The savings squeeze

Young people locked out from the benefits of saving

Alec Haglund

Intergenerational Foundation

The Intergenerational Foundation (www.if.org.uk) is an independent, non-party-political charity that exists to protect the rights of younger and future generations in British policy-making. While increasing longevity is to be welcomed, our changing national demographic and expectations of entitlement are placing increasingly heavy burdens on younger and future generations. From housing, health and education, to employment, taxation, pensions, voting, spending and environmental degradation, younger generations are under increasing pressure to maintain the intergenerational compact while losing out disproportionately to older, wealthier cohorts. IF questions this status quo, calling instead for sustainable long-term policies that are fair to all – the old, the young, and those to come.

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The Intergenerational Foundation is grateful to Curtis Banks for supporting the research in this report.

CURTIS BANKS

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Foreword

More than ever, young people are finding it more difficult to save. The impact of COVID, cost of living and inflation are ever increasing and it's impacting younger people the most.

We last partnered with the Intergenerational Foundation in 2021 when they launched their report "Left Behind: a decade of intergenerational unfairness", which highlighted that young people have been hit the hardest when it comes to financial inequality, and the wealth gap continues to grow between younger and older generations.

When people struggle financially, short term over long term saving often becomes the priority out of necessity. The impact this can have on ensuring sufficient provisions are in place for later life, such as retirement, is worrying.

This report shows many people are beginning to save for retirement earlier, with the number of pension provisions in place for younger people increasing from 15% in 2010 to 50% in 2020[1], undoubtedly through the introduction of auto-enrolment. However, does auto-enrolment lead to an out of sight out of mind mentality? By potentially removing the focus on consistent reviews of current or future provisions, or seeking financial advice to better understand options that may be available, planning for the distant future may not be seen as such a priority. Our younger generations certainly do not have access to the generous final salary schemes that were once widely accessible, and it is likely that the minimum contribution amounts that apply to auto-enrolment will not provide sufficient financial provisions for a financially stable retirement. There are also those to consider who do not have access to auto-enrolment schemes such as the self employed where only 6% of those aged 25-34participate in a pension scheme. So what can be done to help spread the wealth of older generations to help younger generations who are struggling to save for the longer term?[2]

One consideration is to review the accessibility of accrued pension wealth held by older generations and incentivise access to sharing these savings with younger generations. Intergenerational transfers of pension wealth after death is already flexible and tax efficient, but sufficient planning needs to be done ahead of time to fully benefit from all pensions can offer. In a similar vein to other gifting options allowed under Inheritance Tax rules, pension regulation could allow further freedoms for pension wealth to be shared prior to death. This could be in the form of gifts, in order to help younger family members pay off student debt or create deposits for first homes, and in turn it may help reduce some of the financial burdens younger people are currently facing and allow them to not just survive, but thrive in the future.

Melissa Dean

Head of Client Relationships, Curtis Banks

[1] ONS Wealth and Assets Survey. Percentage of 16-24 year olds with active occupational schemes
[2] ONS Family Resources Survey 2020/21 – Pensions Participation

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Main Findings

- Although young people report feeling more confident that they will have a good standard of living upon retirement than they felt a decade ago, overall levels of saving have not increased.
- Auto-enrolment has led to a welcome increase in the amount of young people with some pension wealth, but the median pension wealth of all individuals aged 16–24 remains zero. Since auto-enrolment, the median pension wealth of the 25–34 cohort has increased from £0 to £3,000, while the median pension wealth of all cohorts aged 45 and above has doubled, tripled, or even quadrupled.
- Young people would like to invest and save in property, but over the last decade the proportion of young people with zero property wealth has increased from 35% to over 40%.
- Median pension wealth held by young people with some pension wealth has decreased by approximately a quarter over the past decade.
- Young people's high cost of living and stagnating real earnings are the main reasons it is increasingly difficult for young people to save.
- Only 6% of those aged 25–34 who are self-employed participate in a pension scheme.
- The proportion of owner-occupiers and landlords who are young people continues to decline, while a record-high number of young adults now stay on to live with their parents in their late 20s, indicating the financial pressures they face.
- Of those aged 16–34 who are employed, only 65% have enough savings to be able to withstand a three-month-long 25% loss of income, and just over half of those aged 16–34 who are self-employed could withstand the same loss of income.
- Young people do not have access to the same generous defined benefit pension schemes, such as final salary schemes, enjoyed by previous generations.
- Low levels of discretionary spending, property ownership and pension wealth indicate an insecure future for young people without adequate policy intervention.
- Governments have provided age-related savings' schemes in the past with high-yielding "Granny Bonds". Similar schemes, along with subsidised savings accounts for young people from low-income families, should be offered to the young in conjunction with free financial advice services.

1. Introduction

Young people find themselves in an increasingly difficult and precarious financial situation. Previous research undertaken by the Intergenerational Foundation (IF) has shown that well before Brexit, COVID-19, the cost-of-living crisis, and now the energy crisis, young people were struggling financially. Today, young people face even greater financial pressure thanks to government policy changes, rising rents, the need to claw back £500 billion in COVID-19 spending, fiscal drag and rising inflation. This makes it very difficult for young people to build up savings for the future, both in the short-term and the long-term.

While all young people in work face an increasing tax burden due to fiscal drag that results from frozen tax thresholds, 50% of them also have to pay a "graduate tax" in all but name, on earnings over the current threshold of repayment.

Saving has become increasingly difficult for most young people and largely impossible for others. For those with the ability to save, record low interest rates over the past decade have provided little financial return for low risk saving options. In comparison with previous generations, young people tend not to have the opportunity to invest in asset classes which attract higher returns, such as property, which is also relatively well insulated from inflation. They also do not have access to the same generous defined benefit pension schemes which were available to older generations. This leads to this question; if they can save, where are younger generations saving, are they saving enough, are they choosing different savings options to other generations, and should there be greater policy interventions to help them save? This paper seeks to better understand the saving situation of young people, and to what extent young people's current levels of savings and pensions are enough for a financially secure future.

For the purposes of this paper, "young people" refers to anyone approximately between 16 and 40, as the age bands used in different data sources vary. Furthermore, a wider definition allows for a more holistic intergenerational analysis, as data might reveal how a person's situation might change when moving from one age band to another, for example from being 30 to being 40.

In order to help the younger generation to save, policy makers need to better understand the economic pressures facing young people, how their prospects for saving have deteriorated in comparison to previous generations, acknowledge that an intergenerational unfairness is taking place, and provide younger generations with more saving support.

2. Historical context and literature review

2.1. Earlier research and brief overview of changes and trends in saving

This section presents a brief overview of previous research on the topic, the historical context of saving, and challenges associated with the saving rates of young people in the UK.

State pension provision in the UK began back in 1908, was further extended and institutionalised after the second world war, and then experienced another significant change in the neoliberal reforms of the 1980's.[3] Entitlement to the state pension accrues by paying payroll tax, undertaking caring responsibilities or receiving out-of-work benefits. Under the new state pension plan (for those who reached state pension age after 6 April 2016), one needs a minimum of 10 years on the National Insurance record in order to receive any state pension, and 35 years for receiving the full amount. Currently, the full new state pension is £185.15 a week, which amounts to approximately 38% of median pay in the UK as of June 2022.[4] In order for young people not to see a drastic reduction in living standards upon retirement, they cannot rely solely on the state pension. Instead, they will have to rely on some other source of income, such as private pensions, property, or other savings; all of which are becoming increasingly unattainable for young people today. Young people today will also be less likely to own their own home in retirement, thus not being able to benefit from rising house prices while simultaneously having to pay soaring private rents while in retirement.

Traditionally, the life-cycle hypothesis of saving argues that individuals generally borrow when young, save while mid-aged, and dis-save as they get older.[5] Research by Henry suggests that the primary reason for young people saving in the US is due to a "precaution" against an uncertain future following economic shocks, falling real wages, and tightened credit environments.[6] Other research on how millennials save in the US suggests education about saving for retirement is necessary in order to increase saving rates.[7]

[3] Walker, A. and Foster, L. (2006) "Caught between virtue and ideological necessity. A century of pension policies in the UK" Review of Political Economy, 2006, 18, 3, 427–448

[4] ONS (2022) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted

[5] Ando, A. and Modigliani, F. (1963) "The 'life-cycle' hypothesis of saving: Aggregate implications and tests" The American Economic Review, 1963, 53, 1, 55–84

[6] Henry, L. M. (2017) "Are Young People Becoming More Risk Averse? An Analysis of Factors Contributing to the Rise in Precautionary Savings Among Young Adults" Business Economics, 2017, 52, 32-40

[7] Yao, R. and Cheng, G. (2017) "Millennials' retirement saving behaviour: Account ownership and balance" Family and Consumer Sciences Research Journal, 2017, 46, 2, 110–128

This holds true for saving in the UK too, but research also finds it essential for financial education to be accompanied by evaluation of such schemes to judge their actual usefulness.[8]

On the other hand, research suggests that having a "long-term mindset" can explain higher saving rates of some young adults, despite varying levels of financial literacy.[9] In the UK, Foster argues that a mix of a lack of trust, knowledge and advice, combined with myopia, explains the low saving rates of young people.[10] Additionally, employment type has a substantial impact on savings, both in terms of contributing to a pension scheme and levels of member contributions, with workers on temporary contracts or in fixed-term employment too often locked out of those pension saving schemes enjoyed by their employed counterparts.[11] Self-employed young adults tend to have even less savings, with 41% of self-employed people in the 20–39 age group not saving anything at all.[12]

As a nation we are not saving enough for our own old ages. In 2017, while up from 42% in 2008, only 53% of UK adults felt confident that their retirement incomes would be sufficient.[13] There has been a slight fall in the number of people expecting to receive income during retirement from savings, investment or property between 2006 and 2018. Meanwhile, the percentage of those expecting to receive retirement income from private pensions and the state pension has increased slightly.[14] Membership in a workplace pension scheme in the private sector fell from 48% in 1997 to 32% in 2012, but then increased to 72% in 2018.[15] This can be largely attributed to the bedding in of auto-enrolment, which by 2018 had to include every company in the UK. Young people and low-income earners were among those most likely to see increased pension participation rates due to the introduction of automatic enrolment.[16] However, the vast majority of pension schemes young people contribute to are defined contribution schemes, which are not as generous as the defined benefit schemes previous and older generations have enjoyed.

[8] Oehler, A. and Christina, W. (2008) "Saving for retirement – A case for financial education in Germany and UK? An economic perspective" Journal of Consumer Policy, 2008, 31, 3, 253–283

[9] Rolison, J., Hanoch, Y and Wood, S. (2017) "Saving for the future: Dynamic effects of time horizon" Journal of Behavioural and Experimental Economics, 2017, 70, 47–54

[10] Foster, L. (2017) "Young people and attitudes towards pension planning" Social Policy and Society, 2017, 16, 1, 65–80

[11] Robertson-Rose, L. (2019) "Good job, good pension? The influence of the workplace on saving for retirement" Ageing & Society, 2019, 39, 2483–2501

[12] Scottish Widows (2019) Gen Z faces pension shock as research finds stark gap between retirement expectations and reality: https://adviser.scottishwidows.co.uk/assets/literature/docs/2019-08-future-of-retirement.pdf

[13] Crawford, R. et al. (2020) Retirement expectations, attitudes and saving behaviour: how have these changed during a decade of pension reform? London: Institute for Fiscal Studies

[14] Ibid.

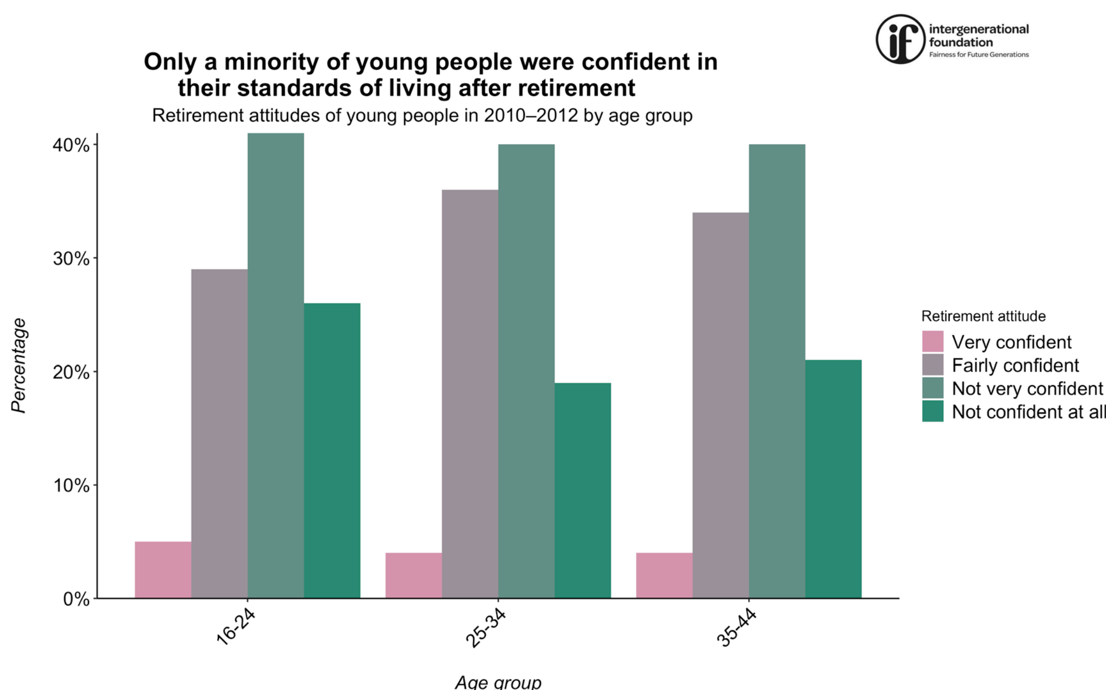
[15] Ibid.

[16] Cribb, J. and Emmerson, C. (2020) "What happens to workplace pension saving when employers are obliged to enrol employees automatically?" International Tax and Public Finance, 2020, 27, 664–693

2.2. Young people’s current attitudes to saving for retirement

Young people’s attitudes concerning their confidence about their standard of living upon retirement is visualised in the Figures 1 and 2; the first representing their attitudes in 2010–2012 and the second one in 2018–2020. What is surprising, and also worrying, about the changes between the two periods is that young people today report feeling more confident about their future standard of living than before, although many still feel insecure.

