A Helping Hand

Brewin Dolphin's Family Wealth Report – Part 3

How millennials (aged 24 – 35) can get help from their grandparents or parents to get on the housing ladder and start to build a pension pot

Cebr

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Executive Summary

The financial crisis has changed savings and financial patterns across age and income groups. People all over the UK face a myriad of financial challenges and are increasingly concerned about the state of their finances both now and in the future.

Cebr was commissioned by leading UK wealth manager, Brewin Dolphin, to undertake a significant piece of research examining the important trends in wealth, income, saving and lifestyles across income and age groups based on a wide range of official datasets and a detailed survey of 11,000 people.

The report examines the financial challenges affecting people in the UK, particularly around the issues of homeownership and saving for later life and, in consultation with financial planning experts at Brewin Dolphin, considers the behavioural changes that could be made to ensure that more individuals achieve their desired lifestyles upon retirement. Numerous findings in the report are concerning, and suggest a detachment between expectations and reality that spans across generations, regions and income groups.

This report, the **third and final part** of the research, examines Britain's 25-34 year olds (millennials), many of whom are trying to grapple with the financial challenges posed by an increasingly out-of-reach housing market and negative financial wealth attributed to slow income growth and high costs of living.

The key findings of this research include:

1. **Despite being one of the most educated generations to date, those in their late 20s and early 30s are failing to accumulate wealth in the same way that earlier generations did.** The share of household wealth owned by 25 to 34 year-olds has slumped to just 3% of the UK's total household wealth. Meanwhile, the same share for over 55s has risen to 63%.
2. **Homeownership is an increasingly distant dream for millennials.** The share of owner occupiers among 25-34 year olds has dramatically fallen from 67% in 1991 to 37% in 2014/15. Meanwhile, older generations have experienced an increase in rates of homeownership. Unlike in the 1980s, 25 to 34 year olds are no longer the most likely generation to be homeowners. Part of this can be attributed to the house price inflation witnessed in the UK property market over the last 20 years.
3. **Millennials are the most likely age cohort to have negative financial wealth.** 37% of households where the main income earner is aged 25-34 have negative financial wealth i.e. their liabilities exceed their level of assets. This mirrors the turn to debt-fuelled consumption seen among consumers in the UK.
4. **Millennials spend to keep track with their peers.** About one in five of the millennials surveyed agree with the statement that they stretch themselves financially to keep up with their peers.
5. **The majority of 25 to 34 year olds are aware of the threat this poses to their future lifestyles –** 59% disagreed with the statement that they are saving enough to be able to afford a comfortable standard of life in the future.
6. **Older relatives are ready and willing to help.** The share of over 55 year olds who have given financial support to their adult children or grandchildren is 55% and 5% respectively. Moreover, the share of the over 55s who believe they <u>will</u> support these adult family members in the future is 36% for children and 17% for grandchildren.

What can be done?

Our survey results show that even though respondents intend on aiding family members financially, often for a first home or wedding, most plan to do so via their Will, potentially exposing their estates to large inheritance tax (IHT) liabilities. For those grandparents that are fortunate enough to be able to gift a cash deposit now, this could help a typical millennial get on the housing ladder and would also help free up income (due to cheaper repayments over rent) to invest for the future. A scenario put together by the financial advisory experts at Brewin Dolphin shows that together, the assistance in purchasing a flat, and the higher pension contributions this allows, would mean that a millennial could accumulate assets worth over £366,000 by the time they reach age 65.

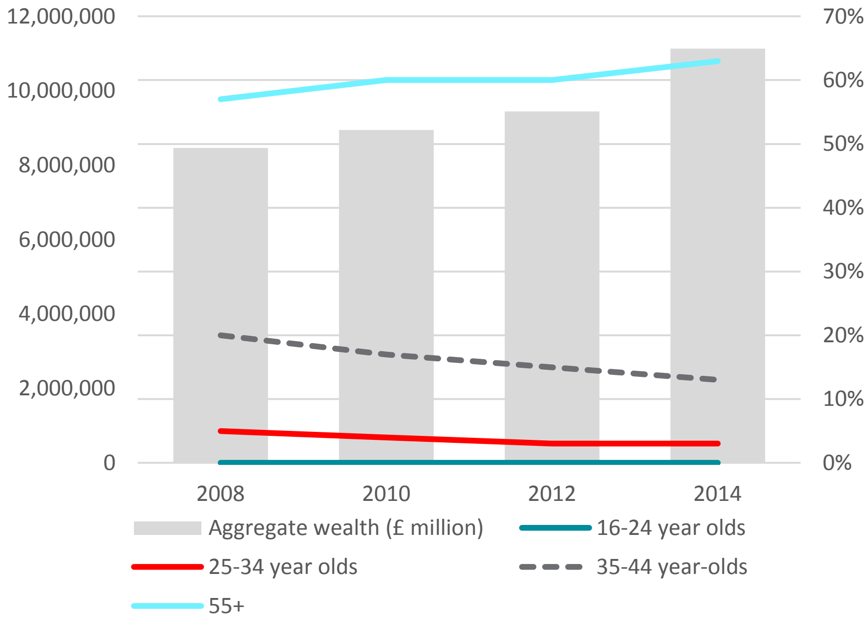
Millennials also need to appreciate that historically low interest rates mean that savings accounts do not offer the attractive rates of return they once did. Moreover, the relatively large length of their risk horizons implies that they are more able to “wait out “ asset price fluctuations than those who would need access to saved funds more immediately. With both of these in mind, millennials need to consider taking on more risk, if they want to increase their chance of making a good return on savings over the coming years, looking beyond bank accounts and towards investment in equities, bonds, commodities and other assets. Low interest rates are not going to go away any time soon, meaning the costs of risk aversion in terms of low returns are set to continue.

