The wealth of different generations in the UK

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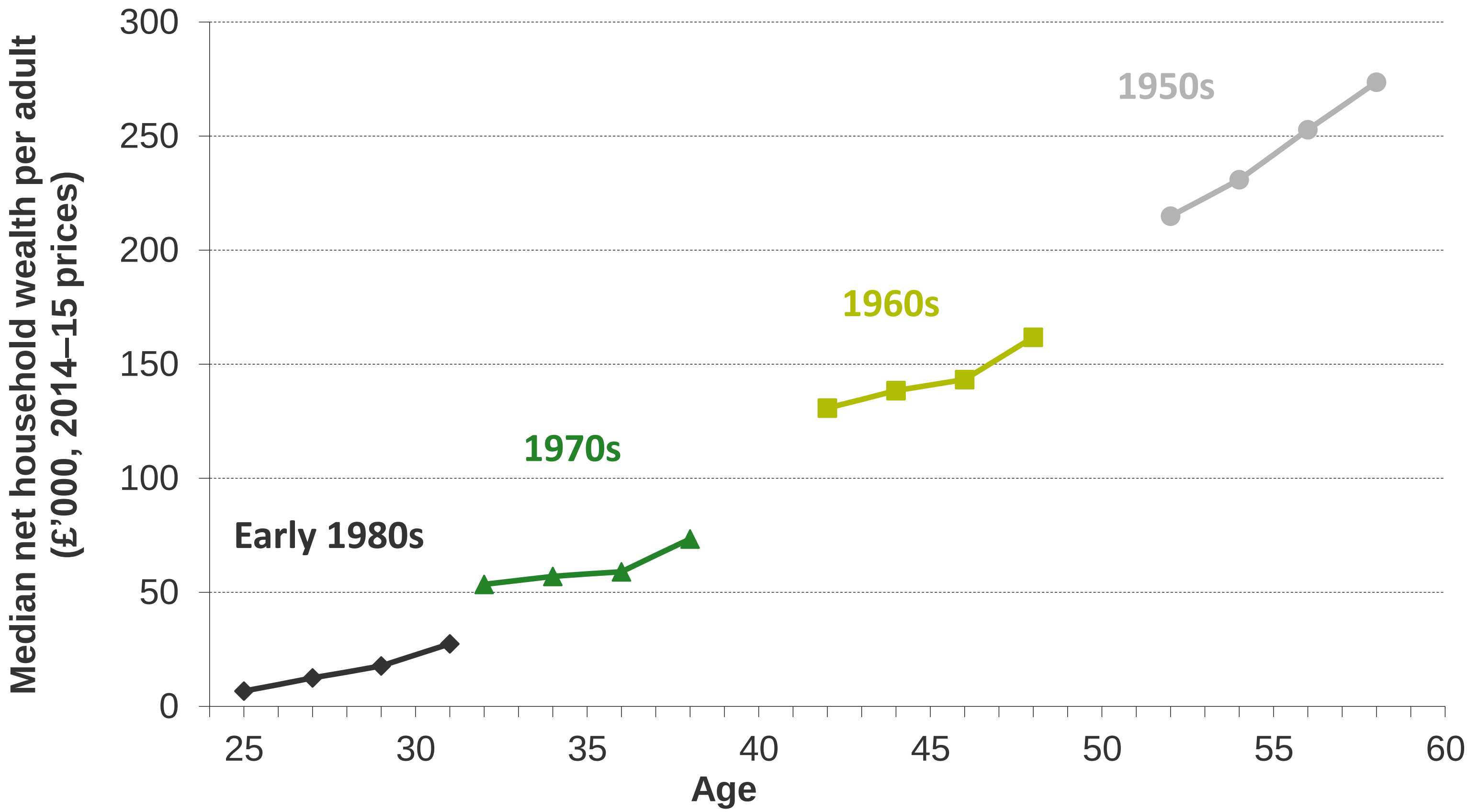
Median net household wealth by age for different generations



Source: IFS calculations using Wealth and Assets Survey. (Figure 5 of Cribb, Hood and Joyce 2016)

Components of average wealth by generation

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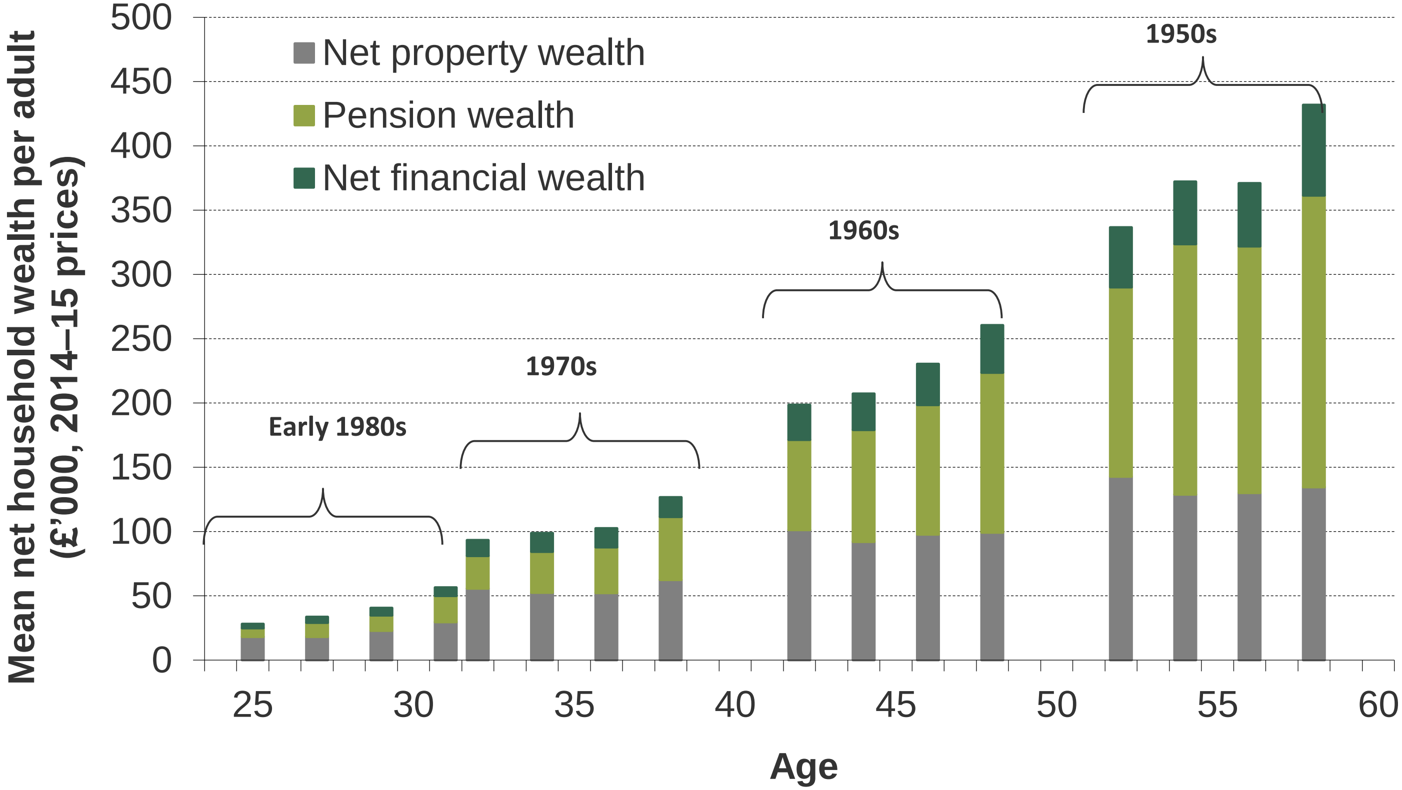
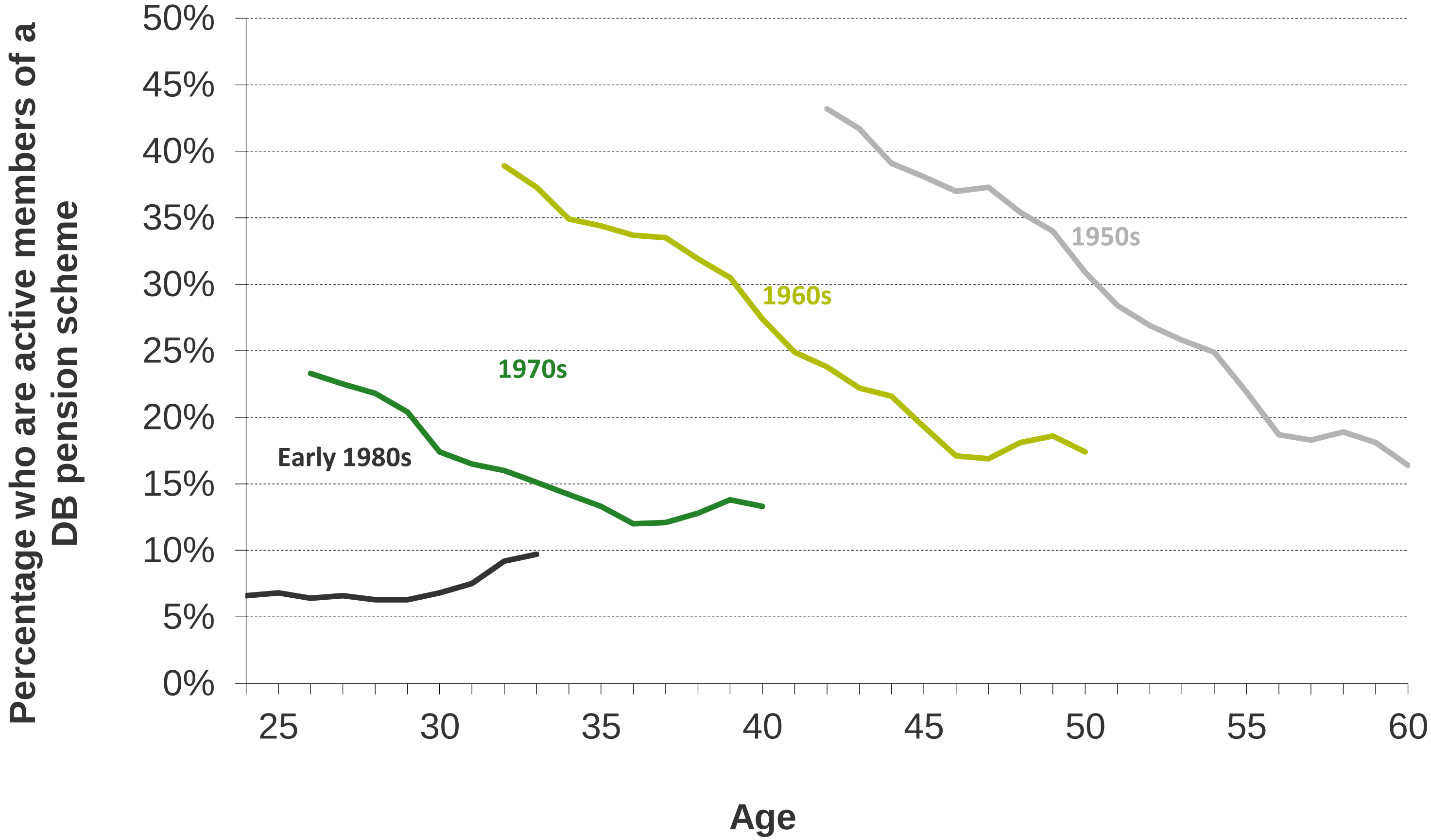


