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Old age tendencies

The impact of tax and benefit changes on intergenerational fairness ahead of the 2024 general election

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In this Spotlight we look at the impact of spending, tax and benefit decisions taken since 2010 through the lens of intergenerational fairness. What stands out in this context is the increase in the generosity of the State Pension, which has led to a £44 billion increase in spending, benefiting older age groups. By contrast, working-age households have seen benefits cut. And although recent cuts to National Insurance (NI) have offset the extent to which policy decisions have tended to favour older age groups, it is clear that households with children have been left worse off by tax and benefit changes made since 2010.

Looking ahead, both main parties are implicitly committed to personal tax increases baked into plans for the next parliament, as well as to the continuation of benefits policies from the 2010s. These include an additional three years of freezes on the main Income Tax and personal NI thresholds, freezing Local Housing Allowance (LHA) and the benefit cap, continuing to roll out the two-child limit, and continuing the triple lock for pensions. Overall, the impact of implementing these policies would reinforce the long-term trend of the personal tax and benefit system favouring pensioners.

Perhaps recognising this imbalance, both main parities' manifestos include pledges that could benefit working-age households. The Conservatives have pledged further NI cuts that would benefit workers below the pension age, although the burden of the proposed £12 billion of welfare cuts would likely fall overwhelmingly on working-age households. Labour's offering to those of working age has centred around promises to reform the world of work. Both parties have made pledges to support home ownership and improve access to education and training, which will be of particular benefit to younger adults. And the Conservatives have proposed mandatory National Service, a policy that is popular with those aged 65 plus, but not among young adults. While such measures can help redress a growing imbalance, achieving intergenerational fairness requires policy that looks beyond measures for specific age groups and instead grapples with our long-standing problem of weak growth that has led to a reversal in generational pay progression.

Demographic pressures have shifted the age profile of how the state allocates resources since 2010

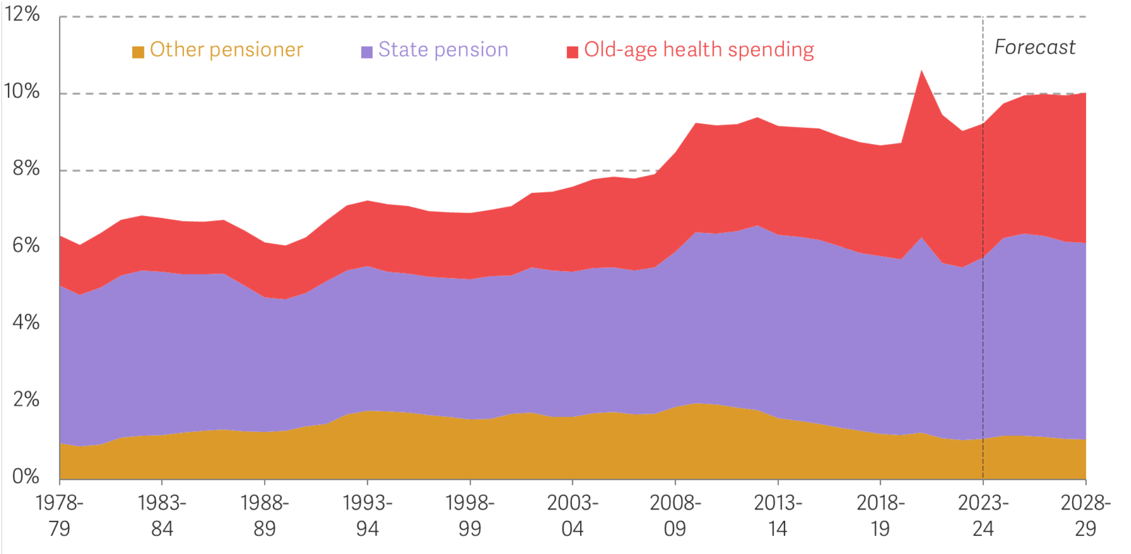
As we have discussed in previous work, societal ageing has already shifted our politics. So, as we approach polling day, we take an intergenerational lens to the big decisions made by successive Conservative governments on spending, tax and benefits and ask how they have affected different age groups since 2010. And, looking ahead, we also consider what the main parties have to offer younger generations.