Saving and wealth accumulation have become much more challenging and complex tasks than it was for previous generations, so 25 to 34 year olds should seek out financial advice and education to counter this. If millennials are to avoid a major funding shortfall when reaching retirement, they need to be more realistic in understanding the required size of their pension pots and adjust the size of their contributions accordingly.

1 The savings crisis among millennials

Data from the Office for National Statistics (ONS) shows that in recent years the share of total wealth that younger generations control is decreasing. In part this reflects demographic change and the fact that there is a growing number of elderly people. But it also points to the concerning reality that, despite younger generations being amongst some of the best educated to date, they find it difficult to accumulate wealth with the same speed as their parents did.

Figure 1: Distribution of total wealth between age cohorts:

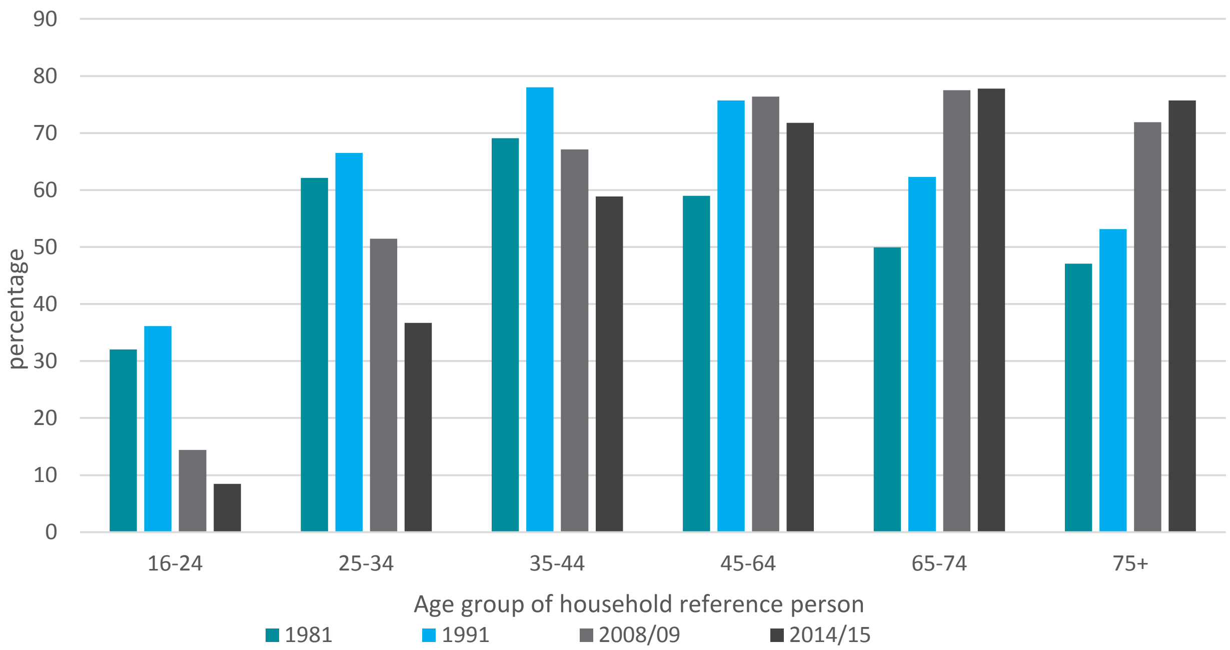


Source: ONS, Cebr analysis

The data for 25-34 year olds shows that the wealth in this age group is just 3% of total household wealth, while that of 16 to 24 year-olds stayed below 1% of the UK's total household wealth. Meanwhile, the share of the over 55 year-olds has increased. One of the primary drivers of this change is the fall in the rate of home ownership in younger generations.

As shown in Figure 2, the share of owner occupiers among 25-34 year olds has dramatically fallen from 67% in 1991 to 37% in 2014/15. Meanwhile, older generations have experienced an increase in rates of homeownership. Unlike in the 1980s, 25 to 34 year olds are no longer the most likely generation to be homeowners – 65 to 74 year olds now lead in this regard.

Figure 2 - Percentage of each age group that are owner occupiers



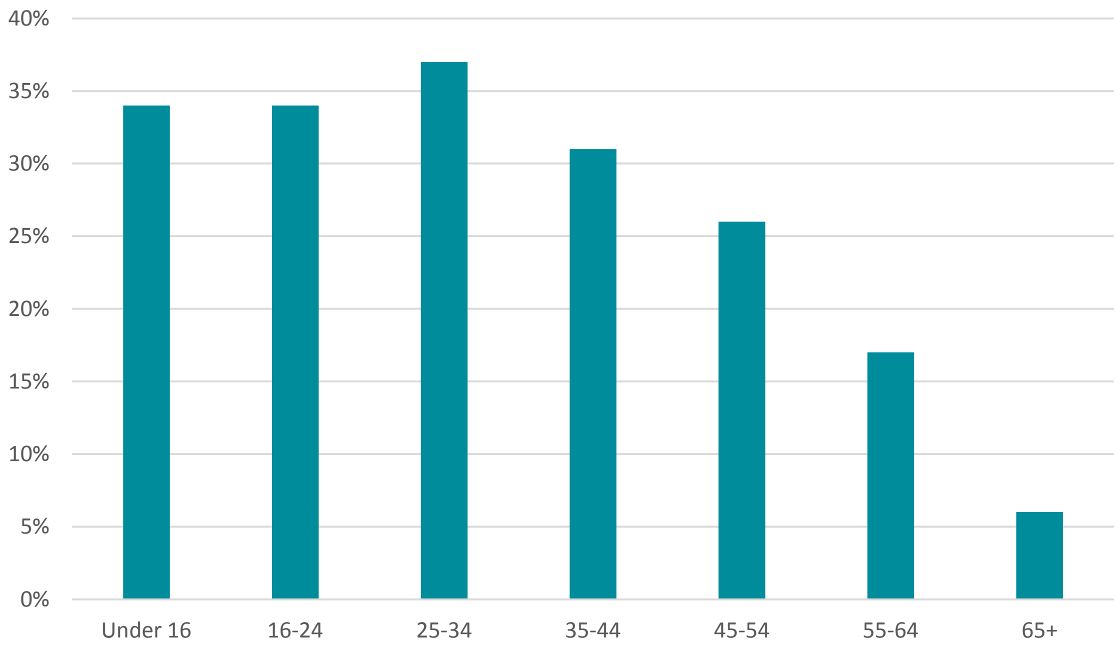
Source: ONS English Housing Survey, Cebr analysis

