Britain's Family Bank

An examination of family financial support across the generations and its impact

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FOREWORD

By Owen Woodley, Chief Executive of Financial Services & Telecoms at Post Office Ltd

So much has changed in recent years which has directly affected how we live our lives and in turn how we manage our finances. As a result, financial interdependence across generations is growing and becoming more complex. On a yearly basis billions of pounds are passed between family members, in amounts large and small, to help with mortgages, rent, retirement, education or just day-to day living expenses. With the cost of living ever increasing, this hidden phenomenon will have a huge impact on the economic futures of individuals and families.

For example, what will family mortgage support in an age of increasing house prices mean for parents? How can mothers and fathers make the most of their own retirements if they continue to support their children onto the housing ladder? Will the increasing costs of social care mean more children will be expected to support their parents through old age? And what does this mean for their own household financial security and ability to support their own children?

These are big questions and ones we should all need to start thinking about now.

At Post Office we want to recognise these changing needs and do all that we can to ensure everyone is supported to get the most out of today while also setting themselves up for the future. As a financial services provider we're committed to developing financial products that help solve real problems British consumers are having and are proud to work with the Social Market Foundation to examine the implications of our interconnected financial future.

EXECUTIVE SUMMARY

The 'family bank'

Think of the 'Bank of Mum and Dad', and you conjure up an image of well-heeled, wealthy parents gifting their adult offspring large sums of money to cover university expenses, a lavish wedding or to buy a home.

This report, however, paints a very different picture of family finances in modern Britain.

The first striking aspect is that of individuals reaching deep into their pockets simply to help family members get by, and the sheer prevalence of this phenomenon. Nearly three in ten (27%) of those with adult children are providing them with regular financial help. Financial support is not confined to those of high wealth or income: for example, a third (32%) of those in the lowest-skilled occupation – including cleaners, retail workers, care workers and lorry drivers – provide regular financial help to an adult child.

Contrary to popular conception, the purpose of family transfers is typically to help cover general costs of living and help pay bills and rent, rather than give large one-off sums for weddings or a house.

Our consumer polling found that 37% of the wider population have provided 'financial support' to at least one adult family member in the last 12 months. Meanwhile, 24% of the population report having received financial support in the last year from a family member, with the average amount received being worth £4,202. Based on our survey, we estimate that individuals receive financial support to the value of around £53bn per year from other family members.

A second notable feature is that those who receive regular financial top-ups from family members are not just students and young twenty-somethings, but those into their thirties, forties and even fifties – one in ten of those in their forties is receiving regular financial support from their parents. Indeed, transfers up the generation are also not uncommon, for instance one in ten of those aged 60-plus with living parents provide them with regular financial support.

The picture therefore is more of a 'family bank' on which people draw in times of need than the traditional image of the 'Bank of Mum and Dad'.

The impact of this financial support is hard to overstate. Many recipients (38%) report that they simply couldn't have coped without the life line from the 'family bank'; whilst for many the availability of help provides peace of mind. Families are the first port of call for many when they first need financial help: 39% report turning first to a family member, more than three times the proportion who turn to their bank (12%), which is the next most common resort. Of those who turn to any source of help, 63% turn first to family.

While many who provide help derive happiness from it, some face difficult trade-offs and sacrifice their own financial position to help-out a family member. Three in ten (28%) of those who provide financial help to family members admit that they are running down their pensions and savings to provide this help. This figure is even higher (37%) among those aged 55 and over.

How family finances are set to change into the future

Our analysis of social, economic and demographic trends suggests that reliance on the 'family bank' will continue and grow, and that financial decisions facing families are likely to become increasingly complex. Two in five (44%) agree that '*I expect to provide more financial help to younger members of my family than I received when I was their age*' whilst only one in four (24%) disagree. Longer lives will mean more generations alive simultaneously, as well as a greater risk of individuals facing high social care costs. The rise in house prices is leaving many young people reliant on financial help to get on the housing ladder. Meanwhile, individuals have greater freedom over how they spend their retirement savings, yet many are saving too little into their pension.

Helping families plan better

There is a risk that the complexity of such decisions overwhelms consumers, a particular concern given the low levels of financial capability in the UK and low take-up of financial advice. Two in five (38%) agree that '*I know that it is important to plan ahead for my financial future and that of my wider family but I have not taken the necessary steps*'. The majority have not accessed advice and guidance that relates to them and their wider family, while a quarter of all respondents (24%) reported that they hadn't accessed advice or guidance but that they would value receiving it. Only a small minority received advice and guidance either from a professional adviser, a bank, charity or other source.

So, what should we do? Our report finishes in Chapter 6 by setting out recommendations for government, regulators, the advice and guidance sector, financial service providers and consumer groups.

As a start, we need to break the taboo of talking about families and money. Politicians could do a great service simply by talking frankly about what is going on, and encouraging family members themselves to speak openly and plan their financial futures together. Our polling suggests that the public may be receptive to such a prompt: three in five (62%) agree with the statement that '*Family members should speak more openly about the type of help they need from each other*', whilst only 5% disagree. Government also should be much clearer about what risks families should prepare for and how.

Much more should be done to provide families with the structures to plan ahead. At its heart, financial guidance and advice must be about the individual and the family, as this reflects the reality of how people make decisions. This approach could form part of the vision for the new single financial guidance body. Meanwhile, the fact that a fifth of savers setting money aside for a family member should prompt new thinking about savings vehicles and incentives.

CHAPTER 1: INTRODUCTION

The context

There has been much recent commentary on intergenerational issues in the UK. Two contentions, in particular, have dominated the debate. First, parliamentary committees and think tanks have argued that the social contract between the older and younger generations is near breaking point.[1] This thesis has tended to rest on the stock of private assets and the flow of public expenditure, whilst largely overlooking private flows. Such commentators have pointed to factors such as the protection given to old-age welfare benefits compared to working-age benefits; access to generous final salary pension schemes; and the distribution of housing assets.

A second theme runs in part counter to this – namely the role of 'Bank of Mum and Dad'. This phenomenon has been associated with those with higher levels of wealth handing down generous housing deposits to their adult children. Research by Legal and General has found that around a quarter (27%) of new home buyers receive financial support from their parents, with the average level of support being £18,000.[2] Meanwhile, analysis by the Post Office has calculated that parents spend on average a third of their financial wealth helping their dependents get on the housing ladder.[3] Because of the focus on house purchase and the levels of money spoken about, the 'Bank of Mum and Dad' risks becoming pejorative, referring to transfers within well-off families for a single item of purchase.

This report seeks to think much more broadly about the nature of family financial support taking place. The debate on financial decisions in modern Britain too often focuses on individual views and behaviours, ignoring the fact that, in many households, financial decisions will be made jointly and in the interests of multiple members, and pooled across family units.

The research examines the nature of intergenerational financial support taking place in modern Britain and its long-term implications at an individual and societal level. It identifies trends that are likely to affect the prevalence and type of intergenerational family finance in the future. It highlights the big questions that politicians, policymakers and industry should be discussing and addressing.

Research questions

It seeks to ask:

- How do family members support each other financially? And, for what purposes? And, what is the impact of support provided?
- How is the interconnectedness of family finances set to change in the future? And, what are families going to have to prepare and plan for in the future?
- What is the long-term impact on families depending on the resources they have available and the choices they make?
- What are the implications for policy, industry and regulation?

To this end, the report is structured as follows:

- **Chapters 2 and 3** paint a picture of family financial transfers and their impact.
- **Chapter 4** discusses some of the long-term trends and their expected impact.
- **Chapter 5** illustrates the long-term implications of different choices for five stylised families.
- **Chapter 6** discusses steps that policymakers, regulators, industry and the advice sector can take to help families plan.

Research methods

The report is based on:

- A review of UK literature.
- Analysis of Understanding Society data from Mainstage Wave 7 (2015-2017) to identify the providers and receivers of financial support within families.[4]
- Analysis of the Wealth and Assets Survey data from Wave 5 (2014-2016) to identify savers who set money aside for other family members.[5]
- The SMF commissioned Opinium to carry out an online survey of 2,000 UK adults. The results are weighted to nationally representative criteria. The survey took place between 7th and 11th June 2018.
- We convened an expert policy roundtable discussion, to test out our preliminary findings and ideas. Organisations represented at the roundtable included: financial guidance bodies such as the Money Advice Service; research institutes such as the Behavioural Insights Team; consumer charities and representatives, including Age UK, Citizens Advice, Mumsnet and Stepchange; industry bodies such as the Association of British Insurers and the Institute and Faculty of Actuaries; financial services providers such as the Post Office Limited; and government officials. The discussion was held on a Chatham House basis.

CHAPTER 2: THE GIVE AND TAKE OF FAMILY FINANCES

This chapter describes how financial support is provided across families in the UK. It shows that:

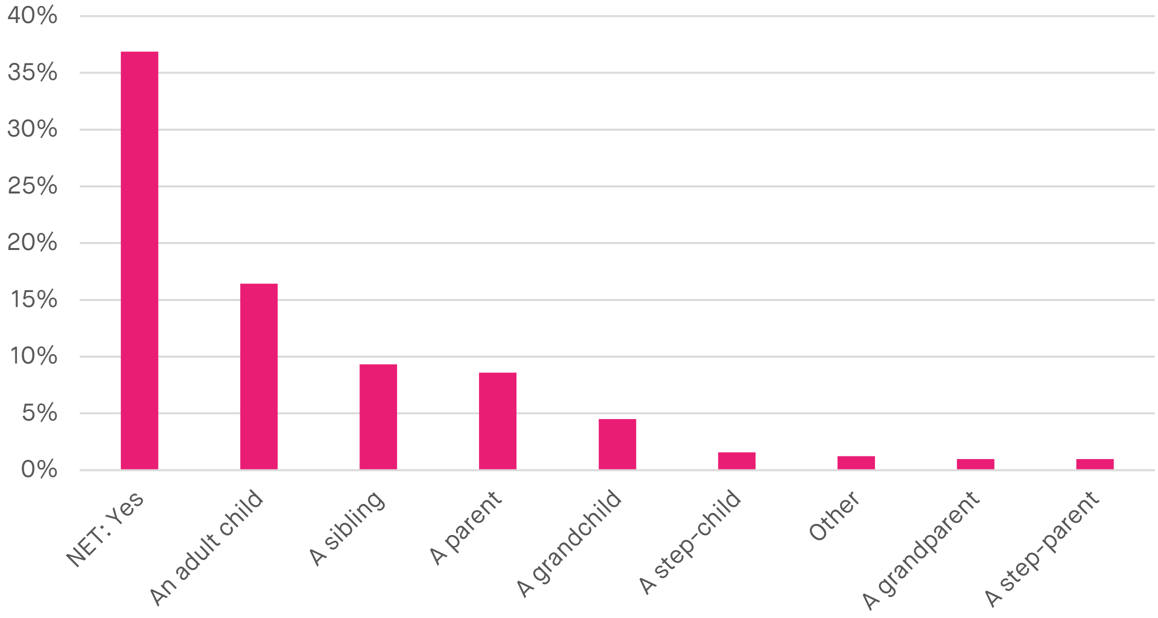
- Policymakers are at risk of overlooking a large amount of financial transfers that take place within families.
- Families are the first port of call for many when they need help.
- Family financial support is not just the preserve of wealth households but is prevalent across all parts of society, including in lower-skilled occupations.
- It is more common for money to come down the generations but a surprising quantity of support also runs upwards to older family members.

