Private pension wealth among 55-64 year olds in the UK

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The focus of this paper is the accumulation and decumulation of private pension wealth by 55-64 year olds in the UK. This age group alone is rarely a focus, yet more than any other it gives an indication of the level of resources that will be available during retirement beyond what's provided by the state. This paper has been prepared for the 2013 NEST Annual Forum from a wider body of inquiry into wealth by the 2012/13 Policy Commission on the Distribution of Wealth. The Wealth and Assets Survey forms the empirical analysis. This paper is a first early draft.

Summary of our findings

Private pension wealth is the greatest component of total wealth but this is relatively unequally distributed and adds to overall wealth inequality. For the first 7 deciles of the wealth distribution private pension wealth remains low.

The accumulation of private pension wealth is driven by strong age-related lifecycle effects. Only 36 per cent of individuals contributed to a private pension in 2008/10 but over their working years most people will reach retirement with private pension wealth. The proportion of individuals with private pension wealth in the accumulation phase (private pension wealth not in payment) peaks in the 45-54 age group at 69 per cent.

The 55-64 year old age group has the greatest wealth but also the greatest absolute inequality. The onset of decumulation (private pension wealth in payment) peaks in the 55-64 age group so that by 60-64 years of age 62 per cent of men and 80 per cent of women with private pension wealth are receiving income from this.

The 55-64 year old age group is marked by three great divides which lead people to approach and enter retirement with huge differences in resources.

One is private pension wealth in DB and DC schemes. Median private pension wealth in DC schemes is on average six times less than median private pension wealth in DB schemes. For every five people age 65 or older who have not yet started decumulating private pension wealth, four have private pension wealth in DC schemes. Presumably they are needing to still work to increase pension wealth or to spread existing pension wealth over fewer retirement years.

A second divide is private pension wealth of men and women. About three quarters of men and one half of women draw on private pension wealth during their life time. For men, the median level of private pension wealth in payment is more than double that of women, £126,500 versus £60,500.

The third divide is private pension wealth and occupational social class. For the 46 per cent of households who are self employed or in occupations with small employers, lower supervisory/technical, routine, semi-routine or unemployed, their median private pension wealth is £65,000 and their ratio of private pension wealth to non-private pension wealth is 43 per cent. Private pension wealth is a low proportion of non-private pension wealth which is also low in absolute terms. Here, private pension wealth provides little cushion for possible expenditure needs in retirement. For the 54 per cent of households in managerial, professional or intermediate occupations, their median private pension wealth is £380,000 and their ratio of private pension wealth to non-private pension wealth is 105 per cent.

Recent pension reforms could lead to a transformation of the pensions landscape, reversing the decline in pension scheme membership and making it easier for people to achieve something closer to the level of replacement of income during retirement that they say they want. However, at the time of writing, it remains unclear what the effect of the reforms will be. Most likely, automatic enrolment will significantly raise the proportion of individuals in the accumulation stage with private pension wealth, but the amount of private pension wealth accumulated will in part depend on private sector providers delivering pension saving products based on sound investment design and value for money.

A more supportive environment to help make automatic enrolment and employer contributions work better for savers would see the creation of an organisation that represents savers. No organisation currently only serves savers to ensure pension scheme providers deliver value for money and savers keep more of their savings and wealth.

An organisation that directly represents the interests of savers would help consumers crystallise more of their wealth when saving and investing. Currently fees from the saving and investing public pay for a range of trade bodies and regulators but not one of these serves savers. An organisation run for and accountable to savers would help secure a better deal from financial organisations via a higher service level, communication that is simple, clear and understandable, value for money and improved economic efficiency. The journey of financial wealth acquisition over the lifecycle might be improved and the organisation might focus on helping resolve some of the wide divides within private pension wealth.

Scope of the study

The distribution of wealth in the UK is much more unequal than the distribution of income. In 2005 the most wealthy 1 per cent of individuals owned more than 20 per cent of all wealth whereas the top 1 per cent of individuals received 12 per cent of all income (Hills, 2013; Leigh, 2007). Wealth is not just concentrated in the top few per cent. In 2008 the wealthiest 20 per cent of households had 1.5 times the wealth of the remaining 80 per cent and 100 times more wealth than the least wealthy 20 per cent. Compared to income, which often grabs the headlines, wealth remains an overlooked lacunae with long-term implications for income in retirement, standards of living, economic growth, a thriving business sector and social cohesion (National Equality Panel, 2010).