A shift in cultural norms may partly explain this. Figures from the ONS show that the mean age at marriage has increased since the 1970s. This suggests people are "settling down" later in life, which may lead people to delay the purchase of a house.

Inflated house prices have also played a significant role. According to the Nationwide House Price Index, average house prices across the UK have almost tripled since 1990, making it harder for young people to save enough money for a deposit. This is a trend seen across the UK, but London's particularly inflated house prices mean that levels of homeownership are even lower in the capital.

Home ownership is clearly one of the factors behind the intergenerational differences in wealth, but real estate is not the only type of household wealth worth focusing on – financial wealth is another. The ONS describes financial wealth as comprising of "formal financial assets (such as bank accounts, savings accounts, stocks and shares), as well as informal financial assets (such as money saved at home), and assets held by children in the household, minus liabilities (such as formal borrowing, overdrafts and arrears on household bills)."

Figure 3: Share of households with negative net financial wealth



Source: Wealth and asset survey, 2012-2014

Figure 3 looks at the prevalence of negative financial wealth in different age groups. It shows that households, in which the main income earner is 25-34 years of age, are the most likely to have negative financial wealth. That is 37% of these households have liabilities greater than assets. For older generations this share falls quite significantly. In fact, only 6% of over 65 year-old households have negative financial wealth. It is worth emphasising that this excludes mortgages – so this large share of 25- 34 year olds have negative financial wealth even before accounting for what is traditionally the largest liability associated with this demographic.

More concern for the younger generations can be found in the intergenerational discrepancies in incomes. The Institute for Financial Studies (IFS) found that the income of pensioners, relative to the median income of the rest of the population, has risen steeply since the 1990s[1]. After accounting for lower housing costs for pensioners, their median equivalised[2] household income hovered between 65% and 75% of median non-pensioner income until 1990. By 2013-14 this share had risen to over 100%, implying that pensioners have a higher median income than non-pensioners after accounting for housing costs.

This development is driven in part by the generous defined benefit pension schemes that current pensioners enjoy. In recent times, a push towards defined contribution pension schemes has transformed the pension landscape. In addition, the "triple lock" policy which ensures that each year state pensions increase by the highest of inflation, wage growth, or 2.5%, has also contributed to the

[1] Institute for Fiscal Studies – Living Standards, Poverty and Inequality in the UK: 2015

[2]: Equivalisation is a process to adjust incomes for both composition and size of households. This makes incomes of all households comparable.

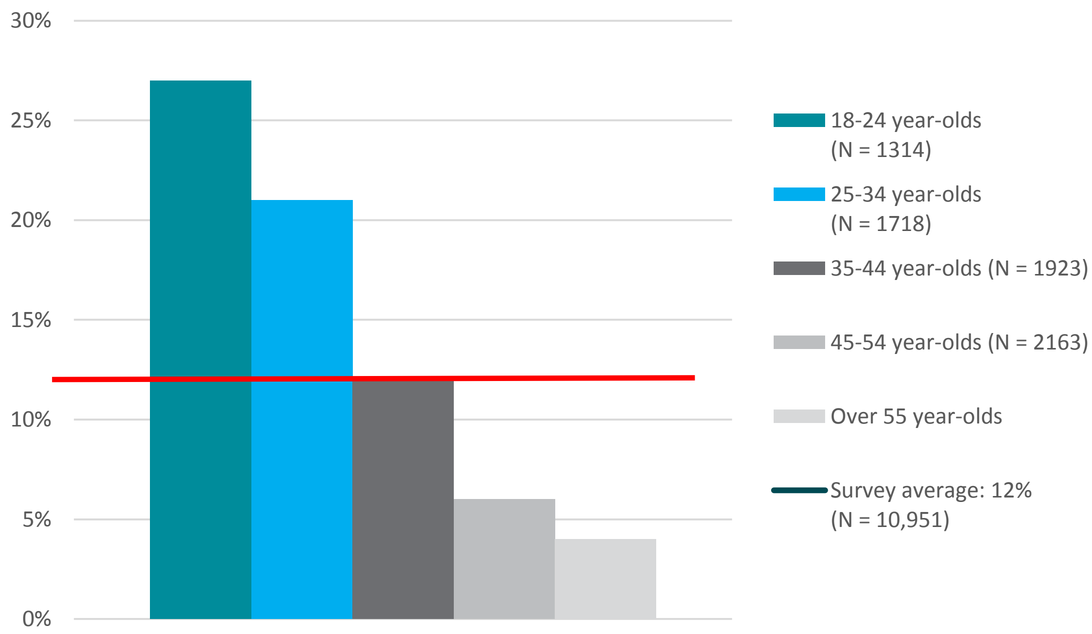
continued rise in pensioners' income. Given the weak employee earnings growth since the Great Recession, the 'triple lock' policy means that pensioner income has risen faster than median income for the working population.