Figure 1



Source ONS Wealth and Assets Survey July 2010 to June 2012. Confidence in standard of living after retirement by age.
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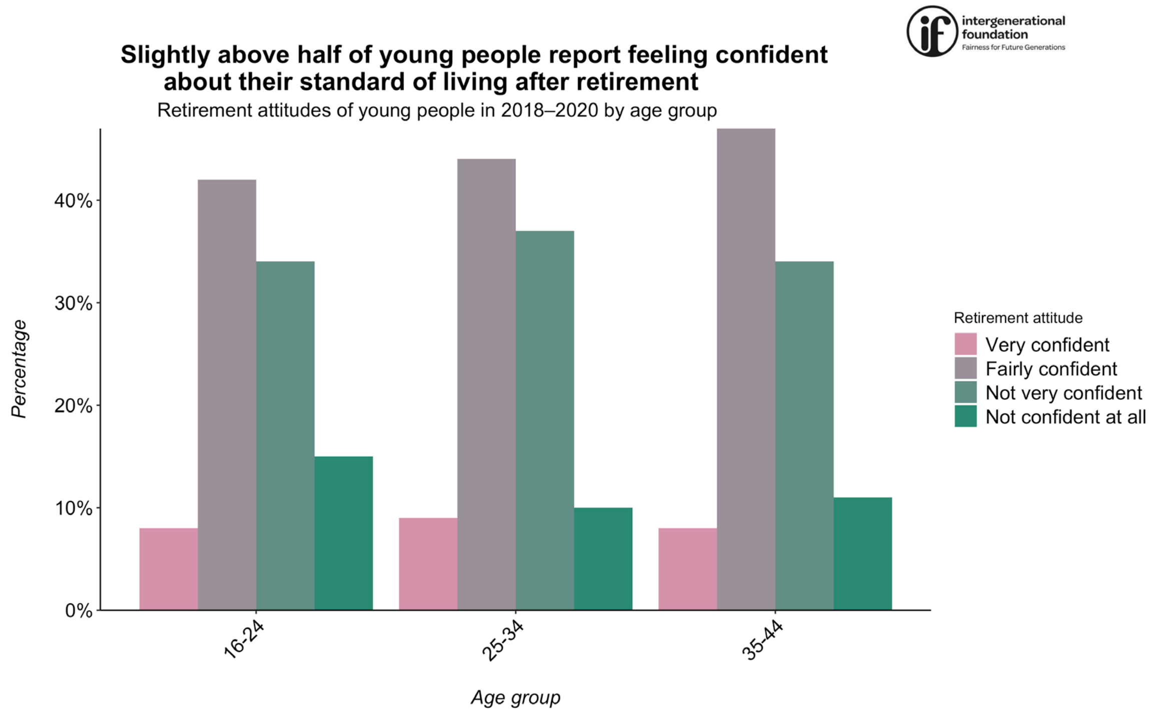
Looking at the situation in 2010–2012, we can see that around two thirds of young people did not feel confident about their standard of living after retirement. Across all age groups, approximately 20% responded not being confident at all in having a good standard of living once retiring, while approximately 40% in each age group responded “not very confident”. Meanwhile, about one third responded being “fairly confident” but less than 5% responded being “very confident”.

However, these attitudes have changed since. In Figure 2, it is noticeable that in the period 2018–2020 a larger proportion of young people feel more confident about their standard of living after retirement.

Figure 2



A considerably smaller proportion of young people stated that they are "not confident at all", as such responses decreased from around 20% to slightly above 10%. The proportion who are "not very confident" has also decreased, with a corresponding increase in those who are "fairly confident" rising from around 35% to approximately 45%. If the economic prospects of the young have been so poor over the last decade, why have young people become more confident about their future retirements?[17] Further analysis is required to see whether this change in attitude can be backed up by increased levels of saving or other forms of guaranteeing a comfortable standard of living upon retirement. It is possible that auto-enrolment, even though involving saving small amounts, has instilled a false sense of security in some young people. It would also be understandable that, even with low levels of contributions, a person would feel more confident about their potential quality of life upon retirement than without contributing to pensions at all.

Almost half of young people still do not feel confident about their standard of living when retiring. Perhaps this is unsurprising, given that young people struggle to save much and find themselves in a tough financial situation while they are simultaneously experiencing a retreat of the welfare state.

[17] Simpson, L., Bui, M. (2021) Left Behind: A decade of intergenerational unfairness. London: Intergenerational Foundation

In fact, 68% of UK adults believe that it is harder for young people today to save for the future, in comparison with their parents' generation.[18]

Traditionally, the low levels of saving by young people in the UK have been attributed to factors such as: viewing retirement as too far in the future; a lack of financial education; and the difficulty of saving on relatively low incomes while maintaining a socially active lifestyle.[19] Research by Common Vision found that barriers such as the cost-of-living and financial insecurity are the main reasons only 12% of UK millennials polled are able to save, and that rigid fixed-term saving products also put people off long-term saving.[20] Young people are more likely to save, according to research by IPPR, if they receive financial advice from their parents in the form of teaching saving habits at an early age.[21] While this inevitably is more likely to occur in households with higher incomes, young people from low-income households where parents have been less able to build up savings and therefore are less able to teach such skills to their children, could receive guidance by targeted and subsidised asset-building policies instead.[22]

There are precedents for government-subsidised age-related policy interventions: between January 2015 and May 2015, the government introduced "Granny Bonds" which were only available to the over-65s. The bonds paid out fixed interest of 2.8% for a 1-year bond, and 4% for a three-year bond. From 2007 to 2016, return on UK government bonds fell from 5.1% to 1.3%, a figure that is negative in real terms.[23] The returns on the "Granny Bonds" look very attractive in comparison. Are young people changing how they save in the light of the low interest rate environment?

Naturally, as young people suffer from low disposable incomes it is difficult to save, but the wider economic context, such as low returns on saving, has a further impact on young people's saving ratios. Reflecting this, survey data finds that of the number of young people in the UK who invest, more than 50% invest in cryptocurrencies, while only 25% hold shares.[24]

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[18] King's College London, The Policy Institute/Institute of Gerontology (2022) Housing, hard work and identity: Generational experiences and attitudes. London: King's College London, The Policy Institute

[19] Pettigrew, N., Taylor, J., Simpson, C., Lancaster, J., Madden, R. (2007) Live now, save later? Young people, saving and pensions. London: Department for Work and Pensions

[20] Macfarland, C. (2019) Millennials and Money: Understanding young adults' financial experiences. London: Common Vision

[21] Dolphin, T. (2012) Young people and savings: A route to improved financial resilience. London: Institute for Public Policy Research

[22] Friedline, T., Elliott, W., Chowa, G. A. N. (2013) "Testing an asset-building approach for young people: Early access to savings predicts later savings" Economics of Education Review, 2013, 33, 31–51

[23] Crawford, R. et al. (2020) Retirement expectations, attitudes and saving behaviour: how have these changed during a decade of pension reform? London: Institute for Fiscal Studies

[24] Charles Schwab International (2022) 2021 UK Investment Forces Study III Full Report. El Paso, TX: Charles Schwab International

In 2020, 1.9 million adults in the UK owned some cryptocurrency, of which one third of cryptoasset investors are below the age of 35, although most invest less than £1,000 and are relatively aware of the risks involved.[25] Nonetheless, this suggests that an increasing number of young investors and savers are willing to follow different saving routes, and potentially speculate on higher and/or high-risk assets such as cryptocurrencies.

It is possible that these changing saving patterns are due to a generational change in mindset. For example, young investors are also much more likely to consider sustainability goals when making investment decisions; 56% of Gen Z and 55% of millennials take sustainability into consideration when investing, with only 28% of baby boomers doing the same.[26] It would also be understandable if young people, facing a cost-of-living crisis and low discretionary spending, feel the need for taking on more risk. If one can only save a very small amount each month or year, a low return might make saving seem useless and/or lead to favouring spending today instead.

The rise of online banks and easy-to-use mobile investment apps have also exposed a new generation to financial products, some of which may be risky. In the UK, 41% of Generation Z and millennials have a digital-only bank account, and while the most cited reason for choosing an online-bank is convenience, 12% report that it is because they want to use it to trade stocks and cryptocurrency.[27] Of those who buy cryptocurrency in the UK, the most often cited reason is that it "will be influential in the future" while the other top reasons are low interest rates, potential for high returns and the accessibility provided by investing platforms.[28]

Additionally, an ideological evolution might play a part in changing risk-taking behaviour. The neoliberal reforms, which began in the 1980's and continue to shape policy around the idea of individual responsibility, might understandably have shifted young people's saving preferences away from seemingly passive and collective vehicles towards equities or cryptocurrencies so that one's individual agency can be realised. Research by Revealing Reality found that a common theme among those buying cryptocurrencies is a desire to "get ahead" and being motivated by "smart" or "shortcut" ways of making money.[29]

Young people might therefore opt for more risky investments, fully understanding the high levels of risk involved, but seeing them as the only chance to escape the worrying financial situation they currently find themselves in. Of course, that does not only lead to younger generations considering investment in cryptocurrencies.

[25] Financial Conduct Authority (2020) Research Note: Cryptoasset consumer research 2020. London: FCA
[26] Op. cit.
[27] Finder.com (2022) How many Brits use challenger banks? https://www.finder.com/uk/digital-banking-adoption
[28] Finder.com (2022) UK Cryptocurrency statistics 2022. https://www.finder.com/uk/cryptocurrency-statistics
[29] Revealing Reality (2021) How and why consumers buy cryptoassets: A report for the FCA. London: Revealing Reality: https://www.revealingreality.co.uk/2021/07/16/how-and-why-consumers-buy-cryptoassets/

They may also decide to move from saving in pension funds, saving schemes or savings accounts towards purchasing shares, buying physical assets, or undertaking other saving and investment behaviour. In times of financial hardship, young people may also prefer investing options which allow for accessing rewards earlier than in retirement, in order to relieve financial stress in the present. However, the lack of free financial advice might lead some young savers to not consider the trade-off between value in the present and value in the future.

In 2019, 16% of those who had bought any cryptocurrency admitted to doing no research whatsoever, while 50% reported doing "some general research".[30] Most UK cryptocurrency purchasers see it as a gamble (31%), while 8% of those who buy it see it as part of their long-term savings plan, e.g. for retirement.[31] Of those who have bought cryptocurrency at some point in the UK, 71% reported that it is a risk they are willing to take, while in 2019 only 11% of those who had bought cryptocurrency regretted their purchase.[32] Polling finds that 6.1% of the UK population owned cryptocurrency as of March 2022, while 19% have owned cryptocurrency at some point.[33] When asked whether one is interested in buying cryptocurrency for the first time, it is the younger age groups that show the most interest, with 21% of 18–24 year-olds and 16% of 25–34 year-olds reporting interest in buying cryptocurrency, comparing to only 6% of the over-55s.[34]

It is clear that young people's saving and investment behaviour is changing as they feel an all-consuming financial squeeze in the form of high inflation, student debt, the cost-of-living crisis and the inability to buy property or access the generous pension schemes enjoyed by previous generations. The next section will describe the precarious financial situation young people face, followed by a data analysis of young people's saving behaviour and comparisons of wealth and pensions across age groups.

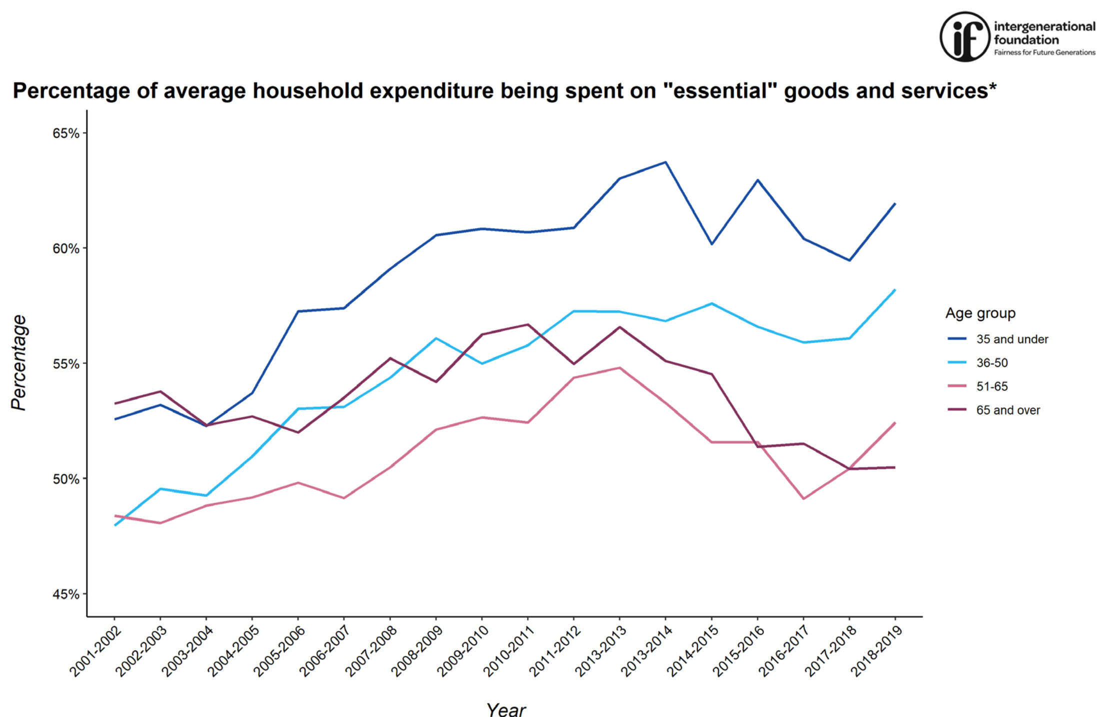
[30] Financial Conduct Authority (2019) Cryptoassets: Ownership and attitudes in the UK. London: FCA
[31] Ibid.
[32] Ibid.
[33] Op. cit. Finder.com
[34] Ibid.

3. Young people's precarious financial situation

3.1. Low discretionary spending

Young people are currently suffering from low discretionary spending, meaning that they have little to spend on "non-essential" goods and services after paying for "essentials" such as housing costs, food and utilities. This implies that it is very difficult for young people to put aside money to build up savings for the future. Previous research by IF found that of the total weekly expenditure by households in the under-35 age group, on average 63% was spent on essential items and services, which is a larger proportion of expenditure on essentials out of total expenditure, than any other age group in 2016–2017.[35] This follows a worrying trend, as spending on essentials as a proportion of total expenditure rose for this age group by 20% from 2001–2002 to 2016–2017, while it fell by 14% among the over-65 age group over the same time period.[36]

Figure 3



Source: ONS, Living Costs and Food Survey. *Using IF's definition of essential expenditure by age of Household Reference Person.
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[35] Kingman, D. (2019) All Consuming Pressure: The cost-of-living crisis facing younger generations. London: Intergenerational Foundation: https://www.if.org.uk/research-posts/all-consuming-pressures-the-cost-of-living-crisis-facing-younger-generations

[36] Ibid.

