J Leslie, Arrears fears: The distribution of UK household wealth and the impact on families, Resolution Foundation, July 2022.
45 C Horioka & L Ventura, Do the Retired Elderly in Europe Decumulate Their Wealth? The Importance of Bequest Motives, Precautionary Saving, Public Pensions, and Homeownership, NBER Working Paper No. 30470, September 2022.

FIGURE 26: **Young people have gained less from asset price inflation**

Estimated mean change in family wealth per adult between 2006-08 and 2018-20, by age group and type of wealth accumulation: GB



NOTES: Data is adjusted using CPIH into January 2020 prices. Excludes DB pensions and pensions in payment.
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.

Previous research found there were important intergenerational changes in household wealth during the Covid-19 pandemic. Increases in household wealth during the pandemic were dominated by passive gains, but the pandemic also impacted active changes as a result of 'forced savings' (i.e. being unable to spend on goods and services that were shut down because of social distancing restrictions). Younger people without children were most likely to report that their family's savings increased during the pandemic. For example, a third (33 per cent) of 25-34-year-old respondents without children reported an increase in savings between February 2020 and the start of June 2021 compared to 19 per cent of 45-54-year-olds. Among those with children, age-related differences in savings were less marked.[46]

Being able to increase savings during the pandemic suggests that a proportion of young people entered the cost of living crisis with improved financial resilience. However, rising prices mean that these savings accumulated during the pandemic could soon be run down. Looking ahead, the cost of living crisis will alter people's capacity to accumulate wealth going forward. We turn now to the impact of the crisis on savings and asset prices, and how it could shift intergenerational wealth patterns in Britain.

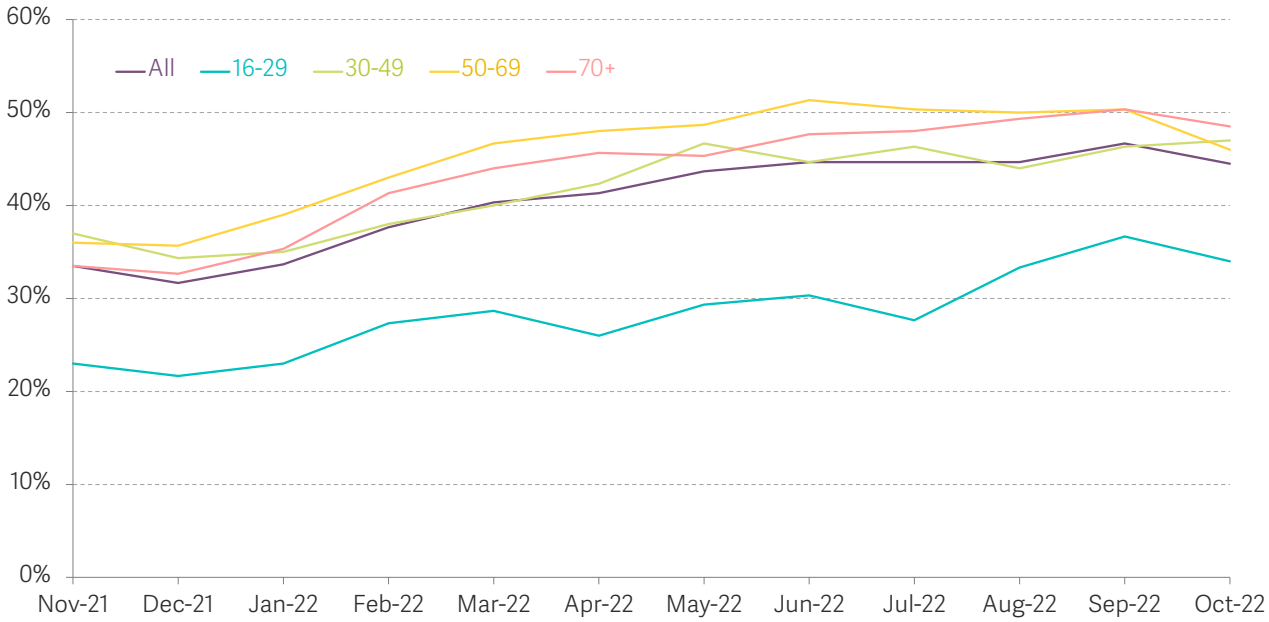
46 K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021.

More than four-in-ten adults do not think they will be able to save any money in the next 12 months

The proportion of adults reporting that they won't be able to save any money in the next 12 months has been rising since the start of 2022, and Figure 27 shows that 44 per cent of adults do not think they will be able to save any money in the next 12 months.[47] But there is a sizable difference between age groups: 31 per cent of 16-29-year-olds reported that they wouldn't be able to save over the next 12 months, compared to 46 per cent of those aged 50-69.

FIGURE 27: **More than four-in-ten adults do not think they will be able to save any money in the next 12 months**

Proportion of individuals reporting that they will not be able to save any money in the next 12 months, by age group: GB



NOTES: The data has been smoothed using a centred three-month rolling average (with the exception of the start and end of the series where data is smoothed over two months).
SOURCE: RF analysis of ONS, Public opinions and social trends, Great Britain.

One explanation for this variation is that more than a third of young people today are living at home with their parents (as discussed in Section 5) and these individuals may be somewhat more sheltered from the impact of rising prices, especially in energy. There may have been a less visible age distinction if only those living independently of their parents were included. Nevertheless, the proportion of young people reporting that they won't be able to save in the next 12 months appears to be rising sharply – particularly since the summer: from 28 per cent in the period from 22 June to 3 July 2022 to 34 per cent in the period from 29 September to 9 October 2022. Not being able to save will have

47 Based on adults surveyed between 29 September and 9 October 2022.

greater consequences for young people's wealth accumulation as the majority of their wealth accumulation is through active means.

Older generations could see the largest absolute falls in wealth, but young people would be disproportionately negatively impacted by falls in house prices

The era of low and stable interest rates has ended. Inflationary pressures in the economy have been putting upward pressure on interest rates for some time, and the Bank of England's Monetary Policy Committee (MPC) has raised Bank Rate from 0.25 per cent to 3 per cent between January and November 2022. And it is expected to raise the base rate further, with markets currently expecting the base rate to peak at around 4.87 per cent in Autumn next year.[48]

As discussed above, increases in the value of underlying assets have driven the substantial wealth accumulation seen in Britain since 2006-08, particularly among those aged 50 and above. All else equal, interest rates have a negative relationship with asset prices (including housing and equity prices). Many assets have already started to see prices fall, including UK equities which have fallen in value by 5.2 per cent from January to October 2022.[49] Although the future of asset prices is highly uncertain – for example, the rapid house price growth in 2020 ran counter to the expectations of many forecasters at the start of the pandemic – it does seem highly plausible that asset prices are on course to fall in the coming years.

Using the most recent data from the Wealth and Assets Survey and granular asset price data, we can assess how changes in asset prices could alter intergenerational wealth holdings over the next year. This assessment involves making a series of assumptions about passive wealth accumulation over the next year which is explained fully in Box 3.

BOX 3: **Estimating active and passive wealth accumulation**

In order to understand wealth changes, we use the longitudinal element of the Wealth and Asset Survey where households are surveyed in successive survey rounds. We take the observed change in wealth levels for each family and decompose it into two categories: passive accumulation – this is the expected change in wealth given by the average returns on assets held in the first period; and active accumulation – this is the residual, but can be thought

48 All interest rate expectations are based on the Bank of England OIS forward curve dated 26-28 October 2022.
49 From 1 January 2022 to 1 October 2022.

of as the net sum of active saving, changes in debt, and wealth transfers.

To calculate passive wealth accumulation, we take each asset class, at as granular level as possible, and match these to external estimates of average rates of returns on these assets. For example, for housing assets we take the ONS's regional house price index and use that to estimate the real change in the value of main residences for owner-occupiers; for other property assets, we use the UK national house price index (because the survey does not record the location of other housing assets).

To estimate how future asset price changes between October 2022 and January 2024 will affect household wealth, we have applied the same method but using forecasts or assumptions to roll forward average rates of returns on the assets held in the latest round of the Wealth and Asset Survey. The assumptions used are summarised in the bullet points below.

- We have assumed there will be a minimal change in the interest rate on current accounts and so have rolled forward the rate from September 2022 (0.02 per cent).
- On savings products, including savings accounts, ISAs and national savings products, we have assumed that interest rates will increase at the same pace as the Bank of England's base rate. We have rolled forward the latest interest rate on savings accounts, ISAs and national savings products using the average of Bank of England's forward OIS curves between 26 and 28 October.
- There is much uncertainty around whether and when house prices will fall. However, to roll forward house prices, we have used Lloyds forecast of an 8 percent fall in house prices next year, which is roughly consistent with other recent market forecasts by Capital Economics (a fall of 12 per cent by mid-2024) and Frank Knight (a fall of 5 per cent in 2023 and a further 5 per cent in 2024).
- To roll forward the value of UK shares holdings, we have used the FTSE 100 Index September 2023 futures price as on 3 November 2022, which implies a very small 0.1 percentage point fall.[50]
- We have used the conditioning assumptions for the pound exchange rate in the Bank of England monetary policy report of November 2022 to roll forward the value of overseas assets, including foreign bonds and equities. But we have not otherwise changed the expected returns on these assets.
- On fixed-term bonds, we have assumed that returns will remain constant between October 2022 and

50 Based on FTSE 100 trading price on 28 October and Trading Economics estimate for Q3 2023 https://tradingeconomics.com/united-kingdom/stock-market?embed/forecast, accessed 28 October.

January 2024 on the assumption that individuals hold these products to maturity and interest rates on these products are (in the most part) fixed.

- We have assumed that the value of gilts does not change between October 2022 and January 2024.

Clearly, this approach will not fully capture asset price changes for each individual, but the decomposition in wealth-level changes should be broadly accurate, particularly for the average family.

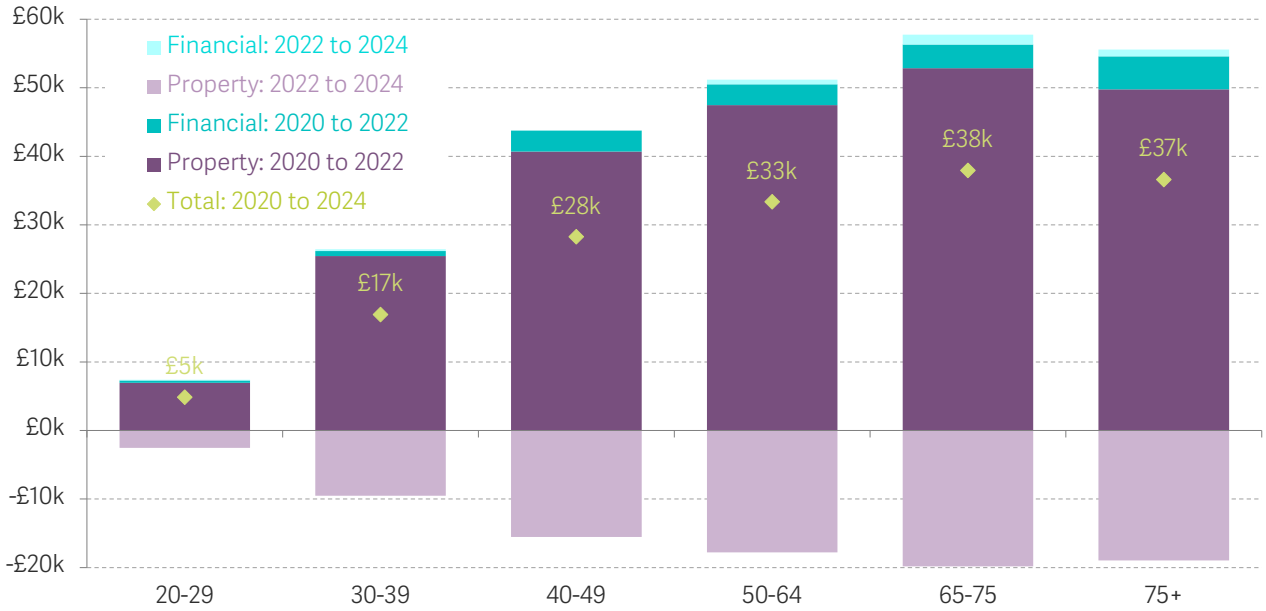
Our key finding is that, between 2018-20 and 2022, we estimate that average financial and property wealth increased across all age groups as a result of increases in the value of underlying assets. However, differences in initial wealth holdings across age groups influenced the amount gained by different age groups during this period 65-74-year-olds accumulated around £56,000 on average between 2018-20 to 2022 (this is more than twice the real disposable median pensioner income).[51] On average, those aged 20-29 gained the least over the same period, seeing average increases of around £7,000.