The UK remains one of the world's wealthiest nations and it continues to grow even richer – household wealth grew from £8 billion in 2008 to £11 billion in 2014. However, as we have seen, this increase in wealth is not distributed evenly across age groups, with older people and pensioners leading younger ones in almost every category. Weak wage growth in the last ten years has exacerbated this intergenerational inequality.

In the face of these challenges, millennials continue to spend. According to a survey of 11,000 individuals commissioned by Brewin Dolphin as part of this research, about one in five 24-34 year olds agree with the statement that they stretch themselves financially in order to keep up with their peer group. For 18 - 24 year olds, over one quarter of respondents said they agreed with this statement. As age increases people seem less likely to be influenced by the spending habits of their peer group – only 4% of over 55 year olds agreed with this statement.

Perhaps unsurprisingly, given the high cost of living in the capital, the propensity to financially overreach to keep up with peers is felt even more acutely in London, where 17% of respondents across all age groups agreed with this statement - well above the survey average of 12%.

Figure 3 - Share of respondents agreeing with the statement: "I stretch myself financially to keep up with my peers"

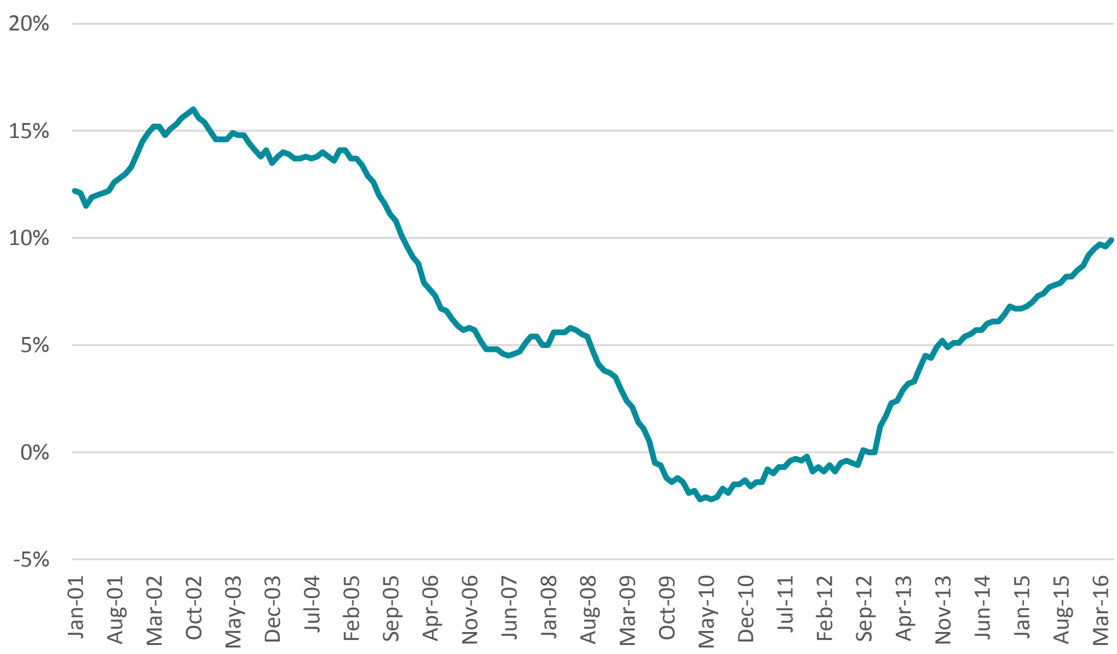


Source: YouGov/Cebr analysis

The survey of 11,000 individuals commissioned by Brewin Dolphin also reveals that almost one in six 25 to 34 year olds say that they do not save enough for retirement because “major lifestyle goals (e.g. homeownership) seem so unachievable that I feel like saving less”. This is the second highest prevalence - after 18 to 24 year olds at 18% - but it is more immediately concerning because of the importance of saving during this period of life. Indeed, the survey also revealed that 30% of 25-34 year-olds typically save less than 1% of their after tax income.

Moreover, most 25-34 year-olds are aware of the threat this poses to their future lifestyle - 59% disagreed with the statement that they are saving enough to be able to afford a comfortable standard of life in the future and 11% said they did not know whether they were or not. The problem of under-saving is even worse when taking consumer credit into account. Low interest rates entice consumers to spend money now including some they have yet to earn. Such a turn to credit is reflected in the sharp increase in the growth of unsecured credit seen over recent years, as illustrated in Figure 5.

Figure 5: Annual growth in consumer credit



Source: Bank of England

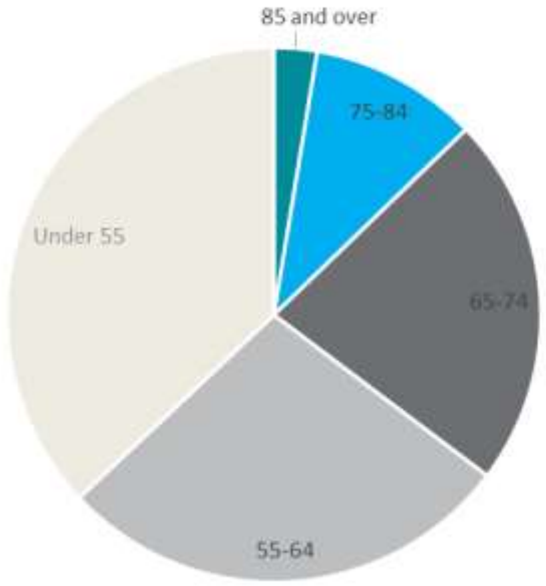
Overall, it is clear that millennials are threatening their future prosperity by turning to debt to finance current expenditures and ignoring the need to save for their future needs.

