

Intergenerational Differences in Income and Wealth: Evidence from Britain*

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Abstract

How do average levels of income and wealth differ in Britain for those born between the 1930s and 1980s? Those in the 1980s cohort are the first post-war generation not to have higher median incomes in their early 30s than those born a decade earlier, though they have much higher incomes than those born in the 1960s and earlier. Median wealth for those in the 1980s cohort is 20 per cent lower in their early 30s than it was for those born in the 1970s. This is driven by lower property wealth and homeownership: 40 per cent at age 30 for the 1980s cohort, compared with 55 per cent for the 1970s cohort.

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Policy points

- The 1980s cohort in Britain is the first post-war generation in which people do not have higher median incomes in their early 30s than those born a decade earlier.
- This is in part the result of offsetting trends, with higher levels of employment for those born in the 1980s, but lower average earnings of those in paid work. Trends in both employment and pay are more positive for women than for men.
- Median wealth for those in the 1980s cohort is 20 per cent lower in their early 30s than it was for those born in the 1970s, with homeownership in particular much lower (40 per cent at age 30 compared with 55 per cent for the 1970s cohort).
- The success of automatic enrolment means that far higher proportions of younger cohorts are saving for retirement in private pensions than their predecessors. However, this is often in defined contribution schemes with very low levels of contributions, which makes it hard to accumulate large private pensions.
- Older generations are increasingly reaching retirement with higher levels of wealth, much of which is expected to be passed on to younger generations. Those born in the 1970s and 1980s are therefore much more likely to expect an inheritance than those born earlier.

I. Introduction

There is increasing interest in the changing economic circumstances of different generations, in particular since the 2008–09 financial crisis. In the United Kingdom, politicians of all major political parties have expressed concern about what are considered to be widening differences between the generations. Committees of British parliamentarians have been investigating issues of intergenerational fairness. Some of the major changes in the British economy in recent years have affected people of different ages in different ways, from the falls in average wages and salaries following the financial crisis, which affected younger workers more than older workers, to much lower levels of interest rates, which have increased the values of assets held disproportionately by older people. In addition, research in the United States in particular suggests that younger generations there are economically falling behind where their predecessors were at similar ages. In this context, it is important to understand how people born at different times have experienced different levels of prosperity in Britain.

This paper provides an up-to-date and comprehensive picture of the average household incomes and wealth in Great Britain, for people born at different times, and how this has changed as these people have aged. I focus on their

household incomes and wealth during working-age life (from 25 to 60), before most people annuitise or draw down upon their private pension or other wealth in retirement. To do this, long-running surveys of household incomes in Britain are used – the Family Resources Survey (FRS) and the Family Expenditure Survey (FES) – supplemented by more recent data on wealth and pension savings – the Wealth and Assets Survey (WAS) and the Annual Survey of Hours and Earnings (ASHE). Using these British micro data sets, I construct age profiles of household incomes and wealth (and their components) for people born between the 1930s and the late 1980s.

The key findings are as follows. Median household incomes grew substantially for each successive generation born between the 1930s and 1950s. While those born in the 1960s and 1970s used to have considerably higher median incomes than those born a decade before them, they now have increasingly similar median incomes to those born a decade earlier. Median income for the 1980s generation in their 20s and early 30s is no higher than for those born in the 1970s. This conclusion is consistent when looking at incomes after deducting housing costs, or looking only at adults and their cohabiting partners (and children), rather than the whole household.

The analysis of the first five waves of the WAS suggests that the median wealth of those born in the early 1980s is about 20 per cent lower in their early 30s than it was for the 1970s cohort. Those born in the late 1980s seem to be on a similar trajectory to those born earlier in the decade. The key reason why this generation is currently falling behind their predecessors is lower housing wealth resulting from lower homeownership. At the age of 30, those born in the early 1980s had a homeownership rate of 41 per cent compared to 56 per cent for those born in the 1970s. Private pension wealth has increased in recent years, in part because falling annuity rates have boosted the value of defined benefit (DB) pension promises.

The big story on private pensions is a move away from traditional DB schemes, which provide a promise of an income stream in retirement), and the massive expansion of defined contribution (DC) schemes (which are tax-advantaged savings schemes, often organised by employers, that can only be accessed from age 55) through automatic enrolment. Although these DC schemes have much lower contributions on average, the rises in private pension participation as a result of automatic enrolment have particularly affected younger and lower-earning employees. Finally, one reason to be more optimistic about the average wealth levels of younger cohorts is that they are much more likely to expect to receive an inheritance at some point in life than did those born in the 1950s or earlier, though these are more likely to be received by higher-income households rather than lower-income households.

The rest of this paper proceeds as follows. Section II provides a brief summary of the previous literature examining intergenerational differences in economic outcomes in major industrialised economies. Section III describes

the data used to examine changing household incomes and the wealth of different generations. Section IV sets out the results and Section V concludes.

II. Literature

Most research into economic inequalities within developed countries focuses either on inequalities between the rich and the poor¹ and within generations,² or on intergenerational mobility (how correlated are the earnings or material living standards of individuals with those of their parents).³

However, there has been a growing interest in how economic inequalities are changing *between* different generations, with recent papers often finding that more recent cohorts of young adults are economically worse off than their immediate predecessors were at the same age. Kurz, Li and Vine (2018) find that those born in the 1980s and 1990s in the United States have lower labour incomes than those who preceded them, with bigger falls for men than women. Beaudry, Green and Sand (2014) focus on college graduates. They find that for cohorts who have completed university education after 2000 (roughly those born in the late 1970s and into the 1980s) in the United States, wages upon entering paid work were lower than for those who entered the labour market in the late 1990s; also, their wages grew less quickly once in work. They associated this with a reduction in the demand for labour in ‘cognitive task occupations’ (i.e. management, professional and technical occupations). Beaudry and Green (2000) find that, in Canada, cohort-on-cohort falls in earnings for men occurred earlier, for men entering the labour market from the late 1970s, although this is not the case for women.

While snapshots of income are useful barometers of economic inequality, lifetime – or permanent – income may be a more accurate measure of material living standards. Guvenen et al. (2017) use individual labour income histories from Social Security data in the United States to look at how individual lifetime labour incomes (covering 31 years of adult life) have varied across cohorts. They find that the majority of men who have entered the labour force since the late 1960s have seen little or no gains in their lifetime labour income. However, there are substantial increases in the lifetime labour incomes of women.

However, all these papers focus entirely on individual gross labour incomes. Therefore, they do not take into account other forms of income, which can be important in determining household living standards, such as transfer payments from government, or direct taxes upon these incomes. They also do not take into account the fact that, because most households are formed of an adult couple

¹See, for example, Piketty and Saez (2014).

