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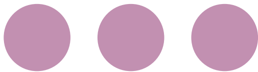
International Longevity Centre UK

Strengthening the intergenerational contract: investing for intergenerational fairness



Acknowledgements

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We'd like to thank all the participants in our expert roundtable events and the financial advisors who we interviewed as part of this project. We're very grateful for their valuable insights and fruitful discussions, which have informed this report.

This project is being supported by M&G

Foreword

The intergenerational contract has been an established principle of British society for well over 100 years. Put simply, it is about making sure that everyone who pays in, whatever your age, and at whatever stage in life, feels confident they will benefit. It supports our welfare system, health service, schools and the very infrastructure we all use in our daily lives.

This report provides fascinating insights on its status and a stark reminder it needs future-proofing, otherwise it risks being weakened by failing to keep pace with changing societal trends.

We need better recognition that working age people who pay in to support today's pensioners are making a downpayment on the future support they will receive, as well as providing the support we all need in the early stages of our lives.

This generational bond is not as readily understood as it should be, but with rapid societal changes presenting new economic pressures, protecting the intergenerational contract remains crucial so it can evolve.

Pensions and investments play a critical role in underpinning the intergenerational contract. More than half of the over 25s believe Government support will decrease by the time they reach retirement, posing questions about where the role of the state ends and how personal savings and private pension investment can fill the gap.

As part of M&G plc, our £129bn Prudential With Profits Fund – one of the largest in Europe – offers a smoothing mechanism to navigate the ups and down of the economy, benefiting all savers, as well as investing directly in the communities where savers work and live. It works on the simple premise that each generation of policyholders defers some of their bonuses to invest in future generations, as previous generations did before them. It aims to be a virtuous circle, while sustaining the real economy.

This is just one example of how financial services contribute to strengthening the intergenerational bond. But we need to do more, particularly when it comes to ensuring individuals feel empowered to make informed financial choices and understanding what appropriate risk is when making investment decisions. As one financial adviser put it: 'by taking no risk, people are taking a risk.'

To reset the intergenerational contract for a new era, the ILC offer a number of useful policy recommendations about how we start to change the conversation about the importance of the contract and how savings and investments can play a key role.

My hope for the future is that through the right policy platform and partnership with the sector we can preserve and evolve the intergenerational contract for generations to come.

Clive Bolton
Chief Executive Officer
M&G Life

Executive summary

Throughout our lives, we all give and receive support across the generations, within our families and as part of society as a whole. This is the intergenerational contract; the principle whereby different generations support one another at different points in their lives, depending on their needs and resources.

The intergenerational contract relies on shared values, such as trust, reciprocity and fairness, and is key for social cohesion. For example, the taxes we pay go towards funding the education of younger generations, and the healthcare and state pensions of older generations. But increasingly, the combined challenges of demographic change, low economic growth, and rising inequality mean we may no longer be getting back what we pay in.

- By 2040, almost a quarter of people in the UK will be aged 65 or over, compared with just under 1 in 5 today, meaning that the healthcare and state pension costs of a larger older population may require higher taxes
- Sluggish economic growth will limit people's ability to save, invest and spend in the way previous generations have. The UK economy grew by just under 1% in 2024 and is forecast to increase by 2% in 2025, then falling back to around 1.5% in 2026.

While UK household wealth has doubled relative to incomes over the last 20 years, older people have benefitted disproportionately, while younger generations are struggling.

- The median total wealth for those aged 65 to 69 increased by 46%, or £112,597, between 2010-11 and 2019-20.
- The median wealth for those in their late thirties in 2019-20 increased by just 9%, or £6,751, during the same period.
- Despite the wealth of older households increasing, 7 out of 10 adults don't receive any financial support from their families. And the share of wealth held by younger people has plummeted, with just 4% of wealth held by the under-40s (down from 7.5% in 2010).

For this report, ILC commissioned a YouGov survey of 2,000 adults in the UK, which showed that 47% are worried they won't have enough saved for retirement - this goes up to 60% for people aged 25 to 49. More than 2 out of 5 (43%) respondents aged less than 50 are already worried about paying their rent or mortgage.

It also showed that across generations, respondents believe that state support for older people is likely to decrease in the future. More than half of those aged 25 and over (56%) believe that support will have decreased by the time today's younger generations reach retirement age.

Family plays an important role in supporting the welfare of different generations. However, financial transfers within families risk perpetuating wealth inequalities both within and across generations. Not everyone has equal access to resources or the ability to provide the same level of support.

- Our research shows that only 4% of us benefited from inherited wealth in the last two years: of those, twice as many people aged between 55 and 64 received an inheritance of over £1000 (6%), compared with those aged 20 to 34 years (3%).
- Almost a third of us (29%) are worried that we won't have family members to rely on for support – this increases to 39% for those aged 25 to 49.

Family, the financial services sector, and the Government all have a role to play in supporting the welfare of different generations to preserve social cohesion and strengthen the intergenerational contract. We need to think long-term to ensure that current and future generations have the money they need across their long lives.

Recommendations

Policymakers and financial service providers are vital to ensuring that the intergenerational contract remains on an even keel. Policymakers must work in conjunction with financial services providers to create a cultural and attitudinal shift around long-term savings and investments.

- **Support future generations' retirement incomes:** increase workplace pension auto-enrolment contributions to 12%, with a clear roadmap for how and when contribution rates will rise, ensuring this is sustainable for both employees and employers. Broaden access to include those not currently covered, such as the self-employed.
- **Democratise access to savings products from birth:** provide savings accounts for all children at birth, to help create a culture of saving. Currently, the onus is on families and carers to set up savings accounts, rather than providing them as a default. In practical terms, this should involve exploring which specific nudges might encourage family and friends to set up regular contributions, as well as providing greater education to all about which investment assets are available to enhance returns.
- **Support long-term investment to pool risk for the benefit of future generations:** develop and improve investment vehicles which pool risk across generations, such as With-Profit Funds and Collective Defined Contribution schemes. Ensure that financial products offer consumers both security and flexibility, while enhancing individual welfare. Prioritise value over cost, prioritising investment in the long-term interests of future generations.

Alongside these recommendations, we need our Government to invest in long-term sustainable growth, population health and financial literacy.

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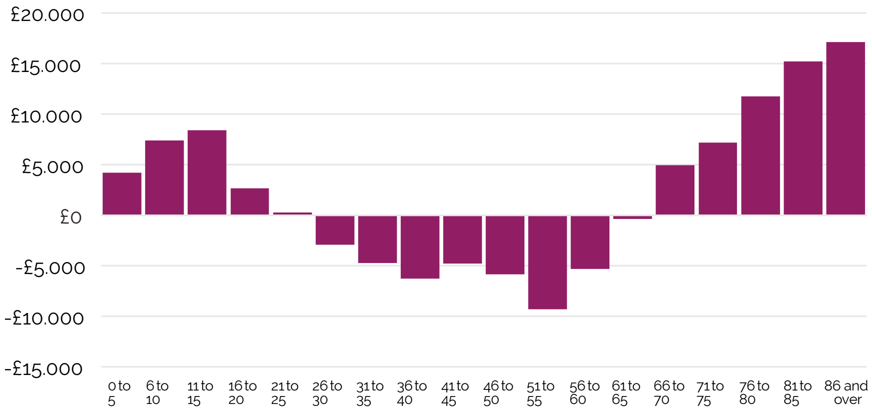
What is the intergenerational contract?

We all give and receive support from other generations at different points over the course of our lives. This is what we mean by the intergenerational contract.

Parents may care for children. When these children become adults, they may care for children of their own, and provide care to their parents or grandparents. In addition, most of us have benefitted from healthcare and education provided by the state. When we pay taxes, these go towards paying for the education and healthcare of younger generations, and the healthcare and pensions of older generations. In later life, our own state pension and healthcare needs will be funded by taxes that are mostly paid by the next that follows ours. This may not always happen in a linear way. For example, we may require care and support from others while we're of working age. And we often provide for our future selves throughout our lives as well, such as through retirement saving or saving for future care needs. But in general, the intergenerational contract means that different generations support each another at different points in their lives, depending on their needs and resources.

The intergenerational contract is a cornerstone of the welfare state. Public spending by the state allows money to be transferred between age groups over the course of our lives. Younger and older people are more likely to be net beneficiaries as, on average, the benefits they receive outweigh their contributions, whereas working age people are more likely to be net contributors, as their contributions, on average, are greater than the benefits they receive.