2 Understanding the role of the UK's 'Grandbank'

Data from the ONS reveals that pensioners in the UK own approximately £1.3 trillion of housing wealth. Similarly, as noted in the previous section, over 55 year-olds now account for 63% of total household wealth in the UK, while the figure for 24-34 year olds is only 3%. Figure 6 shows how the wealth of over 55 year-olds compares to that of other age groups.

Figure 6: Share of total household wealth by age group

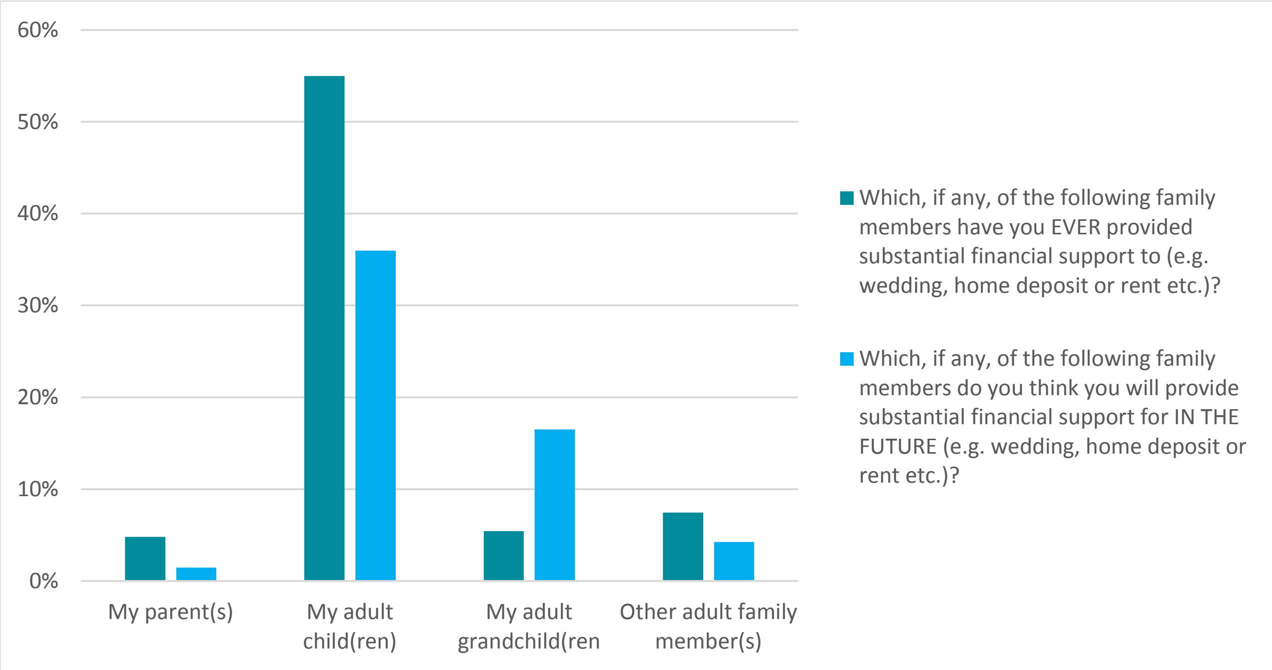
Age band	Percentage of Total wealth
Under 55	37%
55-64	28%
65-74	22%
75-84	10%
85 and over	3%



Source: Wealth and Assets Survey, Office for National Statistics

As well as getting a better understanding of financial pressures on people, the survey of 11,000 individuals commissioned by Brewin Dolphin also delves into the prevalence of intergenerational wealth transfers and people's attitudes towards them. Figure 7 illustrates the share of over 55 year olds who have given financial support to their adult children or grandchildren is 55% and 5% respectively. Moreover, the share of the over 55s who believe they will support these adult family members in the future is lower for children (36% versus 55%) and higher for grandchildren (17% versus 5%). These figures potentially reflect the fact that parents expect their children to become financially self-sufficient while they appreciate the fact that their grandchildren might need more support throughout their life. This is illustrative of the strong will among the older generations to support their children, grandchildren and other relatives by divesting the wealth they have accumulated over the years.

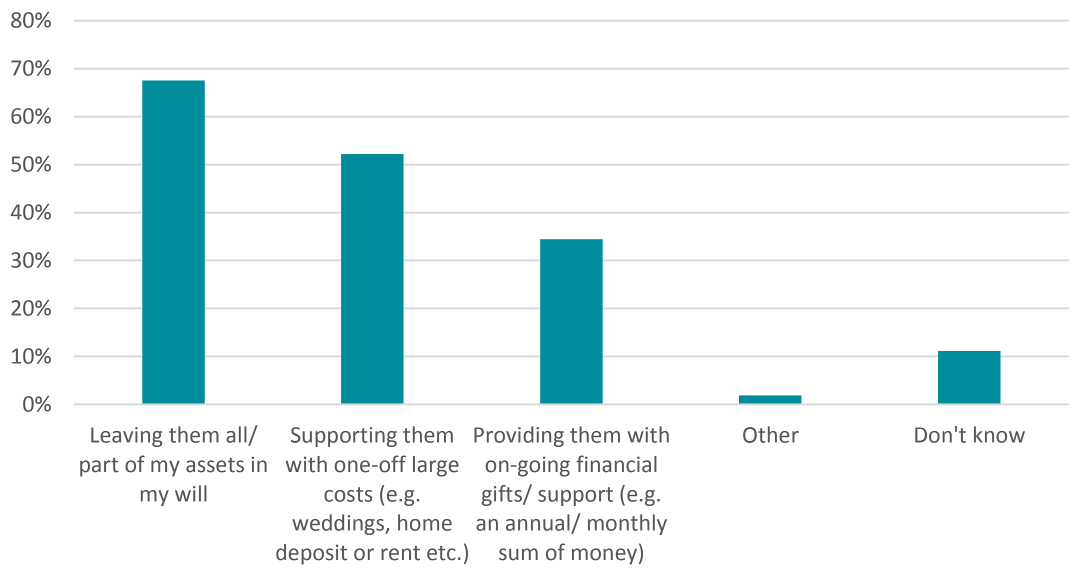
Figure 7: Share of over 55 year-olds who have given and think they will give to family members (multiple answer possible)



