

# Longer Lives, Stronger Families?

The changing nature of intergenerational support

Nigel Keohane

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Kindly Supported By



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### NIGEL KEOHANE

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## EXECUTIVE SUMMARY

Too often, our ageing society is observed with the growing costs of health or state pensions in mind. However, the implications for families and for support provided across the generations are less well-explored, though no less radical.

Drawing on new public polling as well as long-run data, this study charts how the shape of the extended family has evolved over time. It goes on to explore how the support given across the intergenerational family has changed historically and how it may alter in the future.

Recent reforms and new commitments from the Conservative Government make this important policy territory. The last parliament saw the introduction of a ‘family test’ to ensure that ‘potential impacts on family relationships and functioning are made explicit and recognised in the process of developing new policy’.<sup>1</sup> As the government acknowledged at the time, too often policies treat the population as individuals or households rather than as families and networks of dependencies. This is particularly true about the support network that is the intergenerational family by which we mean grandparents, parents and children as well as great-grandparents and great-grand-children.

Thinking through the role of the wider family is also becoming more important across many policy areas. Unpaid care – much of it provided by family members – is bearing a greater strain of social care support as the population ages. Families also now have greater flexibility to help each other: 6 April 2015 saw the introduction of new pension freedoms with retirees given total flexibility over what they do with their Defined Contribution pension savings. This has expanded the scope for the handing down of wealth as retirees make decisions on their own requirements in retirement alongside the needs of their children and grandchildren. These new freedoms have been complemented by additional scope for bequests on death: the Conservative Government is raising the effective inheritance tax threshold to £1 million.<sup>2</sup> The underlying philosophical argument being ‘it’s your money, you worked hard for it – and you should be able to pass it onto your loved-ones.’<sup>3</sup>

## Changes to the structure of families

Chapter 2 illustrates out how the structure of the intergenerational family has evolved over the past century. Families have tended to get longer and thinner over time due to a combination of longer lives, fluctuation in the average age of first-time mothers and reduced fertility. Families with multiple generations alive simultaneously are now the norm and having four or more generations is already not unusual. These phenomena are set to become more common. At the same time, there has been a trend towards greater heterogeneity of family types and the traditional 'nuclear family' has changed dramatically.

## Importance of intergenerational support within the family

These changes have been accompanied by shifts in the structure of intergenerational family support over time. Chapters 3 and 4 show the continuing and indeed growing importance of intergenerational family assistance.

- Our public polling shows that more than three quarters of the population agree that *'With people living longer, it is even more important that families stay connected across the generations'*. In large part this conviction appears to be based on altruistic desire to support other family members. Two thirds of the population see handing down money or assets as *'part of the natural pattern of give and take across the generations'*.
- The proportion of the population that receive inheritances and gifts has grown over time, and the overall value of inheritances has increased. Housing assets comprise an increasing proportion of inheritances handed down.
- There is increasing evidence that people are looking to hand money down in methods other than simple bequests on death: 60% of adults agree with the statement that *'It is better to give children money when they need it than to save it to leave as an inheritance'*.

But, these are just the financial flows, and practical assistance is also

extremely important. Reliance on practical care – provided upwards to parents and grandparents and downwards to grandchildren and great-grandchildren – has grown markedly in recent decades. This is despite the fact that there has been significant geographic dispersion of the family and a notable growth in one child families making it more likely that parents do not live close to an adult child.

### Emerging challenges

Drawing on these trends over time and new opinion research, the paper identifies a number of potential challenges ahead associated with these societal and demographic shifts.

1. Living patterns of intergenerational families may diverge, with some intergenerational families co-residing, others geographically separated and a growing proportion growing old without children or grandchildren. These raise major opportunities and challenges for civil society. But, there are also important policy implications such as for care (to ensure families have clarity on their responsibilities and liabilities) and for housing policy (where there is a shortage of housing suitable for older people and where re-locating is harder than it could be).
2. ‘Under-pressure retirees’, faced with the new pension freedoms, may struggle to balance the twin demands of younger family members needing support for major life events and living costs versus their own needs in retirement. Guidance, advice and financial products will increasingly have to recognise the range of demands on retirees’ resources as well as the assets at their disposal.
3. ‘The Skipped Generation’ in their middle years may see their hopes and expectations of receiving an inheritance or major gift thwarted. Older parents may run down their assets paying for care or see the needs of grandchildren – for instance in getting on the housing ladder – as greater than the needs of their adult children. With many in their middle years waiting on an inheritance to fund their retirement, government may need to look to steps to encourage greater pension saving.

4. 'In-betweeners' in their 60s and living in four generation families may find themselves facing triple pressures of continuing in work as the state pension age rises, caring for an elderly parent and providing grandparental childcare. Employment rights, flexible work and respite care are all likely to have to be revisited in the years ahead.

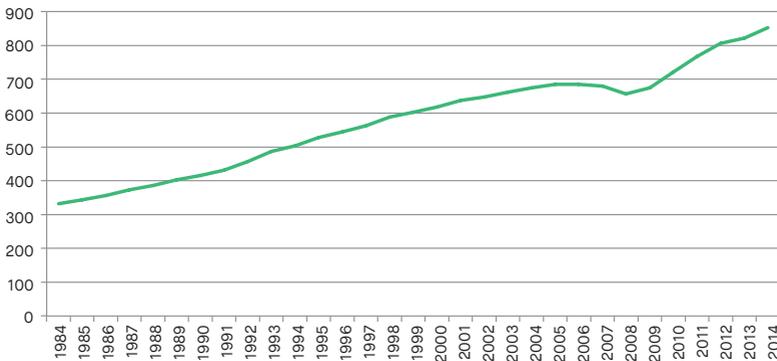
At the heart of each challenge is the need to cast policy prescriptions around the wider needs of families rather than observe individuals and their choices in isolation. Recognising the obligations, dependencies and behaviours within family networks should inform how we design policies. In so doing, these networks can be optimised and sustained.

## CHAPTER 1: WHY THE RESEARCH?

### AN AGEING SOCIETY

The UK's society is ageing. According to current projections, the proportion of the UK population aged over 65 will grow from 18% in 2014 to 25% in 2044.<sup>4</sup> Two factors lie behind this. First, people are on average living later into life. For instance, in 2012, there were estimated to be more than half a million people aged 90 and over living in the UK, representing 0.8% of the population (see Figure 1), a marked increase on the past. A second contributory factor is a bulge of people in the 'babyboomer' cohort (those born in the decades immediately after the Second World War) who are approaching retirement age.

**Figure 1: Persons aged 90 & over per 100,000 in the UK population, 1984 to 2014**



Source: ONS, *Estimates of the Very Old (including Centenarians), England and Wales, and United Kingdom, 2002 to 2014 (2015)*

Our ageing society is a clearly a fiscal and economic challenge, whether this is funding state pensions or health and social care.<sup>5</sup> However, the implications for families themselves are less well-explored, though no less radical. The change in the population's age structure is having major

implications on working lives and time in retirement. Those in their middle years – and even many in their early retirement – can expect to have living parents as well as adult children. Partly due to these shifts, and partly due to the interaction of longer lives with other structural economic and societal changes, longevity can be expected to have an important effect on younger generations as well and on how generations interact with each another. In short, as a population ages, as the life-course evolves and as family structures change, we may expect the functions of families to do the same.<sup>6</sup>

By looking at trends over time and drawing on new opinion research, this research seeks to understand how the structure and nature of intergenerational family life in Britain is evolving.

### THE INTERGENERATIONAL DEBATE

In doing so, this research speaks to a wider discourse about intergenerational support and seeks to broaden the scope of debate. Many commentators have perceived growing intergenerational inequality. Under this thesis assets have, over time, become concentrated among older age groups compared to younger people, in part at least as a consequence of historical accidents such as pension regimes and the timing of inflation.<sup>7</sup> At the same time, older people were insulated – relative to the working age population – from the impact of the fiscal consolidation carried out between 2010 and 2015 for instance via the ‘Triple Lock’ on state pensions (even if the story is more complex than often accepted).<sup>8</sup> In contrast, the rise in student tuition fees has put additional financial burdens on the shoulders of young generations. Therefore, some suggest such shifts are putting strain on the intergenerational contract.<sup>9</sup>

This argument, however, has tended to rest on the stock of private assets and the flow of public expenditure. In contrast, this research looks at the private flows – the support provided across the wider family. What is more it looks not just at financial transfers but also at the practical support provided across the generations, neither of which may ebb and flow in line with public money. Indeed, Professor Martin Kohli suggests that the

rise in public support for pensioners may create resources to enable more frequent downward distribution of resources in families.<sup>10</sup> In other words, private flows may balance out public flows. This bears out other research showing that rather than crudely crowding out or breaking up intra-family support, state assistance can help family members to support one another. A more notable inequality is likely to be within generations between those who receive and do not receive support from their older relatives (though recent evidence suggests that this form of inequality has not been widened by inheritances in recent decades).<sup>11</sup>

## FAMILY LIFE AND INTERGENERATIONAL SUPPORT

This report also seeks to interrogate more closely a second, long-run, thesis that has dominated political and policy discourse – namely, allusion to the atomisation of society. Sociologists and commentators have lamented the decline of the nuclear family and the dislocation this has caused. Others – looking from the opposite (sociological) perspective – have argued that modernity has loosened the ties to relations because the norms and values that previously held them in place have weakened.<sup>12</sup> The apparent fragmentation of the family form has been linked with a rise in individualisation, a reduction in social solidarity and collapse of traditions.<sup>13</sup>

Patterns exist to corroborate the change in the constitution of the family. There has been an increase in smaller, and particularly in single-person, households driven by a larger number of older people living alone and a significant growth in divorces. Recent governments have taken an active interest in breakdown within the nuclear family.<sup>14</sup> Since the middle of the twentieth century, a larger proportion of individuals have also broken the ties with the local community from which they started. Geographic mobility has meant greater dispersion of the intergenerational family, often in pursuit of jobs.

Combined with demographic changes, such individualisation could be seen as exacerbating society's inability to care for an ageing population and to deal with other social and economic challenges, such as that of

loneliness in old age.<sup>15</sup> Thus, at the same time as the costs of childcare and older people's social care put a premium on familial care, society is deemed poorly-placed to provide such support.

This report assesses how the shape of the extended family has evolved over time, and just as important, how the connections, relationships and obligations across the family have changed and are set to alter into the future. As will be described in Chapter 3, a host of other factors potentially interact with demographic factors to affect how generations support each other, such as changes across the life-course and different economic environments experienced by different generations.

These trends have taken place simultaneously with – and at times as a consequence of – an ageing society, yet their impact on intergenerational families and familial relationships remains under-explored.

