13 October 2015

Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear Chancellor,

**Re: Autumn Statement submission on behalf of the Intergenerational Foundation**

I write on behalf of the Intergenerational Foundation (IF), a non-party-political charitable think tank that researches fairness between the generations. Central to our position is the belief that policy should be fair to all – the old, the young and those to come.

We make some suggestions below for your forthcoming budget, or for later consideration. These suggestions address several areas of government policy including:

- **Housing**
- **Bus Fares**
- **Pension Reforms**
- **Student Loan Repayment Threshold**

IF's work addresses the fact that the face of poverty has changed in the UK, with poverty now more likely to be found amongst the young than the old. Economic policy needs to change to reflect this. Pensioners' median income levels were 43% higher in 2013/14 than in 1998/99,[1] with the number of pensioners living in absolute poverty down to 16%.[2] Furthermore, pensioner poverty is likely to fall to 12.1% by 2022/23.[3] Meanwhile pensioners' asset wealth has increased substantially. By 2010–12, median non-pension wealth for those aged 55–64 had grown to £233,000, but it had fallen to £43,000 for those aged 25–34.[4] Including pension rights, the figures were £425,000 and £60,000 respectively – a £365,000 gap between generations 30 years apart.[5]

We would expect pensioners to be wealthier than the younger generation as they have accumulated assets during the life course. However, the under-30s appear to be finding it increasingly difficult to build up assets such as housing and pensions, a problem exacerbated by their 18% fall in average incomes between 2008 and 2012. The evidence shows that they clearly need help to enable them to build up their own assets to see them through their own old ages.[6]

# Housing

Housing is the most visible example of intergenerational unfairness in the UK today. IF's housing research reports have led to a number of policy interventions. These include the welcome removal of tax subsidies for buy-to-let (BTL) investment, the tightening up of rules surrounding the 10%

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[1] Department for Work & Pensions (2015); *The Pensioners' Income Series*
[2] McGuinness (2015); *Poverty in the UK: Statistics,* House of Commons Briefing Paper
[3] Joseph Rowntree Foundation (2015); *Where next for pensioner living standards*; https://www.jrf.org.uk/report/where-next-pensioner-living-standards
[4] Hills et al (2015); London School of Economics; *Falling Behind, Getting Ahead: The Changing Structure of Inequality in the* UK, *2007-2013*; http://sticerd.lse.ac.uk/dps/case/spcc/RR05.pdf
[5] ibid.
[6] ibid.

wear and tear tax-free allowance and the reduction in the period for which owners can claim private residence tax relief.[7] However, BTL investment is still increasing, further distorting the housing market. The mortgage market is failing to self-regulate, with mortgage providers now offering more than 900 different BTL products, many of which are unavailable to first-time buyers. These include interest-only mortgages and high loan-to-value (LVT) mortgages. Lack of self-regulation has led the Bank of England to warn of increasing instability in the housing market risking a future housing crash if action is not taken.[8]

**Requested action: BTL requires further reform.**

**Government to ask the FCA to investigate options for greater curbs on BTL mortgages, restrict high loan-to-value (LVT) ratios and withdraw interest-only mortgages from the BTL market.**

Increasing housing supply is also urgently needed if younger generations are ever to be able to have a home of their own. However, since increasing the supply of housing will take time, IF proposes that the stock we do have should be used more efficiently. One way to do that would be to address the under-occupation in private housing. There are currently more than 25 million under-occupied bedrooms in the UK.[9] A further 2.5 million family-sized homes could be freed up for young families if older generations downsized. Under-occupation effectively wastes one fifth of new house-building,[10] and it is increasing. The issue is therefore how best to make downsizing palatable. There is currently too little incentive for older owner-occupiers to move, as their properties are gaining in value rapidly. Furthermore, recent changes to inheritance taxation mean that housing is an increasingly efficient vehicle for passing on wealth.

