

The Economic Circumstances of Different Generations: The Latest Picture

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Executive summary

As the economy grows, each generation normally has higher incomes than those born 10 years earlier.

Around the age of 50, average (median) household income for people born in the 1950s (the '1950s cohort') was more than 20% higher than average income for the 1940s cohort – an increase equivalent to around £5,000 a year for a couple without children. Similarly, average income for the 1940s cohort was itself more than 20% higher than average income for the 1930s cohort at the same age (all after adjusting for inflation).

Those born after 1960 now have no higher incomes than their predecessors born 10 years earlier did at the same age.

This is the result of the stagnation of working-age incomes over the past decade – real median income for those aged 25 to 55 grew by only 2% in total between 2004–05 and 2014–15, compared with 26% between 1994–95 and 2004–05.

Those born in the early 1980s have started adulthood with no higher incomes than those born in the previous decade.

They are the first post-war cohort not to at least start working-age life with higher incomes than their predecessors had at the same age. This reflects the fact that the Great Recession hit the pay and employment of young adults the hardest. Nevertheless, those born in the early 1980s still started adulthood with much higher incomes than those born in the 1960s.

So far, the early 1980s cohort have accumulated significantly less wealth than their predecessors had by the same age.

By their early 30s, those born in the early 1980s had average (median) net household wealth of £27,000 per adult – including housing, financial and private pension wealth. This is about half of the average wealth holdings of the 1970s cohort at around the same age (£53,000).

Those born in the early 1980s have much lower homeownership rates in early adulthood than any other post-war cohort.

At the age of 30, 40% of those born in the early 1980s were owner-occupiers, compared with 55% of the 1940s and 1970s cohorts, and more than 60% of the 1950s and 1960s cohorts. The last cohort to have a similar homeownership rate to those born in the early 1980s at the same age was the 1930s cohort.

There has been a dramatic divergence in the housing costs of renters and homeowners as a share of income.

Between the ages of 26 and 30, renters born in the early 1980s spent 28% of their income on housing costs on average, compared with 15% for homeowners. At the same age, renters and homeowners born in the 1960s both spent around 20% of their income on housing costs on average.

Outside the public sector, those born since 1970 have much less access to defined benefit (DB) pension schemes than their predecessors did at the same age.

In their early 30s, less than 10% of private sector employees born in the early 1980s were active members of a DB scheme, compared with more than 15% of those born in the 1970s and nearly 40% of those born in the 1960s. The decline of DB schemes represents a shift of risk onto employees and was associated with a large reduction in the generosity of employer contributions.

Differences in the economic circumstances of people born at different times (whom we refer to in this briefing note as different ‘cohorts’), and the role of government policy in exacerbating or mitigating those differences, have risen in prominence in recent years. The Work and Pensions Select Committee is currently conducting an inquiry into ‘intergenerational fairness’.¹ The new Prime Minister included the fact that ‘if you’re young, you’ll find it harder than ever before to own your own home’ in a list of ‘injustices’ she intends to fight.²

This briefing note provides an up-to-date and comprehensive picture of the incomes and wealth of different cohorts as they have moved through their lives. It is partly an update of previous work by some of the same authors,³ which focused on those born between the 1940s and the 1970s. The key finding of that research was that, compared with those born 10 years earlier at the same age, those born in the 1960s and 1970s have no higher take-home incomes; have saved no more of their previous take-home income; are less likely to own a home; probably have lower private pension wealth relative to their earnings; and will tend to find that their state pensions replace a smaller proportion of previous earnings. On the other hand, they expect to inherit more wealth – perhaps the main reason they could still hope to be better off than their predecessors in retirement, on average.

Beyond incorporating more up-to-date data, this briefing note builds on those findings in two particular ways:

¹ The submission of IFS researchers to that inquiry can be found at <https://www.ifs.org.uk/publications/8246>.

² <https://www.gov.uk/government/speeches/statement-from-the-new-prime-minister-theresa-may>.

³ A. Hood and R. Joyce, *The Economic Circumstances of Cohorts Born between the 1940s and the 1970s*, IFS Report R89, 2013, <https://www.ifs.org.uk/publications/7007>.

1. We expand our analysis to incorporate those born in the early 1980s (1980–84). Since this cohort are now into their early-to-mid 30s, we can compare their incomes and wealth holdings over the first decade of their working lives with those of people born in previous decades.
2. We exploit better data on the total wealth holdings of households. We now have eight years of comprehensive data on household wealth in the UK from the Wealth and Assets Survey, which allows us to provide a comprehensive picture of how trends in homeownership, pension provision and financial wealth combine to determine the overall wealth holdings of different cohorts.

As well as our own previous analysis, other work has since looked at generational differences in particular components of income and wealth.⁴ Here we make intergenerational comparisons of total disposable income and overall household wealth, providing the most comprehensive picture to date. In Section 1, we examine the household incomes of different cohorts over the course of their lives. In Section 2, we compare the total wealth holdings of different cohorts, and look in more detail at property and pension wealth (which make up the vast majority of total wealth). As well as being interesting in their own right, the wealth holdings of different cohorts are informative of how their future living standards are likely to compare. Of course, current wealth is not the only thing that matters for future living standards. Future earnings growth (which is even more uncertain than usual) will also be crucial in determining the evolution of living standards for younger cohorts. And transfers of wealth from older generations (through inheritances and gifts) will also prove increasingly important. The changing role of inheritances will be examined in detail in a separate briefing note, published later this autumn.