Figure 3 shows how the percentage of household expenditure being spent on essential, or non-discretionary, goods and services has increased for all age groups except for those aged 65+, but it has increased the most for under-35s from 2001 to 2019.[37] Out of young people's total expenditure, approximately two-thirds goes towards essentials. Young people tend to have lower incomes than older age groups due to being at an early stage in their career, but the significant increase in the proportion of total expenditure that goes towards essential expenditure has squeezed young people's ability to spend on non-essentials, or to save. Two decades ago, young people's expenditure on essentials out of total expenditure was approximately 53% while in 2019 it was 62% – the steepest increase among any age groups, as it rose by 18%. And this was before the COVID-19 pandemic, which saw young people being the generation hit the hardest by loss of employment, falling as much as 11% below pre-pandemic levels for the youngest age groups one year into the pandemic, yet still having to pay rent and utilities.[38]

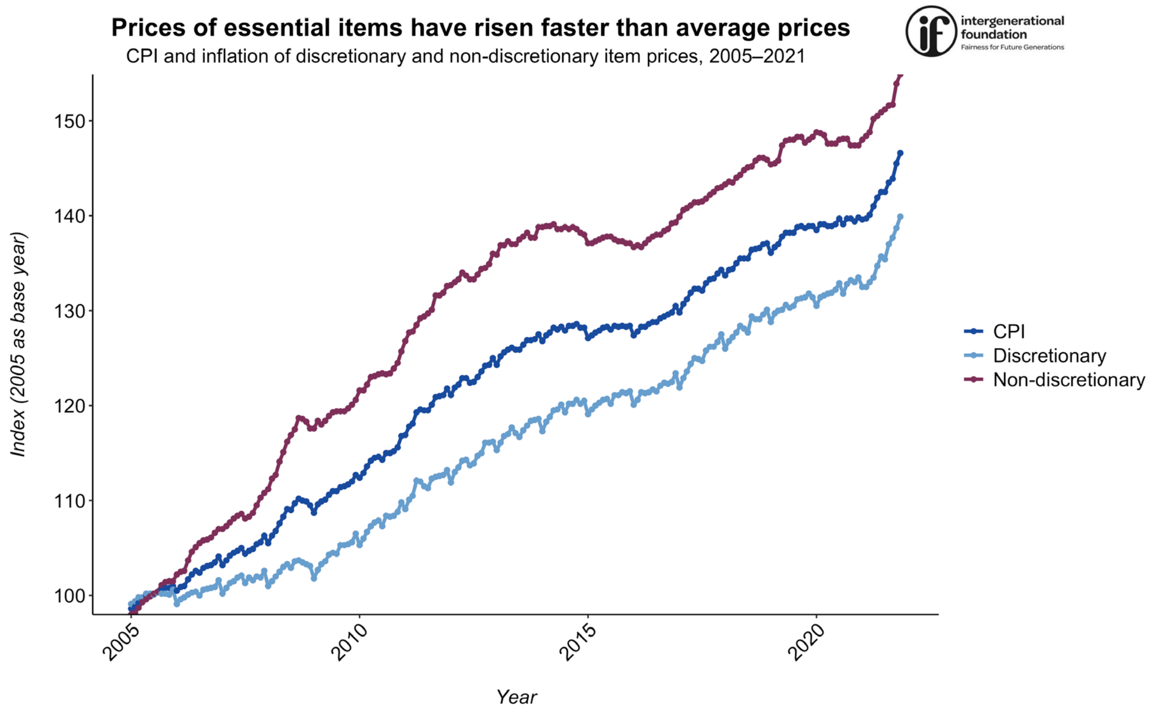
3.2. Rising inflation, student loan debts and fiscal drag

Recent survey results on the saving habits of the UK population are worrying with 48% of all adults in full-time work saying that as a result of the cost-of-living crisis they will either reduce the amount they save or stop saving all together.[39] As young people have lower disposable incomes than the average full-time worker, it is likely that rising inflation and the cost-of-living crisis will lead to young people being forced to reduce their saving more than their older counterparts, if they are able to save at all.

Young people, along with low-income earners, are hit particularly hard by inflation. Firstly, as young people spend a large proportion of their income on essentials, inflation leads to this proportion growing even larger as the costs of housing, food and utilities increase faster than wages. As young people spend a disproportionately large amount of their income on essentials, if prices of essential items and services increase faster than average price increases in the economy, it means that young people are affected more than older age groups. Figure 4 illustrates how the inflation of essential (non-discretionary) goods and services has been much higher than that of non-essential (discretionary) goods and services since 2005.

[37] Simpson, L., Bui, M. (2021) Left Behind: A decade of intergenerational unfairness. London: Intergenerational Foundation: https://www.if.org.uk/research-posts/left-behind-a-decade-of-decline
[38] Ibid.
[39] Opinium survey commissioned by Royal London (2022) "9 in 10 adults make stark spending decisions as cost of living anxiety runs high". 18 March 2022: https://www.royallondon.com/media/press-releases/press-releases-2022/march/cost-of-living

Figure 4



Secondly, approximately half of young people are graduates. Student loan interest rates are tied to inflation and high inflation means that young people's student loan debts will continue to grow, with most young people paying their student loans back for a further decade after graduating, thanks to recent government announcements.[40] Thirdly, inflation combined with the freezing of tax thresholds means that more young people will enter higher tax brackets. This increases the tax burden faced by young people and further squeezes their already tight financial situation.

[40] Haglund, A. (2022) "Regressive student finance plans will punish low and middle income earners the most". London: Intergenerational Foundation: https://www.if.org.uk/2022/02/25/regressive-student-finance-plans-will-punish-low-and-middle-earners-the-most

3.3. Increase in house prices vs wages

As the increase in property values far outpace average inflation and average earnings, young people become increasingly excluded from the opportunity of financial protection through property ownership that previous generations have experienced and continue to gain from at the expense of younger and future generations. Figure 5 shows how the increase in average house prices has far outstripped the growth in median earnings in UK, using 1997 as a base year.

Figure 5

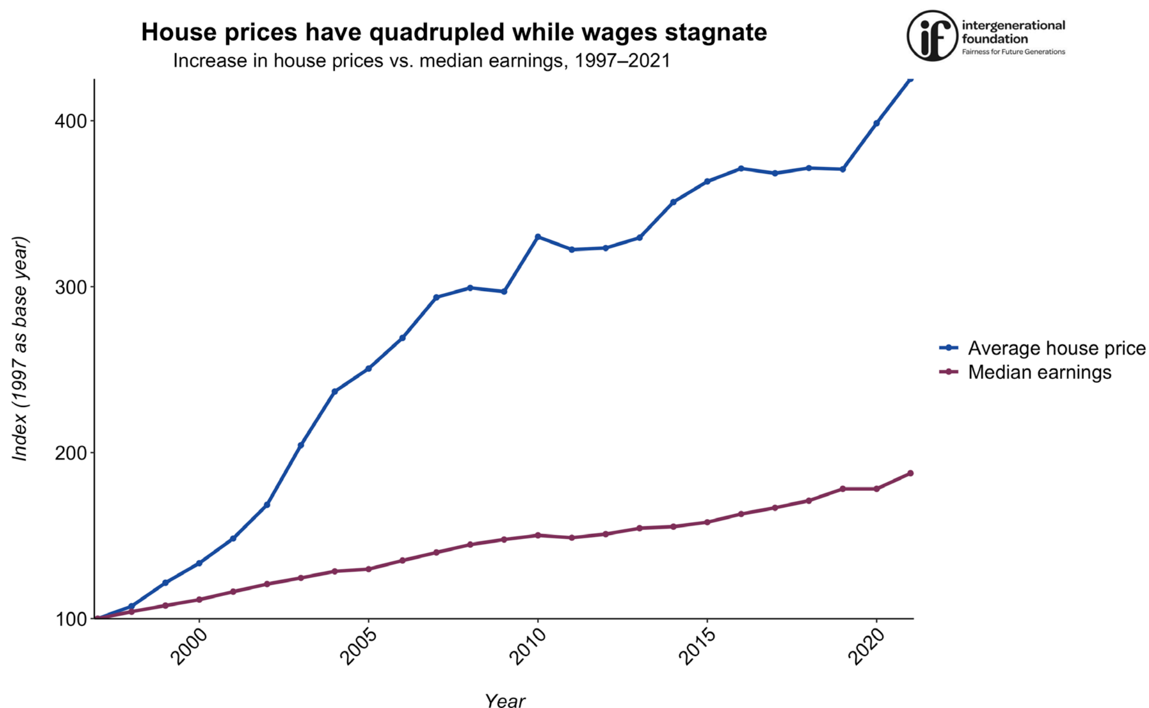
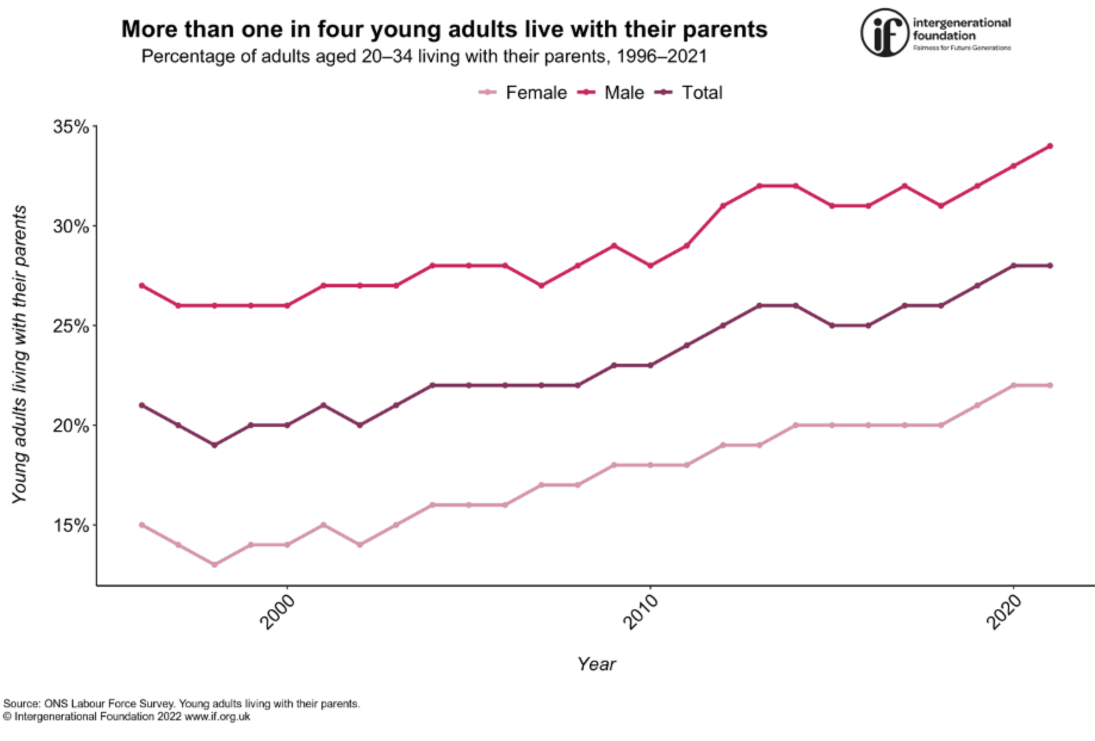


Figure 5 shows that while the average house price has more than quadrupled since 1997, median earnings have not even doubled. This implies that it is becoming increasingly difficult for young people to get on the property ladder and enjoy the financial and psychological benefits property ownership brings. For many older generations, low levels of saving in pensions or stocks and shares has been offset by the dramatic increase in property prices, but fewer and fewer young people are now able to benefit from the continued surge in house prices.

Additionally, young people's rents often end up paying the mortgages of older and wealthier people's second or third property. The rise in property values contributes to the high rents young people must pay, and intergenerational housing inequality in the UK has been further exacerbated by the COVID-19 pandemic.[41] In May 2022, average UK rents saw a year-on-year increase of 10.6%, with rents in London rising even faster, at 15.7%.[42] Reflecting high rents and high costs-of-living, Figure 6 shows the increasing number of young adults living at home with their parents today compared to the mid-1990s.

Figure 6



Given the increase in house prices and rising rents, it is unsurprising that a larger proportion of young people struggle to move out and become independent. While some may choose to continue living at their parents' house, undoubtedly many do not choose to do so but rather cannot afford to move out. This goes against the historic traditional British cultural rite of passage – that young people tend to move out of the family home once they leave secondary education.

[41] Wiles, C. (2021) Stockpiling Space: How the pandemic has increased housing inequalities between older and younger generations. London: Intergenerational Foundation: https://www.if.org.uk/research-posts/stockpiling-space-how-the-pandemic-has-increased-housing-inequalities-between-older-and-younger-generations

[42] HomeLet (2022) "HomeLet Rental Index": https://homelet.co.uk/homelet-rental-index

The housing crisis in the UK is felt across society, with nearly one in three UK adults concerned they will find themselves either sofa-surfing or in temporary accommodation because of exorbitant and rising housing costs.[43] Without the ability to build up savings, taking the further step from renting to owning becomes ever-more difficult. In 1990, 30% of first-time buyers were under 25 years of age.[44] By 2020, their proportion of first-time buyers had decreased to only 14.6% (when counted as a percentage of mortgages).[45]

In 2020/21, 90.5% of first-time buyers reported using savings as a source for a deposit, while only 23.1% used gifts from friends and family and 6% used inheritance.[46] Additionally, if young individuals do not expect their lifetime earnings to grow as much as previous generations have experienced their earnings grow, we cannot expect them to accumulate wealth at the same rate as previous generations. They are also less likely to be able to purchase a property as they grow older as saving is the main source for putting a deposit down on a property purchase unless they benefit from the Bank of Mum and Dad (BOMAD). This will also increase intra-generational unfairness in the future.

3.4. Financial resilience of young people

Given the low discretionary spending of young people, the prices of essential goods and services rising disproportionately, combined with the financialisation of the housing market, it is unsurprising that the current financial resilience of young people is much lower than that of older age cohorts. Figure 7 demonstrates the precarious financial situation young people in the UK find themselves in when compared with their older compatriots. These figures are alarming because a majority of young people did not have enough savings to fall back on before the COVID-19 pandemic hit.

Of those aged 16–34, only 65% of employees and 57% of self-employed have enough savings to cover just a 25% loss in income lasting for three months. This implies that a large majority of young people are not only unable to save for the long-term, but struggle to build up enough savings for short-term needs such as experiencing a cut in hours or a one-off emergency. Older age-groups, both employed and self-employed, experience a more resilient financial situation with a much larger proportion able to cover a short-term loss of income of 25%.