Who provides and who receives

Family support is multi-directional

Recipients of family financial support are most likely to be adult children, a sibling, a parent and a grandchild; and family support is multi-directional. Two in five (37%) report providing financial help to an adult family member in the last year. Of these, around half (45%) supported their adult child, a quarter (25%) their sibling, 23% their parent and 12% their grandchild. The mean amount provided to all family members in the last year was £3,683, whilst the median amount was £531.[6]

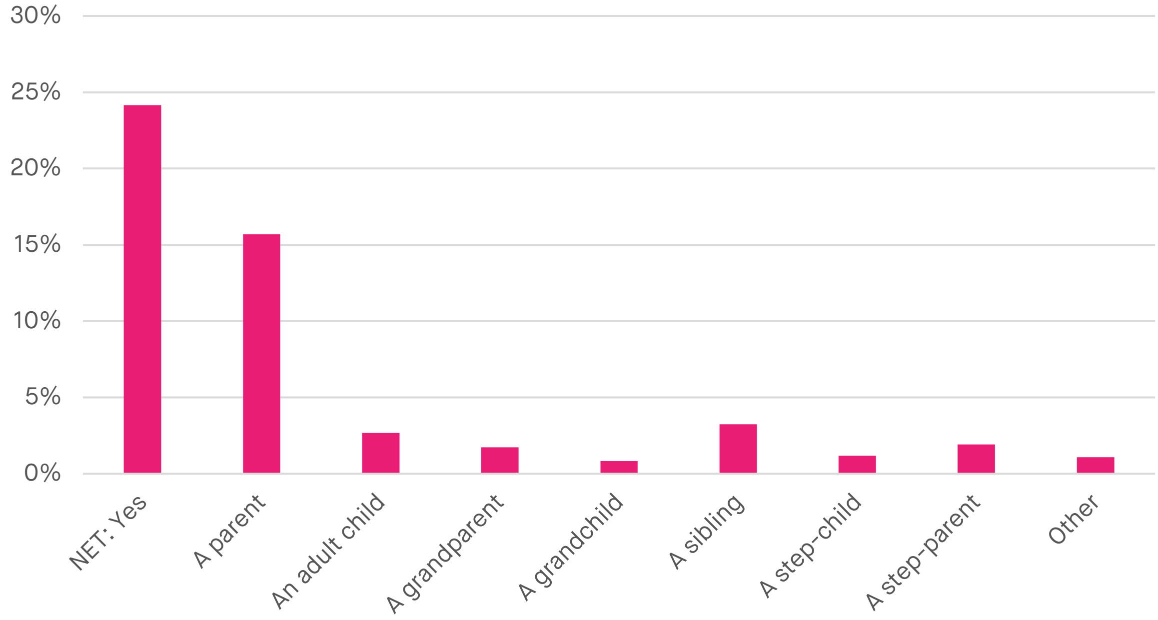
Figure 1: Have you provided financial help to any of the following adult family members in the last 12 months (not including birthday and Christmas presents, and not including your spouse / partner)?



Source: Opinium Survey for SMF

Turning to recipients of financial support, a quarter (24%) report having received financial assistance during the last year from a family member, with a mean of £4,202 and a median of £581. Recipients are most likely to have received support from parents.

Figure 2: Have you received financial help from any of the following family members in the last 12 months (not including Christmas or birthday presents and not including your spouse / partner)?



Source: Opinium Survey for SMF

Extrapolating our polling results to the adult population of the UK, we estimate that individuals receive around £53bn per year from other family members.[7]

In putting forward this figure, we recognise that estimating the scale of family transfers is inherently difficult due to the lack and inadequacy of administrative data on it, and the subsequent reliance on amounts reported in surveys.[8] Other research has estimated the size of intergenerational transfers via inheritance and gifts to range between £69bn[9] to £127bn.[10] Legal and General estimated that parents, family, and friends across the UK contributed £6.5bn to help loved ones get onto the property ladder in 2017.[11] A different study suggested that parents contribute as much as £2.3bn towards the rent of their adult children.[12]

There are a number factors that may explain why estimates differ between studies. First, 'who': our survey asked respondents about financial support to any family member (other than spouse / partner), whereas some studies focus on the support from parents to adult children. Second, 'purpose': some studies limit what they include in their calculations depending on the purpose of the transfer (e.g. money for housing, as with Legal and General). Third, 'type of transfer': estimates based on the Wealth and Assets Survey cover gifts of £500 or more at any one time from a family member or friend.[13] In contrast, our study deals with 'financial support' more generally – and respondents may have interpreted this differently. For instance, respondents may have included many other contributions, such as items purchased on behalf of family members, accommodation offered rent-free and informal loans provided. Fourth, 'size of transfer': in contrast to surveys such as the Wealth and Assets Survey, our survey captures smaller transfers below £500. Our analysis of the Understanding Society survey shows that regular support is much more common than providing large gifts of over £500.[14] It should also be noted that this is a 'gross' figure – in other words it estimates all the 'financial support' reported by respondents.

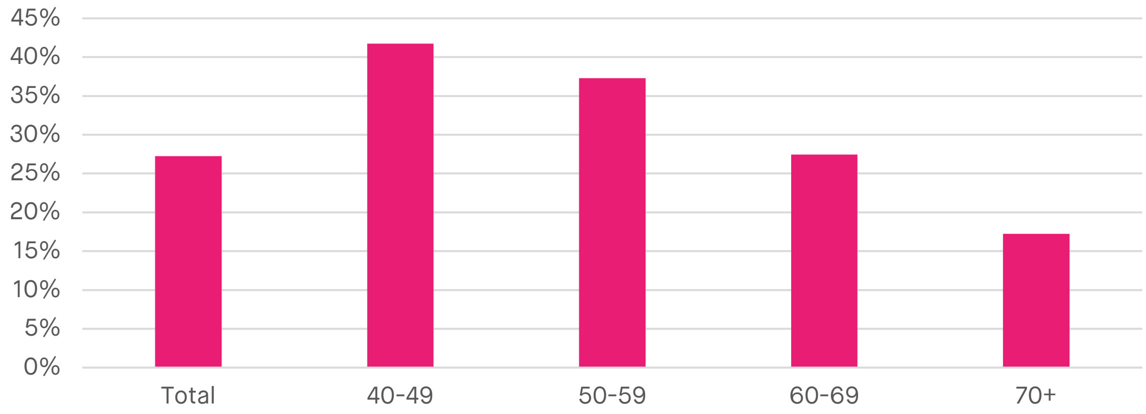
Finally, we note that the total sums of financial support reported by our survey respondents as having been *received* from family members (£53bn) is lower than the total sums reported as having been *provided* to adult family members (£71bn). This may be explained by multiple reasons. First, respondents may be thinking about how they have behaved as a household or couple rather than as an individual: parents of adult children are both more likely to be in established partnerships than young adults and more likely to be givers rather than receivers of financial support. Second, respondents may report higher figures when reporting the financial support that they give rather than the support they receive (for instance, evidence suggests that some like to emphasise independence from their family).[15] Third, there is likely to be a significant net outflow of money from UK adults to family members living abroad through remittances. Estimates vary for the annual sums sent abroad in remittances, ranging from £1.5bn to £16.5bn.[16]

Financial support between parents and adult children runs up and down

Downwards: Help provided by parents to adult children

Almost 3 in 10 (27%) of parents provide *regular* financial help to an adult child (not including children living in their home). Younger parents are much more likely to do so with 42% among parents aged 40-49, compared to 17% of those aged over 70. The differences across age groups may be explained by demand supply factors: old children may be less in need of financial support; at the same time, those aged over 70 are likely to have lower levels of disposable income and therefore less able to provide regular help.

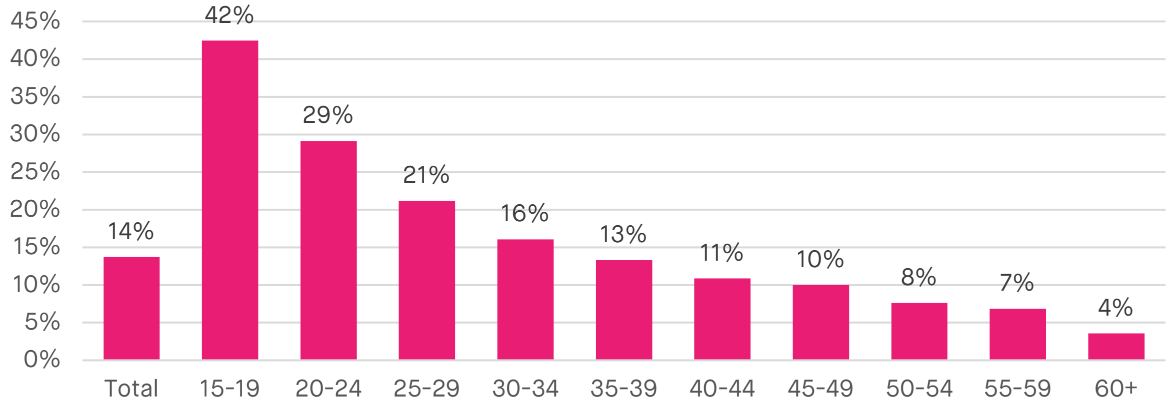
Figure 3: Do you regularly or frequently provide financial help for your children aged 16 or over who are not living here?