1. Incomes

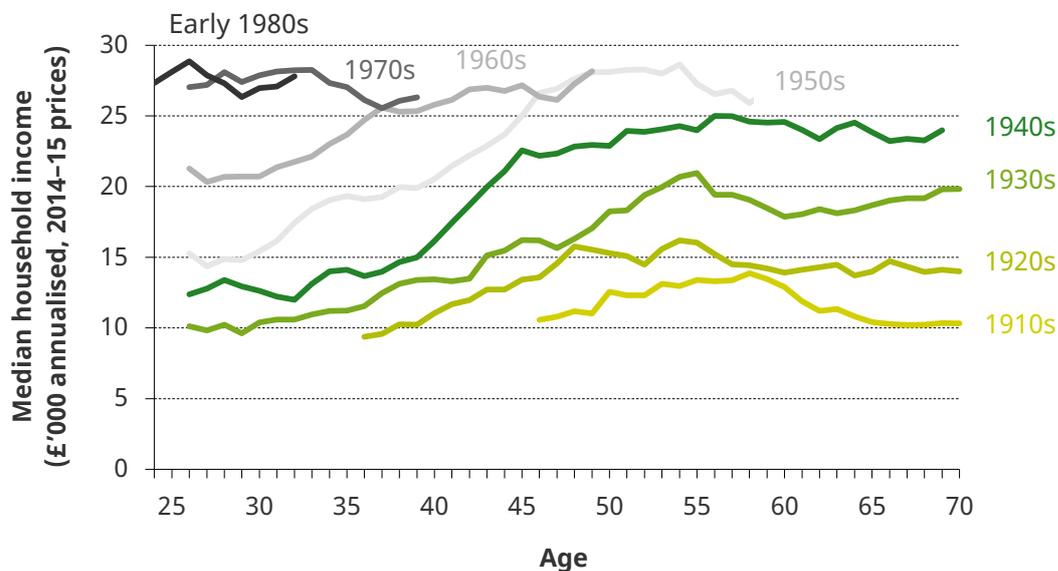
Figure 1 compares the average (median) incomes of those born in different decades across their working-age lives and into retirement. Since the objective is to compare the living standards of different cohorts at the same age, incomes are measured at the household level after taxes are paid and benefits received, rescaled (equivalised) to take account of the fact that households of different sizes need different amounts of income to achieve the same living standards, and adjusted for inflation.⁵ All monetary amounts are expressed in 2014–15 prices and are the equivalent amounts for a childless couple.

Figure 1 shows a broadly similar pattern of income across the life cycle for each cohort: incomes rise relatively quickly during early working-age life; those increases slow down as cohorts approach retirement; and incomes typically fall slightly as cohorts retire.

⁴ L. Gardiner, *Stagnation Generation: The Case for Renewing the Intergenerational Contract*, Resolution Foundation, Intergenerational Commission, 2016, <http://www.intergencommission.org/wp-content/uploads/2016/07/Intergenerational-Commission-launch-document.pdf>.

⁵ This follows the methodology behind official government statistics on the income distribution (the Household Below Average Incomes series). For more details, see appendix A of C. Belfield, J. Cribb, A. Hood and R. Joyce, *Living Standards, Poverty and Inequality in the UK: 2016*, IFS Report R117, 2016, <http://www.ifs.org.uk/publications/8371>.

Figure 1. Median net equivalised household income (before housing costs are deducted) by age, for people born in different decades



Note: Incomes are measured net of direct taxes and benefits and before housing costs are deducted, and are equivalised for household size. Adjusted for inflation using a variant of the consumer price index (CPI) that includes mortgage interest payments. 'Age' is the average (median) age of each cohort in a given year of data. Sample is restricted to Great Britain as data on Northern Ireland are not available for earlier years.

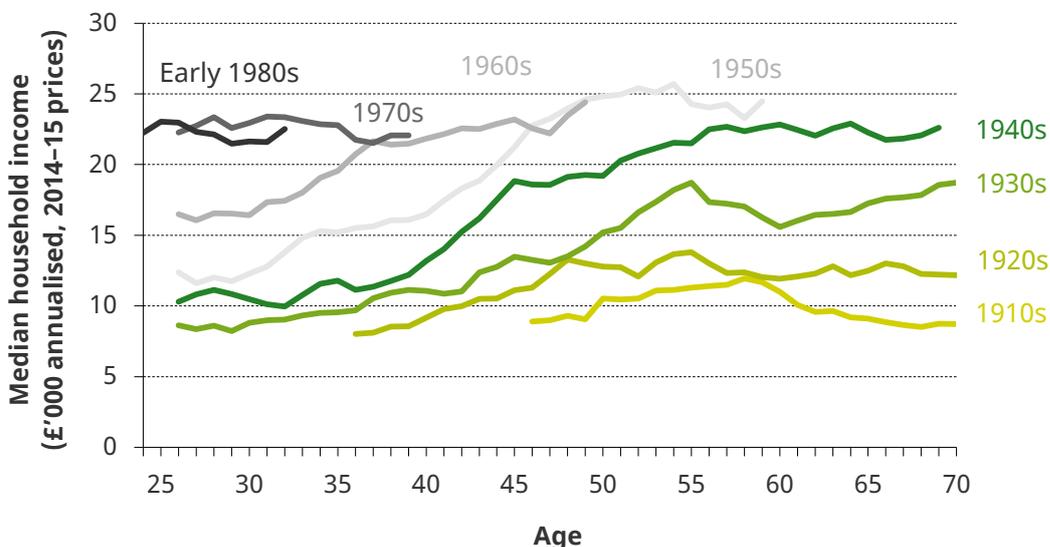
Source: Authors' calculations using the Family Expenditure Survey and Family Resources Survey, various years.

