

Baby boomers get less for their taxes than previous generations

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The gap between what older people pay in taxes and receive in state spending has narrowed in recent years MATT CARDY/GETTY IMAGES

Older people are paying more in tax and receiving a falling share of public spending, research has found.

Millennials and people approaching middle age are enjoying more benefits-in-kind from the state than their predecessors despite a decline in the rate of pay rises.

The figures, based on an analysis of the effects of taxes and state spending across generations by the Office for National Statistics, may temper some of the apparent anger among millennials that the baby boomer generation is living the high life at their expense.

There has been growing political pressure to reverse some of the largesse shown to pensioners by Gordon Brown, who as prime minister raised the state pension and introduced free bus passes for people aged 60 and free TV licences aged 75. His successor, David Cameron, also guaranteed generous annual rises to the state pension.

However, while the gap between what pensioners pay into the system through taxes and what they take out in pensions and access to healthcare and other services is large, it has been narrowing compared with previous decades. This is because more older people work for longer or pay tax on private pensions. While younger people benefit less, their net contribution is lower than that of their predecessors.

Statisticians looked at the disposable income of the highest earner in about 5,000 families across eight decades, based on annual surveys, to compare the tax contributions and beneficiaries of public spending across generations. This meant calculating how much they had to spend after paying direct taxes, such as income tax and council tax, and indirect tax, such as VAT and alcohol duty, and considering benefits such as public services, the state pension, tax credits and welfare benefits.

The research looked only at income so did not include generational disparities in wealth such as the value of property or financial investments.

People of working age have always pay more on average in taxes than the value of public services they use. This pattern is reversed once they begin drawing a state pension, the research found.

However, state spending for working people increased significantly because of Tony Blair's big rises in spending as prime minister, particularly on schools and the National Health Services, and on tax credits to top up low pay and support childcare and other costs.

The analysis found that people now aged 20-24 were net beneficiaries when comparing taxes and benefits, receiving £4,124 more than they paid in, while the generation born in the 1950s were net contributors when they were in their 20s and paid in £2,593 more than they took out.

The net contribution of the millennial generation aged 25-34 fell to only £1,072 a year, much lower than the figure of £2,967 for their age group 40 years earlier.

The present generation aged over 65 take far less from the system relative to what they pay in taxes than in previous decades: their net benefits were £8,209, compared with a surplus worth £11,038 for people of their age ten years earlier and £12,405 for people aged 65 and over two decades ago.