We start with public spending, where there has been a substantial increase in spending on those over the pension age. Spending on the State Pension, other pensioner benefits and old-age health is expected to amount to £270 billion in 2024-25, equivalent to 9.8 per cent of GDP.[1] Since 2009-10, such spending on pensioners will have increased by 0.5 per cent of GDP, up from 9.3 per cent, as shown in Figure 1.

What stands out is the increase in spending on the State Pension: between 2009-10 and 2024-25, spending on the State Pension is expected to have increased by £44 billion in real terms. Over this period a large cohort of 'baby boomers' has moved into retirement: even with changes that pushed back the State Pension age, the number of people claiming the State Pension will have increased by around 570,000 (from 12.4 million to 13.0 million) between 2009-10 and 2024-25, and is set to rise to 13.2 million by 2028-29. But more of the rise in spending has been driven by the increased generosity of the State Pension.[2] Meanwhile, an older population has increased demands on the healthcare system. Between 2009-10 and 2024-25, real health spending will have grown by an estimated 36 per cent, with about half of that explained by demographic changes.[3]

Figure 1 **Spending on the State Pension, other pensioner benefits and old-age health rose by 0.5 per cent of GDP since 2009-10**

Spending on the State Pension, other pensioner benefits and old-age health as a proportion of GDP: UK



Notes: State Pension and other pensioner spending covers Great Britain. Health spending is UK-wide and approximates the amount spent on those aged 65+ using age-spending profiles. Other pensioner spending covers all other expenditure directed to pensioners including: cold weather payments, council tax benefit, over-75 TV licence, pension credit, and more.
Source: RF analysis of DWP, Benefit expenditure and caseload tables 2024; HM Treasury, Spring Budget 2024; OBR, Fiscal risks and sustainability, July 2022; OBR, Economic and Fiscal Outlook, various; ONS, mid-year population estimates and national population projections, various.

Changes to benefit policy since 2010 have favoured older age groups

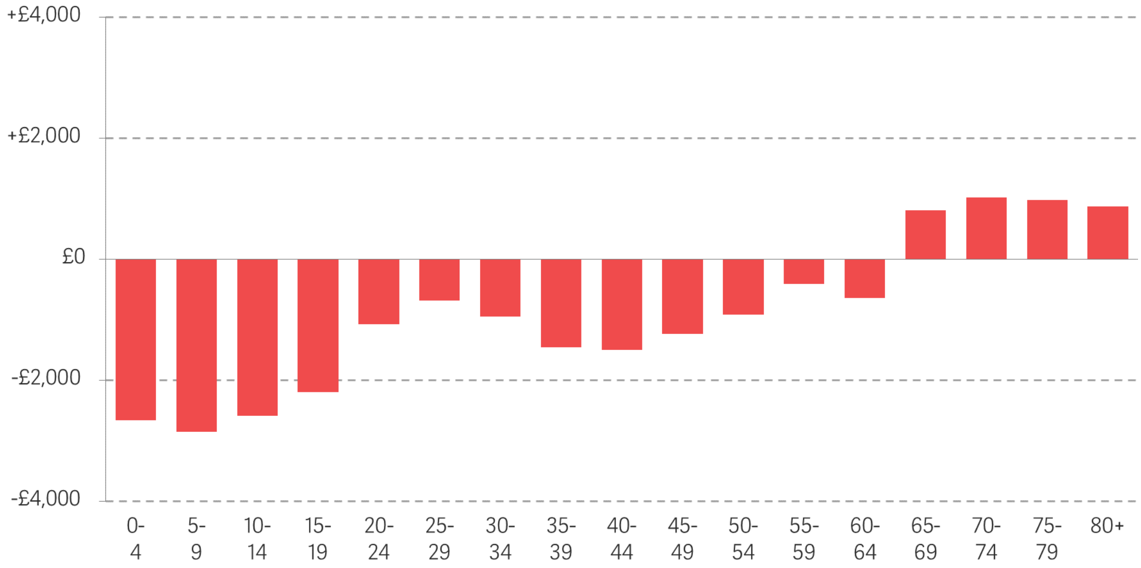
Policy decisions since 2010, particularly in the area of social security, have played a key role in the shift in spending towards older generations.