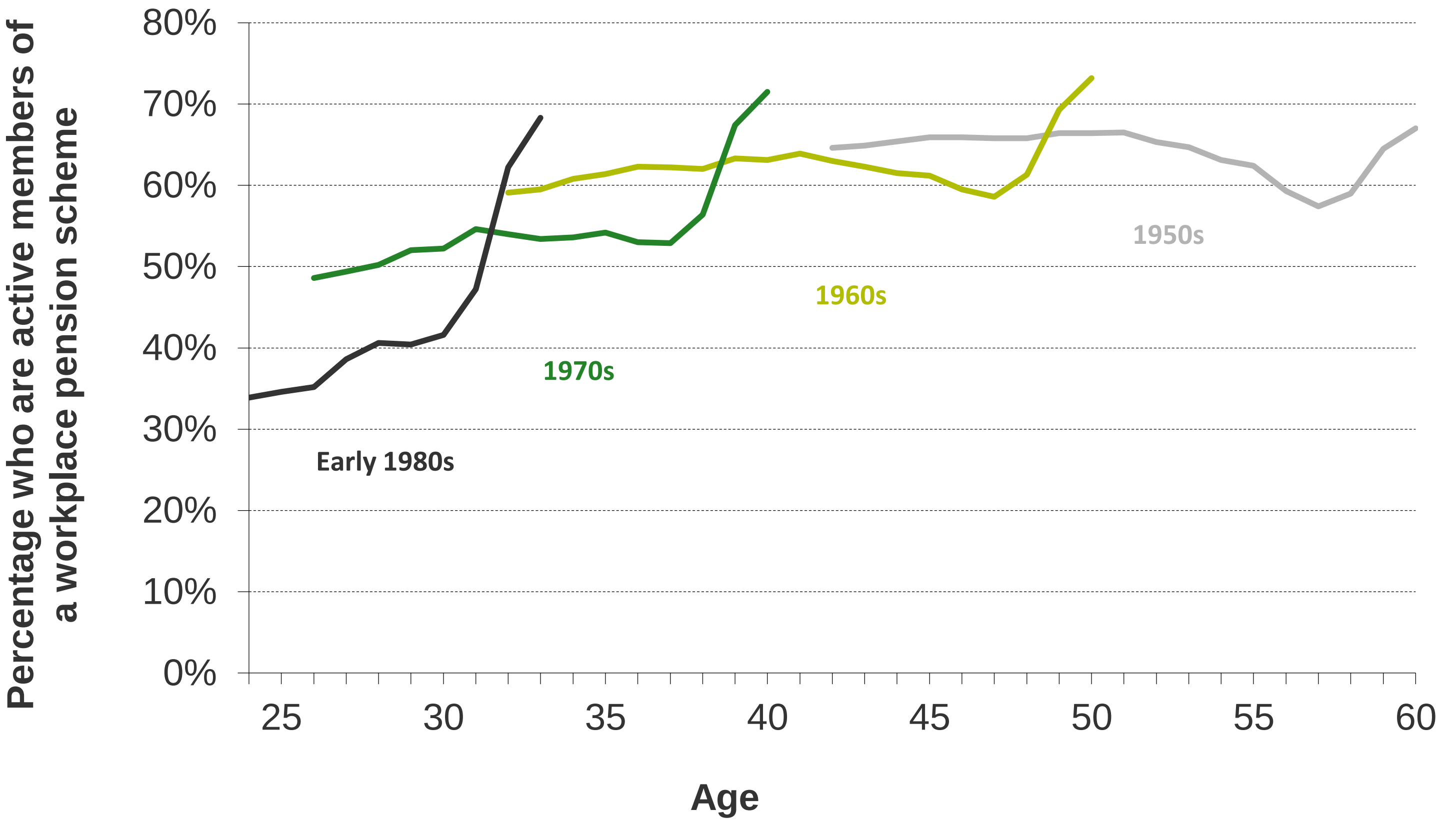
Source: IFS calculations using Wealth and Assets Survey. (Figure 6 of Cribb, Hood and Joyce 2016)

