Call for evidence response:
"Public Inquiry into Intergenerational Fairness and Provision"

To: Department for Work and Pensions Select Committee

By: The Intergenerational Foundation

Date: 10 September 2018

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.

Executive Summary

- IF believes the intergenerational contract which underpins the welfare state is under increasing strain from rising longevity and the growing wealth imbalance between the Baby Boomers and the younger generation.
- In the labour market, younger workers have been the biggest losers from over a decade of no real pay growth, while the incomes of pensioner households have risen substantially in real terms.
- With regard to housing, young adults have become significantly more likely to rent than to buy over the past couple of decades because of rising house prices, which have made them increasingly reliant on parental wealth in order to access the housing ladder – a trend which is likely to have a significant negative impact on social equality, as it is strengthening the relationship between coming from a wealthy background and being able to acquire significant wealth yourself.
- With regard to communities, social changes have re-enforced patterns of age segregation which make it significantly less likely that younger and older people will live in the same neighborhood.
- With regard to taxation, IF believes that people who work beyond State Pension Age should have to start paying National Insurance on the same basis as people of working-age, in order to provide additional resources to help meet the costs of our ageing population.

Introduction:
The Intergenerational Foundation (IF) is pleased to have the opportunity to respond to the House of Lords inquiry into intergenerational fairness. Since it was formed in 2011, IF can claim to have played an important role in leading the debate about intergenerational fairness in the UK by publishing a large number of pieces of research into these issues, and we are regularly consulted by the media and policy-makers.

Our responses to the questions which were posed by the select committee in its terms of reference are set out in the following sections of this document. We have not attempted to answer every single question, but instead we have focused on the ones where we feel that IF's expertise in those particular subject areas can make the most useful contribution to the debate.

General

1. Is the intergenerational settlement in the UK currently fair? Which generations are better off or worse off, and in which ways?

IF strongly believes that the current intergenerational settlement in the UK is unfair on today's young people, who are doing significantly worse across a range of measures compared to both today's older generation and how previous cohorts of young adults were doing when they were at the same stage in life. We will provide further evidence to support these assertions throughout the rest of this document, but we are extremely concerned that young adults are struggling specifically in relation to jobs, housing costs, the cost of attending higher education, being unable to save for the future, and being under-represented politically. Although there are very significant inequalities within all generations, it can be demonstrated that young adults have suffered disproportionately from a number of structural changes in the economy that have occurred since the 1990s, and which in a number of cases have been compounded by government policy decisions; by contrast, older generations have generally been treated much more favourably by the same processes over the course of this period.

2. What are the future prospects for different generations in the light of current economic forecasting?

While the future is inherently difficulty to predict, IF would argue that intergenerational unfairness is likely to continue being exacerbated in the short- to medium-term by the impact of two powerful forces: continued government austerity measures, which so far have generally had a larger impact on younger people than older ones, and the impact of Brexit, which most forecasters expect will have a detrimental impact on the living standards of Britain's workers.

Firstly, with regard to austerity it has been demonstrated that younger people and working-age households have been affected disproportionately by the impact of public expenditure cutbacks since 2010, while retired households have generally had their living standards protected. During the first period of austerity, between 2010 and 2015, pensioner households enjoyed significant increases in the value of both cash benefits and the benefits-in-kind which they received, whereas the poorest 60% of working-age households all endured seeing the value of their cash benefits decrease in real terms.[1] It is easy to see why this would have been the case, given that so many of the government's welfare reform measures were targeted specifically at working-age households, such as the 1% cap in indexation on working-age benefits; the £3.9 billion worth of cuts to tax credits; the £1.9 billion worth of cuts to Child Benefit; and the £1.8 billion worth of cuts to private sector Housing Benefit.[2] By contrast, the full array

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[1] Based on IF's analysis of data taken from: ONS (2015) *Effects of Taxes and Benefits on Household Income, 1977 to Financial Year Ending 2014* Newport: ONS

[2] All figures are quoted from: Hood, A. and Phillips, D. (2015) *Observations: Substantial cuts made, but biggest changes to the benefit system yet to come* London: Institute for Fiscal Studies

of universal benefits was protected for all pensioners, and the introduction of "triple lock" indexation means that the value of the basic state pension rose significantly during the same period. Looking to the future, at the time of the 2017 Autumn Budget statement, a further £12 billion of welfare retrenchment had already been budgeted for between 2017/18 and 2021/22, the vast majority of which will come out of spending on working-age benefits.[3]