Our previous work has detailed the negative impact of all social security changes since 2010 on working-age household incomes. This has been characterised by three distinct phases: narrowing benefit eligibility and cuts to needs-based support between 2010 and 2015; freezes to most non-pensioner benefits between 2015 and 2019; and changes between 2019 and 2024 that raised average incomes for many low-income working households, but not by enough to offset the previous cuts.[4]

But the story was very different for pensioner benefits over the same period. Pensioners have benefited from the implementation of the triple lock policy, which increases the State Pension by the highest of growth in average earnings, prices, or 2.5 per cent, and the introduction of the new State Pension, a more generous flat-rate pension that is paid to men born from April 1951 and women born from April 1953. The triple lock is the most important single policy decision directly affecting pensioner incomes taken by Conservative governments since 2010 and has led to the value of the State Pension rising by 60 per cent between 2010-11 and 2023-24, faster than growth in average earnings (46 per cent), double the increase in the basic rate of working-age benefits over the same period (30 per cent), and equivalent to a real-terms rise of 16 per cent. Figure 2 shows that benefit changes have favoured older age groups, resulting in non-pensioners being on average £1,400 a year worse off by 2024-25 compared to 2010-11, with pensioners over £900 better off.[5]

Figure 2 **Benefit changes since 2010 have favoured older age groups**

Impact of social security changes since 2010 on household incomes, by age: UK, 2024-25



Notes: Shows change in unequivalised annual household income per person. The UK tax system has been applied to Scotland.
Source: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

Recent tax policy favouring working-age households has smoothed out the age profile of income gains from policy changes since 2010

Personal tax policy changes, on the other hand, have boosted the incomes of working-age households.

The 2010s were characterised by changes in tax-free personal allowances that has hit older people slightly harder. Between 2010-11 and 2019-20, the tax-free personal allowance rose from £6,475 to £12,750, boosting the income of (tax-paying) working-age adults. But, since 2019-20, this has been partially offset by the freezing of the personal allowance, leading to a real-terms decline in its value by £2,800 between 2019-20 and 2024-25, leaving it up by over £2,900 between 2010-11 and 2024-25. During the 2010s, the decision was taken to gradually eliminate higher Income Tax personal allowances for pensioners. The two age-related personal allowances were frozen in cash terms from April 2013 so that they became aligned with the 'basic' personal allowance. Consequently, the tax-free allowance has fallen in real-terms since 2010-11 by £1,500 for those aged 65-74 and by £1,700 for those aged 75 and above.