However, our analysis suggests that average household wealth will fall across all age groups from October 2022 to January 2024, driven by the expected fall in house prices. Those who saw the biggest gains over the last decade face the biggest losses in pound terms over the next year. For example, those aged 65 and above could see their wealth fall by around £18,000 by January 2024. 20-29-year-olds will see the smallest losses in pound terms, reflecting their limited wealth holdings, with wealth falling by around £2,500. It is important to note, though, that these potential falls in wealth are not expected to offset the gains in nominal wealth experienced since the start of the Covid-19 pandemic.

51 £25,550 in 2020-21 (CPI-adjusted in 2021-22 terms). Source: RF analysis of DWP, Households Below Average Income; DWP, Family Resources Survey using the IPPR Tax-Benefit Model.

FIGURE 28: **All age groups will experience nominal gains in wealth since 2020 despite falling house prices**

Estimated mean passive change in family financial and property wealth per adult between 2018-20 and 2024, by age group: GB

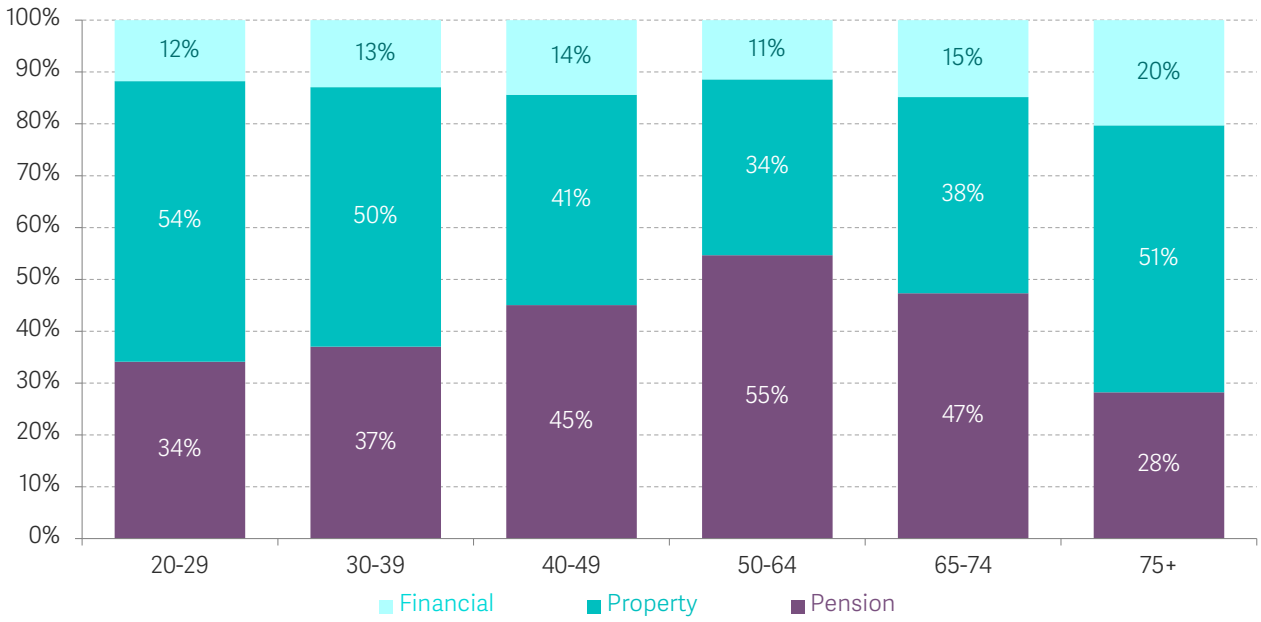


NOTES: Data is adjusted using CPIH into January 2020 prices. Excludes pension wealth.
SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

The differences in wealth holdings across age groups will affect the responsiveness of different age groups to different asset prices. Figure 29 shows that younger age groups have, on average, a larger share of property wealth than older age groups: property wealth accounted for 54 per cent of 20-29-year-olds wealth, compared to 34 per cent for 50-64-year-olds and 38 per cent for 65-74-year-olds. As we expect the fall in house prices to outstrip the fall in other asset prices (with an 8 percent fall in house prices next year – see Section 5 for a discussion of this), younger age groups could see the largest proportional fall in wealth. 20-29-year-olds could see their nominal wealth fall by 11 per cent between October 2022 and January 2024 while 65-74-year-olds would see their nominal wealth fall by just 6 per cent. While relative changes in wealth are important, the sizable absolute fall in wealth among older age groups could be more difficult to offset through active saving, particularly as it will be difficult for all age groups to save during the cost of living crisis (as we showed in Figure 27).

FIGURE 29: **As the young have a higher share of property wealth, they are relatively more exposed to changes in house prices**

Share of average family wealth per adult 2018-20, by age group and component of wealth: GB



NOTES: Those under the age of 20 have been excluded.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Current high levels of inflation, though, means the spending power of existing wealth is falling sharply. In particular, Figure 30 shows how the real value of wealth is expected to change between January 2020 and January 2024 after considering the likely passive changes to wealth over this period (as shown in Figure 28). Crucially, the passive changes in wealth are expected to be smaller for many groups than the growth in the price level (as measured by the CPI): those 65 and above are expected to see the real value of their wealth fall by £24,000 between January 2020 and January 2024 when accounting for passive, but not active, gains. However, for younger age groups (under 40-year-olds) the passive gains from rising asset prices have outweighed the fall in the real value due to inflation. This difference is because the changes in passive wealth between 2020 and 2024 are mostly being driven by changes in the value of house prices. As the young tend to be more highly leveraged – discussed further in the housing section – their net property wealth is much more responsive to a given house price increase. For example, a 10 per cent increase in house prices would double net property wealth from someone who owns just 10 per cent of their house, but would only represent a 20 per cent increase in net property wealth for someone who owned 50 per cent of their house.

FIGURE 30: **Nominal wealth gains will not offset the fall in the real value of wealth for older age groups**

Estimated change in real-terms mean family financial and property wealth per adult accounting for passive wealth changes between January 2020 and 2024, by age group: GB

NOTES: January 2020 data represented 2018-20 wealth from the WAS and all data is adjusted using CPIH into January 2020 prices. Excludes pension wealth.
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.

Private pension wealth could fall as a result of asset price falls, but some age groups will benefit from higher returns

Interest rates rises have important consequences for different generations. Higher interest rates increase the interest paid to households on their savings and also increase the interest payments made on their debts. Because of this, it is traditionally considered that rate rises are more harmful to the young (who tend to be net borrowers) than to older age groups, who tend to have higher levels of net savings. But higher interest rates also affect the stock and bond market, where they tend to reduce asset price values.

For those people with defined contribution pension wealth (or other financial wealth that is being saved for retirement), these two phenomena (lower asset prices and higher interest rates) work in opposite directions. The relative importance of both depends on how close someone is to the point that they retire and start to run down the pension wealth. For those on the cusp on retirement, asset price changes will have far more impact on the final value of their pension fund than interest rate changes; for younger workers, asset price falls do reduce the value of their existing pension pot, but the impact on their final pension pot is likely to be outweighed by the higher returns that their pot

will be able to achieve. Those close to retirement can avoid the impact of temporary asset price falls by delaying their retirement slightly, but interest rates are currently expected to remain high for many years, with the Bank of England's base rate expected to still be around 3 per cent in 10 years' time; by contrast, in the previous decade (2011-2021), the rate averaged 0.4 per cent.[52]

The impact of higher interest rates and lower asset values will for those already in retirement will depend on the form of their pension. Those pensioners with defined benefit (DB) pensions, or who have bought an annuity, or who are dependent mostly on the state pension or other social security benefits, will be receiving incomes that are relatively unaffected by changes to interest rates or asset price values (although whether they are also protected against inflation will depend on the small print of the DB pension, the type of annuity, and government policy on uprating benefits and pensions). Those pensioners with large DC pension pots or other sources of wealth that they were intending to run down in retirement will, like those of working-age who are close to retirement, be particularly sensitive to the asset price changes. Overall, then, when we expand our frame of reference to consider both asset price change and interest rate changes, this analysis suggests that the recent rises in interest rates could represent a (small) form of intergenerational transfer from the old to the young.

52 All interest rate expectations are based on the Bank of England OIS forward curve dated 26-28 October 2022.

Section 4

Housing

In the years preceding the current cost of living crisis, housing costs have acted as an acute living standards headwind for young people. Younger people have, on average, spent a much higher share of their net incomes on housing costs than the generations that came before them. Those born between in 1946 and 1950 had housing costs of 11 per cent of their income at the age of 30, compared with 24 per cent for a 30-year-old born between 1981 and 1985.

It is unsurprising that many young people facing high housing costs have increasingly decided to live with their parents. The share of adults aged 20-35 living with parents spiked in 2021, linked to the Covid-19 pandemic, but has been on a steadily increasing path for the past 15 years, up by 8 percentage points between 2008 and 2022. This group entered the current cost of living crisis less exposed than their contemporaries living independently, but may face other personal consequences, including pay penalties (due to their lower mobility) and a lower likelihood of forming a first adult co-residential partnership.

In contrast to older households who are more likely to be owner occupiers, the majority of young adults living independently of their parents live in the private rented sector. This is not solely a lifecycle effect: despite a recent small decline in the proportion of young people living in the private rented sector, remain far more likely to be private renters than their parents were at the same age. Those living in the private rented sector experience less security, lower quality housing, and are more likely to live in overcrowded properties. New rental tenancy prices have spiked this year, suggesting private renters will face further acute cost pressures.

But it is not just private renters who face additional costs. The uptick in young owner occupiers in the past few years indicates that, despite house prices outstripping income growth in recent years, the young have been finding ways to get on the property ladder. In part this has happened by first-time borrowers increasingly stretching themselves: they are now borrowing almost 3.5 times their income, on

average, exceeding the average loan-to-income ratio directly before the financial crisis.

These highly leveraged borrowers are particularly exposed to the expected increases in interest rates. More than a third of households headed by a 25-34-year-olds have a mortgage. Our estimates, based on the market expectations of future interest rates, suggest they will, on average, have to pay an additional 8 per cent of their incomes on their mortgages by the end of 2026 due to mortgage rate rises. More than 50 per cent of 35-54-year-olds also have a mortgage and also face substantial cost increases. The majority of older age groups (aged 65 and over) own outright and less than 10 per cent own with a mortgage, so they are not as exposed to higher interest rates. Those who have purchased their first house in the past 5 years could now face twice the real lifetime interest rate costs they expected and budgeted for, with those who bought in 2022 facing real lifetime interest costs of £153,000, compared to an expected £74,000 if interest rates remained at pre-22 levels.

A range of forecasts suggest house prices could fall by somewhere in the region of 10 per cent, pushed down by both higher mortgage rates and lower disposable incomes. In our analysis, we use Lloyds forecast of an 8 per cent fall in house prices and an 18 per cent fall as the worst-case scenario. Whatever is the eventual fall, young homeowners are the most likely to go into negative equity, or face even larger mortgage rate increases (reflecting high-risk loan-to-value ratios of greater than 90 per cent).

Over 80 per cent of young private renters (18-34-year-olds) still expect to be homeowners despite the long-term, generational shift in housing, where adults born after 1960 are less likely to own. But saving 10 per cent of the average first-time buyer house price has been exceptionally hard for young aspiring first time-time buyers – as house prices rises have outstripped income growth and young renters have been forced to dedicate an increasingly large share of their incomes to rent payments. Although higher interest rates will mean higher payments for current mortgagors, and are traditionally considered to benefit the old (net savers) over the young (net borrowers), it could play to aspiring first-time buyers' advantage. First, higher interest rates would increase the return while saving for a deposit. Second, higher rates are expected to push down house prices over the next two years. Taken together this could reduce the amount of time required to save enough for a deposit, expected to fall from 15 years in 2022 to 13 years in 2023 and 2024, which has been the more important limiting factor for aspiring homeowners than insufficient incomes in the past. However, this relies on individuals being able to continue saving the same share of their incomes, in the face of rising costs and possible unemployment shocks.

A significant fall in house prices could bring down the real lifetime cost of buying a house from recent all-time highs in 2022, with real lifetime costs in 2024 falling from £326,000 in 2022 to £282,000 (if there were an 8 per cent house price fall) or £252,000 (if there were an 18 per cent house price fall). However, the average first-time buyer will still be paying more in real-terms than was the case for most of the 1970s, 1980s and 1990s. What is more, the fall in lifetime costs should not deflect from the fact that higher interest rates will make the early years of homeownership extremely tough – in fact, house prices would need to fall by close to 40 per cent to offset the higher interest rates on their year one mortgage payments, which is very unlikely.

