
Demographic change, inter-generational inequality and fiscal sustainability in the UK

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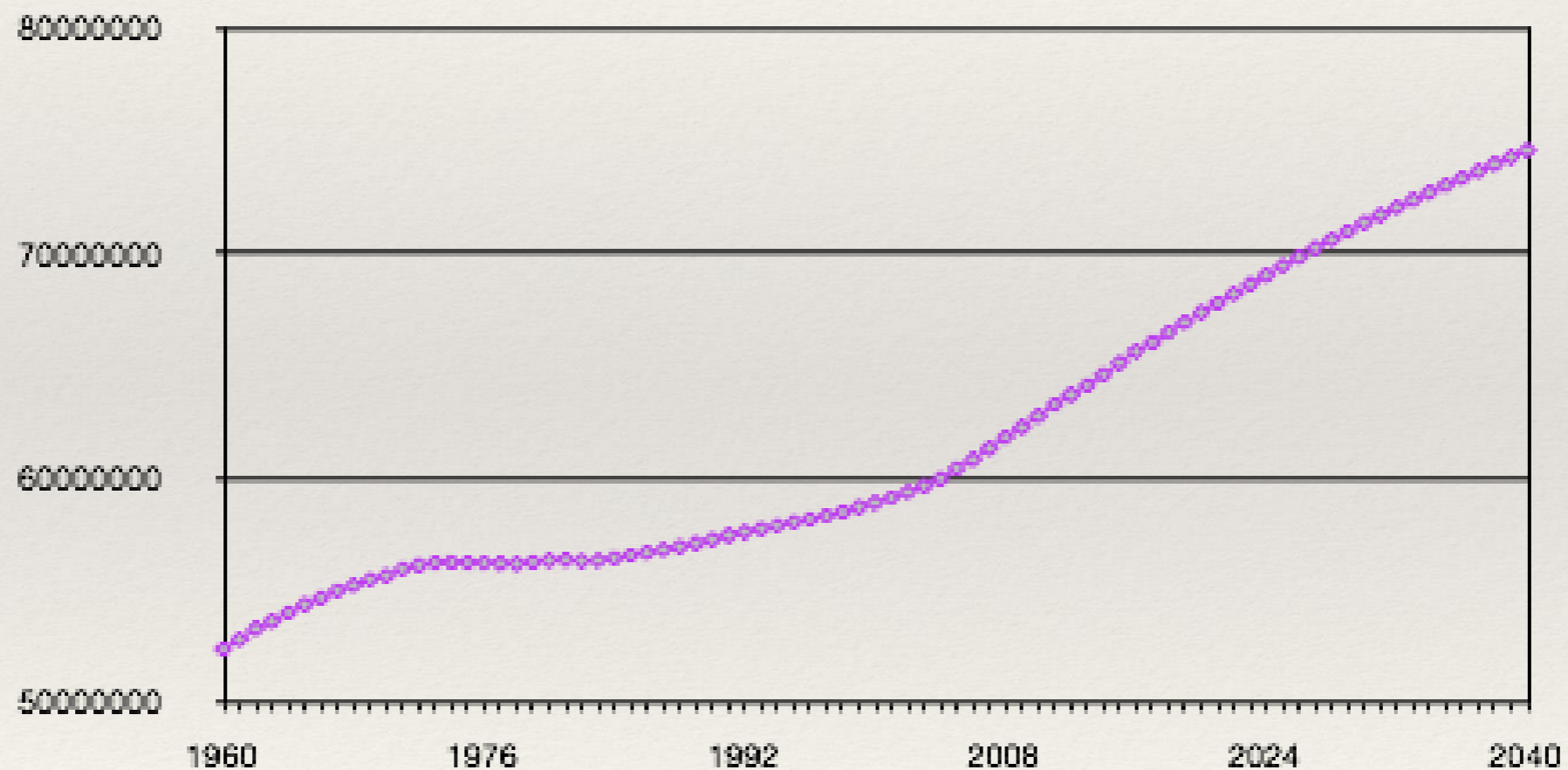
The outline

- ❖ The UK key demographic trends
- ❖ Demographics and inequality
- ❖ Today's inter-generational inequality will affect the welfare of tomorrow's older generations
- ❖ Policy implications