## POLICY IMPLICATIONS

Although rarely debated explicitly, the means by which policy defines, facilitates and shapes intra-family exchanges is subtle but important. Legal and policy arrangements provide differing opportunities and constraints for intergenerational support by defining the obligations that families are expected (and not expected) to fulfil. For instance, it is now more than a hundred years since the state determined that retirees should not have to fall back on familial support to pay for their living costs in retirement by providing recourse to state pensions. In contrast, in 2015, retirees may receive no state support for social care services unless they meet a very low means-test. Indeed, the availability of familial care is enough to deprive them of entitlement to state support. Looking internationally, some countries (for instance in Asia and southern Europe) have higher expectations of the level of support provided within families and hence different pension provision.

Fundamentally, we must ask ourselves whether current policy strikes the correct balance between responsibilities assumed by individuals, the family and the state.

## THE FOCUS OF THIS RESEARCH

With this backdrop, this paper seeks to answer the following questions:

- How are longevity and other factors affecting the shape of intergenerational families?
- What do such factors mean for intergenerational family relationships and the support that is given across generations? And, how is such support changing over time?
- What are people's attitudes to support across the generations? What is the nature of the intergenerational bargain within families?
- What might be the future challenges relating to intergenerational family life and relationships?
- What are the policy implications of these changes?

## RESEARCH METHODS

This report draws on a wide range of quantitative sources, including the following national datasets:

- the British Household Panel Survey (and its successor Understanding Society);
- HMRC data on estates.

The research also uses a specially-commissioned public poll. The survey was carried out by Populus who interviewed 2,101 UK adults (aged 18+) online between 21 and 23 November 2014. The survey included many new questions along with a number repeated from the 2004 Attitudes to Inheritance Survey.

Results were weighted to be demographically representative of all adults in the UK. A report of the polling findings is available on the SMF website. Through this polling, we sought to acquire information on transfers for the current population, and to explore in detail people's attitudes to transfers and broader intergenerational support.

**The report is structured as follows:**

- Chapter 2 explores the trends that are affecting the shape of the intergenerational family.
- Chapter 3 looks at the types of support provided currently across the generations and how these appear to be changing over time.
- Chapter 4 looks at attitudes to intergenerational support and challenges for the future.

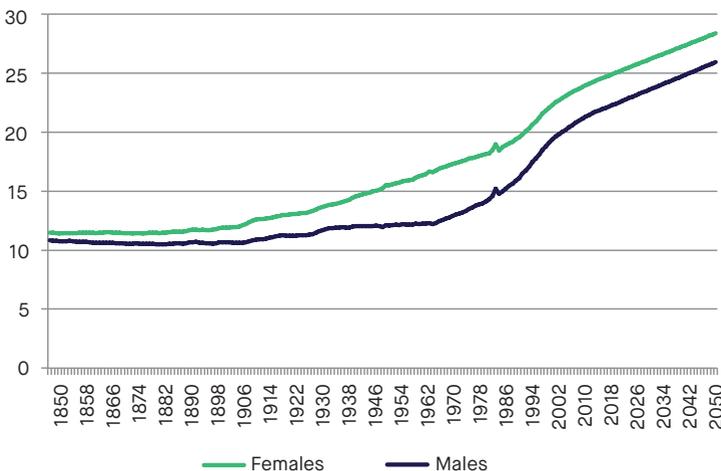
## CHAPTER 2: THE CHANGING SHAPE OF INTERGENERATIONAL FAMILIES

### FACTORS AFFECTING THE SHAPE OF INTERGENERATIONAL FAMILIES

#### Longer lives

At the beginning of the twentieth century, average life expectancy at birth was just 45 years of age for men, and 49 for women. Fast forward to 2012 and this increased to 79.9 for men and 83.3 for women. While much of the growth in average life expectancy has been caused by reductions to infant mortality, life expectancy at age 65 has also increased markedly in the last hundred years and is set to continue along a similar path into the future (see Figure 2). Longevity has been accompanied by burgeoning health inequalities. The differences across socio-economic groups are now more marked than they were in the 1970s. Someone from the richest social class can, on average, expect to live more than seven years longer than someone from the poorest social class.<sup>16</sup>

Figure 2: Cohort expectation of life at age 65 according to historic and projected mortality rates, persons who reached age 65 (1850–2050)

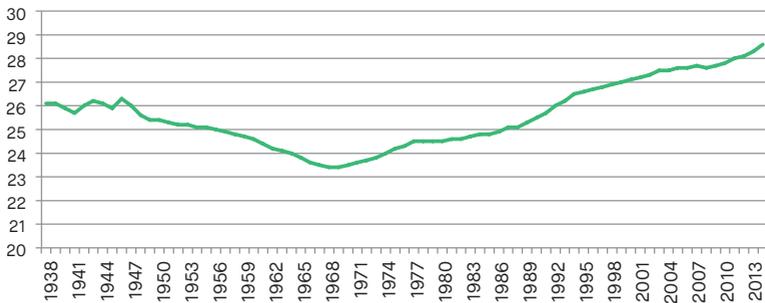


Source: ONS, 2010-based National Population Projections, published March 2012

## Stretching out of generational gaps

This lengthening of lives doesn't however tell the whole story. Longer lives do not necessarily mean more generations<sup>17</sup> in the typical family because the number of living generations within families is determined also by age gaps between generations. As it happens, as life expectancy has risen, people have also – in recent decades at least – established families later in life.<sup>18</sup> Figure 3 illustrates the significant change in the average age of first-time mothers since the 1930s. Since 1968, the average age has increased by more than one month for every year that has passed. However, it might be noted that if one goes back to before the Second World War, the average age of first-time mothers has increased much less (from 26.1 to 28.6).

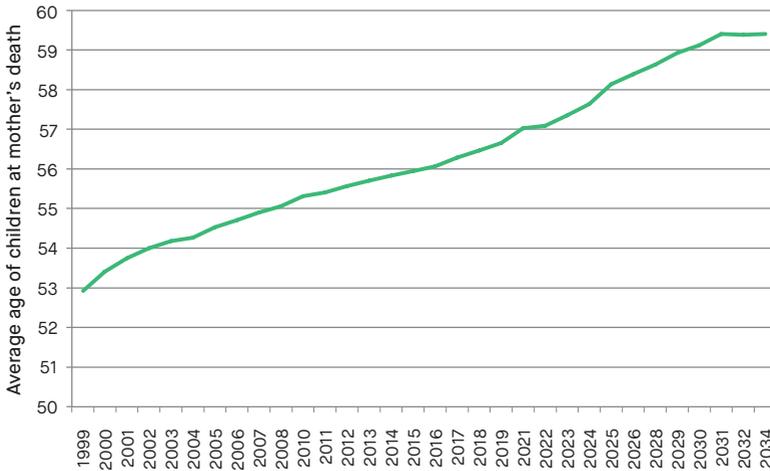
**Figure 3: Average age of first-time mothers (by year of birth of child)**



Source: ONS data: *Live Births in England and Wales by Characteristics of Mother, 2014* (released November 2015)

Therefore, since 1970, as people have tended to live longer, the length of time between the births of successive generations has also stretched out. The interaction is complex. Figure 4 below shows the average age of a person on the death of their mother, which has grown by three years over the last decade and a half. According to demographic projections it is also projected to increase into the future although the rises may flatten out by the 2030s – in part at least probably as a consequence of later motherhood among more recent birth cohorts.

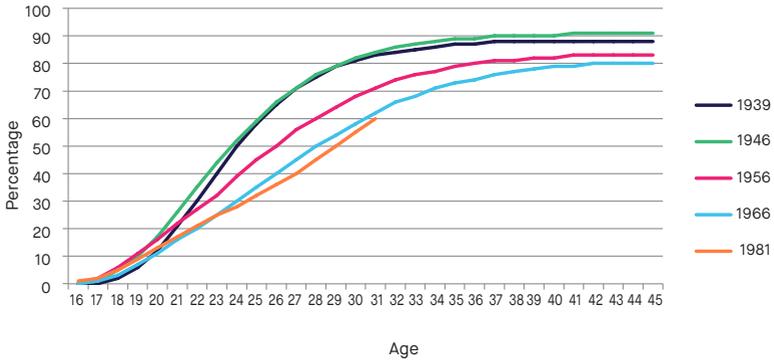
Figure 4: Average age of person on death of mother



Source: Aviva / ONS <sup>19</sup>

More generally, the number of generations alive in a family may be expected to increase only if the extension in longevity outstrips the cumulative stretching between the generations. Figure 5 charts five different birth-year cohorts and the proportion of women in these cohorts who have had at least one child by the age of 45. The most notable differences are between the 1946, 1956 and 1966 birth cohorts, when women became much less likely (compared to earlier cohorts) to have a child at any given age. Another way of understanding this is to identify the age by which half of all women born in a specific year will have had at least one child: for the 1939 and 1946 cohorts, it was age 24, for those born in 1956 age 26, for those born in 1966 age 28 and for those born in 1981 age 29. The significant change therefore appears to have taken place in the second quarter of the twentieth century. In contrast, the generation of women born in 1981 displays very similar characteristics on this measure to the cohort born in 1966, suggesting that the gaps between generations are no-longer growing dramatically.

Figure 5: Proportion of women who have had at least one child (by age 45) at specific ages by birth-year cohorts<sup>20</sup>



Source: ONS, *Cumulative fertility: Proportion of women who have had at least one live birth, age and year of birth of woman, 1920-1981*

This implies that the gaps between generations are no-longer growing as rapidly as they once were. Consequently, as longevity increases we would expect to see multi-generation families increase in the future. Certainly, in the long run since 1938, the effect of increases in life expectancy post-65 (10 years) has markedly outstripped the increases in average age of first-time mothers (2 years). This means that families with three or more generations have become more common.

## Narrowing

While families have stretched, they have also narrowed. Figure 5 above reveals important shifts relating to fertility. First, the proportion of women who remain childless has grown markedly. A consequence is that an increasing proportion of these later birth cohorts will not have younger generations to support them (or to support). For instance, the proportion of childless women (at age 45) in the 1966 cohort is more than twice that of the 1946 cohort.