²Deaton and Paxson, 1994; Blundell, 2014.

³See Blanden, Gregg and Macmillan (2007) and Chetty et al. (2014).

(potentially with children), the trajectories in household incomes will differ to the trajectories of earnings of men or women individually. This paper instead focuses on measures of total net household incomes, measured after direct taxes and benefits (transfer payments) and equivalised to take into account different household sizes and structures.

By focusing on the median levels of private wealth held by different generations, this paper also contributes to an emerging literature on cohort trends in wealth.⁴ Dettling and Hsu (2014) find that, in the United States, the net worth of young adults declined between 2001 and 2013. Over that period, the proportion with retirement accounts, equities and property all fell. Laeven and Popov (2017) find that falls in homeownership were concentrated in the regions of the United States that had the highest growth in house prices.

In particular, this paper builds upon research that has examined economic differences between different generations in the United Kingdom, such as Hood and Joyce (2013), Crawford, Innes and O'Dea (2016) and, in particular, Cribb, Hood and Joyce (2016) and Resolution Foundation (2018). This literature finds that while there were large increases in household incomes in particular between the cohorts born in the 1930s and 1970s, progress has stalled for those born in the early 1980s at best, and partially reversed at worst. In this paper, I revisit these previous contributions, providing a detailed and up-to-date picture, with data covering up to 2018, with the youngest cohort being those born in the late 1980s.

One important form of wealth that is not examined is state pension wealth: the value of the promises made by government to individuals to pay a state pension in old age. In some countries and contexts, these state pension promises can be very important. For example, in the Netherlands, Kapetyn, Alessie and Lusardi (2005) find that increases in wealth for cohorts between those born in the 1910s and those born in the 1960s are entirely explained by increases in productivity and the increased generosity of their social security (state pension) system. However, I do not consider state pension wealth in this paper, in part because it is a much lower fraction of average wealth in the United Kingdom than in other European countries (the flat rate state pension is worth only 29 per cent of median full-time earnings in 2018). In addition, frequent changes to the state pension system in the United Kingdom can (and have) increased or decreased the value of the state pension after social security contributions have been made.⁵

⁴Because the focus here is on people aged 25–60, the mortality bias that affects age profiles for wealth observed later in life is largely avoided (see Attanasio and Hoynes, 2000).

⁵Hood and Joyce (2013) show that for an average earner with a full working life, the state pension will replace around 35 per cent of earnings at age 50 for those born in 1950, falling very gradually to around 30 per cent of earnings at age 50 for those born in 1980.

III. Data

I use a number of long-running household survey data sets to construct age profiles in income and wealth for different cohorts. I track the economic progress of cohorts by looking at those born in given years in each year of the data that are collected (exploiting repeat cross-sections rather than panel data). Different data sets allow us to track different variables. In this section, first I set out the four data sets used, and the measures of income and wealth that are measured in each of them. The latter part of this section then sets out how the raw data are processed, in order to look at changes in income and wealth by cohort.

1. Household income: Family Expenditure Survey and Family Resources Survey

Two long-running data sets are used to measure household income: the FES from 1961 to 1993⁶ and the FRS from financial year 1994–95 to 2017–18.⁷ These are surveys of around 7,000 and 20,000 households a year, respectively, and they contain comprehensive information on household incomes. Since 1994–95, processed FRS data underlie the UK government's official statistics on the income distribution,⁸ while the FES data have been cleaned in a similar way by Goodman and Webb (1994). These processed data sets are used in this paper.

This paper concerns income from all sources, with earnings from employment or self-employment, state benefits (transfer payments), private or occupational pensions, and investment income being the most important components. The key measure of income in this paper is net equivalised household income. This means income from all sources is measured after payment of direct taxes (income tax), National Insurance contributions (a payroll tax) and council tax (a local property tax). Income is equivalised using the OECD modified scale and it is expressed as equivalent for a childless couple.⁹ The income of all members of the household is added up, and assumed to be shared equally across the members of the household. In one variant of this measure of income, household incomes are measured after housing costs are deducted (rent for tenants and mortgage interest payments for owner-occupiers). In another variant, net equivalised 'family' income is measured, where the 'family' is the tax or benefit unit (i.e. a single person or a cohabiting

⁶See Central Statistical Office (1994).

⁷See Department for Work and Pensions, Office for National Statistics and NatCen Social Research (2019).

⁸Department for Work and Pensions, 2019.

⁹The formula for the equivalence scale for a household (when expressing income as an equivalent for a childless couple) is $(1 + 0.5 * [I(partner) + n_{child\ 14+}] + 0.3 * n_{child\ 0-13})/1.5$, where $I[partner]$ is an indicator function that equals one if a co-resident partner is present, and $n_{child\ 0-13}$ and $n_{child\ 14+}$ give the number of dependent children aged 0–13 and aged 14 and older, respectively.

couple and their dependent children – if they have any). I also use these data sets to construct age profiles of the employment rate and median pre-tax earnings of those in paid work.

The FES and FRS data also contain a measure of housing tenure since 1968. This is used to measure homeownership when looking at cohort trends in wealth. Individuals are defined as being homeowners if they are living in a property either that they own (either outright or with a mortgage) or that their cohabiting partner owns. This means that adults living in a home owned by their parents are not counted as homeowners – and neither is a person who owns a property but does not live in it, instead living in rented accommodation, although this is rare.

2. Household wealth: Wealth and Assets Survey

The WAS¹⁰ is a survey following around 25,000 households since 2006–08. It interviews all members of the sampled households every two years, with five waves of data available, the last covering 2014–16. Crawford et al. (2016) describe the data in detail. There are two key things to note about the measures of wealth in the WAS data used in this paper. First, wealth is measured as the summation of net property wealth (i.e. the value of all property owned less any mortgage debt), net financial wealth (i.e. funds in current or savings accounts, ISAs, equities and bonds, less any non-mortgage debt) and private pension wealth (in employer-organised or individually arranged schemes). It does not include state pension wealth (i.e. the value of government promises to pay a state pension to pensioners in retirement), ‘physical’ wealth (e.g. jewellery) and durable goods (e.g. cars). Second, private pension wealth includes accumulated funds in DC schemes, plus valuations of DB schemes and private pensions in payment. This means that changes in the discount and/or annuity rates that are used to convert a future promised stream of income into a measure of wealth at the date of the interview can have important effects on driving the changes in the valuation of these pension schemes – as has been shown in Crawford et al. (2016). This paper does not seek to strip out changes in wealth due to these ‘valuation changes’.

