



intergenerational foundation

Fairness for Future Generations

A response to the consultation on “Age-Proofing the UK”

Who we are...

The Intergenerational Foundation (www.if.org.uk) is a think tank which researches fairness between the generations in the UK, in order to protect the interests of younger and future generations, who are at risk of being ignored by current policy-makers.

Our response...

The Intergenerational Foundation (IF) is pleased to have been given the opportunity to contribute to future Liberal Democrat party policy by responding to this consultation on “Age-Proofing the UK”. The consultation document contains a large number of questions; however, we have chosen to respond only to those that raise issues of intergenerational fairness (our replies to some questions have been buddle together into a single response).

1. What steps, if any, should be taken to strengthen the Government’s approach to setting and delivering a strategic approach to demographic change?

IF considers the key point about demographic change to be that it is not something which purely affects older people and their families, although it is often framed by the media and politicians as if this were the case. The ageing of Britain’s society will be one of the defining social, political and economic phenomena of the 21st century, affecting people of all ages and all parts of society.

Society is a partnership between the young, the old and those who are yet to be born. Population ageing will place great strain upon intergenerational fairness, as members of all generations will need to feel they are still equal partners in society if the social contract between the generations is to survive. Therefore IF recommends the creation of a cabinet-level post with responsibility for promoting intergenerational fairness, to coordinate the Government’s strategic response to demographic change.

9. How can employers be supported to adapt their workforce recruitment and staff professional development activities to support older employees? For example, what contribution could job sharing play where a younger worker job shares with an older worker or older workers mentor or train younger workers as part of a flexible way of transferring skills and transitioning into retirement?

IF believes that supporting older employees within the workplace is only one element of how the world of work will need to respond to demographic change. The impacts of population ageing will be seen most clearly through the rise of the “4G” (4 Generation) workplace, where it will no longer be unusual for younger employees to be working alongside people who are old enough to be their grandparents and great-grandparents. This will require a response from both policymakers and employers which takes account of the different needs of workers of all ages, and seeks to balance them in a way which is in the best interests of both society and the economy.

11. Should national insurance (NICs) contributions be reduced at 55 to increase incentives to work? Are there any other changes to NICs we should consider?

IF is deeply concerned that the existing arrangements surrounding older people and NICs – under which anybody who works beyond state pension age automatically becomes exempt from paying primary contributions – achieve little besides providing a regressive subsidy to the old at the expense of younger taxpayers.

IF have previously submitted policy proposals to HM Treasury which set out our arguments against the National Insurance exemption that is currently given to the over-65s. This is available from the following link:

[IF Budget Submission 2014](#)

In summary, under the current arrangements pensioners enjoy a subsidy which looks increasingly anachronistic now that over 1.4 million people are working beyond state pension age, costing the exchequer over £2 billion a year in lost NICs; and our research discovered evidence which suggests that this subsidy primarily benefits men employed in high-paying occupations. IF is broadly opposed to using tax breaks to try and encourage people to work longer, as they come at huge cost to the general taxpayer when many older people are likely to choose to continue working anyway, because of measures such as the increase in the state pension age and the trend towards improved health at older ages.

19. Should the winter fuel payment and free TV licence be better targeted to support pensioners at the bottom end of income distribution? For example, should entitlement to these benefits be withdrawn from those paying the upper income tax rate?

IF believes that the British welfare state currently redistributes far too many resources on the basis of age rather than need. There is growing evidence that poverty has become increasingly concentrated among working-age households (especially those with children) over the last several decades, while pensioners have enjoyed significant increases in average incomes. However, this pattern has not been reflected in large-scale changes to the design of the welfare state, and under the current Coalition Government pensioner benefits have largely been protected from cutbacks while working-age benefits (such as Child Benefit and Housing Benefit) have been retrenched in a variety of ways.

The demands of Britain's ageing population are likely to make the current design of the welfare state unsustainable in the long run. In order to move towards a more favourable situation in which resources are distributed primarily on the basis of need, pensioner benefits will need to be means-tested, including the winter fuel payment and the free TV licence. This could be achieved in a variety of ways, such as by withdrawing them from higher-rate income taxpayers, or more radically, restricting them to pensioners who are in receipt of Pension Credit (i.e. for a single pensioner this would mean they would need an income below £7,560 per year in order to qualify).