The UK key demographic trends

The UK: blessed by strong pop growth

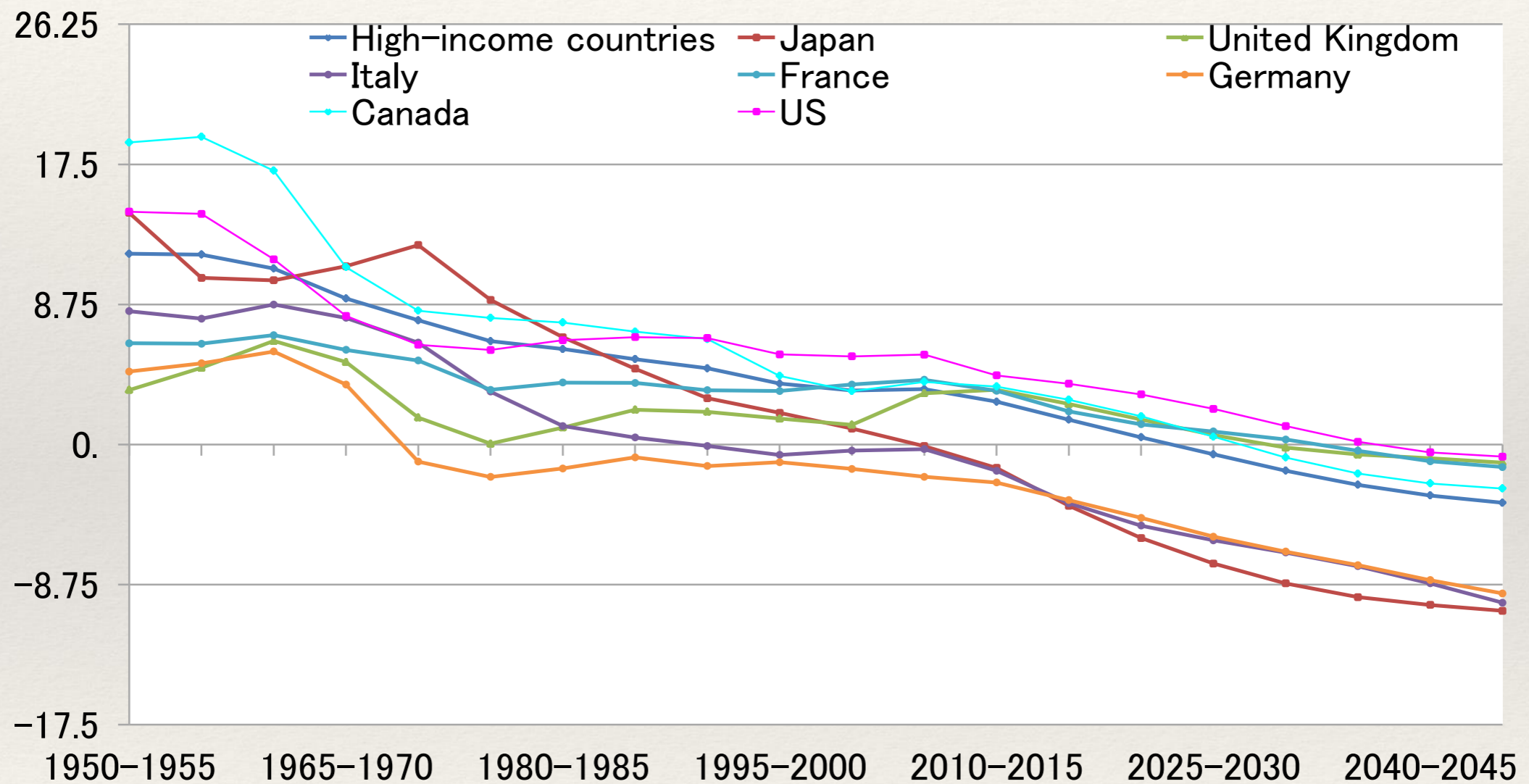
Total population, 1960-2039,
millions



Source: ONS

But the natural rate has been contracting for years

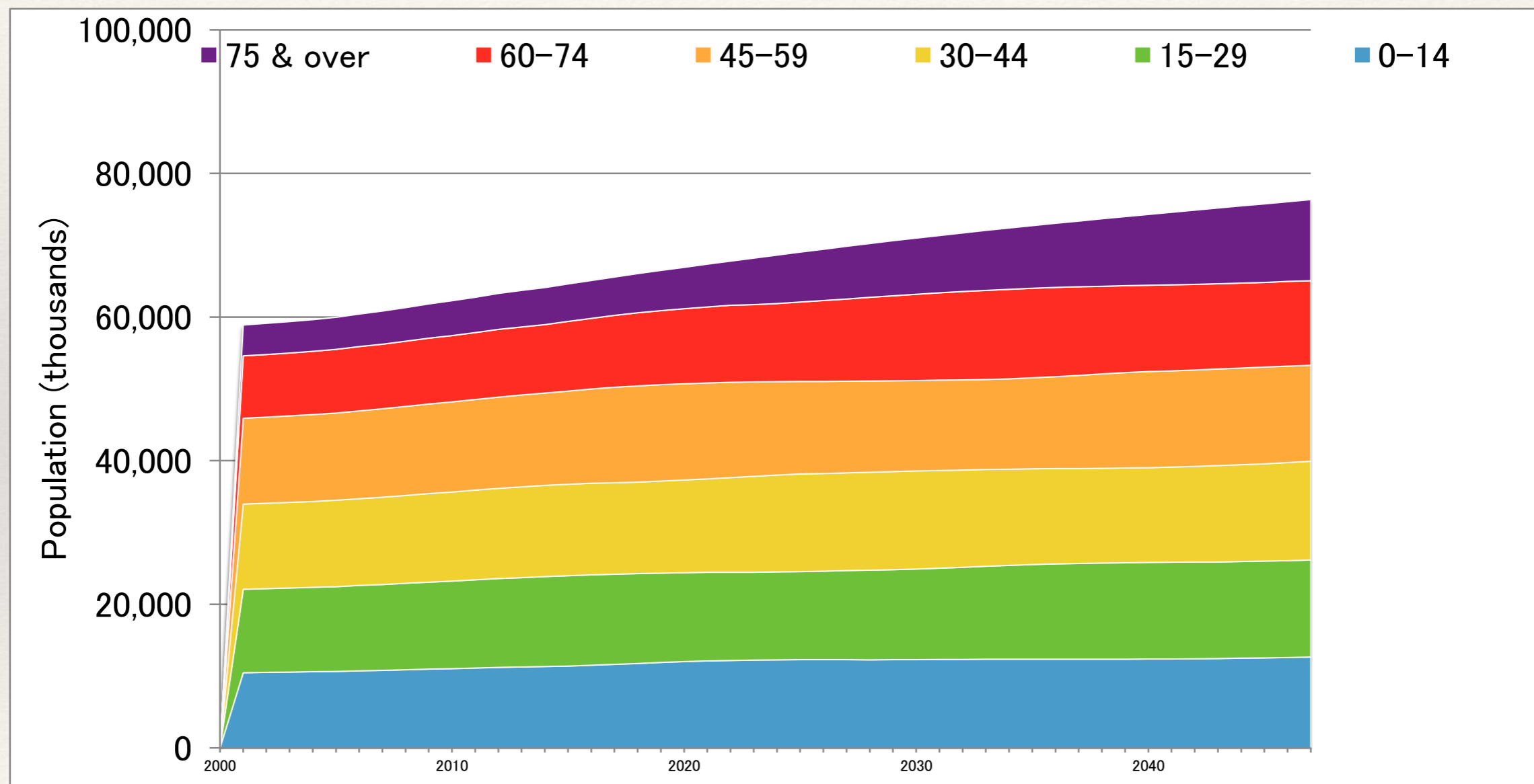
G7: rate of natural increase, 1950-2050, per 1,000 population



