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Young people's savings squeezed to decade low

It is now almost impossible for anyone under the age of 34 to save towards their future old age after a decade of stagnating earnings, high taxes and student debt, as well as surging housing and living costs, says a new report from the Intergenerational Foundation (www.if.org.uk).

"Young people have been locked out of the ability to save due to successive government decisions to tax the incomes of the young and protect the assets of the old," says Angus Hanton, IF co-founder.

A toxic combination of £500 billion in COVID-19 debt, the current energy crisis, sky-high inflation, taxation and rents, mean that young people are increasingly overburdened by previous generations' debts while falling further behind older generations when it comes to earning or saving for the future.

The think tank report, entitled ***The Savings Squeeze: Young people locked out from the benefits of savings***, explains the factors that have contributed to younger generations' inability to save over the past decade.

The current pension policy landscape means that young people should not expect to rely on the State Pension alone when they reach old age but will need to build up other sources of retirement income such as private pensions, property, or other savings.

Report author Alec Haglund says: "With young people having to use so much income on day-to-day essentials, they simply do not have that "little extra" to put to one side for the future. The country is storing up a retirement timebomb for younger generations unless they too have the ability to save today for their futures tomorrow."

Previous IF research demonstrated that well before the COVID-19 pandemic young households had to spend two-thirds of their weekly expenditure on essentials, up 18% between 1999 and 2019. Once the pandemic hit, the younger generation suffered an 11% drop in employment while still having to pay rent and utilities.

The think tank argues that, while well-intentioned, the introduction of auto-enrolment may have made young people over-confident about their likely standard of living in retirement because their current contribution rates will not deliver large enough pension incomes for them to rely on in old age. Among young people with pensions, median pension wealth has fallen by a quarter over the decade. Meanwhile, just 6% of self-employed young people have any pension at all.

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While older generations have benefitted from a quadrupling of house prices since 1997, median incomes have not even doubled over the period, thereby pushing the dream of home-ownership ever further away from young people even though 37% think saving in property would make the most of their money.

The report finds that 41% of 20–34 year-old households have zero property wealth. Meanwhile, average UK rents increased by 10% in just one year to May 2022 (15% in London), placing even more pressure on the pay packets of the young, with the worst of the cost-of-living crisis yet to come. It is therefore no surprise that a record number of young people (28%) are now living at the family home rather than striking out of their own.

It is a great concern that young people are choosing to invest in higher-risk assets such as cryptocurrencies and shares. According to survey data, 50% of the number of young people who invest, have chosen to invest in cryptocurrencies even though a third of those surveyed saw it as a gamble and 71% said it was a risk they were willing to take.

Furthermore, successive governments' taxation policies have targeted earned income, paid for largely by the young. It means that the average graduate has a current marginal tax rate of 40% made up of 12% in national insurance contributions, 9% student debt repayments and 19% income tax.

Melissa Dean, Head of Client Relationships, Curtis Banks said, "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. 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. This 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."

"That 4% return on Granny Bonds, which were only available to the over-65s, now seems wholly intergenerationally unfair. On intergenerational fairness grounds it is time the government turned their attention to the young," says Hanton.

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Note to Editors:

- Data from ONS Wealth and Assets Survey, Annuals Survey of Hours and Earnings, Labour Force Survey, Family Resources Survey, among other sources.
- 28% or 3.5 million 20–34 year-olds were living at home in 2021 (ONS)
- 66% of UK adults believe that it is harder for young people today to save for the future, in comparison with their parent's generation.
- Graduates face marginal tax rates of 40%:
    - 9% "graduate tax)
    - 12% national insurance
    - 20% income tax

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