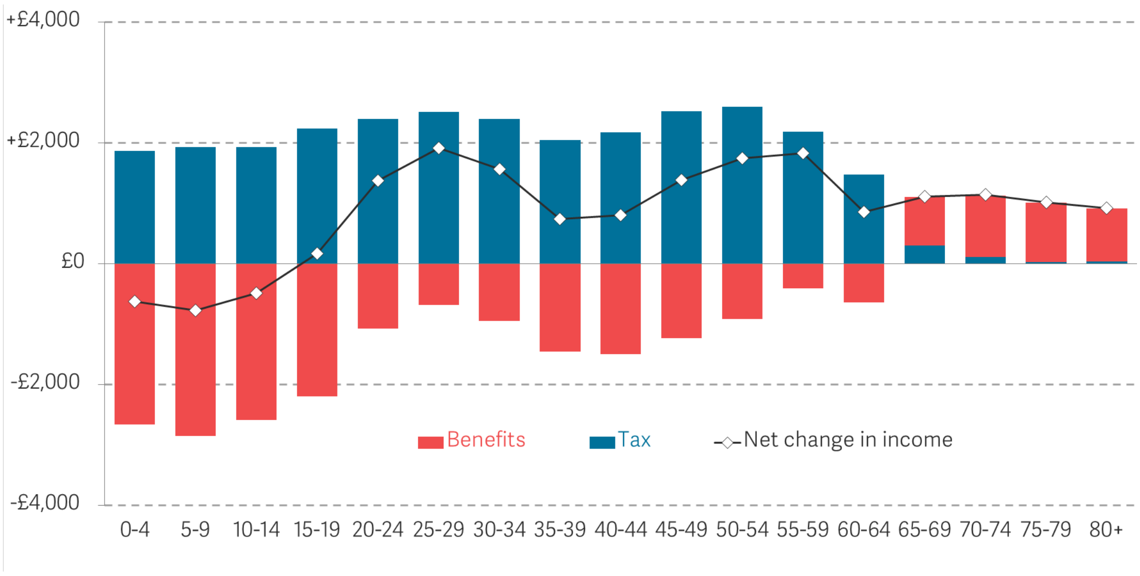
More recently, we've seen several cuts to National Insurance (NI) – lowering it from 13.5 per cent, as recently as September 2022, to 8 per cent in April 2024. Given that NI does not apply to unearned income, nor to the earnings of people over the State Pension age, these tax cuts benefitted workers under the State Pension age but were worth nothing directly to pensioners.

As a result, the impact of all personal tax policy changes since 2010 has been to boost the incomes of non-pensioners by around £2,200 on average, whereas pensioners have seen an average increase of less than £130 (see Figure 3).[6] When combined with the impact of permanent benefit changes since 2010, it shows that non-pensioners are, on average, £760 a year better off in 2024-25 as a result of all permanent tax and benefit changes since 2010, while pensioners are £1,000 a year better off. But within non-pensioner households there is some variation – households with children have relatively badly as tax changes have not, on average, fully offset the impact of reduced benefit generosity, leaving households with children (aged 0-14) an average of £780 a year worse off in 2024-25 than in 2010.

Many households, of course, will have lost significantly more than this, as the gains from tax changes have only benefited households in work. Our earlier work showed that working-age households in receipt of benefits where nobody works are £2,200 per year worse off on average due to benefits changes since 2010. However, some households will have also gained from the expansion of free childcare over the 2010s which involved extending coverage to all three-year-olds as well as increasing provision to 30 hours a week for working families for 38 weeks of the year. And, as recently as April 2024, 15 hours of free childcare was also provided to families with two-year-olds.[7]

Figure 3 **Combining all tax and benefit changes since 2010 shows a more even picture across the age groups, with the exception of households with children**

Impact of personal tax and benefit changes since 2010 on household incomes, by age: UK, 2024-25



Notes: Shows change in unequivalised annual household income per person. The UK tax system has been applied to Scotland.
Source: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

Looking ahead, both the Conservatives and Labour are implicitly committed to plans for tax and benefit policies that favour older households

Baked into the existing fiscal forecasts, which both parties are using as the baseline for additional policy pledges made in their manifestos, are a number of pre-planned tax rises and social-security changes that diverge from the standard practice of uplifting thresholds and entitlements in line with inflation. Both parties have, therefore, implicitly agreed to maintain these changes in order to meet their proposed fiscal rules. In reality, it remains to be seen whether the next government will actually implement these changes, or offset them with additional, or different, tax increases, or simply let borrowing rise. These changes include:

- Several significant planned personal tax increases in the next parliament, including an additional three years of freezes on the main Income Tax and personal NI thresholds, raising £8.7 billion a year. These freezes would mean that pensioner households would be around £210 a year worse off on average in 2028-29 due to these threshold freezes, while non-pensioner households would be £360 a year worse off (in 2024-25 prices).