[43] Amnesty International UK (2022) "England: Housing must be made human right in law to address spiralling crisis" 7 June 2022 https://www.amnesty.org.uk/press-releases/england-housing-must-be-made-human-right-law-address-spiralling-crisis

[44] ONS (2022) House Price Index: annual tables 20 to 39

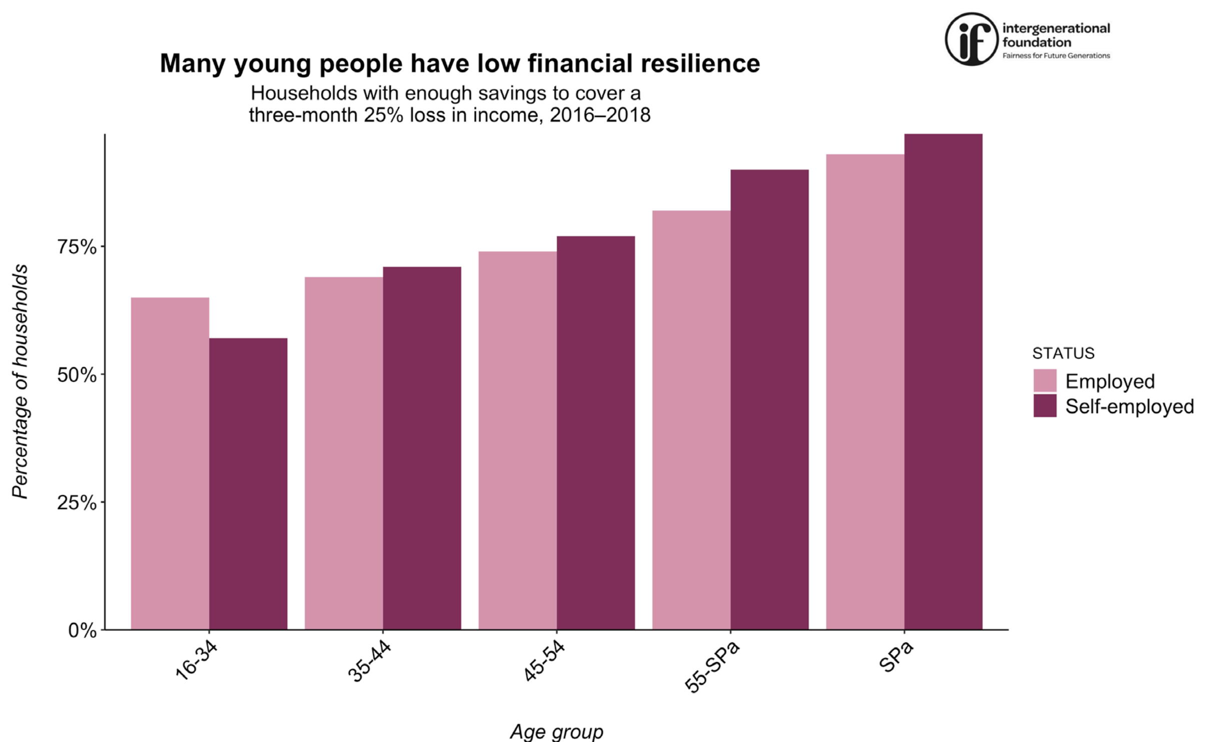
[45] Ibid.

[46] Department for Levelling Up, Housing and Communities (2022) English Housing Survey 2020 to 2021. Section 1: household figures 1.5

This is because they are more likely to have built up savings over their working lives or receive a regular income from generous pensions in the case of those aged 65+. It is worth noting that self-employed young people are in a more precarious financial position than their employed counterparts.

The precarious financial position of young people is also reflected in the relatively high levels of food insecurity experienced by young people, as visualised in Figure 9. Food security is defined by not having problems or anxieties about accessing adequate food, whereas food insecurity means that the quality, quantity or variety of access to adequate food is, to varying degrees, a concern or an issue.

Figure 7



Source: ONS Wealth and Assets Survey. Financial resilience of households. SPA refers to State Pension Age.
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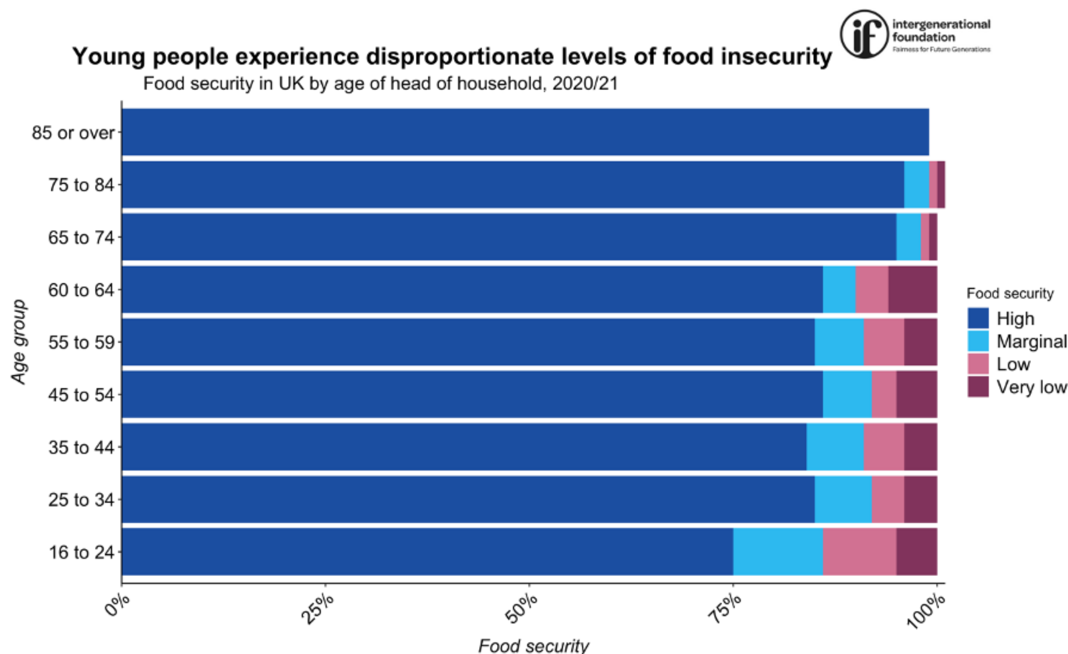
Figure 8 reveals how food insecurity in the UK impacts young people disproportionately. The starkest contrast between the age groups can be seen in the fact that only 75% of households with a head of household aged between 16 and 24 experience high food security. This figure is above 84% for all other age groups, and considerably higher among all those aged over 65. Of those aged 16–24, as many as 5% experience very low food security. It is worth noting that these statistics are from 2020/21, and the current cost-of-living crisis is likely to have exacerbated the problems of food insecurity further across all age groups, with young people being in an already vulnerable position before the worst of the crisis began.

Figure 8

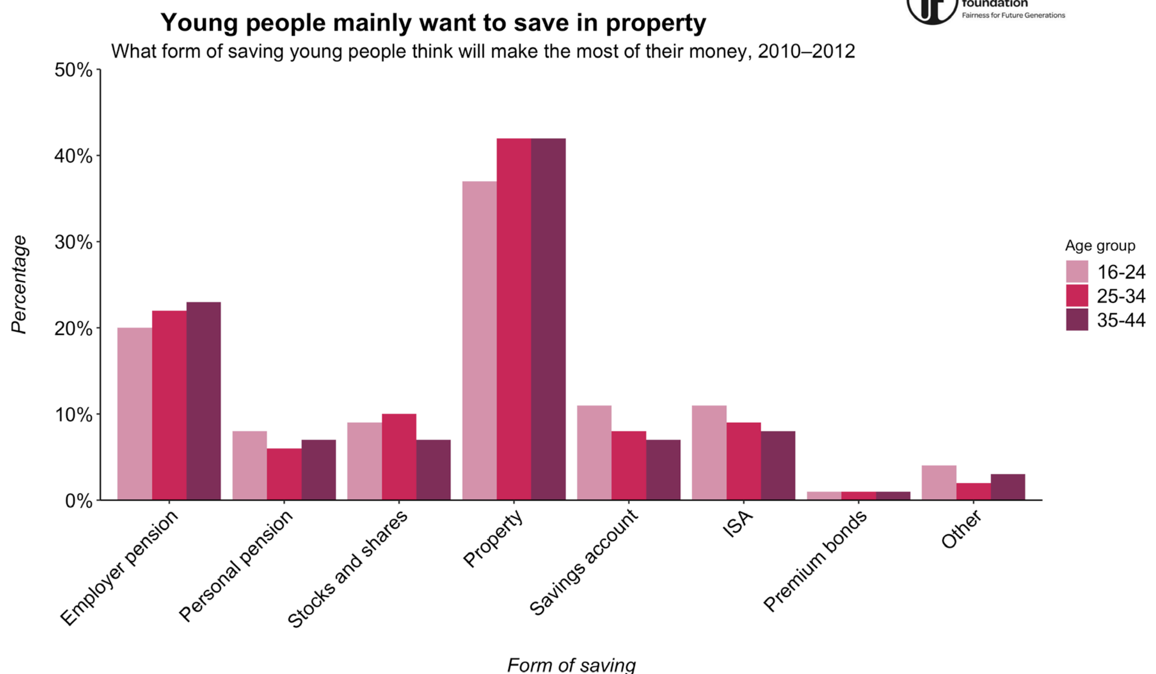


3.5. Young people's saving preferences

Figure 9 shows how young people ideally would like to save in terms of what form of saving they think would make the most of their money.

Unsurprisingly, having seen the gains made by previous generations, young people favoured saving in property in 2010–2012, with employer pensions in distant second as the most favoured way of saving in terms of what respondents believed would make the most of their money. Of those aged 16–24, 37% said saving in property is what would make the most of their money, while this figure is even higher among respondents aged 25–34 and 35–44 at 42%. Across the age groups, over 20% believed that employer pensions is the form of saving that would make the most of their money, making it the clear second choice even though it stands at only about half the popularity of saving in property. The categories of personal pensions, stocks and shares, savings accounts and ISAs received roughly the same number of responses, with between 6% and 11% choosing one of the four across the age groups. Among the youngest age cohort, ISAs and saving accounts came out in shared third place with 11% saying those forms of saving would make the most of their money, while stocks and shares were the third most popular option among those aged 25–34 at 10%, and ISAs were the third most favoured among the 35–44 age cohort at 8% of responses.

Figure 9

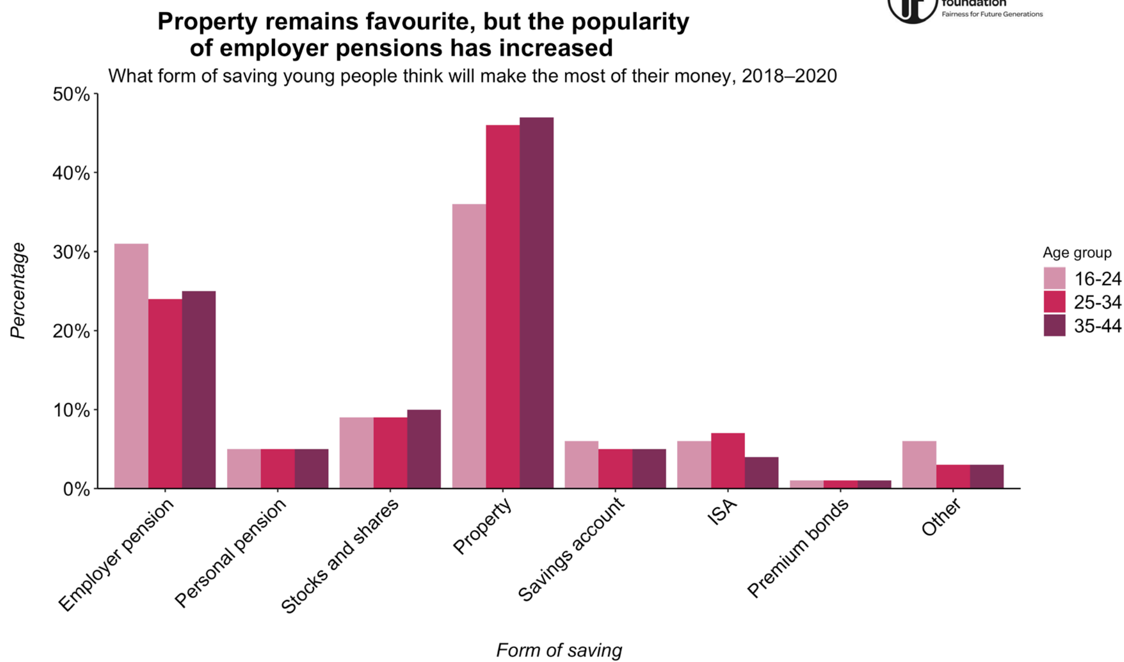


However, over the past decade the preferred options of young people have slightly changed, as illustrated by Figure 10.

While the belief that saving in property is the most lucrative form of saving has increased its dominance among the responses, those who think employer pensions will make the most of their money has increased by 11 percentage points among the youngest cohort, with a lesser increase seen among the slightly older cohorts at 2 percentage points.

Considerably fewer young people consider saving in ISAs, personal pensions or savings accounts as the best way to make the most of their money in comparison with the responses given in 2010–2012. While 11% of those aged 16–24 considered saving in either savings accounts or ISAs as the form of saving that would make the most of their money in 2010–2012, this number was at only 6% for both forms of saving among the same age cohort in 2018–2020, while those responding that personal pensions were the best form of saving dropped from 8% to 5%. There was a similar but slightly smaller drop in responses for personal pensions, ISAs and savings accounts among the two older age cohorts of between 1 percentage point and 4 percentage points for each of the three forms of saving. The number of respondents who believe stocks and shares to be the form of saving that would make the most money remained approximately the same across the age groups in 2010–2012 and 2018–2020, between 7% and 10%.

Figure 10



Property remained the clear favourite across the age groups although it saw a 1% drop in respondents aged 16–24 but increased its share of responses from 42% to 46% among those aged 25–34 and from 42% to 47% among those aged 35–44. Thus, over two-thirds of respondents from each age group answered that either employer pensions or property were the forms of saving that would make the most of their money. The data does not reveal whether the increased popularity of employment pensions is due to auto-enrolment but given that more people have been exposed to employer pensions through auto-enrolment it is likely to have played some role in the increased belief among the young that employer pensions is what would make the most of their money in terms of saving. The following case studies demonstrate the savings:

3.6 Case studies

Jonathan 23 (Norfolk)

Jonathan works as a Policy and Public Affairs Executive earning approximately £30,000 a year. At the moment Jonathan has decided to live with his parents and only pays a low rent, but essential spending still costs him around £400 per month for bills and essentials. He does not have any savings as his car, which he needs to commute to work, broke down and he therefore had to use up his savings to purchase a new one. Jonathan will soon begin contributing 8% of income to a work-place pension and plans to begin saving in ISAs in the near-future, potentially also in personal pensions and physical assets later in life. Going forward, Jonathan argues that it will be possible for him to save while he is living at his parent's home, but he recognises that it would be difficult to begin saving if he did not pay such low rent.

Tom, 26 (Luton)

Tom earns approximately £35,000 p.a. working within the regulatory compliance team at a large financial services company. Tom commutes to London for work but lives in Luton with his partner, and his half of the rent costs him £425 per month. In addition to rent, Tom spends about £500-£550 per month on essentials such as food, bills and transport. Recently Tom had been saving for almost half a year to be able to go on holiday, but currently he holds no savings at all. Although Tom has been aiming to save between £200 and £300 pounds per month, he feels that unexpected events, bills or family/personal life always makes it difficult or impossible to save. When Tom can save some money, he usually puts his savings in the savings account of his digital bank. Even though he is aware of the low interest rates offered by savings accounts, Tom needs the flexibility of being able to access the money at any time should the need arise.