There is a clear link between wealth and age. Across age groups the 55-64 year old is particularly interesting because their wealth reflects income and saving over the previous 30 or so working years. With few working years until retirement, their holdings of wealth provide good clues about likely income and living standard in retirement and products or interventions that may help solve issues found.

This paper reviews UK evidence on the distribution of wealth among 55-64 year olds with a particular focus on pensions. Pension wealth is of particular interest for three reasons.

1. For the population as a whole private pension wealth is the largest component of total wealth, accounting for 46 per cent of total wealth in the 2008/10 Wealth and Assets Survey, and more than housing wealth at 33 per cent of total wealth.
2. Policy makers tend to take the view that pension wealth should not add to problems of inequality and that individuals should have the right to an adequate pension, yet private pension wealth does add to wealth inequality (European Commission, 2010). The Gini coefficient for private pension wealth, a measure of wealth inequality, is the second highest of the different wealth components.
3. Experts concerned with the current distribution of wealth often see pensions as a fertile area for wealth reform. Their proposals include the removal of the 25 per cent tax free lump sum and the taxation of pension contributions at marginal income tax rates with a limited Government match. A look at individuals and households close to retirement should shed light on possible implications of such proposals.

Measurement and data

Wealth in this paper is defined as the stock of assets at the individual or household unit of analysis (National Equality Panel, 2010). Much of the recent evidence presented on wealth, including in this paper, refers to the Wealth and Assets Survey. This is the nation's most comprehensive household survey of personal wealth. The survey measures four types of wealth; financial, pension, housing and physical (personal possessions). The survey is new so we cannot yet compare the distribution of wealth between households over a long time period. This limits analysis to cross sections. Cross sectional analysis reveals both age related lifecycle effects and any cohort effects eg, periods of high and low economic activity. This paper does not unpick these effects and assumes that lifecycle effects dominate.

The measure of inequality the paper concentrates on most is the '90:10 ratio'. If people are lined-up in order from least wealthy to most wealthy, the

10th percentile is the value of the outcome for the person one-tenth of the way along the line, and the 90th percentile is the value for the person nine-tenths of the way along. The 90:10 ratio shows how many times larger the 90th percentile is than the 10th percentile. The ratio provides a measure of range for the bulk of the population and can be used to make robust comparisons between sometimes small population cohorts.

When comparing groups the paper usually looks at the median outcome for members of the group so that within any group, half have outcomes below the median and half above.

When looking at the population as a whole the paper sometimes reports the 'Gini coefficient'. This measures the extent to which the distribution of wealth among individuals or households deviates from a perfectly equal distribution. The Gini coefficient computes the line of cumulative wealth for a sample of individuals or households, starting with the poorest and ending with the wealthiest, and compares this to a hypothetical cumulative line of absolute equality for the same total wealth. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

The paper is set out as follows. The next section looks at total wealth and its components. Section 3 examines private pension wealth and private pensions wealth in payment. Each section contains its own summary.

Total wealth and its components

This section draws together existing research and looks at total wealth disaggregated by wealth component and age. Doing so provides an overview of total wealth. The first part presents total wealth and its components, and the second part presents total wealth broken down by age.

Total wealth and components

Table 1 presents total household wealth as well as financial, pension, housing and physical wealth component parts from the 2008/10 Wealth and Assets Survey. Total personal wealth in the UK is £10.3trn. This is five times Gross Domestic Product. Of this total private pension wealth contributed £4.8trn, 47 per cent. Property wealth (net) accounted for 33 per cent of total wealth, financial wealth contributed 11 per cent, and physical wealth 10 per cent. Total non-private pension wealth is 53 per cent of total wealth and only slightly more than private pension wealth alone at 47 per cent.

Table 1: Total wealth and its components, 2008/10

	£ bn	%
Private pension wealth	4,786	47
Property wealth (net)	3,375	33
Financial wealth (net)	1,085	11
Physical wealth	1,012	10
Total wealth	**10,257**	**100**

Source: Wealth and Assets Survey, Office for National Statistics

Table 2 presents total wealth and its components as deciles. Deciles divide the data, sorted in ascending order, into 10 equal parts so that each part contains 10 per cent of the wealth distribution. The least wealthy households are in the 1st decile and the wealthiest in the 10th decile. The 2008/10 data report that the wealthiest 10 per cent of households are 2.4 times wealthier than the second wealthiest 10 per cent. The wealthiest 10 per cent of households are 4.4 times wealthier than the bottom 50 per cent. Wealth is not just concentrated in the top few per cent. The wealthiest 20 per cent of households have 1.5 times the wealth of the remaining 80 per cent of households and 100 times more wealth than the least wealthy 20 per cent.