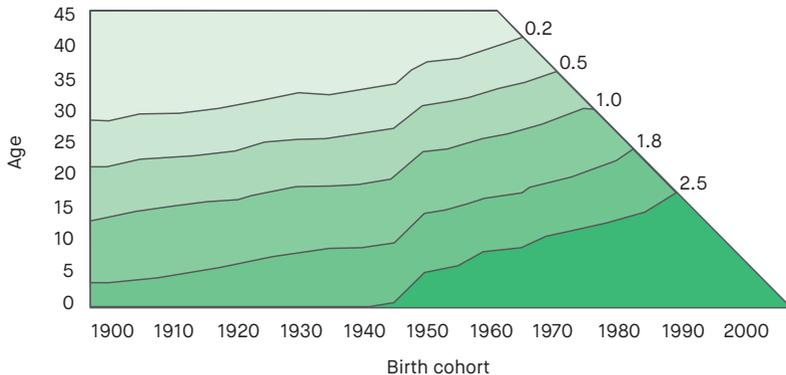
Second, not only are women much more likely to remain childless, but each woman that gives birth has on average fewer children. Comparing

women born in the 1930s to those born in the 1960s, there has also been a significant decline in the average number of children born to a mother, with an especial fall in women having three or four children.<sup>21</sup>

## THE CHANGING SHAPE OF THE INTERGENERATIONAL FAMILY IN THE UK

Together these dynamics interact to produce more vertical families. While the number of family members may remain the same, the family is shaped taller and thinner. The growth in the intergenerational family is visible from the graph below. Here, darker colours mean on average that a birth cohort has more grandparents alive at a given age. For instance, a fifteen year-old born in 1990 would on average have 2.5 grandparents alive; whilst a fifteen year old born in 1910 would have 1 grandparent alive. It shows that the later birth cohorts are much more likely to have a grandparent alive than early birth cohorts.

Figure 6: Mean number of living grandparents of native-born persons by cohort and age: Britain, birth cohorts 1900–2010



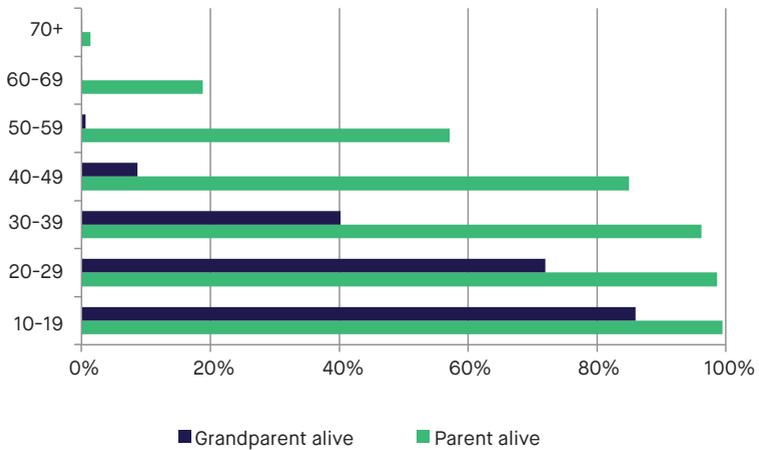
Source: Michael Murphy, *Long-Term Effects of the Demographic Transition on Family and Kinship Networks in Britain* (2011)

It is problematic to gauge exactly what proportion of the population live in one, two, three, four or five generation families because the available

survey data misses out specific family members (such as grandchildren within the household, and great-grandparents and great-grand-children within the household). However, within these limitations our analysis of the Understanding Society survey shows that more than half of the population live in families with three or more living generations and that having four generations alive is not uncommon.<sup>22</sup>

The effect of longevity on the structure of the intergenerational family can be seen in Figure 7. This shows that having a living parent is very common among those aged 50-59. Even among those aged 60-69, one in five still have a living parent. Meanwhile, four in ten of those aged 30-39 have a living grandparent.

**Figure 7: Proportion of each age group with at least one parent / grandparent alive**



*SMF analysis of Understanding Society, 2012*

The qualitative dimensions of longer lives are also important. For instance, co-longevity has greatly increased, thus extending significantly the period of time during which family members co-exist. The parent-child relationship may now last six or seven decades; the grandparent-grandchild relationship may last three or four decades.<sup>23</sup>

## INCREASING HETEROGENEITY OF FAMILY FORM

Alongside this stretching out of the multi-generation family, the face of the traditional 'nuclear family' has transformed. Higher divorce rates and more fluidity in family forms mean that there is now greater heterogeneity of family structure than in previous centuries.<sup>24</sup> This affects both the face of the twenty-first century family and also the roles played by different members. Grandparents are a good case in point. Professor Sarah Harper and others have identified various different types of grandparental roles, including: carers; replacement partners; replacement parents; and, family anchors.<sup>25</sup> Some of these are specific substitutes for other traditional family functions. Indeed, family breakdown can affect not only the nuclear family but also the persistence of bonds across the extended family. For example, the maternal grandparent is likely to have stronger ties, and the paternal grandparent is more likely to find themselves adrift, in instances of parental divorce.<sup>26</sup>

Immigration has introduced different family demographics with on average higher numbers of children and younger motherhood. It has also produced different cultural norms associated with family structure and interdependency. Immigration and emigration mean that families may have relatives absent abroad.

Both the rise of vertical family and the increasing heterogeneity imply that we may wish to adopt a more nuanced view on the family that goes beyond the nuclear model favoured often by public policymakers. As it stands we often look only at individual means (for instance in taxation and eligibility to Child Benefit). Where we go beyond this, we typically look at parents of young adults (for eligibility to students grants), or to the nuclear family unit or the household (means-tested benefits, tax credits and free school meals).

### Key points

- The structure of the intergenerational family has evolved dramatically over the past century due to a combination of longer lives, fluctuation in the average age of first-time mothers and reduced fertility. Families have tended to get longer and thinner over time.
- The multi-generation family is now the norm and four or more generations is already not unusual and set to grow.
- Longer lives have meant that grandparents and grandchildren have more time alive together.
- There is a trend towards greater heterogeneity of family types, and the traditional 'nuclear family' has changed dramatically.

## CHAPTER 3: CHANGING PATTERNS OF INTERGENERATIONAL SUPPORT

This chapter explores patterns of intergenerational support and seeks to understand how intergenerational support has evolved over time.

### THE FAMILY WELFARE MODEL

Despite the advance of the welfare state in Britain in the twenty-first century, families share resources, expertise and assistance in a wide range of ways. Motivation varies between 'altruism' (providing support without any expectations of anything in return) and 'exchange' (transfers made in expectation of something back). Family networks may act to provide credit when individuals lack assets to borrow against or to insure family members against drops in income. Broadly speaking intergenerational transfers also relate to the life-course. People move from being net consumers when in childhood, through to net producers in adulthood, and back to net consumers in old age. As an insurance method, intergenerational support levels out these rises and falls.

The mode of support may also differ markedly. Transfers may be financial or practical, and the value of practical support would be very high were it to be monetised. Beyond the caring responsibilities they carry, family members can also enrich family life in other ways, including through learning, culture, heritage, family history and emotional support. For example, older people value having fun with and being cared for and loved by family as the most important aspect contributing to their well-being.<sup>27</sup>

Before looking in depth at how intergenerational support has evolved over time, we provide a brief snapshot of what is taking place currently.

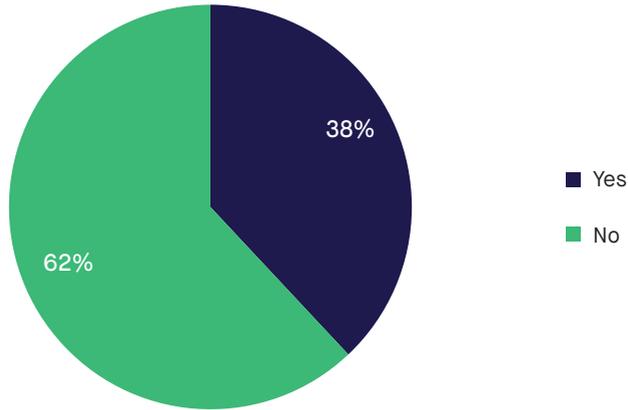
### WHAT IS THE STATE OF INTERGENERATIONAL FAMILY SUPPORT CURRENTLY?

#### **Financial support**

SMF's polling shows that a significant proportion of people (38%) have

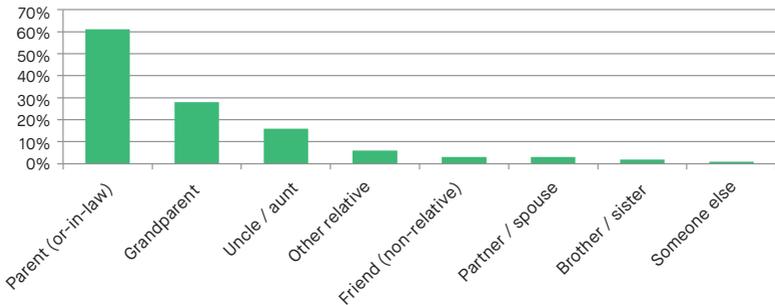
received a transfer at some point in their life. Fifteen percent reported receiving less than £5,000, 14% received between £5,000 and £50,000, whilst 6% reported receiving more than £50,000.<sup>28</sup> Unsurprisingly, the most common source of an inheritance was a parent (or parent in law), although more than a quarter of inheritances derived from grandparents.

Figure 8: Proportion received an inheritance (SMF poll, November 2014)



Source: SMF / Populus Poll, November 2014. Sample: 2,101 people.

Figure 9: Sources of inheritance for those who received an inheritance (SMF poll, November 2014)<sup>29</sup>



Source: SMF / Populus Poll, November 2014. Sample: 2,101 people.

A similar proportion (41%) of the total population reports ever having received a gift (other than to mark a birthday or holiday). Many of these recipients were given modest sums of money, with almost half of the population that had received a gift reporting receiving less than £500. There was also significant coincidence of receipt of inheritances and gifts. In other words, if someone had received a gift they were more likely to have also received an inheritance than the population average (and vice versa): 60% of those who have received an inheritance have also received a gift; 54% of those who have received a gift have also received an inheritance. Other evidence suggests that 'the Bank of Mum and Dad' not only facilitates big purchases or investments but also often helps meet day-to-day living costs.<sup>30</sup>

As might be expected, older people (who have had a longer time to acquire an inheritance) were more likely to report having received one. In contrast, the younger were more likely to report having received a gift. This is likely to reflect both recall error among the older population (who have had a longer period over which to forget any such transfers) as well as potentially a trend over time with a shift towards in-life gifts rather than inheritances.