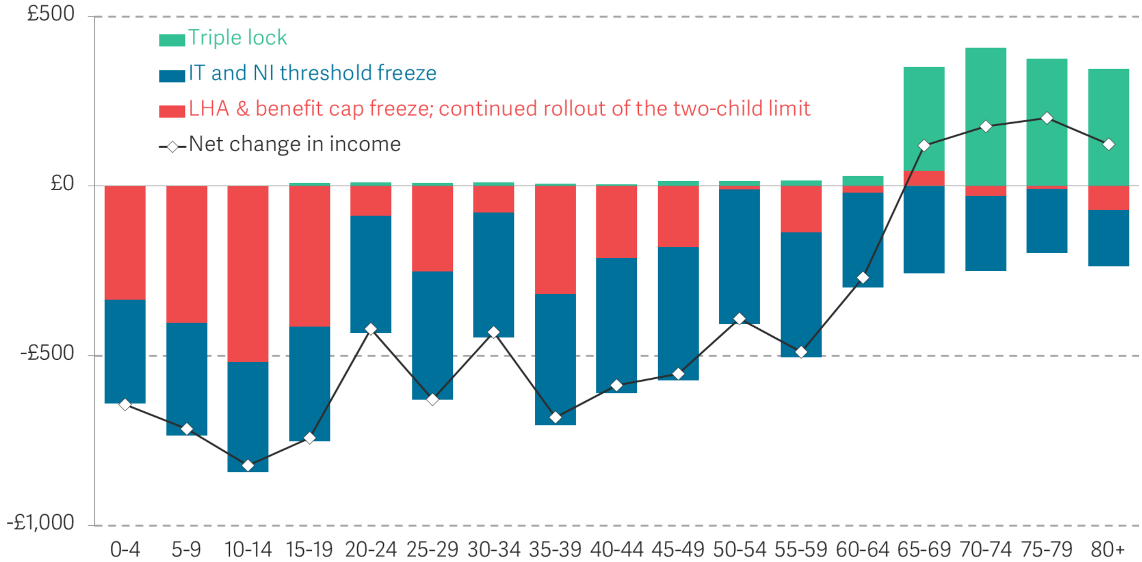
- Freezing the Local Housing Allowance (LHA), after the one-off decision to re-link it to the 30th percentile of local rents in April 2024 and keeping the benefit cap frozen rather than indexing it with inflation. In addition, keeping the two-child limit in place will impact more families over time, as it applies to children born after April 2017. As shown in Figure 4, these policies disproportionately affect non-pensioner households, particularly those with children. On average, non-pensioners would be £220 a year worse off in 2028-29 due to these policies, while households with children (aged 0-14) would see their incomes fall by nearly £420 (in 2024-25 prices).

- Finally, retaining the triple lock, which is expected to boost pensioners' incomes by an average of £360 a year in 2028-29, compared to a world in which the State Pension is adjusted only for inflation.

Overall, the impact of implementing these policies would see the personal tax and benefit system becoming more favourable toward older age groups. On average, non-pensioners would be £560 a year worse off in 2028-29, while pensioners would be £150 a year better off.

Figure 4 **The two main parties have implicitly commited to further tax and benefits changes that would favour older households**

Impact of currently agreed personal tax and benefit policies on household incomes, by age: UK, 2028-29 (in 2024-25 prices)



Notes: Shows change in unequivalised annual household income per person. The UK tax system has been applied to Scotland. The counterfactual assumes pensions are uprated by CPI, tax thresholds uprated by CPI, the Local Housing Allowance is pegged to the 30th percentile of local rents, the benefit cap is uprated annually by CPI, and there is no further rollout of the two-child limit.
Source: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

The Conservative Party manifesto promises a repeat of NI cuts, but is less clear about who would be hit by the welfare cuts that will pay for it

In an effort to counteract this age imbalance, both main parities' manifestos include pledges that could benefit working-age households – below we outline these new commitments.

