A PRESUMPTION OF EQUALITY

The changing face of old age
and what it means for fairness

Andrew Harrop

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CONTENTS

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About Hanover@50

This year, Hanover celebrates 50 years of providing older people with quality housing and related services.

To mark our anniversary we invited a number of think tanks to offer new perspectives to stimulate a discussion on existing change and future challenges on housing and ageing. This is the Fabian Society's contribution to that debate.

Housing quality and choice are key to a successful ageing society; our current housing crisis means the status quo is not an option. We need to find new ways to meet the growing and changing needs of older people.

You can find out more at **www.hanover50debate.org.uk**

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Summary

This report looks at mid-income older people, a group who have been overlooked in political and media debates about later life. Perspectives on ageing are dominated by how people think about the 'top' and the 'bottom'. There are two competing narratives of later life: wealthy baby-boomers versus pensioners on the breadline facing poverty, isolation and ill-health. The truth is that the majority of older people today are somewhere in between – neither rich nor poor – and the middle is expanding as a result of recent successes in reducing pensioner poverty.

This report argues that government should adopt a 'presumption of equality' when considering public policy for different age groups. There is a legitimate worry that older people have not been sharing sufficiently in the pain of current deficit reduction. All policies which appear to give special advantages to older people as a category should be reviewed, because in financial terms alone, older people are no longer special. That does not mean scrapping all age-based variations, and this report demonstrates the vital place of a strong state pension system for middle income groups. But it does mean assessing the evidence and rationale for existing rules on social security, taxation and the design of services.

With this in mind there may be a case for cutting some public spending: means-testing the winter fuel payment is one 'least bad' option, though the savings would be comparatively modest. But there is a much stronger case for increasing taxes on older people to bring them into line with other households, with serious consideration paid to the gradual integration of national insurance and income tax, as part of a 'grand bargain' with the extra revenue earmarked for social care and the NHS.

The gap is closing: *Middle incomes for people in retirement have been catching up*
Over the last 30 years the middle incomes of pensioners have been catching up with those of other age groups, something that is a cause for celebration. But during the last decade middle incomes for working age families have been squeezed as wages stagnate and living costs rise, while the median incomes of pensioner householders has been steadily increasing.

End the 'triple lock': *the state pension should not increase by more than earnings*
The 'triple lock' guarantees that the state pension will increase by the highest of earnings, inflation or 2.5 per cent. Over the long term this will lead to it rising by more than typical earnings. With older people's incomes already converging on those of working-age households this seems hard to justify. Scrapping the 'triple lock' would save around £1 billion annually after three years.

Sharing the pain: *Political parties should stop making exceptions for pensioners*
Government should adopt a 'presumption of equality' when dealing with pensioners as their incomes converge with those of other age groups. This doesn't mean total neutrality: the state pension is an essential part of the welfare state and older people have many health and social needs that call for special treatment. But a full review of existing protections and safeguards is needed to justify different treatment and ensure that the pain of spending cuts is fairly shared between generations.

A taxing problem: *Our research demonstrates pensioners are undertaxed*
Pensioners are 'under-taxed' by £7.2bn per year compared to people with the same incomes in working life – a mid income retired household pays 27 per cent of their income in tax, compared to 33 per cent for someone with the same income of working age. On top of this, older people typically have higher wealth than younger people with the same incomes. Increasing taxes for older people is politically controversial, but should be considered as part of a 'grand bargain' to pay for health and social care as the population grows older.

Sky-high house prices serve no one: *Older homeowners don't benefit, while the young are shut out*
Older people do not benefit from today's high house prices during their own lifetimes' because very few unlock their housing wealth during their lifetime. But high prices are having a devastating impact on the affordability of homeownership for young people. House building and better taxation of property are both needed to improve the affordability of housing.

The essential place of 'universalism' in old age: *State provision secures good living standards for mid-income pensioners*
Mid-income pensioners receive in universal state provision the equivalent of 70 per cent of their annual income (eg the state pension and the NHS). The most contentious pensioner benefits (e.g winter fuel payment) make a small proportion of this total but debate about their future must not undermine wider support for universal provision. Although these fringe entitlements could be means-tested, more money would be raised by improving the taxation of mid and high income pensioners.

Policy recommendations

- Politicians should adopt a 'presumption of equality' between age groups. Policies should not be designed on the assumption that age is a good proxy for low income; instead older people should only receive special treatment when there is a clear rationale and evidence. Age-based entitlements may sometimes be more appropriate at 75 or 80 than at the existing state pension age.
- The government should implement its plans for a single flat-rate state pension but scrap the 'triple lock' which is leading to the state pension rising by more than earnings. This should be replaced by a 'smoothing' scheme to prevent a very low pension rise in any single year.
- To prevent levels of home ownership falling over time policy makers should adopt a target for the affordability of housing and adopt measures to pursue it. These should include increasing the supply of housing and introducing an annual property tax (eg a reformed council tax). Older households should have the option of deferring payment until their property is sold.
- Politicians should equalise the burden of taxation paid by people of different ages, in particular by merging national insurance and income tax to treat earnings and pensionable income the same. This is a long-term change which would need to be designed and implemented with care. In the meantime national insurance can be extended to earnings after state pension age and tax-free lump sums on private pensions scrapped. Gradual, staged increases in the tax burden on older people should be presented as part of a 'grand bargain' to pay for universal health and wellbeing services in our rapidly ageing society.
- In the short term a review is needed to consider whether and how older people should share more of the burden of deficit reduction. One 'least bad' option might be to restrict access to certain age-based entitlements, by raising their age of eligibility, taxing them or introducing means-testing. Alternatively, older people should face an equivalent tax rise as the condition for keeping them.
- The government and business need to develop and promote equity release and retirement housing options that people will use on a large scale. An official review should consider the design and distribution of equity release products but also the wider environment, including improving clarity regarding people's future financial commitments and ways to create institutional structures that help shift attitudes and behaviour.

1 INTRODUCTION

The idea of the 'squeezed middle' is at the heart of today's political debates about economic recovery and living standards. It's a pithy phrase reflecting evidence that people in the middle of the income distribution have seen their incomes stagnate while the costs of living keeps rising. But almost all the recent discussion and analysis has focused on people 'in the middle' who have not yet reached retirement. So what about older people with mid-incomes? Are they squeezed too? And, indeed, what else can we say about their lives?

This report sets out the findings of a short project to try and answer these questions. Older people 'in the middle' are being overlooked in political and media debates about later life. Perspectives on ageing are dominated by how people think about the 'top' and the 'bottom'. There are two competing narratives of later life: the wealthy baby boomers 'spending the kids' inheritance'; and pensioners on the breadline facing poverty, isolation and ill health. The truth is that the majority of older people today are somewhere in between – neither rich nor poor – and the middle is expanding as a result of recent successes in reducing pensioner poverty.

So what do changing experiences of ageing mean for public policy and the design of services? Public provision plays a critical role in securing wellbeing in later life but there is little objective and explicit debate on the right balance of support for older people in the middle. Major entitlements continue to be available universally, particularly the NHS and state pension. But others, including state-supported housing and social care, have been targeted quite narrowly according to need. With regard to social care, the government has accepted the Dilnot commission's recommendations to widen access to public funding in a set of proposals designed to help people in the middle particularly; but there has not been similar debate on housing support for mid-income older people. There is also controversy regarding a range of age-related universal benefits such as winter fuel payment, which have not been affected by spending cuts in the same way as entitlements for younger households.

This all raises the question of when and why public provision should be offered universally, setting aside essential help for people with low incomes. These issues touch on questions of intergenerational fairness and age equality. With old age an increasingly poor proxy for income, are there still good reasons to differentiate according to age in the design of services, tax and social entitlements? When are age-based eligibility criteria appropriate? And how should expectations and service offerings change when so many older people are neither rich nor poor?

Middle incomes in later life remain significantly lower than those of people of working age, so in this sense older people in the middle are squeezed. Clearly many are finding budgeting very tough as living costs increase, particularly if part of their income comes from interest on savings. But that's not the whole story. We found that over recent decades, mid-incomes for older people have been slowly catching-up with those for pre-retirement households and that they have continued to rise in the last decade, in contrast to the stagnation of middle incomes for everyone else. Current projections suggest this divergence will continue in the next few years. On top of this many now have considerable property wealth, at a time when home ownership is becoming increasingly unaffordable for younger households.