Turning to the wealth components, for the least wealthy 30 per cent of individuals – deciles 1 to 3, physical wealth is the greatest wealth component. For the 40 per cent of middle wealth individuals – deciles 4 to 7 – housing wealth is the greatest component of wealth. For the wealthiest 30 per cent of individuals – deciles 8 to 10, private pension wealth is the greatest component of wealth. The relatively low proportion of private pension wealth among individuals in the first seven wealth deciles and the much higher proportion of private pension wealth among the top three wealth deciles explain why adding private pension wealth to total wealth increases inequality. In Wealth and Asset Survey data not reported, the share of wealth of the wealthiest 10 per cent of households was 41 per cent excluding

Table 2: Total wealth and components as deciles, 2008/10

Weighted	Property wealth £m (net)	Financial wealth £m (net)	Physical wealth £m (net)	Private pension wealth £m (net)	Total wealth £m	Private pension to non-private pension wealth (%)
1st	-4,912	-9,746	17,631	2,282	5,256	77
2nd	3,083	-232	45,756	12,129	60,736	25
3rd	32,219	4,508	68,617	53,530	158,875	51
4th	121,615	16,244	75,614	97,197	310,670	46
5th	219,238	28,244	88,984	142,902	479,347	42
6th	314,469	51,172	101,665	207,328	674,634	44
7th	390,210	85,323	113,078	328,386	916,998	56
8th	493,537	126,100	131,398	520,869	1,271,903	69
9th	640,922	214,146	152,186	881,046	1,888,300	87
10th	1,164,419	569,364	216,862	2,539,944	4,490,588	130

Source: Wealth and Assets Survey, Office for National Statistics

private pension wealth but 44 per cent including private pension wealth. The Gini coefficient for total wealth rises by 3 per cent after adding private pension wealth.

The additional inequality that private pension wealth contributes can be further evidenced in table 3, which presents the Gini coefficient for total wealth and wealth components. Inequality is highest for financial wealth, second highest for private pension wealth and lowest for housing and physical wealth.

Table 3: Gini coefficients for total wealth and wealth components, 2008/10

	Gini coefficient
Financial wealth (net)	0.81
Private pension wealth	0.75
Property wealth (net)	0.63
Physical wealth	0.45
Total wealth	**0.61**

Source: Wealth and Assets Survey, Office for National Statistics

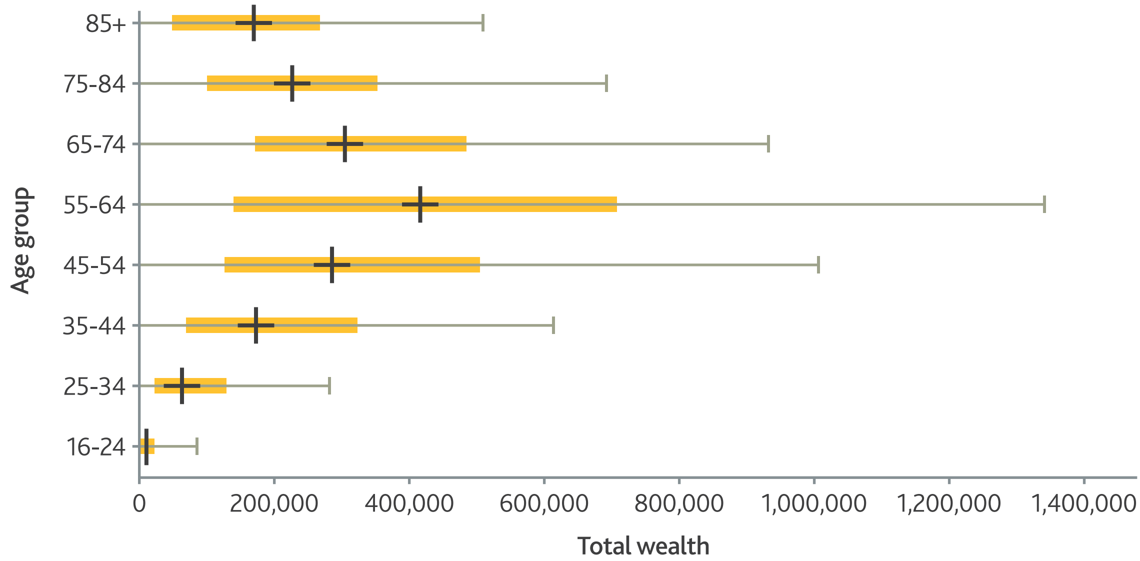
Wealth broken down by age

Evidence is now presented on wealth broken down by age. Wealth is best looked at across age cohorts because for the vast majority of people accumulating assets takes considerable time. Figure 1 shows the distribution of wealth by age for the Wealth and Assets Survey 2006/08.[1]