To prevent outliers driving the results, in each of the five waves, each measure of wealth (property, financial and private pension) is top-and-bottom-coded at the 99th and 1st percentiles, respectively, of each distribution. Total wealth is then the sum of the three top-and-bottom-coded components.

The measures of household wealth used in this paper are ‘per adult’; that is, each wealth measure is divided by the number of adults in the household.¹¹

¹⁰See Office for National Statistics (2018b).

¹¹‘Per adult’ measures of wealth are used rather than OECD-equivalised, as wealth is expected to be drawn down and used to fund consumption in retirement, when it is expected that children will no longer be co-resident.

However, only households with one or two adults are included in the analysis. This is important when looking at younger individuals (especially those younger than 30) because many of them live with their parents, particularly for recent cohorts, as is shown in Figure A.1 in the online appendix.¹² The inclusion of households with more than two adults would include young adults living with their parents, which would make these young adults look far richer (in terms of all forms of wealth) than they are actually are.

3. Workplace pension participation: Annual Survey of Hours and Earnings

A key driver of private pension wealth is the proportion of employees who are enrolled in and receiving contributions to a workplace pension scheme (one organised or facilitated by the employer). The ASHE¹³ is a survey containing employer-reported information on the pay, workplace pensions and characteristics of 180,000 employees each year, and these survey data have been collected since 1997. An employee's participation in the survey is determined by having certain digits at the end of their National Insurance (i.e. social security) number – the survey is then sent to and completed by the employee's employer in April of each year. The latest data are available for April 2018.

4. Data construction

In each of the data sets, individuals are categorised into eight groups based on their year of birth: whether they are born in the 1930s, 1940s, 1950s, 1960s, 1970s, and the early 1980s (1980–84) or the late 1980s (1985–89). Those born in the 1980s are split into two groups in order to allow a particular focus on trends affecting younger generations. For variables derived from WAS and ASHE data, which have only run since 2006 and 1997, respectively, I only consider those born since the 1950s. Unfortunately, none of the data sets consistently contains the year of birth, so this is approximated based on age and year of interview.

Each variable of interest is summarised for each cohort at each age, from 25 to 60. I focus on the median level of income and wealth. Instead of using age as recorded in the microdata, I measure age as the average age of the cohort in the year observed (i.e. for the cohort 1980–84, the average age when observed in 2017 is 35). This allows the use of the most recent data for each cohort. Given that some of the surveys deliberately over-sample certain types of people (e.g. the FRS over-samples Scottish households, and WAS over-samples wealthy

¹²Deaton and Paxson (2000) have previously shown that failing to account for multi-generational households can significantly affect estimated age profiles for saving. To avoid this, multi-generational households are removed from the analysis.

¹³See Office for National Statistics (2018a).

households), the cross-sectional weights provided with each data set are used to adjust for this in the results. All monetary amounts are expressed in 2017–18 prices using a variant of the Consumer Prices Index that includes mortgage interest repayments; this is the same measure of inflation used by the UK government in its official statistics on the income distribution. At the time of writing, £1 was worth around US \$1.30 and €1.10. As data on Northern Ireland are only available in one of the data sets (the FRS since 2002–03) but not in the others, I exclude Northern Ireland from the analysis, and focus on Great Britain alone.

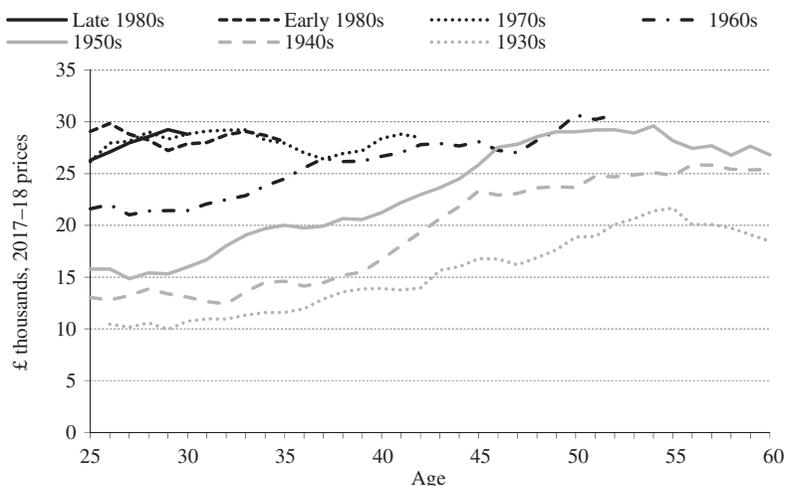
IV. Results

1. Income

Figure 1 compares the median household income of those born in different decades across their working-age lives. The patterns of income growth over working-age life differ for each cohort, though, in general, income rises throughout working age, before remaining relatively flat in later working-age life, in the run up to retirement. As shown in Attanasio and Weber (2010), this is a common pattern across different cohorts for both income and expenditure, which subsequently tend to decline into older age and retirement. There are some clear time trends, when median income growth was significantly faster than in other periods. For example, the mid-1980s, which saw real median

FIGURE 1

Median net equivalised household income by age, for people born in different decades



Source: Author’s calculations using the FES and FRS, various years.

household income growth averaging 5 per cent per year between 1982 and 1988, can be seen as a period of significant income growth for those born in the 1930s (when they were in their early 50s), in the 1940s (in their early 40s) and in the 1950s (in their early 30s).

Different cohorts clearly have different levels of median income. Up to and including those born in the 1950s, at all ages 25–60, each cohort has had higher incomes at the median than their preceding cohort at the same age. Around the age of 50, for example, median income for the 1950s cohort was more than 20 per cent higher than median income for the 1940s cohort – an increase equivalent to around £5,400 a year for a couple without children. Similarly, median income for the 1940s cohort was itself 25 per cent higher than median income for the 1930s cohort at the same age. This is what one would expect to see: as productivity has grown substantially over time, incomes have risen and so younger cohorts have higher incomes than their predecessors did at the same age.