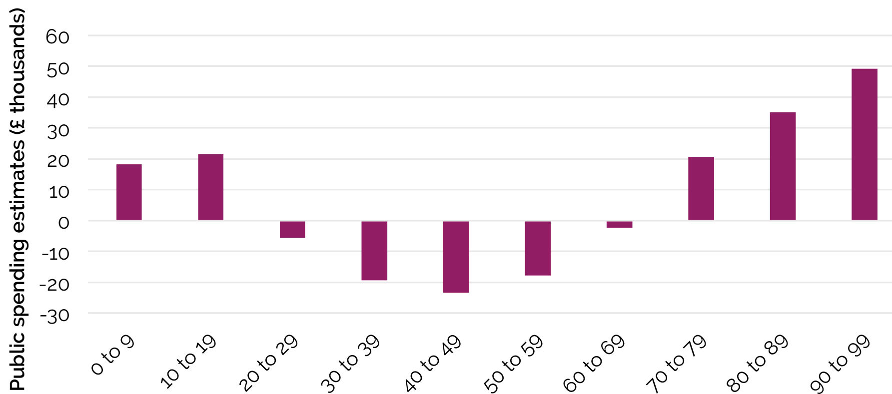
Figure 1: How public spending transfers money between different age groups in the UK (2015)



Source: National Transfer Accounts UK; data for 2015; average values. Measured in nominal terms in the currency of each country. Average measure based on difference between taxes paid and value of social security benefits, education and healthcare received.[1]

Figure 1 illustrates how the costs and benefits of state spending are distributed between generations, net of taxes. People aged 25 and below are, on average, net beneficiaries of public spending. In 2015, children aged 11 to 15 received transfers from the Government, in the form of education and healthcare spending, worth an average of £8,400 per person. Those aged between 26 and 65 were net contributors, paying, on average, more in taxes than they received in direct spending from the Government. And people aged 65 and over were net beneficiaries of Government transfers, with the average value of benefits received increasing steadily with age. These trends are predicted to continue, as seen in Figure 2.

Figure 2: Average projected consumption of public spending by age (2028 to 2029)



Source: OBR projections on fiscal risks and sustainability, September 2024; figures based on OBR projected net fiscal contributions for 2028/29.[2]

The intergenerational contract relies on shared values, including trust, reciprocity and fairness, and is key for social cohesion.[3] But, increasingly, the combined challenges of demographic change, low economic growth and rising inequality are threatening the contract's stability.

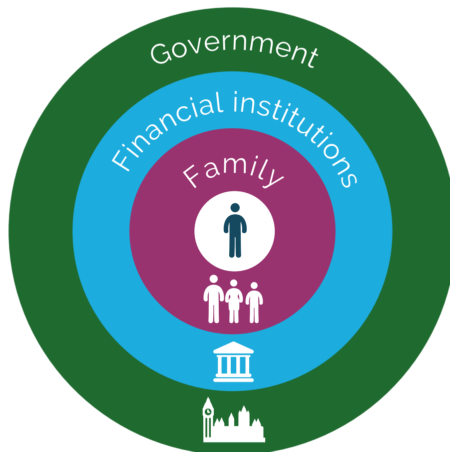
By 2040, almost a quarter of the UK will be aged 65 or over, compared with just under 1 in 5 today, and people aged over 85 will account for nearly 4% of the population.[4] People of working age may need to pay more in taxes to fund the healthcare and state pension costs of a larger older population, while lower birth rates will mean there will be fewer working age people contributing to the economy in decades to come. This in itself may not be a problem, if the lifetime costs and benefits for different generations (from the welfare state) stay the same. The problem arises if current younger generations have to make larger contributions, but then won't be entitled to the same benefits when they retire – this will cause the intergenerational contract to break down.

Economic growth could help mitigate these challenges. But the UK economy is The UK economy grew by just under 1% in 2024 and is forecast to increase by 2% in 2025, then falling back to around 1.5% in 2026.[5]

Across generations, most people believe that state support for older people is likely to decrease in the future. ILC analysed a YouGov survey of 2,000 adults in the UK, commissioned as part of this project. This revealed that over half of respondents aged 25 and over (56%) believe state support for older people will have decreased by the time today's younger generations reach retirement age.[6]

However, transfers between generations don't just happen in the public sphere. The intergenerational contract involves families, the financial services sector and the state; all play an important role in redistributing resources across generations and supporting intergenerational welfare (see Figure 3). What transfers are taking place in each sphere? What are the challenges and barriers? What can be done to address these and help strengthen the intergenerational contract?

Figure 3: Different spheres of intergenerational transfers



This report explores the role that each of these actors plays, the pressures or challenges affecting the intergenerational contract, and what our Government and the financial services sector can do to strengthen it. We draw on the insights and expertise of people working in the financial services and financial advice sectors, members of the pension policy community, think tanks and researchers. This is underpinned by an analysis of data from the *ONS Wealth and Assets Survey* and existing research.

Why is the intergenerational contract under pressure?

Demographic change

Demographic change is increasing financial pressure on the intergenerational contract.

Life expectancy has been increasing in the UK for both men and women. In 2000-01, life expectancy at birth was 75.6 for men and 80.4 for women.[7] By 2020-22 this had increased by three years for men, to 78.6, and by just over two years for women, to 82.6.[8] By 2040, almost a quarter of the UK population will be aged 65 or over, compared with just under 1 in 5 today.[9] At the same time, the number of births in this country have been falling – the fertility rate in England and Wales has fallen to 1.44 children per woman, its lowest level since 1977. This will affect the size of the working age population in decades to come.[10] As a result of these demographic changes, those who pay taxes may need to pay more to fund the healthcare and state pensions of a larger older population.

We're also seeing record numbers of younger people economically inactive. Between August and October 2024, over 3 million younger people were economically inactive - that's over 40% of those aged 16 to 24.[11]

The assumption of reciprocity is essential to the idea of the intergenerational contract. Failure to ensure parity across generations – for example, if people who've paid taxes to support others end up having to pay for their own care when they get older – will cause it to break down.[12] Relying on reciprocity requires trust that the same support will be available to each generation at each stage of their lives.

Work by the Resolution Foundation has found that, if we make no changes to our healthcare and pensions system, members of the "millennial" generation (born in the 1980s to 90s) would be large net beneficiaries of the UK's welfare state than they put in, benefiting more than the "baby boomer" generation (born in the 1940s to 60s).[13] But making no changes to these systems would mean that we'd need to increase the amount of tax paid by around a third by 2070.[14]

Economic growth could help mitigate these challenges. When the economy grows, Government revenues from taxes increase, offering more resources to fund welfare programmes, including healthcare and pensions. However, the UK economy is only forecast to grow by just under 1% in 2024 and is forecast to increase by 2% in 2025, then falling back to around 1.5% in 2026.[15]

Falling birth rates also pose a challenge for the provision of adult care in the future. Families are currently most people's main source of care and support in later life. However, the lower fertility rates of the baby boomer generation mean that on average, when they reach their 80s, they're likely to have fewer surviving adult children compared with previous cohorts.[16] And the number of people aged 80 and over in England and Wales is projected to double, reaching 6.3 million in 2060.[17]

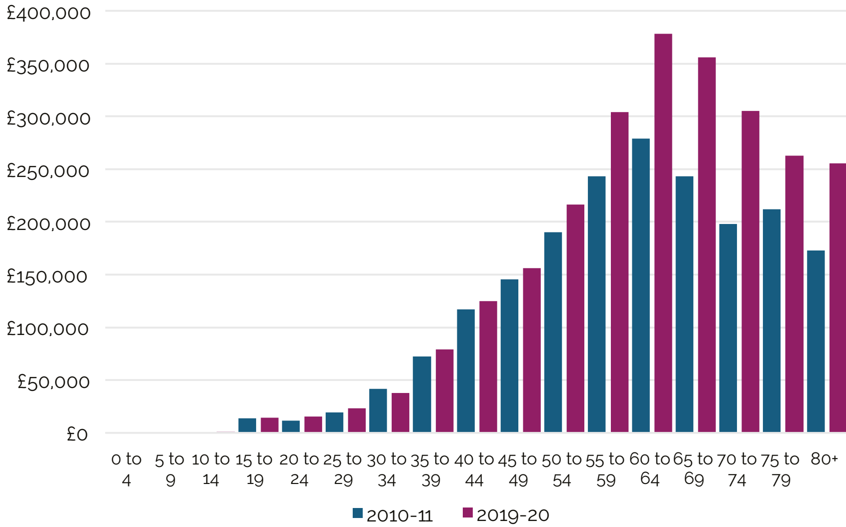
Wealth inequality

Rising wealth inequality – within and across generations – threatens the social foundations of the intergenerational contract.