Tom feels that he is not as knowledgeable about all the different saving options out there as he would like to be. He argues that employee share plans are too rigid and antiquated for young people who tend to move frequently from job to job, as many people would either not stay on at the same workplace long enough to enjoy the benefits, or they would feel forced to remain at their current job purely for making the most out of such share plans. Tom does not feel comfortable saving in stocks and shares outside of such schemes due to the daunting number of competing service providers and technical knowledge required to do so sensibly.

At the moment, Tom contributes 5% of his salary to an occupational pension scheme. As Tom has both undergraduate and post-graduate student loans and thus faces high marginal tax rates, he feels that additional pension saving in a personal pension would currently be too big of a financial burden for him. He feels that premium bonds do not provide good value for money, and that buying property is out of reach for him for the foreseeable future. The knowledge that buying a house is currently an unattainable goal for Tom decreases his motivation to save in general, as saving for the sake of saving is less appealing than saving towards a goal such as a house.

The cost-of-living crisis and rising inflation has caused additional stress for Tom, as any growth in wages seems to be completely counteracted by rapidly rising bills and costs of essentials. Tom worries for those who are less fortunate than he is, but he is also nervous about not having any savings to fall back on as the cost-of-living crisis only seems to get worse.

4. Data analysis

4.1. Comparison of pension wealth

This section will analyse and show how much pension wealth is held by different age groups, and how this has changed over the years. A comparison between different types of pensions is also included.

Figure 11

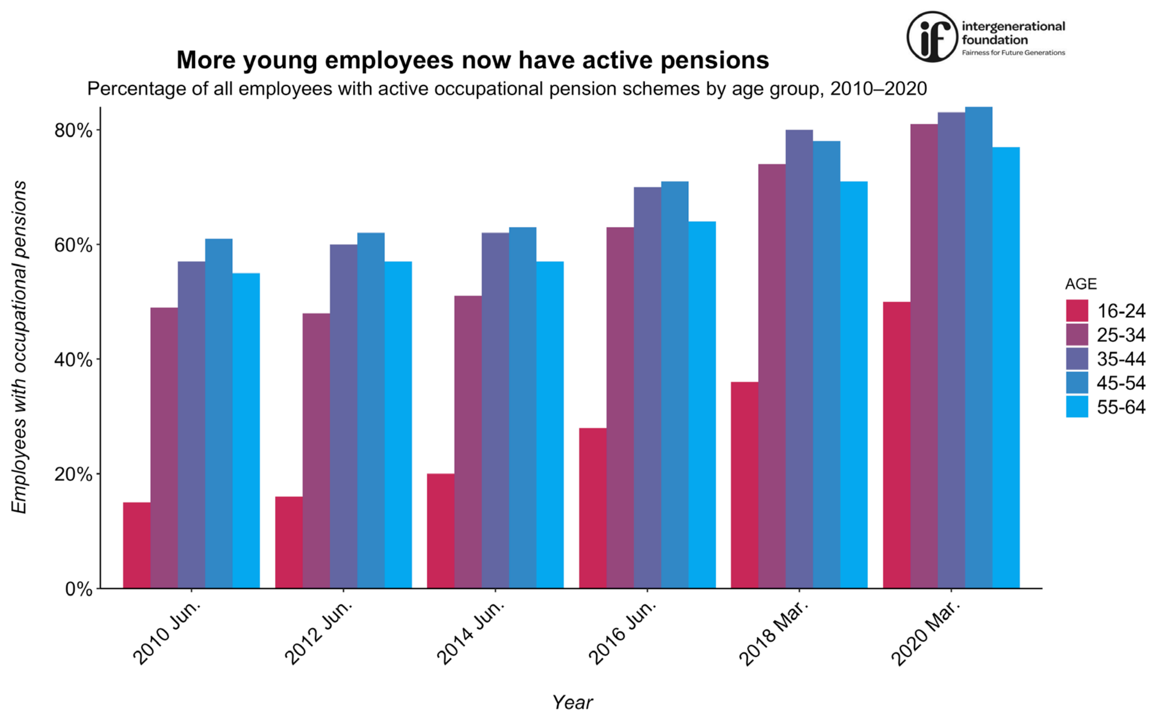
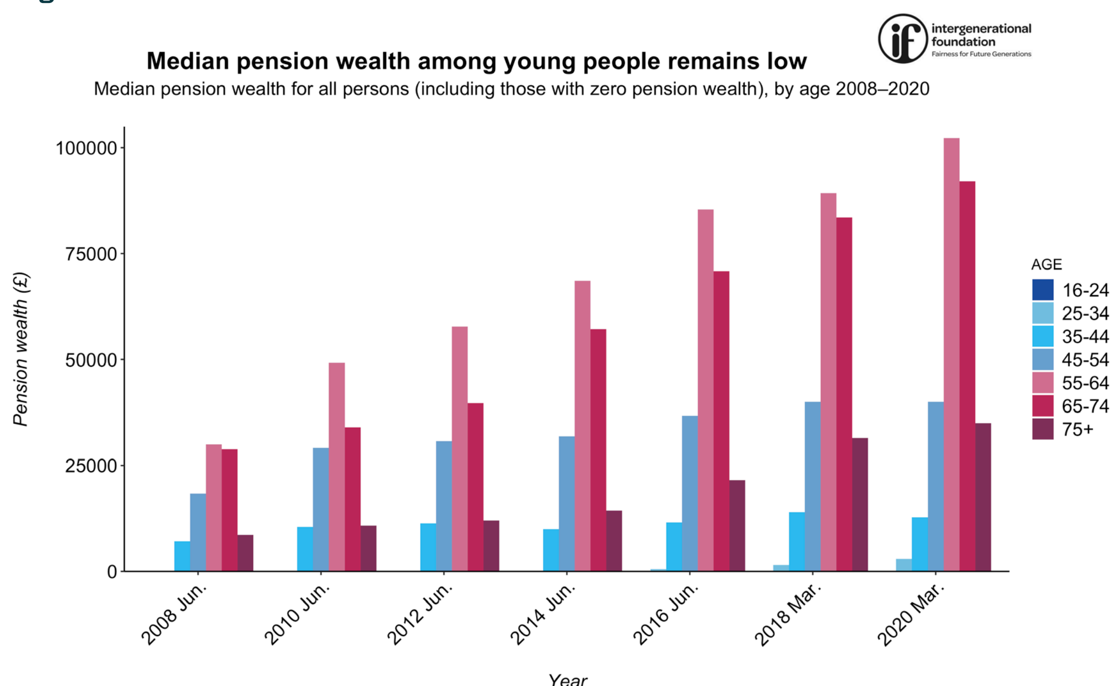


Figure 11 shows how employees who are older are much more likely to also have pensions. However, it is also clear that the proportion of younger employees with pensions has increased drastically in the last decade, largely due to the introduction of auto-enrolment. The most dramatic increase is found among the youngest age group, with just 15% of 16–24 year-old employees in an active occupational pension scheme in 2010, rising to 50% by 2020. For employees aged 25–34, a large increase has also occurred; only 49% had active occupational pensions in 2010 but this number increased to 81% in 2020.

Older age groups also experienced an increase in the proportion of employees with active occupational pensions, albeit less dramatic increases than what is seen among the younger age groups. Figure 11, however, does not include information about the amount of wealth held in pensions, which unfortunately has not seen an increase within all the younger age groups, as shown in Figure 12.

Figure 12



Source ONS Wealth and Assets Survey. Includes active pensions, preserved pensions, and those in payment.
ONS data collection methodology occurred in waves. Data collection for each sample began two years prior to date shown in figure, e.g. data collection for 2008 Jun. began 2006 Jul.
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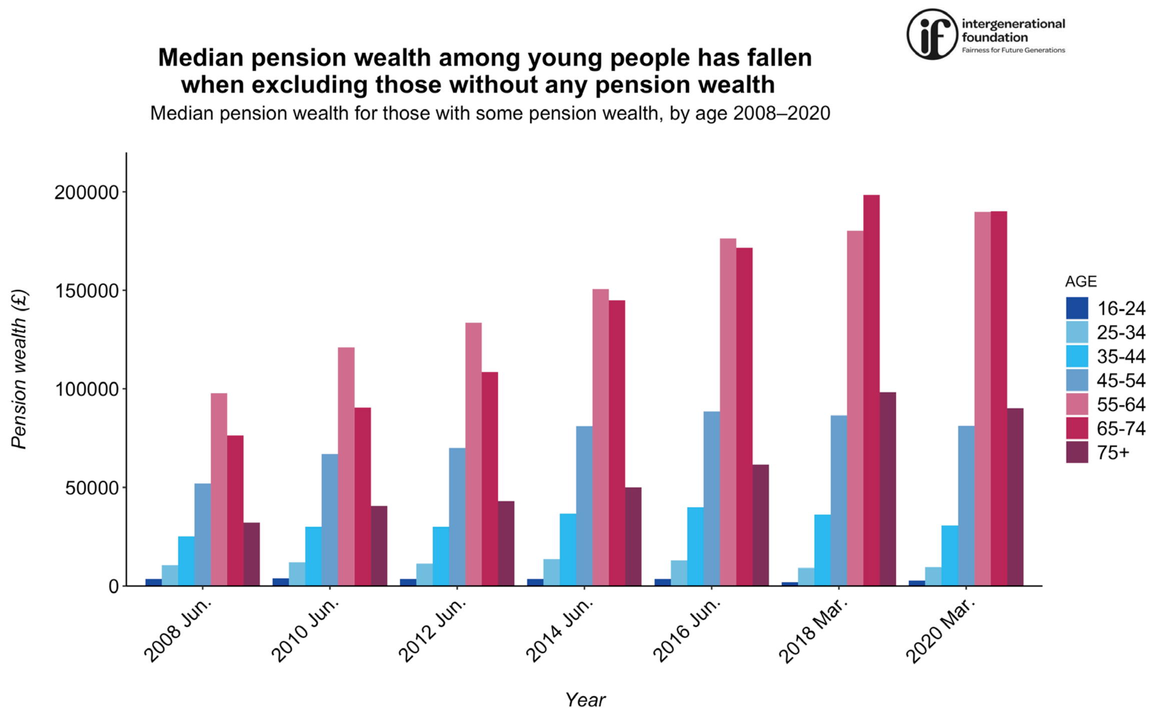
Figure 12 shows how the median pension wealth has increased among most age groups since 2008. However, among the youngest age group, median pension wealth remained £0 throughout the period, which is why the 16–24 age cohort does not appear on the graph. For those aged 25–34, median pension wealth remained at £0 between 2008 and 2014, but increased to £500 in 2016, £1,500 in 2018 and reaching £3,000 in 2020. The 35–44 age cohort saw a moderate increase in their median pension wealth from £7,100 in 2008 to £12,800 in 2020. All other age groups saw their median pension wealth double, triple, or quadruple, with the age group 55–64 seeing an increase from £30,000 to £102,300 over the time period, with a similar increase from £28,800 to £92,100 among those aged 65–74, and an increase from £8,600 to £35,000 among the 75+ age group.

Thus, while median pension wealth among young people has risen slightly for some age cohorts, the levels of pension wealth remain low, both in absolute terms and when compared to the large increases in median pension wealth

witnessed among the older age groups. Worryingly, the median pension wealth for those aged 16–24 has not increased at all and remains at £0.

Figure 13



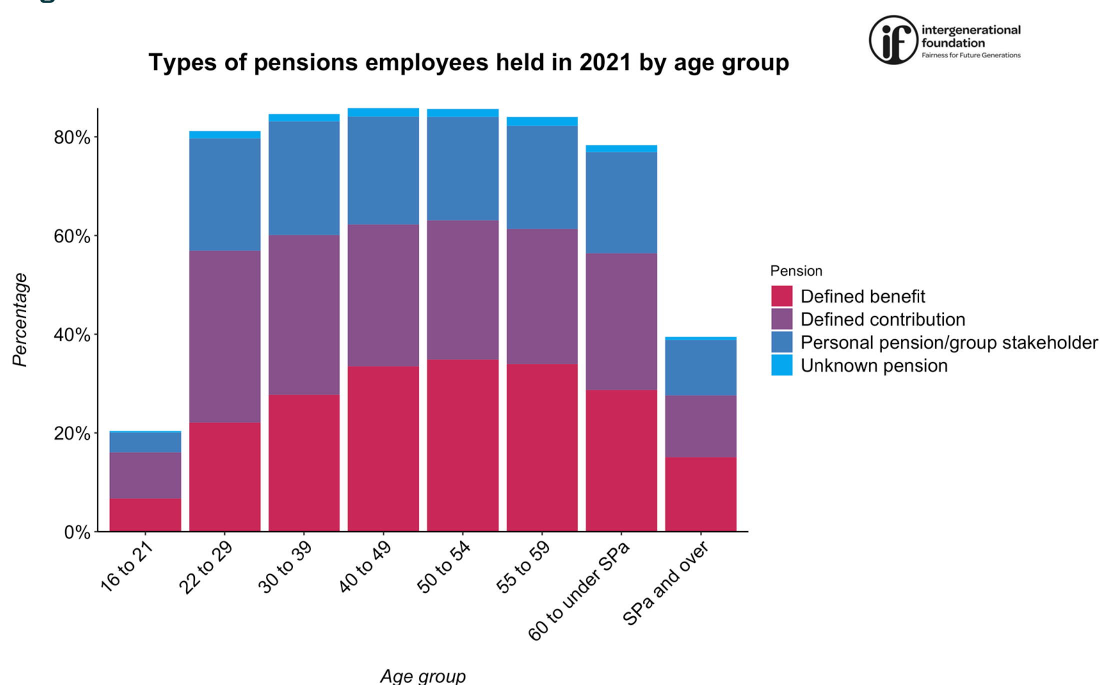
The large disparities in pension wealth held by different age groups in society among those who have at least some amount of pension wealth is shown in Figure 13. While levels of pension wealth have increased for older age groups from 2008 to 2020, for 16–24 year-olds and 25–34 year-olds it has in fact decreased. From 2008 to 2020, the median pension wealth held by those aged 16–24 decreased from £3,600 to £2,700 – a staggering drop of one quarter. It is likely that this is due to the addition of young people with some pension wealth but who have only contributed small amounts, occasionally, or for a short time. Importantly, these statistics only take into account those who have some pension wealth. Worryingly, those aged 25–34 with pensions, also saw a drop in median pension wealth held from £10,500 to £9,500, while the median pension wealth of all older age groups increased.

The most dramatic increase is among those aged 65–74 and those aged 55–64; the median pension wealth held increased from £76,400 to £190,000 and from £97,800 to £189,700 respectively. Those aged 35–44 saw a small increase from £25,300 to £30,600.