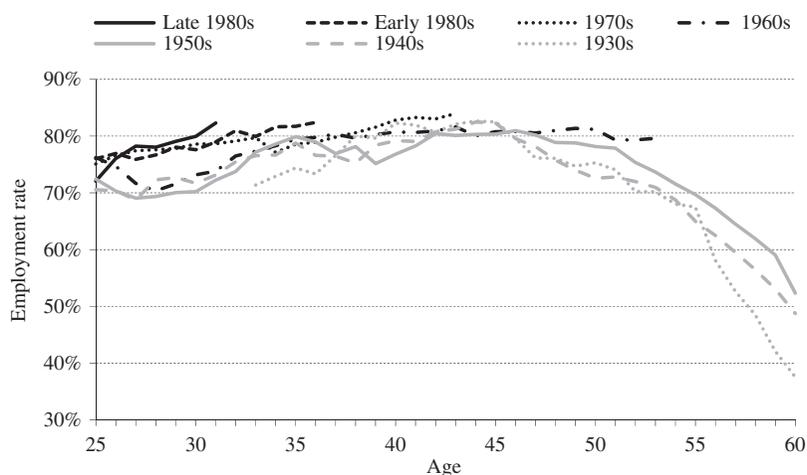
At the start of their working-age lives, those born in the 1970s and 1960s had significantly higher incomes than those born a decade earlier. At age 35, those born in the 1970s had a median income 14 per cent above those born in the 1960s, who themselves had a median income 22 per cent above those born in the 1950s. However, in the most recent years, these cohorts have incomes similar to, or only slightly higher than, those born a decade earlier. This is unsurprising, given the falls in income after the Great Recession, and the relatively slow income growth since then.

The patterns for those born in the 1980s are quite different to those born in the decades preceding them. Like those born in the 1970s, they have median incomes in their mid-20s that are far higher than those born in the 1960s or earlier had. However, at no point have those born in the 1980s had income consistently above those born in the 1970s. At age 30, median income for people born in the late 1980s was £28,800, slightly higher than for those born in the early 1980s (£27,800), but exactly the same as those born in the 1970s had at the same age. In fact, the incomes of those born in the 1980s and 1970s have moved in a similar way as they have aged – relatively little growth, with some years of rising and some of falling median incomes – fluctuating between about £26,000 and £30,000 per year.

This all implies that, while the household incomes of those born in the 1980s are much higher in their late 20s and early 30s than those who were born in the 1960s (and earlier) had at the same ages, they have seen relatively little growth as they have aged. They are also currently on a very similar trajectory as those who were born in the 1970s. This is the first time for at least 50 years that a cohort has begun their working-age lives with median incomes no higher than those of their predecessors at the same age.

While stagnation may not seem disastrous, and is better than the falling labour incomes experienced by younger cohorts in the United States, it is

FIGURE 2

Employment rate by age, for people born in different decades

Source: Author's calculations using the FES and FRS, various years.

instructive that polling undertaken of a representative sample of British adults and published in Shrimpton, Skinner and Hall (2017) found that 59 per cent of adults agreed with the statement 'every generation should have a higher standard of living than the one that came before it', while only 8 per cent disagreed. The household incomes of current younger cohorts are certainly disappointing relative to that (potentially demanding) metric.

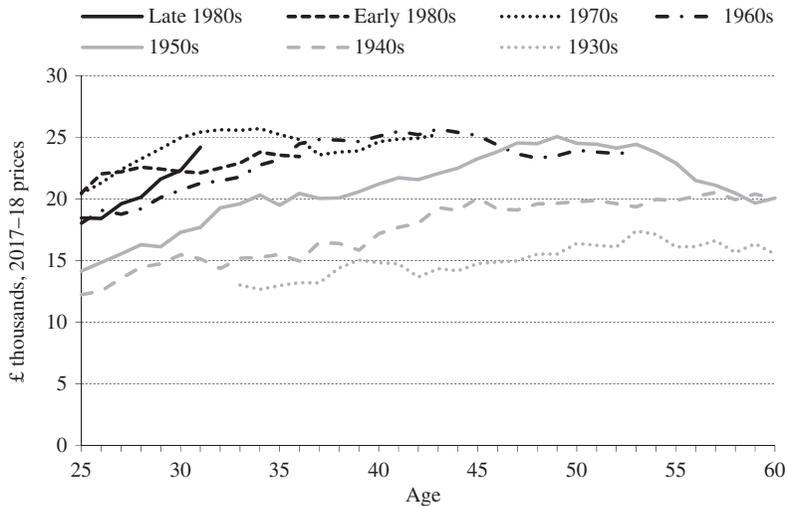
As labour income is the most important source of income for most working-age households, important determinants of median household incomes in working life are the proportion of people who are in paid work and the median earnings of those in paid work. Figure 2 shows that one reason for higher incomes early in working lives for people born since 1970 is that employment rates are considerably higher (near 80 per cent) than for those born in earlier generations. If anything, those born in the 1980s have even higher employment rates than those born in the 1970s. This is the result of considerably higher employment rates for women in their late 20s and early 30s. In contrast, despite recent rises, male employment rates early in working-age life are still lower than for the 1940s cohort.

Figure 2 also shows that differences in employment rates in middle age are much more similar across generations, and there have been increases in employment rates for the 1940s and 1950s cohorts in their 50s relative to those born in the 1930s.

Generational differences in the age profiles of earnings for those in paid work, shown in Figure 3, are very different. While there are clear

FIGURE 3

Median annual pre-tax earnings of those in paid work, by age, for people born in different decades



Source: Author's calculations using the FES and FRS, various years.

cohort-on-cohort increases in earnings between the 1930s and 1960s (at least up until age 45), workers who were born in the 1980s have substantially lower median earnings than those born in the 1970s. This is a combination of male median earnings for those born in the 1980s at age 30 being well below (around 10 per cent lower) the level of those born in 1970s, and median female earnings for the 1980s cohort being similar to those born in the 1970s. Overall, the analysis in Figures 2 and 3 implies that the similarity of median household incomes early in working-age life for those born in the 1970s and 1980s is, at least to some extent, the result of more people in work, but with those workers earning less on average.

Household incomes can be measured in a number of other ways than that shown in Figure 1. Figure A.2 in the online appendix shows median incomes by age for each cohort after deducting housing costs (most importantly, rent and mortgage interest payments) from household incomes. Accounting for changes in housing costs in this way does not significantly alter the picture of how those in the early 1980s compare with those born in the previous decade (or indeed the comparison between the 1960s and 1970s cohorts and their predecessors). However, income growth across the generations is somewhat lower when measured after housing costs. At age 30, median household income measured before housing costs are deducted is 68 per cent higher for those born in the 1980s than it was for those born in the 1930s, but when measured after

TABLE 1

Median housing costs and household incomes at ages 26–30, by housing tenure and cohort

	Birth cohort					
	1940s	1950s	1960s	1970s	Early 1980s	Late 1980s
<i>Median housing costs</i> (£ per week)						
All	21	38	80	106	118	113
Rented	19	27	57	117	137	137
Owned	23	47	90	99	95	73
<i>Median income</i> (£ per week)						
All	289	328	445	582	609	597
Rented	265	257	297	454	528	536
Owned	308	365	509	651	715	704
<i>Median housing costs as</i> <i>per cent of median</i> <i>income</i>						
All	7%	12%	18%	18%	19%	19%
Rented	7%	11%	19%	26%	26%	26%
Owned	8%	13%	18%	15%	13%	10%
<i>% who are homeowners</i>	60%	65%	67%	60%	43%	34%

Note: Housing costs for owner-occupiers include mortgage interest payments, but not repayments of capital. Individuals who live in owner-occupied housing where neither they nor their partner is the homeowner are excluded.

