Intergenerational Risk Sharing

WS5: Managing housing wealth: Generational and life course perspectives, analysis of the BHPS

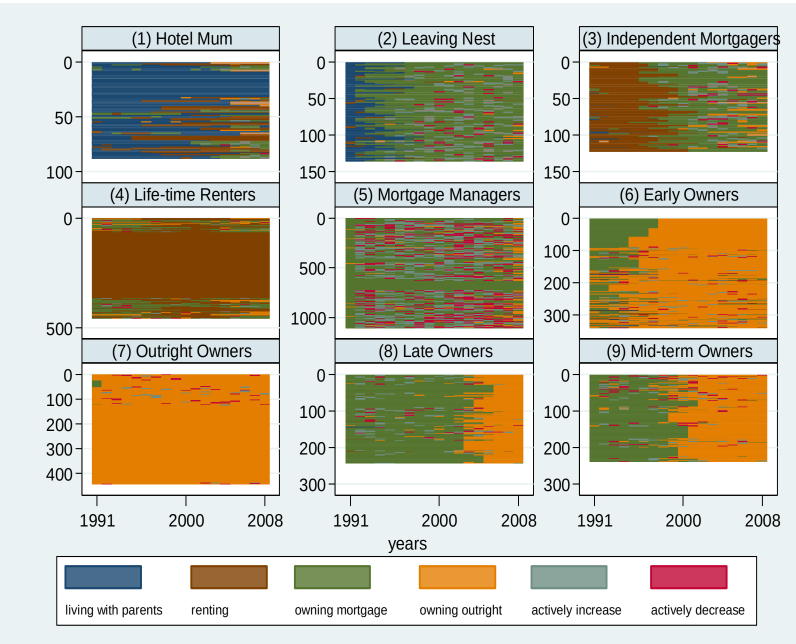
MIND THE WEALTH GAP
Intergenerational Justice and Family Welfare

Intergenerational Justice

With new advocacy groups like the Intergenerational Foundation or Generation Rent it seems like Britain turned into a generational battle field. We have found that these public and academic debates use conflicting concepts of generation. We propose to differentiate clearly in debates on intergenerational justice between family generations, age groups, cohorts, cultural generations and past/future generations when discussing issues of generational fairness, especially around distributive justice (Köppe 2013). In policy terms we ask the moral question of when and how to tax housing wealth gains on grounds of intra- and inter-generational fairness. We argue that younger age groups with little accumulated wealth should be lifted out of the current system of stamp duty, a fairer taxation between age groups should instead focus on capital gains aimed at the middle-aged groups and an estate tax aiming at the eldest age groups. On grounds of intergenerational fairness between family generations and to increase social (wealth) mobility the UK tax system would benefit from a shift towards an inheritance tax. Instead of taxing bequestors, inheritors would be taxed. Those with low life-time earnings would be taxed less, than those with high life-time earnings.

Housing wealth over the life course

Figure 1: Housing Wealth Pathways



Source: BHPS, own calculations using sequence analysis

Theoretically and empirically we have studied the acquisition, management, usage and transfer of housing wealth over the life course in Britain (Köppe/Searle 2016). We show (Köppe 2014a, 2014b, Köppe/ Maclennan/ Searle 2013) that the idealised British aspiration towards homeownership still seems valid for the majority. After a period of renting Brits acquire a home through a mortgage and later in life turn into outright owners (see figure 1). However, this idealised housing career reveals some new developments:

Mortgage Managers

First, the mortgaging period has become an increasingly active period and turned homeowners into Mortgage Managers (figure 1, group 5). Mortgagors are increasing and decreasing their housing wealth along the way and are increasingly exposed to financial and social risks.

Help from Mum and Dad

Second, instead of a short initial period of renting, some young people are increasingly moving directly from their parental home into homeownership (figure 1, group 2). The nest leavers tend to be young (mean age 23), earn higher incomes and are more likely to be single. They also seem to benefit from the inter-generational socialisation of holding and managing homeownership which is passed on through family generations (Köppe 2014b). Compared to children still living with their parents, the parents of nest leavers have a higher homeownership rate. We also can see that inheritors are more likely to follow a housing wealth pathway that includes homeownership (figure 1, groups 2-3, 5-9). This empirical result underscores the theoretical argument that the estate tax in its current format reinforces intra- and inter-generational inequalities. First, intra-generational inequalities become cemented between current cohorts of renters and homeowners. Second, these inequities between renters and homeowners are passed on to their offspring, who have little chance of upward and downward housing wealth mobility as parental gifts and inheritances are important financial resources into the route of homeownership.

Edges of Homeownership – Strugglers and Renters

Although most mortgage managers make a successful transition into outright ownership, we observe a minority at the edges of homeownership. First, overall about 17 per cent of the population are permanently excluded from housing wealth (figure 1, group 4). As permanent renters they have no prospect of acquiring substantial wealth in their life time. Second, focussing only on those who held a mortgage in 1991, about six per cent of mortgagers fell out of homeownership between 1991 and 2008 (see Köppe 2014a for figures). While four per cent drop out permanently, two per cent seem to struggle to maintain their housing wealth and might return into homeownership. These housing pathways are associated with low incomes, separations and having additional children, widening housing wealth inequalities along these social risks. It is also important to note that renting and outright ownership are temporary periods for some mortgagers. Temporary renters (1.5%) and temporary outright owners (1.2%) return to mortgaging after short periods of renting and outright ownership, respectively.

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