As a consequence it would seem sensible to review all policies which appear to give special advantages to older people as a category. Although mid-income older people live on fairly modest means, both the long-term convergence of incomes and the immediate living standards crisis for younger households mean it is time to adopt a 'presumption of equality' in how public policy and services treat different age groups. That does not mean scrapping all age-based entitlements, for a generous state pension remains an essential building block for a good old age. But it does mean reviewing rules on access to services, social security and the design of taxation. It also means thinking again about housing policy, for this project finds that neither old nor young are benefiting from soaring property prices.

Money is not everything, however. Our analysis of the health and social data from the English Longitudinal Study of Ageing (ELSA) shows that many mid-income older people face significant disadvantages, despite their financial cushion. Most strikingly, almost half the group had a longstanding illness or disability which limited their daily activity. One third reported being isolated or lonely, demonstrating that exclusion behind closed doors is not just a problem for low-income groups. And one quarter reported problems with their accommodation, including noise, poor conditions and cold. Indeed we found that, when it comes to housing problems, people's income seems to make little difference.

This shows that many mid-income older people continue to have significant social needs, despite their rising incomes. This key finding needs to be set alongside the more positive news we found when looking at ageing from a purely financial view. Money alone is not sufficient to prevent disadvantage and policymakers and service providers must focus on overcoming the barriers associated with old age for people of all incomes. But despite this, we found that people 'ageing in the middle' are very much part of mainstream Britain. Some face real social pressures, but most share in the benefits of contemporary British life: policy and service provision should not assume otherwise.

The research

The project was a quantitative study, which included a review of existing published data sources and research reports as well as original secondary analysis of wave 4 of the English Longitudinal Study of Ageing (ELSA). We looked at the incomes of older people ‘in their middle’, but also their wealth, housing conditions and social circumstances. The main results from our original analysis of ELSA are set out in the Appendix.

For most of our work we considered people with middle incomes, although we also briefly looked at people with middle wealth. We wanted to profile the lives of people in the mid-point of their own generational cohort, so we considered the middle fifth of specific age groups rather than the population as a whole. With most of the published studies this meant looking at the mid-quintile of older people, but in our own ELSA analysis we looked in more detail at the mid fifth of each 10 year age-band.

2 INCOMES 'IN THE MIDDLE'

What is the middle?

Figure 1: Net weekly equivalised family income, 2010/11 (source: ELSA)[4]

Age	55-59	60-64	65-69	70-74	75-79	80+
Median (£)	339	308	281	248	241	223
90:10 ratio[5]	6.2	4.8	4.0	3.6	3.2	3.5

When thinking about standards of living it is important to take account of the size of a household, since money stretches further if you're single than living in a couple or with dependent children. So the group of mid-income older people we're considering are people in the middle of the distribution of 'equivalised' incomes (ie incomes adjusted to take account of the size of household).

Incomes also vary greatly with age, even among people aged over 65, as illustrated by Figure 1. A typical 'middle' income is lower for people in late old age than for those who have more recently reached pension age: the median income for people aged over 80 is 20 per cent lower than for 65-69 year-olds. To take account of these age differences, where we report on our own original analysis of ELSA wave 4 we look at people in the middle of the income distribution for their own age-group (ie the middle group of people relative to the 10 year age band they're in: 65-75; 75-85; 85+).[6]

Mid-incomes

So, how much money do you need to be a middle-income older person? You can answer this question in a number of ways[1], but the simplest is this: in 2010/11 the median of the income distribution for an older household was roughly £290 a week or £15,000 a year.[2]

This figure is some way above the most commonly used thresholds for poverty but is still a modest income when thinking about the affluence of many in British society: mid-income older people are not poor, but they have only moderate means. This needs to be taken into account whenever we think about the aspirations, needs and entitlements of people 'ageing in the middle'.

There are considerable differences between the middle incomes of people in early and late old age, with the median income of a 65-to-69-year-old one quarter higher than that of someone aged over 80. Most of this is explained by cohort effects, in that people reaching old age have higher incomes than people over 80 did when they were at the same stage. We also found that a quarter of the fall is due to the greatly reduced incidence of paid work as people grow older.[3] Interestingly, the over-80s have lower incomes despite being 'survivors' (ie their deceased contemporaries will have been less affluent on average since mortality rates are higher for poorer groups).

These fairly low incomes have implications for government policy and the practice of service providers. In particular, there is a stronger case for using age as a proxy for a relatively low income when the threshold is 75 or 80 than at younger ages where mid-incomes are higher.

Income inequality

Income inequality is a fact of life for older people as for everyone else, although inequality has always been less pronounced in later life than among people below pensionable age.[7] Inequality is also somewhat lower for people aged over 70 than for people in their 60s, as Figure 1 demonstrates by showing for each age-group how many times more income someone 90 per cent of the way up the income distribution has, compared to someone 10 per cent of the way up. Our analysis of the ELSA data indicates that this lower inequality in late old age is explained by changing employment patterns rather than being a result of age-related differences in the distribution of other forms of income.[8]

The pattern of income inequality in old age has been changing over time, as Figure 2 shows. Looking at the income distribution of all retired households from 1979 to the late 1990s, there was a familiar story of widening inequality: incomes in the middle rose faster than for poorer retirees, but less quickly than for the richest. Then there was a striking change. Low and middle incomes started to rise in step – and at a faster pace than high incomes. As a consequence, the gap between the middle and the bottom remained static, while the distance to the top closed a little. Nevertheless retirement incomes are less equally distributed now than in 1979.

Figure 2: Average disposable income for retired household quintiles, relative to the middle quintile (middle quintile = 100) (source: ONS)[9]

	Poorest	2nd	Middle	4th	Richest
1979	70	89	100	121	207
1998 - 99	56	80	100	134	240
2010 - 11	56	80	100	125	216

This dramatic shift in the fortunes of the different income groups in the late 1990s is evidence of the impact of the Labour government's pension reforms, especially the minimum income guarantee and pension credit. More generally, it illustrates how susceptible the living standards of low and mid-income older people are to changes in government policy. The last government's policies not only reduced poverty in old age but gave a boost to middle incomes. Similarly the coalition's proposal for a flat-rate single state pension is expected to lead to a noticeable increase to middle incomes for future pensioners, according to Pensions Policy Institute (PPI) projections.[10] Any government which wishes to increase the incomes of low and middle income older people and reduce later life inequality should implement these revenue-neutral reforms.

3 LIFE 'IN THE MIDDLE'

Looking beyond money, our analysis of the ELSA data paints a picture of the lives of older people in the middle. The impression presented in Figure 3 is of a group who fully share in many of the benefits of contemporary British life. Large majorities own their own home, enjoyed a holiday in the last year, have use of a car and are members of clubs and organisations. They also lead relatively healthy lifestyles, at least when compared to the contemporary British norm. On the other hand, at the time of the survey, only three in 10 were using the internet and an even smaller minority had recently volunteered.

Other findings show more significant problems. One third reported they sometimes or often felt isolated and/or lonely (in two different questions). This is a distinctly high figure which underlines the importance of focusing on exclusion behind closed doors in later life across all income groups. Figure 3 also shows that a quarter of mid-income older people reported problems with their accommodation. The appendix provides more detail, showing that 9 per cent have noise concerns, 8 per cent mention a range of problems with the condition of their home and 4 per cent report cold.

Perhaps the most striking result is that almost half of mid-income people aged over 65 have a longstanding illness or disability which limits their daily activities: for many, adequate living standards and a reasonable quality of life sits alongside significant health limitations.

Lifestyle inequalities

So how do the lives of people with mid-incomes compare to those at the top and bottom? Of course there is huge variety within each group, but clear differences emerge between them too. The picture is quite complex, with different patterns relating to various aspects of people's lives. On many important issues, experiences for mid-income groups are mid-way between the poorest and the richest, as you might expect. But there are other patterns too. Figure 3 summarises the differences, looking at people in the middle of the distribution of incomes when compared to peers in their own age-group and the appendix sets out the data in full.