Source: Author's calculations using the FES and FRS, various years.

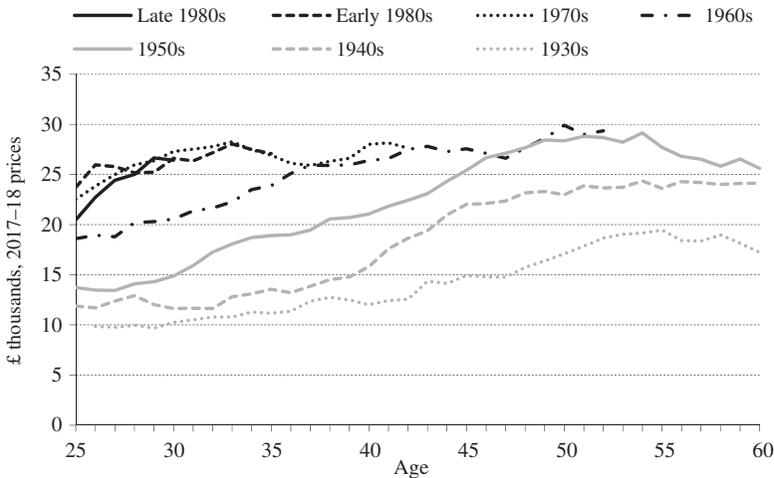
housing costs are deducted, the growth is only 58 per cent. This is mostly as a result of differences between the 1930s and 1960s, rather than between the 1960s and 1980s.

However, these averages hide a dramatic divergence between the housing costs of tenants and owner-occupiers. Table 1 shows the median housing costs for different cohorts between the ages of 26 and 30, for all young adults, split by housing tenure. It also shows these numbers as a fraction of median income for people of the same age.¹⁴ On average, median housing costs as a fraction of median income for those born in the 1960s, 1970s and 1980s were very similar, around 18–19 per cent. This is significantly above the 7 and 12 per cent levels for those born in the 1940s and 1950s, respectively, at the same age.

¹⁴Given that housing tenure data were not available in the FES until 1968, it is not possible to look at those born in the 1930s at these ages.

FIGURE 4

Median net equivalised 'family' income by age, for people born in different decades



Note: Families are defined as an adult, their partner (if they have one) and any dependent children. Hence, young adults living in the same household as their parents are considered to be in a separate family.

Source: Author's calculations using the FES and FRS, various years.

The table shows that the lack of change for cohorts born since the 1960s is the result of offsetting trends. On the one hand, median housing costs of homeowners have fallen substantially for recent cohorts, falling from £90 per week to £73 per week (expressed in 2017–18 prices) between the 1960s and late 1980s (from 18 to 10 per cent of owner-occupiers' median income). On the other hand, median housing costs of tenants in their late 20s have risen from £57 per week to £137 per week (or from 19 per cent of their median income to 26 per cent). This increase is the result of rises in rents in both the private and social rental sectors,¹⁵ and is all the more important due to the fall in the proportion of young adults who are homeowners.

When the standard household measures of income are used, as is done in Figure 1, the incomes of parents directly affect the measured living standards of young adults who still live at home. We might instead want to look just at the incomes of young adults themselves and partners with whom they live, especially if we have in mind their future prospects (given that fewer of these young adults will live with their parents as they age, as shown in Figure A.1 in the online appendix).

Figure 4 looks at this alternative measure, aggregating incomes only within families (a single adult or couple, along with any of their dependent children)

¹⁵See Bourquin et al. (2019).

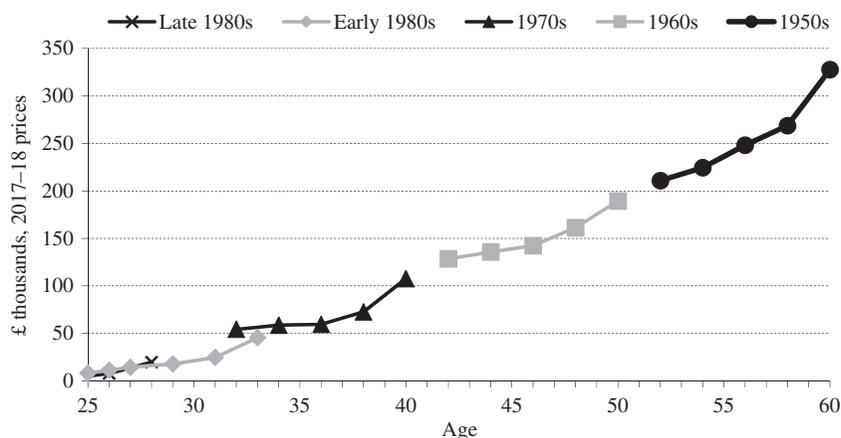
rather than within whole households. There are two key things to note from the figure. First, the importance of parental income has not changed significantly across cohorts. The incomes of the 1970s and early 1980s cohorts in early adulthood remain similar once incomes are measured at the family level, and the gap compared with the incomes of the 1960s cohort at the same age is similar in percentage terms. This reflects the fact that while the proportion of young adults living with their parents has risen slightly over time (see Figure A.1 in the online appendix), the differences between each cohort are relatively small. Second, the flat, or even falling, incomes of the early 1980s cohort shown in Figures 1 and 4 are partly the result of young adults of that cohort leaving home. Once parental income is excluded, the real incomes of that cohort have risen somewhat between their mid-20s and early 30s, as one would expect, given pay progression. However, it remains the case that they are the first post-war generation not to begin adulthood with higher average incomes than those born in the previous decade.

2. Wealth

While household incomes are one measure of material living standards for people of working age, it is also important to assess how levels of private wealth differ across the generations, not least because most people need to accumulate private resources to fund their retirement. Figure 5 compares

FIGURE 5

Median net household wealth per adult by age, for people born in different decades



Note: Sample restricted to households containing either one adult or two (and their dependent children if they have any).

Source: Author's calculations using the WAS, various years.