But, there is also an emerging consensus from stakeholders representing all groups – from the young to the old – that with the right kind of policy encouragement, older generations would consider downsizing. Age UK, Saga, IF, the RICS, ILC, CIH, and now the FCA, have all called for a Stamp Duty holiday for downsizers. While this may appear to be counter-intuitive – in allowing those who have gained most from housing wealth to have another tax-free gain – such a policy could stimulate the release of under-used housing. Furthermore, by freeing up one property at the top of a sales chain, two to five other properties could also be sold lower down the chain delivering a triple win for society: increasing churn, increasing stamp duty revenue for the government, and freeing up family homes for families. For this to happen swiftly, developers must be encouraged to offer more than the current cramped, over-priced downsizing accommodation on the market. A new, more discerning customer is emerging, and they are looking for more living space, fewer bedrooms, in a community location, close to transport links, with amenities at a reasonable price.[11]

**Requested action: Give downsizers a Stamp Duty holiday.**

# Bus Fares

IF welcomes the introduction of the Buses Bill as a means of giving mayor-led local councils greater control over bus services in their area, but the current concessionary fares system is intergenerationally unfair. IF understands that the government wishes to stand by its election promise to protect universal benefits for older generations which includes the £1.1bn cost for free

[7] Kingman (2013); *Why BTL Equals Big Tax Rip-Off*; http://www.if.org.uk/wp-content/uploads/2013/11/Why-BTL-Equals-Big-Tax-Rip-off.pdf
[8] Bank of England (2015), *Financial Stability Report A – UK Housing Market*; http://www.bankofengland.co.uk/publications/Documents/fsr/2015/fsr37sec4.pdf
[9] Griffiths (2011); *Hoarding of Housing: The intergenerational crisis in the housing market*; http://www.if.org.uk/wp-content/uploads/2011/10/IF_Housing_Defin_Report_19oct.pdf
[10] Leach (2014); *Empty Bedrooms Undermine New Building*; http://www.if.org.uk/wp-content/uploads/2014/10/Empty_Bedrooms_Undermine_New_Building_FINAL.pdf
[11] Leach (2012); *Understanding Downsizing*; http://www.if.org.uk/wp-content/uploads/2012/04/Understanding-Downsizing-Why-People-Choose-to-Downsize-or-Not.pdf

off-peak travel for anyone reaching the female state pension age. This is in spite of 1.4 million over-65s continuing to work and therefore earning enough money to be able to afford to commute to work. The government is in effect subsidising this group.[12]

Many young people can't afford the train which has an average £600 yearly season ticket cost.[13] Many young people can't afford to drive, insurance premiums for under-25s now average £1,242 a year.[14] Therefore, they are highly dependent on buses. But bus fares have also increased dramatically – up more than 30% between 2006 and 2013.[15] In one year alone (2011–2012) bus fares increased by 6.5% (when RPI was just 2.8%).[16]

With under-18s now expected to remain in education or training, they are increasingly likely to have to travel during peak times to get to and from schools, colleges or places of training, making their travel costs increasingly expensive.

Young people in London who are still in education and under 18 years of age already qualify for free bus travel under the Oyster Zip scheme.[17] It seems only equitable that children that live outside London should also have the same offer of concessionary fares, yet only 28 out of 79 authorities offered any kind of concessionary fares for young people in 2013.[18]

However, by moving the responsibility of providing concessionary fares away from central government and onto franchise operators, the government has an opportunity to help young people outside London to receive the same deal by making it a statutory obligation for bus operators to provide concessionary fares for the young when applying for franchises.

**Requested action:**

**Buses Bill to include statutory obligation for franchise applicants to provide free bus travel for all under-18 year olds still in full-time education.**

# Pension Reforms

The government has recently consulted on a new system of tax reliefs for pension saving. This could have a number of adverse impacts which the following measures could help to mitigate.

A new tax system based on tax relief for pensions' savings when they are drawn down, rather than upfront when they are paid in, is likely to be much less generous to younger savers. Under the current system, savers receive a huge benefit from the 25% tax-free withdrawal after the age of 55. If this tax relief is to be retained for past contributions there should be some compensating allowance for younger pension savers. There is a strong argument too that the 25% lump sum allowance should be capped at a fixed amount, such as £50,000 per individual. This would help to counteract the fact that the current system has been particularly generous to high earners, and would be more in line with how other allowances work, such as the personal allowance on income or the capital gains tax allowance.