Source: SMF analysis, Understanding Society W7 (2015-2017)

One in seven adults (14%) with a living parent report receiving regular financial support from a parent. Dependence on parents for financial help gradually decreases with the age of the recipient: 42% of those aged 15-19 receive financial help from their parents, in comparison to 4% of those 60 and over. Notwithstanding the drop off, the persistence of support into middle and older age is also surprising. It is noticeable that one in ten of those aged 40 to 50 are still receiving regular financial help from parents.

Figure 4: Do you regularly or frequently receive financial help from your parent(s)? (of those with a living parent)



Source: SMF analysis, Understanding Society W7 (2015-2017)

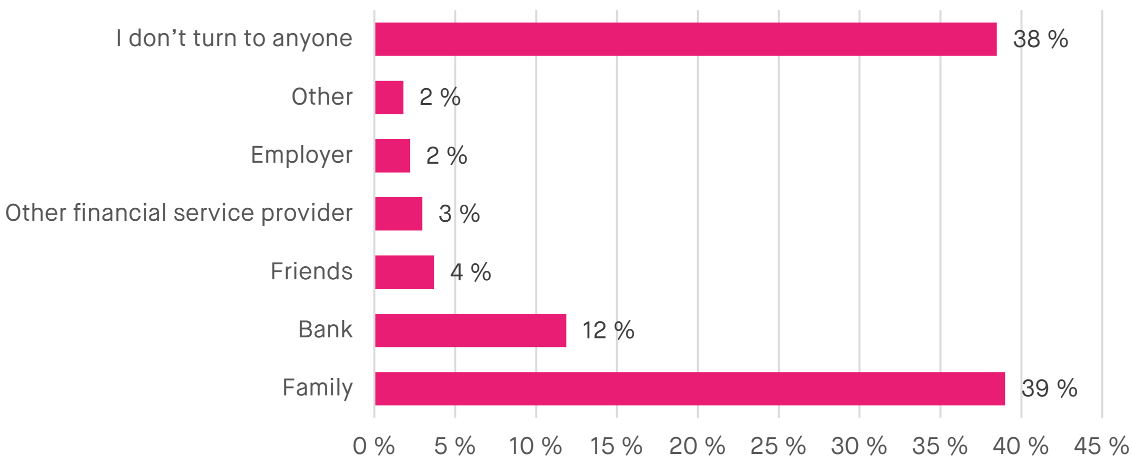
Upwards: Help provided by adult children to their parents

A much lower proportion of people provide financial support to their parents – however, this is far from a negligible proportion. In all, 7% of those with a living parent provide financial support upwards. Focusing in on the those aged 60 plus, one in ten of those with a living parent provides them with regular financial help.

Families are the first port of call in times of financial difficulty

Our survey reveals that 'family' is the most likely place to turn when people are in financial difficulty. Four in ten (39%) of respondents would turn first to family, more than three times the proportion who turn to their bank (12%), which is the next most common resort. Turning first to family is much more common among women (45%) than men (33%), and among young adults (54%) compared to those aged 55 and over (19%). The latter is likely to be explained by the more limited availability of family financial support among older groups as well as their having higher levels of accumulated wealth and self-sufficiency. Indeed, of those who would turn to any source, three in five (63%) would turn to family first.

Figure 5: Where do you first turn if you find yourself in financial difficulty?



Source: Opinium Survey for SMF

Family financial assistance is prevalent across socio-economic groups

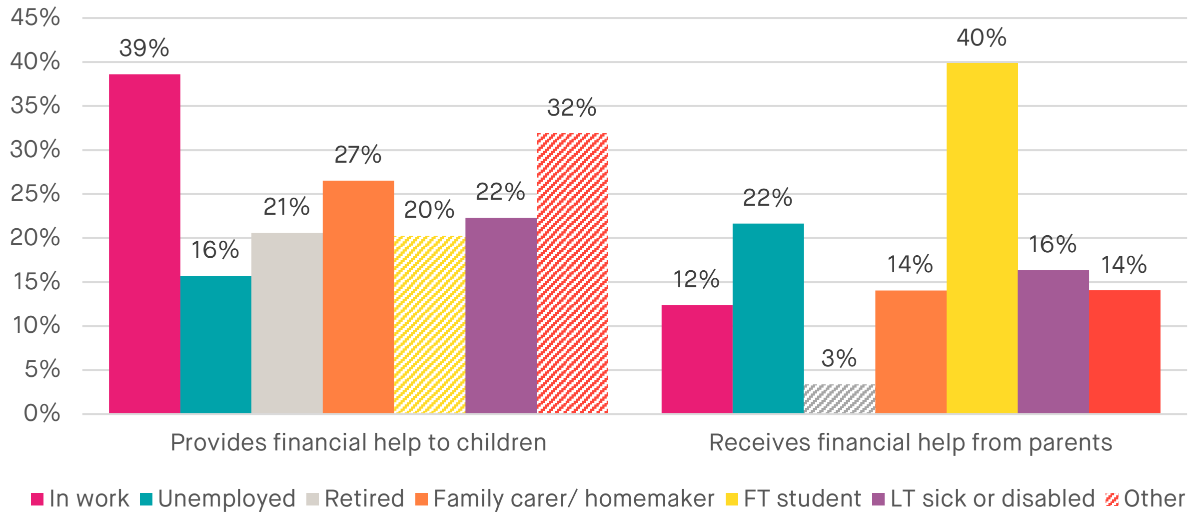
The analysis below focuses on the occupational and housing status of those who provide and receive financial support to understand better the prevalence of these behaviours across society.

Past research by the SMF and the London School of Economics that shows that lower-income households are most likely to benefit from gifts. Money provided tended to come from those with higher incomes.[17] Analysis by the Resolution Foundation has shown that, in absolute terms, the average value of gifts per adult received is lower for households on the lowest incomes compared to those on the highest incomes. However, as a proportion of their income, gifts constitute a higher proportion for lower income households.[18]

Figure 6 shows that those who are in work are more likely to help-out their adult non-dependent children financially (39%). This proportion is lower (27%) amongst family carers and homemakers and 21% of those in their retirement, although these are still surprisingly high.

In contrast, recipients are more likely to be students or unemployed. This supports the findings of other research that shows that financial support is frequently given at times of greatest need.[19]

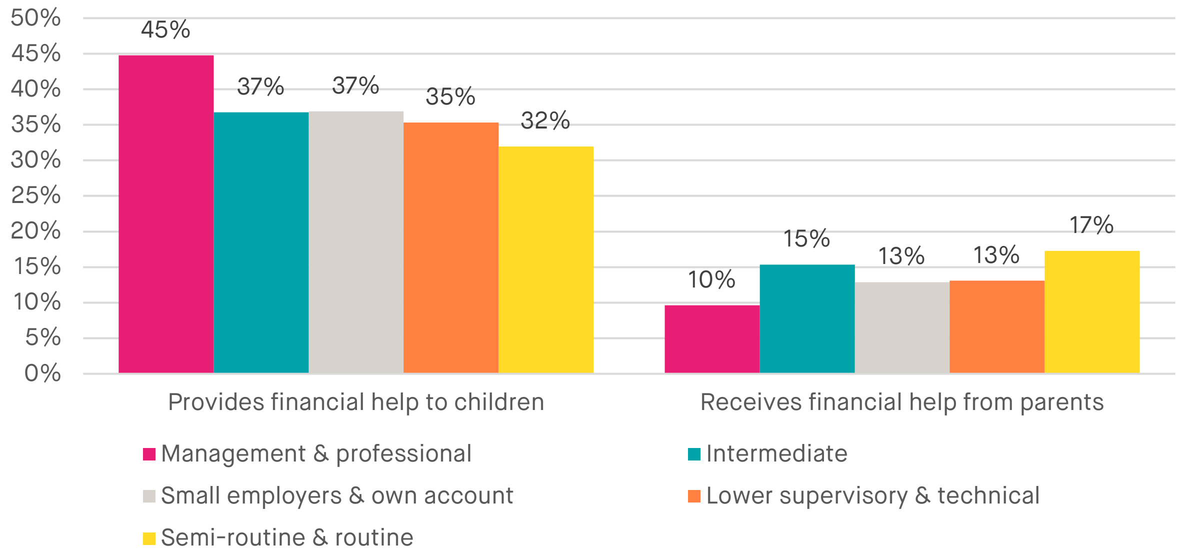
Figure 1: Family financial assistance by employment status



Source: SMF analysis, Understanding Society W7 (2015-2017)
Note: Shaded bars represent a result based on a small sample size

Focusing in on those in work indicates that family financial support is a society-wide phenomenon. Those in higher-skilled jobs are more likely to provide financial help to children, but the proportion of those in the lowest-skilled occupation – including cleaners, shelf-stackers, care workers and lorry drivers – providing help to adult children is still a third (32%). Those in lower-level occupations are more likely to receive support than those in managerial positions.