Those from higher socio-economic groups were marginally more likely to have received an inheritance. Previous research led by Professor Karen Rowlingson has suggested that, even controlling for other variables (such as age and household tenure), socio-economic background is a significant factor.<sup>31</sup> Evidence from other studies corroborates this. A study by the Institute of Fiscal Studies suggests that inheritances are more likely to have been received by women, those with higher levels of education, those with no children, those with higher levels of household income, those who are of white ethnicity and those whose parents died at older ages.<sup>32</sup>

### **Practical support**

Alongside this financial support, families provide significant practical and in-kind support. This takes many forms. For instance, analysis of the census shows that half (51%) of children in kinship care were growing up

in households headed by grandparents.<sup>33</sup> In 2014, over 3.3 million adults in the UK aged between 20 and 34 were living with a parent or parents.<sup>34</sup>

The evidence suggests that there is significant reliance within extended families on informal care. Much of this care is provided across the generations – upwards from adult children to older people and, in the other direction, via grandparental childcare. Research has estimated that 14.3% of children (aged 0 to 15) receive informal grandparental childcare, at a value of £7.3bn a year.<sup>35</sup> Despite the visibility of financial assistance, practical and emotional help is usually valued more highly. Previous SMF polling shows that childcare was rated the most important assistance that older family members can provide to younger family members, more important than mortgage deposits, mortgage payments, university costs, wedding, rental payments or general costs of living.<sup>36</sup> Research looking over time at the help given across the generations (between adult children and their parents) shows that grand-parenting is ‘the kind of intergenerational support that parents are most keen to provide’.<sup>37</sup> Grandparental childcare is used by households across the income gradient, inferring that preference for such provision goes beyond its low cost or lack of alternative options.<sup>38</sup>

In addition, there is significant incidence of upwards care. After spouses and partners, the next most important providers of unpaid care to older people are adult children.<sup>39</sup>

## TRENDS IN INTERGENERATIONAL FAMILY SUPPORT

Chapter 2 described the dramatic changes in family structures that have taken place in past decades. Below we discuss how the type, timing, distribution and scale of intergenerational support have evolved over time.

### **Theoretical interactions between longer lives and intergenerational support**

At a theoretical level, a number of factors may be expected to affect the nature and timing, prevalence and volume, origin and destination of intergenerational family support.

## 1. Longer lives

All other things being equal, longer lives will mean later receipt of inheritances. However, this picture may be complicated by other factors. In the first place, while living longer gives people a greater opportunity to save money and thus distribute transfers to their children and grandchildren, it also gives them greater time to consume their savings. While living longer will delay the point of bequest on death and delay the receipt of inheritances from parents, donors may alter their behaviour by transferring money earlier and / or by giving assistance to grandchildren rather than adult children. The picture across the multi-generation family therefore could foreseeably be characterised by money being handed down by very old individuals on death but received by younger people as grandchildren rather than children.

## 2. Changes in the life-course

Significant alterations to the life-course over time may affect the timing and destination of support provided across the family network. The life-course hypothesis posits that individuals shift from being net consumers in their youth to net-producers during their working lives before becoming net consumers once again in older age. But, the shape of the life-course has changed over time.

After a period during which people retired on average ahead of the State Pension Age, people are increasingly extending their working lives, while the State Pension Age is itself rising. In contrast, higher rates of participation at university have contributed to people entering the labour market later and thus remaining net consumers for longer periods at the beginning of the life-course. In sum, the average individual is likely to take a longer time to shift from net consumer to net producer and subsequently to delay the shift from producer to net consumer in old age. In between, the period of high consumption (when child-rearing is taking place) has also been delayed later into life.

### 3. External economic factors

The private costs borne by individuals have changed due to external economic factors and policy decisions.<sup>40</sup> These changing external pressures may be expected to alter the utility of money to people at different points in their life-course. The current cohort of older people is receiving higher levels of state pension than previous cohorts received, though they face the risk of social care costs at the end of their lives. For their part, younger people face much greater costs of university and further education. Meanwhile, the high costs of buying a house have increased the utility of money to young people trying to get on the housing ladder.

At a general level, research by Professor John Hills has shown that there has been a significant reduction in the typical variation of income by age over the last fifteen years. This means that in 2010-11 a child and a pensioner have incomes much more similar to those of a middle-aged person than they did in 1997-98.<sup>41</sup> These changes across the life-course therefore may also have an effect on how people conceive of, anticipate and plan for intergenerational support – whether that is receiving or giving it.

The perceived utility of the money or time to the recipient and potential donor may encourage donors to alter their giving behaviour. This may manifest itself in several ways. On the one hand, donors may switch from bequests on death to more tactically-timed inter-vivos transfers to the younger generations if they believe the support is of greater utility to their children if received ahead of their death. On the other hand, they may switch from financial transfers to in-kind transfers if they believe that it may be either more efficient or of greater benefit to themselves or their kin.

#### Trends in financial support

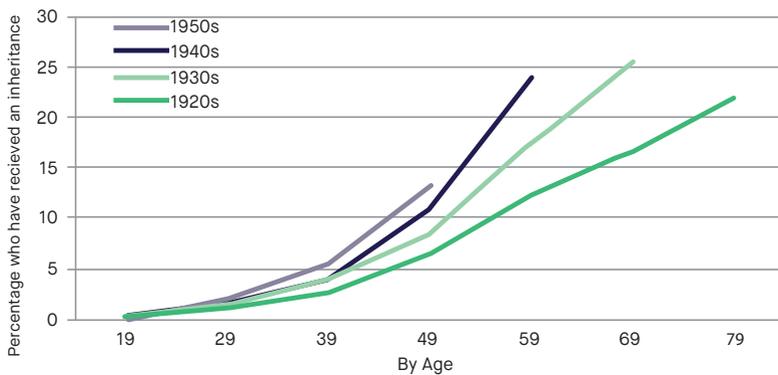
##### 1. Growth in prevalence, value and timing of inheritances received

The volume of bequests does not appear to have changed dramatically in the short-term. The 2008-10 Wealth and Assets Survey showed that

3.6% of adults received an inheritance valued at £1,000 or more in the two years preceding the survey.<sup>42</sup> This is very similar to the approximate 4% that received any inheritance in 1997.<sup>43</sup>

However, in the longer term change is evident. Analysis by the Institute of Fiscal Studies uses Wave 6 of the English Longitudinal Study of Ageing (ELSA). Here, respondents (all of whom were aged 50 and over) were asked about any gifts or inheritances received at any point in their life and the size of these bequests. It shows that those born in the 1950s are much more likely to have received an inheritance by the age of 50 than those born in the 1940s, 1930s or 1920s. Generally, the pattern appears to suggest that more recent birth cohorts are more likely to have received an inheritance at any given age and that this reflects an increase in the likelihood of receiving an inheritance rather than individuals simply receiving an inheritance at an earlier point in life – although it may be that both of these effects are occurring. The peak age for receipt of an inheritance has also risen over time probably as a consequence of longevity. Interestingly, those whose parents died at an older age are more likely to have received an inheritance, suggesting that longer lives do not, on average, lead to greater decumulation of wealth and a lower likelihood of downward transfers.<sup>44</sup>

**Figure 10: Receipts of inheritance by different birth cohorts at different ages (IFS derived from ELSA Wave 6)**



Source: IFS

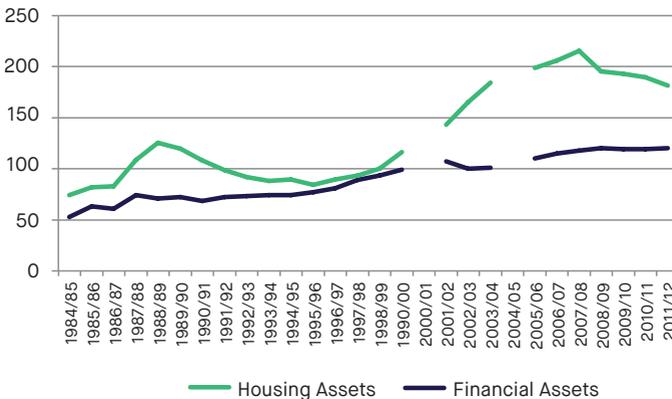
Conditional on receipt of an inheritance, the IFS analysis indicates no significant difference in the average real value of inheritance(s) between individuals in different cohorts.<sup>45</sup>

## 2. Change in prevalence and value of inheritances given

However, looking from the donor side, evidence that tracks all estates and inheritances at the point of donation rather than receipt suggests that the mean value has increased significantly. This discrepancy may arise for a number of reasons, for instance because those leaving inheritances may be distributing their bequests now more widely (for instance among a wider group of family members or to other causes).

HMRC data shows that financial assets bequeathed have more than doubled in value since 1984. Meanwhile, the value of housing estates almost tripled between 1984 and 2007. Between 2007-08 and 2011-12, the mean value of housing assets transferred fell by £34,000. This underscores the importance of housing wealth to inherited wealth and elucidates two trends in recent decades: first, the privatisation of housing via initiatives such as the Right to Buy; second, the marked appreciation in the value of housing assets especially in the last decade.<sup>46</sup>

Figure 11: Mean value of estates by year (£000s; 2011 prices)



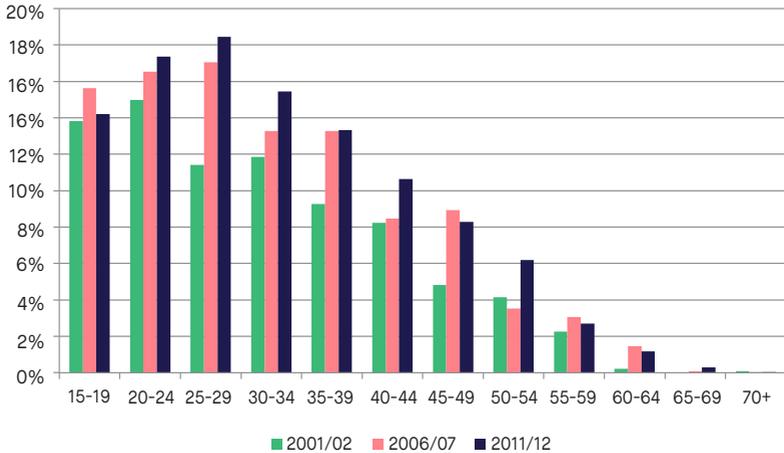
Source: SMF from HMRC estates data.

### 3. Changing mode and changing destination

Aside from fear of inheritance tax (which our polling suggested was not a significant cause), several factors may encourage donors to shift from bequests on death to lifetime gifts. As mentioned earlier, the theory of economics would suggest that a prospective donor may trade off the utility of money to themselves and to the prospective recipient. Longer lives may affect the perceived utility of the money to the next generation: adult children are likely to be much older at the point of death of their parents. This may push them past crucial life stage moments such as going to university, buying a house or raising young children during which they may face credit constraints. A middle aged person, who already owns a house and has an established career, might only get a slight benefit from an inheritance. The same value of cash as a young adult could play an important role in helping to establish a stable, productive household.