Private sector employees who are active members of a DB pension scheme



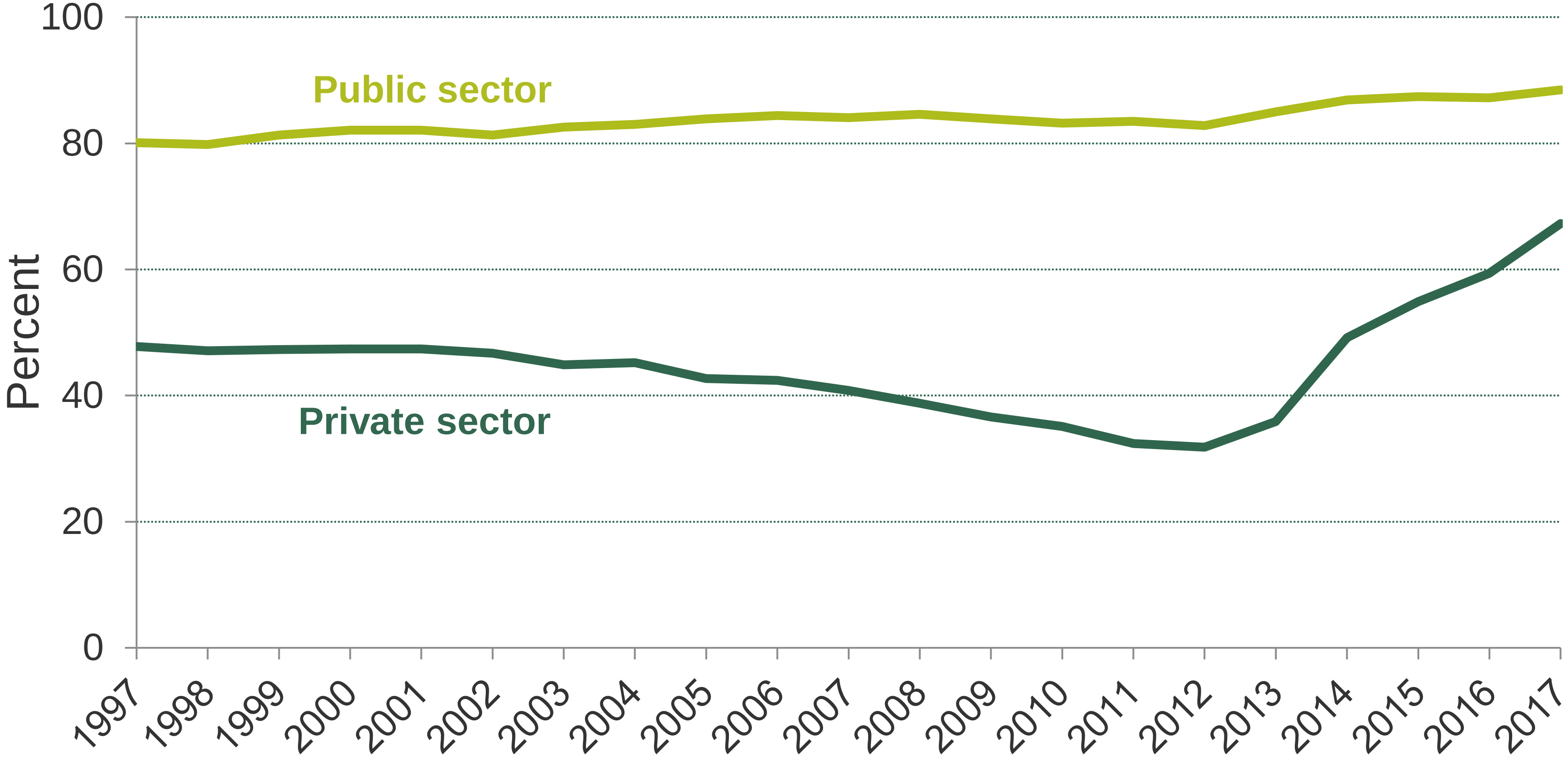
Source: IFS calculations using Wealth and Assets Survey. (Figure 9 of Cribb, Hood and Joyce 2016)

Private sector employees who are active members of a DC pension scheme



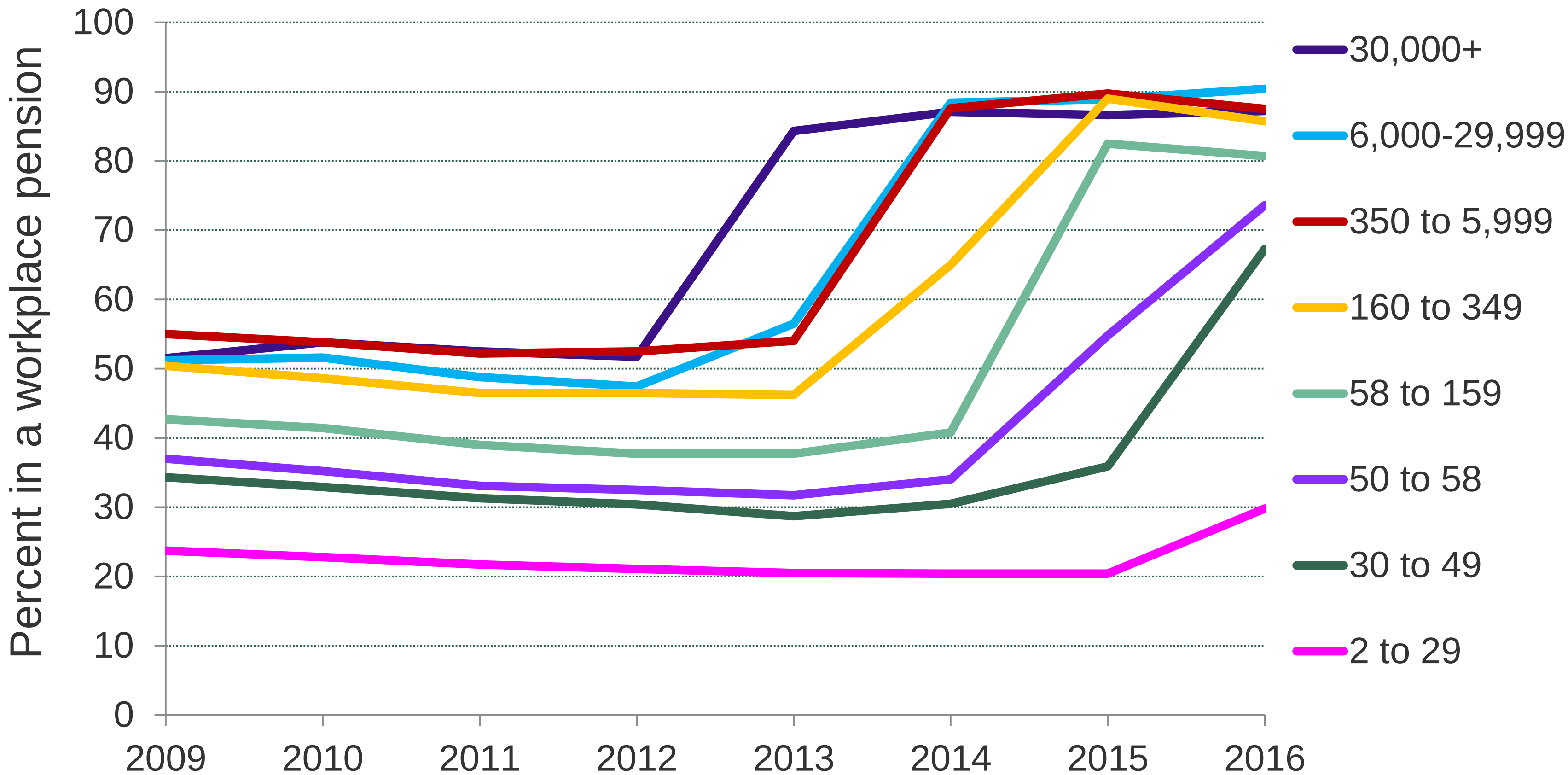
Source: IFS calculations using Wealth and Assets Survey. (Figure 10 of Cribb, Hood and Joyce 2016)

Overall workplace pension participation



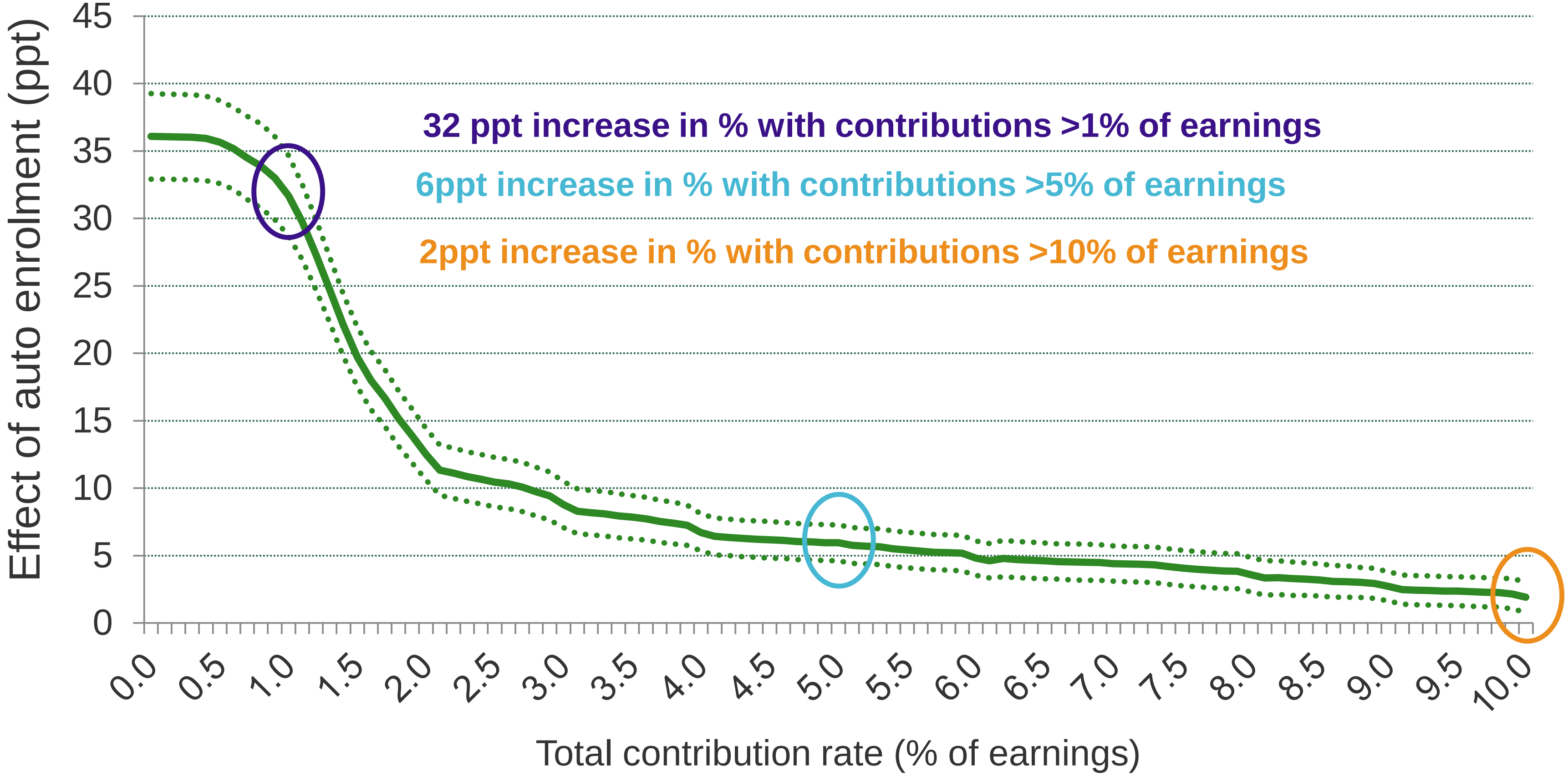
Source: Crawford, Cribb and Emmerson (2018) using data from the Annual Survey of Hours and Earnings.