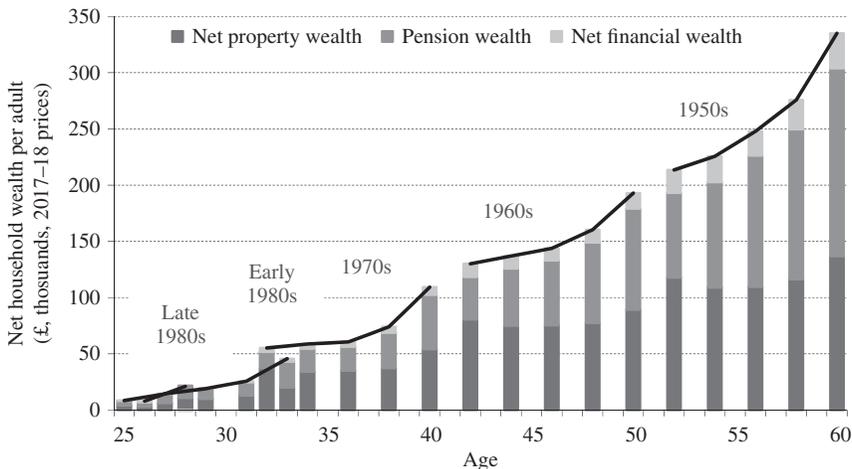
median net household wealth per adult for those born in different decades. Although the trends are somewhat less clear than for income, it is found that those born in the early 1980s have less wealth than those born in the previous decade had at around the same age. At age 33, the early 1980s cohort has a median household wealth per adult of £46,000, which is 19 per cent lower than the median wealth holdings of the 1970s cohort at around the same age (£57,000). The late 1980s cohort seems to be following a very similar trajectory to those born in the early 1980s. So, unless they see an acceleration in their wealth accumulation in coming years relative to those born earlier in the decade, they too are likely to be behind where those born in the 1970s were at a similar age.

In comparison, the 1970s cohort seems to be on a path to have a similar level of median wealth in their early 40s as those born in the 1960s, while the 1960s cohort also looks likely to have a similar level of wealth in their early 50s as did the 1950s cohort. However, those born in the 1970s have considerably higher incomes over their working lives than did those born in the 1950s. So, relative to their incomes in working age, the 1970s and 1960s cohorts may have less wealth relative to their incomes than the 1950s cohort.

In order to provide a fuller understanding of the relative wealth holdings of different birth cohorts, Figure 6 splits net household wealth per adult into its

FIGURE 6

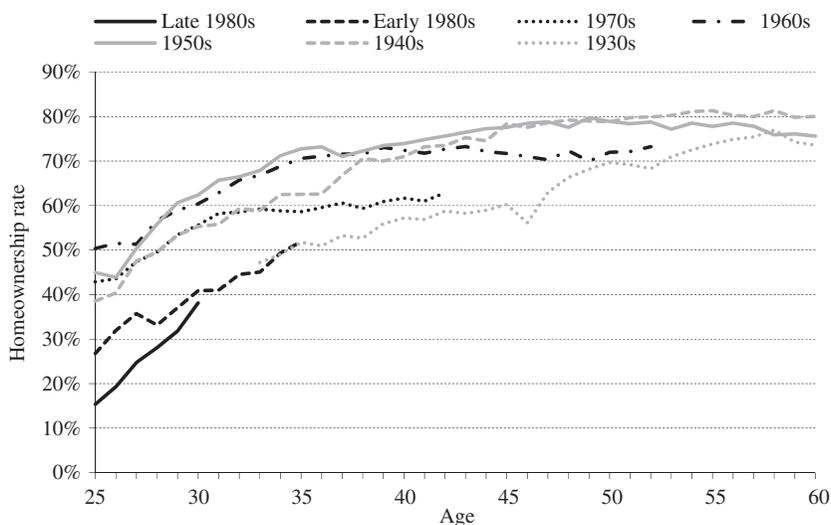
Composition of net household wealth per adult by age, for the middle wealth quintile, for people born in different decades



Note: Sample restricted to households containing either one adult or two (and their dependent children if they have any). The figure shows mean levels within the middle quintile of the household wealth distribution within each cohort and age combination.

Source: Author's calculations using the WAS, various years.

FIGURE 7

Homeownership by age, for people born in different decades

Note: Homeowners are defined as individuals, in owner-occupied housing, who are either the household reference person or their partner.

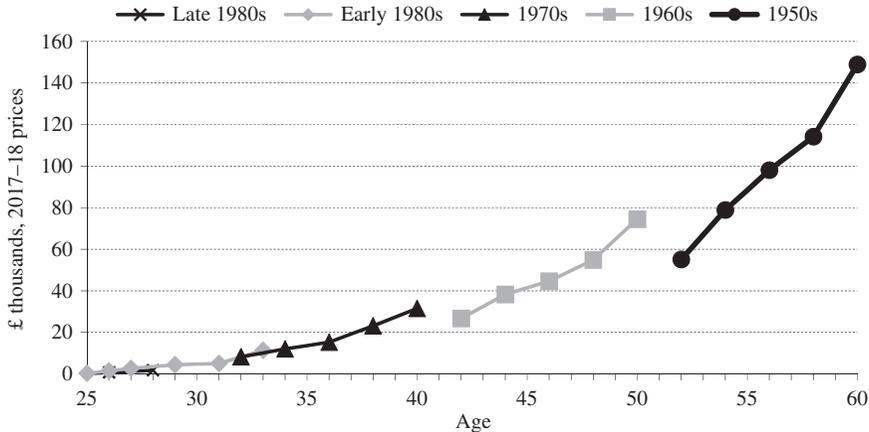
Source: Author's calculations using the FES and FRS, various years.

three components: net property wealth, private pension wealth and net financial wealth (which is by far the smallest component of the three). We look at the mean levels of wealth (such that they are additively decomposable) within the middle quintile of the wealth distribution for each cohort and age. Looking first at the comparison between the 1970s and early 1980s cohorts, it is clear that the wealth differential between the two cohorts at similar ages is driven by the lower net property wealth of the younger cohort.

Despite the large increases in British house prices in recent decades, those born in this period have lower net property wealth. Figure 7 shows the age profiles of homeownership for these generations. Around 75–80 per cent of those born in the 1940s and 1950s have become owner-occupiers, with the 1950s cohort buying houses slightly earlier on average. The 1960s cohort is not far behind, most recently reaching 73 per cent at age 52. In contrast, those born in the 1930s saw substantially lower homeownership rates across their working-age lives, although their homeownership rate grew by 20 percentage points from around 55 per cent at age 40 to around 75 per cent at age 60. The increase seen between these ages did not occur in following generations. The late increase in homeownership for the 1930s cohort is likely because of the introduction of the 'Right to Buy' council homes after the 1980 Housing Act was passed.