However, different cohorts clearly have different *levels* of income. Up to and including those born in the 1950s, each cohort has had higher incomes on average than the cohort before them did at the same age. Around the age of 50, for example, average income for the 1950s cohort was more than 20% higher than average income for the 1940s cohort – an increase equivalent to around £5,000 a year for a couple without children. Similarly, average income for the 1940s cohort was itself more than 20% higher than average income for the 1930s cohort at the same age. This is what one would expect to see: as the economy has grown over time, incomes have risen and so younger cohorts have higher incomes than their predecessors did at the same age. However, the figure shows that this is no longer true for those born after 1960. The 1960s, 1970s and early 1980s cohorts (currently in the middle of their working-age lives) do not have higher incomes than their predecessors did at the same age. This partly reflects the impact of the Great Recession on the incomes of working-age households, but it is also the result of the period of sluggish income growth that preceded the recession (from the early 2000s onwards) and the weakness of the recovery in incomes over the past few years. Among those aged between 25 and 55, real median income in 2014–15 was only 2% higher than a decade earlier, compared with an increase of 26% between 1994–95 and 2004–05.⁶

While those born in the 1960s and 1970s no longer have higher incomes than their predecessors, they did have higher incomes during early adulthood. At the age of 30, the average income of the 1960s cohort was more than £5,000 a year higher than the average

⁶ Source: Authors' calculations using Family Resources Survey, 1994–95, 2004–05 and 2014–15.

Figure 2. Median net equivalised household income (after housing costs are deducted) by age, for people born in different decades



Note: Incomes are measured net of direct taxes and benefits and after housing costs are deducted, and are equivalised for household size. Adjusted for inflation using a variant of the CPI that includes mortgage interest payments. 'Age' is the average (median) age of each cohort in a given year of data. Sample is restricted to Great Britain as data on Northern Ireland are not available for earlier years.

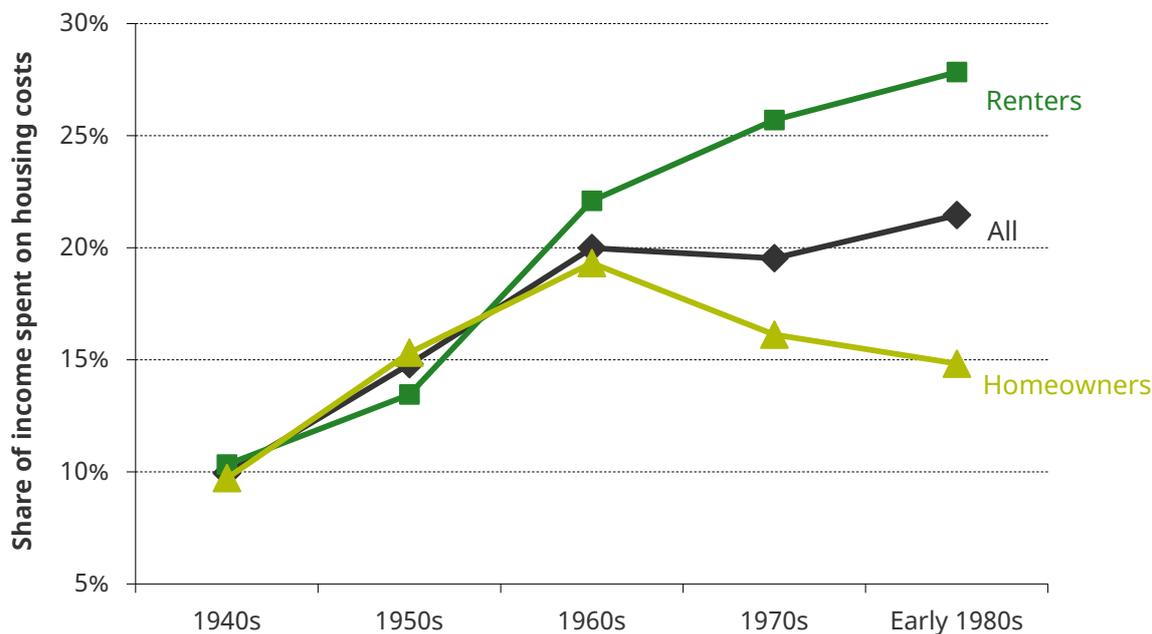
Source: Authors' calculations using the Family Expenditure Survey and Family Resources Survey, various years.

income of the 1950s cohort, and the average income of the 1970s cohort was more than £7,000 a year higher than the average income of the 1960s cohort. By contrast, the average incomes of those born in the early 1980s have been similar to those of the 1970s cohort at the same age throughout their working-age lives so far, and are now, if anything, slightly lower. As Figure 1 shows, this is the first time for at least 50 years that a cohort has begun their working-age lives with average incomes no higher than those of their predecessors at the same age. While this is in part the result of weak income growth in the economy as a whole over the last decade or so, it also reflects the fact that the Great Recession hit young adults hardest. The falls in employment associated with the recession were concentrated among those in their 20s, who also saw bigger falls in pay than older individuals.⁷ Nevertheless, those born in the early 1980s have still enjoyed much higher incomes as young adults than those born in the 1960s.