Significant lifecycle factors are present. Figure 1 confirms substantial differences in wealth between age groups. The cross in the middle of each bar gives the median value for each age group. The ends of each narrow line in the chart show the 10th and 90th percentiles for wealth within each age group. The thin bars therefore show the 90:10 range. The thick bars show the range between the 30th and 70th percentiles.

Households aged 55-64 have the highest wealth, with a median of £416,000 - more than twice the overall median of £205,000 (Hills, 2013). One tenth of households aged 55–64 have total wealth - all of the resources with which they face retirement, apart from state pensions and other benefits - below £28,000, but a tenth have wealth above £1.3 million. This produces a '90:10 ratio' of fifty to one. In absolute wealth terms the 90:10 and 70:30 range

Figure 1: Total household wealth by age, 2006/08



Source: Wealth and Assets Survey, Office for National Statistics, Hills et al (2010)

are greatest for the 55-64 year old age group. The 55-64 year old age group has the greatest wealth but also the greatest absolute inequality.

In later life households do not decumulate all their wealth. Looking at household age groups 75-84 and 85 and older, both age groups have median wealth, 90:10 and 70:30 characteristics most like the 35-44 age group. The wealth profile in old age is linked to the lifetime wealth profile. Private pension wealth tends to be decumulated while financial, property and physical wealth is passed on.

Table 4 presents further detail on the distribution of wealth within the 55-64 year old age group as well as adjacent younger and older age groups. Each row sums to 100.

Looking at the 55-64 year old age group, 25 per cent of households have less then £220,000 total wealth. A further 25 per cent of households have between £220,000 and £470,000 total wealth. A third 25 per cent of households have between £470,000 and £590,000 total wealth and the most wealthy 25 per cent of households have total wealth of more than £900,000.

Using the 45-54 age group as a comparator, there are proportionately fewer 55-64 year old households in each wealth band below £300,000. Although the data are cross sectional rather than longitudinal the evidence appears to show a trend of net total wealth accumulation among 55-64 year olds. There is a sharp rise in the proportion of households that have total wealth of £1 million or more.

Table 4: Percent of households in total wealth bands for age groups 45 years and older, 2008/10

Age	< £12,500	£12,500 but < £40,000	£40,000 but < £100,000	£100,000 but < £150,000	£150,000 but < £250,000	£250,000 but < £300,000	£300,000 but < £450,000	£450,000 but < £600,000	£600,000 but < £1,000,000	£1,000,000 or more
45-54	5.3%	6.3%	7.1%	5.1%	12.3%	6.2%	14.2%	11.1%	16.6%	15.8%
55-64	4.0%	5.1%	4.9%	5.0%	9.9%	5.4%	14.2%	10.7%	18.4%	22.5%
65+	4.8%	7.4%	7.8%	6.1%	14.4%	7.4%	17.3%	11.0%	13.8%	10.0%
All	7.8%	8.9%	10.4%	7.2%	13.6%	6.0%	13.6%	9.0%	12.7%	10.9%

[1] Excludes assets held in Trusts (except Child Trust Funds) and any business assets held by households.
Source: Wealth and Assets Survey, Office for National Statistics

Using the 55-64 age group as a comparator, there are proportionately more 65 and older households in each wealth band below £450,000, which points to net decumulation. Decumulation is particularly marked among the wealthiest households, which may be due to a mix of current expenditure and estate planning, including gifts and transfers.

Summary

The analysis in this section has revealed that the wealthiest 10 per cent, and especially the wealthiest 1 per cent, are very wealthy compared to the rest of the population. Private pension wealth is the greatest component of total wealth but this is relatively unequally distributed and adds to overall wealth inequality. This is because private pension wealth is the greatest component of total wealth only for the top three wealth deciles.