Secondly, although the impacts of Brexit are highly uncertain (and IF has no ideological position in the Brexit debate as an organisation), the vast majority of economic forecasts predict that the most likely future scenario facing Britain is one in which growth and trade with the EU are reduced, resulting in lower living standards for British workers; this is what any economist would intuitively expect to happen when a country introduces new sources of trade friction into its relationship with its largest trading partner. A major review of the various economic forecasts which different organisations have produced that attempt to model the impacts of Brexit concluded that virtually all plausible future Brexit scenarios will result in a material reduction in economic prosperity between the present and 2030 (with the only major exception being a study produced by the pro-Brexit campaign group "Economists for Brexit").[4] Overall, you would expect this to harm the future prosperity of young adults more than any other age group because will have to live with the impacts of Brexit for longest, so this augurs poorly for their economic wellbeing.

[3] IFS (2017) *Autumn 2017 Budget: options for easing the squeeze* London: IFS
[4] Begg and Mushövel (2016) *The economic impact of Brexit: jobs, growth and the public finances* London: LSE

Jobs and the workplace

3. To what extent do different generations have a better or worse experience of the labour market?

The labour market has become one of the most important arenas of intergenerational inequality during the period since the global financial crisis began in 2007. It has been clearly demonstrated that the British labour force, as a whole, has suffered an unprecedented decline in real wage levels throughout this period:

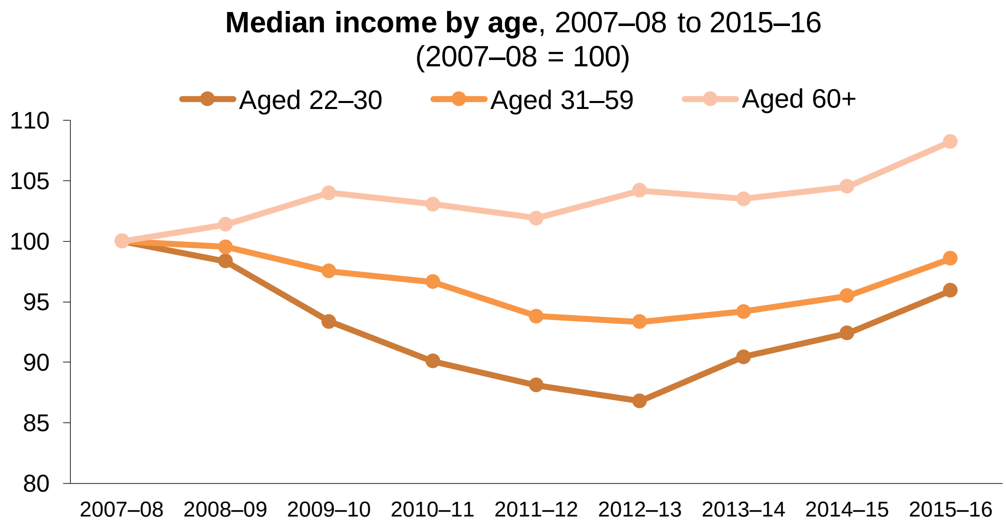

Fig.1 Median income for different age groups, 2007/08 to 2015/16[5]

A decade on from the global financial crisis, real wage levels for the average working-age person are still below where they were at the time when it struck, owing to a combination of poor economic growth, stagnant productivity and public-sector wage restraint. It has also been shown that even the relatively small improvement in real wages which has occurred since 2012/13 has been driven partly by higher employment, rather than people who already had jobs receiving real terms wage increases.[6] However, workers who are currently in their 20s – many of whom were entering the labour market for the first time when the crisis struck and in its immediate aftermath – have fared even worse than their older colleagues; not only do they earn less, on average, than any other age group in absolute terms, but they have also seen the largest real terms decline in how much people of their age were earning compared to ten years ago. Other analysis has shown that there has been a long-term decline since the early 1990s in the average wages of men who are in their twenties which has been driven by the gradual shift of young men away from higher-paid, full-time jobs (particularly in manual and technical occupations, where their wage bargaining power was greater because of unionisation) towards lower-skilled, part-time work in the services sector such as retailing and

[5] Browne, J. and Hood, A. (2017) *Living standards, poverty and inequality in the UK: 2015-16 to 2020-21* London: Institute for Fiscal Studies
[6] Johnson, P. (2018) *Income inequality is not rising, but seen from the middle it looks worse* London: Institute for Fiscal Studies

bartending, while average wages for young female workers have broadly been stagnant across the same period.[7] This is reflective of the fact that younger workers who have recently entered the labour market have been more affected by the ways in which technology and casualisation have disrupted the world of work; for example, 36% of workers who are employed using zero-hours contracts are aged 16 to 24, even though this age group only accounts for 11% of the employed workforce.[8]