Housing costs have acted as an acute living standards headwind for young people even before the cost of living crisis

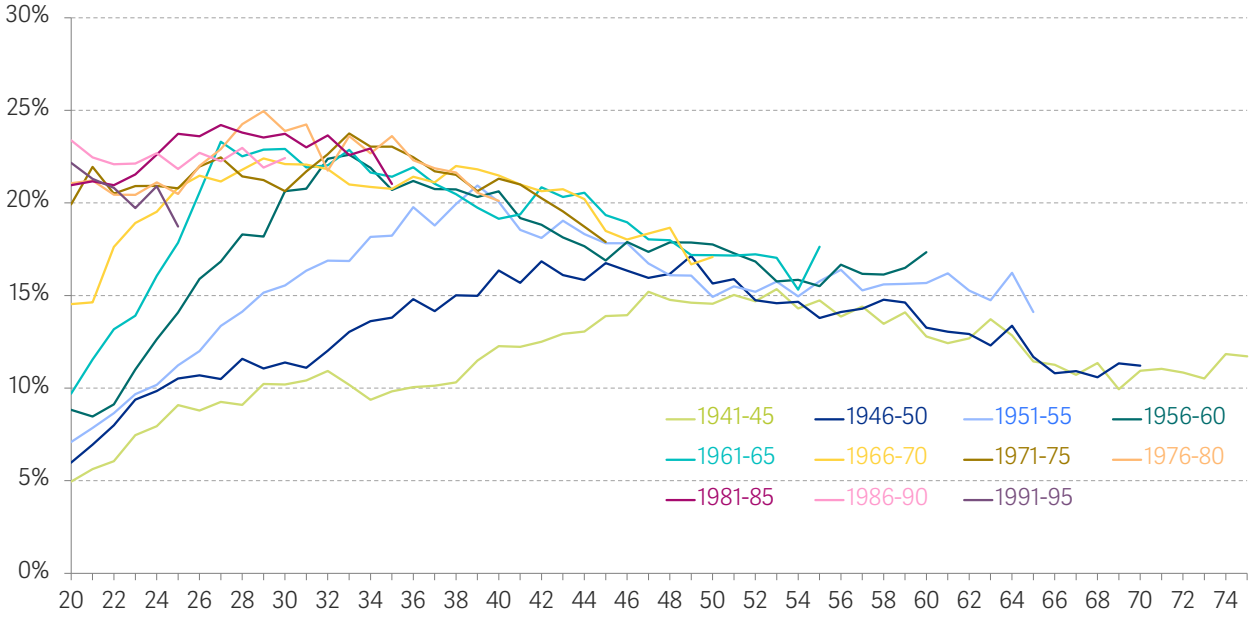
As previous Intergenerational Audits have set out, younger people today have, on average, spent a much higher share of their net incomes on housing costs than the generations that came before them. Figure 31 shows that the share of income spent on housing has increased sharply for those born after the 1950s, with those born since 1976 spending more than a fifth of their net income on housing costs on average. Those born between in 1946 and 1950 had housing costs of approximately 10 per cent of their income at age 30, compared with approximately 25 per cent for a thirty-year-old born between 1981 and 1985. This has meant the young have entered this cost of living crisis with already squeezed incomes from higher housing costs.

In past Audits, we have looked at housing cost to income ratios net of housing benefit, which shows there has been cohort-on-cohort increases in the share of income spent on housing costs.[53] However, the roll out of Universal Credit means it is no longer possible to isolate the portion of benefits paid in respect of housing costs for a large share of benefit recipients. Looking at more recent trends in the housing costs to income ratio, but gross of housing benefits, as we do in Figure 31, we find there has been a small fall across age groups in 2020, except for 50-64-year-olds, with average housing costs to income ratios falling from 16.4 per cent to 15.6 per cent.

53 K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021.

FIGURE 31: **The share of income spent on housing rose increased sharply for those born after the 1950s**

Proportion of net income spent on housing costs (gross of housing benefit, excluding principal repayment), by age of head of family unit and cohort: GB, 1961-2020-21



NOTES: Income includes housing benefit but housing costs do not net off 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 (1961-93); DWP, Family Resources Survey (1994-2021).

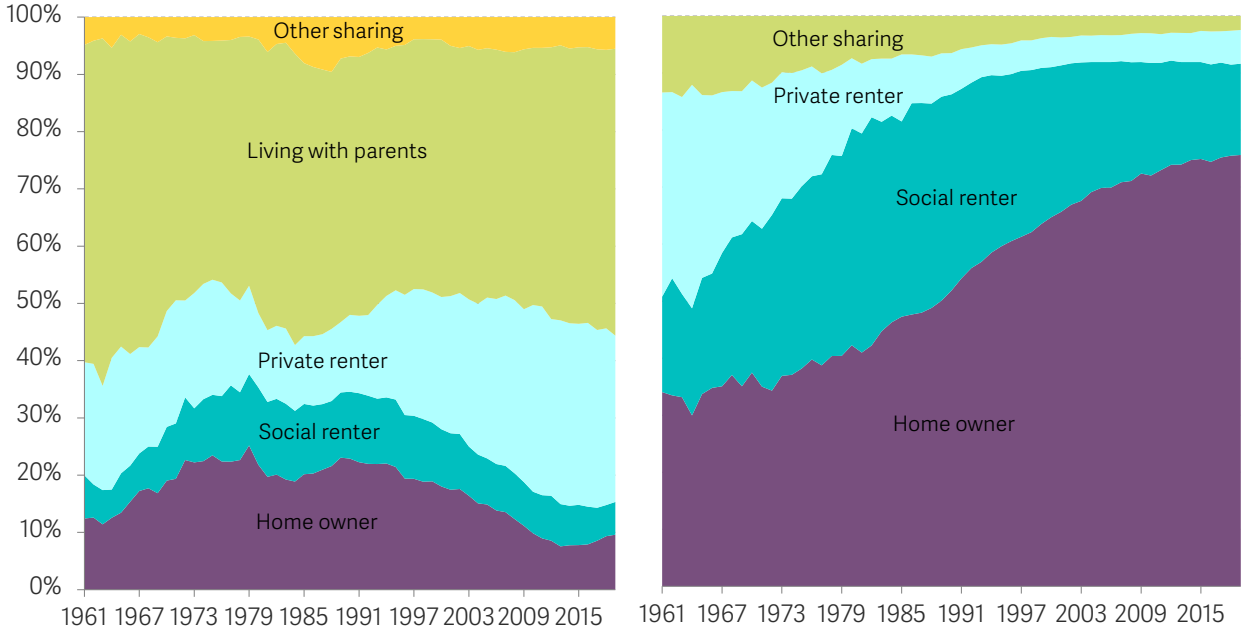
Housing cost pressures alongside stagnant incomes for the young has likely contributed to the long-term increase in the share of young people living with their parents

These high housing costs may just be one reason that young adults have increasingly decided to live with their parents. Another explanation may be the desire for more space. As we shown in Figure 6 in Section 2, young adults have seen the usable floor space available to them shrink considerably, while older people have seen this grow. Adults under 30 have always been more likely to live with their parents than to be private renters or homeowners since comparable data became available in 1961. But the share of young family units living with their parents has been rising in recent years, as shown in Figure 32. Unfortunately, our ability to understand whether tenure patterns have shifted over the course of the past two and a half years (since 2019) has been hampered by changes to large-scale data collection methods that took place during the pandemic.[54]

54 Both the Family Resources Survey and Labour Force Survey were forced to make changes to data collection methodologies in response to the Covid-19 pandemic, and these were expected to lead to the surveys under sampling adults in properties that are rented privately. As a result, the prevalence of different housing tenures was adjusted in the final data under the assumption that the relative importance of different housing tenures remained at pre-pandemic levels. For a detailed explanation of how data collection methods have affected our understanding of housing tenure changes, see: ONS, Coronavirus and its impact on the Labour Force Survey, October 2020 (the issues raised there are also applicable to the Family Resources Survey).

FIGURE 32: **Young people are more likely to live with their parents or rent than to be homeowners**

Housing tenure by age group (left-hand panel:19-29-year-olds; right-hand panel: 65 and above): UK, 1961-2019



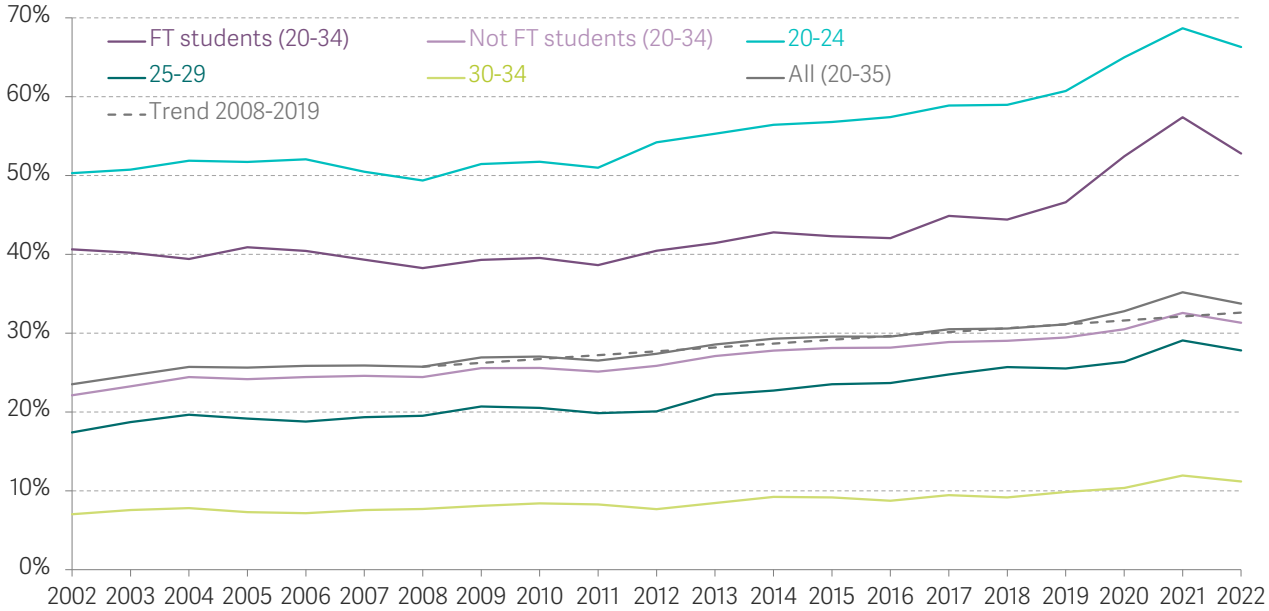
NOTES: Figures for each cohort are derived from a weighted average of estimates by single year of age; cohorts are included if at least five birth years are present in the data.
SOURCE: RF analysis of IFS, Households Below Average Income (1961-93); DWP, Family Resources Survey (1994-2019).

However, these challenges to survey operations during the pandemic are less likely to materially affect estimates of trends in people living with their parents, so we are able to look at data on this in 2022, which we show in Figure 33. Since the second quarter of 2020, more than a third of under 35s have lived at home with their parents. The pandemic likely contributed to the spike in the share living with parents in 2020 and 2021. But while a lot of focus has been on the long-term implications of the covid-'boomerangers' (young people returning home to live with their parents during the pandemic), the changes during the pandemic just accelerated what has been a long-running trend.[55] Between 2008 and 2022, the proportion of under 35s living with their parents increased by 8 percentage points, and the current share of young people living at home is only slightly (1 percentage point) above where it would have been had it followed the pre-Covid trend.

55 See: M Gustafsson, Boom(erang) Time? An analysis of younger adults living with their parents, Resolution Foundation, June 2021; and J Stone, A Berrington & J Falkingham, Gender, turning points, and boomerangs: Returning home in young adulthood in Great Britain. Demography, 51(1), 2014.

FIGURE 33: **Although Covid contributed to a spike in rates of young people living at home, rates have been steadily increasing since 2008**

Proportion of people who live with their parents, by age and by whether full-time students: UK



SOURCE: RF analysis of ONS, Labour Force Survey.