The Conservative manifesto promised a further 2p cut in NI, taking the employee NI rate to 6 per cent, and to abolish NI for the self-employed entirely. And for those over the State Pension age, there was a promise to increase the personal allowance for pensioners in line with the triple lock, a policy referred to as the 'triple lock plus'. This would reverse the policy under the 2010-2015 coalition Government to scrap the age-related personal allowances for pensioners. The net impact of these two policies would be to make non-pensioners £810 a year better off on average by 2028-29, while pensioners would be £220 a year better off.

However, these figures do not account for the income losses, overwhelmingly facing working-age households, from the £12 billion of benefit cuts that these tax cuts rely on.[8] Given that there is little detail on how this could be done, it is not possible to assess accurately the falls in income across the age distribution resulting from such a policy. But it would be misleading to take the income gains from tax cuts as representative of the overall impact on working-age incomes.

Both parties have included commitments in their manifestos aimed at improving access to home ownership

One of the most profound shifts in the socio-economic circumstances of younger generations has been in housing tenure patterns. Young people in Britain are less likely to own their own home than their parents were at the same age: over half (53 per cent) of those born between 1961-1965 were home owners by the age of 30, compared to just 27 per cent for those born between 1981-1985. Given the persistent, generational pattern of declining home ownership for younger cohorts in Britain, it is perhaps no surprise that the main giveaway for younger voters in manifestos was on policies aimed at boosting home ownership (and supporting those currently struggling to get on the housing ladder). Both parties have pledged to:

- Boost house building by reforming the planning system and have set ambitious targets: the Conservatives have pledged to deliver 1.6 million homes across England by 2029, while Labour has committed to 1.5 million new homes over the same period.
- Keep the current Mortgage Guarantee Scheme, which is due to close in June 2025. The scheme allows lenders to lend to buyers with as little as a 5 per cent deposit by having the government underwrite the riskiest part of the mortgage.
- Implement a Renters (Reform) Bill to improve tenant rights and end 'no-fault' evictions.

In addition, the Conservative Party has committed to keeping the threshold at which first-time buyers start paying Stamp Duty Land Tax (SDLT) at £450,000, rather than returning it to £300,000 in April 2025; has proposed to revive the Help to Buy (HtB) equity loan scheme, supporting first-time buyers with up to 20 per cent of the cost of a new build home; and has pledged a two-year temporary Capital Gains Tax relief for landlords who sell to their existing tenants, intended to make it easier for renters to transition into home ownership. But both parties are silent on the critical issue of improving housing affordability for private renters, a concern for the quarter (25 per cent) of 19-29-year-olds living in the private rented sector.

The Labour Party's commitments to eliminate youth minimum wage rates and implement broader reforms to improve job quality are likely to disproportionately benefit younger households

Since 2016, Conservative governments have pursued ambitious minimum wage increases, setting (and meeting) targets to raise the minimum wage faster than typical wages. This has been particularly beneficial to younger workers who are more likely to be in lower-paid occupations. Our previous analysis has shown that 38 per cent of 18-29-year-olds worked in one of the three lowest-paying occupations on the eve of the pandemic, compared to 23 per cent of workers aged 30-64. Furthermore, around one-in-ten jobs for those under 21 are minimum-wage positions.

Both parties have included commitments on the minimum wage. The Conservatives' policy is to increase it in line with typical earnings (i.e. to maintain its level at two-thirds of typical pay), which implies a rise to £12.84 by 2029 on current forecasts. The Labour Party, on the other hand, has promised to make the minimum wage "a genuine living wage" that "[accounts] for the cost of living", although it's not clear whether this means a step-change up to reach the Real Living Wage (which would be a large rise), or merely increasing the minimum in line with inflation, which would be little different from current practice. More pertinently, Labour has committed to eliminating youth rates by extending the headline adult minimum wage rate to under-21s; this could improve pay outcomes for younger people.