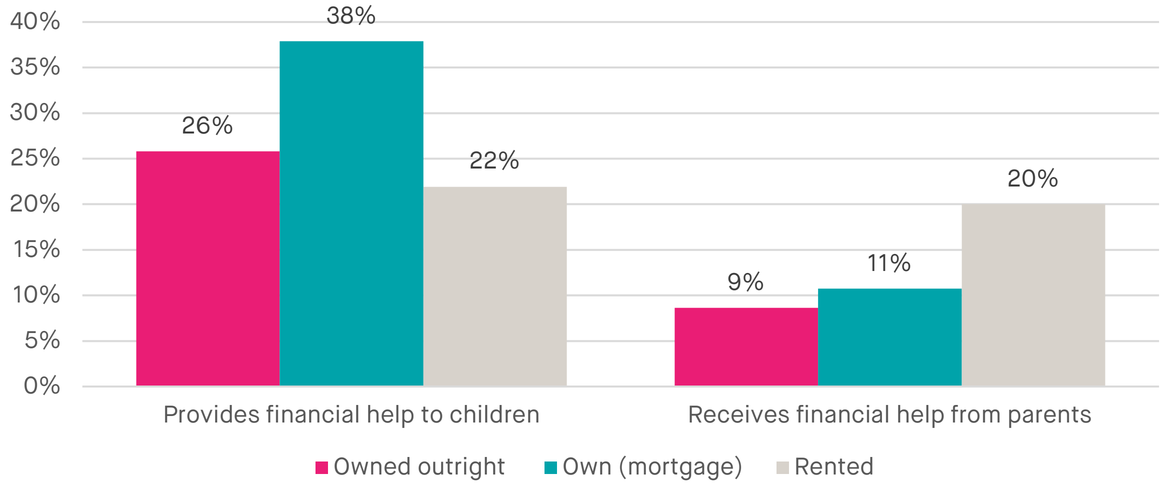
Figure 2: Family financial assistance by occupational status



Source: SMF analysis, Understanding Society W7 (2015-2017)

Turning to tenure, we observe that homeowners are more likely to be providing financial support to their adult children. This is likely to be partly a product of the age profile of people in different tenures. It is also likely to be influenced by relatively high levels of income and wealth among homeowners. It is noticeable however that almost a quarter (22%) of renters provide regular financial help to their adult children: financial assistance is not the prerogative only of those with housing wealth.

Figure 3: Prevalence of financial assistance by housing tenure



Source: SMF analysis, Understanding Society W7 (2015-2017)

CHAPTER 3: THE IMPACT OF FAMILY FINANCIAL SUPPORT

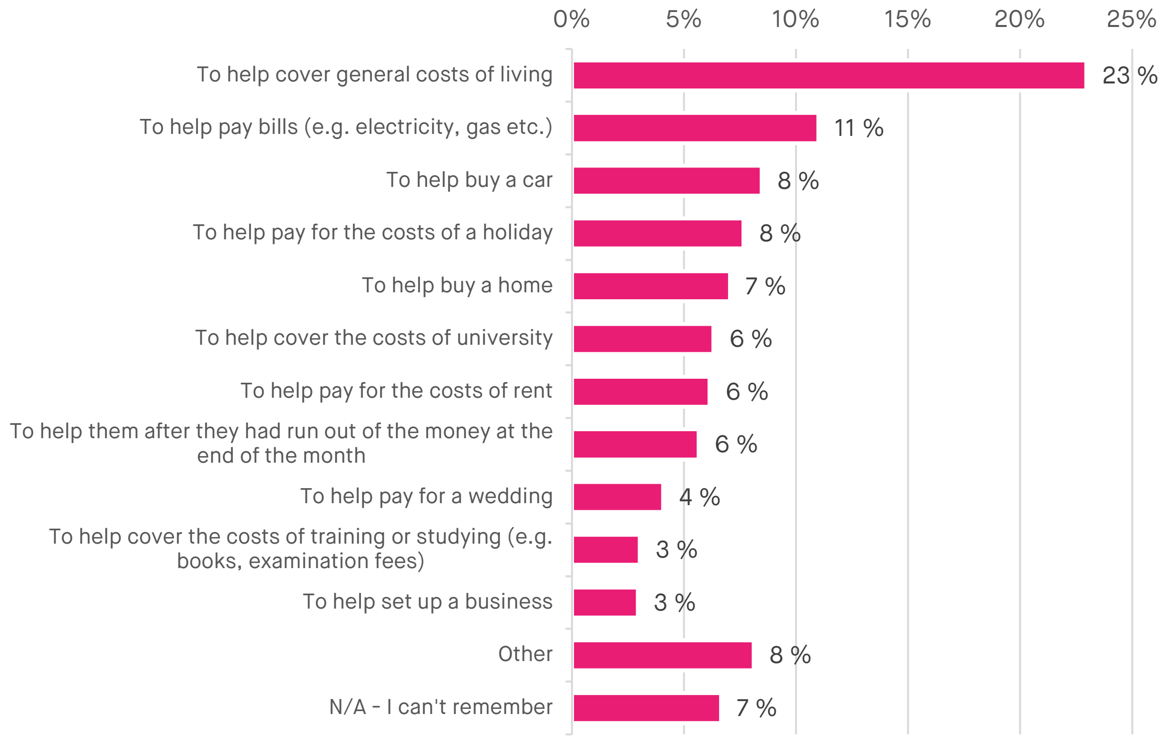
This chapter describes the impact of family financial support on those who provide and receive assistance.

- Contrary to the popular media phenomenon of the 'Bank of Mum and Dad' which focuses on well-off parents providing large housing deposits, family support is provided for a very wide range of purposes, and most transfers take place to help cover the general costs of living.
- Family support appears to be important as a life line as well as contributing to peace of mind and long-term security.
- Those who give financial support are most likely to view it as a positive experience that brought them happiness, although negative impacts are cited such as running down savings, causing disharmony across the family and even indebtedness.

Purpose of the financial help

Our polling shows that much financial support provided across the family is given to help people manage day-to-day expenses, including general costs of living, paying bills, money towards the rent and helping someone when they've run out of money at the end of the month. Larger one-off transfers are also common, including help to buy a car, to pay for a holiday, to buy a home and to help cover the costs of university.

Figure 4: Thinking of the last time you helped a family member financially, what was the purpose of the support?



Source: Opinium Survey for SMF

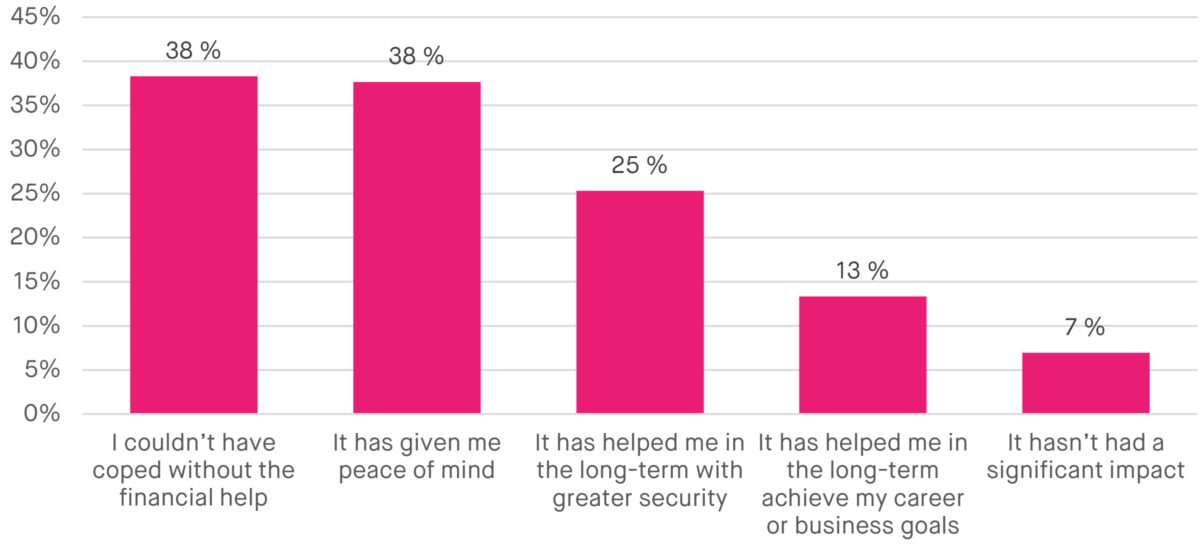
These results suggest that family financial support plays a central role in helping people live their day-to-day lives rather than simply providing additional luxuries or 'nice-to-haves'.

Other work suggests that the purpose and impact of the support may differ depending on the income status of the donor and recipient. In lower income households, transfers typically help family members cope with day-to-day living expenses. In more prosperous families, transfers can facilitate long-term gains, such as through investment in skills, in housing or in a business.[20]

Individuals who receive family support

Many recipients report family help being fundamentally important: two in five (38%) say that they would not have been able to cope without the financial help; whilst the same proportion report that it gave them peace of mind. This indicates both a straightforward economic gain as well as an emotional benefit that comes from knowing that this support is available and that it can be drawn on when needed. In other cases, the impact was longer-term either by providing greater long-term security (this may cover transfers for housing deposits) or a positive impact on long-term goals such as a career or business. Only 7% report that the support did not have a significant impact.

Figure 5: Thinking of the impact of the financial support you've received as an adult from your family over your lifetime, which of the below describe the impact?