People with mid-incomes have a closer resemblance to people with low incomes rather than people with high incomes in respect to several aspects of their lifestyles, including how likely they are to work, volunteer, exercise and be a member of an organisation. By contrast people of all income backgrounds are just as likely to report concerns with their housing, suggesting that money is not the main barrier to resolving problems with housing in

Figure 3: Experiences of people aged over-65 in the middle fifth of the income distribution for their own 10 year age group in 2008/09 (Source: ELSA)

1. Middle group is in the middle: a gradient between rich and poor

77 per cent	Have use of a car (64% of the poorest and 87% of the richest)
64 per cent	Have taken a holiday in the last year (52% of the poorest and 77% of the richest)
45 per cent	Are men (34% of the poorest and 52% of the richest)
32/34 per cent	Often or sometimes feel isolated/lonely (40/43% of the poorest and 28/26% of the richest)
29 per cent	Use the internet (19% of the poorest and 51% of the richest)
20 per cent	Are widowed women (34% to the poorest and 14% of the richest)
10 per cent	Are smokers (16% of the poorest and 6% of the richest)
9 per cent	Are carers (7% of the poorest and 12% of the richest)
8 per cent	Live in retirement housing (10% of the poorest and 5% of the richest)

2. Experiences are similar for all income groups

25 per cent	Report a problem with their accommodation (eg noise, conditions)
6 - 10 per cent	Are widowed men
1 to 2 per cent	Live in owner-occupied retirement housing

3. The poorest group stand out: the 'middle' are closer to the richest

7 per cent	Are divorced – compared to 12% of the poorest
2 per cent	Are non-white – compared to 5% of the poorest
80 per cent	Are owner-occupiers – compared to 66% of the poorest
4 per cent	Don't have central heating – compared to 8% of the poorest

4. The richest group stands out: the 'middle' are closer to the poorest

67 per cent	Are members of a club or organisation – compared to 76% of the richest
39 per cent	Say they have fair/poor health – compared to 24% of the richest
29 per cent	Say they sometimes/often/always have too little money to spend on their needs – compared to 13% of the richest
15 per cent	Never or hardly ever exercise – compared to 10% of the richest
13 per cent	Drink alcohol almost every day – compared to 27% of the richest
13 per cent	Volunteered in the last month – compared to 22% of the richest
6 per cent	Live in rented retirement property – compared to 3% of the richest
6 per cent	Are in paid work or self-employed – compared to 18% of the richest

5. The 'middle' stand out: greater than either rich or poor

4 per cent	Of homeowners have bought equity release products (2% of the poorest and 1% of the richest)
48 per cent	Have a limiting longstanding illness or disability (41% of the poorest and 38% of the richest)
39 per cent	Receive help with mobility or daily activities (31% of the poorest and 29% of the richest)
20 per cent	Receive attendance allowance or disability living allowance (7% of the poorest and 13% of the richest)

later life. This is a surprising finding which merits further attention.

Then there are a few cases where the middle stands out from either rich or poor. For example, at first glance it is odd to see a higher incidence of disability in the middle of the income distribution than at the bottom, until you think about the sources of older people's income. People with serious disability or illness are likely to be entitled to attendance allowance, disability living allowance (DLA) or other disability related support. These benefits provide a significant boost to the incomes of many people who would otherwise be in low income groups, leaving them in the middle of the income distribution. This data does not take account of the higher living costs disabled people are likely to experience as a result of their illness or impairment.

Housing

Experiences in the middle are closer to those of high income older people with respect to one critical attribute: housing tenure. 80 per cent of the middle group live in owner-occupied housing. This is very welcome in many ways, but also poses challenges: the high incidence of disability among this moderate income group means many homeowners will have insufficient resources to pay for extensive services and support out of their own pockets.

One response to this dilemma is to unlock housing capital, however only four per cent of mid-income homeowners have made use of equity release products (which convert property wealth into cash). This is a low figure considering that over half of mid-income older people have more than £100,000 in housing wealth and a significant minority report too little money to meet their needs. Equity release should be a particularly good option for mid-income households who will often have mid-sized homes with perhaps three bedrooms. This is both because many older people decide against one or two bedroom home even when they're moving; and because downsizing from medium-sized homes often leads to little financial gain.[11]

Admittedly, older homeowners with mid-incomes are more likely to have bought an equity release product than either rich or poor. It is no surprise to see higher take-up of equity release among middle income than rich homeowners, to help top-up their moderate incomes. However, the lower take-up among poorer homeowners is more of a puzzle considering this group is likely to have the largest imbalance between income and wealth. It may reflect concerns about the interaction between equity release and means-tested benefits, if it is not a quirk of the particular survey sample.

Very few mid-income people live in owner-occupied specialist housing: just two per cent. This is partly due to a shortage of supply: only 30 per cent of retirement housing is available to buy, and few homeowners who move make the shift to renting (just one quarter of older people change tenure when they move). There is also a question of affordability, with charges meaning that a move to retirement housing is estimated to lead to a 20 per cent fall in disposable incomes for mid-income older people.[12]

This evidence suggests that many mid-income older people are 'under-consuming' both retirement housing and equity release, relative to an objective assessment of their needs and resources. Other studies have considered in detail the supply and demand-side barriers blocking wider take-up of both products. However, it is hard not to conclude that both providers and government need to do more to develop and promote options that people in the middle will use at scale.

All this relates to a broader issue of under-consumption in later life. Before thinking about whether people could unlock more of their capital, there is the question of whether they are spending as much income as they could, with studies repeatedly finding that older people spend less than they receive. In other words they are sacrificing their wellbeing to protect against a rainy day or to pass on inheritances. While this instinct is understandable, and in many ways laudable, older people's failure to 'decumulate' housing wealth and their high level of saving confounds economists' standard expectations of lifecycle patterns of spending and saving.

4 COMPARISONS WITH YOUNGER AGE GROUPS

The long-term picture for mid-income older people is undoubtedly brightening, with older people 'in the middle' far more prosperous than the equivalent group a generation or two ago. Figure 4 shows that since 1979 real incomes for retired people in the middle fifth of the income distribution have risen over one and a half times from £7,000 to £18,500 (calculated on the basis of a two-person household). Half that improvement happened during Labour's 13 years in power.[14]

The data from the last 30 years also shows a dramatic shift vis-a-vis younger age groups, with mid-income retired households catching up with those who've not retired. As Figure 4 demonstrates, in 1979 middling households of working-age had average incomes almost twice as large as those of older people (93 per cent higher); today they have just over one third more (37 per cent higher). This is still a significant gap but it has been closing quickly: over 30 years middle incomes have risen for all, but they have increased particularly fast for people in retirement.

Figure 4: Average equivalised disposable annual income for households in the middle quintile of the income distribution of retired/non-retired households in 2010-11 prices (Source: ONS)

	Retired	Non-retired	Ratio
1979	£7,000	£13,600	1.93
1998 - 99	£12, 900	£20,100	1.62
2010 - 11	£18, 500	£25,400	1.37

This phenomenon has been driven mainly by 'cohort effects' – with poorer generations passing away and richer generations retiring. In the last decade the improved generosity of the state pension system has also played an important role. This effect is particularly vivid at the point of retirement. Today the combination of improved private and state pensions means that households in the bottom three quarters of the income distribution are typically able to replace 80 per cent or more of their previous income when they retire.[15]

The result is that, for the first time, older people are over-represented in the middle of the national income distribution. Figure 5 shows that in 1979, 44 per cent of pensioners had incomes in the poorest fifth of the overall income distribution while just 14 per cent were in the middle. But today 22 per cent are in the poorest quintile and 23 per cent are in the middle.

In other words, while older people are under-represented among the truly affluent, many more have a standard of living that is pretty typical for British society. This is of course something to welcome and celebrate as part of the steady decline in pensioner poverty. But it is also a profound change with significant implications for public policy and the providers of services.

With more older people in the middle of the national income distribution than at the bottom, services and entitlements should no longer be designed on the assumption that most older people are poor or that age is a good proxy for a low income. However, policies should still take account of the fact that few people in later life are truly rich.