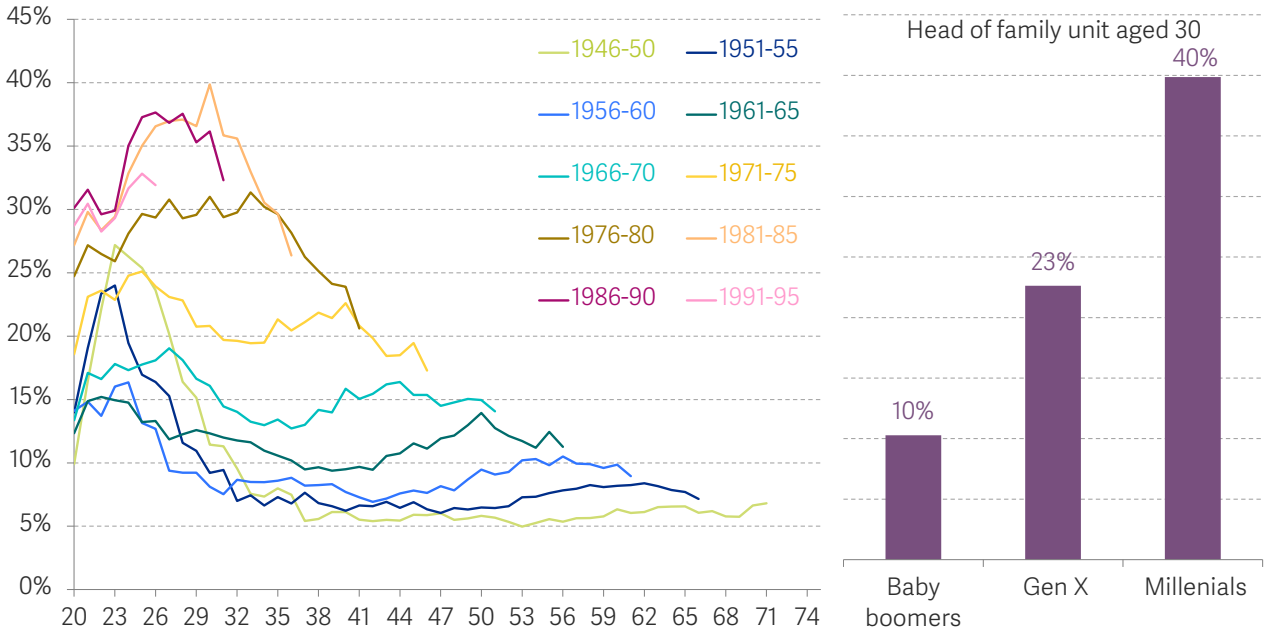
Individuals living with their parents may face personal consequences, such as pay penalties resulting from reduced mobility and a lower likelihood of forming a first adult co-residential partnership (see Box 1 in Section 3). However, these individuals are likely to be less exposed to higher housing costs linked to the cost of living crisis facing their contemporaries living independently in the private rented sector or with a mortgage.

The majority of under 30s living independently from their parents live in the private rented sector and face rising rental costs

Of those young adults living independently of their parents, the majority live in the private rented sector, despite some recent improvements in youth homeownership rates. Younger cohorts are also far more likely to be privately renting today than previous cohorts at the same age, as shown in Figure 34. To date, the proportion of millennial family units living in the private rented sector at the age of 30 is more than three times the rate of the baby boomers: just 10 per cent of family units headed by a baby boomer at that age lived in the private rented sector; this rose to 40 per cent for millennials.

FIGURE 34: **Younger cohorts are much more likely to be living in the private rented**

Proportion of family units living in the private rented sector, by age of head of family unit and birth cohort (left-hand panel) and for family units aged 30 (right-hand panel): UK, 1961-2019



NOTES: 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. The right-hand panel millennial category contains only the first five-year millennial cohort, who had all turned 30 by 2019.
SOURCE: RF analysis of IFS, Households Below Average Income (1961-83); ONS, Annual Labour Force Survey (1984-91); ONS, Labour Force Survey (1992-latest).

Housing costs, of course, vary considerably between different tenures, with private renters consistently spending relatively more on housing (even after netting out Housing Benefit), compared to their counterparts with mortgages (even after including the repayment of the mortgage principal).[56] There have been successive cohort-on-cohort increases in the share of income spent on housing among private renters, meaning that young renters today are spending more than the cohorts of renters before them did at the same age, even after Housing Benefit is accounted for, although these gaps seem to have narrowed as cohorts reach their 30s and 40s.

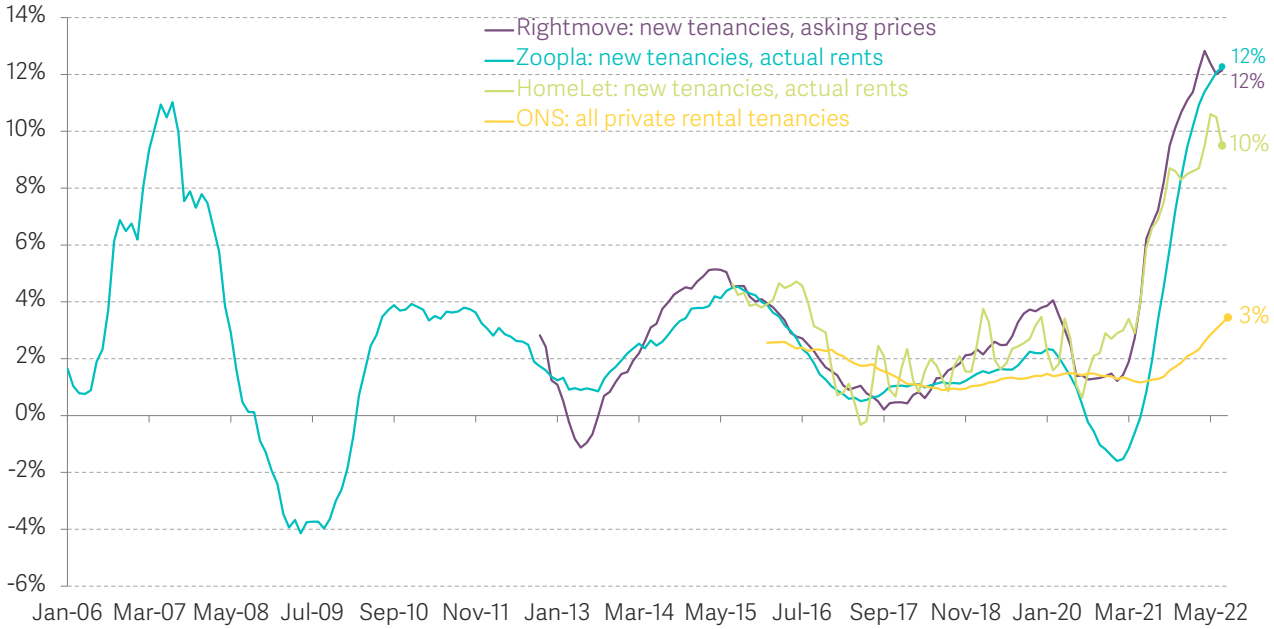
There have been several reports of surging rents across the UK in recent months, adding to existing cost of living pressures.[57] Our recently published Housing Outlook Q3 2022 reflects on the short- and long-term challenges facing the 4.4 million private renting households in England today.[58] Figure 35, taken from that report but updated to show the latest ONS data, shows that average rental prices have increased by only 3 per cent

56 K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021.
57 See, for example: BBC, London rents: Competition for homes pushes up prices, October 2022; The Guardian, UK tenants on soaring rents, October 2022; Proactive, Private rents skyrocket to record highs, October 2022.
58 F Odamtten & D Tomlinson, Housing Outlook Q3 2022, Resolution Foundation, September 2022.

in the year to August, which is significantly below inflation. However, other data – such as HomeLet, Rightmove and Zoopla's rental price indices – all indicate that rents for new private tenancies have increased by 10 to 12 per cent over the year to July 2022. For example, the Zoopla rental index (which shows the annual change in actual private rents paid for new tenancies) soared from under 2 per cent for the period July 2020 to July 2021, to over 12 per cent between July 2021 and July 2022. This suggests the ONS data will continue to rise in future as more landlords try to increase the rents on their properties as rental agreements end, reflecting both a tight rental market and the rising interest rate component of mortgage payments for those landlords who have buy-to-let mortgages.

FIGURE 35: **Private renters faced significant price rises this year**

Annual change in private rental prices, new tenancies and all tenancies: UK, 2016-2022



NOTES: Northern Ireland data is only available every 3 months. Northern Ireland data is copied forward until the next data is available.
SOURCE: ONS, Index of Private Housing Rental Prices; HomeLet Rental Index; Zoopla Rental Market Index; Rightmove Rental Trends Tracker.

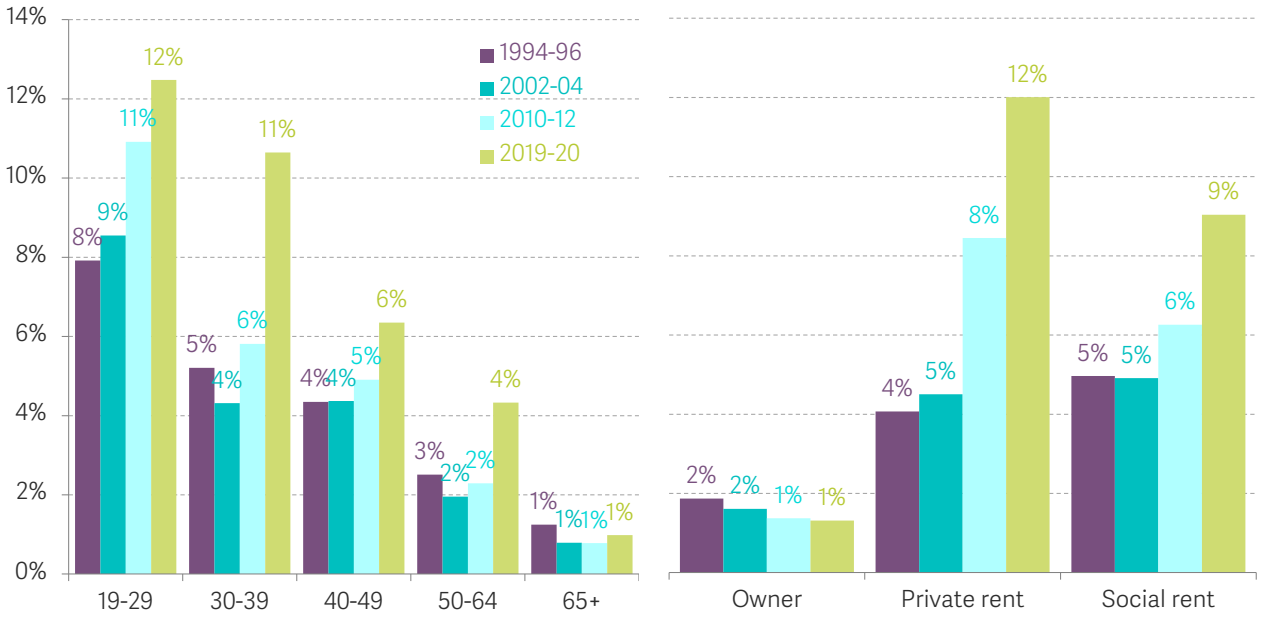
The data from the latest English Housing Survey (2020-21) suggests that these high housing costs being paid by the those in the private rented sector are unlikely to be matched with high-quality accommodation. In particular, private renters are the most likely to live in overcrowded housing, as shown by Figure 36.[59] The share in overcrowded housing has increased sharply in the last two decades and, given the large share of young adults living within the private rented sector, it is no surprise to see that young adults

59 Those living in the private rented sector are also poorly served on other quality measures: for example, private renters report having less liveable floor space and more damp than those in other tenures. Source: Department for Levelling Up, Housing and Communities, English Housing Survey, 2020 to 2021: private rented sector, July 2022; F Odamtten & D Tomlinson, Housing Outlook Q3 2022, Resolution Foundation, September 2022.

are at least twice as likely to live in overcrowded housing compared those over 40. With cost of living pressures mounting, we are unlikely to see this reverse; indeed, more young families may be forced into overcrowded accommodation to reduce housing costs in the face of wider cost pressures.

FIGURE 36: **Higher rental prices do not reflect increased living space in the private rented sector**

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



NOTES: From 1994-95 to 2002-03 data only covers GB. Age refers to age of head of family unit.
SOURCE: RF analysis of ONS, Family Resources Survey.

Overall, young adults are far more likely to be living in the private rented sector. Those with this tenure entered the cost of living crisis spending a much larger share of their incomes on their housing costs, and many will face sharp rent increases when they try to move or have to renew rental agreements. This suggests that private renters, which includes more than half of under 30-year-olds who no longer live with their parents, will enter the cost of living crisis with less ability to cope with higher energy prices and could face acute further pressures from rising housing costs.