Workplace pension membership of eligible employees, by employer size



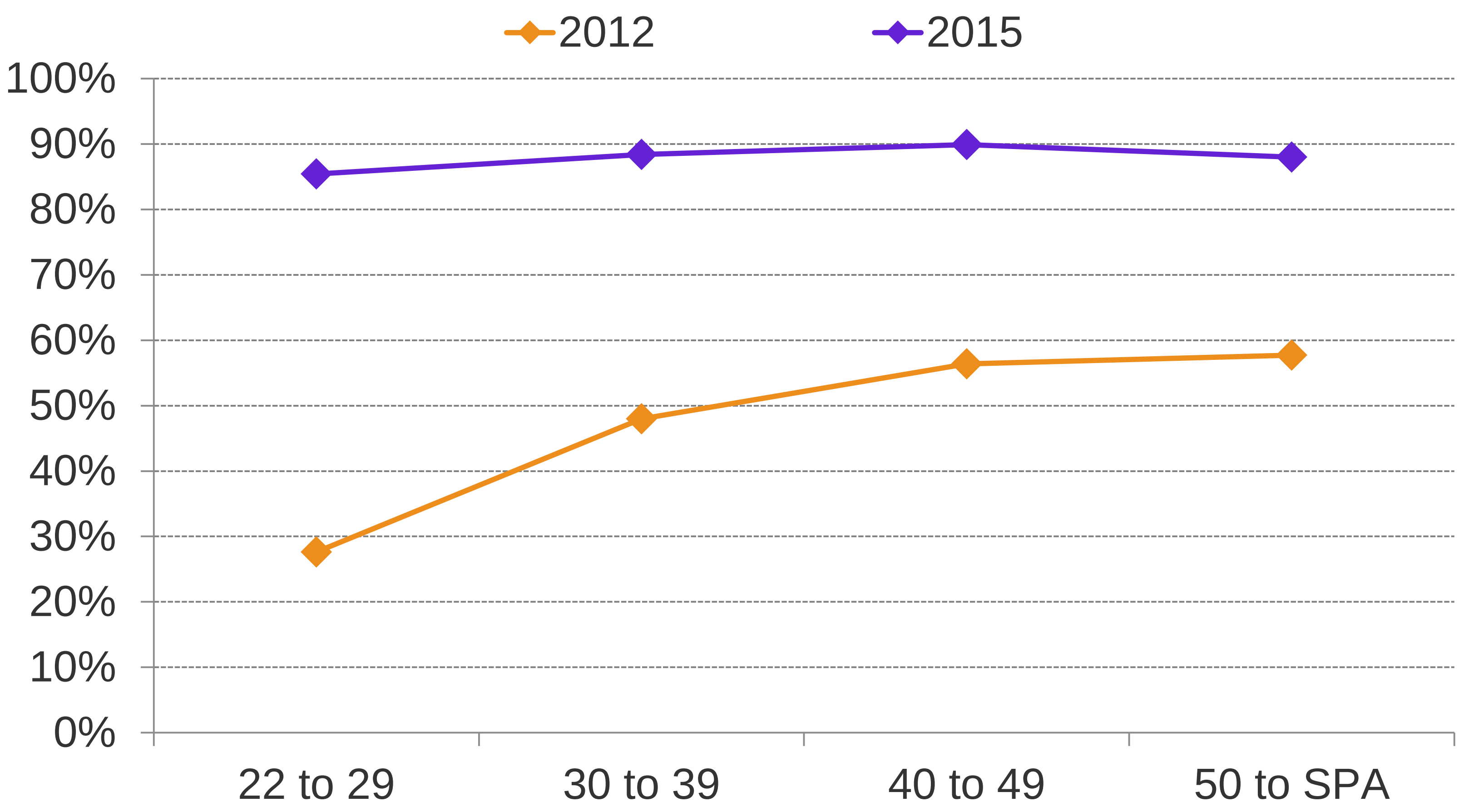
Source: Cribb and Emmerson (forthcoming) using data from the Annual Survey of Hours and Earnings.

Effect of automatic enrolment on total pension contributions



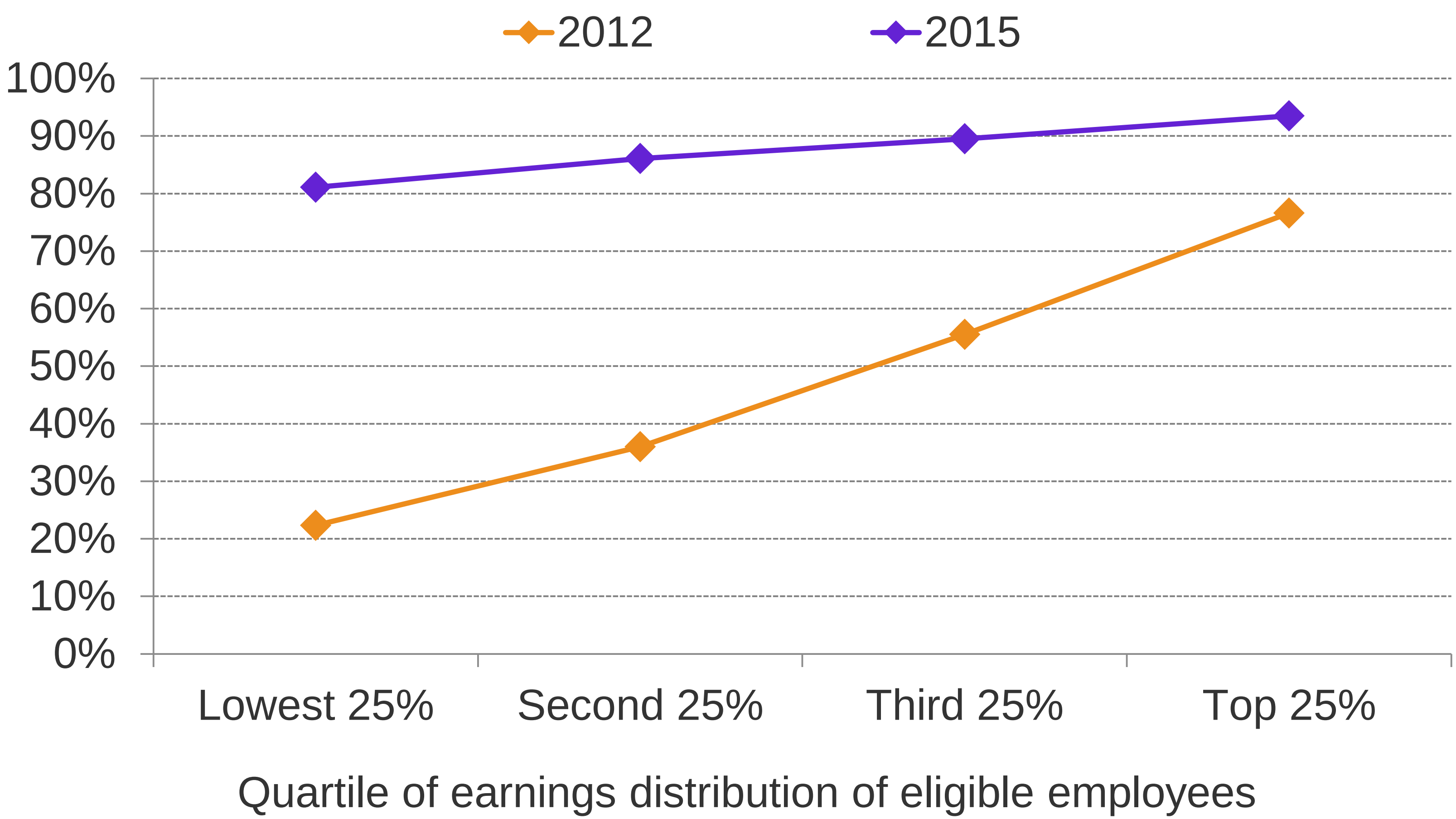
Source: Figure 3 of Cribb and Emmerson (2016) using data from the Annual Survey of Hours and Earnings.