Source: YouGov/Cebr analysis

There are numerous ways in which such financial wealth can be transferred between family members, as Figure 8 illustrates. Our research suggests that leaving an estate is the most commonly used form of financial support for relatives, with 68% saying that they would support family in this way. Just over half (52%) intend to support family with help on one-off costs (such as weddings and house deposits).

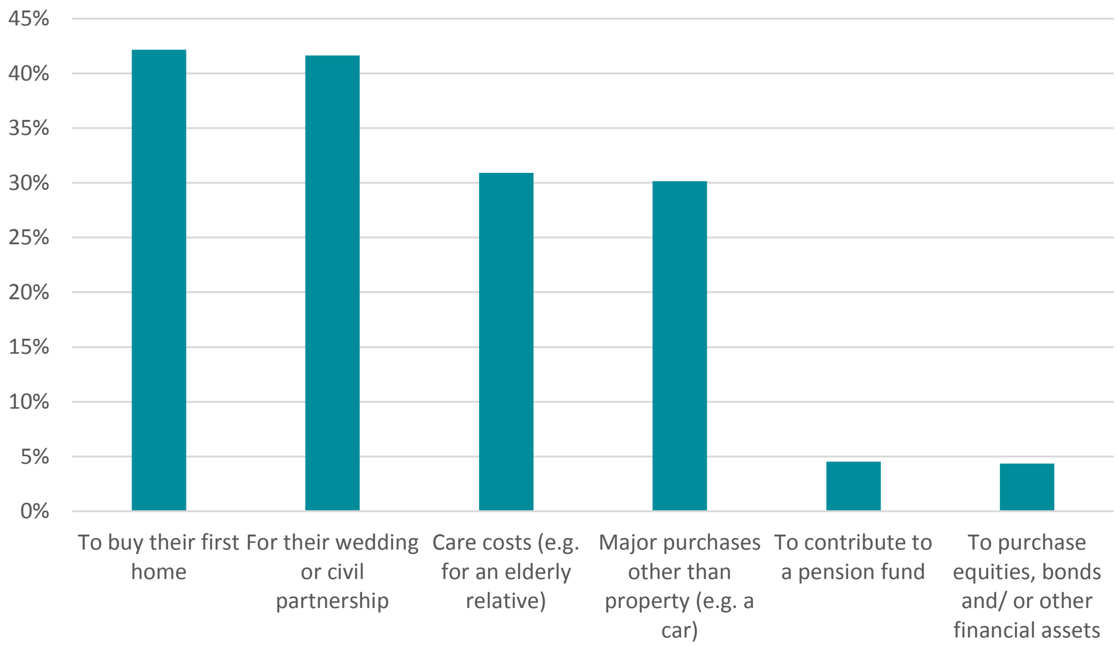
Figure 8: In which, if any, of the following ways do you intend to provide your immediate family with financial support? (Please select all that apply)



Source: YouGov/ Cebr analysis

Just over a third (34%) of individuals would help their family by providing ongoing gifts (e.g. an annual sum of money). This is despite the fact that there could be some clear benefits from providing ongoing financial support to younger relatives. For example, ongoing financial support could take the form of setting aside money each year for a younger relative's pension fund or to invest in other ways. Supporting capital accumulation at a younger age brings a wide range of benefits to younger individuals, as they can benefit from compound interest and compound returns on investments – something that might not be achieved in the case of an inheritance received in later life. In addition to this, such an approach can bring with it some tax benefits, with regular gifting helping to reduce inheritance tax liabilities.

Figure 9: For which, if any, of the following reasons have you/ would you ever provide financial support to ANY family members? (Please select all that apply)



Source: YouGov survey commissioned by Brewin Dolphin

Figures 8 and 9 illustrate that even though respondents intend on aiding family members financially, often for a first home or wedding, most plan to do so via their Will, potentially exposing their estates to large inheritance tax (IHT) liabilities. For those grandparents that are fortunate enough to be able to gift a 25% cash deposit now, this could help a typical millennial buy a flat at an average UK price of £184,973 and save up to £129,300 in reduced mortgage payments (as detailed in the worked example below). This would also help free up income for millennials (due to cheaper repayments over rent) to invest for the future. In London, the savings could be substantially more.

Brewin Dolphin's financial planners have created a set of scenarios, based on the purchase of an average UK property by a first time buyer, to outline the way in which grandparents could help. For the purposes of this hypothetical scenario they are calling the millennial that is trying to buy her own home *Kelly*.