Over the last ten to twenty years, the value of UK household wealth has more or less doubled relative to income.[18] In general, older people tend to have more wealth than younger ones, as we build up our wealth over the course of our lives. But current older cohorts have benefitted disproportionately from the increase in wealth since the global financial crisis (see Figure 4).

The median total wealth for someone aged 65 to 69 in 2019-20 increased by 46%, or £112,597, between 2010-11 and 2019-20. In contrast, the median wealth of someone in their late thirties at that time increased by only 9%, or £6,751, over the same period.

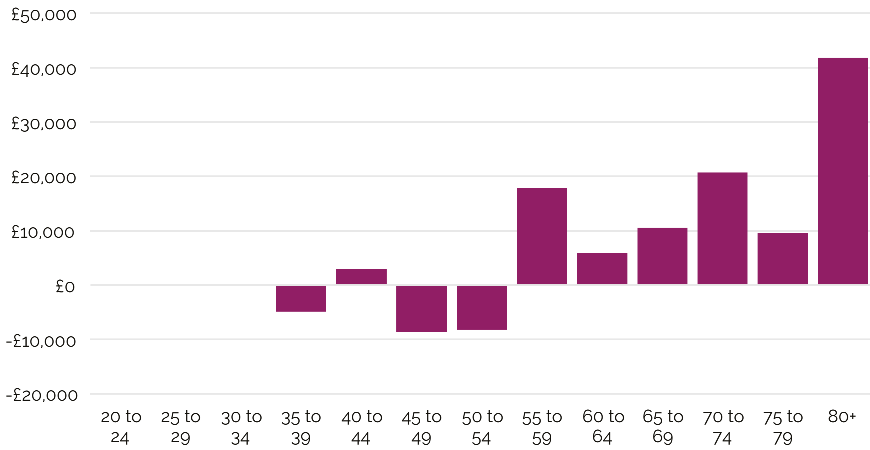
Figure 4: Wealth/age profiles 2010-11 to 2019-20



Source: *Wealth and Assets Survey Wave 3 and Round 7*. Real value, adjusted using ONS CPIH Index (base year 2015). Median wealth. Weighted estimates.

These increases in wealth are being driven in large part by increases in property and pension wealth (see Figures 5 and 6). House prices have increased in recent decades, leading to an increase in the paper wealth of those who own their homes, while making buying a first home more difficult. For people in mid to later life, median property wealth has increased, whereas that wealth has tended to fall among younger cohorts.

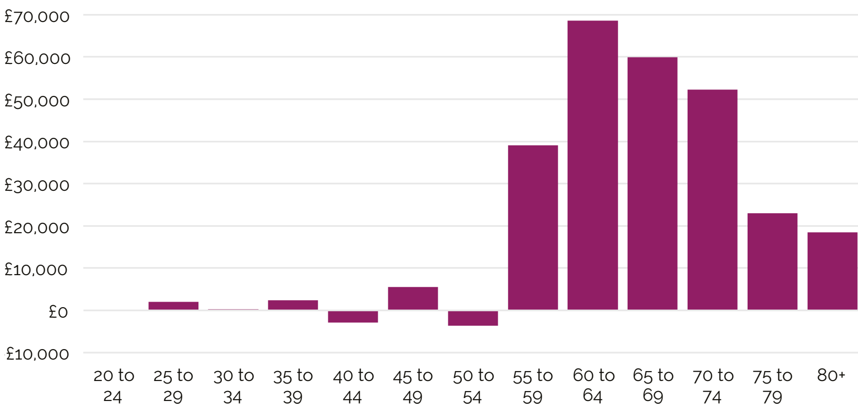
Figure 5: Change in median housing wealth by age, 2010-11 to 2019-20



Source: *Wealth and Assets Survey Wave 3 and Round 7*. Real value, adjusted using ONS CPIH Index (base year 2015). Median wealth. Weighted estimates.

People who were of retirement age in 2019-20 had significantly higher levels of median pension wealth compared to those of retirement age just ten years earlier.

Figure 6: Change in median pension wealth by age, 2010-11 to 2019-20



Source: *Wealth and Assets Survey Wave 3 and Round 7*. Real value, adjusted using ONS CPIH Index (base year 2015). Median wealth. Weighted estimates.

The role of the family

Gifts between family members

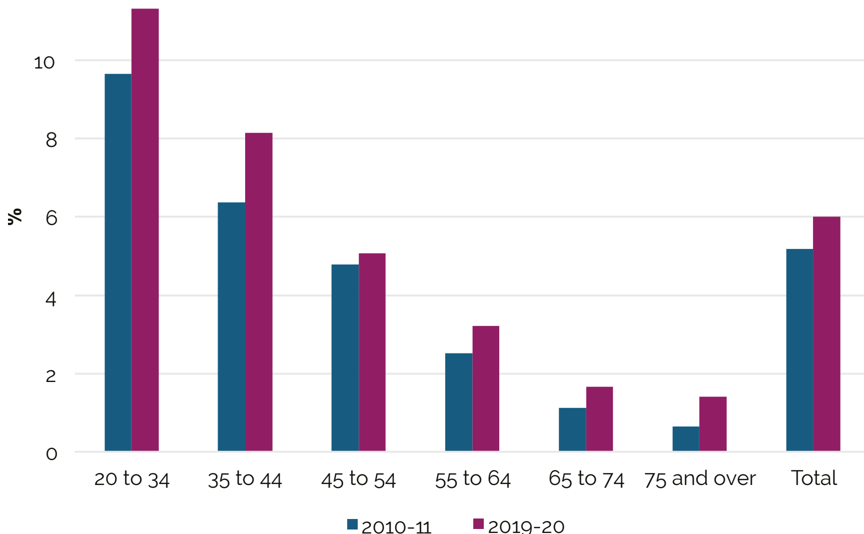
Financial transfers, in the form of gifts between family members, are becoming increasingly common.

The majority of financial gifts are received from parents.

In 2019-20, 6% of all people aged 20 and over had received a significant gift (worth £500 or more) in the previous two years, up from 5% in 2010-11 (see Figure 7). Younger adults are more likely to receive gifts; the probability of receiving a gift falls steadily with age. In 2019-20, 11% of those aged 30 to 34 received a gift, compared with 3% of those aged 55 to 64 and 2% of those aged 65 to 74.

The average value of gifts received varies significantly, from £500 to several thousand pounds. The average gift recipient received a gift worth £2,000 (median value); this value has remained fairly stable over the last ten years.[19] But the largest 10% of gifts were worth £20,000 or more.

Figure 7: Percentage receiving a gift worth £500+ in the previous two years, by age



Source: *Wealth and Assets Survey, Wave 3 and Round 7.*

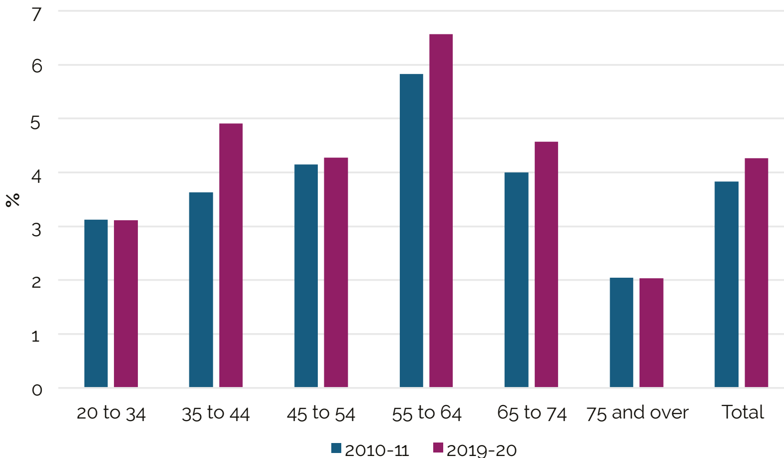
Inheritance

Inheritances are also an important source of financial support within families although they tend to be received later in life.