The middle-aged are most likely to face higher mortgage costs but it is young homeowners that face the biggest risks from higher interest rates

It is not just those individuals living in the private rented sector that will face higher costs. Recent analysis published by the Resolution Foundation estimated that over 5 million currently mortgaged families – close to one-fifth of households – will be spending

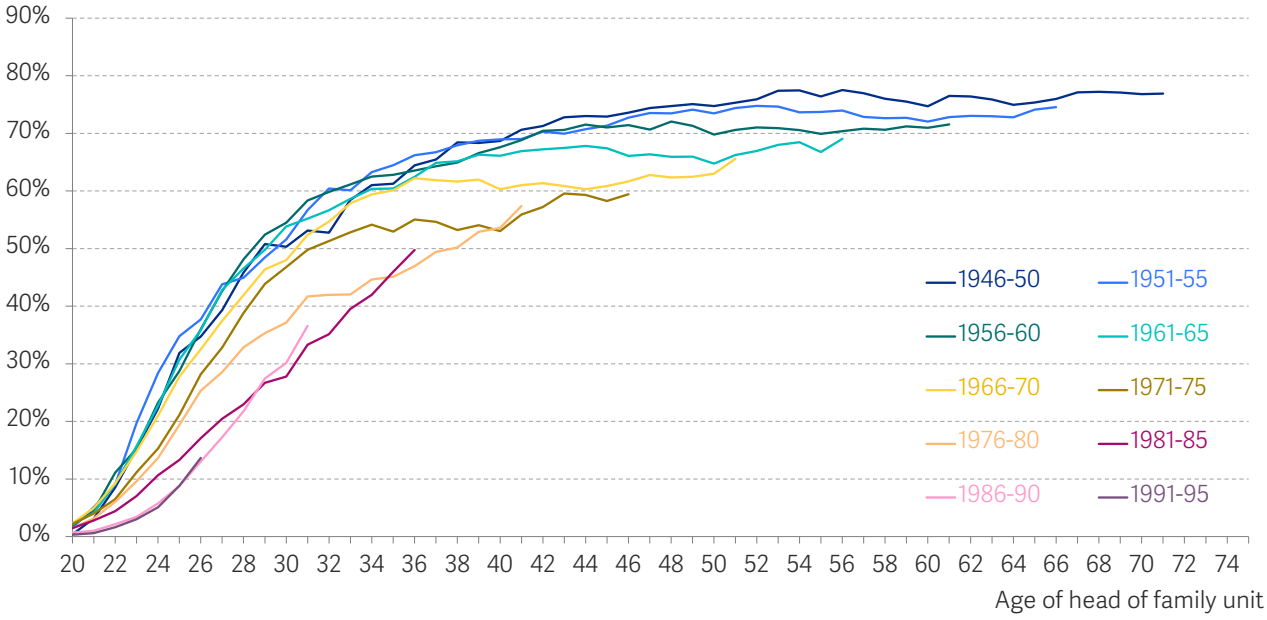
on average £3,500 more a year on mortgage payments by the end of 2024 than they were in Q3 2022.[60] This analysis is highly sensitive to interest rate expectations used, and expected rate rises have fallen since the report was published. Below, we provide updated estimates for households of different ages, alongside a wider review of the relative risks to homeowners of different ages now facing higher interest rates.

Young people still aspire to be homeowners and have found ways to buy despite rising house prices

The long-term, generational trend is for a decline in home ownership rates for younger cohorts, as shown in Figure 37. While more than half of baby boomers owned their homes at 30, homeownership rates at that age were less than a third for millennials.[61] Box 4 discusses how these long-run trends in homeownership for the young have left them owning a much smaller share of the land currently owned by owner-occupiers (for the reasons discussed in footnote 54, this chart uses pre-pandemic data only).

FIGURE 37: **Younger cohorts remain significantly less likely to own their home at 30 but are starting to close the gap on previous generations**

Proportion of family units owning a home, by age of head of family unit and birth cohort: UK, 1961-2019



NOTES: 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, Labour Force Survey (1992-latest).

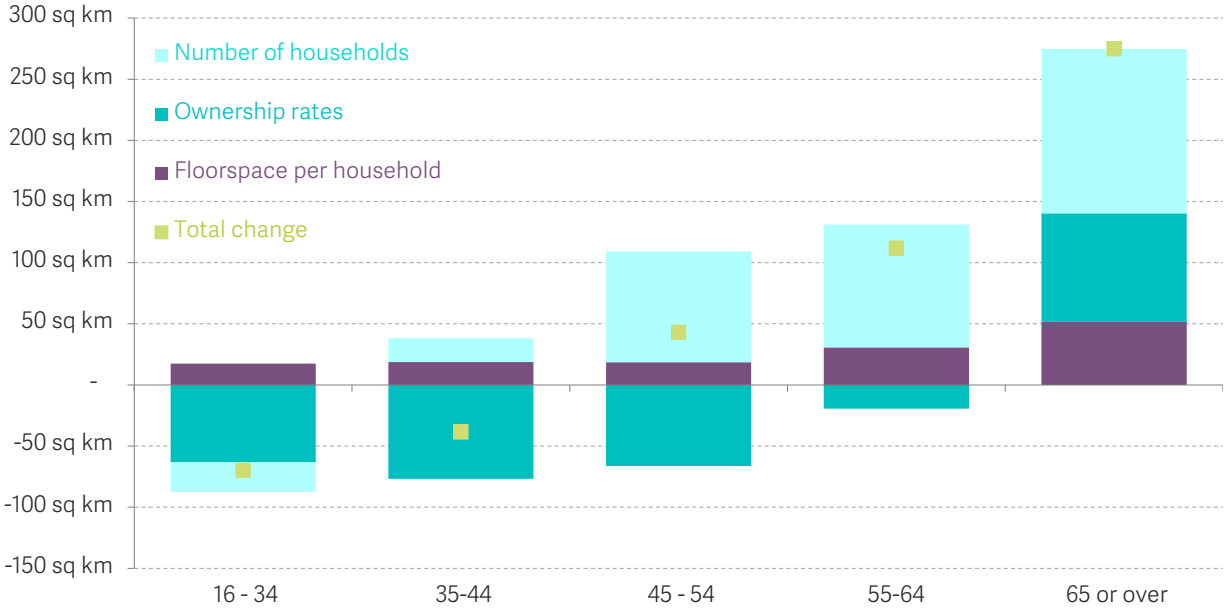
60 L Judge, J Leslie & K Shah, Interesting times, Resolution Foundation, October 2022.
61 This is not due to generational changes in aspirations: over 80 per cent of young private renters (18-34-year-olds) still expect to become homeowners. Department for Levelling Up, Housing and Communities, English Housing Survey, 2020 to 2021: private rented sector, July 2022.

BOX 4: **The young now own a smaller share of the land owned by owner-occupiers, and have lost land space larger than the area of Milton Keynes**

Between 1996 and 2019, the fall in homeownership rates among the young (aged 16 to 34) has led to their share of the total land owned by owner-occupiers falling: those aged 34 or under have seen their share of owner-occupier owned land fall from 15 per cent to just 7 per cent, while those 65 and above increased their share from 23 per cent to 36 per cent (the analysis refers to households in England only).[62] This means the young now own 70 squared km less land than they did in 1996, larger than the area of Milton Keynes.

FIGURE 38: **Under 35s now own less property space than in the mid-1990s, with the total fall in owned space larger than the size of Milton Keynes**

Change in total floorspace for owner occupiers decomposed to show impact of change in average floorspace per household, change in ownership rates and change in number of households by age group, 1996-2019: England



SOURCE: RF analysis of Department for Levelling Up, Housing and Communities, English Housing Survey.

As shown in Figure 38, ownership rates have been the largest contributing factor to the fall in owned land for the young. Over the same period, those 65 and above have experienced both an increase in the average land space owned per person and a rise in ownership rates, and these have been amplified by demographic change which has increased the number of

62 However, for the reasons we discussed in footnote 65, it is not possible to assess tenure changes beyond 2019.

65 and above households. Over the same period, young adults who have managed to buy, have higher floorspace per household, but this is more than outweighed by the decline in overall homeownership.[63]

However, Figure 37 shows that, although younger cohorts have started out with lower homeownership rates than the cohorts that came before them, there are early signs that they could be set to experience a longer period of and faster growth in homeownership rates later in life. For example, those born between 1986 and 1990 were more likely to be homeowners at 29 than those born between 1981 and 1985. Those born between 1966 and 1975 look unlikely to achieve the homeownership rates of over 75 per cent achieved by earlier cohorts, but those born after 1976 are still experiencing strong growth rates in homeownership and may see delayed, rather than lower overall, peaks in homeownership rates than older cohorts.

The uptick in young households becoming owner occupiers since 2013, shown in Figure 32, suggests the young have been findings ways to get on the property ladder despite higher prices. The ONS House Price Index suggests house prices grew fast over this period across property types, with the average first-time buyer property price increasing by 75 per cent between January 2013 and August 2022, while median working age incomes between 2013 and 2022 are expected to rise by just by 7 per cent. A previous Intergeneration Audit did find a small uptick in first-time buyer mortgages at the start of 2021, but it was not clear then whether these increases would lead to a rise in home ownership rates among the young.[64] Data up to the second quarter of 2022 shows that share of gross advances going towards first-time buyer mortgages has fallen slightly since 2021, but remains higher than in 2019 (22.5 per cent in Q2 2022 compared to 21.6 per cent on average in 2019).[65]

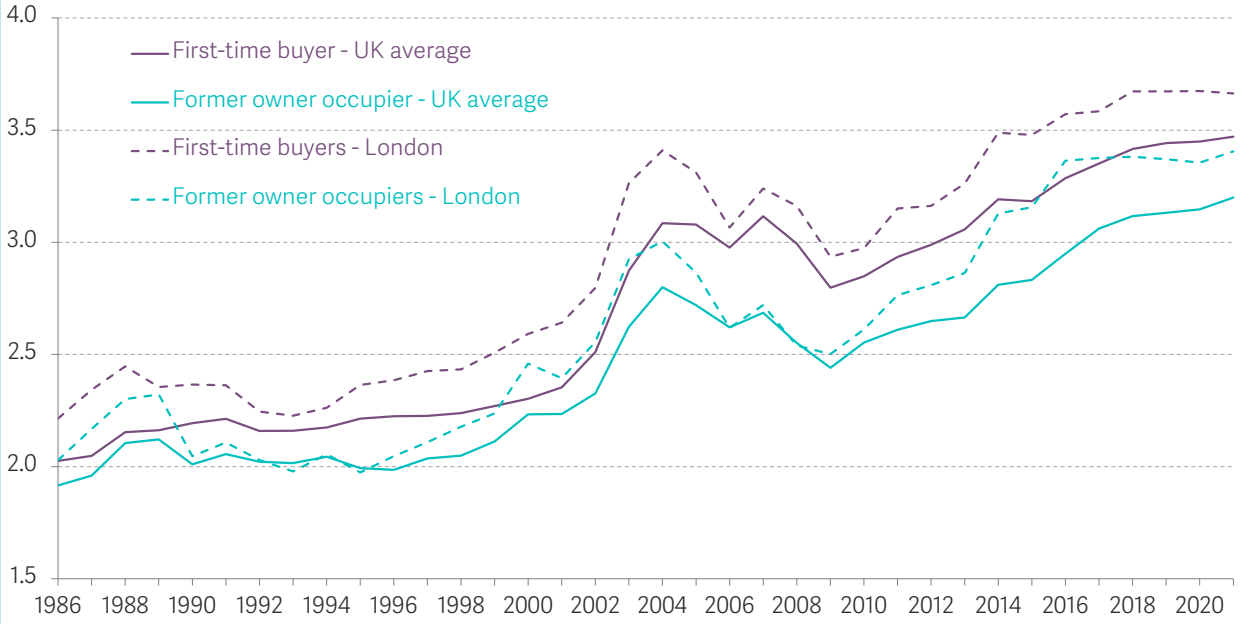
We can see that first-time buyers are having to stretch their incomes further by becoming more highly leveraged.[66] Figure 39 shows that first-time buyers are borrowing almost three and a half times their income on average, exceeding the average loan to income ratio directly before the pre-financial crisis.[67] This upward trend in average

63 The increase in floor-space available to young owner-occupiers is in contrast to the trend shown in Figure 6 that shows that young adults have seen the usable floor space available to them shrinking. The shrinking floor space shown in Figure 6 is due to the experience of private renters: young owner-occupiers have seen a small increase in floorspace per household, but the young are increasingly likely to instead be private renters (see Figure 33), and private renters have seen large declines in average floor space per person from 43 m² to 36 m² per person between 1996-2001 to 2017-2019. See: F Odamtten & D Tomlinson, Housing Outlook Q3 2022, Resolution Foundation, September 2022.
64 K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021.
65 Financial Conduct Authority, Mortgage lending statistics - September 2022.
66 Department for Levelling Up, Housing & Communities, English Housing Survey 2020 to 2021: headline report, December 2021.
67 The latest data shared with Resolution Foundation from the Financial Conduct Authority suggests the average loan to income ratio was 3.6 in the first half of 2022.

loan to value ratios would be expected in a period of high house price growth combined with low interest rates. But these highly leveraged homeowners will now find themselves particularly exposed to higher mortgage costs resulting from rising interest rates; as 70 per cent of first-time buyers were under 35 in 2021, it is young homeowners that are most likely to be affected here.[68]

FIGURE 39: **First-time buyers are more highly leveraged than before the financial crisis**

Average loan to income ratio for first-time buyers and former owner occupiers, by whether in London: UK



SOURCE: RF analysis of HM Land Registry, House Price Index.