Figure 5: Percentage of individuals in pensioner families in each quintile of the overall population net income distribution[16] (source: Pensioners Income Series)

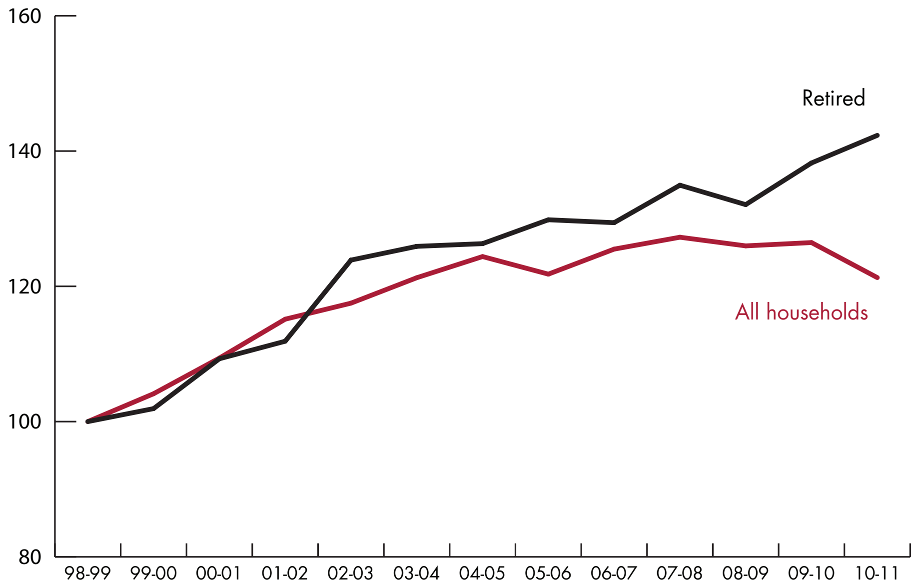
	Poorest	2nd	Middle	4th	Richest
1979	44	23	14	10	9
1998 - 99	24	28	19	16	13
2010 - 11	22	25	23	17	14

Older people catching up with everyone else was not problematic while middle incomes were rising across the board. Perhaps it is more so now because growth in real median incomes has ground to a halt: the middle fifth of households have incomes no greater today than in 2003/04. By contrast, Figure 6 shows that over the same period, middle incomes for retired households increased by 13 per cent. Since the financial crisis this disparity has been even starker: real middle incomes have fallen by 5 per cent overall, but they have risen 5 per cent for retired households.

In a deep economic crisis these effects should come as little surprise, since the drivers of income growth are different during working life and retirement. Retirement incomes are the result of long-term public policy and of economic conditions over an entire working life, while incomes prior to pensionable age are dependent on short-term economic forces. The divergence in fortunes should therefore be closed first and foremost by improving incomes for middle-income people of working age rather than wishing away the recent gains older people in the middle have experienced.

But just the same, the differing fortunes of the retired and non-retired middle is something that cannot be entirely ignored when politicians consider hard financial choices. When you consider the recent divergence, it is surprising that the government has chosen to retain its policy of above-inflation indexation for pensions while introducing a real-term cut to tax credits, which top up the incomes of many mid-income non-retired households. The data suggests that, if anything, greater priority should be given to tax credits, which limit hardship among working families with moderate incomes.

Figure 6: Average real disposable income for households in the middle quintile of the income distribution of retired/all households (1998/09 = 100)



The prognosis for median incomes over the next few years is also divergent. Rising living standards for people in working life in the middle of the income distribution are largely determined by changes in median earnings, with tax credit decisions and levels of employment also important. By contrast middle incomes in later life will rise as a consequence of the rising prosperity of successive cohorts – and hopefully in time from increased saving if new auto-enrolment pensions are a success. But they will also increase as a result of the government's approach to indexing the state pension.

The coalition has adopted a triple lock policy for uprating the state pension, which guarantees increases will be the greater of inflation, 2.5 per cent or average earnings. The Office for Budgetary Responsibility (OBR) estimates that this policy means that, on average, the state pension will rise by 0.26 per cent more than earnings each year.[17] The upshot is that even if the economy rebounds, middle incomes for retired households may well end up rising faster than for middle income working families for the foreseeable future (as the state pension is not the only source of income this is not a certainty).

Modelling by the PPI suggests this will indeed be the case for the years between 2008/09 and 2025/26. The PPI projects that median incomes will rise for pensioners by around five per cent in real terms and fall for all households by the same amount.[18] These figures are for incomes after housing costs so reflect different pattern of homeownership between age groups, not just incomes. But the Resolution Foundation's work on net incomes in working life paints a similar picture; they calculate that median working-age incomes will fall by 3 per cent in real terms from 2008/09 to 2020/21.[19]

This raises the question whether the government's approach to indexation is correct. The pensions commission report of 2005 made a compelling case for raising pensions in line with earnings, as a way to prevent poverty, reduce means testing and deliver decent 'replacement rates' to households retiring on middle incomes. But with the incomes of retired people converging on those of other households, increasing state pensions by more than earnings will over time create significant intergenerational unfairness. This suggests that the triple lock system should be scrapped, although it could be replaced by a smoothing scheme which guarantees against very low pension uprating in certain years, while ensuring that pensions do not rise by more than earnings over the medium term.

5 HOUSING COSTS AND WEALTH

Housing costs

The effect of homeownership in later life is that income stretches a lot further. So housing wealth has a direct impact on living standards when it means people do not have to pay rent or a mortgage. The government has always captured this point by calculating incomes both before and after housing costs (Figure 7).

It is striking that the median income after housing costs is now higher for pensioner couples than for the population at large and only just lower for single male pensioners (once adjustments have been made for size of household). It still lags some way behind for older women, although the gap has closed quickly in the last decade. This conjures the remarkable idea that mid-income older people might soon have higher living standards than median income households in working life. Projections by the PPI do indeed indicate that the median income for pensioners could overtake that for non-pensioners on an after housing costs basis in the next 10 to 15 years, although the authors place a number of caveats on their findings.[20]

Figure 7: Median equivalised incomes for each group, before and after housing costs, average for 2008/09-2010/11 in 2010/11 prices[21] (Source: Households Below Average Income)

	Pensioner couples	Pensioner single men	Pensioner single women	All individuals
Before housing costs	£406	£371	£345	£427
After housing costs	£382	£358	£327	£368

This fascinating possibility reinforces how important it is for policymakers to now adopt a ‘presumption of equality’ between age groups. It is also an important entry point into wider debates about the intergenerational distribution of wealth.

Wealth in old age

Older people in the middle have a very different profile of asset ownership when compared to either their younger equivalents or to rich and poor of their own age. Figure 8 shows how the median level of wealth varies dramatically with age and also shows the extent of inequality within each age group by reporting the gap between the 10th and 90th percentile of the wealth distribution. For all age groups these wealth differentials are much greater than comparable differences in income.

Figure 8: Total non-pension wealth, by age, 2006-2008 [22] (Source: Wealth and Assets Survey)

	16-24	25-34	35-44	45-54	55-64	65-74	75-84	85+	Overall
Median (£1000s)	12	48	120	184	243	213	183	156	145
90:10 ratio	42	78	59	59	43	39	49	55	66

Wealth is unsurprisingly lowest amongst younger age groups who have had few opportunities to accumulate wealth (e.g getting on the housing ladder or paying down a mortgage) and have not benefited from years of rising property and asset prices. Median wealth then peaks towards the end of traditional working life, in 2006-08 reaching around £240,000 for people aged 55 to 64, and is lower for older age groups.

Figure 8 also shows that wealth inequalities are lowest among 65–to-74-year-olds, reflecting the widest spread of homeownership. They are higher again in late old age, but not as great as for young adults.

The evidence indicates that the decline in wealth in late old age is a cohort rather than an ageing effect. Typically retired people do not decumulate their financial and property wealth as they move through retirement (in contrast to what economists would expect to see).[23] Instead people in late old age have less wealth because they were less affluent over their lives and are more likely to be renting not owning (15 per cent of 65-74 year-olds rent compared to 29 per cent of over-85s).[24] This pattern is consistent with changing tenure patterns for older people over time: Figure 9 shows that the percentage of homeowners aged over 65 has increased from 58 per cent 20 years ago to 76 per cent today.

Figure 9: Percentage of householders who are owner occupiers by age[25] (Source: English Housing Survey)

	25-34	35-44	45-54	55-64	65+	All
1991	67	78	78	73	58	68
2001	61	73	80	80	69	70
2010/11	43	63	74	79	76	66

Wealth across the generations

In part, this rapid shift in tenure is simply one aspect of the story we have already seen of the prosperity of older people catching up with that of wider society. But this is not the whole story because older age groups are now more likely than the average household to own their own home (Figure 8). In the last decade there has been a dramatic fall in the share of people aged under-45 who are owner occupiers. These divergent trends can be explained by variations in the affordability of housing at the time when each generational cohort was likely to be buying for the first time. For much of the 1980s and 1990s the average first home cost less than three times average annual earnings (and was barely double in the mid-1990s). Then in the 2000s the value of a first home increased to five times earnings by 2007 and is still over four today. It was over these 10 years that most of the decline in homeownership amongst younger people took place, with the median 25–to-34-year-old household now renting rather than owning their home. So while the rise in homeownership among older people has spanned many decades, the collapse among younger age groups is mainly a recent phenomenon.