Source: Opinium Survey for SMF

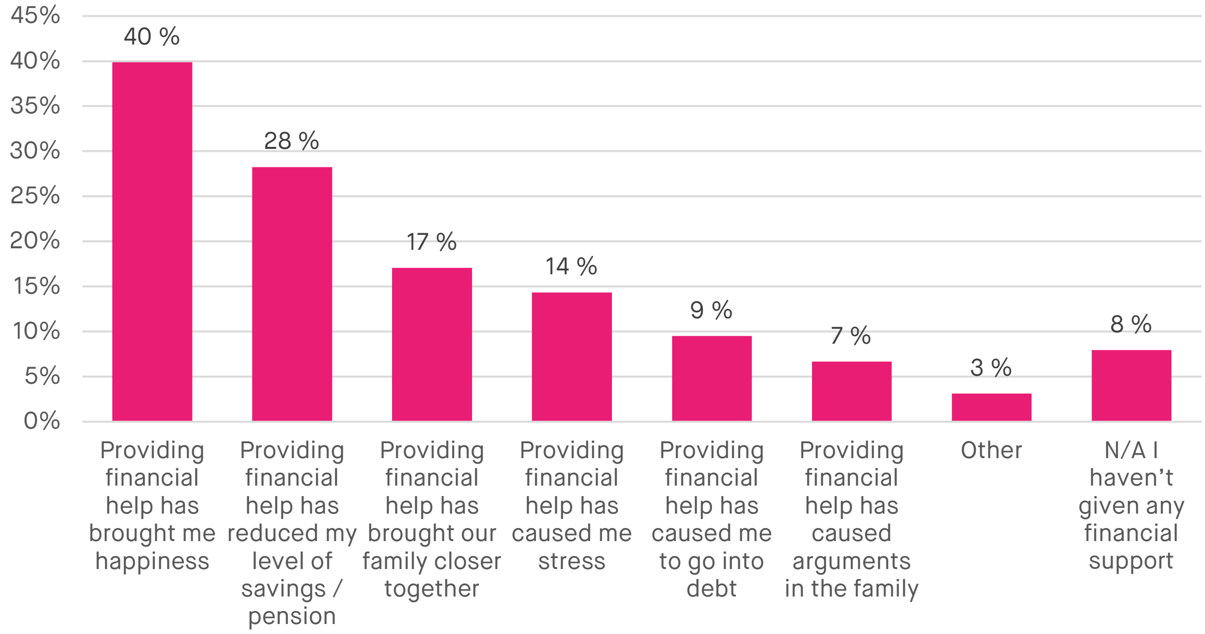
Previous analysis by the SMF has found that some non-recipients feel the absence of family support, especially practical, non-financial support. The absence of family members able to help with childcare or other tasks, may limit opportunities for social life and for employment. In some cases, individuals can feel guilt at their lack of independence and their reliance on family members, and inability to repay parents.[21] Meanwhile, research published by the Post Office found the ability of parents to contribute to a housing deposit varies significantly, with 41% of parents not in a position to provide any financial support towards helping their child get on the property ladder.[22]

Those who provide financial support view it positively

Providing financial help to family members has a wide range of effects. Two in five (40%) say that providing help has brought them happiness and 17% report that it has brought the family closer together. This reinforces other research, which suggests that the primary and most common motivation of individuals when making transfers to family members is altruism and generosity. Previous SMF analysis asked individuals whether handing money down the generations and providing support to older relatives should come with strings attached (i.e. be a reciprocal arrangement) or simply something that family members would naturally want to do. Respondents favoured altruistic explanations.[23]

However, it is not uncommon for respondents to cite negative implications. Perhaps most worrying, 28% report that providing financial support has reduced their levels of savings or pensions, whilst some report that providing help has caused stress, put them into debt and caused arguments in the family. This backs up qualitative research of low-income households that highlighted incidents where donors experienced stress when trying to recover money they needed from family members.[24]

Figure 6: Thinking of the impact of the financial support you've given to adult members of your family in the last year, which of the below describe the impact? (Select all that are relevant)



Source: Opinium Survey for SMF

CHAPTER 4: HOW FAMILY FINANCES ARE SET TO CHANGE INTO THE FUTURE

Chapters 2 and 3 illustrate the complex web of interconnected family financial dependencies, with financial support provided in multiple directions across very different types of households in the UK.

This chapter looks ahead to assess the trends that are set to affect the nature of family financial decisions in the future. It shows that:

- Demographic and social trends are changing the shape of the family meaning more generations alive simultaneously and more diversity in family form; major life stages are occurring later; and the proportion of adults who have no children is growing.
- Economic factors, such as high house prices, are increasing the importance of wealth transfers to help young people get on the housing ladder; whilst a larger proportion of workers are on more unpredictable incomes and may require support with the costs of living.
- Pension freedoms, and the rise of defined contribution pensions, have transferred investment and longevity risks to individuals, increasing the importance of financial decisions.

Factors driving intergenerational family transfers into the future

While it is impossible to get a complete picture of the changing nature of family finances over time, research by the Institute for Fiscal Studies shows that those born in later decades are much more likely to have reported receiving a substantial gift during their lifetime than earlier cohorts at a similar age (though this may partly be a product of recall error).[25] Meanwhile, our polling shows that many believe that the importance of intergenerational financial support will increase into the future. Two in five agree that '*I expect to provide more financial help to younger members of my family than I received when I was their age*' and three in ten disagree. Half (49%) agree that: '*It is becoming ever more important that individuals plan their finances around the needs of different family members and generations*.' Only 12% disagree. A fifth of the whole population (21%) and two in five (43%) of those aged 18 to 34 agree with the statement that 'I expect to help out older family members to meet the costs of living in retirement'.

Below we briefly discuss ten demographic, cultural, social, and economic trends that are shaping the nature of family financial support.

Trend 1: Longer lives are re-shaping the extended family and contributing to more complex financial decisions across the extended family, as families balance a wider set of competing demands and resources across a larger number of generations.

Families in general are getting taller and thinner as more generations are alive simultaneously and as mothers have on average fewer children. While the average age of motherhood has risen, the average number of generations alive at any one time has grown over time. This means that there are more potential sources of, as well as more potential demands on, family resources. [26]

Trend 2: Changes in the life course mean that individuals now reach important life stages later, potentially meaning that individuals will require support later into life.

Data from the ONS show a clear trend for people establishing families later. Since, 1968, the average age of first-time mothers has increased by more than one month for every year that has passed.[27] People now reach their peak earnings at an older age compared to past generations.[28] In 2013, 38-year olds had the highest average earnings, whereas in 1975 it was 29-year olds who earned most. The consequence is that people may need financial help for a longer period into middle age.

Trend 3: Family structures are becoming more diverse and more fluid, making planning less predictable and the directions of financial support more multi-directional.

The structure of the modern family is radically different from that of the past, and overall becoming more diverse. Divorces and family re-formation are now much more common than in the past.[29] In 2011, 11% of couple families with dependent children were step families.[30] There is a risk that people do not explicitly make formal arrangements for what happens if and when families change.

Trend 4: Homeownership is becoming less common for younger generations, and high house prices mean that younger age groups are increasingly reliant on receipt of financial assistance to get on the housing ladder.

The house price to earnings ratio has grown markedly in recent decades. One consequence is that younger generations are much less likely to own a home (despite most aspiring to do so).[31] In contrast, older generations are more likely than previous cohorts to own a home. How housing wealth is transferred down from one generation to the next is likely to have a huge implication on the financial situations for Millennials.

Trend 5: Longer lives and longer periods of ill-health in later life bring heightened risks of large social care costs in later life.

Life expectancy at age 65 has grown by 5 years in the last 30 years for men, and by 4 years for women.[32] However, this has been accompanied by increases to the amount of time spent not in good health. The rise of long-term conditions and co-morbidities means that individuals face rising social care costs. Many individuals face eating into their housing or retirement assets to pay for care.

Trend 6: Growth in the proportion of women with no children who will not have adult children to support them in older age.

A rising proportion of women do not have children. The proportion without a child at age 45 has increased from one in ten for those born in the 1940s to two in ten for those born in the 1960s.[33] In due course, this will mean a larger share of older people without an adult child to support them.

Trend 7: Rise of insecure work and wage stagnation means that working families may require support to manage their budgets, whilst younger cohorts may need additional financial help to subsidise lacklustre wages.

Employment levels have increased this decade despite the financial crash, however levels of in-work poverty have increased and the number of workers in insecure work (such as zero hours and self-employment) has risen. The trend for each generation to earn more and be more prosperous than its predecessor has stalled.[34] Increasingly, even those in work need help from their family.

Trend 8: Under-saving for retirement continues, meaning that retirement incomes will be inadequate for many without a defined benefit pension, while pension contributions will squeeze disposable incomes for earners.

The auto-enrolment of workers into pension saving has increased significantly the number of workers who are saving for retirement. However, many are saving at very low rates compared to the levels needed to resource an adequate retirement income: the Pensions and Lifetime Savings Association has found that half (51%) wrongly believe that the minimum autoenrollment contributions are the 'recommended amount' to save.[35] It is likely that more retirees become reliant on top-ups from younger generations unless savings levels are increased.

Trend 9: Risks are being transferred to individuals, which leave families managing more, and increasingly complex, decisions.

Successive policies have transferred financial risks to the individual. Under Defined Contribution pensions, individuals must manage the investment risks. Following Pension Freedoms, retirees are responsible for deciding how to spend their pension savings and how to manage longevity risk. Individuals may have to look to the family for some risk pooling where the employer or state has stepped back.

Trend 10: Increases to student loans and the abolition of maintenance grants result in individuals facing large and long-term reductions to their disposable incomes.

Many students attending university face large and long-term reductions to their disposable incomes as they repay large loans for tuition and maintenance during their studies.

Public attitudes underline the importance of these trends

Our polling responses underscore the perceived impact of many of these trends, especially that of retirement costs, social care costs and housing. Perhaps predictably these vary depending on the age of the recipient and the generations in question.

- When asked: '*Thinking of the **younger generations** in your family, which aspects of the financial future worry you most?*', respondents aged 55 and over cited housing costs (38%), employment and wages (33%), the costs of raising a family (24%), the costs of retirement (17%), and the costs of education (11%).

- When asked: '*Thinking of the **older generations** in your family, which aspects of the financial future worry you most?*', those aged 54 and under cite the costs of social care (34%) and the costs of retirement (24%).

- When asked '*Thinking of **yourself**, which aspects of the financial future worry you most?*', retirement costs came out as an anxiety across all the different age groups ranging from 26% through to 46%.

- Social care costs also triggered anxiety in many generations varying from 19% among the youngest age group through to 34% of those aged 55+.

CHAPTER 5: ILLUSTRATION OF FAMILY SCENARIOS AND THEIR IMPACT

This chapter sets out five stylised scenarios that illustrate how financial decision-making can play out in different family circumstances. We describe typical individuals, decisions they have to make and the impact of these decisions across their family and indeed wider society in the longer term.