Figure 2 again shows incomes by age for each cohort, but this time incomes are measured after housing costs have been deducted. 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). In other words, the falls in homeownership documented in Section 2 of this briefing note have not (yet) translated into significantly

⁷ See chapter 5 of C. Belfield, J. Cribb, A. Hood and R. Joyce, *Living Standards, Poverty and Inequality in the UK: 2014*, IFS Report R96, 2014, <https://www.ifs.org.uk/publications/7274>.

Figure 3. Average housing costs as a share of income between the ages of 26 and 30, for those born in different decades



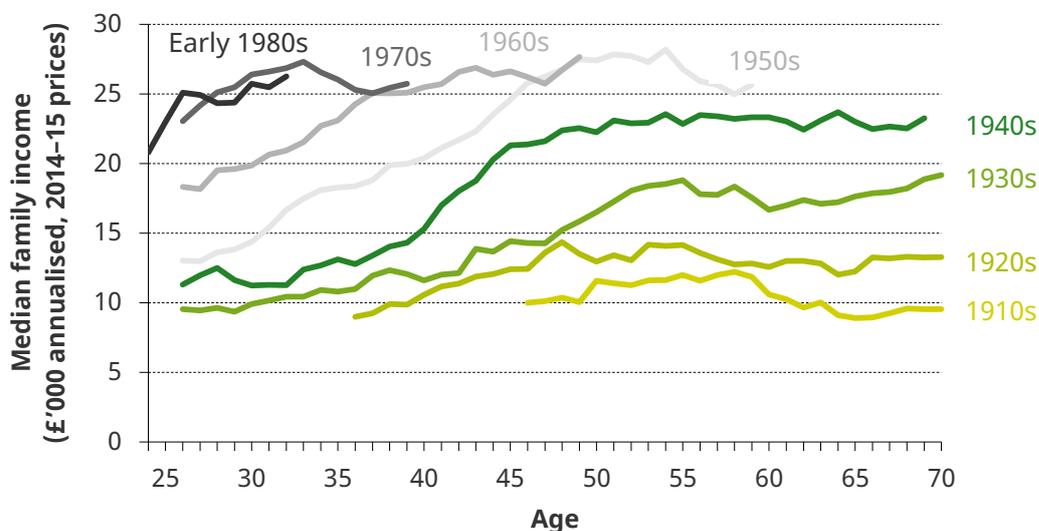
Note: Incomes are measured net of direct taxes and benefits and before housing costs are deducted. Housing costs for owner-occupiers include mortgage interest payments, but not repayments of capital. Sample is restricted to Great Britain as data on Northern Ireland are not available for earlier years. Individuals who live in owner-occupied housing where neither they nor their partner is the homeowner are excluded.

Source: Authors' calculations using the Family Expenditure Survey and Family Resources Survey, various years.

higher average housing costs as a share of income for younger cohorts than those their predecessors faced at the same age.

However, the lack of change in average housing costs as a share of income across recent cohorts masks a dramatic divergence between the housing costs of renters and owner-occupiers. Figure 3 shows the average share of income different cohorts spent on housing costs in their late 20s (between the ages of 26 and 30 inclusive). On average, those born in the 1970s and early 1980s spent a similar share of income on housing costs in their late 20s to those born in the 1960s – around 20%. But the figure shows this lack of change is the result of two offsetting trends. On the one hand, the average housing costs of homeowners have fallen substantially for recent cohorts. While those born in the 1960s spent around 20% of their income on mortgage interest payments in their late 20s (capital repayments are not included), those born in the early 1980s spent only 15% of their income on housing costs. This is explained by falls in mortgage interest rates, and possibly also the fact that homeowners have become a more select group (with higher average incomes) as homeownership rates have fallen (see Section 2). On the other hand, the average housing costs of renters in their late 20s have risen from 22% for the 1960s cohort to 28% for those born in the early 1980s. This increase is the result of a greater share of renters being in private rented accommodation rather than renting from councils or housing associations (where rents are lower), as well as a general rise in rents.

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 adult children living in the same household as their parents are considered to be in a separate family. Incomes are measured net of direct taxes and benefits and before housing costs are deducted, and are equivalised for family size. Adjusted for inflation using a variant of the CPI that includes mortgage interest payments. 'Age' is the average (median) age of each cohort in a given year of data. Sample is restricted to Great Britain as data on Northern Ireland are not available for earlier years.

Source: Authors' calculations using the Family Expenditure Survey and Family Resources Survey, various years.

When using standard household measures of income (as in Figures 1 and 2), the incomes of parents directly affect the measured living standards of young adults who still live at home.⁸ We might instead want to look just at the incomes of young adults themselves and partners with whom they live (if applicable), especially if we have in mind their future prospects (given that fewer of these young adults will live with their parents as they age).

Figure 4 looks at this alternative measure, aggregating incomes only within families (a single adult or couple along with any dependent children) 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 to the incomes of the 1960s cohort at the same age is also roughly unchanged (in percentage terms). This reflects the fact that while the proportion of young adults living with their parents has risen slightly over time, the differences between each cohort are very small. Second, the flat, or even falling, incomes of the early 1980s cohort shown in Figures 1 and 2 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. But 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.

