

Pension Trends

Chapter 12: Household pension resources

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***Type of information**

NS	Information classed as National Statistics
Non-NS	Information not classed as National Statistics
Mixed	Mixture of NS and non-NS information

Household pension resources

- There were 6.5 million pensioner households receiving state benefit income and 4.6 million pensioner households receiving private pensions in 2008/09, according to estimates from the Family Resources Survey.
- In 2008/09, mean annual state benefit income for pensioner couples with both members over state pension age was £11,300, compared with £7,500 for single men and £7,400 for single women (Table 12.1).
- Mean annual private pension income of pensioner couples with both members over state pension age was £11,200 in 2008/09, while for single men it was £7,100 and for single women £5,500 (Table 12.3).
- In 2008/09, 38 per cent of pensioner couples, 55 per cent of single men pensioners and 62 per cent of single women pensioners with private pension income had annual private pension income of less than £5,000 (Figure 12.4).
- Older women pensioners generally receive lower amounts of private pension income than younger women. In 2008/09, the median annual private pension of single women pensioners aged 85 and over was £2,700, compared with £4,600 for those aged 65 to 69 (Figure 12.6).
- Pensions provide modest levels of annual income for many pensioner households. In 2008/09, 53 per cent of single pensioners had total pension income (state benefit income and private pension income) of less than £10,000, while 36 per cent of pensioner couples had less than £15,000 (Figure 12.7).

This chapter looks at the resources from private pension saving and state pension entitlements which sustain households in retirement. These resources may come from individual household members having accumulated private pension assets held in a 'defined contribution' scheme (see Glossary) such as an occupational money purchase pension scheme or a personal pension fund; they may be based on entitlements accumulated as part of a private 'defined benefit' (salary-related) occupational pension scheme (see Glossary); or they may come from state pensions and related benefits. Household members may have both state and private pensions, and more than one type of private pension.

The information on household pension resources presented in this chapter is based on annual income received by retired households. It should be noted that it covers pensions and related benefit income only. It excludes income which pensioners may receive from non-pension sources such as

earnings and investments; these are covered in Pension Trends Chapter 11, which looks at total income of pensioner households.

The chapter is designed to show the value of the pension resources of pensioner households in the UK and, in particular, the distribution of these resources. It is important to note that the analysis has some limitations. It does not include pension resources to which households are entitled but which they choose not to draw on – for instance, in cases where a household member defers taking a pension until some years after retirement. Nor does it include pension resources which households fail to claim, such as some state benefits. It also excludes lump sum payments, which may be as high as 25 per cent of the total value of a private pension. None of these resources are recorded as income flows, and therefore they cannot be captured in this analysis.

Box 1: Approach and definitions¹

Benefit units vs. households

The Pensioners' Income Series (the PI Series) of the Department for Work and Pensions (DWP) measures the income of 'pensioner benefit units', defined by DWP as "a single adult over state pension age or married or cohabiting pensioners where one or more are over state pension age". In the PI Series, some benefit units are part of larger households – for instance where pensioners are living with relatives.

By contrast, our analysis is based on the pensioner household, which is made up of one adult (single pensioner households) or two adults (pensioner couple households) over state pension age (SPA). It excludes pensioners who live in households with other people.

Pensioner couples

The PI Series defines pensioner couples as two married or cohabiting adults where one or more are of SPA or over; thus, some of the couples in the PI Series are mixed status (one person below and one above SPA). Our analysis, on the other hand, focuses on a sub-set of pensioner couples where both members of the couple are over SPA. This approach has the advantage that the results are relevant for a group which is clearly recognisable as pensioners; but it does not include all pensioners.

The sample of pensioner couples used in our analysis includes some households with two adults living together who are not strictly a couple – for instance two sisters, each comprising one 'benefit unit'. In 2008/09, 3 per cent of pensioner couple households in our sample consisted of two benefit units.

State benefit income

State benefit income in the PI Series includes the basic and additional state pensions, widow's pension and widowed parent's allowance; income related benefits (pension credit, housing benefit, council tax benefit and social fund grants) and tax credits; disability benefits; and winter fuel payments and carer's allowance.

In the analysis in this chapter, benefit income comprises the basic and additional state pensions, pension credit, winter fuel payments, disability living allowance, widow's pension/bereavement pension, Armed Forces Compensation Scheme pension, war widow's/war widower's pension, widowed mothers/widowed parents allowance, severe disability allowance, attendance allowance, carer's allowance, industrial injury disablement benefit and incapacity benefit. It does not include housing or council tax benefits, as these benefits are not necessarily paid to households – they take the form of rebates or reductions in payments (expenditure) which households would otherwise have had to make².

Private pension income

In our analysis, private pension income comes from occupational pensions, personal pensions, trade union and friendly society pensions, widows' shares of employee pensions, divorcees' shares of employee or personal pensions, annuities, and trust- and covenant-based pensions. In the PI Series, private pension income includes all these categories except divorcees' shares of employee or personal pensions, and trust- and covenant-based pensions.

Estimating pension resources

The Family Resources Survey (FRS), sponsored by the DWP, gathers data on pensions and related income flows which pensioners receive. These can be broadly divided into income received from the state and income from private pensions. The FRS records the value of the last pension payment (for each type of payment received) and the period to which the payment applies. The FRS data presented in this chapter has been adjusted to show the annual income equivalent value of these payments.