While it is welcome to see that median pension wealth among those with pensions has risen dramatically for the older age groups, it is worrying to see that it has declined among the under-35s, and only risen marginally for those aged 35–44 years. Although the increase in the number of young people holding any pension wealth following the introduction of auto-enrolment is a positive development, caution is needed when heralding it as a success when it is clear that, overall, young people's pension wealth remains at worryingly low levels. Importantly, there is also a large general inequality in private pension wealth, as 84% of all private pension wealth is held by the wealthiest 20% of the country in 2018–2020.[47] Additionally, looking at the median occupational pension wealth of employees (excluding personal pension wealth and employees without any pension wealth), the median value fell from £3,100 to £2,200 for those aged 16–24 and from £11,300 to £7,500 for those aged 25–34, with similar drops among older age groups.[48]

Furthermore, the types of pensions available also differ across age groups, with older cohorts more likely to contribute to defined benefit schemes that are often more generous and more secure than defined contribution schemes. Defined benefit (DB) refers to workplace pensions such as final salary schemes, while defined contribution (DC) refers to workplace pensions such as the auto-enrolment scheme where one contributes to a fund. Figure 14 shows the different types of pensions held by employees in UK in 2021.

Figure 14



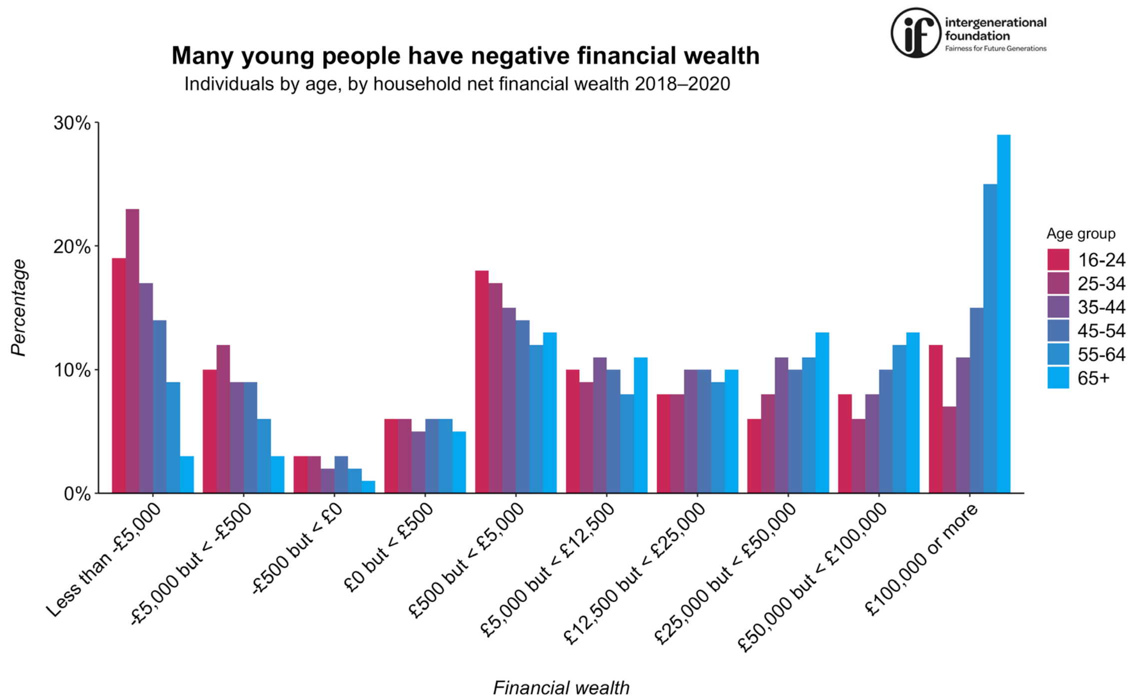
[47] ONS Wealth and Assets Survey (2022) Saving for retirement in Great Britain
[48] ONS Wealth and Assets Survey (2022) Pension wealth: Wealth in Great Britain

The percentage of different types of pensions held by employees between age groups is shown in Figure 14. The most striking pattern is that up to the age of 59, the likelihood of holding a DB pension increases with age, with just 6.7% of the 16–21 age cohort and 22.1% of the 22–29 age cohort having DB schemes. Out of employees between the ages of 40 and 59 years, approximately 40% have DB schemes. Conversely, employees in the age group 22–29 hold the most DC schemes, as 34.8% of employees within this age group are members of DC schemes. Additionally, DC schemes are the most-held pension schemes within the youngest cohort of employees; 9.4% of employees aged 16–21 have DC schemes.

4.2. Comparison of financial wealth

Net financial wealth is highly unevenly distributed across age groups. Figure 15 shows that many young people's households have net negative financial wealth, while older age groups have significantly more financial wealth.

Figure 15



Source ONS Wealth and Assets Survey April 2018 to March 2020. Individuals by age, by household net financial wealth.
Net financial wealth refers to net household financial wealth, whereas individuals of any age living within households of this wealth are shown.
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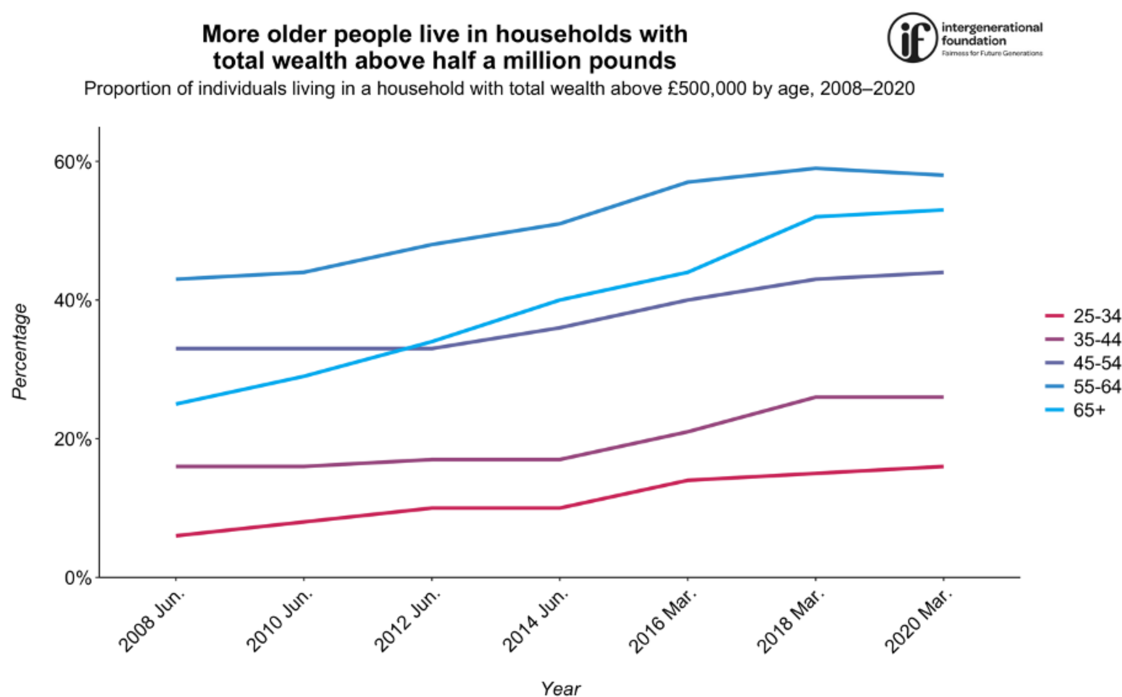
It is expected that financial wealth increases with age, since there is more time to work and accumulate wealth. Nevertheless, the financial situation young people find themselves in, as shown in Figure 15, is worrying. In the youngest age group, as many as 32% of 16–24 year-olds have negative household net financial wealth. This number is even higher for those aged 25–34, at 38%. Additionally, in the age groups 16–24 and 25–34, 19% and 23% respectively have a negative household net financial wealth below -£5,000. Only 7% of those aged 25–34 have a household net financial wealth above £100,000, while this number is much higher for older age groups: 29% of those aged 65+; 25% of those aged 55–64; and 15% of those aged 45–54 have household net financial wealth above £100,000. It is understandable that older age groups have higher financial wealth, but troubling that one-third of young people have negative household net financial wealth, as this implies it is difficult for them to build up savings for the future or to get on the property ladder.

Figure 16



As shown by Figure 16, the proportion of older people who live in households with a total wealth above £500,000 has increased sharply since 2008. In 2008, only 25% of those aged 65+ lived in households with a total wealth above half a million, but this number has more than doubled to 53% of the 65+'s living in households with a total wealth above £500,000 by 2020.

Of those aged 25–34, only 16% live in households with a total wealth above £500,000, showing that there has been an increasing inequality of household wealth between the old and the young, with many older people moving into higher levels of wealth but few young people having the same experience. Importantly, many in their late twenties still live with their parents, as shown in Figure 6, which means that the number of young people who live in households that are not their parents' homes and still have a total wealth above half a million is likely to be much lower than 16%.

It is also worth noting that a large proportion of older households have a total wealth above £1,000,000. In 2008–2010 as many as 9% of individuals aged 65+ lived in a household with total wealth above £1,000,000, but in the last ten years this has increased to 27% of those aged 65+.[49] In absolute numbers, this means that the number of people aged 65+ living in a household with total wealth above one million pounds has risen from approximately 850,000 in 2008–2010 to as many as 3,100,000 in 2018–2020.[50] In comparison, only 2% of those aged 25–34 lived in a household with total wealth above one million in 2008–2010, and this number only increased to 7% by 2018–2020.

Of course, this is not to say that it is necessary to build up a household wealth above £500,000 or even above £1,000,000 to have saved enough to be comfortable in the future. Rather, the fact that older generations are able to build up large amounts of wealth while young people's wealth does not grow at the same rate illustrates how young people are being locked out of property and pension schemes which previous generations have enjoyed. Simultaneously, the rise in property prices have led to continuously soaring private rents. Sky-high housing costs in the form of private rents remain one of the largest obstacles for young people and people on low- and middle-incomes to overcome economic insecurity.

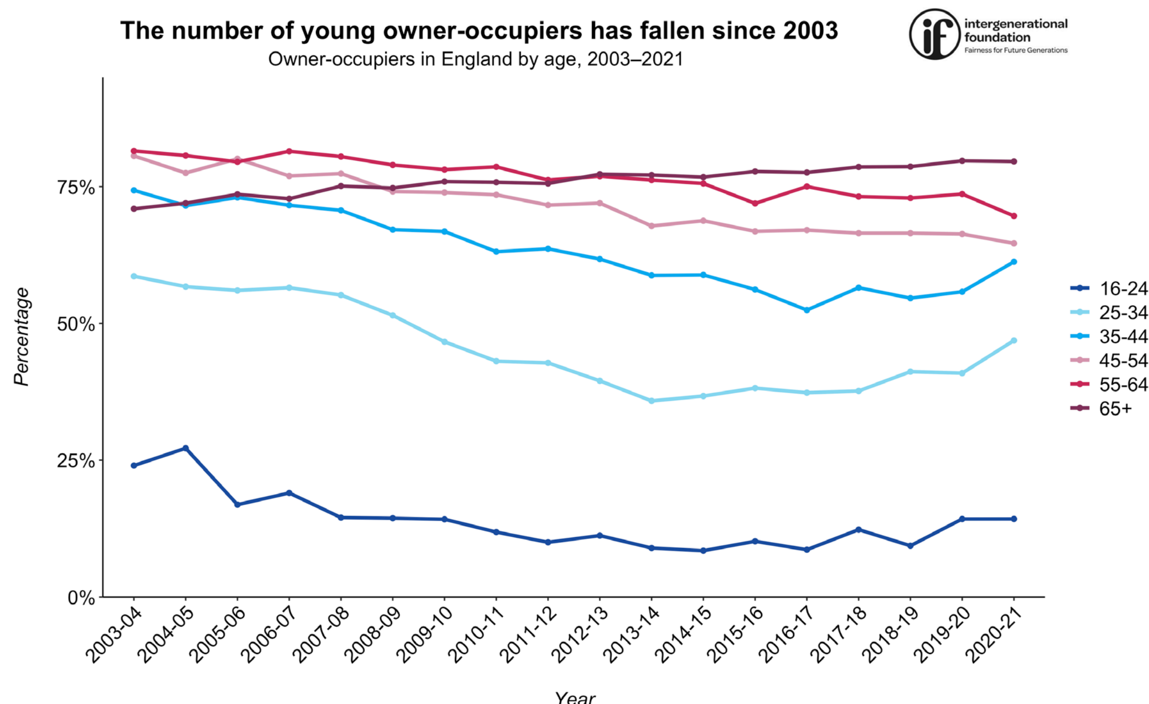
4.3. Comparison of property wealth

The low rates of young people owning property is discussed in this section. Houses act as the main asset that can be used to secure a comfortable retirement for older people and previous generations in the UK. In comparison with previous and older generations, young people have largely not been able to benefit from the decades-long rise in property prices. In fact, young people suffer from a double-whammy on the property front. Firstly, they are largely excluded from the security that comes with property ownership. Secondly, the financialisation of the housing market and the large increase in property values have been a main driver to the high cost-of-living of young people in the form of high rents.

[49] ONS Wealth and Assets Survey (2022) Individuals by age, by household total wealth

[50] Intergenerational Foundation (2022) 3 Million Pensioner Millionaires: Identifying the numbers: https://www.if.org.uk/research-posts/3-million-pensioner-millionaires-identifying-the-numbers/

Figure 17



As can be seen in Figure 17, there are fewer and fewer young owner-occupiers in England. While the percentage of those aged 16–24 who were owner-occupiers in 2003–04 was 24%, only 14.3% of the same age cohort were owner-occupiers in 2020–21. The proportion of owner-occupiers among those aged 25–34 and 35–44 also dropped from 58.6% to 46.9% and from 74.3% to 61.3% respectively. The fact that older age cohorts also have seen decreases in the proportion of owner-occupiers is reflective of the increasing barriers to property ownership, and the concentration of property wealth among the already wealthy. This has led to the rise of private renting, but the number of owner-occupiers among older age groups nonetheless remain significantly higher than among younger age groups.