So, what does this mean for intergenerational fairness and opportunity? It's worth recalling that people with mid-incomes in early adulthood today have much higher incomes and general standards of living than older cohorts did at the same age. Nevertheless for today's under-45s, homeownership is far less affordable than it was for their predecessors; and if house prices remain at current levels relative to earnings, low levels of homeownership and therefore personal wealth will become a permanent characteristic of this generational cohort not an effect of their youth or the economic cycle. As older homeowners die, property will pass increasingly to landlords rather than to younger homeowners, given the rising proportion of households living in the private rented sector.

But for all this pain for younger households, high house prices are bringing little benefit to older people since so few are unlocking their housing wealth during their own lifetimes. Instead housing wealth is driving intra-generational inequalities for young and middle-aged adults by increasing the size of bequests. While many more people can now expect to inherit wealth – and this represents the only chance many people aged under-45 have to buy a home – the size of bequests is distributed highly unequally. Figure 8 shows that wealth inequalities are already at their highest amongst 25–to-54-year-olds and this is likely to rise with time.

So today's high house prices are in the interests of neither young nor old. To avoid homeownership falling further amongst young age groups, policymakers should adopt a target for the affordability of first homes and implement policies in its pursuit. Measures should include increasing the supply of housing and taxing property wealth to suppress rises in asset prices, with a reformed council tax or other property taxes, for example. The Joseph Rowntree Foundation's study *Tackling Housing Market Volatility in the UK* considers the policy options in detail.[27] It also points to research indicating that the abolition of domestic rates in the late 1980s led to an increase in English property prices of around 15 per cent.[28] This suggests that reintroducing a tax proportionate to prices or rents could make a big difference to affordability.

Policies to suppress house price inflation would reduce intra and intergenerational inequalities at the same time. However mid-income older people will not be able to pay increased property taxes out of pocket. One solution would be to tax transactions - inheritances, lifetime gifts and capital gains on the value of the first home. However, some of these options have negative economic consequences and all of them are politically controversial. A better approach might be to replace or reform council tax so that we have a proper annual property tax, but then roll up the liability of older households into a charge against the eventual sale of their property.

Wealth and income

Our analysis of ELSA shows that the correlation between income and wealth is surprisingly weak, especially for people in the middle. Figure 10 shows that only one quarter of people over-65 in the middle income quintile for their age group are also in the middle wealth quintile and the same is true vise versa.

Figure 10: Distribution of people aged over-65 between wealth and income quintiles for their 10 year age group in 2008/09 (Source: ELSA)[29]

			Wealth quintiles[1] (%)				
			Poorest	**2nd**	**Middle**	**4th**	**Richest**
In italics: average wealth/ income for each quintile			*£7,400*	*£110,000*	*£200,000*	*£310,000*	*£760,000*
Income quintiles[2] (%)	**Poorest**	*£110*	7	5	4	3	2
	2nd	*£170*	5	5	5	3	1
	Middle	*£230*	4	5	5	4	3
	4th	*£300*	3	4	4	5	4
	Richest	*£660*	1	2	2	5	10

Income and wealth quintiles are based on distributions within 10 year age bands (65-74; 75-84; 85+) so that being 'in the middle' is measured relative to people of similar age

(1) Total non-pension wealth (2) weekly equivalised net income

In principle this poses something of a dilemma. When thinking about the middle, should we be looking at mid-income or mid-wealth groups? Since decumulation of wealth is low in retirement, income is a better measure of day-to-day consumption and related dimensions of quality of life (once the question of housing costs is resolved). Income is also less susceptible to geographic variations. However, wealth is a better measure of long-term prosperity and has been shown to have a strong relationship to factors which are dependent on people's whole life, such as health.[30]

Figure 11: Experiences of people aged over-65 in the middle fifth of the income distribution and wealth distribution for their own 10 year age group in 2008/09 (Source: ELSA)

	Mid-income	**Mid-wealth**
Men	45	43
Has a limiting long-standing illness	48	45
Often or always feels isolated/lonely	32/32	36/36
Uses the internet	29	25
Use of a car	77	78
Say they sometimes/often/always have too little money to spend on their needs	29	29

When looking at the middle, however, this debate turns out to be more theoretical than practical: the experiences of the mid-income and mid-wealth groups are fairly similar across a range of measures, as Figure 11 illustrates. The exception is of course housing tenure, where 98 per cent of people in the middle wealth quintile are in an owner occupied home. These similarities between the middle income and wealth groups are not replicated with respect to dispersion between rich and poor. Instead inequalities on each attribute tend to be much greater when comparing the top and bottom wealth rather than income quintiles. This confirms that wealth is indeed better than income as a proxy for social advantage.

6 THE ROLE OF GOVERNMENT

Social security and public services

Support from government plays a critical role in maintaining living standards and wellbeing in retirement right across the distribution of income and wealth. Figure 12 shows that state income represents 64 per cent of the income of the middle quintile of retired households, with 47 per cent accounted for by the state pension alone. By contrast social security makes up just 24 per cent of the incomes of non-retired households with broadly similar incomes. These numbers demonstrate the essential role of taxation and the social security system in distributing money across our lives to smooth lifetime incomes.

It's worth noting, however, that the pensioner entitlements which are the cause of contemporary political controversy account for a very small proportion of the resources available to mid-income older people. 'Other benefits', including the winter fuel payment, comprise two per cent of incomes for mid-income retired households and 'travel subsidies' one per cent.

Meanwhile mid-income older people benefit hugely from public services, consuming an equivalent of 35 per cent of their gross income through in-kind support, the vast majority consisting of healthcare. This means that the average mid-income retired household receives the equivalent of 99 per cent of its gross income in public support. It is noteworthy that universal entitlements (principally the state pension and the NHS) are equivalent to over 70 per cent of this group's incomes. This underlines the essential place of universalism in securing the wellbeing of people in the middle of the income distribution. Universalism is vital for the long-term future of the welfare state.

Unlike with receipt of social security, older households do not consume a disproportionate quantity of public services compared to the rest of the population. Indeed after taking account of family size, mid-income retired households use almost the same level of public services (£7,200 per year) as the quintile of non-retired households which has the same average income (£7,100 per year).[31] The result is broadly replicated when looking across the whole population of retired and non-retired households (£7,000 per year is spent on services for retired households compared to £6,600 for non-retired).

The main difference between retired and non-retired households is instead the extent to which public service consumption is skewed according to income. Among retired households, all income groups consume more or less the same quantity of public services, while amongst non-retired households the poorest use 50 per cent more than the richest. As a consequence the poorest fifth of retired households consume public services less than the non-retired group with the same income (£7,000 compared to £7,900 per year), while the richest fifth among the retired use considerably more services than the comparable quintile of non-retired households (£6,900 compared to £5,700 per year).

Figure 12: Sources of income, taxation and receipt of public services as a percentage of gross income for retired/non-retired households (source: ONS)

	Middle quintile of retired income distribution	Non-retired with similar income (2nd quintile)	All retired households	All non-retired households
Market income	36	76	50	91
Work	3	71	3	86
Pensions and savings	32	5	47	6
State income1	64	24	50	9
State pension	47	3	38	1
Means-tested	11	11	6	3
'Other' benefits	2	0	2	0
Services	35	33	29	17
NHS	32	14	23	8
Education	2	18	0	8
Travel subsidy	1	0	1	0
Total government support	99	57	79	26
Taxation	27	33	29	34
Income tax2	5	7	7	13
National Insurance3	0	6	0	6
Council tax/NI rates4	4	3	5	3
Indirect taxes	11	14	11	8

Notes: Excluding council tax benefit and elements of tax credits treated as negative taxation; 2 deducting tax credits counted as negative taxation; 3 including employers' national insurance; 4 deducting CTB/rate relief

Taxation

If the story of public service usage is one of broad parity between age groups, the same cannot be said when it comes to taxation. Retired households with middle incomes pay 27 per cent of their gross incomes in tax compared to 33 per cent for the group of non-retired households with similar incomes. There is a similar difference when looking at the average for all retired households and at the poorest and richest quintiles. Indeed, if retired households paid the same proportion of their gross income in tax as non-retired households, revenue for the exchequer would rise by £7.2bn each year (around £1,000 per household on average and for mid-income families). As a share of people's income this tax gap has been falling in recent decades, from 10 percentage points in 1979, to six per cent in 1997 and five points today, but the monetary value has been rising as older people have grown richer. There are a number of reasons to explain this tax gap. For example, pensioners do not have to pay tax on pension fund lump sums, disability benefit income or the winter fuel payment. However, the single largest factor is that national insurance is not paid on pension or savings income, nor on earnings after state pension age.