The overall point to be made about younger workers' incomes is that, while all workers have done badly out of the labour market over the past ten years, the youngest workers have done especially badly, a trend which has also been compounded by the retrenchments to working-age welfare that were mentioned above. By contrast, the only age group whose average incomes have risen over the past decade has been pensioners, because of the retirement of the oldest people from the Baby Boomer generation (more of whom had access to good-quality pensions than was the case in previous generations) and the government's decision to protect pensioner benefits from its austerity measures. The government's "triple lock" policy has been particularly significant in this regard, because it has ensured that the spending power of the state pension rises in line with whichever is highest out of inflation, earnings growth or a floor rate of 2.5% a year, at the same time that the inflation uprating of working-age benefits has been capped at 1%.

[7] Resolution Foundation (2017) *Millennial men earned £12,500 less than the generation before them by the time they hit 30* London: Resolution Foundation
[8] Office for National Statistics (2018) *Contracts that do not guarantee a minimum number of hours: April 2018* Newport: ONS

Housing

6. To what extent is intergenerational fairness impaired by the UK housing market?

Housing is one of the other key areas of intergenerational inequality in the UK today. Most parts of the UK, but especially London and the South East, have seen dramatic rises in house prices over the past 25 years which has inevitably benefited property-owners at the expense of people who do not own their own homes. This has huge implications for intergenerational equity because property owners are disproportionately likely to be older people who got on the housing ladder when it was still relatively affordable in the 1970s and 1980s, whereas because today's young adults did not have that opportunity, they must either buy or rent their housing in an over-inflated housing market or live with their parents for much longer than was considered usual by previous generations.

The result of the UK's housing crisis is that young adults have seen a huge increase in their housing costs in comparison to older generations over recent years:

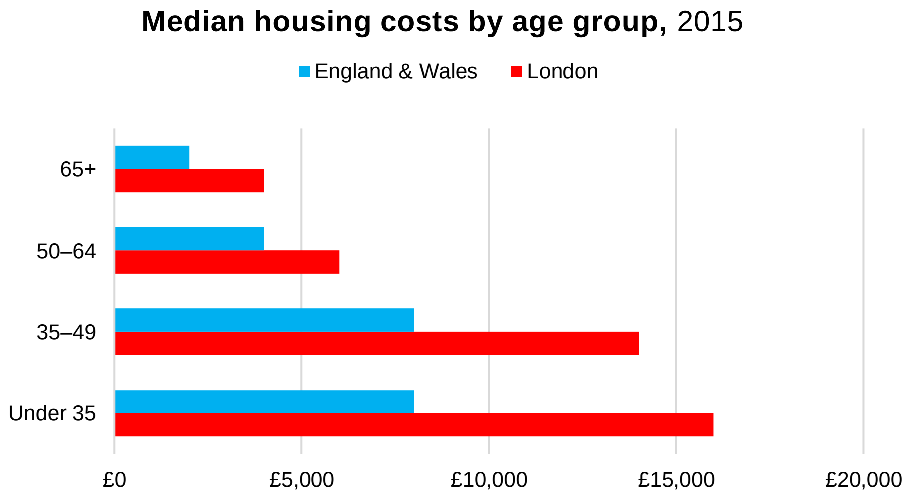

Fig.2 Housing costs by age group[9]

The data in Fig.2 also emphasize how much higher housing costs are in London than they are in the rest of the rest of England and Wales, which is significant for intergenerational inequality because so many of them migrate to London in search of job opportunities during this phase of their lives, whereas people become more likely to move out of London as they get older. Survey evidence suggests that the majority of young adults still aspire to become homeowners, but many of them are very unlikely to ever achieve this aim: 40% of Millennials

[9] Cook, L. (2015) *Market Examination*, Presentation delivered during the 2015 RESI conference at Celtic Manor, Newport, 8 September 2015

who are over 30 are now renting their homes privately, twice as many as for Generation X and four times as many as among the Baby Boomers when those two generations were at the same stage in life, and a recent estimate suggested that a third of Millennials could still be renting privately at age 65.[10] It is very unlikely that today's young adults will ever achieve the same levels of home ownership that were enjoyed by their parents' and grandparents' generations, which has serious knock-on effects for social equality as it will make inherited housing wealth more valuable to those fortunate members of the Millennial generation who are lucky enough to inherit property wealth from their families.