Young homeowners will face the largest mortgage cost increases and negative equity risks if house prices fall

The Bank of England has increased interest rates by 2.8 percentage points since the start of 2022, and further rate rises of 1.8 percentage points by October 2023 are expected by the market.[69] Interest rates on new mortgage products have already risen to reflect these recent increases in interest rates and expectations of further rate rises, causing household to face additional mortgage costs. Our recent analysis found almost 1.2 million households face immediate cost increases, as they are on variable rate mortgages, and one-in-five households will face higher mortgage costs by the end of 2024.[70]

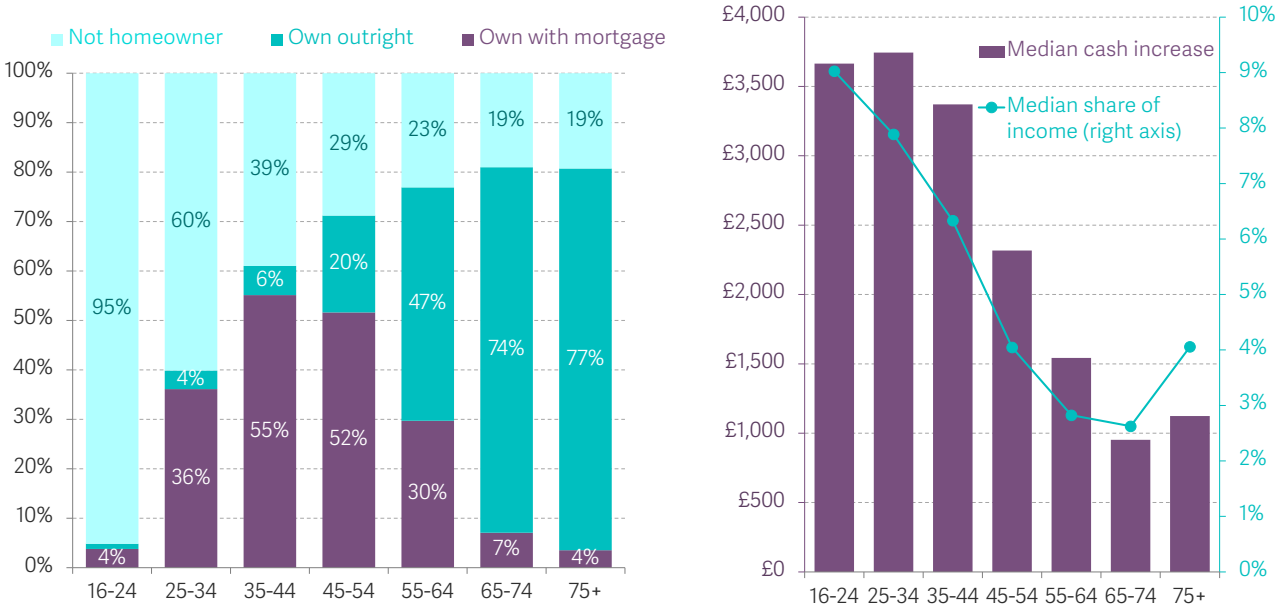
Those who are earlier in the mortgage term (when the interest component makes up the largest share of monthly mortgage payments) and more highly leveraged borrowers are

68 ONS, House Price Index – annual tables 20 to 39.
69 This analysis is based on the Bank of England OIS forward curve – average of yield curves for 26 to 28 October.
70 L Judge, J Leslie & K Shah, Interesting times, Resolution Foundation, October 2022.

two groups that are particularly exposed to higher interest rates. As shown above, young first-time buyers are more likely to meet both of these conditions. If we look at how likely it is that rises in interest rates will affect people of different ages, we can see that more than a third of 25-34-year-olds households have a mortgage and will face paying, on average, an additional 8 per cent of their incomes on their mortgages by the end of 2026 (see Figure 40). Older age groups are more likely to have a mortgage – more than half of 35-54-year-olds households have a mortgage – but they face slightly smaller, although still substantial, mortgage cost increases. This is because they tend to be less leveraged and later in their mortgage terms, meaning the interest component of their mortgages is relatively smaller. Those aged 55 and above are the least exposed to higher interest rates, as they are more likely to own their homes outright, and those that have a mortgage face a smaller increased mortgage cost. Overall, then, older age groups face a smaller increase in mortgage costs, on average, both in cash terms and as a share of their incomes.

FIGURE 40: **Additional mortgage costs are largest for young mortgagors but a larger share of 35-54-year-olds will face higher mortgage costs**

Share of households with a mortgage in Q4 2019: UK (left-hand panel) and estimated change in mortgage costs for mortgagor households between 2022 Q3 and 2026 Q4: GB (right-hand panel), by age group

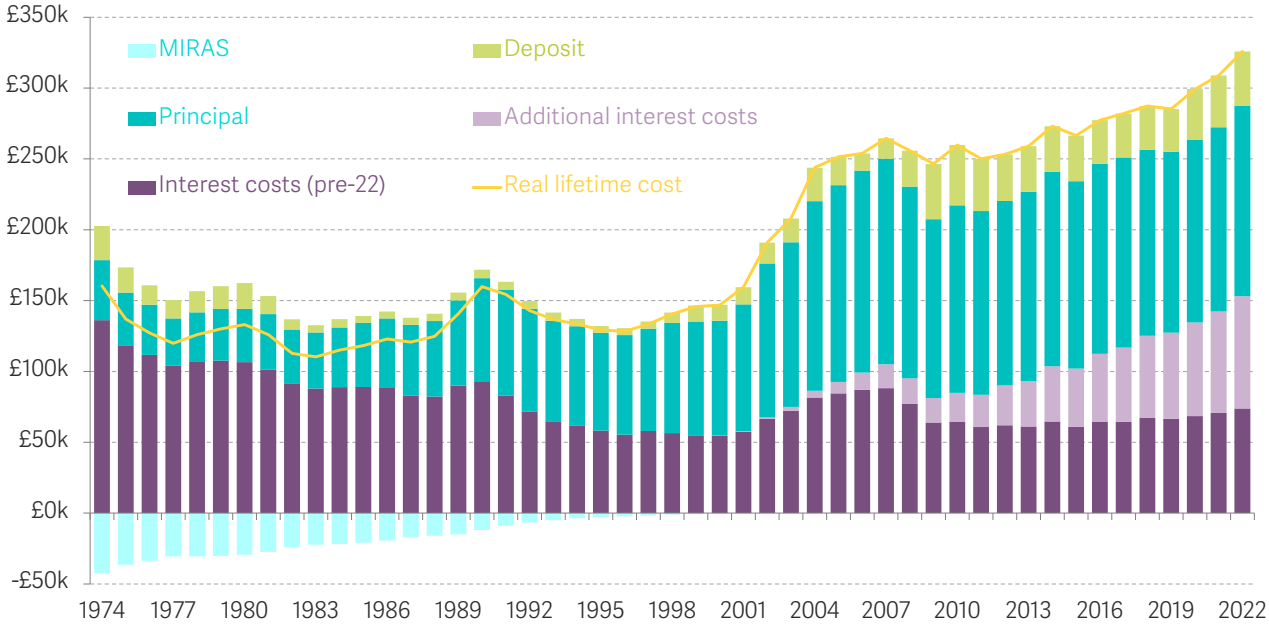


NOTES: Only includes one owner occupier mortgage per household, additional mortgages (where applicable) are excluded. Based on market interest rates as of 3rd November and the average OIS forward yield curve between 26-28 October. Income is defined as regular income measured not of taxes and before housing costs. For details on the estimation method, see: L Judge, J Leslie & K Shah, Interesting times, Resolution Foundation, October 2022.
SOURCE: RF analysis of ONS, Labour Force Survey and Wealth and Assets Survey; Bank of England, Bankstats and Yield Curve.

Until rates began to rise earlier this year, the Bank of England Base Rate had been below 1 per cent for over 12 years (since 2009). First-time buyers who bought their house in the last five years will now face twice the real lifetime interest rate costs they may have expected and budgeted for, given the stable low interest rate environment in which they purchased their house (see Figure 41). The real lifetime interest costs incurred when buying a first-time property in 2022 will increase from £74,000 to £153,000.[71] Higher interest rate costs bring the overall lifetime cost (including the capital needed for the deposit) for a first-time buyer in 2022 to a record £326,000, which is double the lifetime cost in 1974 (£160,000) or even as recently as 2000 (£147,000), after adjusting for wage growth. As 70 per cent of first-time buyers were under the age of 35, this will again primarily impact younger age groups, although those who have recently taken out larger mortgages for other reasons (to upsize, for example) will also be hard hit by unexpected higher interest payments.

FIGURE 41: **First-time buyers who purchased in the last five years could face twice the real lifetime interest costs they may have anticipated**

Estimated real present value lifetime cost of a typical first-time buyer property, by year of purchase: 1974-2022, UK



NOTES: Figures deflated using average earnings to 2021 nominal wage values. Future interest rates are forecasted using Bank of England OIS yield curve (average for 26-28 October).
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.

71 For more details on the calculations behind this Figure, see: L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021.

It is currently expected that house prices could fall by between 8 and 18 per cent as the combined result of higher mortgage rates and lower disposable incomes.[72] In the analysis that follows, we have used the Lloyds central forecast of an 8 per cent fall in house prices, with their worst-case scenarios of an 18 per cent fall used as a comparison (either way, the real-terms fall in house prices will be substantially larger, as inflation is expected to remain above the 2 per cent target for the next year).[73]

When house prices fall, so does the equity (i.e. the value of the home in excess of any outstanding mortgage) owned by mortgagors. If house prices fall by 8 per cent, then mortgagors who currently have less than 8 per cent equity will fall into negative equity, and those currently with less than 17 per cent equity will end up with less than 10 per cent equity. Mortgagors in these situations could be precluded from accessing cheaper mortgage deals, and may be forced to sell if they can't afford the mortgage payments at the higher standard variable rates they would need to pay once their mortgage deals end.

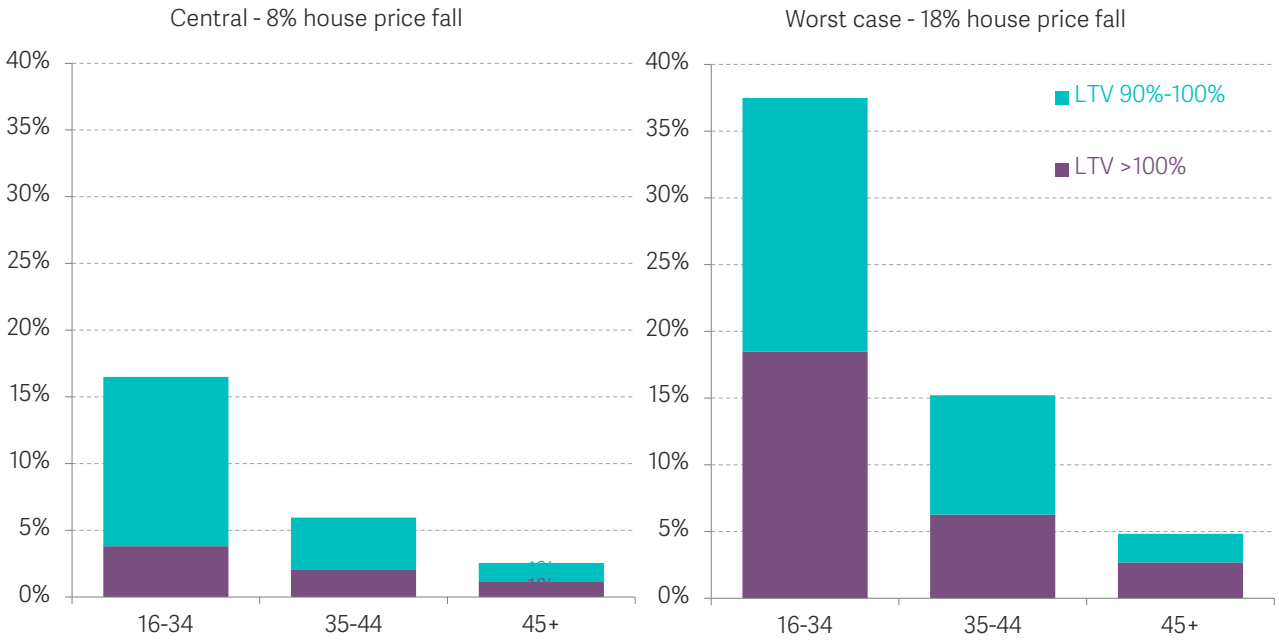
Those with negative equity may be unable to move house, as they would be unable to pay off their mortgages solely from proceeds from the sale of their house, or, if they had to sell, could be forced into bankruptcy. Figure 42 shows that younger mortgagors are more exposed to going into negative or low equity. If house prices fell by 8 per cent, 4 per cent of mortgagors aged 16 to 34 could go into negative equity and a further 12 per cent could end up with low equity (10 per cent of less). Older age groups are likely to own their homes outright or to be later in their mortgage terms, so tend to have higher equity in their homes. If house prices fell by 18 per cent, then more than a third of young households could be exposed, with around 17 per cent of 16-34-year-old mortgagors falling into negative equity and a further 18 per cent seeing their equity fall below 10 per cent.