Workplace pension membership of eligible employees by age



Source: IFS calculations using Annual Survey of Hours and Earnings. (Table 3 of Cribb and Emmerson 2016)

Workplace pension participation of eligible employees, by earnings level



Source: IFS calculations using Annual Survey of Hours and Earnings. (Table 3 of Cribb and Emmerson 2016)

What will happen as contributions rise?

Increases in minimum contribution rates have started and they will rise again next year

From "mid 2020s" all earnings up to upper threshold to count towards minimum contributions

- Also widen age band from 22 to SPA to 18 to SPA
- Has potential to benefit people earning low amounts in multiple jobs

Higher minimum contributions to workplace pensions

Will more people choose to leave their pension scheme?

Reasons for government to be optimistic:

- Some (many?) will remain in scheme simply due to inertia

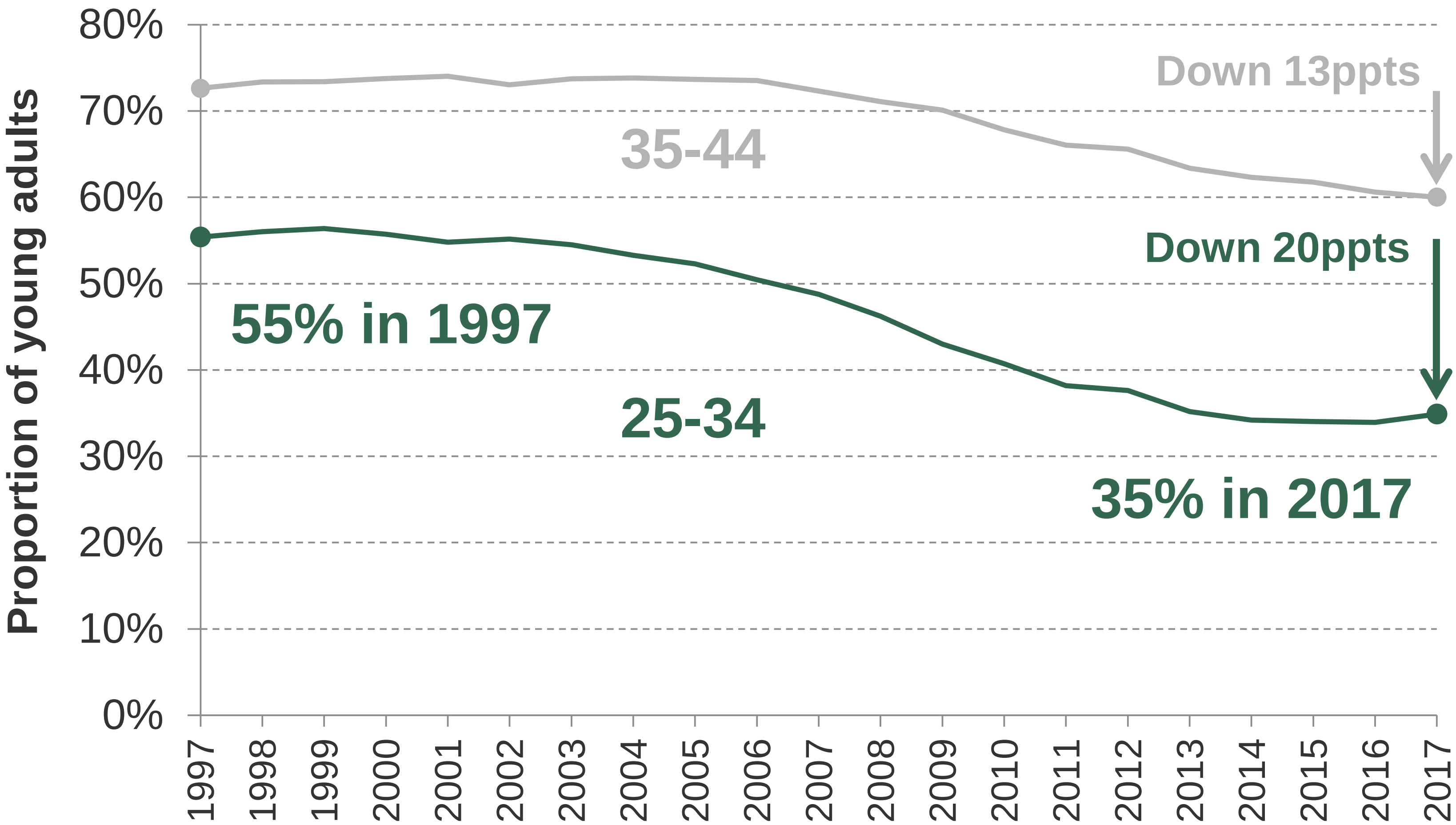
- Individual would have to give up a larger employer contribution

Reasons for government to be cautious:

- Are households reducing savings elsewhere?

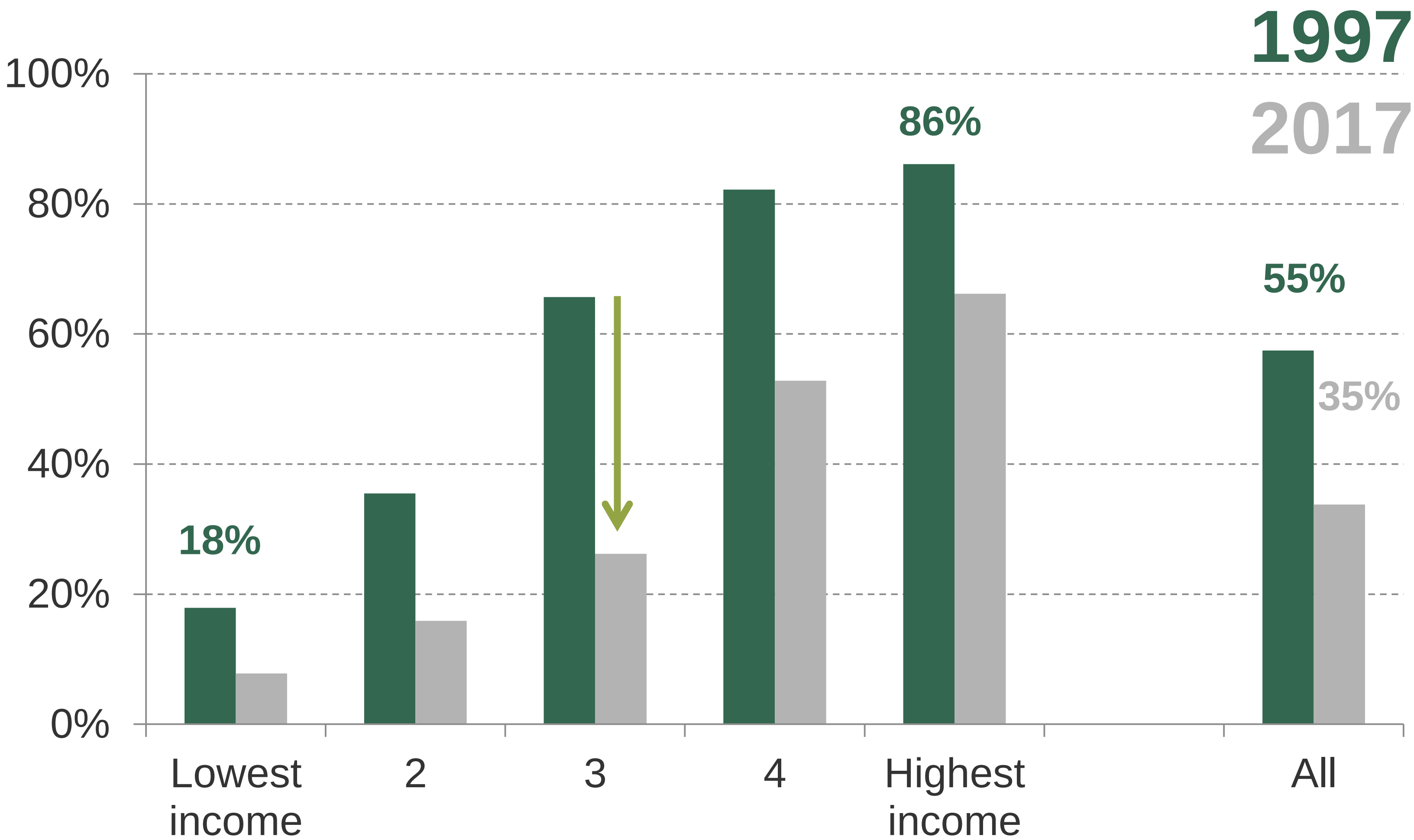
- Will the higher minimum contributions be “high enough”?