7. What has driven the increase in the size of the private rented sector? Which generations are most affected by this and how?

As IF argued in our 2013 research report *Why BTL equals "Big Tax Let-off": How the UK tax systems hands landlords an unfair advantage*,[11] the growth of the private rented sector has been highly beneficial to wealthier members of today's older generation (particularly Baby Boomers born between 1946 and 1964) largely at the expense of Millennials (born 1980 to 2000). As the committee must be well aware, the private rented sector has expanded hugely since the mid-1990s: in 1996/97 about 2.1 million households were renting privately (one in ten of all households), whereas by 2016/17 this had grown to 4.7 million households (about one in five).[12] We argued in our report that this growth has occurred for a number of reasons: the failure to build enough new housing, which has pushed owner-occupation out of the reach of first-time buyers; the liberalisation of the private rental sector following the 1988 Housing Act, which removed rent controls; innovation within the financial services sector, which sought to create a market for buy-to-let mortgages; low interest rates, which made buy-to-let mortgages especially attractive while reducing the returns to other types of asset; the shrinkage of the social rented housing sector, which created a new market for private landlords letting to low-income tenants receiving Housing Benefit; the higher risk-adjusted returns of property investment in comparison to stock markets during the 1990s and 2000s; and favourable tax treatment with respect to tax relief on mortgage interest, depreciation and Capital Gains Tax, which our report argued should be reformed (reforms which the government has subsequently adopted).

As it was predominantly wealthy middle-aged and older people who had the necessary capital to take advantage of the favourable environment for the private rented sector during the 1990s and 2000s, the age profiles of landlords and tenants are very different. According to a survey undertaken by the Association of Residential Letting Agents (ARLA) in 2012, nearly two-thirds of landlords in the UK are aged 46 to 65 and the average of one is 53.[13] By

[10] Corlett, A. and Judge, L. (2017) *Home Affront: housing across the generations* London: Resolution Foundation
[11] Kingman, D. (2013) *Why BTL equals "Big Tax Let-Off": How the UK tax system hands landlords an unfair advantage* London: The Intergenerational Foundation
[12] Ministry of Housing, Communities and Local Government (2018) *English Housing Survey 2016/17* London: Ministry of Housing, Communities and Local Government
[13] Association of Residential Letting Agents (ARLA) (2012) *ARLA Survey of Residential Investment Landlords* Warwick: ARLA

contrast, the average of a private renter in 2016/17 was 40, and about 65% of them are aged between 16 and 44.[14]

The fact that so many more young adults now live in the private rented sector raises a number of important issues for policy-makers. Firstly, the majority of them do not want to live in the private rented sector for the long-term: according to a 2013 survey of non-homeowners conducted by Halifax, there is a fundamental mismatch among people who rent privately between their aspirations of homeownership and the affordability crisis they face in today's housing market. This survey found that 79% of non-homeowners aged 20–45 would like to become owner-occupiers one day, but just 44% of people in this age group are actually owner-occupiers at the moment. Within this group, 39% of them said they would like to own a home but didn't think they would ever be able to afford it. The results of this survey also hinted at the broader negative impacts for society if many of these people never manage to become homeowners: 47% did not believe it was right to have children until they owned their own home, while 57% said they didn't think they would ever be able to retire if they were still renting.[15] As well as undermining the notion that Britain is a "property-owning democracy" if millions of people who would like to own their homes cannot do so, this is likely to have increasing political repercussions if it feeds through into a broader sense of disatisfaction with the economic *status quo*.

Secondly, the cost of renting is far more economically burdensome for tenants than other housing tenures, with the result that they have lower disposable incomes and find it much harder to save up enough money to get on the property ladder eventually. On average, privately renting households spend 46% of their total income on rent (net of Housing Benefit), whereas the average household which has a mortgage spends only 19% of its total income on repyaments and interest.[16] The shift in tenure among younger adults away from owner-occupation towards private renting is one of the main causes of the pattern shown in Fig.1; although you would naturally expect older adults to have higher housing costs than younger ones because they are more likely to have purchased homes and paid off their mortgages, the size of the generational gap in housing costs (particularly in London) is very striking. The cost of private renting is also a key reason why, according to the government's official measure of relative poverty, there are 14 million people who live in poverty on an after housing costs (AHC) basis compared with the smaller figure of 10.4 million people before housing costs (BHC).[17]