It is hard to find explanations to justify such a large differential in taxation as a share of gross income. It is clear that older people, who are poorer as a group than younger people, should pay less tax than them overall, but it is not obvious why an individual older person should pay less than an individual younger person with exactly the same income. This tax gap is even more questionable when we recall the evidence on household wealth, which shows that people with the same incomes are likely to have more wealth in retirement than those in much of working life.

Raising taxes for older people is of course controversial, as the chancellor discovered following the 'granny tax' furore after the 2012 budget. This measure, buried in the detail of the budget, equalises the income tax treatment of people of different ages with the same income by aligning tax thresholds for all age groups. The logic behind the move is hard to fault and the policy will raise £1.25bn by 2016/17. However, the backlash against the presentation of the policy as a 'tax simplification' will make further equalisation harder.

Although the main reason for not increasing taxes on mid and high income older people is simple politics, there are other arguments which could be advanced against moves in this direction. One is that there is little point in giving people money with one hand through pensions and taking it away with the other in taxes. However, some would argue the precise opposite: that if you are a significant beneficiary of public spending then the least you can do is to make a proportionate contribution in return. You might narrow the argument and say there's no point levying tax when state payments account for the large majority of a low income. But that's an argument for setting a high tax threshold that exempts poor households, not for systematically under-taxing an entire age cohort. It is surely in the interests of transparency and equality to first design policies to maximise older people's incomes and then tax the income in line with other age groups?

There is also an argument relating to national insurance specifically, which was originally linked to contributory benefits, which pensioners have either already earned or are no longer entitled. National insurance however has never been strictly hypothecated to contributory entitlements and is widely understood to pay for other services; in particular the NHS which is, of course, used by older people more than anyone else.

When discussing these questions few older people refer to the detail of contributory social security rules, but many speak more widely of having contributed all their lives towards retirement entitlements; and suggest it is unreasonable to expect them to pay again now. This argument has a strong emotional force when it comes to paying for existing provision, but is far less effective when it comes to the extension of services or entitlements. Indeed linking new forms of entitlement to new forms of payment strengthens and extends the principles of contribution and reciprocation. For this reason there would be great merit in introducing new national insurance requirements for older people as part of a 'grand bargain' by specifically linking the payments to rising investment in the NHS and introducing new entitlements to social care.

Fairness between generations

So, overall, mid-income older people's use of public services is not disproportionate compared to other age groups; and while their use of social security is high, most of this is down to entitlement to the state pension which commands almost total support.

With all age groups consuming similar levels of public services and younger people able to anticipate a pension in the future, long-term concerns about the unfair distribution of public spending between age groups are misplaced.

However, there is a legitimate worry that older people have not been sharing sufficiently in the impact of the current programme of deficit reduction, since the NHS, state pensions and age related entitlements are all largely protected from cuts. This debate has focused in particular on age-related entitlements like winter fuel payment and free bus travel, which comprise at most three per cent of all public support mid-income older people receive. These entitlements could be taxed or the age threshold for their receipt increased so they are only available in late old age. More radically they could be turned into means-tested benefits. Even this would not save that much money (£1.5 to 2bn in the case of winter fuel payments and free TV licenses)[32] but nor would it severely diminish the resources people with middle incomes have at their disposal. The main argument against means testing is that this would strip the entitlements from the many older people with low income groups who do not take-up income-related support.

The future of these age-related benefits should not be reviewed in isolation, however. Instead there should be a broad evaluation of the extent to which older people should shoulder more of the burden of deficit reduction, which focuses on the totality of their tax contributions and public spending receipts. The starting point should be the 'presumption of equality' with each example of different treatment for older people assessed objectively and justified with evidence.

A review along these lines might conclude that the means testing of the controversial age-related entitlements is one 'least bad' option, as long as this did not represent the start of a gradual encroachment on universalism. Previous Fabian research has demonstrated that predominately universal systems are far more effective in preventing poverty and insuring citizens than means-tested systems, in part because they maintain public consent over time. However these particular entitlements are small in value and relatively recent creations, so it is hard to argue they would fatally undermine the wider spirit of universalism that is deep-rooted and expanding elsewhere in old-age social security.

Alternatively, the retention of these entitlements could be conditional on paying more tax. The case for action to equalise the burden of taxation certainly has fewer downsides for low income groups than introducing more means testing and the potential benefits for the exchequer are greater. Increasing the taxation of older people would be a highly controversial move, but perhaps it could be presented as part of a 'grand bargain' with the extra revenue earmarked for new entitlements to social care and protected spending for the NHS and universal entitlements?

Any changes would need to be introduced gradually to avoid a rapid deterioration to the living standards of people with fixed incomes, but serious consideration should now be given to the merging of income tax and national insurance so that all forms of income are taxed uniformly regardless of age. As a start, the current exemption on national insurance for earnings after pensionable age should be lifted.

7 CONCLUSIONS

Implications for government

The main conclusion of this study is that government should adopt a 'presumption of equality' when considering public policy for different age groups. All policies which appear to give special advantages to older people as a category should be reviewed, because in financial terms alone, older people are no longer special. That does not mean scrapping all age-based variations, but it does mean assessing the evidence and rationale for existing rules on social security, taxation and the design of services.

There will undoubtedly be times when the higher chance of older people having significant social or health needs justify age-specific measures, but alternatives to blanket policies should also be considered. And when eligibility is to be determined by age alone, detailed thought should be given to the right age cut-off. Where a policy is designed as a response to relatively low income or high social or health needs it will often be wrong to begin entitlement at state pension age as opposed to 75 or 80 years old.

Adopting a presumption of equality is not, however, an argument for a significant extension of means testing. This research shows the essential place of the welfare state not just for people facing poverty but for the wellbeing of older people in the middle. In particular state pension policies make a huge difference to people's incomes. To guarantee that mid-income older people maintain their current position the government will need to continue its current approach of a universal state pension uprated in line with rising living standards. The coalition's current proposals for a flat-rate state pension should also be embraced by all political parties who wish to improve the incomes of future mid and low income pensioners. This measure is cost-neutral with the losses falling on future high income older people.

On the other hand, a presumption of equality calls into question the government's current 'triple lock' policy for the state pension. With the incomes of retired people converging on those of other households, increasing state pensions by more than average earnings on a permanent basis creates significant intergenerational unfairness. And ending this policy would save around £1bn annually after three years. The triple lock system should therefore be scrapped. It could be replaced by a smoothing scheme which guarantees against very low pension uprating in certain years, while ensuring that pensions do not rise by more than earnings over the medium term. Politicians should also consider the case for introducing the same indexation policies for the state pension and for in-work social security going to mid-income households.

In the short term there is also the uncomfortable question of whether older people should be shouldering a larger share of the burden of deficit reduction. A presumption of equality would suggest that government should avoid any further protection for older people collectively, where this is at the expense of younger age groups who have already suffered more. That might mean restricting access to universal benefits like winter fuel payment, free TV licences and free bus travel. A perfectly reasonable case can be made for these entitlements when times are good; but the consequences of removing them from some of their current recipients would be less severe than the impact of many spending cuts which have already been applied to younger households. To save money, the age limit for these entitlements could be increased to a point of, for example 80-years-old, where middle incomes are lower and typical social needs greater – or they could become taxable. Alternatively the entitlements could be means tested and offered only to those receiving pension credit. There are downsides to either approach in terms of the small but noticeable loss for mid-income older people and more serious consequences for those low income households who do not claim means-tested benefits to which they are entitled. But these are probably outweighed by the principle of equality of 'pain': these entitlements should be reformed or older people should face an equivalent tax rise as the condition for keeping them.

The most significant implications of a presumption of equality are found in the domain of taxation. It is very hard to find explanations to justify large age-based differentials in tax, given that the calculation of the tax burden already takes account of older people's lower incomes. This 'tax gap' is even more questionable when we recall the evidence on household wealth. This study therefore recommends that politicians adopt a policy of equalising the burden of taxation paid by people of different ages.

