

## Briefing Paper

### **Financial security of individuals, families and household inheritance; asset management; and personal finance**

Households in the UK face uncertain prospects, especially in the wake of the Global Financial Crises and the Great Recession that has followed it and the possibility of an imminent change of government. Whatever form the government takes, there will have to be public expenditure cuts and increased taxation. The re-regulated banks will be less able to lend and credit will become more expensive, especially once abnormally loose monetary policy is rescinded.

As ever, economists cannot agree on the 'optimal' speed of 'fiscal consolidation', but many fear that if the 'Keynesian' stimulus is reversed too quickly, the UK (and Europe and the US) may end up with a 'double dip recession'! Headline unemployment may thus rise as part-time workers are either fired or revert back to full-time work, and a second dip into recession will make matters worse.

Much has been made of a recent speech by David Willets MP on the 'hoarding' of wealth by the 'baby boom generation', but it would surely be surprising if the generation now in or approaching retirement had not accumulated wealth in preparation for it, which they will draw down once retired; as their parents are doing. Increased longevity and demographic trends mean that the younger generations ('Y' and 'X') will face increased tax burdens and already have higher levels of indebtedness due to increased student fees etc. How will they be able to save and accumulate wealth for retirement now that not just the state, but their employers, is contributing less to their pensions? Will the children be helped out of the jam by inheritance from their 'baby boomer' parents, who are now benefiting from inheritance

from their parents? At what level should inheritance tax be set? Is enough provision being made for the long term care of the elderly?

Digging deeper into the intergenerational wealth comparison reveals massive inequality in distribution of wealth. The majority of 'baby boomers' have accumulated insufficient wealth to enjoy a comfortable retirement, and indeed only 20% or so of them actually went to university (and those tended to be among the more wealthy ones). Women in particular are ill-provisioned for retirement. In the UK, as in the US, the majority of the wealthier citizens have benefited from being born into relatively wealthy families.

There remains substantial poverty and widespread financial exclusion. Much more needs to be done to provide acceptable levels of access to finance to all UK citizens (and despite the longstanding Community Re-Investment Act in the US, more needs to be done there too). Despite the efforts by the FSA and others, financial capability remains low and more resources need to be devoted to raising it.

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