Thirdly, private renting is also far less stable than other housing tenures. In 2013/14, one in four private renters moved house, compared to only 5% of social renters and 3% of owner-occupiers; 29% had moved three or more times in the previous five years (which rose to 37% in London). In the immediate-term, this exposes tenants to having to pay moving costs and contributes to

[14] Id. At Footnote 12.
[15] Halifax Bank (2013) *Generation Rent: A Society Divided* Halifax: Halifax Bank
[16] Ibid. at Footnote 12.
[17] Department for Work and Pensions (2018) *Households below average income: 1994/95 to 2016/17* London: Department for Work and Pensions

rental inflation because landlords can re-let existing properties at higher prices more quickly; over the longer-term, moving this frequently creates a high degree of instability for tenants, particularly on the quarter of families with children who are private renters, as it disrupts children's schooling and gives families less of a stake in their local communities.[18] The reason why renting privately in England is so unstable is because tenants enjoy virtually zero legal protection from being evicted if they are renting under the Assured Shorthold Tenancy (AST) agreements which predominate within the private rented sector, which usually last for either 6 or 12 months. Landlords are free to increase the rent each time an AST gets renewed, and can seek a court order to have a tenant evicted for no legal reason (even if the tenant isn't in rent arrears) as long as they have lived in the property for a total of more than six months.[19] This is completely different to the situation in Ireland and most other European countries which have large private rented sectors, where tenants enjoy greater protection from eviction.

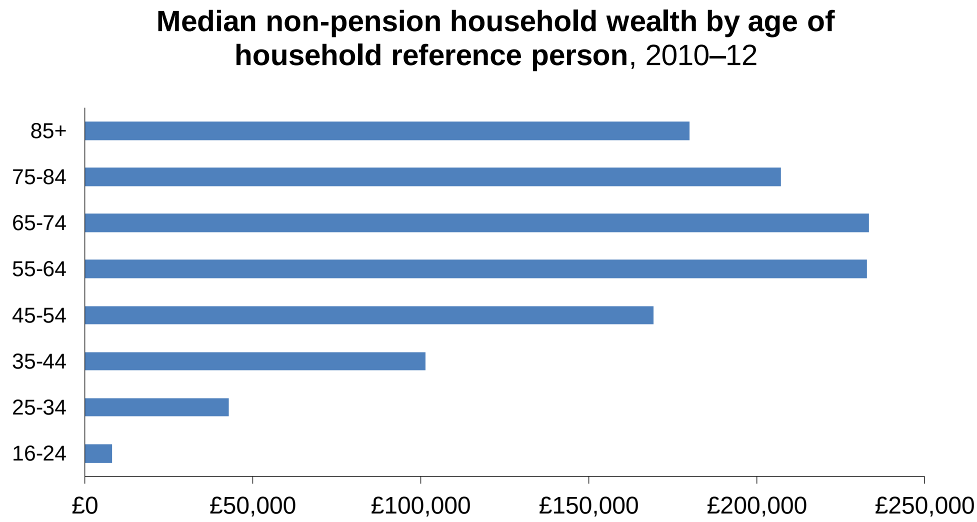

Fig.3 Median non-pension household wealth by age of household reference person[20]

Fourthly, the growth of private renting among today's younger adults is likely to have significant implications for patterns of wealth accumulation within this cohort. In addition to providing a place to live, housing is also one of the two main vehicles (alongside pension schemes) through which the vast majority of people accumulate wealth which they can either borrow against, drawdown in later years or leave to their offspring if they desire to. The substantial decline in home-ownership is one of the main reasons why today's young adults have accumulated significantly less overall wealth on average than previous generations had done by the same stage in life. Research has shown that the average person who was born between 1981 and 1985 (i.e. the oldest

[18] Bibby, J. (2016) *Renting families move so often they are nearly nomadic - new research* London: Shelter
[19] Shelter (2017) *Unsettled and insecure: The toll insecure private renting is taking on English families* London: Shelter
[20] Hills et al. (2015) *Falling Behind, Getting Ahead: The Changing Structure of Inequality in the UK, 2007-2013* London: Centre for the Analysis of Social Exclusion, LSE

Millennials) had only accumulated *half* of the total net wealth by age 30 of someone who was born during the previous five-year birth cohort (i.e. the youngest members of the Generation X). As shown in Fig.3, the generational wealth gap had become extremely large by 2012 (and these figures didn't include wealth built-up in pension funds, which would have made the gaps look even starker if it had been included. Professor Sir John Hills of the London School of Economics has estimated that for households aged 25 to 34 to catch-up with the levels of wealth enjoyed by older generations they would effectively need to save 50% of their incomes each year, which seems implausible when their incomes have been so stagnant over recent years and housing costs are so highly for the members of this generation who rent privately.[21]

8. How can we ensure that the planning system provides for properties appropriate for all generations, including older people?
10. To what extent are initiatives to encourage down-sizing or intergenerational homesharing part of a viable solution to the housing shortage for younger generations?

