FT research Data covering 730,000 households, from 1961 to 2009-10

Baby-boomers entering golden years have never had it so good

By Chris Giles, Economics Editor

Energy, optimism and ambition for the future are supposed to accompany youth. Disillusion and cynicism come later. That was true last century but, for today's young and old, the tables are being reversed.

Financial Times research shows that for the first time the generation entering the labour market today will not enjoy the fruits of greater prosperity, higher incomes and broader opportunities, as did their parents. Instead, they will do no better than previous generations.

By contrast, living standards among older people entering the age of retirement are much higher than those of their forebears. Disposable incomes of householders in their 60s have overtaken those of householders in their 20s for the first time since official household income data were collected 50 years ago.

The FT's research underestimates the shift in prosperity towards older people in Britain because it takes no account of housing costs, which are higher for young people. After those costs are included, living standards of householders in their 70s and 80s now exceed those of householders in their 20s.

The UK Data Archive granted the FT access to the data sets that underpin official poverty and inequality figures, containing income information on more than 730,000 households collected between 1961 and 2009-10. Generations of households included in the data range from those born in the 1860s to the 1990s and their disposable incomes have been adjusted to take account of family size and uprated to 2009-10 prices. From this array of data, the fortunes of different generations can be mapped.

For the vast majority of generations in the 20th century, weekly real living standards at any age level were higher than those of previous generations. This happy trend has ceased for those born between 1985 and 1995.

In 2000, well before the financial crisis, incomes of households headed by someone in their 20s stopped rising and have now been overtaken by baby-boomers in their 60s, many of whom have retired.

These big increases in household incomes of older people compared with small rises in living standards of the young are apparent across most of the income distribution, except for the poorest 10th, where Labour's tax credits have helped poor younger families to be better off than similar families 10 years earlier.

Evidence is emerging that the trend has intensified in the two years after 2009-10, as the latest Annual Survey of Hours and Earnings from the Office for National Statistics shows falls in cash hourly pay for people in their 20s, with rises in almost all other age groups.

In contrast to the squeezed young, those entering their golden years have never had it so good. Median disposable income for the baby-boomer generation born in the five years either side of 1950 is over 40 per cent higher than those at the same age born 20 years earlier. It is over 80 per cent higher than those born 30 years earlier.

Ros Altmann, director-general of Saga, the products and services company for over-50s, said this was "fabulous news" but she warned that those around retirement age now were a gilded generation. "People retiring now will be those who have accrued the maximum amount of Serps [state earnings related pension scheme] and those who have high accrual in final salary pension schemes."

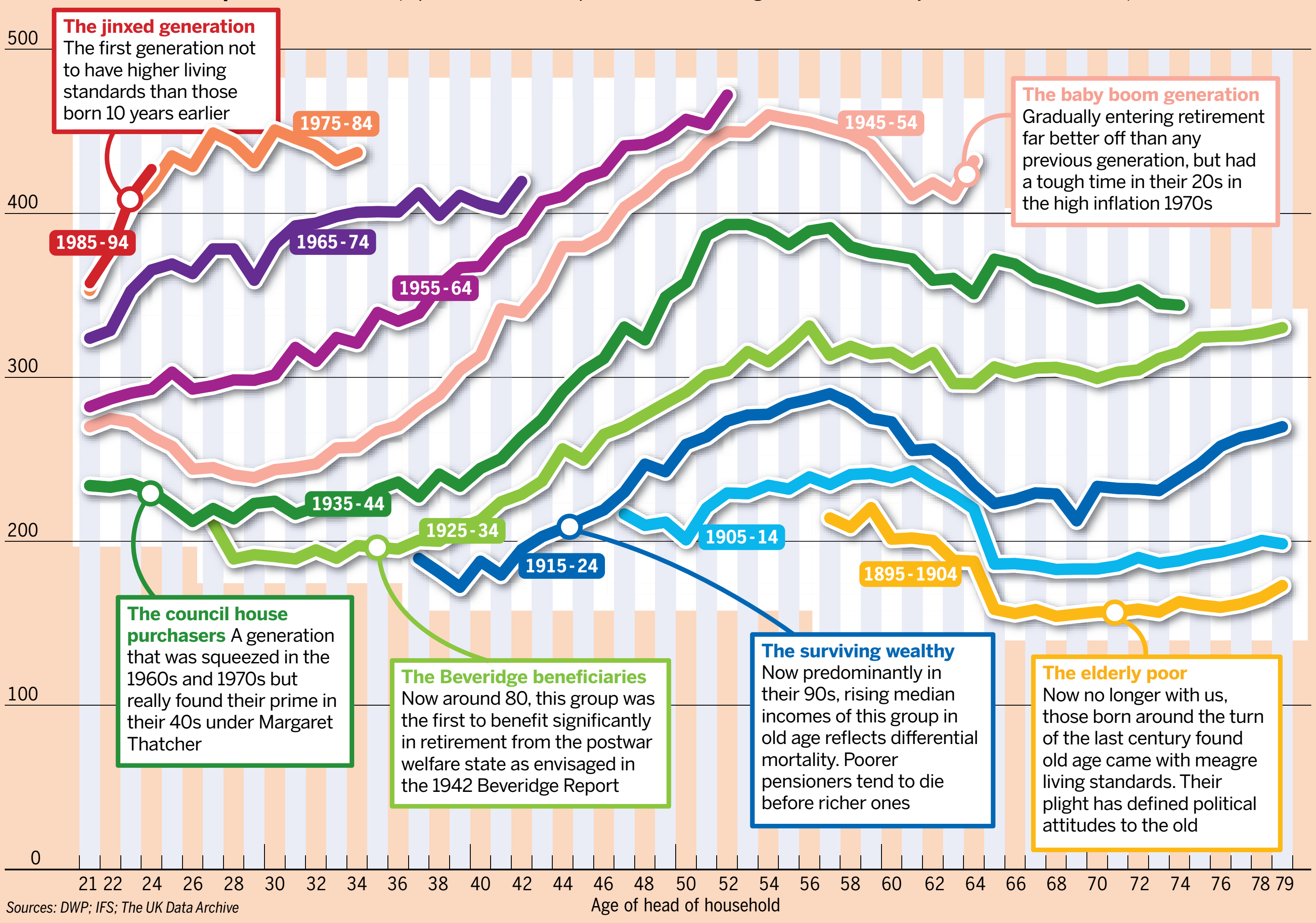
Since this is a large generation, she stressed, there was a need to keep baby-boomers engaged in the labour market so that they can provide demand to help the rest of the economy. Average incomes for older householders in their 70s tend to rise, not because households are becoming better off but because poorer pensioners are more likely to die earlier, thereby raising average incomes for the richer and healthier pensioners who survive well into their 80s and beyond.