Most inheritances are received from a parent or parent-in-law.

In 2019-20, 4% of all people aged 20 and over received an inheritance worth £1,000 or more. The likelihood of receiving an inheritance is higher for people in mid-life: in 2019-20, more than 6% of those aged 55 to 64 received a significant inheritance in the previous two years, compared with 3% of those aged 20 to 34 (see Figure 8). Increases in life expectancy at older ages mean that the age at which people receive inheritances is also increasing. The average age at which an individual's final living parent will pass away is projected to increase by six years, from age 58 for individuals born in the 1960s to age 64 for those born in the 1980s.[20]

Figure 8: Percentage receiving an inheritance worth £1,000+ in the previous two years, by age



Source: *Wealth and Assets Survey. Wave 3* (n=20,533) and *Round 7* (n=14,914).
Note: Inheritances include money or savings, a house/flat or land, stocks and shares, a business, or personal items (e.g. car, jewellery).

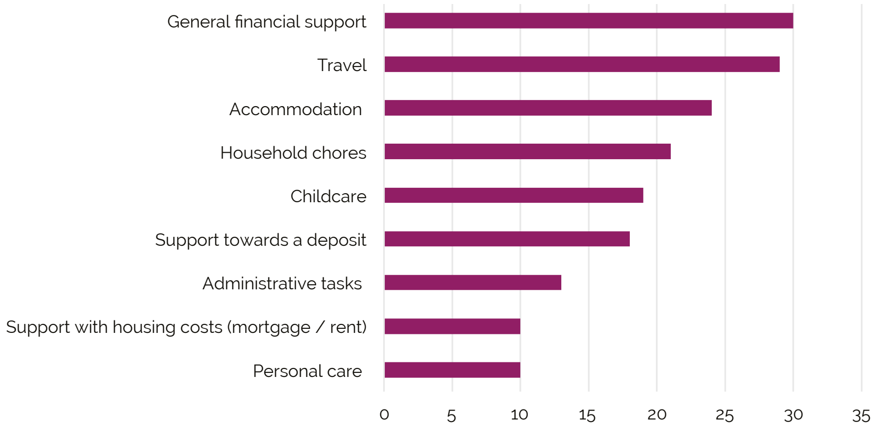
Receiving financial support from family can trigger mixed emotions. In our YouGov survey, of those who had previously received financial support from a relative, almost 3 out of 4 (72%) people said that they felt grateful. However, 31% of people also said they felt embarrassed, while 25% also said it made them feel uncomfortable.[21]

Non-financial support

Not all intergenerational transfers within families are financial; non-financial transfers, including support with travel, housing and care, also play a vital role.

In our YouGov survey, general financial support was the most frequent type of support respondents received from family members, with around a third (30%) receiving this at some point in their lives. However, this was closely followed by help with travel, such as relying on other family members with a car (29%), with accommodation, for example by living with a family member (24%), or support with household chores (21%). Almost a fifth (19%) of respondents had help with childcare, while 1 in 10 had help with personal care (e.g. dressing, bathing or eating).

Figure 9: Percentage receiving different types of financial and non-financial support from family members



Source: YouGov survey of 2,054 adults. Fieldwork undertaken 15-16 May 2024.
Note: Respondents may select more than one answer. Survey question: "As far as you are aware, have you ever received help from family members for each of the following? Please select all that apply."

People aged 50 and over were more likely to say they had not received any of these forms of support, compared with younger survey respondents. 44% of people aged 50 to 64 said they had not received any of these forms of financial or non-financial support from family, as did more than half of people aged 65 and over (55%). By comparison, only 28% of people under 50 said they hadn't received any type of support from family.[22]

Support goes both ways

Intergenerational transfers within families don't just flow from parents to children; support also flows from adult children to their parents and grandparents.

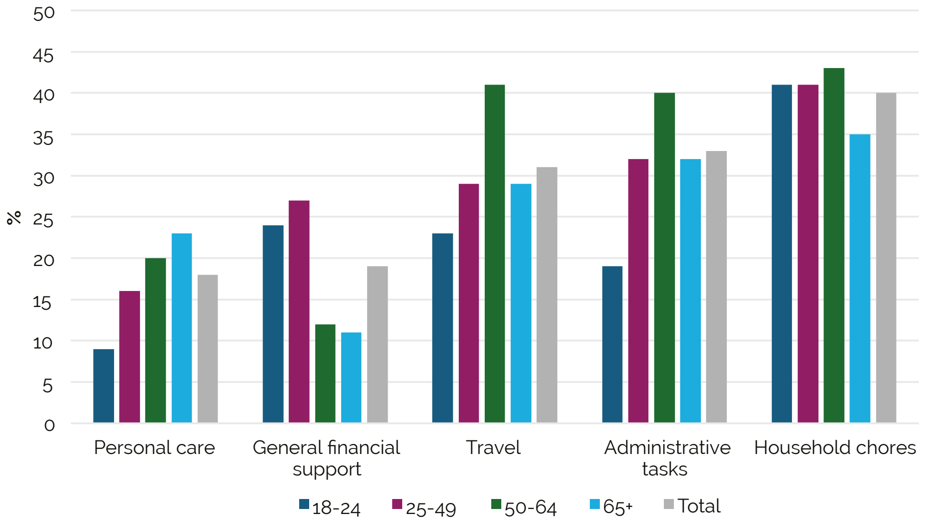
Parents were the main sources or providers of support.

In our YouGov survey, among those who received support from family, the majority (81%) said this support was received from a parent, compared with just 16% who received support from a sibling, and 11% who received support from a grandparent.[23] But support also flows from children to parents. Many respondents had provided support to their own parent such as helping with household chores (40%) and administrative tasks (33%) with nearly a fifth of respondents stating that they had provided personal care (18%) or general financial support (19%) to a parent. Other areas where respondents have provided support to their parents include travel (31%), administrative tasks (33%) and household chores (40%) (see Figure 10).

People aged less than 50 were more likely to provide general financial support to their parents (27% compared to 11% of people aged over 50), whereas people aged 50 and over were more likely to provide support with personal care (22% compared to 14% under 50), travel (35% vs 28%), and administrative tasks (37% vs 30%).

The systems of support within families are becoming increasingly complex, spanning multiple generations: parents provide support to their children, and often to their parents as well; grandparents help care for grandchildren; grandchildren in turn might support grandparents.

Figure 10: Support provided to parents



Source: YouGov survey of 2,054 adults. Fieldwork undertaken 15-16 May 2024.
Note: Respondents may select more than one answer. Survey question: "And have you ever provided any of the following types of support to a parent? Please select all that apply."

The family plays an important role in supporting our welfare across different generations. However, financial transfers within families risk perpetuating wealth inequalities, within and across generations. Not everyone has equal access resources or the ability to provide the same level of non-financial support. People on higher incomes are more likely to receive a transfer and to receive larger amounts.[24] Research has found that between 2012 and 2020, people in the lowest fifth of respondents for income received an average of £30 per year in transfers during their 20s and early 30s, compared with an average of £790 per year for people in the highest-income fifth.[25] And those in the highest-income fifth were four times more likely to receive a transfer than those in the lowest-income fifth.

Our YouGov survey found that almost a third of respondents (29%) are worried that they won't have family members to rely on for support when they get older – this increases to 39% when narrowed down to those aged 25 to 49.

The role of financial institutions

Financial institutions play a vital role in helping us manage our money across long lives. The good news is that everyone in the UK seems to have a strong appetite for saving, across all age groups.

In our YouGov poll, most respondents said that, faced with a £10,000 windfall, they would put at least some of this money towards savings. This appetite for saving was particularly strong among young adults: nearly 3 out of 4 aged 18 to 24 said they'd put some money into savings. And more than a quarter of this age group said they'd put some of the money into investments, such as buying stocks and shares – far more of them than was the case for older respondents. However, fewer than 1 in 10 people aged less than 50 said they'd put some of the money away for retirement, compared with almost a third of people aged 50 to 64.