A number of pieces of evidence suggest that such a shift has taken and is taking place. First, evidence suggests that the proportion of the population receiving inter-vivos transfers has grown. Data on in-life gifts suggests growth in the proportion of the population that receive financial help from their parents. Figure 12 illustrates the growth in the decade up to 2011-12 – across the population it grew by a third from 6.1% to 8.2%. It's interesting to note that this growth is observable both before and after the financial crash. Differences across the age bands are also notable with the greatest increases among younger adults, with nearly one in five 25-29 year olds, for example, receiving regular financial help from their parents in 2011/12.

Figure 12: Proportion of adults receiving financial help from their parents by age group



Source: SMF analysis of Understanding Society and British Household Panel Survey

This trend is also supported by evidence showing that later birth cohorts are more likely to report having received a substantial gift than earlier birth cohorts.<sup>47</sup> Finally, research by the Council of Mortgage Lenders has shown that the proportion of first-time buyers aged under 30 who receive assistance with their deposit increased from fewer than one in ten in 1995 to nearly eight in ten by 2011.<sup>48</sup>

Attitudes from our polling evidence also bear this out (see Chapter 4). Finally, there is increasing evidence of generation skipping with statistics showing an increase in the probability of receiving an inheritance from a grandparent between the 1950s cohort and previous cohorts.<sup>49</sup>

### Key points

- The proportion of the population that receive inheritances and gifts appears to be growing over time, and the overall value of inheritances is growing.
- Longer lives do not appear to lead to lower volumes of bequests – i.e. longer periods of decumulation appear to interact with other factors to mean that assets are not decumulated to the point of reducing the incidence or value of bequests.
- There is increasing evidence that people are looking to hand money down in methods other than simple bequests on death – the proportion of inheritors that are grandchildren has risen; most people believe that money is better handed down when it is needed rather than on death; the amount of money handed down via gifts has grown.

## Trends in practical and in-kind support

Alongside these financial transfers, the evidence suggests that there have been significant changes in the way that family members help each other practically across the generations. This support may be via living together, helping with domestic activities or shopping or providing familial care.

### 1. Intergenerational co-residence

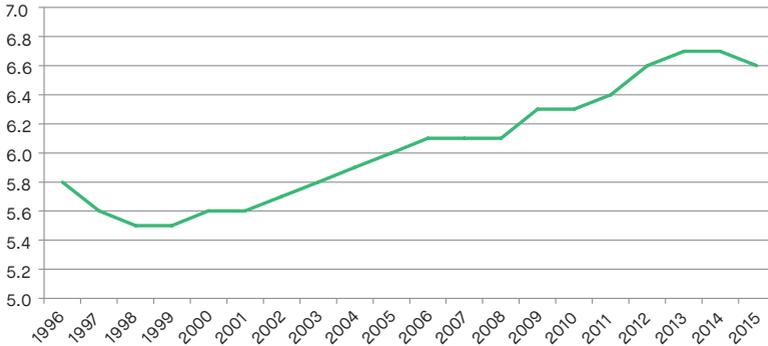
Proximity and contact matter from a practical point of view by enabling care and support to take place across the generations. They also contribute to the well-being of older family members. For instance, older people who see their children once a month or less are twice as likely to feel lonely than those who see their children every day. Visits to old people facilitate access to other networks, support and can combat stress.

Intergenerational family life and contact has evolved in two contrasting ways in recent decades. First, various factors including labour market mobility and lower fertility rates have led to greater distances between parents and their nearest adult child. Second, a countervailing force is that the costs of housing and the costs of care have tended to pull multi-generation families together leading to higher levels of co-residence than previously.

At least from the last quarter of the previous century there has been a significant decline in the proportion of older people living with their adult children in intergenerational households.<sup>50</sup> Nonetheless, one in five of all those aged 55 or over who have at least one adult child co-resides with a child.<sup>51</sup> The fall in co-residence appears to have taken place amongst the 'older old'. Less than ten per cent of older people aged 70 live with a child.<sup>52</sup> A much smaller proportion of people, just over two per cent of people aged 50 and above, live with a grandchild.<sup>53</sup>

Despite this, co-residence of 'younger old' living with children has grown significantly. Almost three-fifths of people aged 50-54 live with a child (59%). The latter has been part of the well-publicised growth among the 'boomerang' generation of young adults who remain at, or return to, their parents' home in early adulthood. The absolute growth in numbers of young adults living with their parents (see Figure 13) also represents an increase in the proportion of this age group living with their parents' so it reads the proportion of this age group living with their parents (from 36% in 1996 to 40% in 2015).<sup>54</sup>

Figure 13: Young adults aged 16-34 living with parents in the UK, 1996-2015 (millions)



Source: ONS, *Families and Households (2015)*

It might be noted that this increase in co-residence of young adults with their parents pre-dated the financial crisis and recession by some considerable time and that there are a number of contributing factors. Research by Shelter found that two thirds of ‘boomerangers’ cite housing costs as one of the reasons they were living with their parents and almost half cite it as the main factor.<sup>55</sup> Other research has used regression analysis to show that these young adults are on average more likely to be unemployed or have precarious jobs than other people the same age.<sup>56</sup> Co-residence is much more likely among 20-34 year olds in Northern Ireland (34%) than in London (22%).<sup>57</sup>

## 2. Intergenerational proximity

In terms of geographic proximity of older generations to their children and grandchildren, while the changes may not appear as radical as is often popularly imagined, generations have moved apart.

Proximity is an important correlate of contact across the generations and of support. Greater geographic distance between the recipient and donor is associated with lower prevalence of in-kind support. SMF analysis

shows that, while 60% of individuals living less than 15 minutes away from a parent receive regular practical help, only 30% of those living between 1 and 2 hours away from their parents receive such assistance.<sup>58</sup> The same is true for upward care – namely that those who live further from their adult children and grandchildren are less likely to receive support. Of course, the causality could be running in either direction: physical distance may prevent support from taking place; or, physical distance could reflect a weak relationship between parent and child.

Quite rightly, charities point out incidence of loneliness and isolation among older people. 17% of older people would like to see their children more often, but half of them believe that their children are too busy. However, the evidence suggests that nine in ten of those with children have their closest child within an hour's drive away. Over a quarter of 65+ see their children every day. As noted earlier, of individuals aged 55+ with at least one child, one in five live with the child; one in three lives within 20 miles.<sup>59</sup> There are some important differences:

- Very large differences in intergenerational proximity by ethnicity, with south Asians especially likely to live with, or near, the other generation.
- More highly-educated parents are less likely to live in close proximity to a child.
- Those with only one child are much less likely to live in close proximity to a child.
- Those with grandchildren are less likely to live with a child, although they are more likely to live in close proximity.

### **3. Prevalence of intergenerational informal care**

There is significant reliance within extended families on informal care. Much of this care is provided across the generations – upwards from adult children to older people and, in the other direction, via grandparental childcare.

Although it is hard to be precise about changes over time, available evidence shows significant growth in informal care provided across the

intergenerational family. Between 1995 and 2010, the number of hours of unpaid care increased by 2.4bn hours per year.<sup>60</sup> Census data shows that the number of informal carers increased from 5.2 million to 5.8 million in England and Wales between 2001 and 2011.<sup>61</sup> In particular, the number of adult children providing assistance to their parents has grown in recent decades.

Similarly, the number of children in receipt of grandparental childcare rose from 2.3m to 2.7m in the period 1999 to 2008, with the percentage of all children using the care rising from 17% to 21%.<sup>62</sup> This is likely to be, at least in part, a reflection of changing structures of family life, working patterns and retirement. The rise in dual-working households and of single parent households has increased reliance on non-parental care for children. Formal childcare and non-formal childcare has grown. Over the longer term, the improved health of grandparents has boosted the availability of this care. The long run increase in the proportion of recipients of grandparental care is huge. The proportion of children who were ever looked after by grandparents was just one in three before the Second World War. This proportion rose steadily over the decades, so that four out of five children growing up in the 1980s and 1990s had grandparents involved in their care. Much of the growth has come from semi-regular involvement.<sup>63</sup>

Despite this picture of intergenerational support, certain demographic and other trends are likely to exert pressure on it over time. Numbers of people providing care to older parents are projected to increase by approximately 20% between 2007 and 2032, rising from 400,000 to 485,000.<sup>64</sup> Indeed Linda Pickard argues that unpaid care provided by adult children to their parents will be unable to meet the demand in the years ahead. By 2032, there is projected to be a shortfall of 160,000 care givers.<sup>65</sup> This is because the number of older people is rising faster than the number of younger people.

The pressures that may crowd out upward care are similar to the pressures on grandparental childcare. Female participation rates for mothers of young children have grown rapidly and are set to expand further, thus

increasing the demand for childcare. Alongside this, there has already been a major expansion of women in work over the age of 50 and this is projected to continue to grow, thus affecting the potential supply of grandparental childcare.

#### **4. Double caring responsibilities**

Some people who have both older and younger dependent relatives have to provide both downward and upward care simultaneously. Recent research has suggested that a quarter of the UK's adult population have experienced so-called 'sandwich caring' at some point in their lives, with 10 per cent currently in this situation.<sup>66</sup> Caring has many positive associations: two thirds (66%) agree that caring 'makes them feel good' while seven in ten (70%) agree that caring has improved their relationship with their family members. However, providing sandwich care can undermine emotional health, can lead to reduced time at work or forced exit from the labour market and reduce long-term saving.<sup>67</sup> While typically, it is those in the middle generation who provide care for a dependent child as well as a parent, one in five sandwich carers are caring for a grandparent or grandparent-in-law. Meanwhile, 13% are grandparents who are caring for grandchildren and ageing parents. With people living longer, this particular trend is likely to increase as families continue to grow longer and thinner.

### Key points

- Care provided by adult children to their parents has grown significantly in recent decades.
- The value and volume of grandparental care has grown markedly as demand has increased and supply of care made more readily available.
- There are question marks as to whether this level of support can be sustained and / or whether supply can increase sufficiently to meet future demand. Factors affecting it include: female labour market participation, later life working and larger numbers of childless adults.
- Co-residence with a child has declined amongst the 'older' old and increased amongst those in their 50s. However, future trends on co-residence and proximity of family members are harder to predict.
- There has been significant geographic dispersion. This is easy to overstate, but nonetheless an important trend. Growth in one child families makes it more likely that parents do not live close to an adult child.