These stylised examples show that:

- Individuals may face difficult trade-offs between their own financial resilience and that of other family members.
- The absence of family support can have a huge, long-term impact on younger individuals, especially in areas such as housing. This indicates the potential for transmission of inequality through intergenerational transfers.
- New pension freedoms offer opportunities to help younger generations but risk leading to lower incomes for pensioners.
- Households may experience simultaneous demands on their financial resources from multiple generations, demonstrating the importance of long-term planning.

Family illustration 1: "Going it alone"

Who they are and their financial position

John is 23. He has been to university and now has a graduate job in London earning £27,000.[36] John pays tax and national insurance as well as making repayments on his student loan. This translates into take home pay of around £21,500 per year.[37]

How decisions on family finances affect them

Unlike many of his peers, his parents do not own a home and have not been able to build up savings. John faces the prospect of renting into the medium and long-term, with his aspirations to own a home delayed and potentially postponed indefinitely. If he reconciles himself towards renting a home in the long-term, he will continue to pay housing costs in retirement. Beyond this, he will have to find other ways to build up savings as well as in turn to help his children get on the housing ladder.

Living in London, if John does want to buy he must build up a deposit over many years. The cost of the average first-time property in London is £422,000.[38] Typically, buyers need to raise 20% of the purchase cost.[39] This would mean raising £84,000. Assuming his regular earnings grow at the current rate of 2.8%[40], even if he saved 10% of his post-tax income, he would still need to save for approximately for 27 years to build up a necessary deposit. This figure would be lower if he made use of 20% top-up to his deposit savings through the Lifetime ISA. He is struggling to understand what products to use that will provide him some reasonable returns that could keep track with house price growth whilst also not opening himself to huge risks.

How John compares to others in society

- Having access to financial support from parents is a major determinant of being able to get on the housing ladder. Our polling shows that three in five (60%) agree that

'Young adults need help from their parents otherwise they cannot get on the housing ladder'.

- The Bank of Mum and Dad has been shown to be the ninth largest mortgage provider and in the majority of cases provides the money as a gift with no need to repay the money or interest.[41]
- Recent analysis by the Resolution Foundation suggests that 1.6 million households with children lived in private rented accommodation in 2016, compared to 690,000 a decade before.[42]

What are the wider societal impacts?

- Inequalities within one generation can be transmitted into inequalities in the generation below. If the long-term trend towards lower levels of homeownership persists there is a risk that an increasing proportion of the population would be unable to benefit from parental transfers to get on the housing ladder.
- The effects of being a renter are felt into old age. Only around two in ten retirees have rental costs currently due to the high levels of homeownership in this generation, but homeownership rates have fallen in all age brackets apart from those aged 65 and over.[43]

Family illustration 2: "Putting others first"

Who they are and their financial position

Keith is 68 and is a widower. He retired with £49,000 in his defined contribution savings. Like 38% of retirees who have DC pension pots, he has less than £50,000 of retirement savings. [44] He has two adult children.

How decisions on family finances affect them

Two years ago, he concluded that his adult children would have greater need for cash than he would. He thus made the most of pension freedoms claiming both his tax-free lump sum of £12,250, whilst also withdrawing an additional sum. Overall, he withdrew a third of his pension pot and split this sum between his adult children.

However, he is now starting to realise that the state pension of £6,549.40 per year does not go as far as he had presupposed.[45] He does not have an annuity from his DC pension nor from a defined benefit pension. He now wishes that he had made a different set of trade-offs and had not given so much money to his children. This started from the fact that he underestimated how long his savings would have to last.

Keith also now wishes that he had had a more straightforward and honest conversation with his children about the fact that he would might need financial support later down the line. He did not put in place any repayment terms or even an informal agreement in place. However, he is averse to letting family members know that he is in financial difficulty.

How Keith compares to others in society

- Our polling shows that two in five (37%) of those aged 55 and over report that 'providing financial help has reduced my level of savings and pensions'.
- It is becoming increasingly common to have a DC rather than DB pension and therefore to be responsible for managing one's own retirement resources.
- FCA research shows that three in ten (31%) of 65-74 year olds who are retired are worried that their money might not last them through their retirement.[46]
- Post Office research shows that 24% of family transfers have not involved any formal repayment terms and only 15% have an informal agreement in place.[47]
- Many in the age bracket 55-64 put a high price on flexibility, versus a guaranteed income: 43% favour flexibility; one in four (25%) favour a guaranteed income.[48]
- Opinium polling for the SMF shows that 10% of the population do not want their family members to know that they are in financial difficulty.

What are the wider societal impacts?

- Larger transfers of wealth down the generations, especially in the context of pension freedoms may lead to less financially resilient retirees. This may in turn lead to higher levels of pensioner poverty, or transfers back up the generations when the younger generations are more prosperous.
- One in ten (9%) of those who have provided help to family members in the last year report that this has put them in debt.
- There are significant risks to the state if retirees exhaust their retirement savings, as this may lead to increased claims on means-tested benefits such as housing benefit.

Family illustration 3: "The non-planners"

Who they are and their financial position

Simon and Sarah, both 48, are in the period of life when expectations on them for providing financial support are high. They have a combined household income of £55,000.[49]

How decisions on family finances affect them

They are now facing a pinch point when multiple calls are being made on their money across their wider family, which they haven't planned for. These are coming mainly from their adult children, but they also worry about the needs of their parents and very old grandparents. They had always half-expected to receive an inheritance from their grandparents, but they have been in residential care for some time with very high fees.

- Their children and step-children are reaching the age when they will go to university; before long, their children will also need help setting up a home.
- Simon and Sarah are both now auto-enrolled into a workplace pension. However, they are only saving at the default rates and gaining contributions of 2% from their employers. In contrast, they will need to start increasing their savings dramatically to get near an adequate replacement rate.

- They have been paying an interest only mortgage, and therefore will either have to switch to higher payments that also include capital or be left having housing costs in retirement
- Their parents are well currently but looking ahead, Sarah and Simon worry that they may require financial support.

How Simon and Sarah compare to others in society

- 43% of those aged 35-54 agree: '*I know that it is important to plan ahead for my financial future and that of my wider family but I have not taken the necessary steps*';[50] 21% disagree.
- 37% of those in the 35-54 age bracket expect to provide financial help in the future to an adult child; whilst, 11% expect to provide financial help to a parent.
- Around one in three (29%) of this age group report that they are not confident making decisions about the long-term future of themselves or their wider family; and the same proportion report that '*It's hard to find support/ financial advice to help me plan for my long term financial future and that of my family*'.

What are the wider societal impacts?

- The rise in multiple generation families means that an increasing number of people will have to make decisions that affect, and are affected by, four or more generations of family members.
- The costs of social care are unpredictable and very hard to plan for. The impact is felt across the generations.

Family illustration 4: 'Retirement trade-offs'

Who they are and their financial position

Alice, 64, is nearing her retirement date. She works for her local council and earns £20,000 per annum before tax.[51] Alice does not have children of her own.

How decisions on family finances affect them

Like many women of her generation, her mother did not have a generous pension and receives £3,000[52] per year from her personal pension savings. Her mother is now facing a situation where she must pay for care at home, and Alice is needed to make financial decisions on her behalf as well as to top up her budget.

Alice faces a bald trade-off between saving for her own retirement versus contributing to the retirement income of her mother. Given that she only expects to work for a few more years, each month that she goes without making pension contributions means income missed in retirement.

How Alice compares to others in society

- Opinium polling for the SMF shows that one in five (21%) expect to help out older members to meet the costs of retirement.

- The FCA's 2018 Financial Lives Survey found that 40% of those aged 45 plus think they will have the same standard of living in retirement, whilst 44% think they will be worse off.[53]
- One in ten of those aged 55-64 (9%) have a power of attorney to conduct financial transactions on behalf of someone else; and, 5% conduct financial transactions for someone else informally by using their PIN number.[54]
- Our own data analysis shows that one in ten (10%) of those with a parent alive in this age bracket (60 plus) provide regular financial support to a parent.
- Women have lower state pensions than men on average, receiving only around 82% of what men get.[55]

What are the wider societal impacts?

- Persistent under-saving across the generations means that successive generations may have low levels of retirement resources.
- There are a growing proportion of adults who don't have adult children – this reduces the demand on their resources but also means they are less likely to receive family financial support in old age.

Family illustration 5: 'Releasing equity'

Who they are and their financial position

David, 59, has two children and two step-children with his second wife Mary. He has tried to build up savings in ISAs and to build up the equity in his house, but his housing wealth dwarfs his financial wealth: his ISA has a value of £27,500[56] and his net property wealth[57] amounts to £173,000. He now only has two years left on his mortgage.

How decisions on family finances affect them

His children and step-children are starting to set up families and are now hoping to buy homes. David and Mary are considering taking equity out of their home so that they can make contributions to help their children get on the housing ladder.

The trade-off they face is whether the capital is worth more to their children than to them. David is aware that he can borrow money at better rates than his children because he owns a large share of equity in his home. He is weighing up the options for taking out equity through changing his mortgage, through an equity release product in the future or by selling up and moving into the rental sector. Moving into the rental sector would mean that they would have to leave their family home with all its emotional and practical consequences, as well as make an on-going commitment to pay rent into old age.

How David and Mary compare to others in society

- Total homeowner equity in England last year reached £2.6 trillion, according to the Equity Release Council, with more than two thirds of this owned by households aged over 55.[58]
- Almost half (47%) of the older population report in surveys that they will downsize.[59]

However, only around 4% of homeowners aged 50+ move during a two-year period, and most do not do so to release equity.

- Based on observed behaviours, an estimated 14% of all owner-occupiers will move out of the owner-occupied sector before they die.[60]
- In Q1, 2018, 10,495 equity release plans were sold, with 26% of plans purchased by people who were gifting money to family or friends.[61]

What are the wider societal impacts?

- Downsizing among the older population would help release housing space for younger generations.
- Easier access to housing equity would enable a larger proportion of the population help out the younger generation, given that 76% of those aged 65 and over own a home.