Table 1: Financial priorities across different generations (%)

	18-24	25-49	50-64	65+
Put money towards savings	73	50	47	51
Pay off existing loans (e.g. credit cards, car repayments)	20	38	24	14
Put money towards a holiday(s)	17	26	26	30
Put money towards housing (e.g. saving for a deposit, or paying rent or mortgages)	51	37	11	5
Helping out family or friends	13	10	18	37
Put money away for retirement	8	9	31	11
Put money towards investments (e.g. stocks and shares)	27	17	9	8
Put money towards a hobby	8	6	6	7
Put money towards further education	24	4	4	1
Put money towards training in a new job/sector	11	5	2	0

Source: YouGov survey of 2,054 adults. Fieldwork undertaken 15-16 May 2024.
Note: Respondents could select more than one answer. Survey question: *Imagine that you were given £10,000 today. Which, if any, of the following ways would you choose to spend it? Please select all that apply.*

Investment

Making informed investments with our money could make a difference to our financial stability as we live longer lives, as it offers the potential for higher returns than simply saving. However, it also exposes individuals to more risk. That risk depends on investments they choose: **stocks**, for example, are much more volatile[a] in returns than safer assets, such as **government bonds**, particularly over short periods of time. In general, however, higher levels of investment risk are associated with higher returns.

Individual investors can limit their exposure to risk by diversifying their portfolio of investments across a wide range of different types of assets. **Diversification** means the investor is less exposed to the volatility of specific investments, helping smooth out that investor's returns over time. **Collective investments** or **investment funds** pool together money from different investors to buy a mix of different assets. Investing in a fund allows for a larger range of investments than investing in individual stocks. While this diversification helps reduce the level of risk each investor is exposed to, the return on investment will typically still depend on how the stocks in the fund perform; these returns can therefore fluctuate significantly over time. This is the case with **unit-linked funds**, for example.

[a]Volatility is a statistical measure of the dispersion of returns, often measured from either the standard deviation or variance between those returns. In most cases, the higher the volatility, the riskier the investment.

Collective risk sharing

However, there are some financial products that involve an element of collective risk sharing, where risks can be pooled across generations. With-profits funds (WPFs) are another type of pooled investment fund, where the premiums paid by policyholders are collectively invested in a wide range of assets. With WPFs the concept of 'smoothing' is important. Some of the investment returns from good years are held back and used to support customer outcomes in years when the investment returns are lower, allowing for a more stable return over time. WPFs pool risks across generations, thus supporting intergenerational welfare (see Box 1).

In addition, WPFs with sufficient scale allow for a broader range of asset allocation with greater diversification of risk, including private assets that may be out of reach for individual investors. This diversification, combined with smoothing, can reduce volatility for people at times of transition where they have lower capacity to take risks, such as for people nearing retirement.

There are some financial products that involve an element of collective risk sharing, where risks can be pooled across generations.

With-profits funds (WPFs) are a type of pooled investment fund, where the premiums paid by policyholders are collectively invested in a wide range of assets. With WPFs the concept of 'smoothing' is important. Some of the investment returns from good years are held back and used to support customer outcomes in years when the investment returns are lower, allowing for a more stable return over time. WPFs pool risks across generations, thus supporting intergenerational welfare (see Box 1). In addition, WPFs with sufficient scale allow for a broader range of asset allocation with greater diversification of risk, including private assets that may be out of reach for individual investors. This diversification, combined with smoothing, can reduce volatility for people at times of transition where they have lower capacity to take risks, such as for people nearing retirement.

Collective Defined Contribution (CDC) pension schemes have similar aims to WPFs as they also involve an element of collective risk sharing. Under a CDC scheme, both employers and employees contribute towards a collective fund, which pays scheme members an income in retirement. Unlike Defined Contribution (DC) schemes, where people build up their individual pension pots, in a CDC scheme, the fund is

managed collectively. There is one such scheme so far, run by the Royal Mail.

The way in which financial products treat bequests will also have implications for intergenerational welfare. For example, you cannot inherit annuities, whereas pension drawdown products allow individuals to leave part of their wealth to others when they die.

Box 1: With-Profits Funds (WPFs) and intergenerational fairness

With-profits funds are a type of pooled investment fund where the premiums paid by policyholders are collectively invested in a wide range of assets, which may include stocks, bonds, real estate and private assets, aiming to generate stable returns over time. In the UK, WPFs are used primarily in life insurance and pensions.

One of the defining characteristics of WPFs tends to be their **intergenerational smoothing** mechanisms, which aim to balance the distribution of returns across different years and hence give more consistent outcomes across different generations of policyholders entering and exiting the Fund. The core principle of intergenerational smoothing is to ensure that each generation of policyholders is treated fairly. It involves withholding a portion of the profits during financially prosperous periods to support the fund during less profitable times. This helps to reduce the impact of short-term market volatility on policyholders' investments, providing a more stable growth trajectory, and seeks to ensure that no single generation of policyholders bears the full brunt of short-term market downturns.

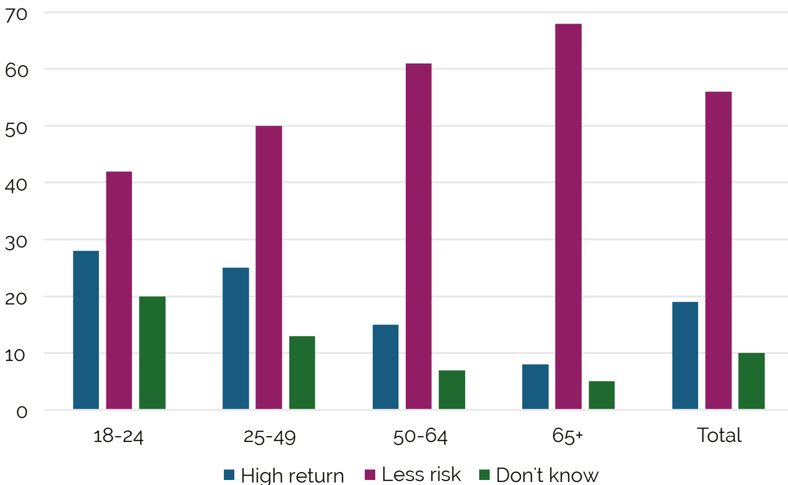
WPFs are tailored for long-term growth, making them particularly suitable for retirement savings and life insurance investments. The focus is on achieving steady growth over time rather than pursuing high-risk, high-reward strategies. **Guarantees** are another attractive feature of WPFs, although not all new with-profits products sold by WPFs offer them.

Managing risk and other considerations

People value certainty: the majority of individuals would prefer to take less risk, even if this means lower returns.

More than half (56%) of the respondents to our YouGov survey said they'd prefer to take less risk with their investments, even if this meant lower returns. This compares with only 19% who said they'd prefer to see a high return on their investment, even if this meant taking more risks (see Figure 11). While all age groups reported a preference for less risk, this increased steadily with age: among people aged 18 to 24, around 4 out of 10 (42%) said they would prefer less risk; this rises to nearly 7 out of 10 (68%) among people aged 65 and over.

Figure 11: Individual preference for risk and return



Source: YouGov survey of 2,054 adults. Fieldwork undertaken 15-16 May 2024. Survey question: "Which of the following statements best applies to you? I would rather see a high return on my savings and investments, even if this means taking more risks; I would rather take less risks with my savings and investments, even if this means lower returns." Respondents also had the option to answer 'neither' (results not reported here).

A recent report by pension, insurance and investment provider Hymans Robertson similarly found that people value certainty. The consumers surveyed ranked certainty more highly than the potential for higher returns, if that involved the potential for more volatility. Almost 60% of consumers said they'd prefer a product that wouldn't decrease in value, and offered slightly lower returns, than a product that offered higher expected returns but could be more volatile.[26]

Our YouGov survey also suggests that younger adults are less likely to know whether they'd prefer high returns or less risk: 20% of those aged 18 to 24 replied "don't know" to this question, compared with only 5% of those aged 65 and over. This ties in with what independent financial advisors said to us in our interviews about the extent to which people actually understand risk and their own risk preferences. As one put it: "by taking no risk, people are taking a risk".

People may also have different risk attitudes depending on the nature and length of the investment, and how the choice is presented to them.

How funds are invested will also affect the welfare of current and future generations.