## CHAPTER 4: UNDERSTANDING THE FUTURE: ATTITUDES TO FAMILY SUPPORT

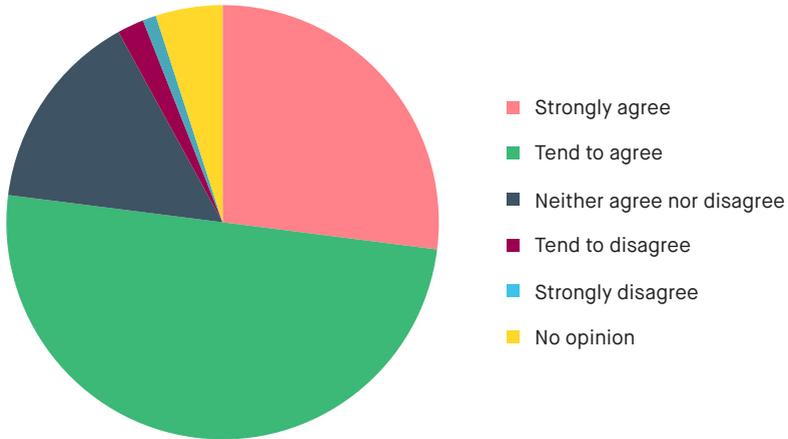
The previous chapters have described the changing shape of the intergenerational family and the changing trends and patterns of intergenerational support observable over time.

Drawing on this analysis and new attitudinal opinion research, this chapter explores what the future might hold for intergenerational family support given the trends and changes set out above. It starts by discussing reported attitudes to intergenerational support generally, the underlying motivations and the nature of the deal across the generations. It then goes on to explore a series of future challenges for intergenerational family life and the consequences for society and public policymakers.

### ATTITUDES TO FUTURE INTERGENERATIONAL FAMILY SUPPORT

Our polling revealed a strong consensus that intergenerational relationships are fundamentally important in an ageing society. Almost eight in ten people agree that *‘with people living longer it is even more important families stay connected across the generations’*. This was felt particularly strongly amongst older age groups. This may reflect the importance to grandparents of relationships with their grandchildren, as well as potentially the more immediate resonance of longer lives. As noted earlier, in many ways, this is intuitive: demographic changes mean longer years of shared lives between generations along with proportionally shorter periods of time spent in the ‘nuclear family’ and proportionally longer time spent outside it.

Figure 14: Proportion of the population agreeing with the statement: ‘With people living longer, it is even more important that families stay connected across the generations’



Source: SMF / Populus Poll, November 2014. Sample: 2,101 people.

Beyond this, a significant majority of the public also agree that intergenerational support is fundamentally important. Two thirds agreed that handing money down is *‘a natural pattern of give and take’* with only a small minority disagreeing. A similar proportion agreed that children should look after their parents in older age. Meanwhile, three quarters of those aged over 65 *‘would like to be able to leave property or money as an inheritance’*.

However, the nature of the relationship is complex. Despite looking favourably on intergenerational support, some three quarters felt that *‘people should be financially independent of their parents’*. The implication is that self-reliance should be supplemented by family welfare and support and that the desire to be independent is not anachronistic with the desire to have interdependencies across the family. Overreliance on family support may therefore jar with the pervading norm of intergenerational support – perhaps one reason why co-residence among young adults is viewed with some negativity.

Just as with financial assistance, the polling revealed that the prospect of providing practical support in the future was also viewed positively. There was a high level of expectation of providing care to older relatives in the future especially amongst younger cohorts. More than half of those under the age of 55 expect to provide care or support to an older relative in the future. This rises to six in ten of those under the age of 45.<sup>68</sup>

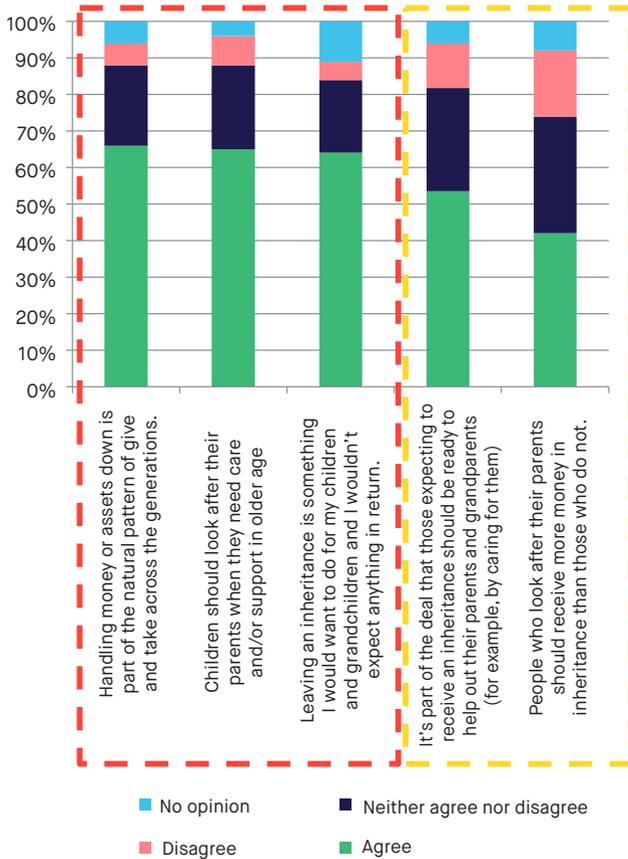
### Altruism trumps exchange

A number of our questions sought to get to the heart of the explicit and implicit deal made across the generations within families. As such, we tested a range of statements that were designed to reflect altruistic motivations (something given without expectation of something in return) and some that were intended to contain stronger values of reciprocity or exchange (something given in expectation of something in return). Three aspects to the responses were notable.

In the first place, there was support for both types of motivation. For instance, far more agreed than disagreed with the statement *'It's part of the deal that those expecting to receive an inheritance should be ready to help out their parents and grandparents (for example, by caring for them)'*. There was also majority support for the statements that an inheritance or gift was an altruistic gesture and that the donor should not expect anything in return.

Second, people were significantly more likely to support altruistic models of intergenerational help than simply reciprocal models. There were declining levels of support for statements that attributed specific reciprocal acts to the relationship (statements in orange box in Figure 15) compared to those obligations that relied on altruism (statements in red box in Figure 15). For instance, there was less support for the view that those receiving inheritances should feel obliged to help out by caring for parents or grandparents (although still strong net support) and that people who look after their parents should receive more money in inheritance than those who don't (although again there was significant net support).

Figure 15: Altruism versus exchange: proportion of the population supporting statements

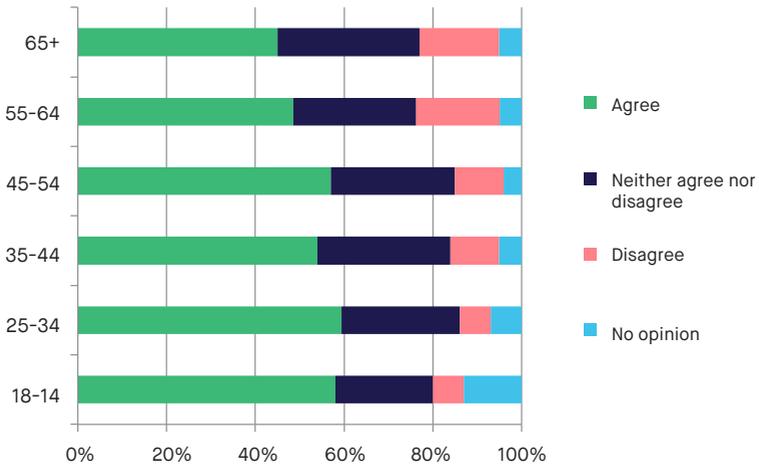


Source: SMF / Populus Poll, November 2014. Sample: 2,101 people.

Third, there were again some important differences across the generations. Older people were more likely to support altruistic interpretations of the intergenerational contract; in contrast, the strongest supporters of the exchange relationship were younger people. For example, those in the older age bands were significantly more likely than younger people to agree with the statement that *‘Handling money or assets down is part of the natural pattern of give and take across the generations’*. Younger people

were significantly less likely to disagree with the proposition that those who received an inheritance should be ready to help out their parents. This suggests that older people may be more likely to find fulfilment from the transfer and view it less as a utilitarian function.

**Figure 16: 'It's part of the deal that those expecting to receive an inheritance should be ready to help out their parents and grandparents (for example, by caring for them)'**



Source: SMF / Populus Poll, November 2014. Sample: 2,101 people.

Finally, both older and younger age groups tended to be less favourable to motivations that might appear to be an imposition on the other generation. This may reflect a desire to respect the other generation.

## FUTURE CHALLENGES FOR INTERGENERATIONAL FAMILY RELATIONS

This final section draws on the trends discussed above and our attitudinal polling to discuss how the shape and role of the extended family may evolve in the future. Though rooted in the reality of the past they have been developed as means of provocation to help policymakers, the financial services industry, and health and social care providers assess

how the future family and family ties may evolve and the challenges and opportunities this may bring.

## Challenge 1: Diverging living patterns of the future intergenerational family?

### Summary

The trends and our polling imply that intergenerational living arrangements may diverge. We may see: the 'vertically deprived' who have no family to support them; the 'autonomous by choice' who have decided to live independently and geographically separate from their children and grandchildren; and, the 'multi-generational household unit'. Each may pose specific challenges to future policymakers.

This trend may be part of a sharper bifurcation between those who rely heavily on the use of private care and those who rely on unpaid familial care. The pressure for people to work later into life may result in less availability of grandparental childcare than is the case in the current generation where a significant proportion of retirees have left the labour market prior to the SPA.

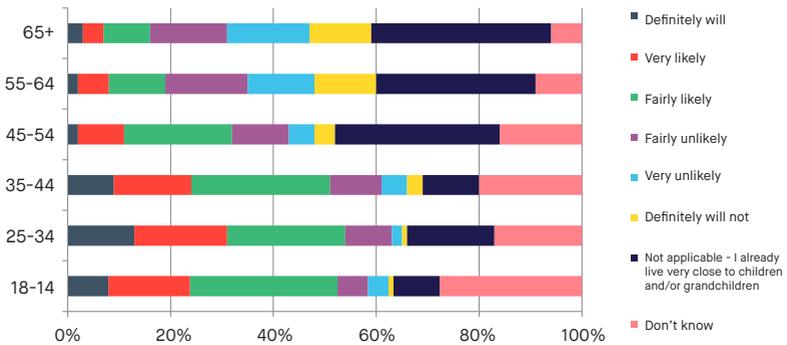
**Group 1: 'The vertically deprived'.** This group is likely to be made up of two sub-groups: the childless and those who live remotely from their children. Growing levels of childlessness will increase the proportion without younger generations, – most especially for those currently aged 45 to 65. The concomitant narrowing of the family may mean fewer support mechanisms within the family more generally. A second sub-group comprises those with children but cut off geographically. The trend towards greater dispersion of the family, labour market mobility and low fertility rates is likely to lead to larger distances between the extended family. This may coincide with later retirement and people remaining in the labour market longer and, therefore, not in a position to care for older parents.