Home ownership amongst 25- to 34- year olds has fallen from 55% to 35%



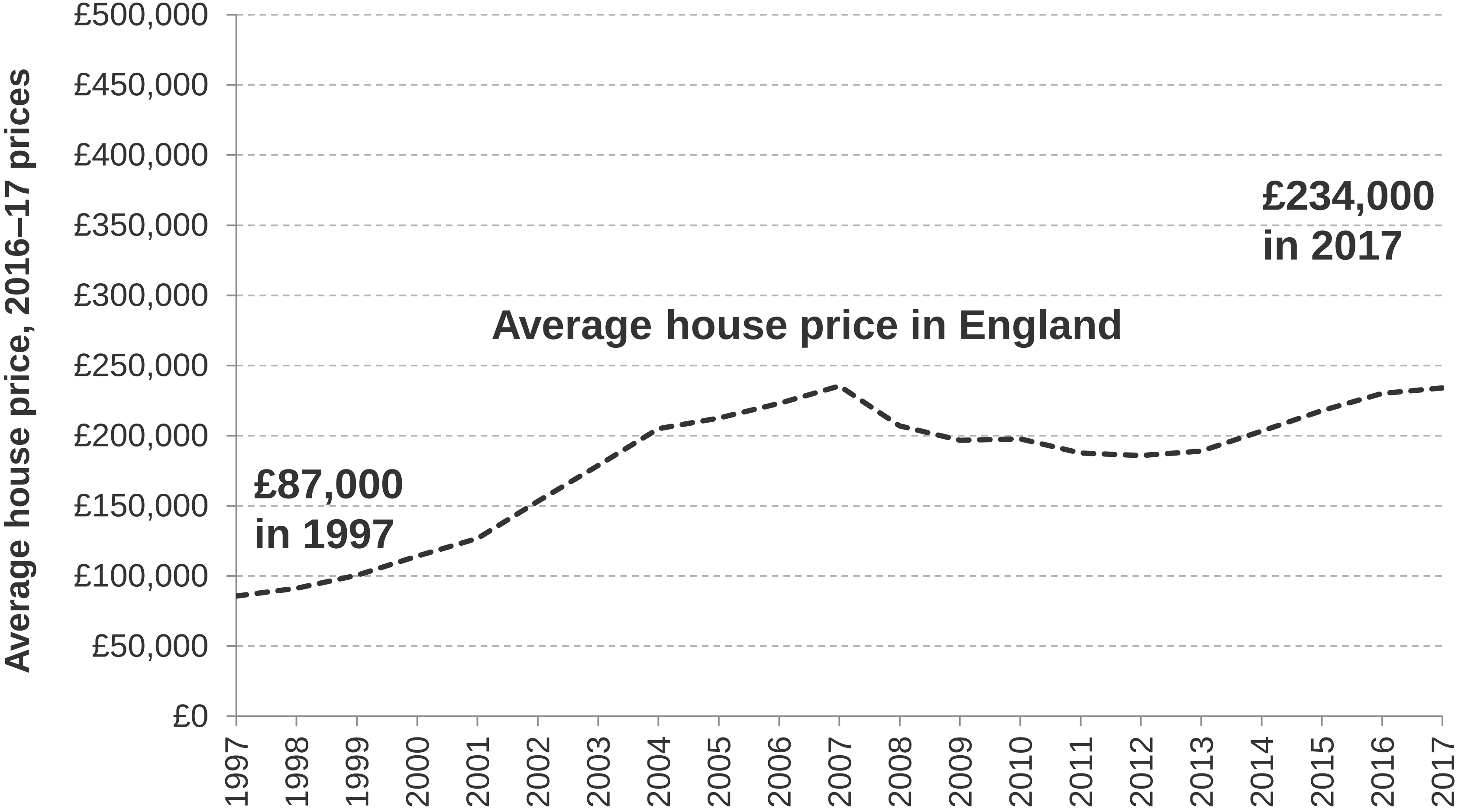
Source: Figure 9.1 of the Green Budget

Homeownership fell most for middle income young adults



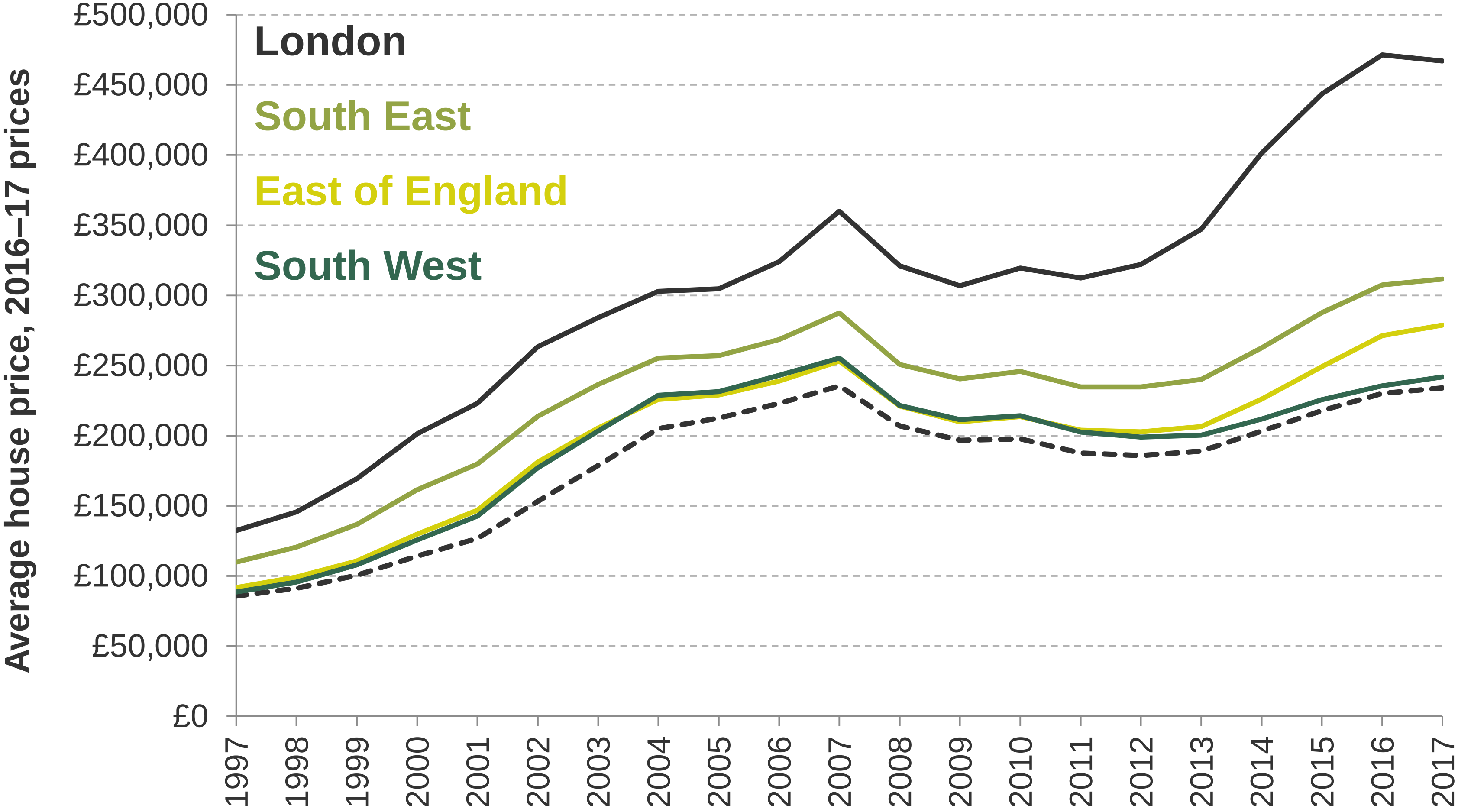
Source: Figure 9.1 of the Green Budget

House prices increased by 173% in 20 years



Source: Figure 9.3 of the Green Budget

House prices increased by 173% in 20 years