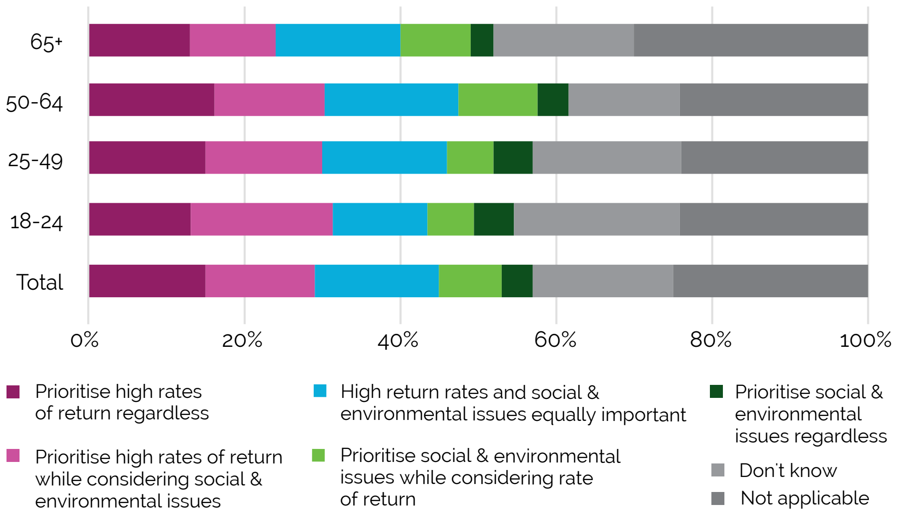
Funds can be invested in a variety of assets, including financial assets, such as stocks and bonds, and non-financial assets, such as land or property. The choice of assets can support economic growth and help the Government achieve wider societal goals, such as supporting the transition to net zero, which will benefit future generations. Socially responsible investment takes into account environmental, social and ethical goals, alongside financial returns. This is closely related to the concept of Environmental, Social and Governance (ESG) investing, which highlights the role of environmental and social issues, and corporate governance, in guiding investment decisions.

Our YouGov survey showed respondents as more likely to prioritise high rates of return over a concern for social and environmental issues in their investment decisions, and this is true across all age groups (see Figure 12).

For example, 30% of people aged 50 to 64 would prioritise high rates of return (although some of these people may give some consideration to social and environmental issues). This compares with 14% of people in this age group who said they would prioritise social and environmental issues (although some of these would also give some consideration to high rates of return).

On the other hand, in Hymans Roberston's research, 62% of their respondents stated that they took environmental considerations into account when thinking specifically about retirement products, with 1 in 6 respondents saying that environmental considerations would have a significant impact on their policy choice.[27]

Figure 12: Individual attitudes to returns and ESG issues in investment



Source: YouGov survey of 2,054 adults. Fieldwork undertaken 15-16 May 2024. Survey question: "Thinking about any investments you may have, is it generally more important to you that you see a high rate of return, or that your provider is investing in companies that are concerned with social and environmental issues?"

Socially responsible investing typically involves more risk. Larger funds, which have built more of a capital buffer, are generally better suited to these types of investments. Larger funds are also more likely to have the expertise required to identify which investments would support social, environmental and ethical goals, and to manage these assets. Measuring this support is complex.

The role of financial institutions in supporting intergenerational welfare will depend on the extent to which individuals are aware of the range of financial products available, their key benefits and risks, and the extent to which they engage with these products. This will in turn depend, in part, on their financial needs. But these financial needs are changing across generations.[28]

The role of the Government

Transferring resources across generations

More than half of all government spending goes towards supporting intergenerational welfare, through spending on social security, health, education and long-term care.

Data from the Institute for Fiscal Studies shows that the UK Government spent £603.9 billion on social security, health, education and long-term care in 2022-23, from a total spend of £1,154.9 billion (see Table 2). Spending has increased in real terms across all of these areas in the last twenty years, with the largest increase being in healthcare spending, which has more than doubled, from £90.6 billion in 2000-01 to £211.6 billion in 2022-23. This is of course in part due to the pressures of the COVID-19 pandemic, but we see a long-term trend here that can only increase with an ageing population. Spending on long-term care increased by 68% during the same period. Healthcare spending is the only type of spending to have increased its share of the Government's total managed expenditure (TME) (see Table 2).

Table 2. Government spending on social security, education health and care

	2000-01		2022-23	
	£ billion	% TME	£ billion	% TME
Social Security (Pensioners)	98.7	15.1	141.2	12.2
Social Security (Working age adults and children)	84.0	12.8	117.5	10.2
Health	90.6	13.9	211.6	18.3
Education	76.7	11.7	105.5	9.1
Long Term Care	16.7	2.5	28.1	2.4
TME	653.9	-	1154.9	-

Source: Institute for Fiscal Studies Spending composition spreadsheet
Note: £ billion in real terms (2022/2023 prices). TME is Total Managed Expenditure across all areas of Government spending. Omitted categories of spending include public order and safety, transport, housing and community amenities, defence, overseas aid and net debt interest.

Funding these expenditures means the Government has to raise revenues, mainly through taxation. In 2023-24, UK tax revenue is forecast to total £950 billion, or 36.9% of GDP.[29] Income tax is the single largest source of Government revenue, accounting for a quarter (25.3%) of total Government revenue in 2023-24.[30] This is closely followed by National Insurance, at 16.3% of total revenue, and VAT, at 15.3% of total revenue.[31]

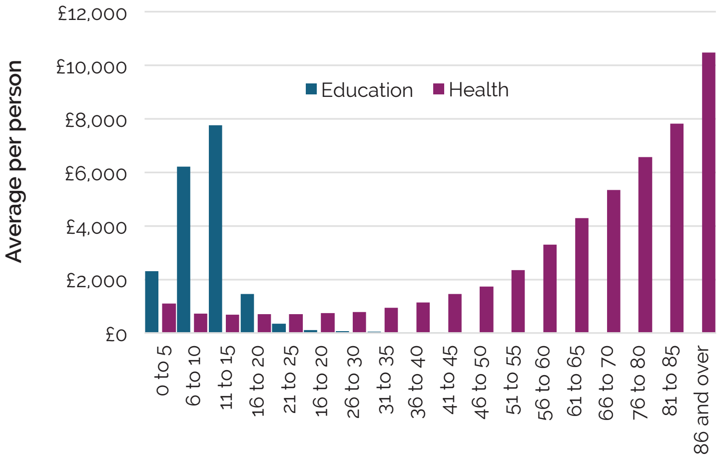
Government spending and taxes represent a significant transfer of resources across generations. This is part of the 'formal' intergenerational contract, whereby resources are transferred across generations based on the needs and risks that people face at different stages of their lives.[32]

But economic and social policies don't just determine how resources are allocated across generations (e.g. by setting the levels of national insurance contributions or pension entitlements); they also shape the social norms related to, for example, care for children and older people, education, retirement saving or inheritance.[33]

People will be net beneficiaries or net contributors depending on their life stage.

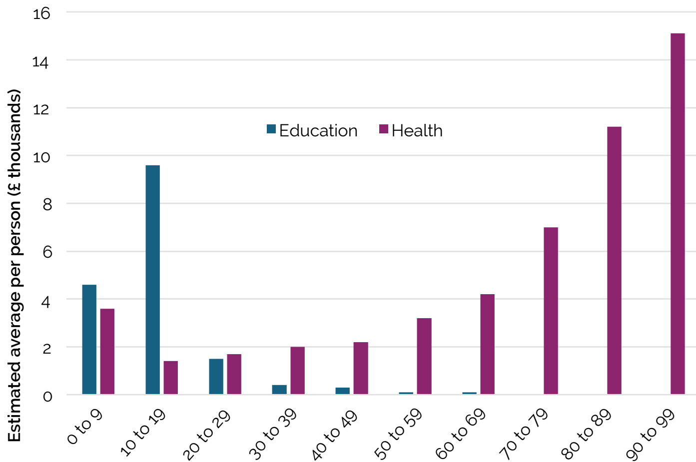
The average transfers we receive from public finances (net of taxes) vary over the course of our lives, as we saw in **What is the intergenerational contract?**. Younger and older people are more likely to be net beneficiaries and working age people are more likely to be net contributors. For example, use of state education is highest in early life, peaking at an average of £7,700 per person among those aged 11 to 15 in 2015, whereas use of state healthcare rises steadily with age from our early 40s (see Figure 13). And these trends are predicted to continue (see Figure 14).

