# Fireworks for millennials

**Pensioners now often have a higher income than the average working-age individual. Sunniva Kolostyak takes a look at the sparkling opportunities to close the generational gap**


**Summary**
- Young people are earning less than the same age group 10-15 years ago, but their increased life expectancy could give them more time to tackle issues.
- It might be too late to close the gap for generation X.
- Millennials are dependent on inheritance and intergenerational transfers of money.
- Rebalancing taxes in a generational way could contribute to narrowing the income gap.


Talking about how the older generations have blown up any chance of financial stability for millennials has become common with good reason. The average pensioner income is now higher than the average income of working-age individuals, while those currently in their twenties and thirties are earning less than people the same age did 10 to 15 years ago.

Millennials are expecting the ticking time-bomb the baby-boomers left in their hands to explode before they reach retirement, but is there actually a way to turn an unfair economy into fireworks for young savers?

Research from think tank Resolution Foundation, in addition to outlining how much worse off millennials are, also shows that the middle-income pensioner is more likely to be affluent than the average working-age household. According to Resolution Foundation executive chair David Willetts, who recently spoke at the PLSA Annual Conference in Liverpool, "it is no longer correct to assume if you're old you're poor. It is no longer a good guide for social policy".

It has been found that young people today are earning less compared to people 10 to 15 years ago at same age in real terms, Bravura Solution's retirement specialist Natanje Holt says. It has also been proven that recessions put cohorts back in terms of earning and wages.

This could set them back for their entire career, she notes. "The 2008 recession has had a major impact on people joining the workforce. In addition wages have been stagnating for a long period of time now.

"In a world where we are getting used to low interest rates, the cost of borrowing might be cheap, but the value of cash in the bank is forever decreasing," Holt adds.

**Longer working lives**

The younger generation is already aware that financially, they will need to work longer. If they are unable to make it onto the property ladder, they must accumulate a significantly higher amount of savings than the previous generation in order to continue paying rent in retirement. However, millennials are in a better place to tackle these issues.

"This generation are fitter and healthier compared to previous generations so they might also enjoy greater quality of life enabling them to work longer," Holt assures.

She argues that the impact on society and politics is much more worrisome because at the moment, a whole age group has realised that they will be significantly worse off than their parents, and an attitude like that is guaranteed to

impact future generations.

Another danger is that the financial service market does not evolve quickly enough to support people with short, medium and longer-term needs. "The long-term issues around insufficient funds for a large part of the generation is real, but auto-enrolment begins to address that. Arguably it is too late for generation X [*but*] personally I think we should focus on this generation."

In addition to the market-related risks, employers have had their fingers so badly burned by defined benefit funding problems that they are more reluctant to take any further pensions risks, Ensign pensions director Ivan Laws explains. Also, having lived through the 2008 financial crisis there may even be a justifiable lack of trust in the older generation – "after all, our track record is not so great".

Laws points out that as usual in the world of defined benefit schemes, the generational gap and surrounding issues have begun to be addressed a bit late. "Well-governed DB pensions are very protected in law and provide a guaranteed, relatively high level of income for the many who are entitled to receive them."

He is more concerned with what the younger generation is paying for, which is the larger retirement income levels of today's DB retirees than they will generally receive themselves.

"Even the National Insurance contributions currently being paid by young people are passing to the Treasury and then straight out again to pay the state pensions of those receiving them. So younger workers today will have to rely on wealth accumulated privately by their parents and grandparents, handed down within families, to correct intergenerational financial inequalities. For those without such family wealth, the picture is bleaker," Laws says.

**Intergenerational transfers**

One suggestion to equal the generational gap, made by Resolution Foundation, is to abolish the inheritance tax and replace it with a lifetime receipts tax, raising an additional £5 billion from wealth taxation.

This would also be a step towards fighting the recent trend in intergenerational transfers, which many argue show a need for an IHT policy reform. According to the Office for National Statistics, the average inheritance in the UK is £11,000. Also, those between 25-34 are likely to receive an average gift of £2,000 from family. Just in the past two years, 11 per cent of people in this age bracket have received a gift/loan of over £500.

An inheritance is incredibly important for households with lower wealth, Aegon pensions director Steven Cameron says, as inheritance makes up 44 per cent of the net total wealth of the lowest wealth quintile. This paints a mixed picture of the way wealth is distributed across generations in the UK with a "clear divide between the younger and older age groups", he points out.

"Those aged 55 to 64, many of whom will have benefited from gold-plated defined benefit pensions are also the most likely to receive an inheritance from parents and older relatives, which on average will also be the largest in size of inheritance," Cameron explains.

This group, he says, is also the most likely to hold on to any money by saving or investing. But at the other end of the spectrum you have millennials, who receive more gifts and loans. There, the problem is that the sums are relatively low.

However, the benefits to younger generations of intergenerational transfer of funds should not be underestimated, Cameron notes. "This can play a vital role

in kick-starting positive savings habits among the next generation, or help them to get on the housing ladder."

Responsible Life managing director Steve Wilkie also underlines the importance of loans within families. "Homeowners released £11 million from their homes every day in the last quarter, and a large chunk of this will have been early inheritance, to help younger family members buy a property, but also to contribute towards other costs such as school fees and general living expenses."

**Rebalancing taxes**

Willetts and the Resolution Foundation's suggestions to defuse the situation is to fund welfare in a way that does not take away from young people's sparkling future. One solution is sustaining the NHS through National Insurance contributions from the earnings of those above state pension age and therefore breaking the deadlock on social care.

But perhaps most importantly, it is important to reduce risk around younger generation's pensions through risk sharing – something that could come from a legislative framework for new CDC pensions for example, along with a default track to a guaranteed later life income. And ideally, the think tank would see a flattening in pension tax reliefs and auto-enrolment for low earners and the self-employed.

At the PLSA, Willetts also said he would like to see a complete rebalancing of the welfare state and the abolition of inheritance tax, replacing it with a lifetime receipts tax and restoring the idea of asset accumulation.

The Resolution Foundation has also come up with the £10,000 'citizen's inheritance', which could provide the opportunity for everyone to invest in housing, pensions, education and training or entrepreneurship.

"£10,000 doubles or more the asset position of two-thirds of the people aged 30. From the perspective of the younger generation, that is enough really to change their prospects in many parts of the country, [*for instance by assisting with housing deposits*] and significantly changes the amount of money they may have in their NEST auto-enrolled pension," Willetts said at the pensions conference.

Holt notes that both industry and government are well aware of auto-enrolment not going far enough, but she is sure that it acts as the start of a journey and as a first building block to adequate retirement saving. "It is our responsibility as an industry to help define the path for the future to serve and support the future generations," she says.

Laws agrees with Willetts' suggestion of National Insurance contributions for those earning after the state pensions age and argues that some form of statutory wealth redistribution should happen to correct the distorted income levels of today's DB retirees.

"To have any decent chance of wealth in retirement investment risks must be taken. There is however a glimmer of light in the shape of collective DC and in well-governed master trusts, which will be able to achieve economies of scale."

Whether this glimmer of light will turn into an explosion is up to the industry and its ability to turn the scales. But a spark is all it takes to launch fireworks.

**Written by Sunniva Kolostyak**