Rent	House price	Deposit+ purchase costs	APR	Monthly mortgage repayment	Total cost of rent or mortgage over 25 years	Monthly savings after mortgage repayment	Pension by age 65 @ 4% net of charges	ISA after 25 years @ 4% net of charges
Scenario 1 – Kelly rents for 25 years								
£725 /month					*£217,500*		0	0
Scenario 2 – A 5% deposit gift. Help from the 'Grandbank'; Kelly buys now								
	£184,973	£13,193 (5% deposit plus costs)	4.78%	£1,005	£301,500	£0	£0	£0
Scenario 3 – A 25% deposit gift. Help from the 'Grandbank'; Kelly buys now and saves for retirement								
£0	£184,973	£50,187 (25% deposit plus costs)	1.8%	£574	**£172,200**	**£151**	**£181,800**	**£77,634**

Kelly is 29, lives on her own in a 2-bedroom flat which she rents for £725 per month. She would ideally like to buy a 2-bedroom semi-detached house priced at the average UK price of £184,973[3].

Scenario 1: Kelly rents and can't afford to save a deposit

Kelly rents for £725 per month for 25 years spending £217,500 on rent without assuming any rental growth.

Scenario 2: A 5% gift from 'Grandbank' means Kelly can buy her first home

Gifting Kelly an amount equal to a 5% deposit and costs associated with the house purchase (£13,193 in total), and not having to repay her grandmother (named 'Margaret' for the purposes of this example), would enable Kelly to buy a house with £1,005 per month mortgage repayments. As a first-time buyer, and based on her £45,000 salary, Kelly borrows up to £175,724 (95% of the value). Rates for such a high

[3] ONS: Average UK excl. N.I Average 1st time buyer December 2016

loan-to-value (LTV) are around 4.78% APR[4] over a 25-year mortgage, The total capital and interest mortgage payments would be £301,500 over this period assuming the mortgage rate did not change.

In addition to the deposit, she will also need to allow for house purchase costs (stamp duty and conveyancing) of £3,944 so she needs at least £13,193 up front to fund the purchase.

Scenario 3: A 25% gift from 'Grandbank' means Kelly can buy her first home, access a cheaper mortgage, save for a pension and potentially exempts the gift from IHT

Gifting Kelly an amount equal to a 25% deposit and costs associated with the house purchase (£50,187 in total), and not having to repay her grandma Margaret, would reduce the total capital and interest mortgage repayments to £574 per month. Over the 25 years of her mortgage this would reduce her payments to a total of £172,200, £129,300 less than if she purchased the property with a 5% deposit largely due to the larger deposit and the net reduction in the monthly repayments. This is £45,300 less than she would have paid in rent over 25 years.

If Kelly's grandma survives for seven years the gift will be outside of her estate and not be subject to inheritance tax.

With the saved rental outgoing, Kelly could use the extra income to build a £77,633 Stock and Shares ISA after 25 years

Kelly may want the flexibility of accessing her savings should she need to fund a major life event, such as a wedding. Taking the £151 difference between the rent Kelly paid (£725 per month) and the mortgage she would pay (574 per month) after allowing for her grandmother's gift, she decides to invest the saving in a Stocks and Shares ISA. After 25 years, this ISA could be worth £58,712 assuming a conservative rate of return of 2% p.a. net of charges. Assuming an annual growth rate of 4% net of charges, the ISA could be worth £77,633 at the end of the 25-year period.[5]

With the saved rent, Kelly could amass £181,800 in her pension

Thinking more long term, Kelly may decide that she needs to put money away towards a pension in order to help her fund retirement.

If Kelly put her £151 saving into her pension for the period from the age of 29 to 65, she would get 20% tax relief before any investment growth. By the time she was 65, her pension could be worth £119,275 assuming a conservative annual growth rate of 2% p.a. net of charges. Alternatively an annual growth rate of 4% p.a. net of charges could produce a fund worth approximately £181,800[6] at age 65.

[4] Source: https://moneyfacts.co.uk/mortgages/first-time-buyer-mortgage/

[5] Net of charges. Capital is at risk. The value of investments can fall and you may get back less than you invested.

[6] Net of charges. Capital is at risk. The value of investments can fall and you may get back less than you invested.

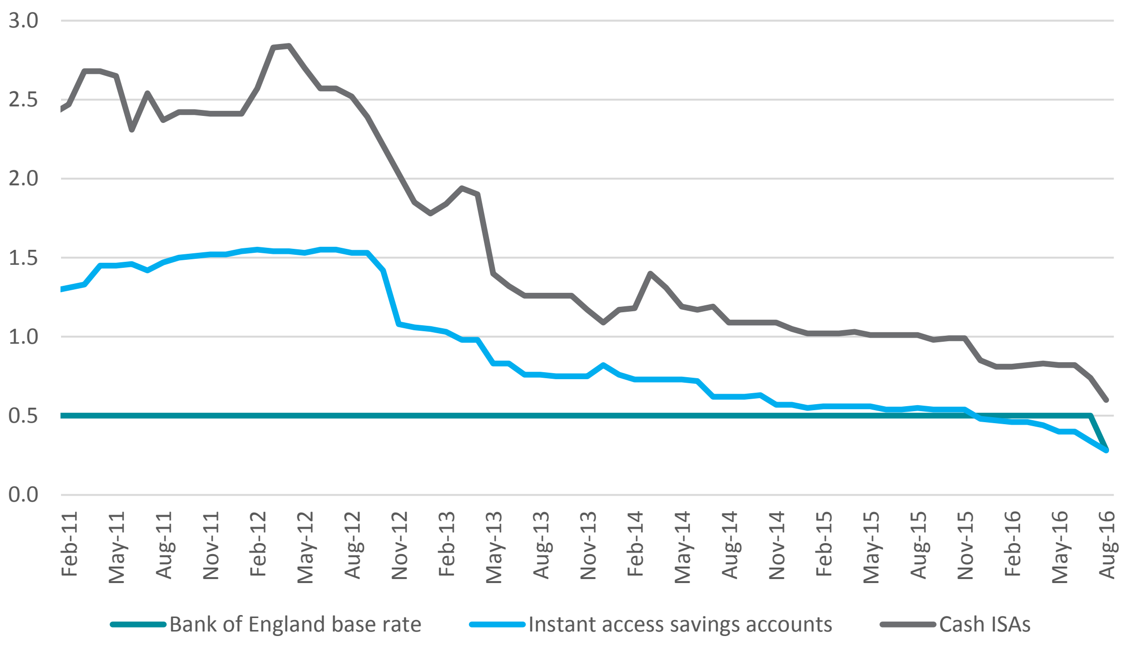
3 What else can be done?