Wealth by age is highly variable. The 55-64 year old age group has the greatest wealth but also the greatest absolute inequality. Overall, the 55-64 year old age group continues to accumulate total wealth rather than decumulate. Not until age 65+ do most households start to decumulate total wealth.

Private pension wealth and age

The previous section investigated total wealth, wealth components and wealth by age. This section focuses on private pension wealth within the 55-64 year old age group. The data combine workplace and personal pensions. We start by looking at what the Wealth and Assets Survey tells us in terms of private pension wealth for individuals still in the accumulation phase. Their private pension wealth has yet to pay out. This gives an indication of the level of resources that will be available during retirement beyond that which is received from the state. Differences between defined benefit and defined contribution private pension wealth are examined. The section then investigates private pension wealth in the decumulation phase when individuals receive private pension wealth in payment. Differences between women and men are examined. Finally, this section looks at private pension wealth and occupational social class.

Accumulation

Table 5 reports the proportion of 55-64 year olds with private pension wealth not yet in payment. Adjacent age groups are included. Overall, for all age groups 16-24+, 44 per cent of individuals have private pension wealth not yet in payment. Of this 44 percent, 25 percent have private pension wealth in defined benefit (DB) schemes, and 26 per cent have private pension wealth in defined contribution (DC) schemes. These do not together equal 44 per cent because some people accumulate wealth in both DB and DC pensions.

Table 5: Proportion of individuals with private pension wealth not yet in payment, 2008/10

Age	Defined benefit % with	Defined contribution % with	All % with
45-54	43	40	69
55-64	30	33	52
65+	2	8	10
All	**25**	**26**	**44**

Source: Wealth and Assets Survey, Office for National Statistics

The proportion of individuals with private pension wealth not yet in payment peaks at 69 per cent for the 45-54 age group. Looked at another way, 31 per cent of 45-54 year olds have either never accumulated private pension wealth or are already decumulating.

More 45-54 year olds have private pension wealth in DB schemes than in DC schemes. This proportion switches for the 55-64 year old age group so that a higher proportion have private pension wealth in DC schemes. For the 65 and older age group, the relationship is economically similar but more unequal. At age 65 and older for every five individuals with private pension wealth not yet in payment four have private pension wealth in DC schemes but only one has private pension wealth in DB schemes.

While automatic enrolment will help to raise the proportion of individuals in the accumulation stage with private pension wealth, the amount of private pension wealth accumulated in part depends on private sector providers delivering pension saving products based on sound investment design and value for money.

Table 6 presents the value of private pension wealth for individuals not yet decumulating their private pension wealth.

Looking at the bottom row, median private pension wealth in DC schemes is on average six times less than median private pension wealth in DB schemes. Looking at the rightmost column, pension wealth not yet in payment decreases as age increases, presumably due to individuals with low pension wealth needing to still work to increase their pension wealth or to spread existing pension wealth over fewer retirement years. This explains why at age 65 and over four out of every five individuals with private pension wealth not yet in payment have private pension wealth in DC schemes.

Table 6: Value of individuals' private pension wealth not yet in payment, 2008/10

Age	Defined benefit median[1]	Defined contribution median[1]	All median[1]
45-54	£149,000	£20,000	£83,000
55-64	£149,700	£25,000	£77,200
65+	£47,800	£29,800	£32,800
All	**£93,900**	**£16,000**	**£49,900**

[1] Excludes individuals with zero wealth held in pensions not yet in payment

[2] Sample sizes in the 65+ age group are relatively small

Source: Wealth and Assets Survey, Office for National Statistics

Decumulation

Table 7 presents evidence for pensions in payment for individuals age 50 and over. The 'per cent with' and 'median' columns report the proportion with and value of pensions in payment for individuals with private pension wealth in decumulation.

In 2008/10, 18 per cent of individuals were receiving income from private pension wealth. Median private pension wealth in payment was £90,500. 20 per cent of men and 16 per cent of women had private pension wealth in payment. The median level of private pension wealth in payment for men was more than double that of women, £126,500 and £60,500 respectively. There is a great divide between the private pension wealth of men and women.

The highest proportion of men with private pension wealth in payment was 77 per cent. The highest proportion of women with private pension wealth in payment was 50 per cent. Together therefore, three quarters of men and one half of women have some private pension wealth that they draw on in their life time.