**Group 2: 'Autonomous by choice'.** This group of older people choose to live separate from their children and grandchildren, prizing independence and local community connections above re-settling close to family. Several

factors may drive this. First, technological advances are likely to reduce the need for familial care with telecare services allowing older people to manage health conditions remotely. New forms of virtual communication may allow higher family members to stay in contact at a distance making co-location less important.

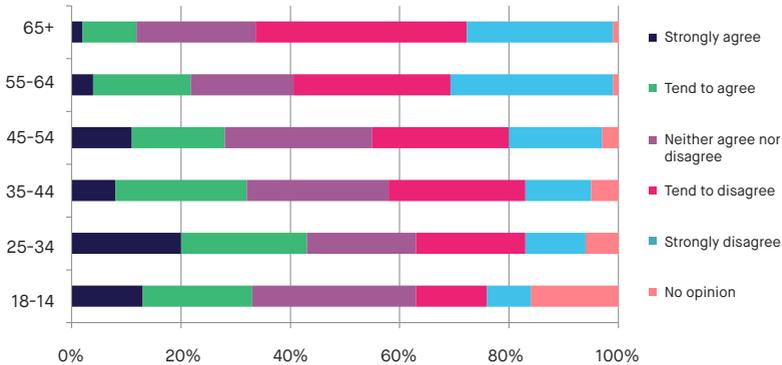
Second, our attitudinal polling suggests low levels of perceived need for familial care especially among older people, implying that some may not be proactive in locating close to family. Many are reluctant to move closer to family as they get older. As Figure 17 shows, younger parents and grandparents appear much more likely to be ready to move closer to children and/or grandchildren as they get older than respondents in the older age brackets. Together these attitudes may imply ‘chosen autonomy’ – namely that the current cohort of older people are wanting to opt for greater independence.

**Figure 17: ‘How likely or unlikely is it that you will move closer to children and/or grandchildren as you get older?’**



Source: SMF / Populus Poll, November 2014. Sample: 1,329, all parents of children.

Figure 18: ‘I could imagine living with my children or grandchildren when I grow older’



Source: SMF / Populus Poll, November 2014. Sample: 1,329, all parents of children.

Several factors may explain this reticence. Strong connections to their locality and existing social networks, emotional attachment to home and dislike of imposing on younger generations may discourage older people from relying on their children. Alternatively, it may reflect constraints on people’s ability to co-reside with, or move closer to, their children / grandchildren or an expectation that the adult children will move closer to them.

3. *‘Multi-generation co-residence’*. High costs of childcare and housing may encourage reliance on the intergenerational family especially for practical and in-kind support. The growth in co-residence witnessed through the 2000s may make co-residence more culturally conventional. This trend may be boosted by growth in the BME population, where co-residence of adult children with their parents is more common than among white British.<sup>69</sup>

## Implications and policy considerations

### 1. Supporting the ‘vertically deprived’

Isolation from family can be seen as a risk factor. Civil society initiatives are likely to be of particular importance in reducing levels of loneliness amongst those without children and grandchildren and by providing care.

Social care funding still remains uncertain despite the Care Act 2014, with the Government postponing the implementation of the cap on care costs. Therefore, those unable to rely on familial care and those whose conditions require professional or residential care still face unlimited social care costs. Finding a solution should be a priority so that older people can plan effectively for later life, including where they live and the role they may expect family carers to provide.

Innovation will also be needed in provision to support the growing proportion of individuals in more recent birth cohorts who don’t have children. This may involve networks of non-familial care and support, as well as mechanisms to do this at scale.<sup>70</sup>

### 2. Enabling re-location

In international terms, the low level of residential mobility amongst older people in the UK is unusual. There is much less downsizing in the UK than in the USA, driven predominantly by a much lower level of house moving generally amongst older people in the UK compared to the USA. The evidence suggests that mobility is dampened by friction and constraints that arise from significant costs to moving for homeowners and social renters.<sup>71</sup>

Where families co-reside or move closer this is typically the consequence of the younger generation re-locating. In part, the friction is caused by public attitudes. However, other factors constrain it: there is a significant shortage of housing aimed at the older population;<sup>72</sup> there are low levels of trust in equity release products despite their apparent suitability to assisting families' use of assets.<sup>73</sup> Both must be addressed.<sup>74</sup>

### **3. Reliance on alternative forms of connectivity and communication**

The evidence suggests that older people are already making use of technological applications such as Skype to retain connections with family. Technological applications that allow remote monitoring and self-management of conditions are likely to become increasingly important as families seek to help each other across wider distances.

## **Challenge 2: 'Under pressure retirees'?**

### **Summary**

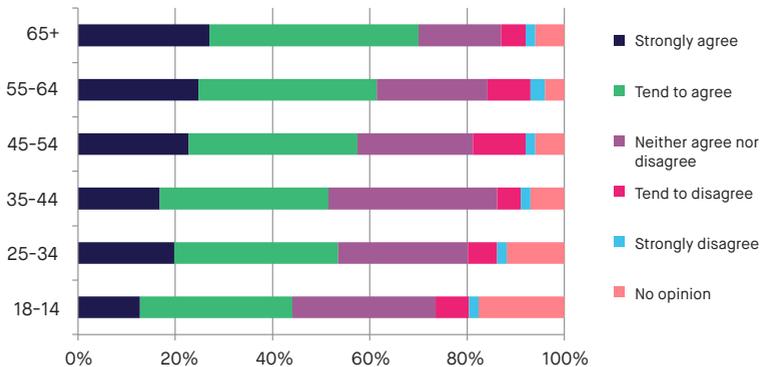
The 'freedom and choice' agenda in pensions may leave retirees under pressure balancing the twin pressures of younger family members needing support for major life events and living costs versus their own needs in retirement.

Older people may sacrifice their security in later life for the sake of younger generations. High housing costs for the younger generation, alongside low levels of financial capability, low take up of guidance and regulated advice amongst retirees could be contributory factors to this scenario arising.

Historically, retirees were forced to annuitise their pension pots and turn them into a secure retirement income. From April 2015, reforms mean that anyone aged 55 can access all their capital. These reforms are of particular significance for the growing proportion of people reliant on Defined Contribution pensions.<sup>75</sup> For these individuals, the complexity of retirement decision-making will be immense, including: when to retire or what action to take if hoping to stay in work; deciding when to access the pension pot; assessing what would constitute a reasonable retirement income to aim for; how to provide the retirement income via drawdown, annuitisation or alternative means; and, whether and how to reserve resources to pay for care in old age. Finally, retirees and pensioners often balance all these judgements against the needs of their extended families.

Many in the older age brackets remain conservative about the purpose of their pension money, with two thirds of those aged over 55 agreeing that 'pension pots are there to provide you with an income during retirement and not for anything else'.<sup>76</sup> This reflects a caution that is associated with older age groups prioritising income security in pension products.<sup>77</sup>

**Figure 19: 'Pension pots are there to provide you with an income during retirement and not for anything else'**



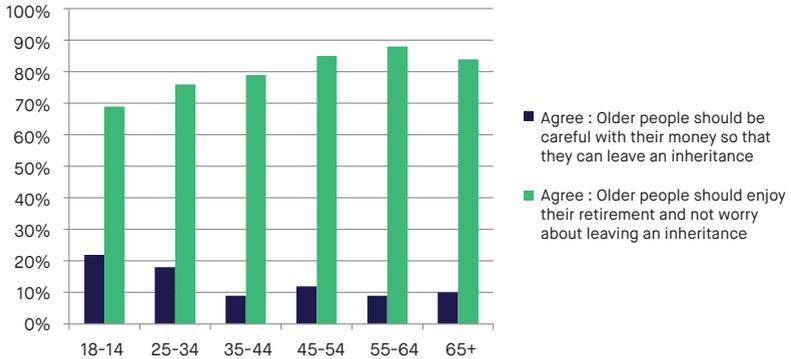
Source: SMF / Populus Poll, November 2014. Sample: 2,101 people.

Our polling suggests that certain other factors are also likely to pull retirees towards safeguarding their money. First, the Government has instituted a reform which means that money kept in a pension scheme is exempt from tax if the person dies before the age of 75. This offers an incentive for people to keep their pension savings as does the fact that retirees are taxed at the marginal rate when they withdraw savings. Second, there is significant concern about the costs of care in old age. The fact that almost two thirds of those aged 55 and over 'worry about the costs of care in later life that come with longer lives' may also promote caution.

However, set against these tendencies to preserve resources for retirement and later life, our polling and other evidence reveals powerful forces that push people to draw down this capital for other family members. In the first place, evidence suggests that the older generation make sacrifices to help out the younger generation. In previous polling by the SMF, one in seven respondents reported that providing support to the younger generation had caused them stress and one in ten had been pushed into debt.<sup>78</sup> The tension between the needs of the different generations is also recognised by the public: a majority of survey respondents thought that the new reforms pose some risks to older people, agreeing with the statement: 'Giving gifts to children or grandchildren is a personal decision and there is a danger now that people feel pressured into giving more than they can afford to help out other family members'. Interestingly, those who are most concerned about this are in the age bracket 55 to 64 – namely those most directly affected by the pension reforms.

A second concerning feature is a pronounced divergence of expectations between the young and the old regarding the extent to which older people should prioritise intergenerational support over their own security in retirement. Younger groups are much more likely than older people to hold views that put a burden of expectation on older groups to pass down money (see Figure 20). Of those aged 18 to 24, one in five believes that older people should be careful with their money so that they can leave an inheritance compared to one in ten of those aged 55 plus.

Figure 20: Proportion that agree with two statements by age on older people’s resources



Source: SMF / Populus Poll, November 2014. Sample: 2,101 people.

Allied to this, our polling shows that younger people are much more likely than older people to view pension pots as available for a range of purposes. More than a third of the under-35s agreed with the statement ‘Taking money out of your pension pot after the age of 55 might be the right thing to do if a child or grandchild really needed the money for a deposit to buy a home’; only one in five disagreed. This may be attributable to the distance of different age groups from retirement and the tangibility of the challenges associated with resourcing retirement.

## **Implications and policy considerations**

### **1. Guidance and advice**

The tensions described in this section illustrate the importance of good quality guidance and advice through Pension Wise and other vehicles. They also show that guidance and advice needs to be holistic and should aim to assess all future likely income and needs of the retiree and their family in the round. Through all this, there must be an emphasis on sufficiency of income in retirement for the individual and their partner.

### **2. Financial products for estate planning and retirement planning**

The Government intended that the pension freedom reforms would stimulate innovation in the retirement product field. Products are needed that can enable individuals to plan judiciously for their retirement whilst safeguarding an element of personal wealth for bequests and gifting.