The previous sections of this report have illustrated the large intergenerational wealth and income inequalities that exist in the UK and the high rates of under-saving amongst millennials.

So, what can be done to make homeownership and a comfortable life in retirement more attainable for millennials? In this section of the report, we argue that a change in attitudes towards risk and investment can be part of the solution. We have previously pointed to the usefulness of grandparents helping with a deposit on a house. In this section we will continue to analyse the potential options that millennials have when trying to boost their wealth and homeownership aspirations.

The recent global financial crisis has seen a tendency towards ultra-loose monetary policy in a range of Western economies – including the US, the UK and the Eurozone. Interest rates have been cut to near-zero levels, drastically reducing the extent to which cautious savers receive an investment income. As Figure 11 illustrates, many savings accounts no longer offer attractive returns.

Figure 11 Average interest rate on cash ISAs and instant access savings accounts, plus Bank of England base rate, %



Source: Bank of England

These trends are likely to persist going forward. Even when interest rates start to rise again in the UK, the pace of rate rises is expected to be extremely slow.

Despite this, households in the UK remain cautious in terms of where they invest their savings. According to the latest ONS Wealth and Assets Survey, while 57% of households have savings accounts and 48% have ISAs, just 12% hold UK shares and 2% hold overseas shares.

Millennials are remarkably risk-averse when it comes to new types of investment vehicles. Of the millennials surveyed in this research, only one in five answered they felt comfortable investing in peer-to-peer lending products, even fewer than those who feel comfortable with investing in commodities (25%). This reservation is surprising given that it is often the younger cohorts who are typically the early adopters of new technologies including fintech. Ultimately, millennials in the UK, need to consider taking on more risks if they want to increase their chance of making a good return on investments over the coming years, looking beyond bank accounts and towards investment in equities, bonds, commodities and other assets. Low interest rates are not going to go away any time soon, meaning the costs of risk aversion in terms of low returns are set to continue. The reason why this is a solution for younger generations, in particular, is because of their longer investment horizon, meaning they can 'wait out' any potential bumps in asset prices.

Financial advice could also play a more important role in advising millennials, who face some sizeable economic challenges in the post-financial crisis world. Of the 11,000 individuals surveyed as part of this research, 85% had never paid for financial advice, a figure that remains high across age groups and income groups. Among those aged under 35 this increased to about 90%.

Although some of the suggestions raised so far – increased risk-taking, gift giving from grandparents and financial advice – can go a huge way towards improving the current problem of under-saving in the UK, a change in behaviour and higher savings rate need to be part of the solution. If individuals are unwilling to adjust their aspirations for retirement income and age, they need to start saving more in the present. Reaching major savings goals early will most likely pay off in the future.

4 Conclusion

This report has highlighted the significant savings shortfall that exists amongst millennials (24-35 year olds) and their seeming lack of action to correct this. ONS data paints a sobering picture. Unlike in the 1980s, this age cohort is no longer the most likely to be homeowners, with only 16-24 year-olds being less likely to be owner occupiers. ONS data also shows that millennial households are the most likely to have negative financial wealth – 37% of them do. The survey undertaken as part of this research also revealed that 25-34 year-olds are more likely to stretch themselves financially to keep up with their peers, and most (59%) of them are aware that they are not saving enough to afford a comfortable living standard in the future.

However, this report has also revealed that behavioural changes can help address some of the challenges that millennials face:

Taking advantage of the 'Grandbank'

Our survey results show that even though respondents intend on aiding family members financially, often for a first home or wedding, most plan to do so via their Will, potentially exposing their estates to large inheritance tax (IHT) liabilities. For those grandparents that are fortunate enough to be able to gift a cash deposit now, this could help a typical millennial in reduced mortgage payments and would also help free up income (due to cheaper repayments over rent) to invest for the future. This extra income could go toward a pension pot or an ISA. A scenario put together by the financial advisory experts at Brewin Dolphin shows that the assistance in purchasing a flat, and the higher pension contributions this allows, means that a millennial could accumulate assets worth over £366,000.

Understanding their risk horizon

Historically low interest rates across much of the western world means that savings accounts do not offer the attractive rate of return they once did. Of the millennials surveyed in this research, only one in five said they felt comfortable investing in peer-to-peer lending products, even fewer than those who feel comfortable with investing in commodities (25%). Ultimately, millennials in the UK need to consider taking on more risks, if they want to increase their chance of making a good return on savings over the coming years, looking beyond bank accounts and towards investment in equities, bonds, commodities and other assets. Low interest rates are not going to go away any time soon, meaning the costs of risk aversion in terms of low returns are set to continue.

Getting help

Financial advice and education appear to be underutilised by the population - 85% of the 11,000 survey respondents in this research have never paid for financial advice despite widespread concerns about not saving enough. Saving and wealth accumulation have become much more challenging and complex tasks than was the case in previous generations, so it would be worthwhile for millennials to seek reliable financial advice in order to meet their financial expectations.