Source: Figure 9.3 of the Green Budget

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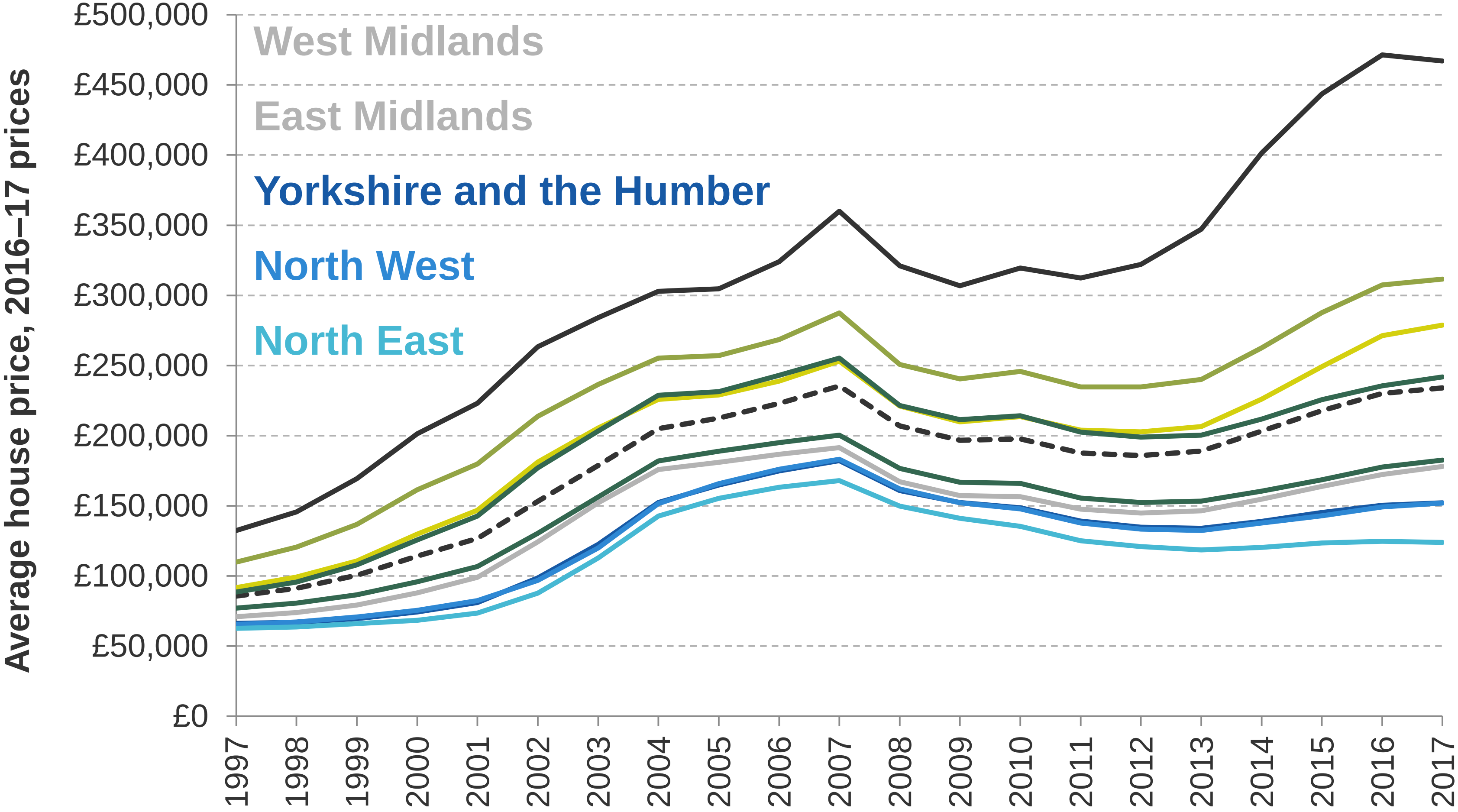


Source: Figure 9.3 of the Green Budget

Two key barriers to homeownership

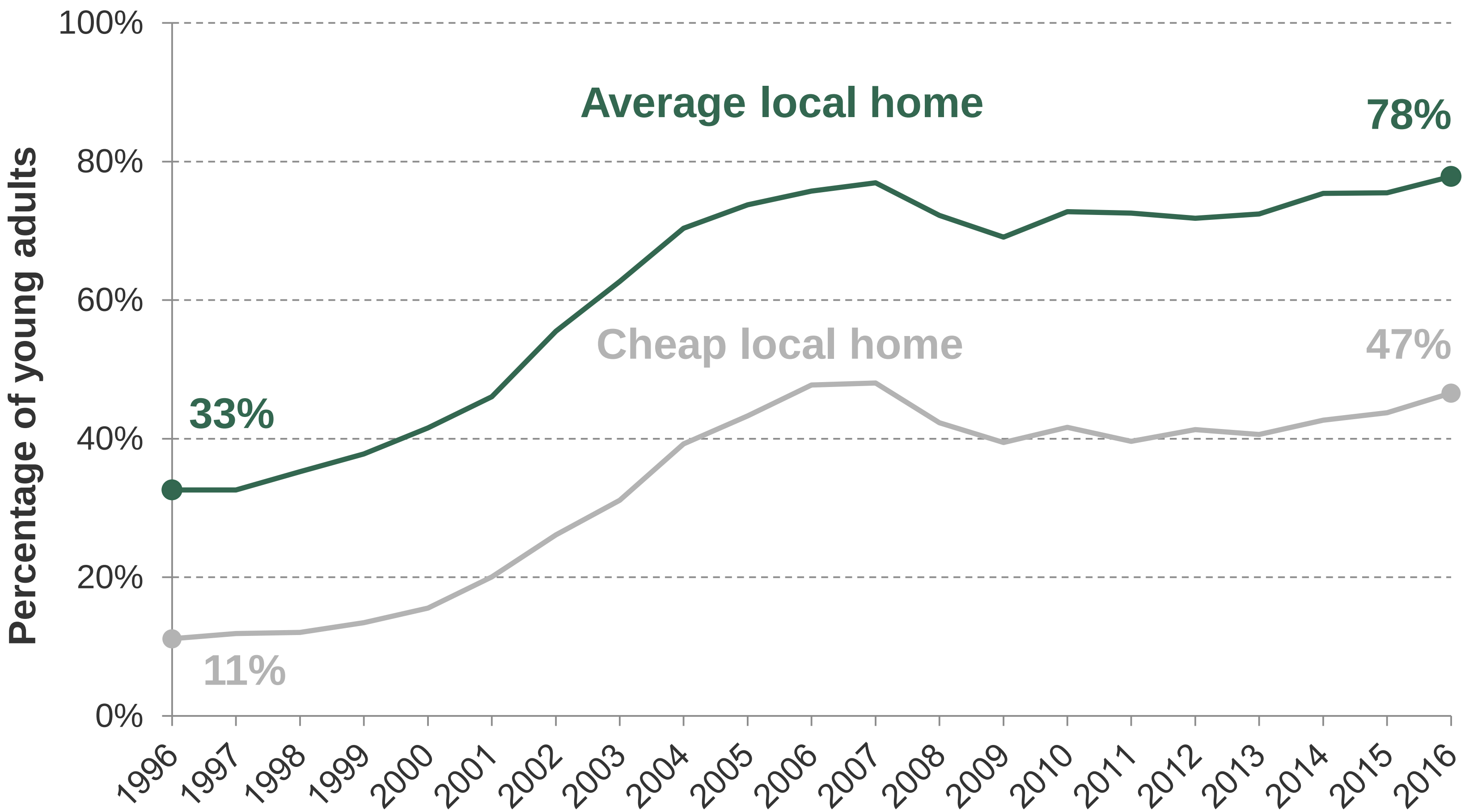
Saving for a 10% deposit (loan-to-value)

- Most mortgages require at least a 10% deposit

Borrowing enough to cover the rest (loan-to-income)