We have chosen to combine these two questions because we think they are intrinsically linked: in IF's view, downsizing is one of the keys to achieving a more efficient allocation of the housing stock between people of different ages, but one of the reasons why there isn't more downsizing in the UK currently is because planning policy doesn't do enough to ensure that suitable homes exist in the right places to facilitate it.

IF has previously proposed a solution to this problem. In our 2016 research report, *Unlocking England's Hidden* Homes, we argued that it would be feasible to "unlock" millions of additional new homes from within our existing housing stock by making it easier for older property owners to "downsize-in-situ" through a new wave of subdividing big houses into smaller dwellings. We argued that the government should create a new householder permitted development right, subject to prior approval, which would enable a homeowner to subdivide without needing to submit a full planning application. Our report shows that there are 4.4 million owner-occupied households in England that have two or more spare bedrooms – potentially enough space to be divided into at least two flats that would comply with the new National Space Standards – and even if only 2.5% of these 4.4 million households subdivided their properties into two flats, it would produce more new housing than the entire private sector currently builds each year.

At present, homeowners have to submit a full planning application and get it approved in order to subdivide their properties, and the fact that fewer than 4,500 homes are being subdivided each year despite record house prices suggests that many people who could have an economic incentive to subdivide their homes are not doing so. Making it more straightforward for homeowners to subdivide would be beneficial for the following reasons:

[21] Quoted in: "Young people 'unlikely to attain wealth of parents' generation' – study" *The Guardian*, 12 March 2015

- The government needs new approaches to reach its target of building a million new homes by 2020;
- The evidence shows that these homes would be in the "right" places: predominantly areas with the highest future demand for new housing, and surrounded by existing communities, jobs and infrastructure (including commuter hubs);
- Creating new homes in this way would reduce the development pressures on areas where the government is keen to prevent new housing from being built, such as the green belts on the edges of towns and cities;
- Homeowners would benefit from unlocking a proportion of their housing wealth, reduced household bills and lower Council Tax without having to leave their current addresses;
- We need to adapt our existing housing stock to match the trend towards a rapidly growing population where more people live in small households.

One particular area where this policy could create a "win-win" for the government would be its potential impact on the supply of housing for older people. There are now 4.26 million people over the age of 65 who live in homes with at least 3 bedrooms, and evidence suggests that 1 in 5 older homeowners would like to downsize (not to mention that there are 1.8 million homeowners aged over 65 living with health problems that could make larger homes unsuitable for them), but the vast majority either don't want to leave their existing communities or can't find suitable properties to downsize into. Therefore, making it easier for people to convert large homes could help older homeowners to "downsize-in-situ", enabling adaptations such as converting the downstairs area of a large property into a smaller dwelling while creating a new flat upstairs for the owner to rent or sell. This could provide the benefits of helping them remain independent for longer and make them financially self-sufficient. Importantly, it is likely that these subdivisions would be undertaken by existing homeowners who would have the incentive of being able to unlock some of their existing housing equity, so the disincentives which prevent large homebuilders from developing more housing (i.e. the threat to their profits from bringing too many units onto the market at once) won't apply to them.

The full report demonstrates that applications to subdivide larger properties are frequently rejected by local planning authorities under the current system because the resulting properties would be of a higher density than those in the surrounding area. However, recent planning reforms have supported the principle of building at higher densities to increase supply, so this proposal would be in keeping with wider planning objectives. The report also argues that the quality of the subdivided housing units which would result from the implementation of this policy could be assured using the prior approval process, in order to prevent the creation of excessively small homes, mitigate traffic and parking impacts, and so on.

IF does not suggest that this proposal could solve Britain's housing crisis on its own, but we do believe it could be used to address some of the immediate need for new housing by creating new units more quickly than most alternative methods would be likely to achieve.

9. How can the property wealth of older generations (parents and grandparents) be utilised to help younger generations (their children and grandchildren) access the property market? What would be the impact on intra-generational fairness of such schemes?