21. What does an ageing society imply for the inheritance / capital transfer tax regime?

22. According to estimates by the ILC-UK29 the practice of 'inheritance skipping', where grandchildren rather than children inherit, already accounts for more than £4 billion of legacies and the trend is increasing. What role could this play in promoting intergenerational fairness, should it have a different tax treatment?

IF is concerned that one of the consequences of an ageing society could be that familial inheritance will decline in its usefulness as a tool for spreading prosperity between the generations. During previous eras when life expectancy was shorter, patterns of inheritance would have been more likely to transfer resources from parents who were in their 60s and 70s to offspring who were still in their 30s and 40s, who would have been less likely to have accumulated significant resources as a result of their own endeavours by that point. Therefore, wealth which was transferred through parental inheritance

would have been more likely to be used for major lifetime events, such as purchasing a family home and helping a family to bring up children – outcomes which arguably would have generated significant benefits for broader society.

However, one of the consequences of an ageing population will be that these patterns are likely to shift. It will become more common for inheritances between parents and children to transfer wealth from parents who are in their 80s and 90s to offspring who will be in their 50s and 60s by the time they inherit. By this point many people will have already had their own children and fixed their living situation, so the wealth which is transferred is likely to deliver less benefit to the rest of society. Increasing life expectancy implies that the age of the average person who inherits wealth from their parents will carry on getting older.

Therefore IF thinks it would advantageous if the tax regime did more to encourage older people to transfer wealth to their grandchildren, either in the form of inheritances or as lifetime gifts. This could have a positive impact on problems which are currently affecting today's younger generation, such as difficulties with getting on the housing ladder or paying for tertiary education, and so it would be beneficial for intergenerational justice.

27. How do we ensure that older people receive the health, social care and pensions they deserve, while also ensuring that young people are not subject to an unfair constraint on their ability to invest in their own future?

This question goes to the heart of the public-policy dilemma posed by the ageing of Britain's population. Although this is not an easy question to answer, it feels intuitively fair that those who have the most should be expected to contribute the most, in accordance with the basic principle of redistributive justice.

This implies a significant redesign of the welfare state, which currently distributes large amounts of resources to wealthy pensioners in the form of universal benefits, while not doing enough to help younger people whose needs may be greater. Therefore IF proposes that the resources required by the health, social care and welfare systems to cope with our ageing population should be distributed on the basis of need rather than age. This would lead to wealthier older people losing access to universal benefits, and being expected to bear more of the costs of their health and social care needs. At the same time, those who are poor – young and old alike – ought to receive the full support of the welfare state.

Clearly, there are many difficult decisions ahead as Britain's population ages, but adhering to this principle should be the fairest way of ensuring that everyone has the opportunity to fulfil their potential in life, regardless of how old they are.

28. How do we correct for the fact that the market disproportionately transfers wealth to older homeowners as opposed to younger people, who are much less likely to be asset-rich?

From young peoples' perspective, the biggest problem with Britain's housing market is that rising prices have dramatically outstripped average earnings over the two last decades; as a result, levels of owner-occupation among young people are falling because housing in many parts of the country has simply become unaffordable. Older households have been the biggest beneficiaries of this trend, as they predominantly own the housing stock which has risen in value; therefore Britain's overheated housing market facilitates the transfer of wealth from young to old on a large scale. The unaffordability of housing has also led to a situation in which private renting has become the dominant form of tenure among younger households who can no longer afford to access the housing ladder, which has again predominantly benefitted older people as many of them have invested their savings in becoming landlords.

Ultimately, the only way to correct this problem would be to facilitate a reversal of Britain's historically high house prices, so that they return to a typical multiple of income which was last seen during the 1960s and 1970s. This would require far more house building, in addition to a change in direction for Government policy, which has largely been aimed at supporting high house prices through schemes such as "Funding for Lending" and "Help to Buy" over recent years. However, it seems unlikely that there will be sufficient political will to enable the Government to pursue these policies.

For a more detailed analysis of how Britain's housing crisis is an intergenerational problem, please see IF's submission to the Lyons Review of Housing Policy:

[Lyons Housing Review – IF Response](#)

29. How do we ensure that any increases in public spending over the next two decades as a result of the ageing population are funded in a way that is inter-generationally fair?