Jonathan Portes, director of the National Institute of Economic and Social Research, said he expected the largest effect of the redistribution of prosperity towards the old to come when they die.

"A large proportion of the young who look like they are not doing well now will be fine because they will inherit wealth, but another large proportion will not and they will be squeezed."

How a century of rising living standards ground to a halt

Median household disposable incomes (£ per week, 2009-10 prices, before housing costs, incomes adjusted for household size)



Sources: DWP; IFS; The UK Data Archive

Chris Bull/Shaun Curry

'We will probably have a couple of really lovely holidays but I would like to secure the children's future in a world which is much more uncertain than the one I grew up in'

Baby boomer Colette Murphy with husband Phil

'We'll have to work an awful lot later than my parents did. My father retired after being a headmaster and he's not even 60 yet. He's got a new lease of life – but we'll be working into our 70s'

Alice Murphy, 28, who works in publishing

Politicians put elderly votes ahead of needs of young people

Social contract

The government's favouring of the older generation is coming under increasing scrutiny, says **Sarah Neville**

Almost unnoticed, a generation gap has opened in the UK. But this is no 1960s-style clash of values and culture. Its source is rather an extraordinary reversal in economic fortunes that has seen the elderly prosper while the young flounder.

Not only is this undermining the contract that has long underpinned Britain's welfare state. It also threatens to turn the different destinies of young and old into one of the defining faultlines of the early 21st century.

The intergenerational deal has always been clear. People in their prime working years pay to sustain their parents and grandparents in what is assumed to be relatively impecunious old age. But in this, as in so much else in recent decades, the baby boomers are rewriting the rules.

As Financial Times research today demonstrates, the incomes of those starting their working lives are growing at a slower rate than people nearing retirement.

Yet the government has elected to protect the elderly almost entirely from its huge fiscal consolidation. Pensioners have retained an array of non-means-tested benefits such as winter fuel allowance, free TV licences and bus passes. Younger generations, in contrast, have been hit by increased tuition fees, cuts in working tax credits and, from next year, an end to universal child benefit.

The promise of endlessly rising living standards has long upheld a consensus that the taxes of younger people must be used to support their elders.

Paul Gregg, professor of economic and social policy at the University of Bath and an advisory board member of the Intergenerational Foundation, a think-tank, says this social contract is now under strain.

"Rises in living standards for those close to, and at, retirement have been particularly rapid so the idea that you are heavily taxing, and cutting welfare, in order to pay for non-means-tested support systems for health and social care for the over 60s seems to struggle for a justification – other than that those people are more likely to vote."

The comfortable existence of many over 60s stands in stark contrast to the travails of the younger generation. Many are emerging, even from prestigious universities, without jobs.

Data published this month by the Office for National Statistics show the proportion of recent graduates working in "lower skilled" jobs up from 26.7 per cent in 2001 to 35.9 per cent in 2011.