FIGURE 8

Median household private pension wealth per adult by age, for people born in different decades



Note: Sample restricted to households containing either one adult or two (and their dependent children if they have any).

Source: Author's calculations using the WAS, various years.

The most striking differences in homeownership rates are for those born in the 1970s and 1980s. The homeownership rate of the 1970s cohort has stalled over the last 10 years at just over 60 per cent. This is around 10 percentage points lower than where the 1960s cohort were at the same age. The homeownership rate of those born in the 1980s is substantially lower than any other post-war cohort at the same age. At the age of 30, 41 per cent of those born in the early 1980s (and 38 per cent of those born in the late 1980s) were owner-occupiers, compared with 55 per cent of the 1940s and 1970s cohorts, and more than 60 per cent of the 1950s and 1960s cohorts.

Although there have been modest increases in the homeownership rates of young adults aged 25–34 (by around 3 percentage points in the Labour Force Survey between 2016 and 2018), this has not been enough to bring the 1980s cohorts anywhere near their predecessors. The last cohort to have a similar homeownership rate to those born in the early 1980s at the same age was the 1930s cohort; as discussed, the homeownership rate of that cohort continued to rise until their late 50s – something not seen for any subsequent cohort.

Figure 6 has shown that most of the increase in mean wealth for the older cohorts as they have aged has come from higher private pension wealth. Therefore, Figure 8 considers median private pension wealth, and the picture it presents is different to that for net property wealth. So far, younger cohorts do not look to have fallen behind their predecessors. If anything, the figure

suggests that the 1960s and 1970s cohorts may be on track to have higher median private pension wealth than those born 10 years earlier had at the same age, while the private pension wealth of the early 1980s cohort looks so far to be evolving similarly to that of the 1970s cohort. While significant growth in private pension wealth is to be expected as working people age and continue to accumulate wealth in their private pension schemes, some of this is due to falling annuity rates, as this increases the value of the pension promises in DB pensions. Lower annuity rates raise the value of DB pension promises because a higher amount of wealth is needed in order to purchase any given promised stream of private pension income.

However, the data in Figure 8 hide some very large changes in the provision of workplace pensions that will continue to affect working people for many years. A key fact is that the existence of the most generous employer-provided pension schemes has fallen substantially over the last 20 years. In the early 2000s, it became clear that the generous DB pension schemes many employers had in place were unaffordable. Key reasons for this include increases in expected longevity and poor stock market performance.¹⁶ Most firms responded by closing these schemes to new members, in many cases replacing them with less generous DC schemes.

Figure 9 shows how the proportion of employees who are active members of a DB pension scheme (i.e. making and/or receiving contributions towards their pension) changes. The decline in DB pension schemes means that, in their early 40s, about a third (33 per cent) of employees born in the 1970s were active members of a DB pension scheme, compared with over 40 per cent for those born in the 1960s and around 55 per cent for those born in the 1950s. DB pension membership for those born in the 1980s is even lower than for those born in the 1970s.

For those born in the 1950s and 1960s, the result is a sharp decline in the proportion of employees who were active members of a DB scheme as they moved through working-age life (in many cases as they moved employer). For those born in the 1970s and early 1980s, it means that the majority of employees have never had access to a DB pension scheme. In their early 30s, around 25 per cent of employees born in the 1980s were active members of a DB scheme, compared with around a third of those born in the 1970s and around half of those born in the 1960s.

Part of the reason that these proportions have not fallen more is that DB pension membership in the public sector is almost universal. Figure A.3 in the online appendix looks at the proportion of private-sector employees who are active members of DB pension schemes. It shows that, across all the cohorts examined, the proportion is close to only 15 per cent of employees, having fallen from as high as 40 per cent only 20 years ago.

¹⁶Adrjan and Bell, 2018.

FIGURE 9

DB pension participation rate of employees by age, for people born in different decades



Source: Author's calculations using the ASHE, 1997–2018.

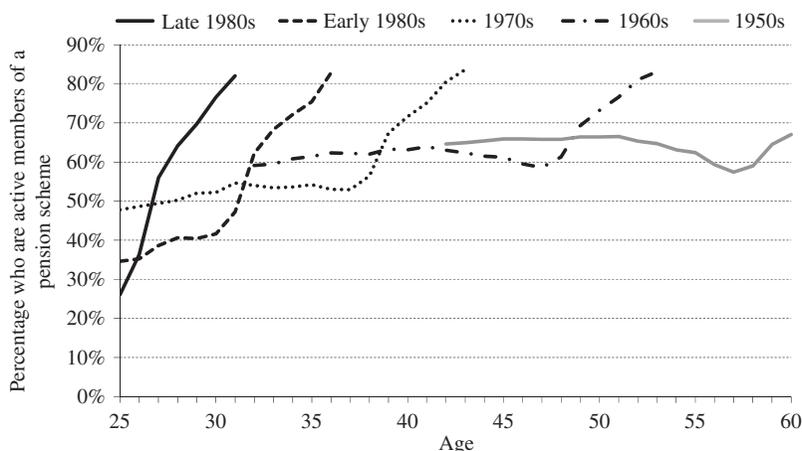
The switch from DB to DC schemes has been associated with a large reduction in the generosity of pension contributions by employers. According to data from the ASHE, of those in DB schemes in 2015, 90 per cent received a pension contribution from their employer equivalent to 10 per cent of their earnings or more, compared with only 13 per cent of those in DC schemes. This is one reason to think that younger cohorts may struggle to accumulate the private pension wealth of their predecessors (particularly as a share of earnings).

However, Figure 10 shows that, overall, employees born in later decades are now more likely to be saving in a workplace pension scheme than their predecessors. Around 80 per cent of employees born in both the early and late 1980s are now members of a workplace pension scheme, compared with less than 55 per cent of employees born in the 1970s at the same age. This is explained by ‘automatic enrolment’ – a policy rolled out since October 2012 under which all employers must automatically enrol all targeted employees into a workplace pension scheme. By March 2018, all employers had to enrol their targeted employees automatically.¹⁷ Cribb and Emmerson (2019) find that this policy has caused the workplace pension membership of targeted private-sector employees to rise by 36 percentage points, and the increase has

¹⁷Targeted employees are those earning over £10,000 per year, aged between 22 and the state pension age, and who have worked for the employer for at least three months.

FIGURE 10

Percentage of employees who are active members of a workplace pension scheme by age, for people born in different decades



Source: Author's calculations using the ASHE, 1997–2018.

been larger for younger workers than older workers, a fact that can also be seen clearly in Figure 10.

