2017 Budget Representation

To: HM Treasury

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come. We welcome the opportunity to present policy recommendations in the areas of pensions, taxation, housing, higher education, and transport that we believe will improve current intergenerational inequity.

1. Pensions

Reform Defined Benefit Pension Schemes

IF is concerned about the high cost of private sector defined benefit (DB) pension schemes, which place a significant economic burden on UK companies. Private companies are spending £42 billion on DB schemes in comparison to just £1.8 billion on defined contribution schemes. These substantial, long-term obligations tie up firms' resources, hindering their ability to fund innovative R&D or increase the pay of younger workers, thus limiting the UK's potential for growth.

IF's 2016 report *DB Pensions: Choking Hazard* calls for reforms to this system. First, a compulsory move from RPI to CPI uprating on DB schemes (in line with common government standards) could save British firms nearly £116 billion over the next 50 years. Further, pension trustee boards should be required to appoint at least one member under the age of 30, to represent the interests of future generations and reduce the risk of such great imbalances arising in future.

End the Triple Lock

IF continues to endorse the ending of the triple lock on Pensions. This year, pensioners' average household income overtook that of the average working family. Further, since the introduction of the triple lock in 2007, pensioner poverty has fallen year on year to just 16%, well below the general population, where the rate is 22%. While poverty is still a serious issue, the triple lock has served its purpose in bringing pensioners back into line. IF suggests downgrading to a double lock, where pensions are linked to the higher of earnings and inflation, which keep pensions rising with living costs but not unfairly privileging them during times of economic hardship.

2. Taxation

NICs and the Over-65s

There is currently an imbalance in the UK tax system. As things stand, workers stop having to pay National Insurance contributions (NICs) when they reach state pension age, effectively giving workers who continue at their jobs a pay rise at the expense of the general taxpayer.

The rapid increase in the number of workers who have chosen to continue working beyond state pension age over the last decade means that the amount which is lost to the Treasury because of this concession has risen significantly.

Attempts to calculate how much additional revenue levying NICs on over-65s would raise have suggested it could be around **£2 billion** – money which would play a useful role in alleviating the current UK debt crisis or paying for some of the costs of Britain's ageing population. For further information in the intergenerational inequity of NICs payments see this IF report.

3. Housing

Introduce a Housing Affordability Target

Since 1997, the housing affordability ratio (the ratio of average house prices to average earnings) has risen from 3.6 to 7.6. Millions of young adults are stuck in their childhood homes or in precarious private, rented accommodation because of house price inflation. By adopting regional targets to lower affordability ratios, the government could demonstrate a real commitment to solving the housing crisis, ensure local authorities are held accountable for the effects of their policies regarding planning applications for housing developments, and provide a countervailing force to NIMBYism.

Promote Intergenerational Communities

In the last 25 years children, young adults, families, and older people, are increasingly living further apart. IF's 2016 report *Generations Apart? The growth of age segregation in England and Wales* suggests that this separation imposes significant social, economic and political costs: reducing opportunities for experience and skills to be passed between generations; imposing greater social care costs upon the state; and increasing political polarisation by age, as seen in recent elections. By increasing the Rent a Room allowance further, the government could not only encourage greater intergenerational living but also address the sky-high under-occupation levels in the UK.

Encourage Downsizing-in-Situ

IF research suggests that there are up to 4.4 million homes that have the potential for "downsizing-in-situ" (where older people subdivide their homes); this would free up a significant amount of accommodation within cities, diversify ageing neighbourhoods and allow older people to remain in their communities at a time in their lives that familiarity and stability are highly valued. IF recommends that the current policy requiring full planning permission for downsizing should be replaced by prior approval.

Encourage Build to-Share

Further, IF champions a “build to share” approach to planning housing developments: developers should be encouraged to provide appropriate and accessible homes for those looking to move when they downsize and for first-time buyers. This would allow for a natural development of intergenerational communities.

4. Higher Education

Reform the Repayment Threshold and Reduce Fees

Much of the debate surrounding the funding of the higher education system has focused upon the reduction, or elimination, of tuition fees and the high interest rate charged on student debts. But IF’s primary concern is that the marginal 41% tax rate – 20% income tax, 12% National Income Contributions and 9% contribution to their student debt – faced by graduates earning over £21,000 is excessively high and disproportionately affects those on lower incomes. Using the 2015 BIS Simplified Student Loan Repayment Model, IF has determined that reducing the cap on tuition fees to £7,500 and increasing the income threshold of repayment to £25,000 would result in just a 2–3% increase in cost relative to those currently faced by government and would particularly benefit low and middle-income earners.

Recent policy innovations with regards to the financing of the higher education system – which have shifted the burden from taxpayers to the undergraduate – have been premised upon the existence of a substantial graduate premium. But the size of the premium is an *average* across all students and the scale of the benefit received by each student is highly dependent upon a wide range of factors such as socioeconomic background, gender, course, institution and degree received. Moreover, with the proportion of graduates in non-graduate jobs more than five years after graduation rising to over one-third, and the number of students dropping out of university rising to almost a quarter in some universities (and over one-half on particular courses), and with three-quarters of those who are able to get a foothold on the property ladder relying upon their parents for assistance, there is good reason to question whether university education is providing many students with any of the pecuniary benefits that they are claimed to enjoy. Hence, reducing tuition fees and increasing the repayment threshold is justified on the grounds of fairness to younger generations and socioeconomic mobility, and can be done without sacrificing the government’s target to develop a financially responsible and sustainable system of higher education.

Apprenticeships

IF also encourages the government’s desire to continue the development of vocational alternatives to universities which has been demonstrated by plans to introduce T-levels and have three million apprenticeships by 2020. Providing information to school leavers and accessible opportunities to gain skills, experience and networks will be the key to reducing the mismatching of skills currently displayed in the labour market. Adequate funding for apprenticeships, a reconsideration of the National Minimum Wage for apprentices and transportation support (see below) are necessary if recent policies reforms are to match up to their promise.

5. Transport

Offer Apprentice Public Transport Concessions

While there is subsidised transport and a discretionary bursary for those between the ages of 16 and 19 in some areas, more financial support should be provided for apprentices to ensure access to work placements. According to the ONS, transport is the single biggest component of household expenditure and so IF believes that policy innovation in this area could have substantial benefits for apprentices. Under-19s and apprentices in their first year are guaranteed a minimum wage of just £3.50/h; many are from lower-income backgrounds and receive less financial support from their families, making apprenticeships financially unviable. By offering a free travel pass to apprentices the government would increase the accessibility of a range of apprenticeships to young people, allowing them to enter the placement best suited to their skills and giving employers a larger pool of candidates to choose from.

If you would like to learn more about the work of the Intergenerational Foundation please contact:

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