Source: UN

Ageing and dependency ratios

Population by age group, 2000-2050

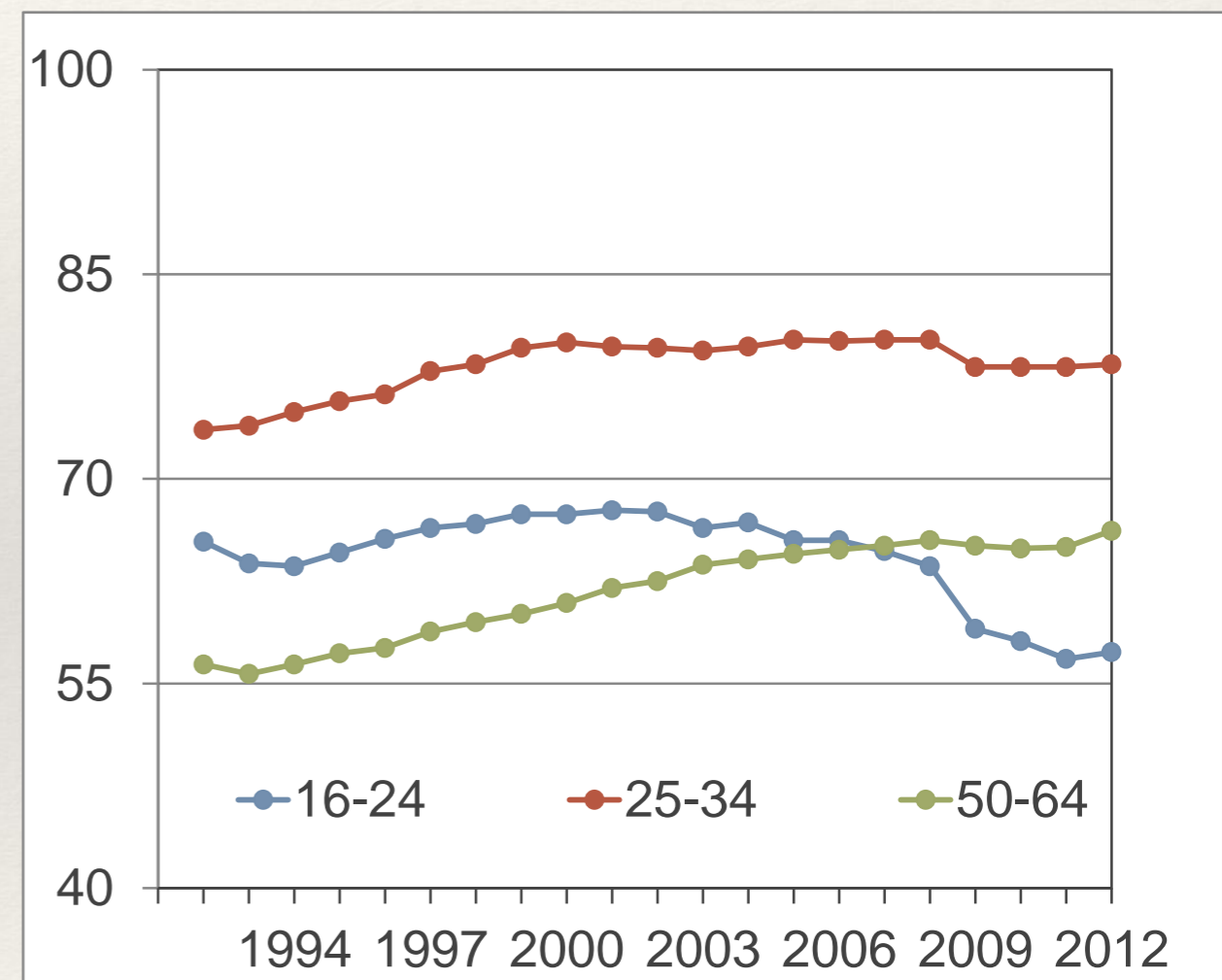
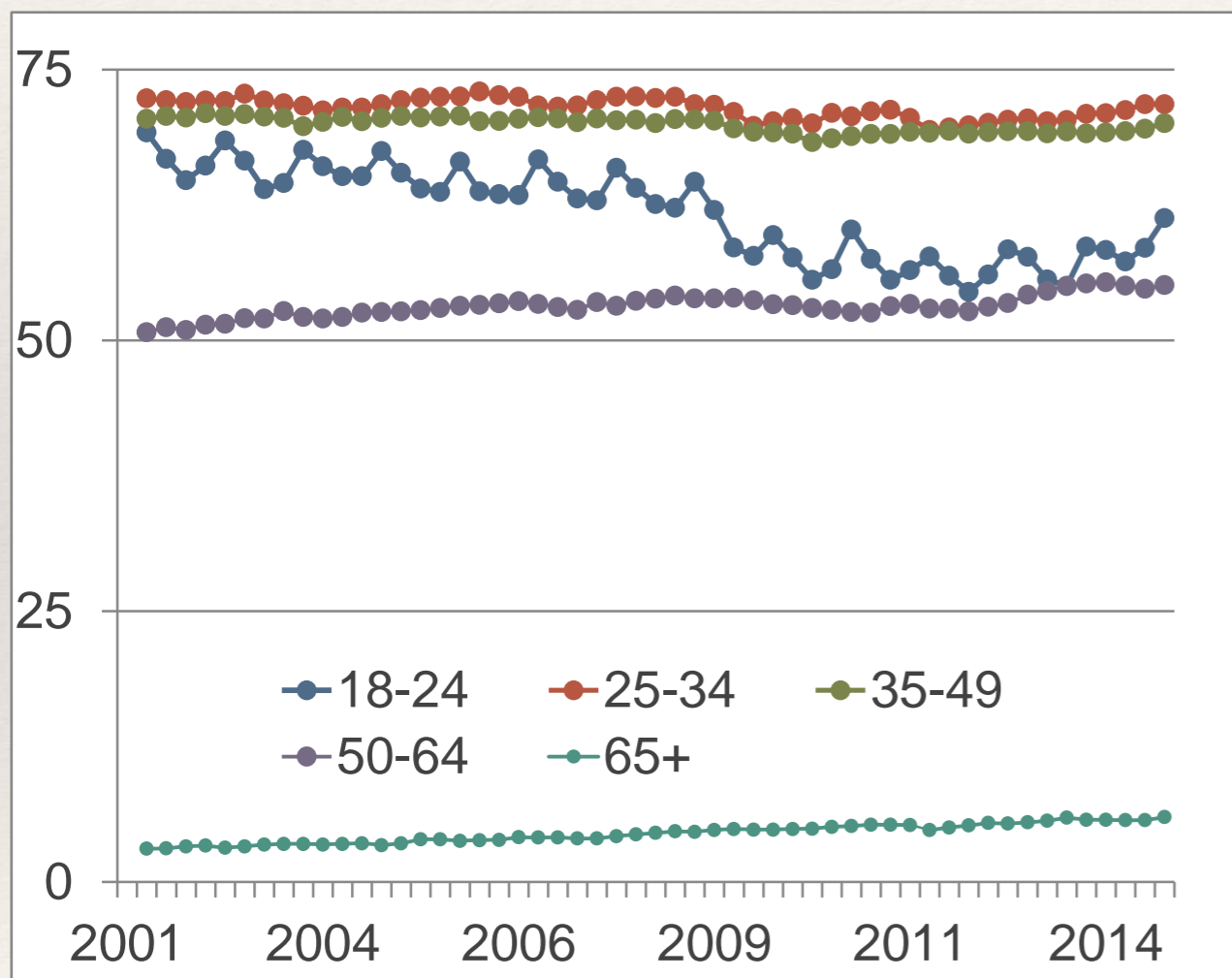