Figure 18 demonstrates that landlords are disproportionately older, with 68% of tenancies held by landlords above the age of 55. Currently, almost half (48%) of tenancies in the UK are owned by landlords with five or more properties, and a similar number (52%) of landlords acquired their first property with the explicit objective of letting it out.[51]

[51] Department for Levelling Up, Housing and Communities (2022) English Private Landlord Survey 2021: Main Report

In 2021, the median age of an individual landlord was 58 years, and the most reported reasons given for becoming a landlord was a preference for investing in property over other forms of investments (42%), and as a contribution towards pension provision (40%).[52]

Figure 18

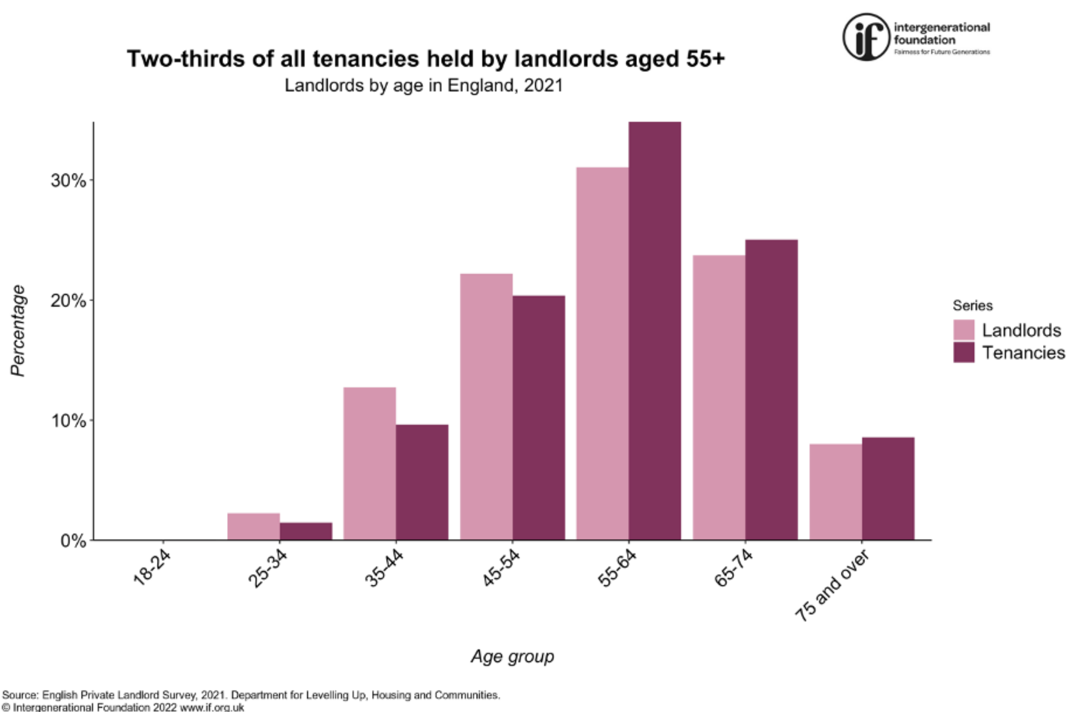
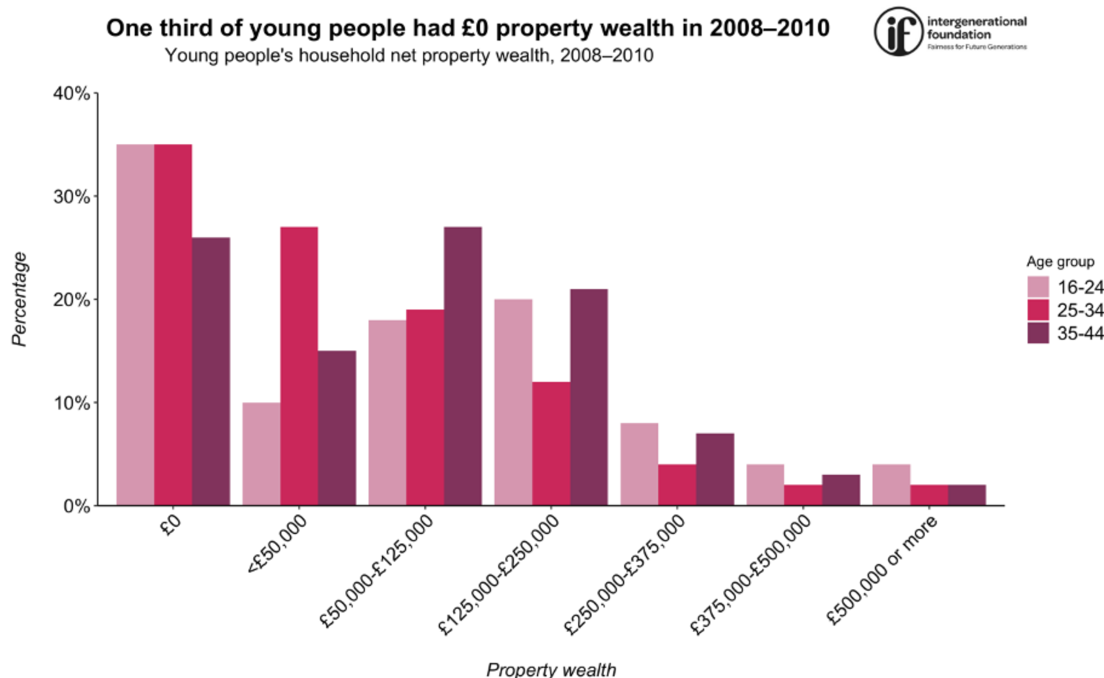


Figure 19 shows young people's household net property wealth 2008–2010. Of the two youngest age groups, 35% lived in a household with £0 property wealth, while 26% of those aged 35–44 lived in a household with £0 property wealth. Only 8% of those aged 25–34 had a household net property wealth above £250,000 in 2008–2010, while this number was 12% for the 35–44 year-olds.

Although we know that young people would like to buy homes and save in property, Figure 19 shows that only a few young people lived in a household with substantial property wealth in 2008–2010. Figure 20 shows that this situation has further deteriorated over the past decade.

[52] Ibid.

Figure 19

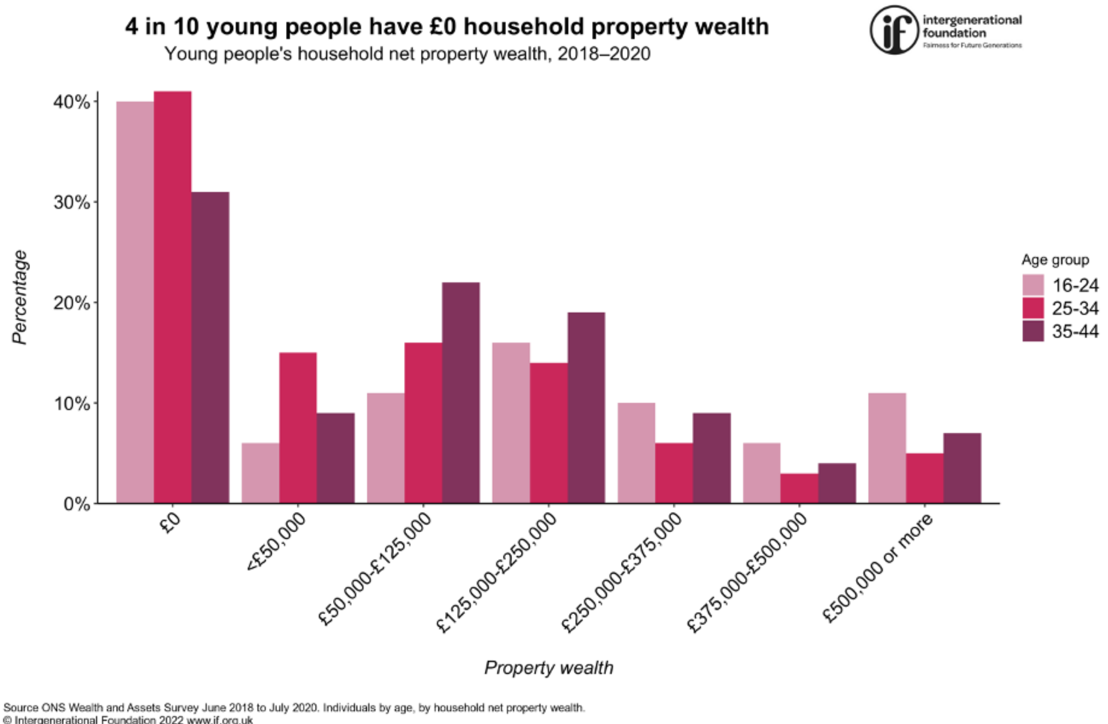


The proportion of young people with zero household net property wealth in 2018–2020 has increased comparing to a decade prior as shown in Figure 19. In 2018–2020, of those aged 16–24 and 25–34, 40% and 41% lived in a household with £0 property wealth, respectively. Although we can see a small increase in the proportion of young people living in a household with net property wealth above £500,000, it is possible that it is due to many of them living with their parents for longer, as was shown in Figure 6. This is likely to be the case particularly for the youngest age group. There has also been a decrease in young people living in households with modest property wealth between £0 and £125,000, likely to be in part due to soaring property prices and the resulting lack of houses in this price range. However, the fact that there has been almost a 30% increase in the amount of young people with £0 property wealth is worrying, and proof of the fact that house ownership is becoming increasingly out of reach for young people.

Given the precarious financial situation of young people, as described in previous sections, along with the disproportionate rise in inflation of housing prices in relation to earnings and the rest of the economy, young people and future generations will be less likely to count on house ownership as an investment or for retirement income provision.

Indeed, 75% of landlords acquiring their first rental property did so using a mortgage, implying that private renters, who are disproportionately young and pay increasingly high rents, are financing the mortgage of the property they live in.[53]

Figure 20



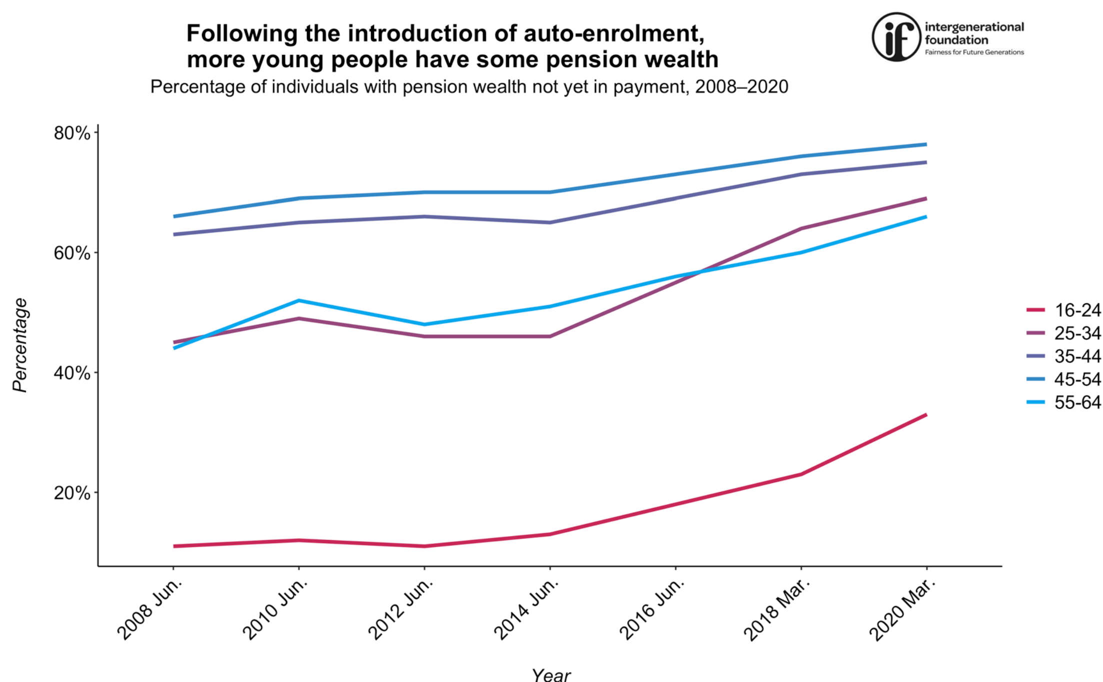
In fact, the survey data quoted would suggest that young renters are financing the retirement plans of their landlords, as the most reported explanations of how individual landlords view their role as a landlord are financial; 54% as long-term investment for retirement. This leads to an ever-increasing intergenerational unfairness, by firstly, exacerbating housing inequality between the old and the young, secondly locking young people out of home ownership in the future, and thirdly squeezing their already low discretionary spending capabilities, and therefore their saving abilities. In 2021, of private renters in England only 54.8% held any form of savings, while 81.4% of owner-occupiers had savings.[54]

[53] Department for Levelling Up, Housing and Communities (2022) English Private Landlord Survey 2021: Main Report
[54] Department for Levelling Up, Housing and Communities. (2022) English Private Landlord Survey 2021: Section 1 Annex Tables 1.19

4.4. Impact of auto-enrolment

This section will show the impact auto-enrolment has had on saving and pension wealth held by the population in general and by young people in particular. Analysing Danish administrative data, Chetty et al. found that higher pension saving due to automatic enrolment only leads to 15% of people saving less in other forms, and therefore should increase total savings.[55]

Figure 21



Since the introduction of auto-enrolment in 2012, the number of individuals with any amount of pension wealth has steadily increased, which is a welcome development. While an increase can be noticed in each age group, it is most pronounced in the younger age groups, as demonstrated in Figure 21.

Those who are self-employed do not benefit from auto-enrolment. Additionally, the self-employed are on average about four years younger than their employed counterparts and earn on average about £100 pounds less per week.[56]

[55] Chetty, R, Friedman, J. N., Leth-Petersen, S., Nielsen, T. and Olsen, T. (2014) "Active vs. passive decisions and crowd-out in retirement savings accounts" The Quarterly Journal of Economics, 2014, 129, 3, 1141–1220

[56] Crawford, R., Karjalainen, H. (2020) Retirement saving of the self-employed. London: Institute for Fiscal Studies

Figure 22

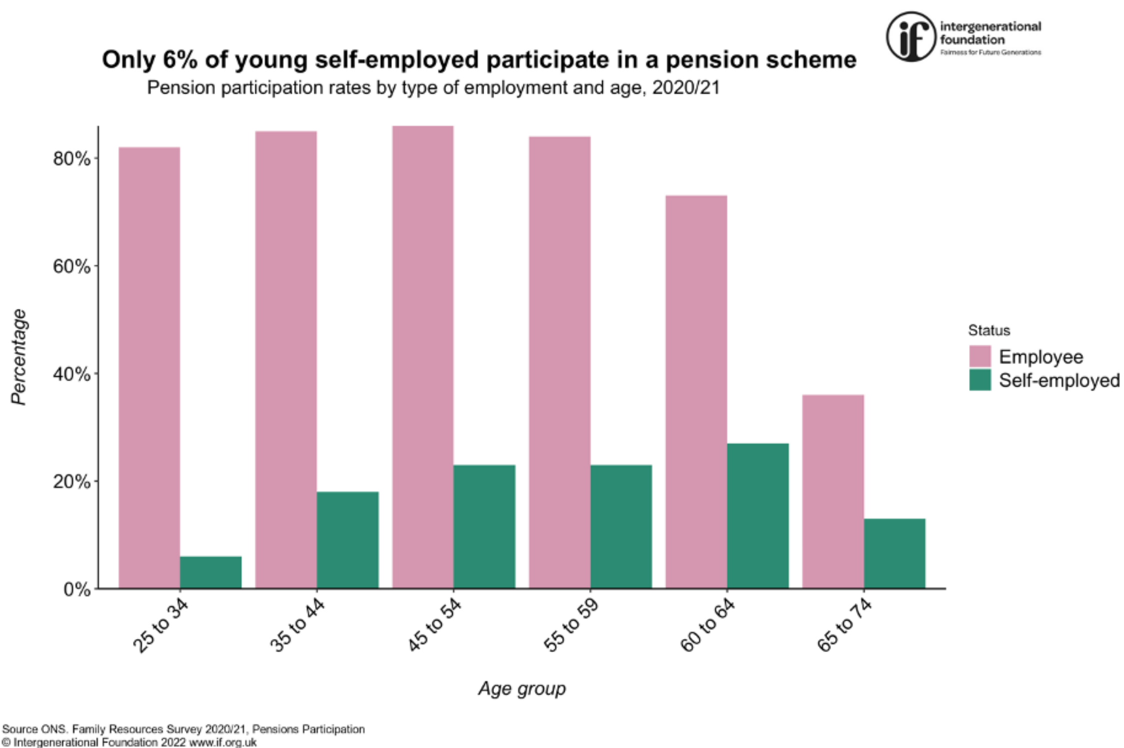


Figure 22 shows that employees are much more likely to contribute to pensions than those who are self-employed. Furthermore, pension participation rates among the self-employed are much lower for young people than they are for older age cohorts. The self-employed age cohort with the lowest pension participation rates is the 25–34 group, with only 6% participating in a pension scheme.