As explained in IF's response to question 27 in this consultation, increasing intergenerational fairness will require the welfare state to redistribute less – and subtract more – from wealthy pensioners who have benefitted from the favourable economic conditions which they enjoyed over the last 30 years, such as free university education, rising house prices, having the opportunity to join final-salary pension schemes and the long economic boom which Britain experienced between the 1980s and the beginning of the recession in 2008.

A number of possible methods already exist which could be used to put this strategy into practice. Age-related tax breaks already look increasingly hard to defend given the wealth of the baby-boomer pensioner cohort; the current Government has already sensibly removed the age-related personal allowance on income tax, but the exemption which working pensioners receive from paying National Insurance should also be removed as well (see our response to question 11).

More far-reaching reforms would involve addressing the fact that unearned income is currently taxed relatively lightly compared to earned income, a discrepancy which has intergenerational consequences because young people disproportionately live off earned income compared to older people. Reforms to equalise the tax treatment of earned and unearned income might possibly involve levying higher taxes on property (such as a land value tax) or lowering the threshold for paying inheritance tax.

Wealthier pensioners could also be expected to meet more of the costs of funding their own health and social care needs, for example by applying more usage charges to the NHS or means-testing favourable exemptions which benefit wealthy pensioners such as free prescription charges. There is even the option of means-testing the basic state pension; a survey of 50 leading economists which was undertaken by IF in 2012 found that almost half of them thought that the state pension will need to become means-tested by 2040 (please click this link to read more about this study: [Can the UK afford to pay for pensions?](#)).

30. What measures should Government take to stimulate a last time buyers' market?

31. Should Government set an explicit goal of using a portion of surplus land for purpose built housing?

35. How could planning policy contribute to increasing the provision of housing for older people? For example, the building of single storey accommodation?

All of these questions from the consultation address the issue of downsizing, which is of great concern to IF. Please follow the links below to read IF's two research reports on downsizing, and how encouraging it could help to solve the housing crisis facing young people:

[Hoarding of Housing: The Intergenerational Crisis in the Housing Market](#)
[Understanding Downsizing](#)

We argued in *Hoarding of Housing*, our landmark study on under-occupation and Britain's housing crisis, that one of the major problems with Britain's housing supply is that there is currently a mismatch between how much housing people have and how much they need. The report argues that large numbers of older households are currently under-occupying their housing stock, often because they are continuing to live in family-sized homes after their children have grown-up and moved out. This has choked off the supply of suitable accommodation which is appearing on the market for young people who want to start families of their own.

IF feels that two policy approaches are needed to counteract this trend. Firstly, the government should act to incentivise downsizing by encouraging the development of more purpose-built accommodation for older people, such as bungalows and retirement villages (part of this effort could involve using surplus public sector land), and making a number of small reforms to the tax system which could include applying a lower rate of stamp duty to moves which involve downsizing or increasing the council tax for households which under-occupy.

Secondly, our report which looked at the reasons why older people have and have not chosen to downsize, *Understanding Downsizing*, found that there is a significant degree of confusion and misapprehension surrounding this area. Older people said that they would be more likely to downsize if there was a government "Downsizing Agency" which could provide them free, impartial advice and guidance for navigating the system of moving house. IF recommends that the government should create such an agency in order to make downsizing easier to navigate.

38. How can we ensure that the implementation of the Dilnot reforms enable families to make better use of their housing wealth?

IF is broadly supportive of the Dilnot reforms, as to a large extent they will transfer the cost of paying for old-age care to the wealthy members of the older generation who can afford to pay for it themselves, while preserving a degree of state support both for the poorest and those who have the misfortune to suffer extreme costs. A more detailed explanation of IF's views is given in our response to the public consultation on *Caring for our Future* (please follow the link below):

[Caring for our Future – IF Response](#)

IF is somewhat concerned that an excessive amount of public money may be being committed to protecting the assets of wealthy baby boomers – especially their houses – from being used to pay for social care. Given the many other demands on public spending, this does not seem like an equitable or efficient use of public money. Therefore, IF feels that the reforms should be tailored to try to ensure that individuals bear a proportionate share of the risk of paying for their own care.

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For more information about the Intergenerational Foundation and its work, please visit www.if.org.uk or contact Liz Emerson, Co-Founder at liz@intergenerational.org.uk.