Source: ONS

Demographics and inequality

Demographics and the labour market

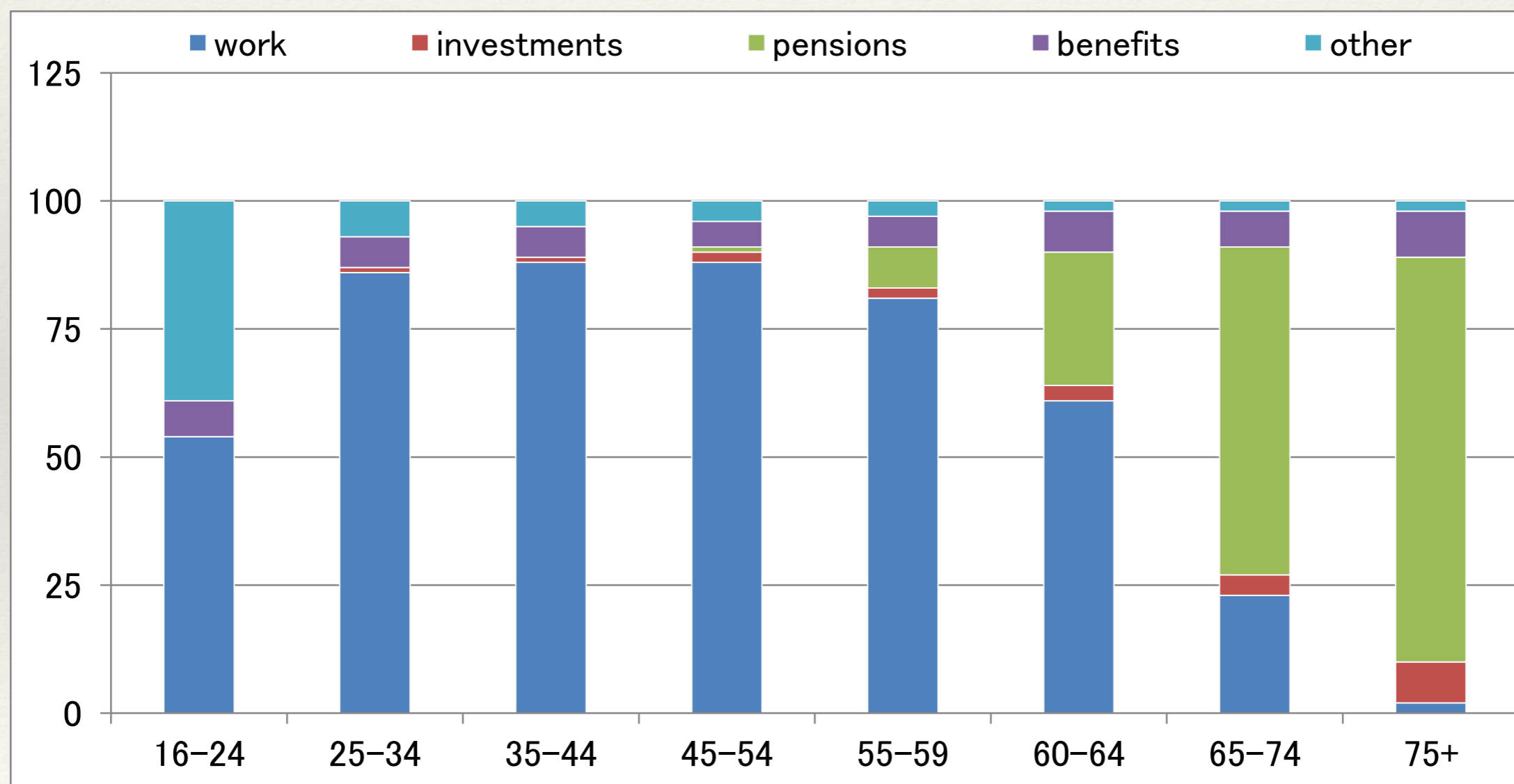
Participation rates to the labour market, by age, %



Source: ONS

Income and benefits by age