Among those aged 35–44 pension participation is already considerably higher among the self-employed at 18%, with the proportion of self-employed participating in a pension increasing with age up until the State Pension Age (SPA). Additionally, it is noticeable that while 82% of employees aged 25–34 participate in a pension scheme, only 6% of the same age group who are self-employed do so. In other words, young employees are almost 14 times more likely to participate in a pension scheme than their self-employed counterparts. The self-employed participate less in pension schemes today than they did a decade ago across all age groups; of the self-employed, 61% did not contribute to any pension in 2010, but this number increased to 80% of the self-employed by 2020.[57]

[57] Op. cit.

Research by the Institute of Fiscal Studies (IFS) concludes that this was not offset by increasing saving elsewhere, but that the fall in saving elsewhere has been less drastic than the fall in levels of pension saving by the self-employed.[58] The IFS also found that the self-employed with higher incomes are more likely to contribute to a pension, with one percentage point increase in income leading to approximately a six percentage point higher likelihood of actively contributing to a pension scheme. [59]

Given the rise of self-employment and the gig-economy, much more needs to be done to encourage pension participation and saving among the self-employed.

Figure 23

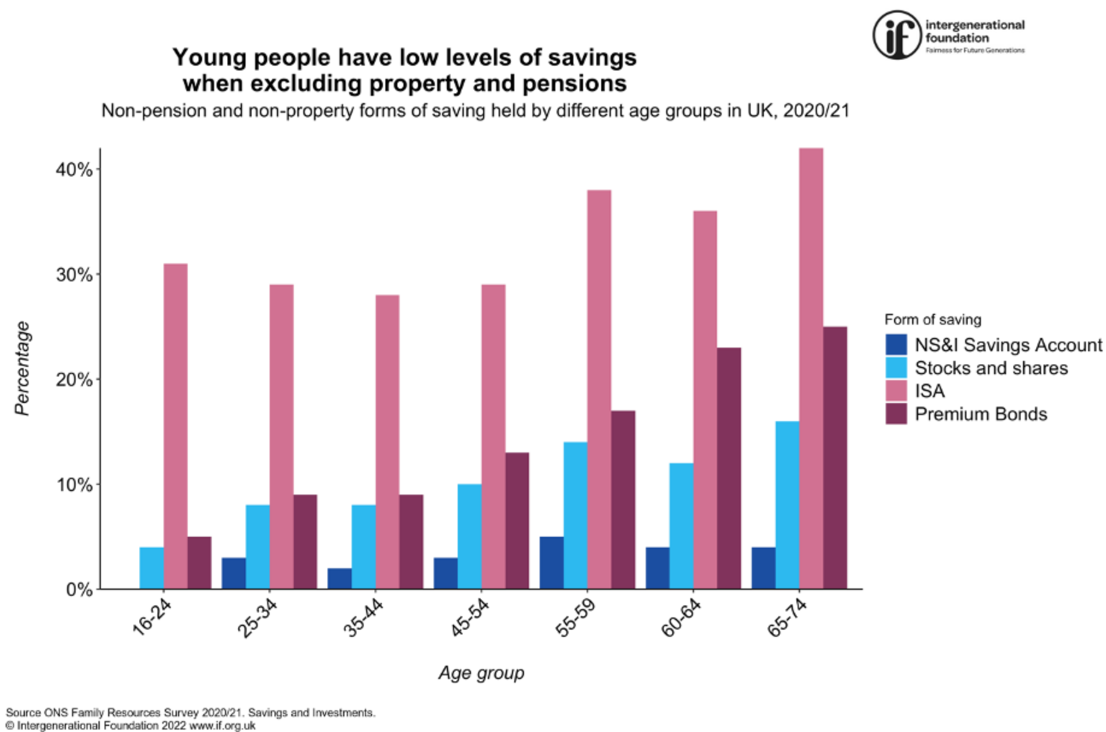


Figure 23 shows different forms of household savings and investments by the age of the head of household, with the exclusion of savings and investments held in property and pensions. While ISAs are the most evenly distributed form of non-pension saving across the different age groups as well as the most popular form overall, ISA saving is nonetheless more prevalent among older age groups in comparison to the young.

[58] Ibid.

[59] Ibid.

The proportion of people holding either stocks and shares or premium bonds increases with age, with only 4% of those aged 16–24 and 8% of those aged 25–34 holding shares, while 5% of those aged 16–24 and 9% of those aged 25–34 hold premium bonds. Given the fact that holding shares, premium bonds or saving in savings accounts were among the top five answers given by young people in terms of what would make the most of their money in terms of where to save, it is unfortunate that this is not reflected in actual savings held. With low levels of property and pension wealth among the young, it is worrying that they are not able to place higher amounts of savings elsewhere.

It is important to note that some ethnic groups suffer from lower levels of pension participation. In Great Britain, of individuals aged 16–34 in 2018–2020, the average pension participation rate across all individuals of this age group is 56%, but among those of white ethnicity aged 16–34 the pension participation rate is 64%, or 8 percentage points above the average.[60] In the same time period and for the same age cohort, pension participation rates for those of black ethnicity is at 50%, for those of mixed/other ethnicity at 41%, and the lowest pension participation rates for young people is among those of Asian ethnicity at 38%.[61] Simultaneously, the median pension wealth of the white ethnic group aged 16–34 is £1,800, but for all other ethnicities the median pension wealth for the same age group is £0.[62]

The median wealth of a household where the household head is from the white British group was £313,900 in 2016–2018. However, the median household wealth among those with a household head from the black African group amounts to only 11% (£34,300) of that of the median household wealth for those from the white British group, while the Bangladeshi group's median household wealth is 21% (£65,600) of the white British median, and the median household wealth for the black Caribbean group is 27% (£85,900) of the white British median.[63] In the same time period, the median total household wealth for under-35s from the white group was £60,300 but £30,300 for those from any other ethnic background.[64] The inequality of pension wealth among young people from different ethnic backgrounds is therefore a reflection of the inequalities that minorities in the UK continue to suffer from more generally, and suggests that there is a need for policy intervention to overcome the intragenerational inequality that exists among young people of different ethnic backgrounds when it comes to pension participation rates.

[60] ONS Wealth and Assets Survey (2022) Saving for retirement in Great Britain
[61] Ibid.
[62] Ibid.
[63] ONS Wealth and Asset Survey (2020) Household wealth by ethnicity, Great Britain: April 2016 to March 2018
[64] Ibid.

4.5. COVID-19 and cost-of-living crisis

It is worth noting that much of the data available does not yet factor in the effects of the COVID-19 pandemic and the following cost-of-living crisis. Therefore, the difficult financial situation faced by young people as discussed in this paper is likely to be exacerbated further, with rising living costs among the primary reasons. Until more information has been gathered on the economic and financial well-being of young people in the context of the post-pandemic cost-of-living emergency we can be certain that the situation for young people has not improved, but by how much it has deteriorated remains to be seen.

5. Policy recommendations

Young people are currently being locked into a savings squeeze. The main barriers to saving faced by young people are: high cost of living; stagnating earnings; rising rents; and house prices, which combine to limit the amount of money young people can put aside at the end of the month in order to save for the future. Furthermore, young people are excluded from the much more generous, secure and stable forms of saving for the future that previous generations have enjoyed, such as defined benefit pension schemes, buying property and higher interest rates.

Furthermore, young people suffer from current savings and tax policy largely benefitting older and wealthier individuals. The young require policy interventions to help build up their savings. As discussed in the data analysis section of this report, young people have such low financial wealth that only a very small minority of young people can benefit from tax benefits such as the capital gains tax-free allowance, rendering such an allowance to primarily benefit older and wealthier people. Furthermore, the tax-free £20,000 annual ISA allowance is far beyond that which the few young people who can save anything can take advantage of. This implies that such policies largely benefit wealthier and older individuals who have built up large amounts of savings and therefore need such tax allowances less. Moreover, an increasing number of young people are self-employed, and those who are self-employed do not benefit from policies such as auto-enrolment but require additional policies to encourage and support saving. A holistic policy intervention is required to turn around the increasingly precarious financial situation young people find themselves in, and to encourage and support young people to save for their futures.

Below is a list of potential policies that would ameliorate the all-consuming savings squeeze facing young people:

1. Policies to reduce the high burden of non-discretionary spending for young people, particularly housing

These remain priorities to overcome the savings squeeze facing young people. The high cost-of-living and the burden of having to spend a large majority of one's income on essentials comprise the largest barriers to young people being able to put aside savings for the future. If the housing crisis, as well as high cost of bills and other essentials, were to be improved, it would have a beneficial impact on young people's levels of saving. Building more affordable social housing, incentivising downsizing, and imposing higher taxes on buy-to-let properties, would bring housing costs down for young people (and the rest of society) and therefore increase the ability of young people to save for the future.

Simultaneously, shifting the tax burden away from earned income and more towards unearned income would relieve the massive financial pressures faced by low-and middle-income young people. Addressing the cost-of-living crisis, the housing crisis and the unfair tax system are vital steps to enable young people to become financially secure, while simultaneously benefitting the rest of society.

2. Relieve the burden of the student loan repayment tax

Among the primary financial burdens faced by approximately half of young people remains what is in effect a graduate tax. If this burden were to be relieved, possibly in conjunction with a savings policy, young people's financial future would be a lot brighter. While free university education must be the goal to avoid forcing young people into unfair levels of student debt, as a small but vital first step, the government should immediately cancel the freezing of the student loan repayment threshold at £27,295, and its lowering to £25,000 in future years, and instead ensure that the threshold rises in line with inflation. If not, the freezing and lowering is in effect a further graduate tax which will hit low- and middle-income graduates the hardest, as they will be paying back more every month without much of a chance to ever pay the loan back in full. Furthermore, the 10-year extension of student debt repayments should also be withdrawn.

3. Labour market and pension policy reforms

Address the gig-economy which has led to a lack of pensions provision. A changing labour market and pension policy has jointly led to an increasing number of young self-employed contract or gig-economy workers locked out of auto-enrolled pension saving.

4. Savings account subsidies

Governmental help with setting up a savings account for young people from low-income backgrounds through subsidies would help to encourage saving among those young people who do not have parents with high enough incomes or savings that they themselves are able to save, and are therefore less likely to instil such knowledge and values to their children. Setting up young people from low-income backgrounds with a savings account with some money in it when they turn 18 would support saving behaviours by removing the initial obstacle of setting up an account and by providing an initial sum of money as support. It could simultaneously act as an opportunity to provide free financial advice.

5. Lifetime intergenerational gifting policies

Policies which would encourage lifetime intergenerational wealth gifting would increase flows of wealth from older and wealthier generations to younger and less wealthy generations sooner. Such policies could target savings built up by older generations in the form of pensions, property wealth or other wealth and incentivise passing down such wealth to younger generations.

6. Young savers' bond

Setting up a scheme with market-leading interest rates would encourage young people to save more. "Granny Bonds" were introduced for the over–65s with inflation-beating rates of 4%. A similar product could be designed for 18–34 year-olds. Wherever people put their savings there will always be an element of risk, but a Young savers' bond could provide an attractive low-risk alternative for those young people looking to save.

7. Free savings advice and provision of financial education

This would help reduce the gap in knowledge about different options over how to save for retirement, particularly helping young people from low-income backgrounds. This policy could be introduced in conjunction with the 4th and 6th policy proposal on this list to maximise the benefits of each policy and ensure that young people have free access to advice and knowledge about the benefits of different forms of saving.

6. Summary and conclusion

Young people find themselves in an increasingly difficult financial situation. Increases in the cost-of-living, a property market that is out of reach, low levels of saving, less generous pension schemes than those which existed for previous generations, low discretionary spending and high levels of debt have squeezed young people out of a savings culture. It should be welcomed that fewer young people are very worried about their quality of life upon retirement and that more young workers are contributing to pension schemes, thanks to the introduction of auto-enrolment. However, it must be acknowledged that despite auto-enrolment many young people have not been able to build up more savings, as the median pension wealth among all individuals aged 25–34 is a worryingly low figure of £3,000, and for those aged 16–24 it remains at zero. Thus, auto-enrolment might have led to a false sense of security for some young people with low or occasional pension contributions and without other sources of saving. Therefore, the issue of young people struggling to build up savings for the future has certainly not been resolved yet.

It is true that more young people have some pension wealth, but levels of pension wealth remain rather marginal, and the median pension wealth held by young people with pensions has decreased by a quarter in the past decade. Simultaneously, while young people are less distressed about their future in retirement than they were a decade ago, data does not suggest that their levels of saving or other preparations for funding their retirement beyond the state pension will be adequate.

The jury is still out on whether it is auto-enrolment, and the fact that having contributed at least something to a pension scheme, that has made young people more confident in their financial future, but the amount of young people who believe employer pensions will make the most of their money in terms of savings has increased by approximately one-third in the last decade. Property remains the clear winner in terms of young people's beliefs of what would make the most of their savings, but fewer and fewer young people will ever be able to get on the property ladder. This is not the fault of the young, who have had to bear fast-increasing property prices and private rents, while their salaries have hardly kept up with inflation.

The government must act to alleviate the precarious financial situation young people find themselves in so that their generation has the same prospects as previous generations. An economy that is geared to increase the wealth of those who already own property and assets (largely older people) is letting down the young. Instead, policies that counterbalance the financialisation of housing and education must be enacted. Support for young people, especially those with lower incomes, is desperately needed in order to overcome the current cost-of-living emergency and must be initiated immediately. Young people need help to save, to save more, and to save for longer.

Notes

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