A scheme where the government matches contributions, up to a fixed annual limit, could provide a strong incentive for people to save and could be comfortably financed out of the savings from moving away from the generous current EET system. The government suggestion to put in £1 for every £2 saved could work well, so that the employee might put in, for example, £3,500 each year, the employer £3,500, and the government matches that with an extra £3,500.

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[12] ONS (2012); http://www.ons.gov.uk/ons/rel/lmac/older-workers-in-the-labour-market/2012/older-workers-in-the-labour-market.html
[13] The Guardian; http://www.theguardian.com/money/2015/jan/02/british-commuters-rail-travel-europeans
[14] MoneySavingExpert; http://www.moneysavingexpert.com/car-insurance/young-drivers (accessed 12 October 2015)
[15] Intergenerational Foundation/Better Transport (2013); *No Entry! Transport Barriers Facing Young People*; http://www.if.org.uk/archives/3809/no-entrytransport-barriers-facing-young-people-government-policy-hits-young-hardest
[16] ibid.
[17] Transport for London (2015); https://tfl.gov.uk/fares-and-payments/travel-for-under-18s/zip-oyster-photocards?intcmp=25258
[18] Intergenerational Foundation/Better Transport (2013); op.cit.

Such a scheme could apply to all workers or, in view of the generosity of the past schemes, could be limited to those under 35 or those with less than 15 years' contributions under the old scheme.

**Requested action:**

**The government should compensate younger workers for offering them a significantly less attractive pensions deal.**

**Any new regime needs to give some additional incentive to encourage pensions saving, particularly for younger savers.**

**The tax-free lump sum should be capped at £50,000.**

The costs of the state pension are unsustainable and its costs will have to be curtailed in future years. The UK state pension is, by European standards, very low, so there is little scope for containing the costs through reducing the level of the pension. State pension costs cannot be reduced except by raising the state retirement age (which is being done) and reducing the number of claimants.

The OBR predicts there will be 1.3 million people aged over 100 in 50 years' time. This increase in longevity, while welcome, means that the State Pension will become increasingly expensive to continue funding. Therefore it is particularly important that there are effective incentives for individual saving so that, in due course, the state pension could be means-tested if necessary.

The tax revenues that governments will collect from future pensions saving represent a significant off-balance sheet asset. A new ISA-style pension system that promises tax-free withdrawals is clearly less attractive to future governments as they will not receive this tax take. Instead, governments will receive more money up front in immediate tax receipts. This should be used to reduce the National Debt – the financial obligation being passed on to future generations.

**Requested action:**

**Use savings from pension reforms to reduce the National Debt.**

## Student Loan Repayment Threshold

The proposal to freeze the student loan repayment threshold will further transfer an unfair economic burden onto current and future students, a burden which previous generations did not have to pay.

IF has previously published research – *False Accounting? Why the government's higher education reforms don't add up* – which warned that student borrowers were in danger of being treated unfairly because the terms of the Student Loan agreement, which they are compelled to sign, allow future governments to unfavorably alter their repayment terms. No commercial lender could do this because of the protections, which borrowers enjoy, under the 1974 Consumer Credit Act. Student loans have been exempted from this legislation on somewhat dubious technical grounds.

Previous changes to the nature of student loans (for example, the increases in the level of fees which were introduced in 2004 and 2012) have only ever affected new borrowers. It would be unprecedented for a government to retrospectively change the repayment terms of student loans for existing borrowers who have already completed their studies.

The impact of such reform would be to undermine trust in the student loans system, which may discourage future poorer students from studying at university if they don't believe the government will honour the agreement they are signing up to.

It may also undermine the government's argument that students should accept this change because attending university still represents good value, as they would no longer enjoy any certainty that other aspects of the student loan repayment terms – such as the promise that any outstanding debt will be written off after 30 years, or that repayments will be levied at a rate of 9% of salary above the repayment threshold – will not be unfavourably changed in future as well. Therefore, freezing the repayment threshold for all current and future post-2012 borrowers represents poor policy and should be rejected.

**Requested action:**

**Chancellor to recommend to BIS that the student loan repayment threshold is not frozen.**

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I am copying this letter to the Secretaries of State for Transport, Business, Work and Pensions, and Communities and Local Government.

We would be pleased to discuss these matters with you, your Ministerial colleagues or with officials.

**Yours sincerely**

**Angus Hanton**
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