Sources of total gross household income by age of head, 2015-26, %



Source: DWP

Income by levels

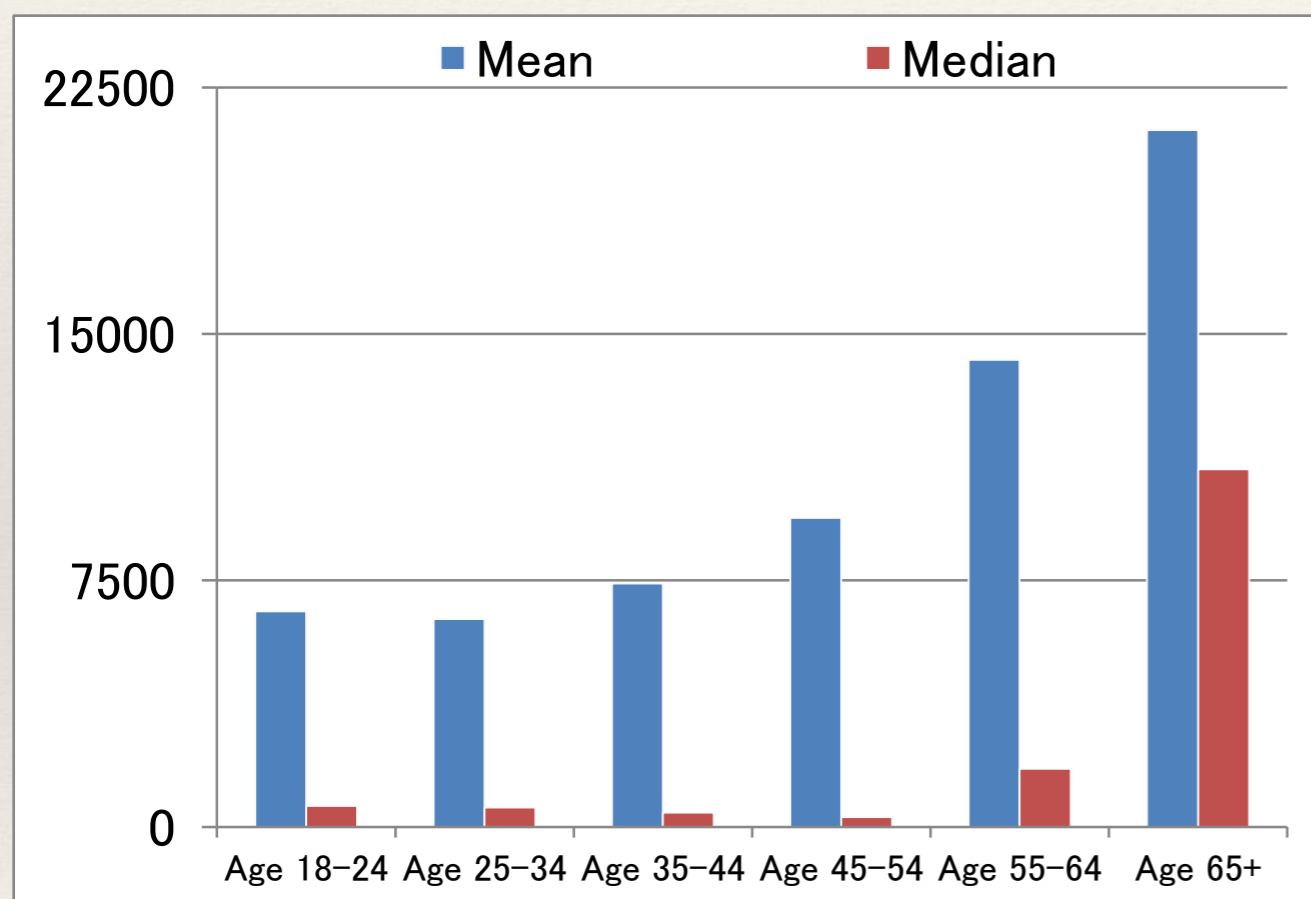
Income, taxes and benefits per household (£ per year)