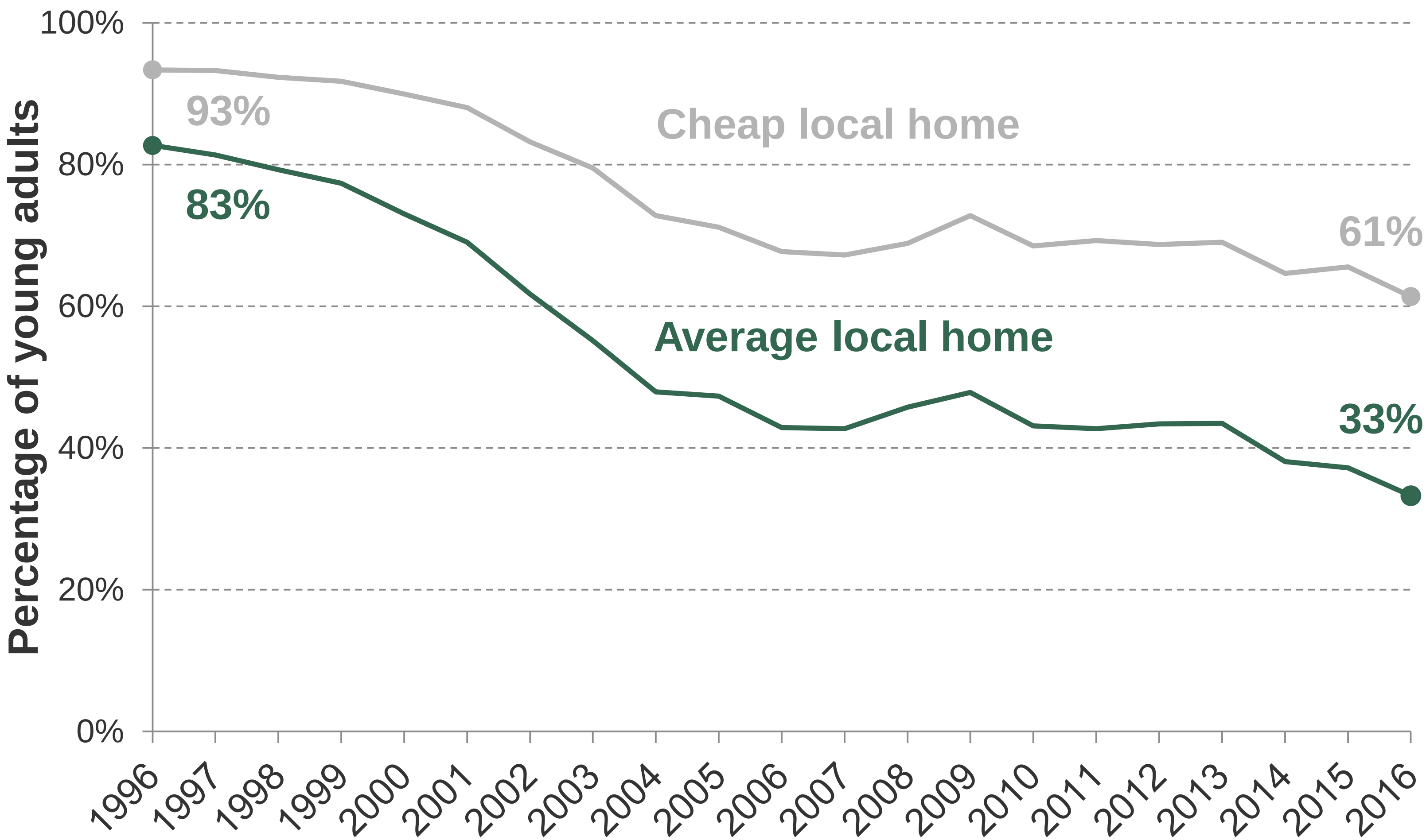
- Very hard to borrow more than 4.5 times salary

Proportion of young adults for whom a 10% deposit is more than 6 months net income



Source: Figure 9.11 of the Green Budget

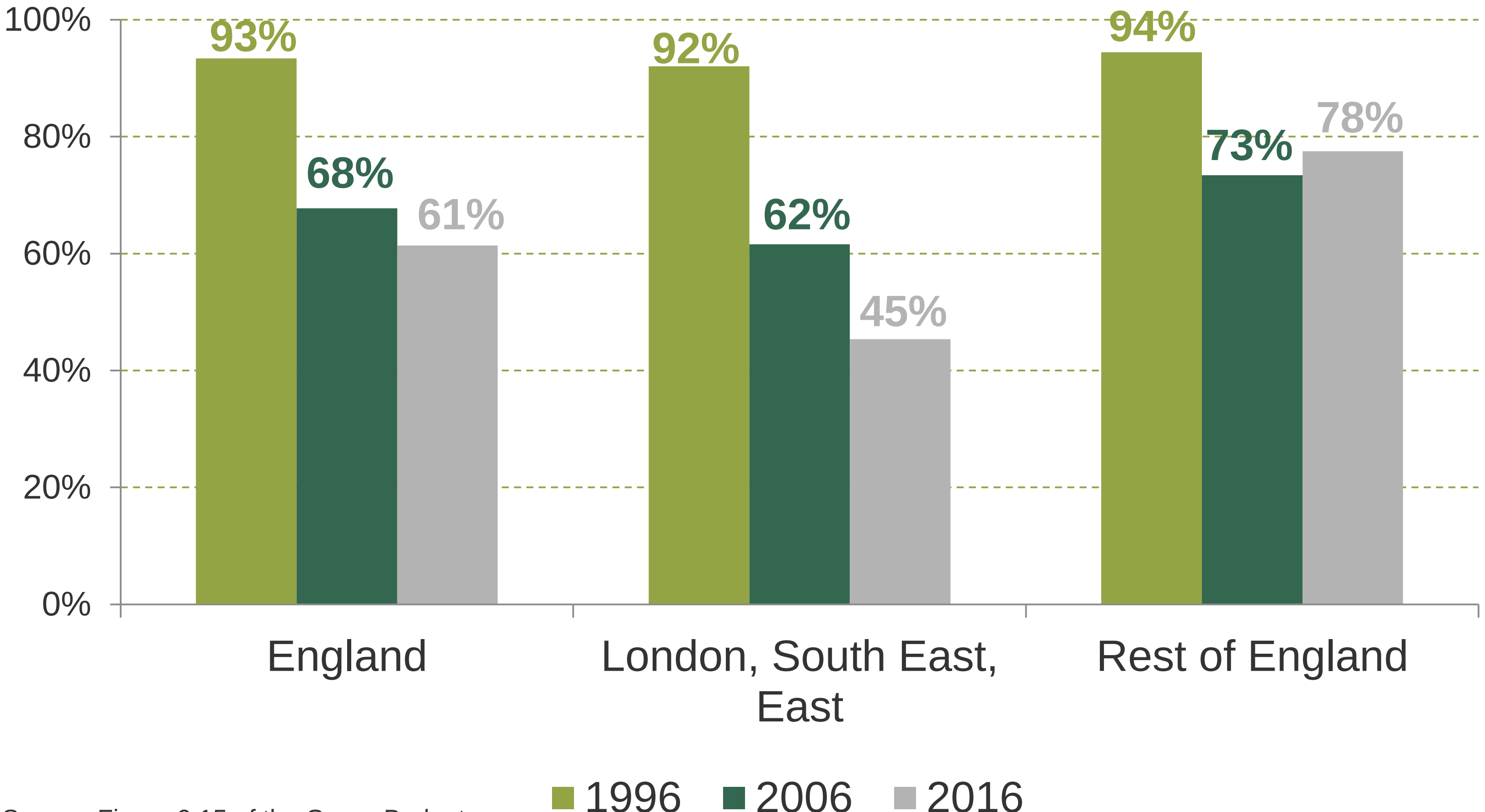
Proportion that could buy if they borrowed 4.5 times their salary and had a 10% deposit



Source: Figure 9.14 of the Green Budget

Barriers to homeownership are particularly high in London and the South East

Proportion of young adults that could buy one of the cheapest local homes if they borrowed 4.5 times their salary and had a 10% deposit



Source: Figure 9.15 of the Green Budget

Some conclusions

Decline of (more generous) DB schemes outside the public sector make it harder for many to build significant pension wealth

Auto enrolment particularly boosts the pension saving of relatively low earners and the young; most contributions low but rising

- Although not in AE, self employed benefit substantially from higher, flat-rate New State Pension

Big property price increases over the last 20 years are the key reason for declining homeownership amongst young adults

- Lead to increased inequalities between older and younger generations and within the young generation

Key is enabling homes to be built in places people want to live

- Biggest barriers to construction in areas where demand is highest