One of the knock-on effects of the UK's rising house prices over the past couple of decades has been that parental wealth has become an increasingly significant factor in enabling young adults to get on the property ladder, particularly in London and the South East where prices have risen the most. Research has shown that around 280,000 property purchases each year currently involve financial assistance from either parents or grandparents, which demonstrates that the so-called "Bank of Mum and Dad" is already playing a very large role in Britain's property market.[22]

Some commentators are fairly sanguine about this process, arguing that without the "Bank of Mum and Dad", even fewer young adults would be able to own their own homes than is the case at present. It could be argued that giving financial gifts to your children and grandchildren during your lifetime represents an efficient use of your accumulated resources, especially since rising longevity means that people are often middle-aged or older when their parents die, and the tax system treats lifetime giving more advantageously than it does bequests upon death (because the former are tax free as long as you survive at least seven years, whereas the latter could in theory be subject to inheritance tax, although in practice very few estates are liable for it as the thresholds are so high). Although they are yet to become a major feature of the UK mortgage market, some banks and building societies have started to launch innovative products which are designed to enable first-time buyers to get on the property ladder by leveraging some of their wealth which their older relatives have tied-up in their properties, which may well become more popular in the future.

However, at IF we are highly concerned that the increasing importance of parental wealth in enabling young adults to accumulate wealth of their own is likely to lead to a further widening of economic inequalities among today's young adults. Given that it is already well-known that children from wealthier families are more likely than those from poorer ones to do well at school and go on to high-paid careers themselves, and they are more likely to receive large inheritances, then if parental inheritances are playing a more significant role in lifetime wealth accumulation for Millennials than was the case for previous cohorts then it is likely to have a strong negative impact on social mobility.[23]

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[22]Legal and General (2016) *The Bank of Mum and Dad* London: Legal and General
[23]Birmingham Policy Commission on the Distribution of Wealth (2013) *Sharing our good fortune: understanding and responding to wealth inequality* Birmingham: University of Birmingham

Communities

11. In what ways could more active communities help redress imbalances between generations? Are there opportunities for more non-state provided solutions to the challenges faced by an ageing society?

IF's work on the impact of our ageing population on communities has focused upon the increasing extent of age segregation; that is, the growing tendency for people of different ages to live in different places, which we believe is a significant phenomenon that hasn't received enough attention so far.

Our 2016 research report *Generations Apart? The growth of age segregation in England and Wales* demonstrated that age segregation has become increasingly pronounced since the early 1990s. Comparing rural areas and urban ones, we found that the average age of someone living in a rural area had risen twice as rapidly between 1991 and 2014 as the average age of someone living in an urban area (using the ONS's classification system for categorising places as either rural or urban); 60% of the neighbourhoods in England and Wales where over half the population is above 50 are now in rural areas, whereas virtually all the neighbourhoods in which half the population is under 30 are in urban ones. We also looked at how patterns of where people live have shifted within the 25 largest urban areas in England and Wales, which showed that age segregation has also become more entrenched within these large cities. Most strikingly, the average child (someone under the age of 16) who lives in one of these large cities lives in a neighbourhood where just 5% of their neighbours will be over 65; in other words, children and their parents are now quite unlikely to share their neighbourhoods with very many older people.

When we analysed how the median age (the age of the middle person in the age distribution) differed between the different neighbourhoods of these cities, what we tended to find was that during the period between 1991 and 2014 the cores of these cities had become much more youthful, whereas the suburbs and surrounding areas had got significantly older. There are a number of possible reasons why this picture could have emerged: the expansion of universities and university accommodation based in inner-cities during this period; the dramatic increase in the number of younger people who rent privately, mainly in inner-city areas; the gentrification of inner-cities, which in many places has been driven by the redevelopment of formerly run-down areas to build private rented accommodation; and the ageing-in-place of suburban areas because young families can no longer afford to move to them.

We also argued that the growth of age segregation has negative impacts for wider society, as it is likely to undermine social capital by inhibiting mixing between people of different generations, it is likely to contribute towards political polarisation because different generations have different cultural attitudes and beliefs, and these differences are likely to have a big impact on what kind of politicians get elected in a political system which revolves around geographically-based constituencies.

Taxation

13. To what extent does the tax system take account of fairness between the generations? What changes, if any, should be made to the tax system to achieve a fair intergenerational settlement?