	Bottom	Low-to-medium			High income
Original income	7153	13877	26983	43261	84747
plus cash benefits	7612	9632	6837	4747	2878
Gross income	14765	23509	33820	48008	87625
less direct taxes etc	1626	2632	5268	9170	20139
Disposable income	13139	20877	28552	38838	67486

Source: ONS

Constrained saving...

Household savings by age, 2013-14



Source: Legal and General

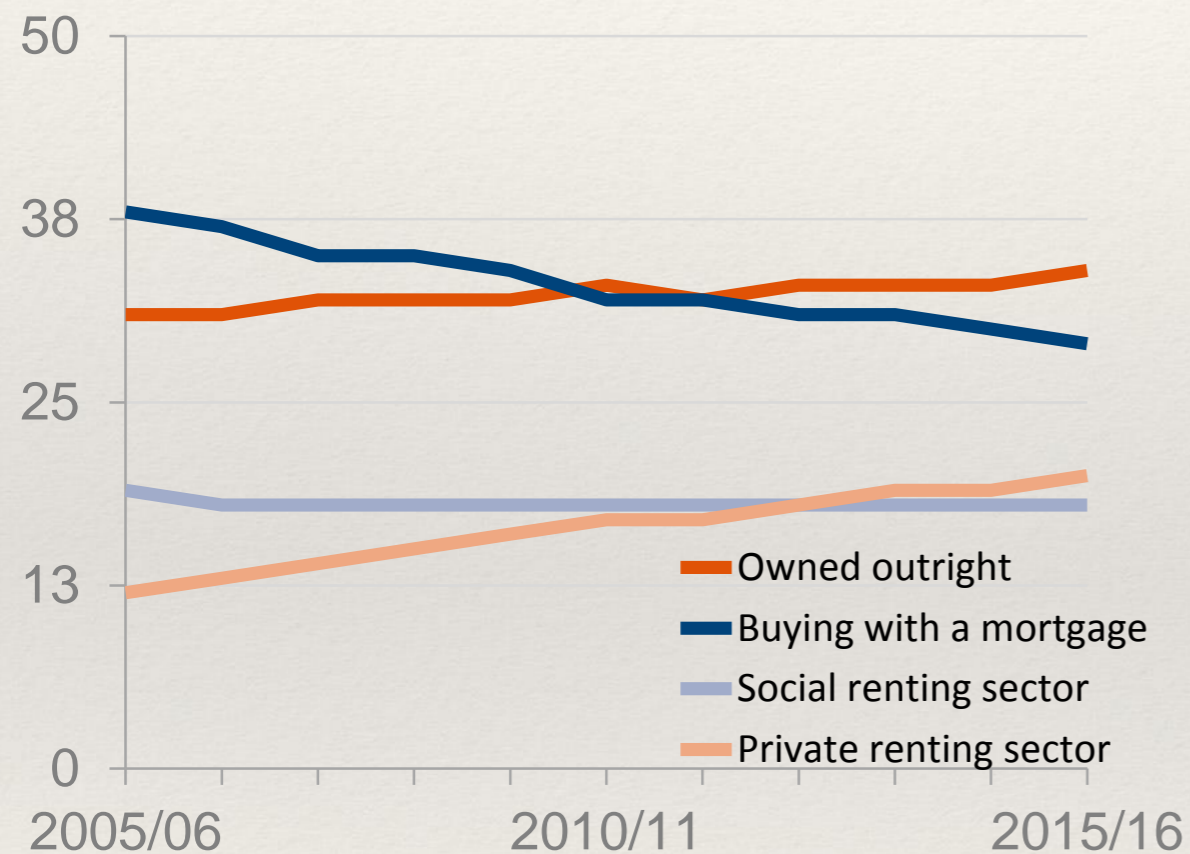
Net income held in savings, 2014-15, %

	Benefit reliant households	LMI households	Higher income households
< 1 month	86	69	47
1 < 2 months	2	7	11
2 < 6 months	4	11	19
6 months +	8	13	23