The 60-64 age group is when 30 percent of men and 25 of women start to decumulate their private pension wealth. 62 per cent of men (48 ÷ 77) and 80 per cent of women (40 ÷ 50) in the 60-64 age group with private pension wealth were

Table 7: Proportion of individuals with private pension wealth in payment and amount of private pension in wealth payment, 2008/10

Age	Men		Women		All	
	% with	Median	% with	Median	% with	Median
50-54	10	£209,100	5	£192,000	8	£200,100
55-59	18	£328,800	15	£163,100	16	£257,100
60-64	48	£292,100	40	£97,000	44	£173,800
65-69	73	£152,400	49	£71,800	61	£120,500
70-74	76	£116,400	50	£59,400	62	£86,600
75+	77	£57,700	48	£32,700	60	£44,600
All	**20**	**£126,500**	**16**	**£60,500**	**18**	**£90,500**

Source: Wealth and Assets Survey, Office for National Statistics

decumulating private pension wealth. People may still be working and drawing on private pension wealth at the same time. Approximately 9 per cent of men (73 ÷ 77) and 2 per cent of women (49 ÷ 50) aged 65-69 with private pension wealth were not decumulating.

Private pension wealth overall and occupational social class

This last section looks at total private pension wealth and ignores whether this is associated with accumulation or decumulation. Differences in wealth accumulated by the time people near retirement are a product of a series of processes through their working lives. Some are closely related to occupational social class. Table 8 shows private pension wealth differentials by household social class for households aged 55–64 from the 2006/8 Wealth and Assets Survey. There are considerable differences in private pension wealth within the social class groupings as this age group approaches retirement. The value of private pension wealth falls dramatically with lower occupational social class. Looking at the bottom five rows, 46 per cent of households are self employed or in occupations with small employers, lower supervisory/technical, routine, semi-routine or unemployed. Their median private pension wealth is £65,000 and their ratio of private pension wealth to non-private pension wealth is 43 per cent. Looking at the top four rows, 54 per cent of households are in managerial, professional or intermediate occupations. Their median private pension wealth is £380,000 and their ratio of private pension wealth to non-private pension wealth is 105 per cent. This equates to a great divide between private pension wealth and occupation.

Summary

Wealth by age is highly variable. The proportion of individuals with private pension wealth in the accumulation phase peaks in the 45-54 age group at 69 per cent.

The 55-64 year old age group has the greatest wealth but also the greatest absolute inequality. For those with private pension wealth the onset of decumulation peaks in the 55-64 age group. By 60-64, 62 per cent of men (48 ÷ 77) and 80 per cent of women (40 ÷ 50) with private pension wealth were receiving income from this.

The 55-64 year old age group is marked by three great divides which lead people to approach and enter retirement with huge differences in resources.

Table 8: Private pension wealth for 55-64 year olds by occupational social class, 2006/08

	Private pension wealth £	Private pension wealth to non-private pension wealth	Proportion of households aged 55-54
	Median	%	%
Higher managerial/large employers	550	120	7
Higher professional	460	102	10
Lower managerial/professional	340	103	26
Intermediate	170	74	9
Small employers/self employed	80	29	11
Lower supervisory/technical	120	67	9
Semi-routine	60	38	13
Routine	50	50	12
Long-term unemployed/never worked	16	37	1.4

Source: Wealth and Assets Survey, Office for National Statistics

One is private pension wealth in DB and DC schemes. Median private pension wealth in DC schemes is on average six times less than median private pension wealth in DB schemes. For every five people aged 65 and over who have not yet started decumulating private pension wealth, four have private pension wealth in DC schemes. Presumably they are needing to still work to increase pension wealth or to spread existing pension wealth over fewer retirement years.

A second divide is private pension wealth of men and women. About three quarters of men and one half of women draw on private pension wealth during their life time. For men, the median level of private pension wealth in payment is more than double that of women, £126,500 versus £60,500.

The third divide is private pension wealth and occupational social class. For the 46 per cent of households who are self employed or in occupations with small employers, lower supervisory/technical, routine, semi-routine or unemployed, their median private pension wealth is £65,000 and their ratio of private pension wealth to non-private pension wealth is 43 per cent. Private pension wealth is a low proportion of non-private pension wealth which is itself also relatively low. Here private pension wealth provides little cushion for possible expenditure needs in retirement. For the 54 per cent of households in managerial, professional or intermediate occupations, their median private pension wealth is £380,000 and their ratio of private pension wealth to non-private pension wealth is 105 per cent.

Sources

[1] Panel data analysis reveals few changes in wealth over the 2006-2008 and 2008-2010 surveys (Wealth and Asset Survey, 2012 part 3)