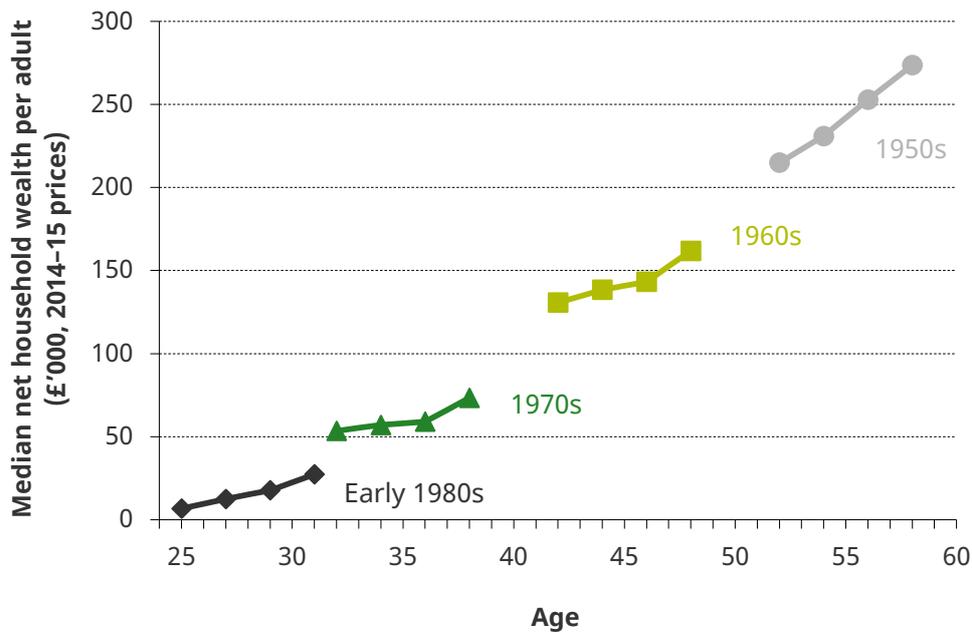
⁸ Similarly, the income of house/flatmates directly affects the measured living standards of young adults.

2. Wealth

Figure 5 compares average (median) net household wealth per adult for those born in different decades. Total net household wealth is the sum of the value of any property owned (minus mortgage debt), the value of financial assets held (minus any financial debts) and wealth held in private pensions.⁹ The figure is based on data from the Wealth and Assets Survey, which began in 2006–08, and so we are only able to track cohorts for six years through to the most recent data covering 2012–14.

Figure 5 reveals that those born in the early 1980s have significantly less wealth than those born in the previous decade did at around the same age. In their early 30s, the early 1980s cohort have average household wealth per adult of £27,000 – about half the average wealth holdings of the 1970s cohort at around the same age (£53,000).¹⁰ It also looks

Figure 5. Median net household wealth per adult by age, for people born in different decades



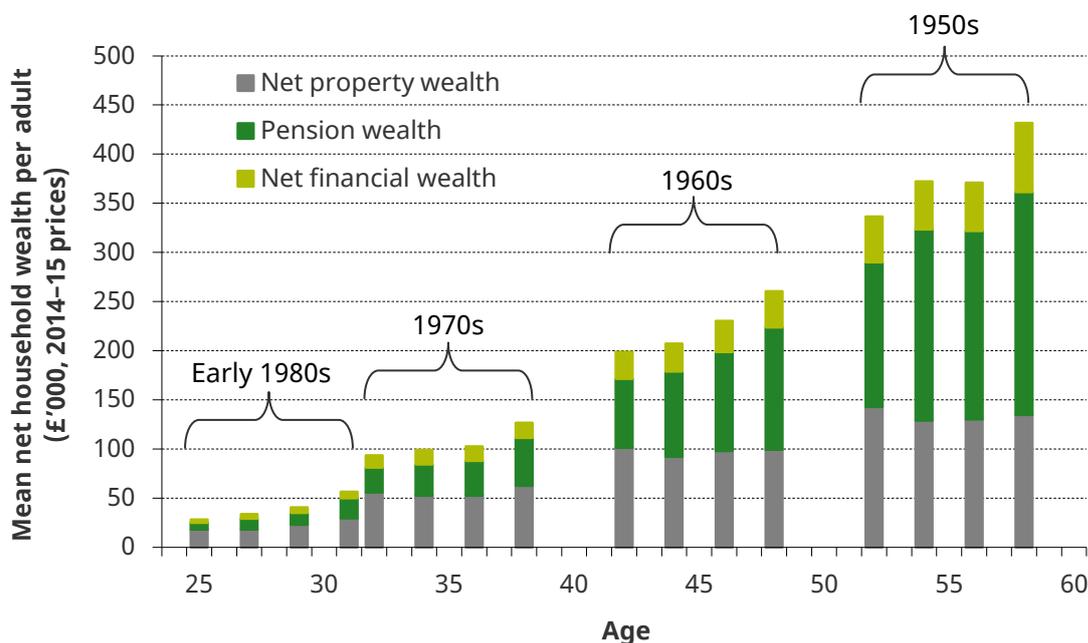
Note: Households containing more than one benefit unit are excluded from the sample. Figures are adjusted for inflation using a variant of the CPI that includes mortgage interest payments. 'Age' is the average (median) age of each cohort in a given wave of data. Excludes Northern Ireland as data are not available.

Source: Authors' calculations using the Wealth and Assets Survey, various years.

⁹ For those with defined benefit (DB) pensions, private pension wealth is calculated as the size of the pension fund that would be required today to purchase the future income stream provided by their current DB pension entitlement (not incorporating changes in that entitlement that would result from them remaining with their current employer). For more details, see R. Crawford, D. Innes and C. O'Dea, *The Evolution of Wealth in Great Britain: 2006–08 to 2010–12*, IFS Report R109, 2015, <https://www.ifs.org.uk/publications/8050>.