Source: Resolution Foundation

... and skewed wealth accumulation

Households by house tenure, 2005-16, %



Source: DWP

Tenure type by age, 2015-16, %

Age	Owned outright	Buying with a mortgage	Social renting sector	Private renting sector
All	34	29	18	20
16-24	1	9	20	71
25-34	3	33	18	46
35-44	6	51	17	26
45-54	19	50	17	14
55-64	48	26	17	9
65+	73	4	18	6

Source: DWP and Resolution Foundation

Overall, limited wealth accumulation

Wealth by type and employment status

Type of wealth	Employees	Self-employed
Financial	99% median amount: £1,400	98% median amount: £1,400
Property	66% median amount: £61,500	70% median amount: £90,000
Physical	88% median amount: £20,200	91% median amount: £22,500

Source: PPI

Individuals' wealth by type and age, %

Age band	With property wealth	With physical wealth
22-34	39	67
35-44	72	96
45-54	80	97
55-64	85	98
Total	67	88

Source: DWP and Resolution Foundation

Today's inter-generational inequality and
the welfare of tomorrow's older
generations

Inter-generational inequality 0.2

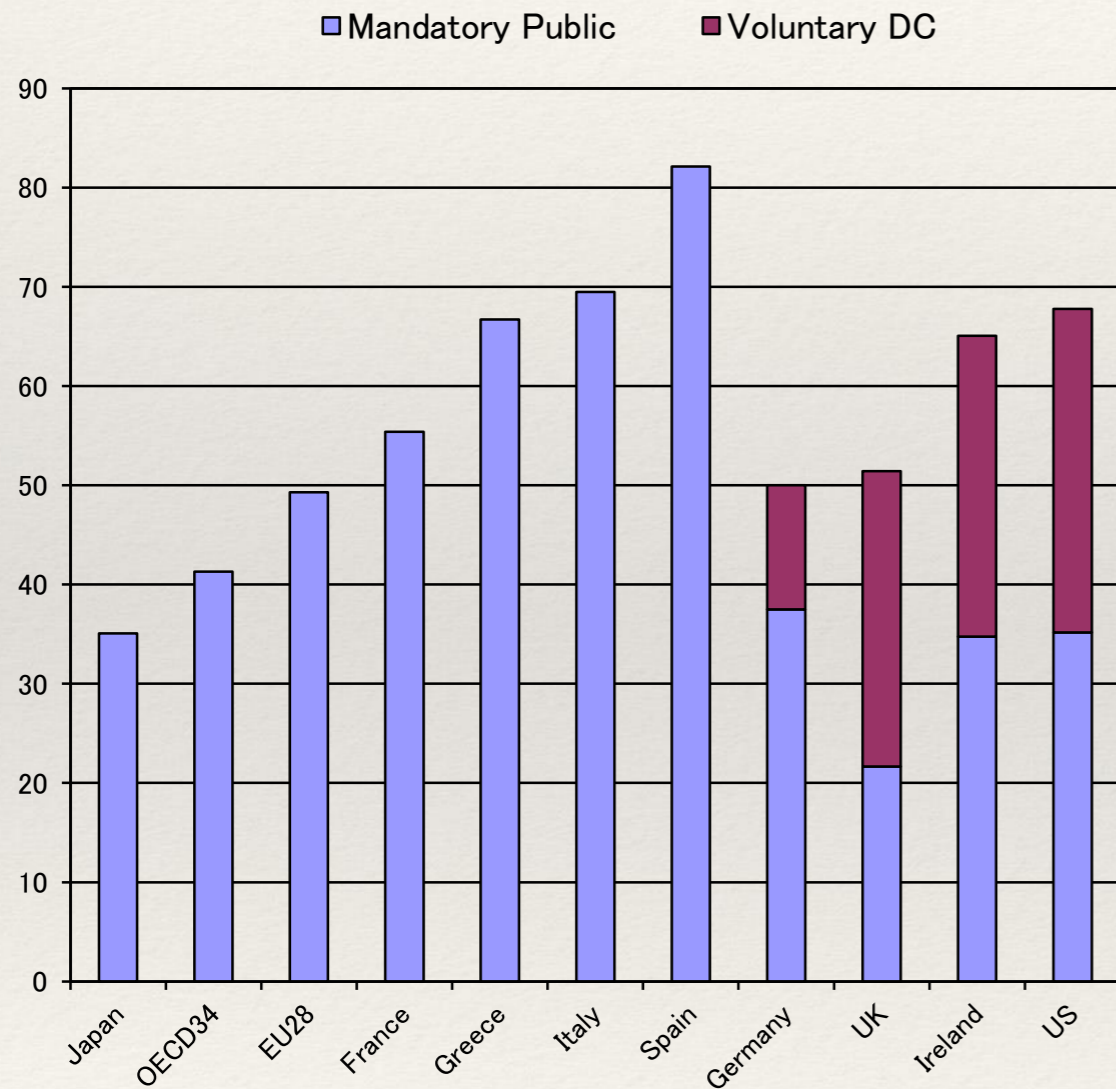
Average household income, by age,
2016

	Number of households	Average annual household income	
	000s	Disposable income £	Gross income £
< 30	2646	29194	35315
30 to 49	9491	39696	50099
50 to 64	7323	37589	46952
65 to 74	4039	27402	31705
75 and over	3706	21315	24129
All households	27205	31441	41545