Labour has also announced a variety of reforms to employment rights to improve the security of work, including plans to give workers a right to a contract that reflects the hours they work (building on the Conservatives' recent introduction of a right to request a contract with more predictable hours), and mandating a minimum notice period for shifts, with compensation when shifts are cancelled at the last minute. These reforms would also benefit younger workers as they have become increasingly likely to work in jobs with insecure working conditions or insecure contracts: workers aged 16-34 make up the majority (52 per cent) of all workers on zero-hours contracts.

The main parties' manifestos also committed to improving access to education and training

There were other pledges across both manifestos that could differentially impact age groups. For example, both parties have implicitly agreed to the continued rollout of the childcare commitments made in the Spring Budget 2023 which expands the coverage of free childcare to children as young as nine months old.

But, in terms of new commitments, both parties included relatively similar pledges on improving routes to apprenticeships and training. The Conservatives pledged to create 100,000 more apprenticeships in England every year by the end of the next parliament, though this will be funded by closing "university courses in England with the worst outcomes for their students". Meanwhile, Labour has promised to establish a youth guarantee, ensuring access to training, apprenticeships or job support for all 18-21-year-olds, aiming to reduce the number of young people who are neither learning nor earning. These policies would be welcome; previous RF work has advocated for enabling more sub-degree qualifications, improving training for the existing workforce and empowering individuals to undertake lifelong learning.

One point of difference between the two parties is the Conservative Party's pledge to return to mandatory 'National Service', with 18-year-olds given the choice between volunteering in the community for one weekend a month or a year-long full-time placement in the armed forces or cyber defence. It would be fair to say that this policy does not seem to have the support of young people: 65 per cent of young people aged 18-24 oppose the plans, but 63 per cent of people aged 65 and above support them.

Conclusion

As it stands, both main parties' commitment to existing fiscal plans implies the continuation of benefit policies that risk entrenching the current imbalance between pensioners and non-pensioners, particularly non-pensioner households with children. To counteract this, the Conservatives Party has pledged another tax cuts for working-age people (via NI). But at the same time, it has also cut Income Tax for pensioners and paid for all this primarily through working-age benefit cuts. Both main parties have made pledges in areas such as apprenticeships, housing and (for Labour) the minimum wage and labour-market enforcement, which are more likely to benefit younger people. Ultimately, to achieve the promise of intergenerational fairness – in which each successive cohort enjoys higher incomes than their predecessors – the UK must look beyond specific policies targeted at different age groups. Instead, the UK will need grapple with its growth problem, which has resulted in two decades of stagnant pay growth and reversed generational pay progression.

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[1] Other pensioner spending covers the following: Attendance Allowance; bereavement related benefits; Carer's Allowance; Christmas Bonus; Cold Weather Payments; Council Tax Benefit; Death Grant; Disability Living Allowance; Financial Assistance Scheme; Funeral Expenses Payments; Housing benefits; Incapacity Benefit, Invalidity Benefit & Sickness Benefit; Income Support; Industrial injuries benefits; Mesothelioma 2008 & 2014; Mobility Allowance; Over-65s Payment; Over-70s Payment; Over-75 TV Licence; Pension Credit; Personal Independence Payment; Pneumoconiosis 1979; RPI adjustment; Severe Disablement Allowance; Social Fund Total; Social Fund Discretionary; Support for Mortgage Interest loans; Sure Start Maternity Grant; War Pensions; and Winter Fuel Payments.

[2] The rise in the caseload between 2009-10 and 2024-25 explains around one-tenth of the rise in pension spending.