This would need to be a long-term project to avoid a sudden fall in living standards and could probably only be achieved in full as part of comprehensive reform of the tax system. In particular the tax system should be designed to treat earnings and pensionable income the same, by merging national insurance and income tax. This is a major long-term change which would need to be designed and implemented in a way that avoided harming people on low incomes of all ages.

In the meantime, government should consider some standalone reforms to end the special treatment of older people in the tax system. In 2012, George Osborne announced the end of age-related income tax thresholds for pensioners (a sensible policy which caused a media outcry). Other immediate options would be to apply national insurance to earnings after state pension age and to end tax-free lump sums on private pensions. The latter would end the perverse situation where the tax system encourages people not to use all their pension savings for their intended purpose of providing a guaranteed lifetime income. It would however require careful planning to avoid negative consequences for defined benefit pensions. None of this will be free from controversy, but a gradual, staged increase in the tax burden on older people could be presented as part of a 'grand bargain' to pay for universal health and wellbeing services in our rapidly ageing society.

Taxation policy is also critical to the future of the housing market. If house prices do not fall relative to typical earnings then unacceptable intergenerational injustice will become entrenched. So to avoid homeownership declining further amongst younger age groups, policymakers should adopt a target for the affordability of first homes and implement policies in its pursuit. Measures should include increasing the supply of housing and taxing property wealth to suppress rises in asset prices, with a reformed council tax, for example. These policies would reduce intra and inter-generational inequalities at the same time. However, mid-income older people will not be able to pay increased property taxes out of pocket. One solution would be to tax transactions – for example inheritances, lifetime gifts and capital gains on the value of the first home. Some of these options have negative economic consequences and all are politically controversial. So an alternative approach might be to replace council tax with a proper annual property tax, but then roll up the liability of older households into a charge against the eventual sale of their property.

Finally, government should think much more imaginatively about how it can help older people in the middle raise their quality of life by encouraging them to spend more of their money. This should include enabling people to decumulate wealth during retirement and addressing under-consumption among the many older people who do not even spend their income in full. The solutions to these challenges could be the topic of a whole project in itself, but there are a number of clear strands for government to pursue. First, a serious ministerial initiative is needed in order to massively scale-up the tiny equity release market. An official review should consider the design and distribution of products but also the wider environment, including improving clarity regarding people's future financial commitments and ways to create institutional structures that help shift attitudes and behaviour. A similar approach could be considered with respect to the under-spending of income. Of course the balance between spending and saving is mainly a private matter, but it becomes a public policy concern when under-spending contributes to impairment, ill health, isolation and housing problems.

Implications for service providers

The numerical findings in this report may do little more than confirm the observations of many service providers working daily with older people in all their diversity. But it's worth pulling out the implications of two key points: that vast numbers of older people are neither rich nor poor; and that there should be a 'presumption of equality' between age groups. Together these two principles represent a challenge to traditional models of service delivery which once assumed their users would be both old and poor. Of course times have changed and there are excellent services which assume nothing of the sort, but elements of the stereotype persist.

The presumption of equality means first that service providers should seek to confront any subconscious ageism or infantilisation in their assumptions about the older people they work with – as well as seeking to expand their clients' sense of possibility for their own lives. It also means that services must ask themselves whether they should be geared exclusively to a specific age group, or whether other means of identifying if a service will be suitable and beneficial are more appropriate. In particular, providers should question whether the state pension age is ever a suitable cut-off for offering services, since needs change incrementally and reaching state pension age is not linked to a sudden drop in income.

For housing providers the debate about age-exclusive services partly relates to equitably addressing social need; after all, small well-designed flats close to local amenities might appeal to a wide range of people. But it also touches on the nature of the communities in which people wish to live. In this study we have not looked at the evidence for and against age-exclusive communities, but at the very least it would seem desirable to ensure that people needing specialist housing have a choice including the option of living in communities with a broad age mix.

Turning to incomes, service providers need to work on the basis that many of their service users will have a reasonable disposable income and/or other significant assets. They should avoid a 'means test mentality' where people in the middle are encouraged to fend for themselves, because the pressure is already high from the poorest older people. This phenomenon is well documented with regard to social care, with councils avoiding their duty to assess and offer support to all who need help in their homes. There are anecdotes of this with respect to accessing retirement housing in the social sector too, although our analysis of the ELSA data did not show a huge difference between the number of low and mid-income households living in rented retirement housing.

Where there is pressure on resources, instead of covert rationing, service providers should expand the use of customer charges and fees. The challenge is to design services that work for everyone, with hybrid funding models bringing together charges and external sources of funding, including different financing arrangements for people with different resources who are using the same services. This approach will minimise the chance of two-tier provision developing, with means-tested services for the poor; premium paid services for the rich; and middle income groups falling between two stools.

Service providers should also feel it is legitimate to work with older people in the middle to increase what they spend. Providers could offer support to explain the services and activities that can be bought and help people make choices. For example, they could provide specific support to help people maximise the value of their disability benefits, in a light-touch version of the support social care clients receive alongside a personal budget. When people have insufficient income, providers could also do more to help them work through their options for unlocking capital including downsizing and equity release. People can be very emotional about preserving housing wealth but providers should think of ways to encourage people to make the most of their assets on an ongoing basis, rather than seeing them as only a fund for an emergency. One possibility might be for financial companies and housing services to design hybrid products where capital is unlocked and then used to directly fund services or support.

People are resistant to unlocking housing capital partly because of the housing alternatives on offer. Better options for downsizing need to be developed that both unlock a decent quantity of money and provide an attractive home that people actively want to move to. For some this will mean retirement housing, but demand from mid-income older people is constrained by tenure and affordability. People rarely change tenure when they move and most retirement housing is rented while most mid-income older people are homeowners. People are also understandably worried about the charges associated with retirement housing, which can lead to a 20 per cent fall in disposable income for someone with a middle income. Housing providers should consider developing new models which work for homeowners with relatively modest incomes but who would be unlikely to be eligible for housing benefit. For example, providers might develop mixed-tenure communities, with the offer of an option where monthly charges are rolled-over against the eventual sale of the home.

From the perspective of service provision, what is completely clear is that change is coming - from a new public policy environment and from the evolving complexion of the older population. Service providers should embrace the rising affluence of mid-income older people and the new presumption of intergenerational equality.

Appendix

Experiences of people aged over-65 in the middle fifth of the income distribution for their own 10-year age group, 2008/09 (source: elsa)

These tables present the incidence for each age-related income group (constructed by taking quintiles of the income distribution for ten-year age bands: 65-74; 75-84; 85+). The column labelled pattern provides a qualitative judgement of the nature of the relationship between the findings for mid-income older people and other income groups. The numbers refer to:

1 – gradient from poor to rich
2 – poorest quintile(s) is the exception, middle closer to rich
3 – richest quintile(s) is the exception, middle closer to poor
4 – all quintiles the same, little or no gradient
5 – peaks in middle quintile

A. Demographics

	Pattern	Poorest	2nd	Middle	4th	Richest	Average
Married/civil partnership	1or2	42	53	62	60	69	57
Never married	2	6	5	4	4	4	4
Separated/ divorced	2	12	7	7	7	6	8
Widowed	1	40	34	28	30	21	31
Men	1	34	46	45	45	52	44
Married/civil partnership	1	22	29	33	33	40	31
Never married	2	3	3	2	2	2	2
Separated/ divorced	1	4	4	2	3	3	3
Widowed	4	6	10	7	8	7	8
Women	1	66	54	55	55	48	56
Married/civil partnership	2	20	25	28	27	29	26
Never married	2	3	2	2	2	2	2
Separated/ divorced	2	8	4	4	4	3	5
Widowed	1	34	24	20	22	14	23
Non-white	2	5	2	2	1	2	3

B. Housing

	Pattern	Poorest	2nd	Middle	4th	Richest	Average
Owner	1or2	66	72	80	82	89	78
Rent	1	31	26	18	16	9	20
Social landlord	1	28	21	16	14	7	17
Retirement housing	3	10	9	8	8	5	8
Own	4	1	2	2	1	1	1
Rent	3	8	7	6	7	3	6
Owners who have bought equity release products	5	2	4	4	3	1	3
Has a problem with accommodation	4	25	29	25	28	24	26
Noise	4	10	13	9	9	9	10
Housing condition	4	8	10	8	10	7	9
Too cold	3	6	6	4	5	3	4
Without central heating	2	8	4	4	4	3	4