¹⁰ If one looks instead at mean household wealth per adult, the early 1980s cohort have around 60% of the wealth that the 1970s cohort had at around the same age.

Figure 6. The composition of mean net household wealth per adult by age, for people born in different decades



Note: Households containing more than one benefit unit are excluded from the sample. Figures are adjusted for inflation using a variant of the CPI that includes mortgage interest payments. 'Age' is the average (median) age of each cohort in a given wave of data. Excludes Northern Ireland as data are not available.

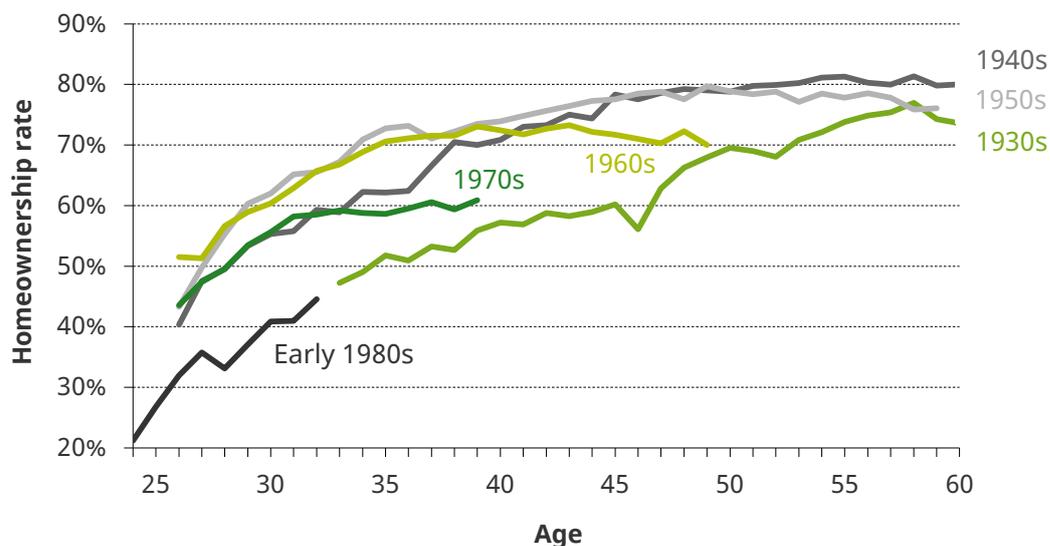
Source: Authors' calculations using the Wealth and Assets Survey, various years.

unlikely that the 1970s cohort hold as much wealth as those born 10 years earlier did at the same age. Over the six years from 2006–08 to 2012–14, their average wealth rose by only £20,000 (to £73,000). To match the average wealth holdings of the 1960s cohort in their early 40s, their average wealth needs to rise by £57,000 over the next four years. Of course, the rate at which younger cohorts are accumulating wealth could accelerate in the next few years relative to the period since 2006–08: one good reason to expect this is the falls in asset values (including house prices) associated with the Great Recession.

In order to provide a fuller understanding of the relative wealth holdings of different birth cohorts, Figure 6 splits mean net household wealth per adult into its three components: net property wealth, private pension wealth and net financial wealth (which is by far the smallest component of the three).¹¹ 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 – both private pension wealth and financial wealth look similar across cohorts when they are compared at similar ages. The same is true of the relative wealth holdings of the 1960s and 1970s cohorts: the fact that the younger cohort does not look to be on track to match

¹¹ We use mean rather than median wealth in this figure as only mean wealth is additively decomposable into its components.

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. 'Age' is the average (median) age of each cohort in a given year of data. Sample is restricted to Great Britain as data on Northern Ireland are not available for earlier years.

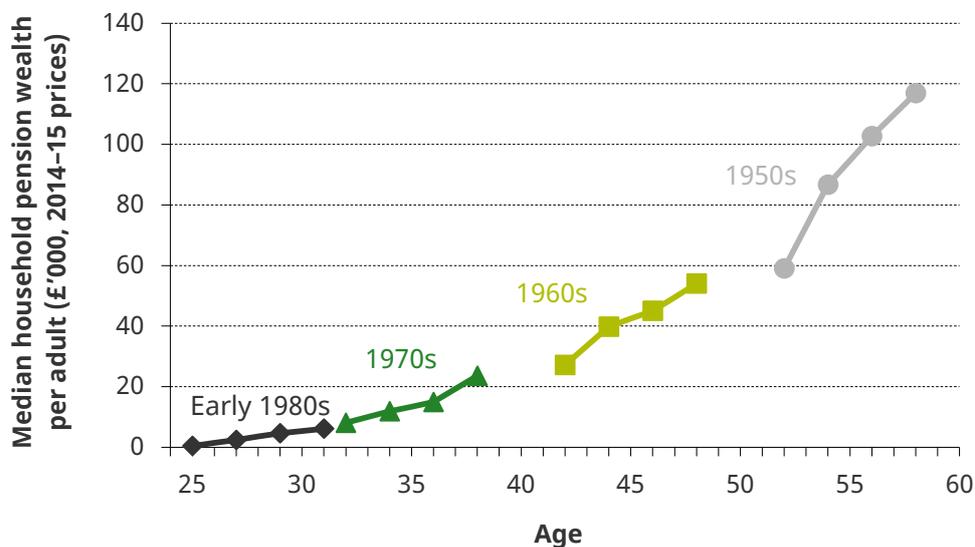
Source: Authors' calculations using the Family Expenditure Survey and Family Resources Survey, various years.

the wealth accumulation of their predecessors is explained by their much lower average net property wealth.