72 As discussed in Box 2, we have compared three recent house prices forecasts: Lloyds estimates that house prices will fall by 8 per cent next year, Capital Economics forecasts house prices will fall by 12 per cent by mid-2024 and Frank Knight estimates house prices will fall by 5 per cent in 2023 and a further 5 per cent in 2024.

73 Bank of England, Monetary Policy Report, November 2022.

FIGURE 42: **The young are most at risk of negative or low equity if house prices fall**

Share of mortgagor households which would have negative equity (loan to value ratio > 100%) or loan to value ratios greater than or equal to 90%, by age group of household reference person, GB



NOTES: Equity estimates are for main residence only (i.e. they do not include mortgage information on second properties).
SOURCE: RF analysis of ONS, Wealth and Assets survey.

But lower house prices could help young homeowners get on the property ladder

Although higher interest rates will mean higher mortgage payments for current mortgagors, and will disproportionately impact younger homeowners, they could actively help prospective first-time buyers.

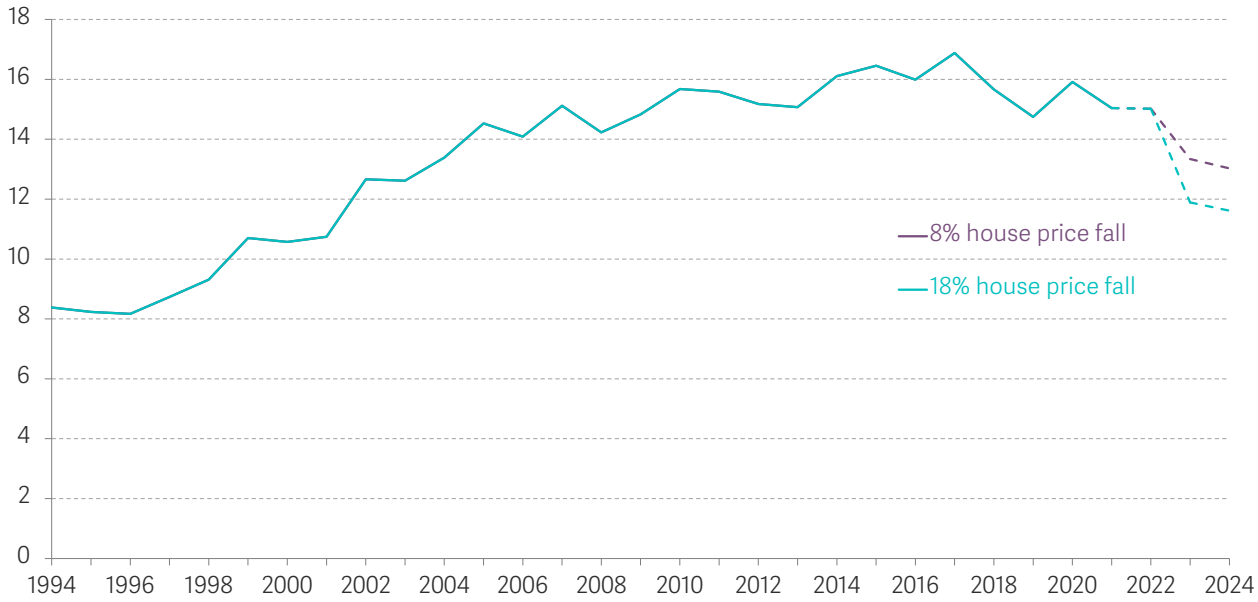
In general, higher interest rates increase the interest paid to households on their savings and also increase the interest payments made on their debts. Because of this, it is traditionally considered that rate rises are more harmful to the young (who tend to be net borrowers) than to older age groups (who tend to have higher levels of net savings). However, young non-homeowning households, who are actively saving towards a deposit to get on the property ladder, could be set to gain from higher interest rates. First, higher interest rates would increase the return on their savings, making a small difference to the ease of coming up with a deposit. Second, higher rates are expected to push down house prices.

Taken together – and with all else equal (in particular, assuming the amount saved stays constant) – this would reduce the amount of years required to save enough for a deposit.

Figure 43 shows a thought experiment that considers the impact that expected higher interest rates would have on the years it would take for a typical young family to save for a deposit. The estimated time to save for a deposit is expected to fall from 15 years in 2022, to 13 years in 2023 and 2024. If house prices instead fell by 18 per cent, it would fall to below 12 years in 2023 and 2024. However, this does not account for the impact of current cost of living pressures on people's ability to save, and Figure 27 in Section 4 showed that fewer individuals expect to be able to save at all in the next year; a big enough decline in saving rates could outweigh the benefits of higher interest rates.

FIGURE 43: **Lower house prices combined with higher interest rates would reduce the time taken to save for a deposit**

Estimated number of years required to save for a first-time buyer deposit under 8% and 18% house price fall



NOTES: Assumes the average non-owning household headed by a 28-32-year-old saves 5 per cent of their annual income at the five-year average interest rate, and purchases a home with a 10 per cent deposit at the average UK house price until 2010, average UK FTB house price from 2011 onwards. Appropriate stamp duty charges are added to the deposit if required. Incomes are assumed to grow in line with forecasts shown in Figure 16. Interest rates on savings accounts are uplifted using the Bank of England OIS forward curves for 26 to 28 October in 2023 and 2024
SOURCE: RF analysis of HM Land Registry, UK House Price Index; The effect of taxes and benefits on household incomes, Lloyds Banking Group; Family Resources Survey; OBR, Economic and fiscal outlook, Bank of England yield curves.

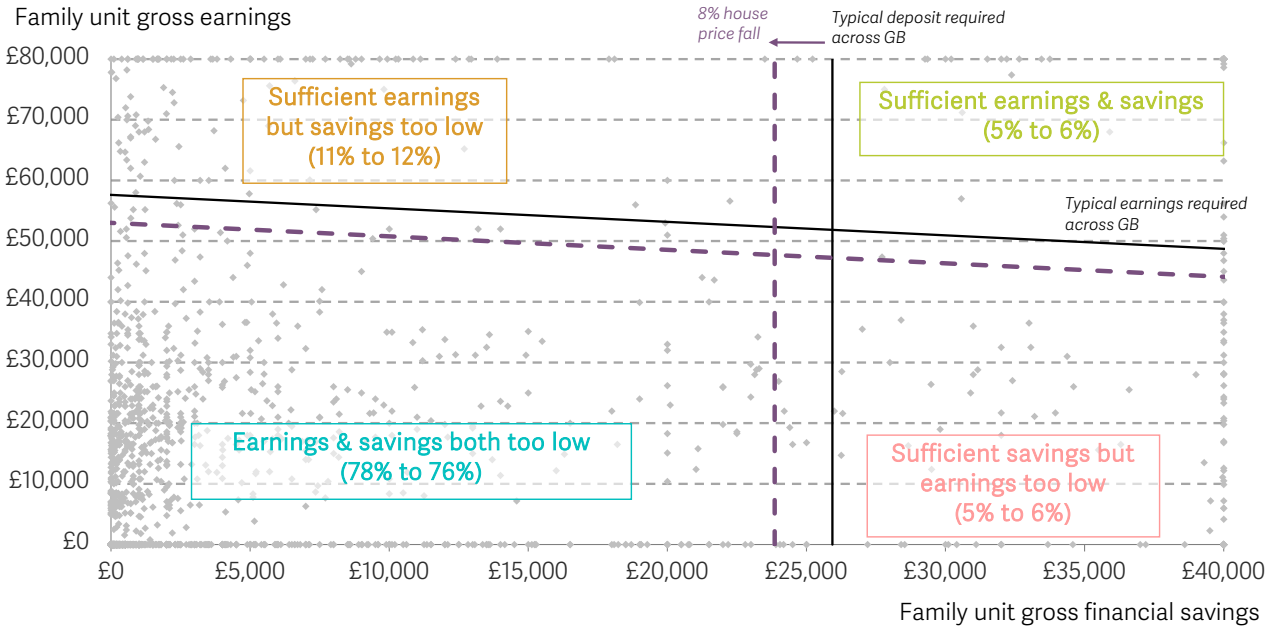
Our past analysis suggests that the time taken to save for a deposit is particularly important for prospective first-time buyers, as young households are less likely to have sufficient savings for the deposit than they are to have lack sufficient incomes to meet affordability conditions on mortgages, suggesting it could be more of a limiting factor for households looking to buy.[74] Updating this analysis, we estimate that, at current house

74 A Corlett & F Odamtten, Hope to buy, Resolution Foundation, December 2021.

prices, just 11 per cent of young non-home owning families had the required savings to access homeownership, and less than 5 per cent of young non-home owning families have both the earnings and the savings required to meet the assumed 4.5 maximum loan-to-income-ratio limit and cover a 10 per cent deposit on an average first-time house.[75] However, if house prices fell by 8 per cent next year, that share could rise by 0.7 percentage points, equivalent to an additional 30,000 young families, to 6 per cent of potential first-time buyer households, as shown in Figure 44. An 18 per cent house price fall would improve affordability for even more young potential first-time buyers, increasing the share that meet both requirements by 1.5 percentage points.

FIGURE 44: **A fall in house prices would improve affordability for prospective first-time buyers**

Family unit gross earnings and gross financial savings of non-home owning 25-34-year-olds under current house prices and an 8 per cent fall in house prices scenarios, 2018-20: GB



NOTES: For display purposes, savings have been capped at £40,000 and earnings at £80,000. Assumes a 10 per cent minimum deposit and 4.5 times combined salary mortgage. Proportions are based on regional average first-time buyer house prices in each calendar quarter, but the typical price facing young non-home owners across Great Britain is used for the illustrative lines.
SOURCE: RF analysis of ONS, Wealth and Assets Survey. See A Corlett & F Odamtten, Hope to buy, Resolution Foundation, December 2021 for full details.

Although higher interest rates will mean higher mortgage payments, recent changes in affordability checks mean that they may have only a small direct impact on households'

75 Full assumptions and details on the approach taken are set out in A Corlett & F Odamtten, Hope to buy, Resolution Foundation, December 2021. That report acknowledges these assumptions are generous, but also notes that the calculation does not account for gifts or loans from other family members. On the other hand, recent rising interest rates may make households even less able to afford mortgage payments on borrowing of four and a half times their income (at 6 per cent interest rate, this would make the interest component of their mortgage payment alone worth 27 per cent of their incomes) and make banks concerned about an increased risk of defaults, at higher interest rates, less willing to loan households this amount.

ability to meet statutory affordability checks. Up to August 2022, borrowers were required to meet two affordability checks. First, a loan-to-income flow limit which restricts lending to 4.5 times income (for the majority of borrowers). Second, borrowers had to prove they could afford their mortgage payments if rates were to rise to a higher rate. The latter was dropped in August 2022, but mortgage providers are likely to be more risk adverse in the current economic environment, potentially refusing borrowers requesting higher loan-to-value ratios.

The real lifetime costs of buying a first home are expected to fall

A past Intergenerational Centre report estimated the cash flow measures of first-time buyers' housing costs, and this methodology, detailed in the report, is reused for the analysis below.[76] This involves estimating the typical real lifetime cost of buying a house as the sum of the deposit, payments towards the mortgage principal (i.e. the value of the home minus the deposit) and net interest payments on the mortgage. Although heavily assumption-driven, this method provides a comparable estimate of the scale of housing costs facing first-time buyers in different years. In order to assess the implications of higher expected interest rates over the coming months, we have adjusted this approach to include forecasted house prices changes, as well as using the Bank of England's yield curves to estimate higher interest rates payments (as well as higher savings rates, and therefore discounting).

The combination of higher interest rates and the sharp rise in house prices since the start of the pandemic mean that those who bought a house in 2022 face double the real cash costs of those who bought in 1974, shown in Figure 45.[77] However, a sustained fall in house prices would bring down the real lifetime cost of buying a house for first-time buyers, despite buyers facing higher interest rates. The real costs for average first-time buyer in 2024 would fall to £282,000, the lowest they have been since 2017, following an 8 per cent house price fall, and would fall to £252,000, the lowest since 2011 if house prices fell by 18 per cent.[78] The combination of fewer years to save for a deposit and lower real lifetime costs for buying a house should help first-time buyers get on the housing market.

