

## Press Release

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# Those born in the '60s and '70s likely to be no better off in retirement than their predecessors – unless they inherit

Inherited wealth looks like the only major factor that could act to make individuals born in the 1960s and 1970s better off in retirement than their predecessors, on average. When compared with those born a decade earlier at the same age, these cohorts: have no higher take-home income; have saved no more of their previous take-home income; are less likely to own a home; probably have lower private pension wealth; and will tend to find that their state pensions replace a smaller proportion of previous earnings.

These are among the main findings of a new report by IFS researchers published today, funded by the Joseph Rowntree Foundation, the IFS Retirement Saving Consortium and the Economic and Social Research Council.

- Since the Second World War, successive cohorts have experienced higher incomes and higher living standards than the previous generation, as they have benefited from rising national income.
- This has stalled over the last decade. Working-age adults do not currently have higher incomes (after adjusting for inflation) than their predecessors born 10 years earlier had at the same age (e.g. 40-year-olds now have no higher incomes than 40-year-olds a decade ago).
- Those born in the 1960s and 1970s *did* have higher incomes during early adulthood than their predecessors. But this additional income at younger ages relative to earlier generations was all spent: they have not saved any more past income than their predecessors had by the same stage in life.

Looking at the major components of household wealth for different birth cohorts:

- Under current policy plans (including the planned introduction of the single-tier pension), state pension entitlements for individuals born in the 1960s and 1970s will tend to replace a smaller proportion of previous earnings than is the case for those currently above, or around, the state pension age. This difference is particularly marked for higher earners.
- The rapid switch away from defined benefit (final salary) pension plans towards typically less generous defined contribution plans (in the private sector) will have affected currently younger cohorts significantly more than older ones.
- Individuals born in the 1970s are taking longer than their predecessors to get on the housing ladder, and their homeownership rate has stalled over the last few years at around two-thirds – far below the four-fifths rate at which it peaked for those born in the 1940s and 1950s.

### Embargo

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However, it looks like later cohorts will receive much more from inheritances:

- If people's expectations are correct, then receipt of inheritances will be far higher among those born in the 1960s and the 1970s than among those born earlier. 28% of those born in the early 1940s have received or expect to receive an inheritance, compared with 70% of those born in the late 1970s.
- But expected inheritances are unevenly distributed. Those who are already wealthiest expect to receive the most inheritance in future. For example, among those born in the mid-1970s, 35% of the wealthiest third expect to receive an inheritance worth at least £100,000, compared with just 12% of the least wealthy third.
- Expected future inheritances also tend to be concentrated within the same households: individuals expecting inheritances are far more likely to have partners who also expect them.

All in all, this suggests that the long-term fortunes of younger generations may be more tied to the wealth of their parents than has been the case for those already at, or close to, the state pension age. Those not fortunate enough to expect a significant inheritance look likely to be worse off in older age than current, and soon-to-be, retirees.

Andrew Hood, a Research Economist at IFS and an author of the report, said: "Since the Second World War, successive cohorts have enjoyed higher incomes and living standards than their parents. Yet the incomes and wealth of those born in the 1960s and 1970s look no higher than the cohorts who came before them. As a result, younger cohorts are likely to have to rely on inheritances to be better off in retirement than their predecessors. But inheritances are unequally distributed, with households that are already relatively wealthy far more likely to benefit."

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Notes to Editors:

1. For embargoed copies of the report or other queries, please contact:  
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2. The authors gratefully acknowledge funding from the Joseph Rowntree Foundation, the IFS Retirement Saving Consortium, and the Economic and Social Research Council (ESRC) through the Centre for the Microeconomic Analysis of Public Policy at IFS.
3. The IFS Retirement Saving Consortium comprises Age UK, Department for Work and Pensions, HM Treasury, Institute and Faculty of Actuaries, Investment Management Association, Just Retirement and Money Advice Service.