The lower property wealth of those born in more recent decades is unsurprising given the differences in homeownership rates between cohorts shown in Figure 7. Of those born in the 1940s and 1950s, around 80% have become owner-occupiers, with the 1950s cohort buying houses slightly earlier on average. It looks highly unlikely that any of the more recent cohorts will match that homeownership rate. Looking first at the 1960s cohort, they had a similar homeownership rate to their predecessors around the age of 40 (70%) but the proportion owning a home appears to have stalled at that level over the last 10 years, leaving them looking more similar to the 1930s cohort than to their more immediate predecessors in this respect. The homeownership rate of the 1970s cohort also looks to have stalled over the last 10 years, but at the lower rate of around 60%. And the homeownership rate of those born in the early 1980s is substantially lower than any other post-war cohort at the same age. At the age of 30, 40% of those born in the early 1980s were owner-occupiers, compared with 55% of the 1940s and 1970s cohorts, and more than 60% of the 1950s and 1960s cohorts. The last cohort to have a similar homeownership rate to those born in the early 1980s at the same age was the 1930s cohort, and the homeownership rate of that cohort continued to rise until their late 50s – something not seen for any cohort since.

We now turn to consider pension wealth, which makes up most of the rest of household wealth. Figure 8 tracks median household pension wealth per adult for cohorts born between the 1950s and the early 1980s. The picture it presents is somewhat different from

Figure 8. Median household pension wealth per adult by age, for people born in different decades



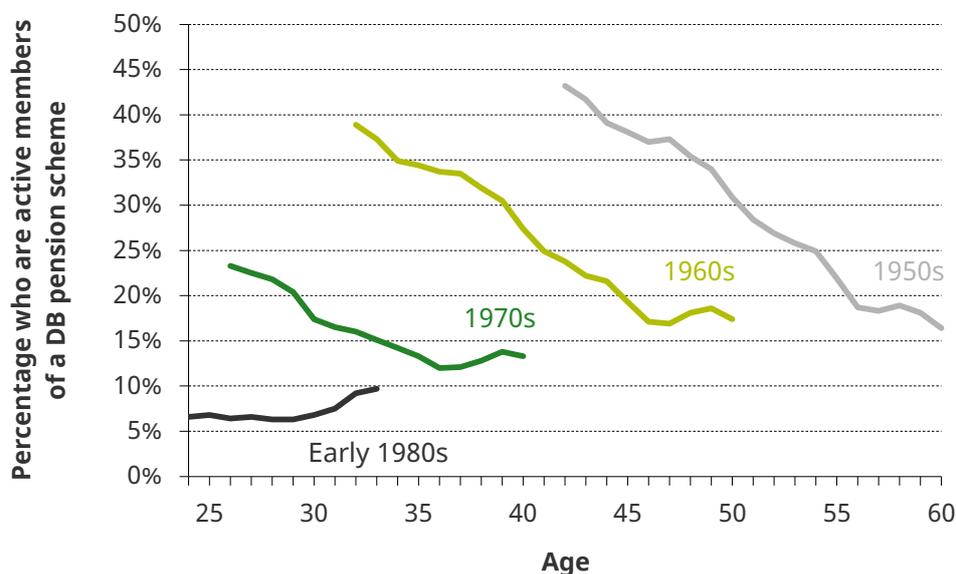
Note: Households containing more than one benefit unit are excluded from the sample. 'Age' is the average (median) age of each cohort in a given wave of data. Figures are adjusted for inflation using a variant of the CPI that includes mortgage interest payments. Excludes Northern Ireland as data are not available.

Source: Authors' calculations using the Wealth and Assets Survey, various years.

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 (slightly) higher average pension wealth than those born 10 years earlier had at the same age, while the pension wealth of the early 1980s cohort looks so far to be evolving similarly to that of the 1970s cohort. However, the sharp decline in defined benefit pensions – discussed in more detail below – is a reason to expect younger cohorts to accumulate pension wealth more slowly in future than their predecessors did in the same stage of life. Moreover, when comparing levels of pension wealth across cohorts, it is important to bear in mind that (with the exception of the 1980s cohort) each cohort has enjoyed higher incomes than their predecessors for most of their working-age lives. If a cohort has higher incomes than their predecessors but accumulates no more pension wealth on average, the proportion of their working-age income that their pension allows them to replace in retirement (their 'replacement rate') will be lower on average, all else equal. To put it another way, one would expect younger cohorts to have higher pension wealth if they (and their employers) had contributed the same proportion of their earnings to their pension pot as was the case for older cohorts.

We know, however, that this is not the case: in fact, the generosity of private pension provision has fallen substantially over the last 20 years. In the early 2000s, it became clear that the generous defined benefit (DB) pension schemes many employers had in place were unaffordable, with key reasons being increases in expected longevity and poor stock

Figure 9. Percentage of private sector employees who are active members of a DB pension scheme by age, for people born in different decades



Note: 'Private sector' is consistent with National Accounts definition of sector and therefore includes employees working for 'non-profit institutions serving households', e.g. charities and universities.

Source: Authors' calculations using the Annual Survey of Hours and Earnings, 1997–2015.