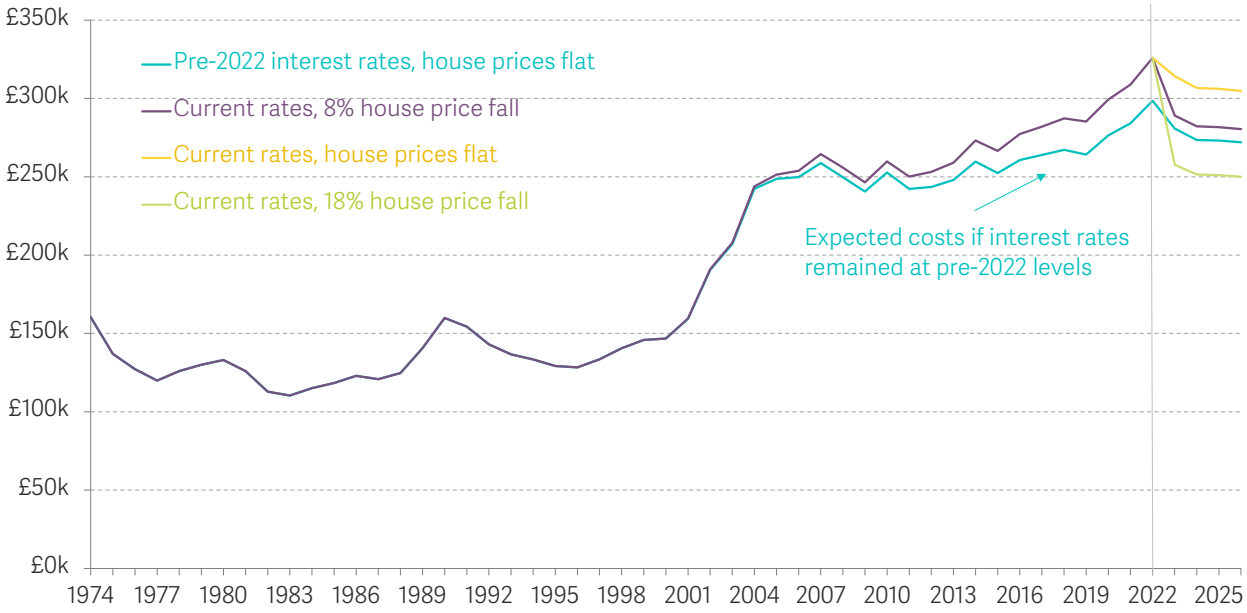
If house prices do not respond as predicted, and instead remain flat for the next two years before resuming normal growth, then the current generations of first-time buyers would continue to face some of the highest real lifetime costs. Flat house prices would represent a substantial fall in the real value of houses, but this would be outweighed by

76 L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021.
77 This does not account for lower mortgage costs that first-time buyers may have 'locked in' by getting a multiple year mortgage deal before the interest rate expectations went up, enabling them to avoid paying the peak interest rates expected over the next 2 years.
78 Assumes house prices fall by 8 per cent or 18 per cent in 2023, remain flat in 2024 and then return to the last five years average first-time house price growth (between 2016 and 2021).

the fact that first-time buyers are likely to face high interest rate payments in the near-term, making their initial mortgage payments a larger share of their incomes. In fact, house prices would need to fall by almost 40 per cent to offset the higher interest rates in the first year of mortgage payments for first-time buyers in 2023.

FIGURE 45: **Despite higher interest payments, the real costs for first-time buyers in 2023 will be the lowest they've been since 2003**

Estimated real present value lifetime cost of a typical first-time buyer property under different interest rate and house price forecast assumptions, by year of purchase: UK

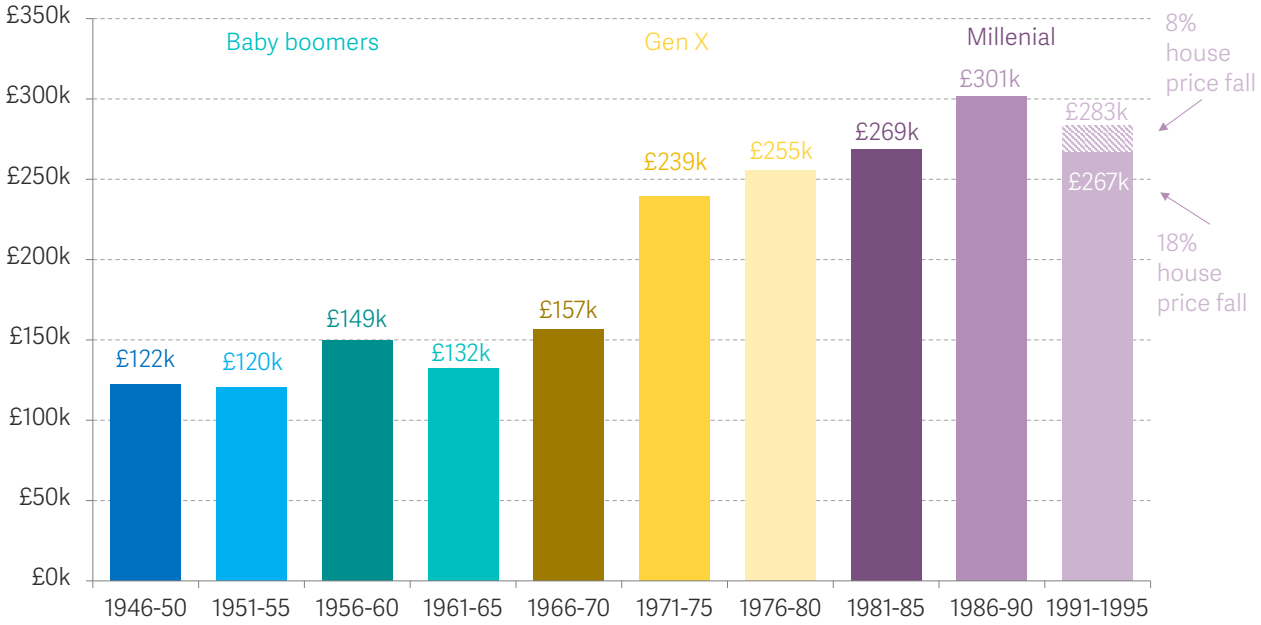


NOTES: Figures deflated using average earnings to 2021 nominal wage values, with Resolution Foundation forecasted wage growth used for 2023 to 2026. In the house price fall scenarios, house prices fall by 8 per cent or 18 per cent in 2023, remain flat in 2024 and then return to the last five years' average first-time house price growth (between 2016 and 2021). In the 'house price flat' scenarios they remain at current levels in 2023 and 2024 before returning to average growth in 2025.
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.

Although lower house prices will reduce the cost for new buyers, they will still be paying more in real terms than the average first-time buyers did through the 1970s, 1980s, 1990s and early 2000s. Figure 46 shows this means that, although millennials born between 1991 and 1995 will experience lower real lifetime costs than past cohorts within their generation, real lifetime costs will remain high compared to costs faced by the baby boomers and even those from generation X.

FIGURE 46: **Lower house prices will mean the 1991-95 cohort will face lower average real lifetime costs than the previous four five-year cohorts**

Median estimated real lifetime cost of a typical first-time buyer property by five-year cohort: UK



NOTES: Figures deflated using average earnings to 2021 nominal wage values, with Resolution Foundation forecasted wage growth used for 2023 to 2026. In the house price fall scenarios, house prices fall by 8 per cent or 18 per cent in 2023, remain flat in 2024 and then return to the last five years average first-time house price growth (between 2016 and 2021). 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. The average first-time buyer age held constant from 2022.
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.

Section 5

Conclusion

This report – produced by the Resolution Foundation as part of the ESRC-funded Connecting Generations partnership – has taken stock of generational living standards differences in Britain in four domains:

- Household incomes and costs;
- Jobs, skills and pay;
- Wealth and assets; and
- Housing costs and security.

Overall, we find that the cost of living crisis is likely to have profound, but varying, impacts across different age groups and generations. Despite older age groups being more exposed to rising prices of energy and food, decades of low pay growth, higher housing costs and high and rising intergenerational wealth inequality means the young entered this crisis with low levels of financial resilience. Younger adults' main advantage over older age groups, in terms of resilience to such shocks, comes from higher labour market flexibility, and this too is set to be hit by the expected rise in unemployment. It is no surprise then that we find that the young are particularly concerned about rising energy bills. Furthermore, any rise in unemployment could mean another set of scarring effects on lifetime earning potential for the cohort of young people who may already experience long-term labour market consequences from the disruptions that the Covid-19 lockdowns had on their education.[79]

The current low levels of unemployment are disguising an important intergenerational post-pandemic labour market trend, as older workers have retired early and others may have stopped working permanently due to health reasons. This comes at a time when a large cohort of baby boomers are already set to retire, putting additional demographic strain on public finances, and those remaining in the labour market will be expected to shoulder a greater financial burden. Many of these older workers may not be entering the

79 A Eyles, Social mobility in the time of Covid, Resolution Foundation, December 2021.

benefits system, and so policy makers must not rely on the benefit system to incentivise these individuals to re-join the workforce. Instead, alternative policy intervention may be required, such as addressing NHS waiting times that could be delaying treatment required for workers to re-join the workforce, or giving workers more of an ability to request or require flexible working practices. Reforming wealth taxation will also be vital to ensure it is those most able to pay, not those most easy to tax, who are helping fill the gap in public finances.[80]

The pandemic-era changes in wealth reinforced the pre-pandemic trend of increasing intergenerational wealth inequality, but rising interest rates could slow this trend. Older households who have gained most from recent asset prices inflation could be set to see the biggest losses in pound terms as asset prices fall and inflation erodes the spending power of their savings. At the same time, a fall in house prices could enable some prospective young first-time buyers to get on the housing ladder – enabling them to accumulate more wealth in future. However, the cost pressures on young and old alike, will make it very difficult for households to save – and this type of active wealth accumulation is particularly important for the young. Although the trend of rising intergenerational wealth inequality may be disrupted, even the post-pandemic increase in wealth inequality is unlikely to be reversed.

As well as showing the difference in how this crisis will hit different age groups and generations, this report shows the importance intergenerational relationships will play in managing this crisis. Many young people have decided to remain or return to living with their parents, and this will likely reduce their exposure to the challenging winter to come. The young report that if they were exposed to unexpected higher costs, such as those coming this winter and next year, many are likely to rely on family in a pinch.

Looking ahead, policy makers have a long list of short-term concerns to focus on: from ensuring all households have sufficient support this winter as energy costs rise, to managing a potential house price crash, including an increase in housing repossessions. The cost of living support measures announced throughout this year will make a major difference to households' ability to cope with high costs of energy and other essentials this winter. Yet, the Chancellor is expected to set out new measures this Autumn (on 17 November) that will seek to show that the stock of government debt is not permanently rising as a share of GDP. One option that has been discussed is the possibility of raising some benefits in line with earnings rather than inflation next April. Cutting working-age benefits by around 4 per cent, permanently, on top of the benefit cuts of the 2010s, and in the middle of an enormous cost of living crisis, would be a very contentious decision that could push 600,000 more people into poverty.[81]

80 Options for increasing taxes on wealth, or the returns to wealth, can be found in G Bangham et al., Unhealthy finances, Resolution Foundation, November 2020.
81 A Corlett & L Try, The long squeeze, Resolution Foundation, October 2022.

What is more, the need for immediate living standards support in the current crisis must not distract policymakers from addressing the deeper and systemic issues in the UK economy. The UK has experienced a decade of stagnation, suffering from a toxic combination of slow growth and high inequality that was damaging low-to-middle income Britain's living standards even before the current crisis struck.[82] The reliance of the young on intergenerational support (particularly from parents), which is likely to be exacerbated in this crisis, will only reinforce these economic challenges. A mobile, flexible and dynamic labour force is vital to renewing growth, but younger workers are increasingly basing employment decisions around proximity to parents' homes. At the same time, the reliance on financial support from parents, for example to access the housing ladder, will engender weaker social mobility and reinforce existing inequalities into the next generation. The Prime Minister must be diligent to steer the economy through the current acute challenges, without losing sight of what the economy needs: a renewed economic strategy that will include measures to restart generational living standards progress. This means building on the UK's strengths, boosting business investment, and tackling persistent high income and wealth inequality to ensure that future generations are able to access secure and well-paid jobs, good-quality affordable housing and have steady incomes that can better withstand future shocks.

82 Resolution Foundation & Centre for Economic Performance, LSE, Stagnation nation: Navigating a route to a fairer and more prosperous Britain, Resolution Foundation, July 2022.

Intergenerational Centre

CONNECTING GENERATIONS

Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and 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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