IF believes that tax is a key intergenerational issue because the tax system and the welfare state play an important role in redistributing resources across time, from one point in an individual's life course to another. This is demonstrated by modelling from the Office for Budget Responsibility (OBR):

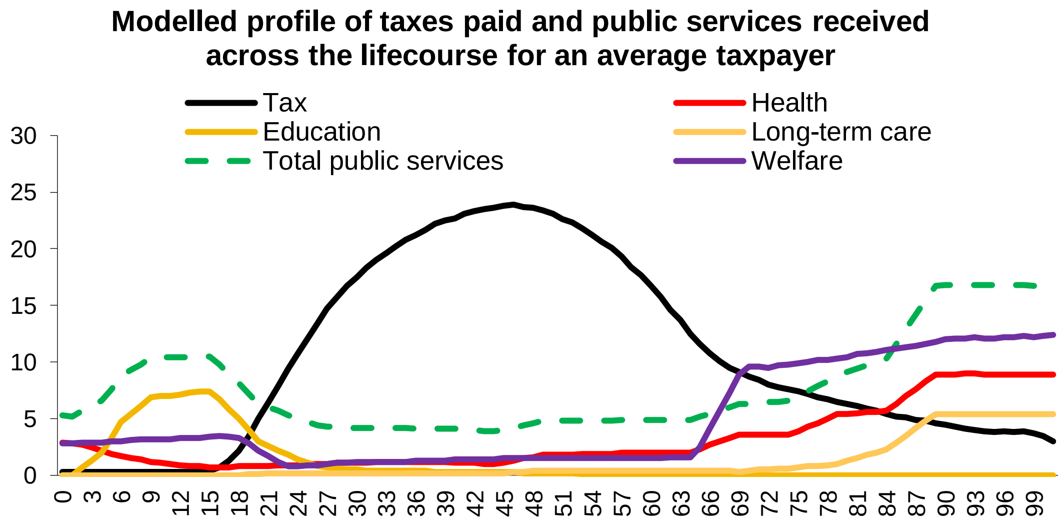

Fig.4 Modelled profiles of taxes and public service consumption over the life-course[24]

As the analysis undertaken by Sir John Hills of the LSE has demonstrated, the main function of the welfare state is to redistribute resources between different stages of the same individual's life, rather than between different individuals.[25] The average citizen is a net consumer of public resources during childhood, then becomes a net contributor throughout their working life until retirement, at which point they become a net recipient again, mainly because of the state pension and healthcare. However, because it is a pay-as-you-go system, this system of lifetime redistribution only works if the social contract of the welfare state is underpinned by an "intergenerational contract", which relies upon each successive generation of workers being willing to support public services for the current generation of pensioners, in return for the next generation of

[24] Office for Budgetary Responsibility (2015) *June 2015 Fiscal Sustainability Report* London: OBR

[25] Hills, J. (2014) *Good times, bad times: the welfare myth of them and us* Bristol: Policy Press

workers doing the same for them when their time comes.

IF strongly believes that the ageing of the large post-war Baby Boomer generation is placing the intergenerational contract under increasing strain. The number of Baby Boomers and the unprecedented longevity which they are set to enjoy means they will require a bigger financial contribution from the next generation to support them in their old age than they provided for the generation which came before them, yet at the same time there is abundant evidence to suggest that today's young workers are enduring a lower standard of living than today's pensioners did when they were the same age. Numerous forecasts of public expenditure have indicated that taxes will have to rise for pay for the cost of the UK's ageing population over the coming decades, so unless the tax system undergoes a significant restructuring – for example, by raising taxes on wealth instead of income – it will predominantly be people of working-age who pay for it.

A reform which IF has consistently advocated to help address this problem is charging people who work beyond State Pension Age National Insurance on the same basis as workers who are below State Pension Age. The current exemption from paying NICs which people who continue working beyond state pension age receive is discriminatory (as it means two people with the same income are taxed at different rates just because of their ages), regressive and inefficient. It seems increasingly hard to justify now that almost 1.2 million pensioners continue working, and the revenue which is not collected could be used to help fund social care or other public services that benefit poorer older people. Our arguments for pursuing this reform are discussed in more detail in our 2018 research report on the subject.[26]

Conclusion

We have attempted to assist the select committee by providing robust answers to the questions which it posed about intergenerational fairness. We would also very much value the opportunity to give evidence in person to the select committee. If you would like to learn more about the work of the Intergenerational Foundation please contact:

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[26] Intergenerational Foundation (2018) *An extraordinary anomaly: why workers over State Pension Age should pay National Insurance* London: IF