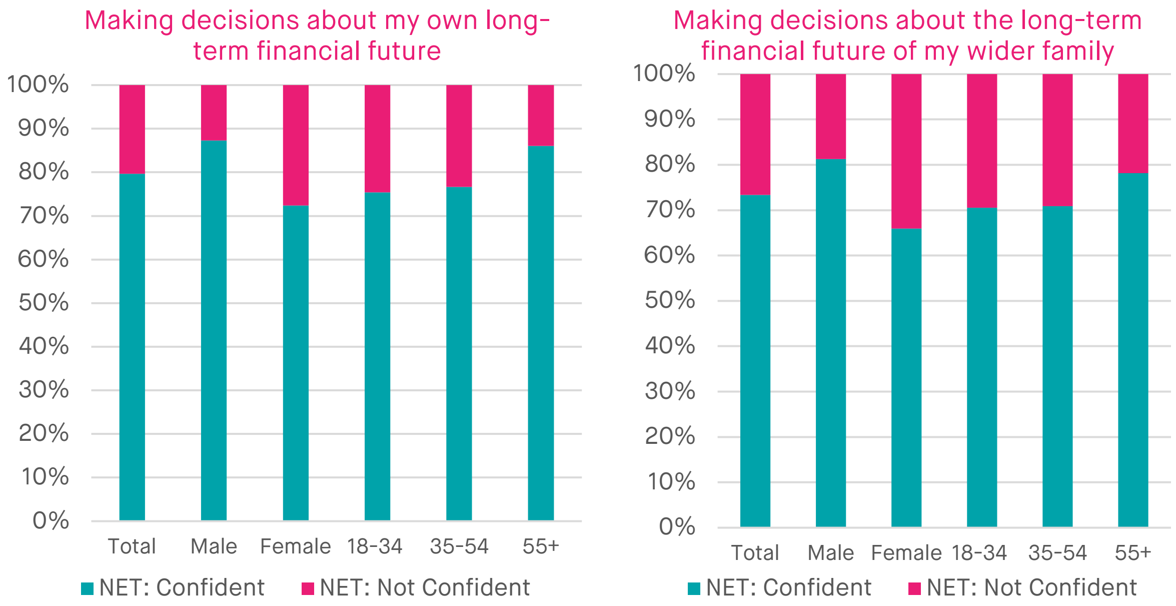
CHAPTER 6: WHAT STEPS CAN WE TAKE TO HELP FAMILIES?

This chapter describes what government, regulators, industry and other stakeholders should do to address the challenges and opportunities associated with intergenerational family financial decision-making. It draws on an expert roundtable discussion as well as polling and other independent analysis.

How families plan

Our survey reveals surprisingly high levels of reported confidence towards financial decision-making. Four in five (80%) respondents reported that they were confident about making long-term financial decisions that affect them as individuals. Seven in ten (73%) reported being confident making decisions about the long-term financial future of their wider family.

Figure 7: Levels of reported confidence when making financial decisions



Source: Opinium Survey for SMF

There are several important qualifications to the seemingly positive picture painted above. First, we note that answers to such questions can be very sensitive to the way in which questions are framed. Second, significant minorities report lacking confidence: a quarter (27%) of respondents are not confident planning for the financial future of their family; whilst a fifth (20%) are not confident planning for their own long-term financial future. Third, there are notable gender divides: a third (34%) of women are not confident planning for their family. This may reflect broader differences between men and women. Some evidence suggests that men are over-confident; whilst research by Britain Thinks shows that women have comparatively low confidence about making investment decisions.[62]

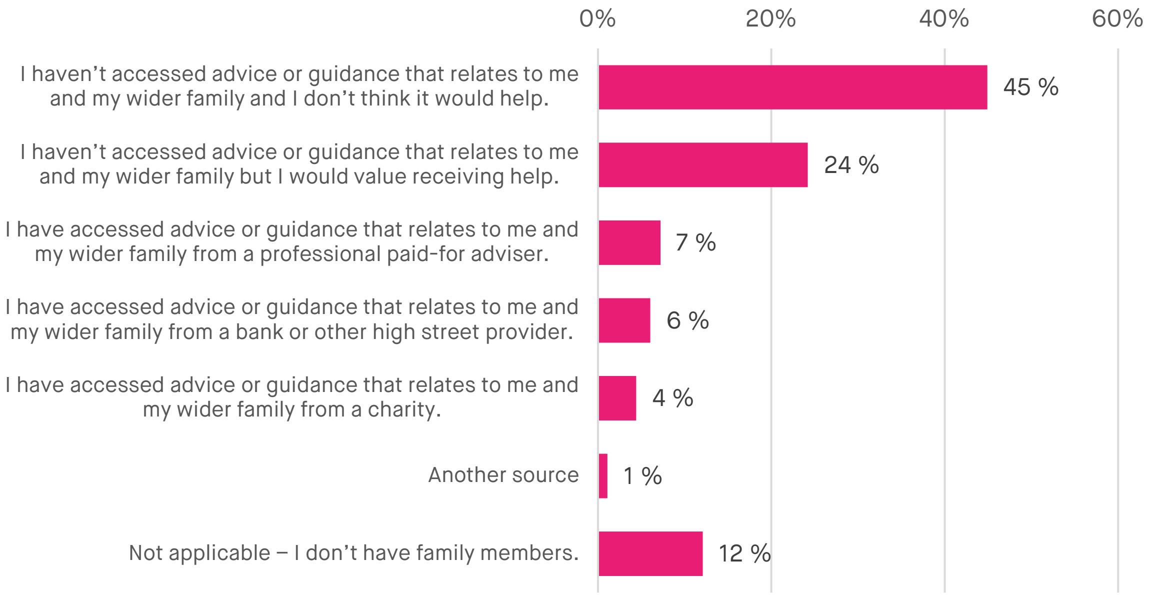
Finally, the broader context is of poor financial literacy and financial capability in the UK. OECD research has shown that 38% of UK adults had a poor understanding of the impact of inflation on the value of money;[63] and, one in five pensioners are unsure what pension product they have.[64] An analysis of financial capability found that across the five measures studied, the general population performs worst on 'planning ahead'.[65] SMF's previous work on financial capability has highlighted that when asked, more than one in five people (22%) could not read the balance on a bank statement.[66]

Take up of advice and guidance

In addition, our polling paints a more worrying picture about how far people have planned for their financial future: two in five (38%) agree that '*I know that it is important to plan ahead for my financial future and that of my wider family but I have not taken the necessary steps*'; whilst only 27% disagree.

Meanwhile, the majority have not accessed advice and guidance that relates to them and their wider family. A quarter of all respondents (24%) reported that they hadn't accessed advice or guidance but that they would value receiving it. Only a small minority received advice and guidance either from a professional adviser, a bank, charity or other source. These findings are in keeping with other research which has shown a significant financial advice gap, especially among those less likely to receive advice from charities or professional advice. In part, this stems from an unwillingness to pay for advice as well as a lack of awareness.[67]

Figure 8: Thinking about the future needs of you and your wider family, please select the statement which best reflects your views



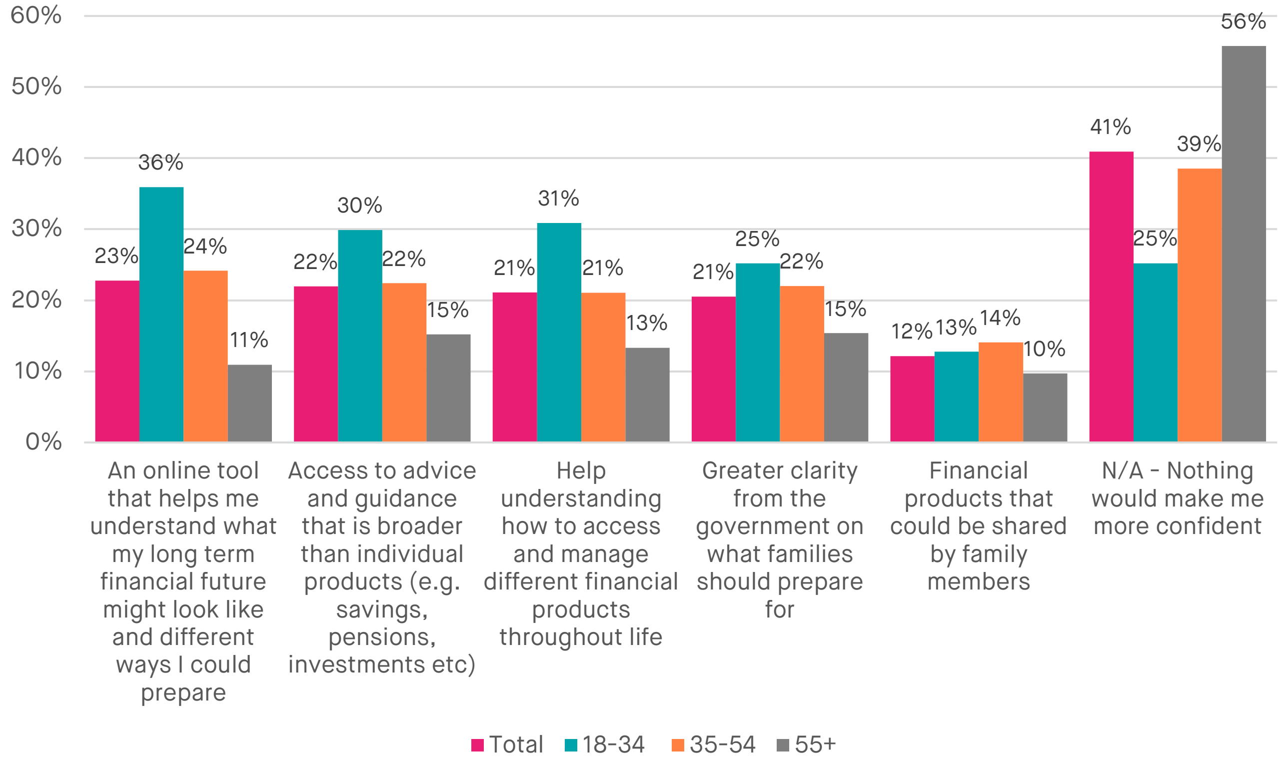
Source: Opinium Survey for SMF

Existing evidence suggests that Millennials often turn to parents when they are making a financial decision: nearly half seek advice from parents or other family members.[68]

What else might help families make long-term decisions

Our roundtable discussion participants and our polling together suggest that there is no one single measure that would help make people feel more confident planning. A majority of those aged 55 and over responded that nothing would make them more confident. Younger people were more positive about the potential benefit of new interventions. We discuss some of these suggestions in more depth below.