Figure 13: Average use of state education and healthcare spending by age group (2015)



Source: National Transfer Accounts for the UK (2015). Average values (per capita). Measured in nominal terms in the currency of each country.[34]

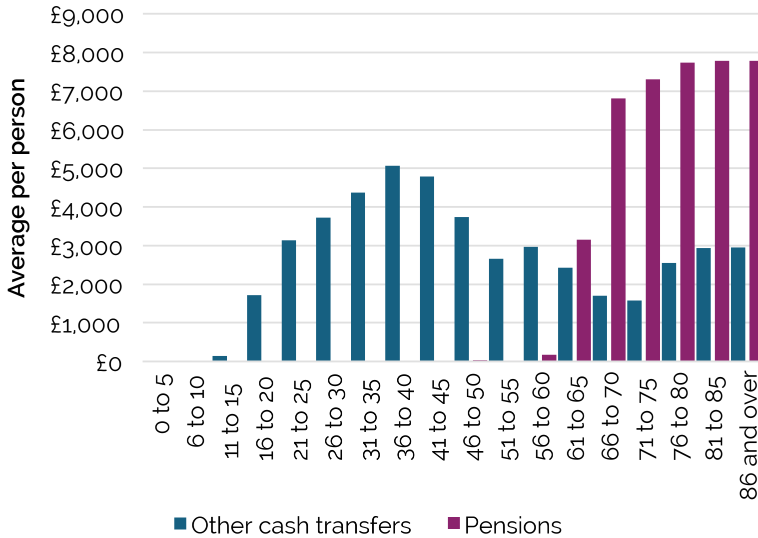
Figure 14: Projected average use of state healthcare and education spending by age (2028 to 2029)



Source: OBR report: *Fiscal Risks and Sustainability* September 2024; figures based on OBR projected net fiscal contributions for 2028–2029.[35]

Our average spending on social security (other than pensions) increases until we're aged around 40, then starts to fall, before rising again in later life (see Figure 15). As would be expected, spending on pensions is concentrated in later life.

Figure 15: Average public transfers by age group: pensions and other cash transfers (2015)



Source: National Transfer Accounts for the UK (2015). Average values (per capita). Measured in nominal terms in the currency of each country. "Other cash transfers" excludes spending on education and healthcare.[36]

Over the course of their entire lifetimes, some age cohorts may benefit more than others from state welfare spending. Historical estimates suggest that, based on their total lifetime tax contributions and benefits received, those born between 1901 and 1921 may have taken out between 115% and 122% of what they contributed to the welfare state.[37] The late baby boomer generation (born between 1956 and 1961), are predicted to take out 118% of what they contributed to the welfare state.[38]

How different generations view transfers through state spending

Generations don't just support policies that are in their own age-specific self-interest.

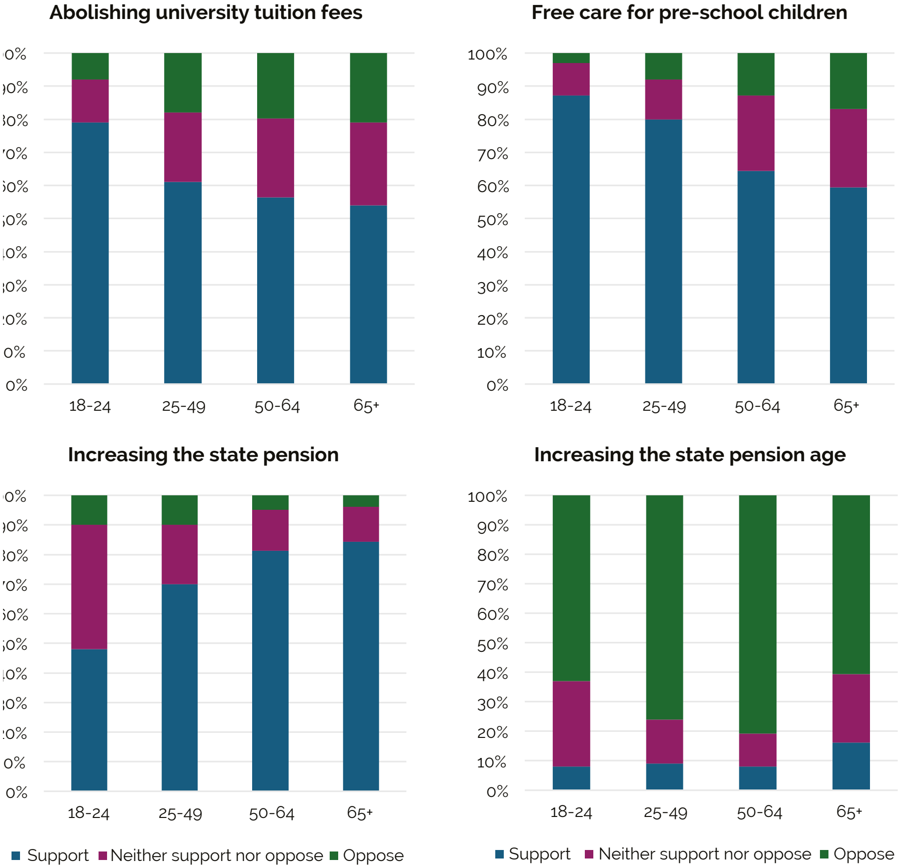
The intergenerational contract relies on shared values of trust, fairness, altruism and solidarity towards other generations.[39] Contrary to popular perceptions of a generational divide, our YouGov survey results suggest that different generations support redistributive policies even if these don't benefit their age group directly.

While support for scrapping university tuition fees is highest among respondents aged 18 to 24 (79%), the majority of all age groups support this policy (60%). There's a similar pattern for the idea of free childcare for pre-school children. Support is highest among those aged 18 to 24, at 88%, but even among those aged 65 and over, 60% would support such a policy.

This is consistent with evidence from other studies. For example, tis been shown that people aged 60 and over will support increased spending on policies aimed at young people, such as free vocational education or local affordable housing, even at the cost of higher taxes.[40] Although there's still a measure of self-interest: support is even higher among older people who have younger family members that are struggling financially.[41]

The majority of respondents across all age groups are opposed to increases in the state pension age (SPA). This suggests that as people approach the state retirement age, they are less concerned that any increase in the SPA will affect them.

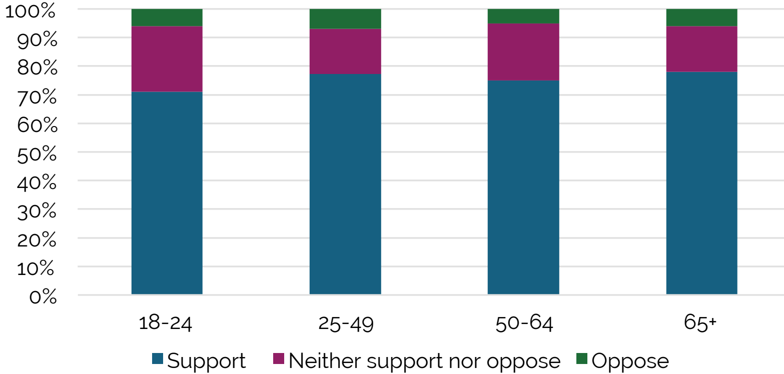
Figure 16: How support for redistributive policies varies with age



Source: YouGov survey of 2,054 adults. Fieldwork undertaken 15-16 May 2024. Survey question: "To what extent would you support or oppose each of the following policies (...)".

Another idea with consistent support across all age groups is providing free adult social care. 76% of respondents would support this (see Figure 17).

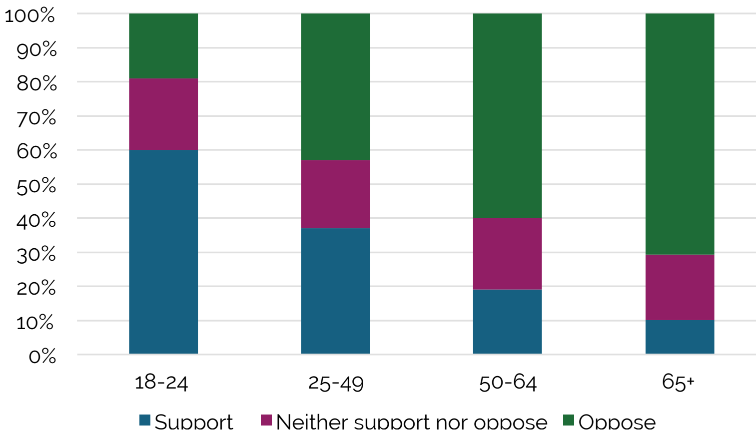
Figure 17: Support for free adult social care across age groups



Source: YouGov survey of 2,054 adults. Fieldwork undertaken 15-16 May 2024.
Note: Question was 'To what extent would you support or oppose each of the following policies (...)'.