C. Health

	Pattern	Poorest	2nd	Middle	4th	Richest	Average
Overall health							
Health is excellent/very good/good	3	64	64	61	67	76	66
Health is fair/ poor	3	36	36	39	33	24	34
Limiting long-standing illness	5	41	41	48	43	38	42
Have difficulty doing one or more daily activities	5	40	40	44	43	35	40
Support							
Receive help with mobility or daily activities	5	31	34	39	35	29	33
Attendance Allowance or Disability Living Allowance	5	7	14	20	21	13	15
Health behaviours							
Smoker	1	16	13	10	11	6	11
Drink almost every day	3	10	14	13	18	27	17
Never or hardly ever exercises	3	16	14	15	11	10	13
Other							
Memory described as fair/poor	3	42	46	43	40	35	41
Felt depressed in last week	3	21	18	20	16	11	17
Restless sleep	3	34	36	33	33	24	32
Fallen in last year	5	25	29	27	31	26	28

D. Lifestyle

	Pattern	Poorest	2nd	Middle	4th	Richest	Average
Activities in the last month							
Paid work or self-employed	1or3	2	4	6	10	18	8
Cared for someone	1	7	8	9	9	12	9
Voluntary work	1or3	9	10	13	15	22	14
Formal education or training	3	1	1	2	1	4	2
Other activities							
Member of a club or organisation	3	64	61	67	74	85	71
Use internet/ email	1	19	20	29	32	51	30
Own mobile phone	1	60	63	66	71	78	68
Travel							
Use of a car	1	64	69	77	80	87	75
Driver	1	40	44	51	59	72	53
Use public transport at least weekly	1	40	41	33	33	25	34
UK or overseas holiday in last year	1	52	61	64	71	77	65
Perceptions on life							
In most ways my life is ideal - not agree	1	37	31	32	30	25	31
Feel isolated - sometimes/often	1	40	34	32	35	28	34
Feel lonely – sometimes often	1	43	37	34	35	26	35
Have too little money to spend on needs – sometimes/ often/always	3	33	34	29	22	13	26

Endnotes

1 Stating an older person's income is not straightforward because there are several different ways to both define an older person and to measure income. This report draws on data sources which use a range of approaches and we do not highlight technical differences unless relevant to the overall picture. In different places older people are defined by their age, for example aged 65 or above; by whether they have reached pensionable age; or by whether they have retired. There are also at least four measures of income: gross, net, 'before housing costs' and 'after housing costs' and income can be reported at the individual or household level.
2 The official data for median net income comes from two sources which use different definitions of older household: (1) pensioner family units - £291 (Pensioner Income Series, Department for Work and Pensions); (2) 'retired' households - £294 (*The Effects of Taxes and Benefits on Household Income*, Office of National Statistics)
3 Author's calculations using English Longitudinal Study of Ageing wave 4
4 Table E2B from James Banks, James Nazroo, Andrew Steptoe eds, *The Dynamics of Ageing: Evidence from the English Longitudinal Study of Ageing* 2002-10 (Wave 5), Institute for Fiscal Studies, 2012
5 The 90:10 ratio: how many times more income people 90 per cent of the way up the income distribution have compared to people 10 per cent of the way up.
6 Using data from the 2008/09 wave of the English Longitudinal Study of Ageing an individual would lie in the middle income quintile of the sample if they had a net equivalised weekly income of: 65-74 year-olds - £210 to £273; 74-84 year-olds - £177 to £229; aged over 85 - £168 to £220.
7 Households 90% of the way up the distribution of incomes in retirement have disposable incomes 3.1 times higher than those 10% up; the equivalent multiple for non-retired households is 4.6 *The Effects of Taxes and Benefits on Household Income 2010/11*, Office of National Statistics
8 Author's calculations using English Longitudinal Study of Ageing 2008/09 (wave 4)
9 *The Effects of Taxes and Benefits on Household Income*, historic time series, Office of National Statistics
10 Chart 18 and 19, Leandro Carrera, Daniel Redwood and John Adams, *The implications of Government policy for future levels of pensioner poverty*, Pensions Policy Institute, 2011
11 Jenny Pannell, Hannah Aldridge and Peter Kenway, *Market Assessment of Housing Options for Older People*, New Policy Institute, 2012
12 Hannah Aldridge, Peter Kenway and Jenny Pannell, *Affordability of Retirement Housing in the UK,* New Policy Institute, 2012
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14 Table 16A and 18A, *The Effects of Taxes and Benefits on Household Income, Historical Data Series*, ONS, 2012. Values are equivalised to take account of differences in household size, which explains the difference between this figure and the data reported in Note 2. This measure has the disadvantage of excluding people over state pension age who are working, which will dampen the rise in pensioner incomes over the last 15 years
15 Table 2A7, James Banks, James Nazroo, Andrew Steptoe eds, *The Dynamics of Ageing: Evidence from the English Longitudinal Study of Ageing 2002-10*

(Wave 5), Institute for Fiscal Studies, 2012
16 Table 4.6, *Pensioner Income Series 2010-11*, Department for Work and Pensions, 2012
17 *Fiscal Sustainability Report*, Office for Budgetary Responsibility, 2012
18 Authors calculation using data from Leandro Carrera, Daniel Redwood and John Adams, *The implications of Government policy for future levels of pensioner poverty*, Pensions Policy Institute, 2011
19 *Gaining from growth: The final report of the Commission on Living Standards* Resolution Foundation, 2012
20 Authors calculation using data from Leandro Carrera, Daniel Redwood and John Adams, *The implications of Government policy for future levels of pensioner poverty*, Pensions Policy Institute, 2011
21 Table 2.3ts, *Househoholds Below Average Incomes*, 1994/05 to 2010/11, Department for Work and Pensions, 20012
22 Table 8.1, *An Anatomy of Economic Inequality in the UK*, Government Equalities Office, 2010
23 Figure 2.5, James Banks, James Nazroo, Andrew Steptoe eds, *The Dynamics of Ageing: Evidence from the English Longitudinal Study of Ageing 2002-10* (Wave 5), Institute for Fiscal Studies, 2012
24 Author's calculations using English Longitudinal Study of Ageing wave 4
25 *English Housing Survey 2010/11 Household Report*, Department of Communities and Local Government, 2012
26 First time buyer gross houseprice to earnings ratios data series 1983-2012, Nationwide
27 Mark Stephens, *Tackling Housing Market Volatility in the UK*, Joseph Rowntree Foundation, 2011
28 Leslie Rosenthal, 'House prices and local taxes in the UK', Fiscal Studies, volume 20, issue 1, March 1999
29 Author's calculations using English Longitudinal Study of Ageing wave 4. Income is net equivalised family income; wealth is total non-pension household wealth; quintiles are calculated using the distribution of wealth and income for each 10-year age band (65-74; 75-84; 85+)
30 James Banks, Elizabeth Breeze, Carli Lessof and James Nazroo eds, L*iving in the 21st century: older people in England.* The 2006 English Longitudinal Study of Ageing (Wave 3), Institute for Fiscal Studies, 2008
31 Equivalised values, assuming a single couple household. Authors calculation using *The Effects of Taxes and Benefits on Household Income 2010/11*, Office of National Statistics
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A PRESUMPTION OF EQUALITY |

THE CHANGING FACE OF OLD AGE AND WHAT IT MEANS FOR FAIRNESS

Andrew Harrop

This report looks at mid-income older people, a group who have been overlooked in political and media debates about later life. Perspectives on ageing are dominated by how people think about the 'top' and the 'bottom'. There are two competing narratives of later life: wealthy baby-boomers versus pensioners on the breadline facing poverty, isolation and ill-health. The truth is that the majority of older people today are somewhere in between – neither rich nor poor – and the middle is expanding as a result of recent successes in reducing pensioner poverty.

This report argues that government should adopt a 'presumption of equality' when considering public policy for different age groups. There is a legitimate worry that older people have not been sharing sufficiently in the pain of current deficit reduction. All policies which appear to give special advantages to older people as a category should be reviewed, because in financial terms alone, older people are no longer special. That does not mean scrapping all age-based variations, and this report demonstrates the vital place of a strong state pension system for middle income groups. But it does mean assessing the evidence and rationale for existing rules on social security, taxation and the design of services.

With this in mind there may be a case for cutting some public spending: means-testing the winter fuel payment is one 'least bad' option, though the savings would be comparatively modest. But there is a much stronger case for increasing taxes on older people to bring them into line with other households, with serious consideration paid to the gradual integration of national insurance and income, as part of a 'grand bargain' with the extra revenue earmarked for social care and the NHS.

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