Source: ONS

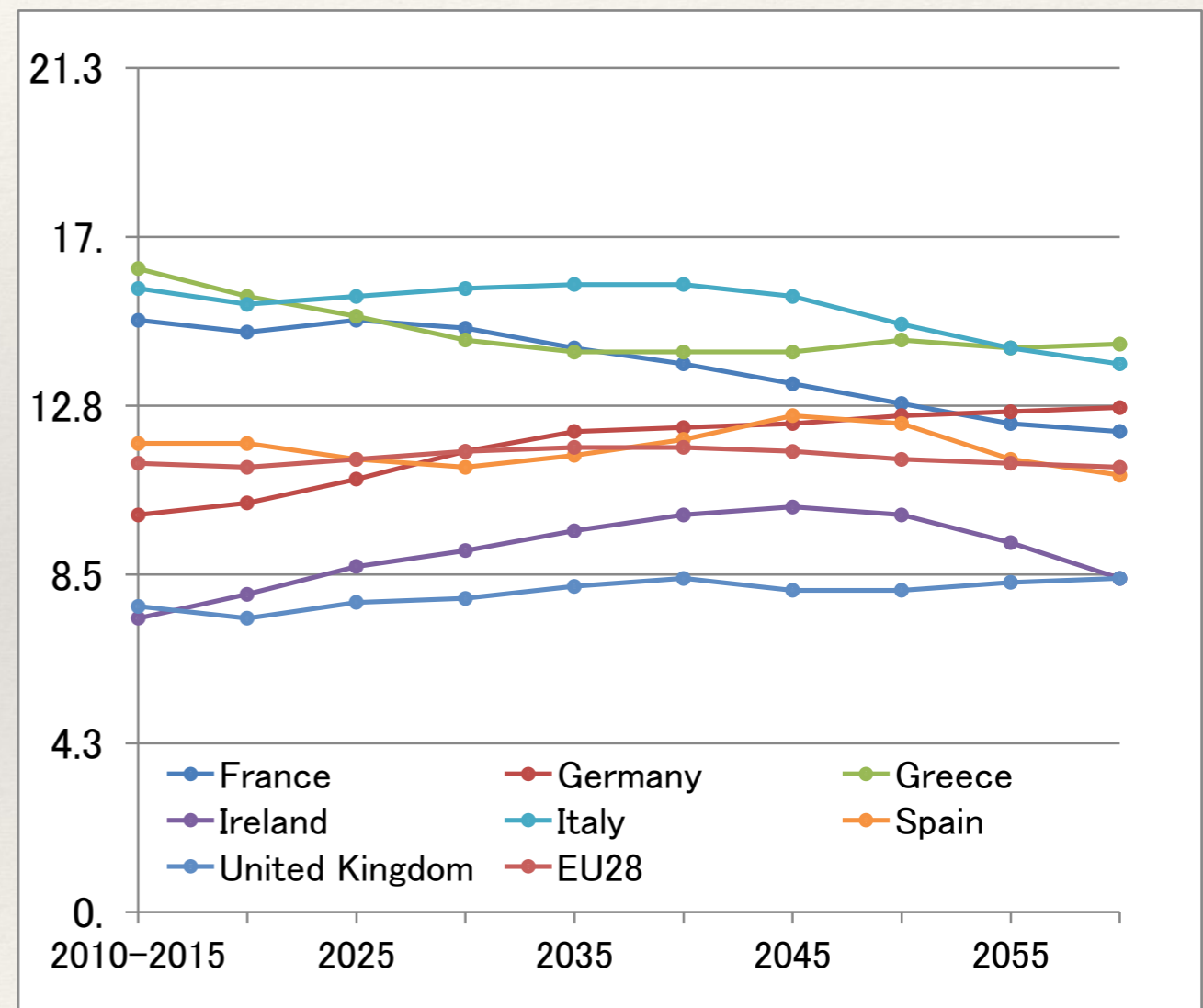
How sustainable is public spending on pensions?

Pension replacement rates, % individual earnings, gross



Source: OECD

Public spending on pensions, projections, 2015



Source: OECD

But the total spending on pensioners will go up

Total spending on state pensions & other benefits as % of GDP

Type of benefit	Real terms, 2014/15 prices (£ bn)			
	2014/15	2020/21	2025/26	2030/36
Basic state pension	67	62	57	39
SERPS/ S2P	18	17	14	8
New State Pension	0	16	48	130
Other elements of State Pension	3	2	2	1
Pension Credit	7	5	4	3
Other pension benefits	3	3	3	3
Total pensions	99	104	128	184
% of GDP	5.5	5.0	5.4	6.1
Housing related benefits	6	5	6	9
Attendance Allowance and Disability Living Allowance	11	10	10	11
%GDP	0.3	0.3	0.3	0.3
%GDP	0.6	0.5	0.4	0.4
Total pensions + benefits paid to pensioners	116	119	144	204
% of GDP	6.4	5.7	6.1	6.8

Policy implications

Fiscal sustainability or financially sustainable pensioners

- ❖ The UK ahead of other EU countries to shift the pension system & focus on defined contributions
- ❖ Private pensions schemes to provide an adequate level of income in retirement
- ❖ But many households will rely on approximately 20-25% of their pre-retirement income
- ❖ Limited scope to reform the system (ie increasing age at retirement and/or further cuts in benefits)
- ❖ Thus, focus on inter-generational inequality, and on designing pension schemes with better incentives for savings and limited, but guaranteed benefits

Thank-you
@PaolaSubacchi