Figure 9: What if anything would make you more confident making long-term financial planning decisions for you and your wider family?



Source: Opinium Survey for SMF

Proposed steps to help families plan

Building on our roundtable discussion, as well as additional analysis, we set out below five steps for government, regulators, the advice and guidance sector, financial service providers and consumer groups.

Step 1: The Single Guidance Body and the advice sector should put families at the centre of financial planning

Financial planning can be described as the act of making decisions about money to help individuals meet goals over their lifetime. These may be personal goals or for other family members.

The establishing of the Single Guidance Body is an important step towards setting out what the country wants from a statutory guidance function. The Government is taking forward reforms to replace the Money Advice Service (MAS), The Pensions Advisory Service and Pension Wise with one single organisation.[69] There are some strong foundations on which to build, including MAS's work on financial capability and behaviours, and the 94% customer service ratings for Pension Wise.[70]

Our roundtable discussion, polling and analysis suggest that more holistic advice, that goes beyond product-specific advice and looks towards how an individual's financial future interacts with the needs and resources of their wider family, would be beneficial. One in three of those aged 18-34 and 22% of the wider population cited '*Access to* *advice and guidance that is broader than individual products (e.g. savings, pensions, investments etc)*' as a measure that would help them. Product-specific support can miss the wider context of someone's finances (for instance, if an individual is carrying on saving whilst also servicing expensive debt).

Past SMF research has emphasised the importance of looking in the round at a person's assets on retirement, which may include financial wealth, pensions and housing wealth. It is also important to consider the future potential needs of the individual and, where relevant, their wider family. In developing advice and guidance propositions, the importance of adequacy of income for retirees should be emphasised. This should include alertness to intimidation or financial abuse that could take place in certain family relationships.[71]

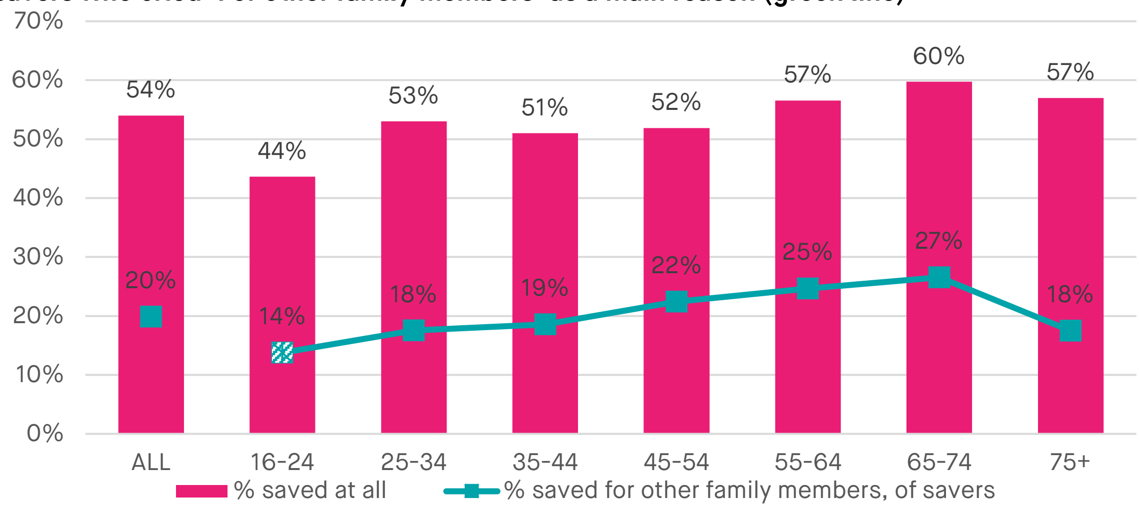
While there are important messages here for the new single guidance body, there are also implications for other providers of advice and guidance, including banks, professional financial advisers and charities.

Step 2: The Government's savings strategy should change to make more of the motivation to save for family members

Successive governments have sought to embed a culture and habit of saving within the population. However, levels of financial resilience in the UK are low. MAS research found that 21 million UK adults don't have a £500 savings buffer to replace a fridge or mend the car.[72] Research by the SMF has found that 14.4 million British adults are not saving at all.[73]

Our analysis of the Wealth and Assets Survey suggests that family is a powerful motivation among savers. Just over half of the population (54%) report having saved some income in the past two years. Of these savers, a fifth (20%) saved with the intent to help-out other family members.

Figure 10: Did you save any income at all over the past two years? (red column) and proportion of savers who cited 'For other family members' as a main reason (green line)



Source: SMF analysis, Wealth and Assets Survey W5 (2014-2016)

We suggest that the Government, in consultation with industry, should consider further whether the current savings incentives regime maximises this potential saving motivation, as well as help families plan their finances and prepare effectively for the needs of modern life. Given the widespread evidence that intergenerational transfers can transmit inequalities, we propose that the government focuses in particular on ensuring that the scheme benefits lower income and lower wealth families. Treasury statistics show that there is around £3.3 billion held in Junior ISA accounts.[74] Higher income households have much higher levels of wealth in such accounts. The SMF has previously proposed the idea of providing financial assets to those entering adulthood, through a 'Fund at Fifteen' scheme. Based on our polling and the importance of support for general costs of living as well as larger one-off investments, the products could help to cover the immediate costs of living; and investments that can make a long-term difference to an individual's well-being.

Step 3: Politicians should end the 'taboo' about talking about families and money

Much of our discussion at our roundtable focused on how we can encourage families to discuss more openly their financial situations and how to plan for the future.

Our polling reveals an appetite for more open discussions about money. Three in five (62%) agree with the statement that '*Family members should speak more openly about the type of help they need from each other*', whilst only 5% disagree. This sentiment is pervasive across generations and genders. Qualitative research has backed this up. A study for the MAS on students and money, reported a 'strong opinion that money is a "taboo" subject. Few felt comfortable speaking with friends or family about how they were doing financially, feeling that they had to give the perception that everything is ok.'[75]

We also note that one in ten reports being prevented from seeking help from family because they do not want other family members to know that they are in financial difficulty.

Given the increasing interdependence of individuals across the family, generating more open and honest conversations could help family members help each other. This could contribute in other positive ways towards planning for the future. Research commissioned by Unbiased found that only 63% of those aged 55 plus have a will.[76] Drawing on the 'Savings Supporter' idea, there may also be scope for family members to support each other to achieve savings goals through structured mentoring.[77]

More generally, we note a cultural reluctance for the state to intervene in how families make decisions. However, we also observe that the government is already intervening in multiple ways that affect how families make financial decisions, such as through social care funding policy, pensions policy (people can hand down tax-free money kept in a pension), inheritance tax, savings incentives and more. The Government could start by highlighting the extent of intra-family financial assistance that takes place and speaking honestly about some of the difficult trade-offs that this entails.

Step 4: Financial service providers and the advice sector should make the most of major life events to help families plan

One of the failings of our current approach, as identified in our roundtable discussion, was that we do not make enough of the opportunities to engage people to think about their financial future. Auto-enrolment into workplace pensions makes a virtue of people's disengagement, yet we expect individuals to make important financial decisions including on how they spend their retirement savings from age 55.

Research by the International Longevity Centre and others has suggested that 'the timing of financial capability interventions is critical to their success and should be targeted at those individuals undergoing significant changes in their personal circumstances'.[78] In part this is because financial capability interventions appear to have the most impact when the newly acquired knowledge can be applied immediately.[79] The same conclusion was reached by research conducted by Bristol University for the Financial Capability Strategy.[80]

A term that emerged in our roundtable discussion was that of 'touchpoints' - namely those moments when the state or financial services providers come into contact with individuals, and how these can be used as opportunities for engagement. These can be particularly powerful if these coincide significant life-changing moments or experiences. Instances could include going to university and getting a student loan, receiving a national insurance card and taking a first job, buying a first home, starting a family, paying off the mortgage, receiving the state pension for the first time, leaving work and birth of a grandchild. We note that these are also likely to be important times when individuals may give or receive money or set up mechanisms to prepare to do so. The nature of the interaction may be different at different touch points. For instance, at some points, the intervention may be about an online exercise, at others a more rounded appraisal.

We note growing interest in a 'Mid-Life MOT' which would help people make plans for the future. As the Work and Pensions Select Committee noted, mechanisms to encourage take-up are also likely to be needed.[81] The SMF has also proposed a Mid-Retirement Financial Health Check to sit alongside the NHS health check. Such interventions could be trialled by financial service providers, charities, research organisations and others prior to being rolled out more widely.

Step 5: The Government should be clear about the risks and costs that families need to prepare for

This is not the place to seek to develop new funding models for care or inheritance tax policy. However, our research underscores the need for government to provide clarity on what families need to prepare for and how they can go about this.

Our polling revealed significant levels of anxiety in relation to retirement and social care costs across the generations (see Chapter 4 above).

In social care, individuals are unable to insure themselves against the risks of social care costs. While there have been multiple announcements of intent to address this problem by successive governments, no solutions have been introduced to date. The Government is publishing a Green Paper in autumn 2018, and, our roundtable debate underscored that greater clarity on what risks individuals face and how they can protect themselves against these risks is fundamentally necessary.

Pension auto-enrolment has already changed the landscape for retirement saving. However, challenges remain. Workers need to save more of their earned income. There have been positive moves to improve information through the Pensions Dashboard. This will provide savers with a single view of their retirement savings. In due course, it would be beneficial if individuals could easily see their state pension entitlement on the dashboard and other assets such as financial wealth and even potentially housing wealth. We note that 36% of young respondents cited positively the idea of an online tool that could help them understand what their long term financial future might look like and different ways they could prepare.

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