Ian Mulheirn, director of the Social Market Foundation, a think-tank that has advocated an end to universal benefits for the elderly, says it is "baffling" that the differing fortunes of young and old have attracted so little focus. But he expects young people to find their voice as austerity drags on.

"Eventually they will realise they are in a tug of war with retirees over the same pot of money and there will be more of a tendency to say 'OK – who has contributed least to the squeeze so far and how could they do their bit so we don't have to cut more from education and health?'"

35.9%

Recent graduates working in lower-skilled jobs

If politics is ultimately about winning, it may be hard to argue with the government's strategy. "For the first time there are more over 65s than under 16s," says Ben Page, chief executive of Ipsos Mori, the pollster. "Young people are a problem to be sat on. When you do something nasty to them they don't even vote you out. There are lots of old people and they vote."

The government's elder-friendly stance is about to face fresh scrutiny. Ministers have promised a response within months to the Dilnot Commission, which recommended the amount of long-term care elderly people are expected to fund should be capped at about £50,000, with the state picking up the remainder, at an estimated cost of £1.7bn.

The prospect of such a large additional transfer to an already favoured group is prompting unease in both halves of the coalition. Mr Page warns Britain will eventually face the consequences of a restless and resentful younger generation.

"If, because of short-term politics, more young people go off the rails, society will have to pick up the costs in other ways."

Offsprings' plight tarnishes gilded age

Generation game

Parents poised to retire are anxious about the kind of future their children face, writes **Hannah Kuchler**

Like many baby boomers, Colette Murphy has had it all: free university education, relatively cheap housing and a final salary pension.

Now, the 58-year-old teacher from Cheshire is looking forward to a golden retirement when she stops working this summer.

She plans to spend time on voluntary work and looking after grandchildren with her 59-year-old husband, Phil, who retired from teaching last year. He has taken up archery as a new hobby.

Yet one big worry weighs on their minds: the uncertain prospects facing their four grown-up children in an era of expensive housing and a sluggish economy.

"We will probably have a couple of really lovely holidays – but I would like to secure the children's future in a world which is much more uncertain than the one I grew up in," says Mrs Murphy.

Once retired, she plans to give a lump sum from her pension to her daughter for a house deposit. Although she hopes eventually to get this money back, it is still another expense after funding all four children through university.

The daughter, Alice, 28, works in publishing in London – but commutes from Reading, where accommodation is cheaper. She is grateful for her parents' help but worries she will not be able to support her children in the same way, or to retire as young.

"My father retired after being a headmaster and he's not even 60 yet. He's got a new lease of life – but we'll be working into our 70s," she says.

Other parents doubt their children will ever own a home, even those with degrees and professional jobs.

For years, Jane Beresford, a 52-year-old self-employed financial director from Surrey, has paid rent for her 24-year-old daughter, who works in public relations in London. When Mrs Beresford was her daughter's age she already owned her own home but struggles to see how her children will get on the housing ladder.

"They need us to die early," she jokes, adding that she fears for the next generation, her future grandchildren, even more.

Adult children who are unemployed, or are graduates in lower-skilled jobs, increasingly struggle to get as far as leaving the nest.

Graeme Hawkins, partner in a Sussex architecture firm, has three sons in their 20s, who are all financially dependent to varying degrees.

One lives at home and has been working in a supermarket for two years, despite holding a degree in psychology. Another is studying building surveying – but was unable to find work for his year out in industry and is moving back home.

Mr Hawkins thinks his children are fortunate. "My kids are lucky that they have a home to come back to . . . in other circumstances, somebody of their age who couldn't get a job would be in really hard times."

Parents who can afford it are putting up with dependent adult children and young people are becoming used to delaying their independence. But Mr Hawkins says policy changes are needed to narrow the generation gap. "I worry enormously about the way that government is structuring taxes. What you have is an awful lot of retired people who are extremely wealthy and don't need the support like free bus passes and prescriptions."

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Global trend Mind the income gap

In global comparisons of income growth among different generations, Britain shows the fastest rise in older people's incomes relative to the young, according to data held by the Organisation for Economic Co-operation and Development, write **Chris Giles and Sarah Neville.**

Edward Whitehouse, of the OECD's social policy division, said: "Faster income growth for the old has been seen in many OECD countries. But just as Britain has high levels of inequality in international comparisons, it has also seen much more rapid growth of incomes for older people than for the young".

Incomes of the young are under pressure in eurozone periphery economies, such as Greece, Spain and Italy, where youth unemployment levels are at 50 per cent. In the US, Jared Bernstein, a former member of Barack Obama's economics team, says uprating pensions in line with inflation meant "there are some [older] people who are doing better than a low-income single parent who is struggling to get by on a minimum wage".

More on this story at www.ft.com/generation

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