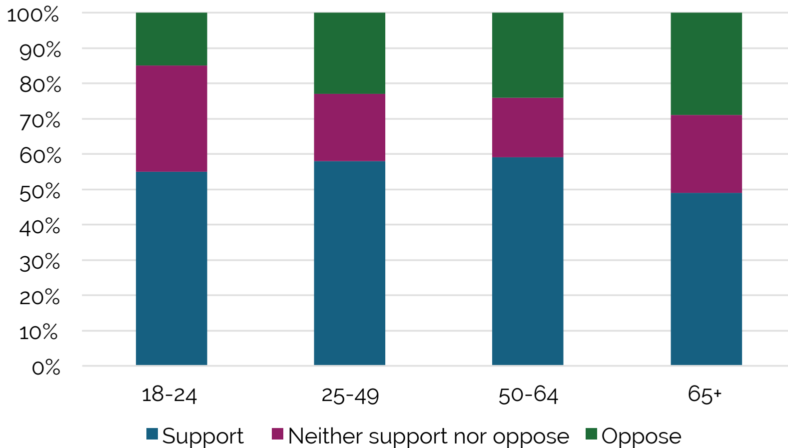
We also asked respondents if they would support or oppose a one-off Government payment of £10,000 to UK adults when they reached either the age of 25, or state pension age. There was a 28 point difference in support: 56% of respondents supported the payment to those reaching pension age, while only 28% of respondents supported the payment at age 25. See Figures 18 and 19.

Figure 18: Support for a one-off payment of £10,000 to young adults



Source: YouGov survey of 2,054 adults. Fieldwork undertaken 15-16 May 2024. Survey question: "To what extent would you support or oppose (...) A one-off payment of £10,000 to all UK citizens when they reach the age of 25".

Figure 19: Support for a one-off payment of £10,000 to older people



Source: YouGov survey of 2,054 adults. Fieldwork undertaken 15-16 May 2024. Survey question: "To what extent would you support or oppose (...) A one-off payment of £10,000 to all UK citizens when they reach state pension age on top of their state pension payments".

All age groups agree that spending on healthcare should be the top priority.

Government spending involves trade-offs: increasing spending in one area will require reduced spending elsewhere, unless we increase taxes or public borrowing.

When asked which area the Government should increase the amount of money it spends in, healthcare was by far the leading choice for respondents of all ages, with seven in ten (69%) identifying this as the area in which Government spending should be increased the most. The second highest response for those aged less than 50 was education (67%), followed by housing (58%). For those aged over 50 the next highest priorities were social care (75%) and pensions (65%) (see Table 3).

Table 3: Top three government spending priorities by age group

	18-24	25-49	50-64	65+
NHS	69	72	67	66
Social care	12	27	39	36
Education	32	35	22	17
Housing	30	28	20	21
Crime	14	20	26	27
Environment and climate change	28	24	20	20
Pensions	5	12	29	36
Defence	3	11	21	34
Infrastructure	16	13	14	13
Transport	20	9	7	6
Welfare benefits	9	8	8	5

Source: YouGov survey of 2,054 adults. Fieldwork undertaken 15-16 May 2024. Survey question: "If the Government was able to increase the amount of money it spends, which of the following areas do you think the government should increase spending in the most? Please tick up to three."

While there's some consensus across generations for which welfare policies they support, the question remains as to whether this spending is sustainable in the longer term. If current younger generations end up contributing more to the welfare state than previous generations, but don't receive the same level of support in time, the intergenerational contract will begin to break down, with a gap between the lifetime welfare benefits received by different generations.

Recommendations

At a glance

- **Support future generations' retirement incomes:** increase workplace pension auto-enrolment contributions to 12%, with a clear roadmap for how and when contribution rates will rise, ensuring this is sustainable for both employees and employers. Broaden access to include those not currently covered, such as the self-employed.
- **Democratise access to savings products from birth:** provide savings accounts for all children at birth, to help create a culture of saving. Currently, the onus is on families and carers to set up savings accounts, rather than providing them as a default. In practical terms, this should involve exploring which specific nudges might encourage family and friends to set up regular contributions, as well as providing greater education to all about which investment assets are available to enhance returns.
- **Support long-term investment to pool risk for the benefit of future generations:** develop and improve investment vehicles which pool risk across generations, such as With-Profit Funds and Collective Defined Contribution schemes. Ensure that financial products offer consumers both security and flexibility, while enhancing individual welfare. Prioritise value over cost, prioritising investment in the long-term interests of future generations.

Policymakers and financial service providers are vital to ensuring that the intergenerational contract remains on an even keel. Policymakers must work in conjunction with financial services providers to create a cultural and attitudinal shift around long-term savings and investments.

Economic growth is key to tackling the financial pressures affecting the intergenerational contract. This will allow us all to build the wealth we'll need to sustain our longer lives. Encouraging economic growth will require the Government to tackle the UK's record of weak productivity growth, and reverse decades of underinvestment in both the public and the private sector. The Government must work with the financial

services sector to create step change: ensuring that we all actively invest in the future, in sustainable growth and in the interest of future generations. Making investments that are well targeted towards low-carbon infrastructure, can help us meet our country's commitments to net zero, at a time when people across age groups are increasingly concerned about the importance of ensuring our wealth plays a positive role in tackling climate change.

To help future generations to build the wealth they need for their long lives, Government and financial service providers will need to support and nudge individuals to save more, start saving at a young age, and use their savings well. Ultimately, we need to create a culture of saving, investment and cross-generational transfers if we are to revitalise the intergenerational contract.

This involves building capability. We're all facing higher risk and financial complexity than the generations before us. Increased reliance on defined contribution pensions means we all have greater responsibility for making decisions about long-term saving and how we manage our finances in retirement. But there's still a huge gap in financial education and literacy. Figures from the FCA's *Financial Lives Survey* show that only 8% of adults reported receiving financial advice in 2022.

What needs to happen

Support future generations' retirement incomes:

- Increase workplace pension auto-enrolment contributions to 12%, with a clear roadmap for how and when contribution rates will rise. Broaden access to include those not currently covered, such as the self-employed.
- Help individuals save, even among other financial pressures, such as a mortgage, care costs or education. This could include introducing an integrated saving scheme that incorporates saving for retirement and access to a 'sidecar savings' scheme,[b] or creating nudges to incentivise people to increase pension payments once they have finish paying off a mortgage.
  - Expand access to financial information by:
    - Harnessing the potential of AI and robo-advice and working with the regulator to enable this in a safe way.
    - Inviting people to Pension Wise appointments by default on their 50th birthday.
    - Working with the Government's newly set-up Financial Inclusion Committee to look at addressing exclusion from financial education, guidance and advice across generations

Democratise access to savings products from birth:

- Give every child a savings accounts at birth, with nudges and incentives for family and friends to contribute, to help create a culture of saving and cross-generational transfers.
- Use this as a stepping stone to encourage individuals to engage with saving and investment (including more productive assets) from a young age.

[b]Such a scheme has been proposed by the Resolution Foundation (2024). Saving for today. And tomorrow.

Support long-term investment to pool risk for the benefit of future generations:

- Develop and improve investment vehicles which pool risks across generations, such as With Profit Funds and Collective Defined Contribution schemes, ensuring that such financial products both offer consumers security and flexibility, and enhance individual welfare. Prioritise value over cost, prioritising investment in the long-term interests of future generations.
- Ensure that the retirement saving products on offer support a more seamless transition from working life into retirement, with in-built flexibility to support individuals who may move into and out of retirement.

Conclusion

The intergenerational contract is founded on shared values such as trust, reciprocity, and fairness. It's essential for social cohesion.

Family, financial institutions, and our Government must all work to support the welfare of every generation and reinforce the intergenerational contract.

By taking a long-term approach, we can ensure that current and future generations have the financial resources they'll need to navigate their increasingly long lives.

Investing today in those measures to support the intergenerational contract is a downpayment for tomorrow. This idea is at the heart of strengthening and sustaining intergenerational fairness in the UK.

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ILC is the UK's leading authority on the impact of longevity on society. We combine evidence, solutions and networks to make change happen.

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