### **3. Alertness to intimidation**

More detailed research is necessary to understand the possibility of older people being intimidated into providing financial support to other family members from their pension pots. The pension freedoms make large sums of capital more accessible. The Government, therefore, should monitor the behaviour of retirees and ensure that particularly vulnerable consumers have safeguards in place.

### Challenge 3: ‘The Skipped generation’?

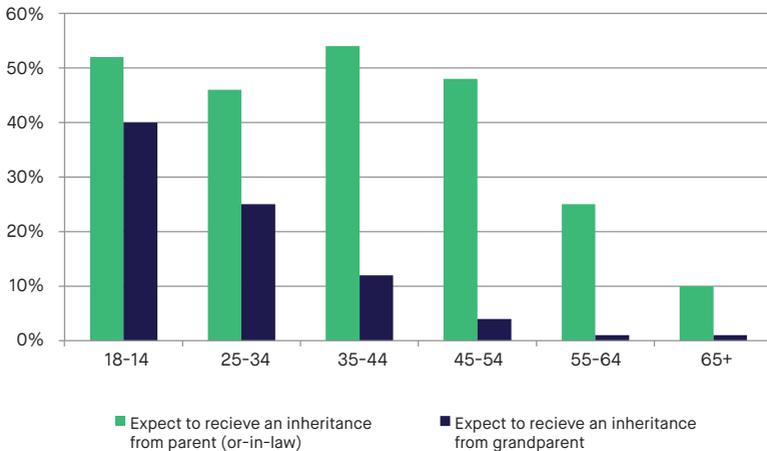
#### Summary

Here we foresee a situation in which individuals in the middle generation are overlooked and denied anticipated inheritances and gifts in favour of younger generations for whom the utility of the money appears stronger.

The ‘Skipped Generation’ have high expectations for receiving an inheritance and many are relying on a lump sum to help them resource their retirement. Below we discuss why such a situation may unfold, who it might affect and how and its implications for policymakers.

Those in their middle years have high expectations of receiving an inheritance from parents and grandparents (see Figure 21). A significant number (almost one in five) are also relying on an inheritance as the principal means to resource their retirement.<sup>79</sup>

**Figure 21: Expectation to receive an inheritance from parent and grandparent (by age of potential recipient)**



Source: SMF / Populus Poll, November 2014. Sample: 2,101 people. Includes those who reported that this was at least fairly likely to happen.

However, a range of factors mean that these expectations of receiving financial help may go unfulfilled in the future. In the first place, older people may run down their wealth in old age and have nothing left to hand down. Our polling shows that old people are worried about this.

- 44% of the over-65s are worried about giving gifts because of the potential future costs of care. Only 22% are not worried.
- Of those aged 55 plus, 63% *'worry about the costs of care in later life that come with longer lives'*.
- Three quarters of those aged 55 and over agree that *'These days most people will need to spend their savings on care in their old age and will not be able to leave an inheritance'*

As noted in Chapter 3, historical evidence suggests that longer lives may not mean lower inheritances. However, trends that appear to be establishing themselves are the switch from bequests to gifts and from children to grandchildren as recipients. Evidence shows that grandparents frequently give money to grandchildren and try to prepare them for larger investments needed in later life.<sup>80</sup> Our polling showed significant support for gifting rather than leaving an inheritance so as to increase the utility of the money to the recipient. Across the whole population, six in ten agree *'It is better to give children money when they need it than to save it to leave as an inheritance'*. The proportion is higher amongst older people. A majority agree that *'it is impossible for younger people to get on the housing ladder without support from parents'*. Indeed, four in ten agree with the statement that *'These days grandchildren need to inherit property or money from their grandparents in order to get on the property ladder'*.

Therefore, longer lives as well as the needs of younger generations may increasingly drive the older generation to trade-off their own needs not only against the needs of their adult children but also against the needs of their grandchildren who themselves are entering adulthood, having children and looking to get onto the housing ladder.

These trends and attitudes mean the amount of support available to the middle generation would be diminished. This may be no bad thing were this to be the result of fully-considered assessment of where money should best be directed across the intergenerational family. However, our polling suggests that families do not speak openly about their needs across different generations. Our polling showed that almost two thirds (64%) thought that 'parents and children should speak more openly about the type of help different family members may need in the future'.

## Implications and policy considerations

### 1. Helping families prepare for retirement across the generations.

This shift in bequeathing behaviour may manifest itself as a one-off 'hit' to the middle generation as families adapt to having more generations alive at one time and as the younger generation are perceived to feel the pinch.

Those who are expecting a transfer or inheritance may get missed out. Policymakers may be particularly concerned about those who are relying on support to resource their retirement.

There are already tax reliefs available to those who hand down pension assets to an immediate relative, although it is not clear that people are aware of them.

More attention could also be paid to how families save for each other and prepare financially together. After the Child Trust Funds were scrapped in 2010, government policy has focused on individual savings and, in particular, on increasing the individual tax-free allowances for instance from ISAs and the Personal Savings Allowance. Incentives that tap into the desire of family members to help each other may prove a way of further encouraging saving.

## Challenge 4: The 'In-betweeners'

### Summary

Lives are lengthening and the number of generations in the typical family is set to grow. Tracking forward existing labour market and demographic trends, this scenario imagines that those approaching old age face triple pressures of continuing in work, caring for a parent and providing grandparental or even great-grandparental childcare.

These 'In-betweeners' are likely to be grandparents aged 60 to 70. This emerging 'sandwich care' generation see their parents live later into old age, whilst their children remain in the labour market and require assistance with childcare for their grandchildren. They will also face significant pressure to remain in work as the state pension age extends and as they seek to resource their Defined Contribution pensions to provide for them in retirement.

There is currently significant public policy concern about 'sandwich carers'. Research has suggested that 10 per cent of UK adults currently provide care both upwards and downwards, typically to parents and to dependent children.<sup>81</sup>

Demographic factors mean that 'Sandwich caring' is unlikely to expand significantly in the future amongst the middle generation. People tend to fulfil middle generation positions when they are in the age bracket 30 to 60. This is not a period in life when young children and elderly parents often need care simultaneously. Demographic evidence presented in Chapter 2 suggested that lives are lengthening more rapidly than the gaps between generations are extending. Caring simultaneously for a parent and a child may therefore decline over time among the middle generation as the age group supporting older relatives is not the child-rearing generation. While this occurs, and as four-generation families continue to become more common, dual caring may become more prevalent among 'In-betweeners': grandparents simultaneously providing childcare whilst also caring for an ageing parent.

Looking ahead, if fertility rates remain stable Britain can expect to see 50% more great grandparents by 2037.<sup>62</sup> As the verticalisation of families continues, the number of 'In-betweeners' is likely to grow.

This scenario is likely to generate different pressure points and opportunities. First, the major expansion in grandparental childcare has thus far coincided – or been the consequence of – a generation of grandparents many of whom have had defined benefit pensions and who have retired ahead of increases made to the State Pension Age. Meanwhile, 'In-betweeners' are likely to feel stronger pressures to work later into life as a consequence of low levels of saving as well as the extension of the state pension age.

### **Implications and policy considerations**

#### **1. Helping 'In-betweeners' manage the care / work trade-off.**

The last government sought to expand the flexibilities for people to remain at work and fulfil caring responsibilities. This balance is likely to become increasingly important given the labour market trend towards more part-time work. Into the future, governments could provide support by paying for informal care; or by boosting carer entitlements (such as via National Insurance contributions).

Alternatively, policymakers may have to address head-on the structure of the labour market so that individuals have greater protection at work when they need to care for their relatives.

## CHAPTER 5: CONCLUSIONS

The prospect of families with multiple generations interacting and supporting each other is the logical consequence of a range of demographic trends: longer lives, shortening periods of morbidity (at least as a proportion of the average life), longer periods of healthy life expectancy and more regular gaps between generations.

The challenges discussed in Chapter 4 are themselves profound. Yet, beyond these there remain more general implications for the role of the state and the family in society.

First, and most obvious, is a requirement on future governments to assess what the modern family is and what role it can play. The last government introduced some interesting steps in this direction: new legislation and policies are now subject to the government's 'family test', which makes sure that they 'support strong and stable families'.<sup>83</sup>

As the government guidance acknowledged, 'policy makers can sometimes fail to take a whole family perspective'. Much of our policy (for instance taxation) assesses needs and means at an individual level. Where assessments of need or means are assessed more holistically – such as means-tested benefits – this usually occurs at the nuclear family or household level. Indeed, there are very few policies that capture the importance of the intergenerational family. Some exceptions include the means-testing of domiciliary care on the basis of the availability of informal support (including from other family members); and, the availability of National Insurance Credits to grandparents providing caring support to younger family members. Ever more in the future, policies that can capture the subtle interdependencies that sustain families will be important both as a means of ensuring sustainability and so as to optimise the support that family members can provide to one another.

Second, looking to the decades ahead, the way that family members insure each other may adapt significantly. Future intergenerational families may have a larger base of productive generations, thus allowing

them to manage risks in a different way. It is uncertain whether the 'pinch' being experienced by young adults currently will be felt in the same way by those born more recently when they reach the same age. The costs of housing could escalate or dip depending on economic and policy factors. At the other end of the lifestage, if periods of morbidity were to lengthen in the decades ahead, older people may place a lower value on the utility of money to themselves than to the younger generation if their quality of life cannot be improved.

In response to strong positive attitudes to family welfare, the state may intervene to alter policies to reflect the changing shape of family life. For instance, rather than policies that favour the nuclear family, governments may introduce schemes to boost intergenerational family resilience. Such steps could include, shared leave arrangements, tax credits for intra-family insurance and welfare instruments.

Any steps in these directions are likely to have to be balanced with additional support and help for the growing minority that don't have family members to support them. In considering the 'haves' and the 'have nots', policymakers may also have to consider differences between socio-economic groups with shorter life expectancies among lower socio-economic groups, along with shorter productive working lives on average, leading to fewer contributors to the family welfare network.<sup>84</sup>

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## Longer Lives, Stronger Families?

### The changing nature of intergenerational support

Drawing on new public polling as well as long-run data, this study charts how the shape of the extended family has evolved over time, before going on to explore how the support given across the intergenerational family has changed historically and how it may alter in the future.

Despite the positive stories that emerge of people's readiness to support older and younger relatives, the paper identifies a number of potential challenges ahead associated with societal and demographic shifts. These include: how we can help families provide care for each other as the generations no-longer necessarily live together, ensuring we have the right guidance and advice in place to aid good financial decision-making and assessing what strains older people may come under as they balance later retirement ages, frail living relatives and demands on them as grandparental carers. The report concludes that in these instances and also more broadly, policies need to be designed around the wider needs of families rather than treating individuals and their choices in isolation.

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