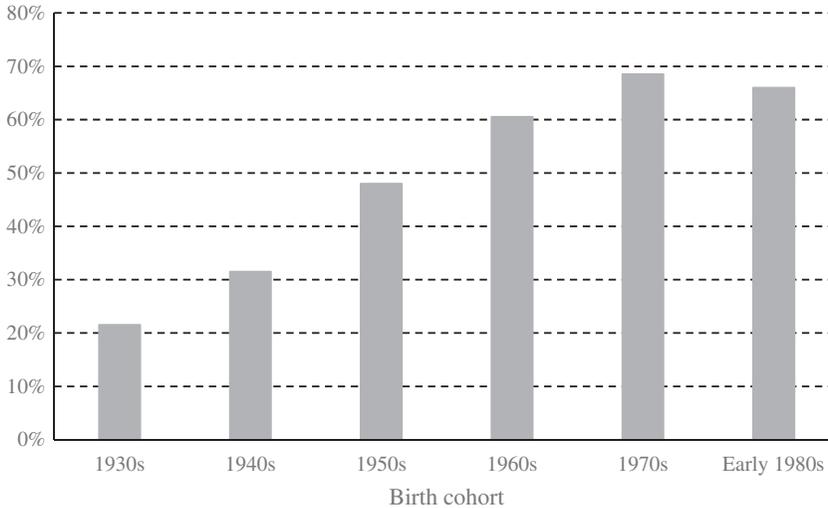
While the minimum contribution rates required under the policy (currently 8 per cent of qualifying earnings from employee and employer combined) are lower than most in DB schemes, many people receive more than the minimum. Overall, the introduction of automatic enrolment will help many people in younger cohorts to accumulate private pension wealth faster in future than they have over recent years. This will at least partially offset some of the decline in private pension income that has resulted from the closure of most of the more generous private-sector DB pension schemes. With automatic enrolment in particular boosting the pension participation of relatively low earners, it is likely to boost the private pension wealth of those who have relatively little wealth more than those around the middle of the wealth distribution.

A final point to note from this analysis is that older generations (such as those born in the 1950s) are increasingly reaching retirement with high levels of wealth. Although a lot of private pension wealth is decumulated, a lot of other wealth is unlikely to be spent in retirement.¹⁸ In particular, one consequence of the high homeownership rates of those born between 1930 and 1960, in combination with the long-run increase in real house prices, is that younger cohorts may be more likely to receive a significant inheritance than their predecessors.

¹⁸See Crawford (2018).

FIGURE 11

Percentage of people who have received, or expect to receive, an inheritance by birth year, in 2006–08



Source: Author's calculations using wave 1 of the WAS. The late 1980s cohort was too young in wave 1 of WAS to be asked these questions.

Figure 11 shows the proportion of people in the first wave of the WAS (2006–08) who have either received, or expect to receive, an inheritance.¹⁹ Around two-thirds of those born in the 1970s and early 1980s expect to receive an inheritance, compared with less than half of those born in the 1950s. If these expectations turn out to be correct, inherited wealth is likely to be of increasing importance for younger generations. However, given increasing longevity, inheritances are likely to be received only late in working life (or during retirement) rather than earlier in working-age life.

V. Conclusion

This paper has examined intergenerational differences in household incomes and wealth in Britain for cohorts born between the 1930s and 1980s. Using a variety of survey data sets, a number of key findings are clear. Median household incomes grew substantially for each successive generation born between the 1930s and 1950s. However, the falls in household incomes during the Great Recession, combined with slow income growth both before and after it, mean that, while those born in the 1970s and 1960s used to have considerably

¹⁹Wave 1 is the only wave of the WAS in which these questions are asked.

higher median incomes than those born a decade before them, they now have increasingly similar median incomes to those born a decade earlier.

Median income for the 1980s generation in their 20s and early 30s is no higher than for those born in the 1970s. This conclusion is consistent when looking at incomes after deducting housing costs, or looking only at adults and their cohabiting partners (and children), rather than the whole household.

Looking at wealth paints a very different picture. Median wealth of those born in the early 1980s is about 20 per cent lower in their early 30s than it was for the 1970s cohort. Those born in the late 1980s seem to be on a similar trajectory to those born earlier in the decade. The key reason why this cohort is falling further behind their predecessors is lower housing wealth resulting from lower homeownership. Despite some modest rises in the last few years for those born in the late 1980s, at the age of 30, those born in the early 1980s had a homeownership rate of 41 per cent compared with 56 per cent for those born in the 1970s. For the late 1980s cohort, it was even lower at 38 per cent.

While private pension wealth has been growing as generations have aged because people are accumulating more and valuation changes have boosted the value of DB pensions, these trends hide the wholesale change in the provision of private pensions in the United Kingdom. In their early 30s, only one in four employees born in the 1980s (and less than one in ten of private-sector employees) were contributing to a DB pension scheme, compared with half of those born in the 1960s at a similar age. However, automatic enrolment has led to enormous increases in the proportion of employees who are saving for retirement in a workplace pension scheme – up to around 80 per cent of employees, with the biggest increases for the youngest cohorts. However, the average contributions to these schemes are much lower than those made to most DB scheme members.

There are two key further takeaways from this work. First, while the focus has been on averages, at a number of points the heterogeneity of different groups becomes increasingly important in an intergenerational context. Those in the younger generation who are homeowners face lower housing costs (in monetary terms and as a proportion of their income) as a result of low interest rates, while those who are not homeowners often face high rental prices for private rented housing. The change in private pension provision also has differential effects for different types of households. While the closure of final salary DB pension schemes (and the move towards ‘career average’ schemes in the public sector²⁰) means that private pensions are less generous, in particular for highly educated ‘high fliers’, automatic enrolment has particularly boosted the private pension savings of relatively low earners.

While future productivity and earnings growth will be tremendously important in determining the wealth levels of younger generations, there is

²⁰See Cribb and Emmerson (2016).

some evidence of a growing importance of inheritances too. Although these are likely to be received late in working-age life or during retirement, Hood and Joyce (2013) have shown that those who have higher incomes are themselves more likely to receive inheritances than those with lower incomes. Therefore, there are potentially important consequences for within-generational inequality and intergenerational mobility.

Supporting information

Additional supporting information may be found online in the Supporting Information section at the end of the article.

- Online Appendix

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Editors' note

This paper is part of a new initiative at *Fiscal Studies* to commission contributions aimed at documenting new empirical findings on key micro-economic topics at the core of current public policy, shedding new light on outcomes of individuals and firms, and how they respond to government policy.