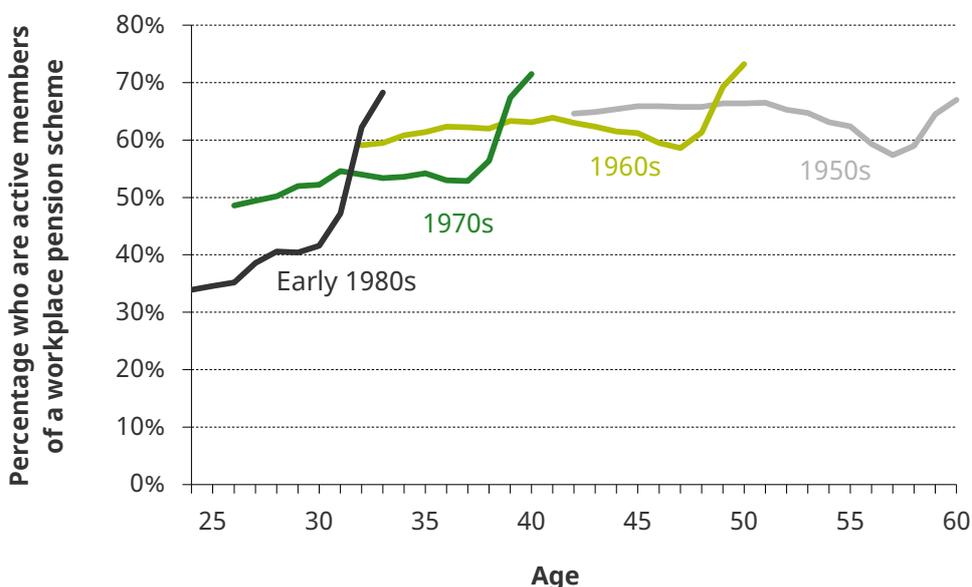
market performance.¹² Most firms responded by closing these schemes to new members, in many cases replacing them with less generous defined contribution (DC) schemes. Figure 9 shows the impact of the closing of private sector DB schemes on employees born in different decades. For those born in the 1950s and 1960s, the result is a sharp decline in the proportion of private sector employees who were active members of a DB scheme as they moved through working-age life (and in many cases moved employer). But for those born in the 1970s and early 1980s, it means that the vast majority of private sector employees have never had access to a DB pension scheme. In their early 30s, less than 10% of private sector employees born in the early 1980s were active members of a DB scheme, compared with more than 15% of those born in the 1970s and nearly 40% of those born in the 1960s.

As mentioned above, the switch from DB to DC schemes has been associated with a large reduction in the generosity of employer pension contributions. Of those in DB schemes in 2015, 90% received an employer contribution equivalent to 10% of their earnings or more, compared with only 13% of those in DC schemes.¹³ The switch also represents a transfer of risk from employers to employees – as, in DB schemes, firms rather than employees bear the investment return and longevity risk. There is therefore good reason to think that

¹² Source: Department for Work and Pensions, 'Pensions and growth: a call for evidence', 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221423/pensions-and-growth-call-for-evidence.pdf.

¹³ Source: Authors' calculations using the Annual Survey of Hours and Earnings, 2015.

Figure 10. Workplace pension participation rate of employees by age, for people born in different decades



Source: Authors' calculations using the Annual Survey of Hours and Earnings, 1997–2015.

younger cohorts will struggle to accumulate the pension wealth of their predecessors (certainly as a share of earnings), and they will certainly face greater uncertainty with regard to their future living standards than those cohorts with greater access to DB schemes.

On the other hand, Figure 10 shows that, overall, employees born in later decades are now more likely to be members of some workplace pension scheme than their predecessors. Nearly 70% of employees born in the early 1980s are now members of a workplace pension scheme, compared with less than 55% of employees born in the 1970s at the same age. This is explained by 'auto-enrolment' – a policy introduced initially in October 2012 under which all employers must automatically enrol all employees into a workplace pension scheme.¹⁴ In fact, Figure 10 shows that prior to auto-enrolment, each cohort had lower workplace pension membership than their predecessors: in their late 20s, only 40% of employees born in the 1980s were in a workplace pension scheme, compared with over 50% of the 1970s cohort at the same age. While the minimum contribution rates required under the policy are currently very low, they will rise significantly by 2019, which could help younger cohorts to accumulate pension wealth faster in future than over the past few years.

Of course, changing private pension provision is not the only factor that could drive differences in the retirement prospects of different cohorts. For example, this briefing

¹⁴ Some employees are not covered by the policy – for details, see <https://www.gov.uk/workplace-pensions/about-workplace-pensions>.

note has not considered the relative generosity of the state pension for different cohorts.¹⁵ One potential source of retirement resources that is likely to be of greater importance for younger cohorts than their predecessors is inheritances. One consequence of the high homeownership rates of those born between 1930 and 1960, in combination with the long-term increase in house prices, is that younger cohorts are more likely to expect to inherit than their predecessors, and expect to inherit more on average.¹⁶ The growing importance of inheritances clearly has important consequences for inequality and intergenerational mobility – something we will explore in more detail in future work.

¹⁵ Discussed in detail in section 3.2 of A. Hood and R. Joyce, *The Economic Circumstances of Cohorts Born between the 1940s and the 1970s*, IFS Report R89, 2013, <https://www.ifs.org.uk/publications/7007>.

¹⁶ As shown in chapter 4 of Hood and Joyce, 2013, *ibid*.