[3] This calculation uses age-spending profiles and population estimates by single year of age to create age-adjusted spending weights, which are then applied to real-terms health spending. This age adjustment accounts for demographic change and the fact that spending at older ages is typically higher. Source: RF analysis of HM Treasury, Spring Budget 2024; OBR, Fiscal risks and sustainability, July 2022; OBR, Economic and Fiscal Outlook, various; ONS, mid-year population estimates and national population projections, various.

[4] Key social security changes that have weighed on non-pensioner incomes include: the introduction of means-testing within Child Benefit; the reduction in the Local Housing Allowance from the 50th to the 30th percentile of local rents; the introduction of the benefit cap; the four-year freeze of most working-age benefit levels announced in the Summer Budget of 2015; the introduction of the two-child limit from 2017; and the rollout of Universal Credit.

[5] Changes in social security since 2010 include: reducing the Universal Credit taper rate from 63 per cent to 55 per cent and increasing the work allowances; increasing the Universal Credit childcare caps in 2023-24; resetting the Local Housing Allowance to the 30th percentile of local rents; uprating the benefit cap by CPI in 2023-24; reducing the Local Housing Allowance from the 50th to the 30th percentile of local rents; aligning the Tax Credits second income threshold with the standard threshold; increasing the Tax Credits withdrawal rate from 39 per cent to 41 per cent and removing the second withdrawal rate; tapering the family element of Child Tax Credit immediately after the child element; removing the Child Tax Credit baby element and 50-plus element; reducing the Tax Credits income change disregard from £25,000 to £2,500; freezing Child Benefit for

three years from 2011-12; introducing the triple lock to uprate the State Pension from 2011-12; introducing the new State Pension; introducing the benefit cap; reducing expenditure on Council Tax Benefit by 10 per cent, as a part of localisation to Council Tax Support; introducing the High-Income Child Benefit Charge; increasing the Working Tax Credit working hours requirement for couples with children to 24 hours per week; introducing Universal Credit; introducing the two-child limit in Universal Credit, Tax Credits and Housing Benefit; removing the family element in Tax Credits and Universal Credit, and the family premium in Housing Benefit, for new claims; removing the cash component of the Work-Related Activity Group in Employment and Support Allowance and the Limited Capability for Work element in Universal Credit; and reducing the Universal Credit withdrawal rate from 65 per cent to 63 per cent.

[6] Changes in personal taxes since 2010 include: reducing employee National Insurance contributions from 12 per cent to 8 per cent; reducing Class 4 National Insurance contributions for the self-employed from 9 per cent to 8 per cent; abolishing Class 2 National Insurance contributions for the self-employed; increasing the National Insurance Primary Threshold and Lower Profit Limit to £12,570; freezing the Income Tax and National Insurance personal allowance and higher rate threshold at 2021-22 levels; reducing the Income Tax additional rate threshold to £125,140; reducing the Income Tax dividend allowance from £2,000 to £500; successive increases to the Income Tax personal allowance; reducing the additional rate of Income Tax to 45 per cent; and removing the Income Tax age-related personal allowance.

[7] Between 1997 and 2010, the Labour government introduced 12.5 hours of free nursery provision for all four-year-olds for 33 weeks of the year. The Coalition government later extended this to all three-year-olds and increased the provision to 15 hours a week for 38 weeks a year. In 2017, working families became eligible for an additional 15 hours a week of childcare. More recently, in the Spring Budget of 2023, Jeremy Hunt announced that the 30 hours a week of free childcare for children of working parents will be extended to those as young as nine months old. For more information regarding changes to free childcare see: A West & P Noden, Public funding of early years education in England: an historical perspective, London School of Economics and Political Science, October 2016; E Drayton et al., Annual report on education spending in England: 2023, Institute for Fiscal Studies, December 2023.; and T Bell et al., We're going on a growth Hunt: Putting the 2023 Spring Budget in context, Resolution Foundation, March 2023.

[8] The Conservative manifesto suggested that a future government could find £12 billion of cuts to spending on working-age health-related benefits, and pointed to disability benefits as a key area for savings.