The analysis focuses on pensioners over SPA, which was 65 for men and 60 for women in the period covered by this analysis. Analyses are presented for three types of pensioner household: single men, single women and couples. Single pensioner households are defined as households comprising single adults over SPA. Pensioner couple households are defined as households comprising two adults, both over SPA. It should be noted that the approach taken for this analysis is slightly different from that of the DWP's PI Series. The main differences are presented in **Box 1**.

This chapter presents information from the latest available FRS (2008/09). In the online version of the chapter, we also present results for 2005/06, 2006/07 and 2007/08 (in 2008/09 constant price terms). Care should be taken when looking at changes over time, as there is considerable variability in the estimates. This is particularly so for estimates of private pension income, where there is year-to-year volatility associated with the presence of outliers (see below).

State pension resources

After SPA, almost all individuals receive income from the state. Payments vary depending on a number of factors, the most important of which is pensioners' work histories. The full basic state pension in 2008/09 was £4,729 for a single person. However, many people receive less than the full amount because they have worked fewer than the number of years needed to qualify for a full basic state pension: 44 years for men and 39 years for women for those retiring before 6 April 2010. The minimum number of years required to obtain a payment for those retiring before 6 April 2010 was one-quarter of the total, for which individuals would receive one-quarter of the full basic state pension. Between the minimum and the full amount, payments would increase in proportion to the number of years worked.

In a couple, both members are treated as individuals, so a couple where both members have a full basic state pension would have received £9,459 in 2008/09. A married woman with insufficient contributions can claim a state pension based on her husband's contributions when he reaches 65 and starts

to draw his pension. The maximum amount she can claim on this basis is around 60% of her husband's basic pension.

Individuals may also receive additional state pensions based on contributions made during their working lives (see Pension Trends Chapter 5). The basic state pension and additional pensions are not means-tested. However, for those with low incomes, the state provides a means-tested top-up known as pension credit. This is made up of 'guarantee credit' and 'savings credit'. Guarantee credit is available to everyone over age 60 who has total income below a certain level. The standard rate was £6,468 for single people and £9,873 for couples in 2008/09³. It is designed to ensure that all pensioners have at least this level of income. The savings credit element contributes an additional payment for those over age 65 with small amounts of financial savings, and is designed as an incentive to saving⁴.

In this section, we look at core pension payments known as 'retirement pension' in the FRS, as well as the wider category of 'benefit income' (see **Box 2**). In 2008/09, the estimates from the FRS show that there were 6.5 million pensioner households receiving benefit income (of which 40 per cent were couples, 16 per cent were single men and 44 per cent were single women).

Box 2: State pensions and related benefits in the FRS

The FRS collects information on the basic state pension and additional pension known as the State Second Pension (S2P), previously the State Earnings Related Pension Scheme (SERPS). These are recorded as retirement pension. Retirement pension payments may include some pension credit and other benefits, as some people report a single figure for their last pension payment rather than distinguishing between components (although where a payment is recorded as a combined amount, the FRS editors separate them out according to benefit payment rules).

Benefit income in our analysis refers to retirement pension plus additional income from related benefits such as pension credit, disability living allowance, attendance allowance, incapacity benefit and winter fuel payments (for full list, see Box 1). It should be noted that benefits such as pension credit and attendance allowance are underreported in the FRS, leading to a downward bias in the survey estimates⁵.

Table 12.1 provides a comparison between the retirement pension component and the value of benefit income as a whole (not including housing or council tax benefit). It should be noted that retirement pension values for households may be higher than the full basic state pension (or twice the full basic state pension for couples) because retirement pension includes additional state pension and may also include some pension credit and other benefits (see **Box 2**).

Table 12.1
Annual state pension payments – summary statistics¹, 2008/09

United Kingdom		£/year			
	Mean	1st quartile	Median	3rd quartile	
Pensioner couples					
Benefit income	11,300	9,100	10,600	13,100	
Retirement pension	9,800	8,400	9,500	11,100	
Single men					
Benefit income	7,500	5,800	6,900	8,900	
Retirement pension	6,300	5,100	6,000	7,300	
Single women					
Benefit income	7,400	5,600	6,800	8,500	
Retirement pension	5,900	4,700	5,600	6,800	

1 There is considerable variability in these estimates over time, so they should be treated with caution.

Source: Family Resources Survey, Department for Work and Pensions

In 2008/09, pensioner couples received £9,800 mean annual retirement pension and £11,300 mean annual benefit income. The mean values for pensioner couples were less than double the means for single pensioners. In 2008/09, mean benefit income for single men pensioners was £7,500 and for single women pensioners it was £7,400.

The remaining statistics in Table 12.1 give an indication of the distribution of state pension resources. Ranking the information in ascending order and taking the middle value (the value found at 50 per cent of the way up the ranking) provides an estimate of the median of the population. The values found at 25 per cent and at 75 per cent of the way up the ranking provide the 1st quartile and the 3rd quartile estimates. The median shows that for half of pensioner couples who received state retirement pension, annual income from this source was £9,500 or less in 2008/09. For half of single men pensioners, it was £6,000 or less and for half of single women it was £5,600 or less.

Traditionally, women have been seen as faring less well than men under the state pension system, due to broken work histories relating to caring responsibilities. Looking at the gap between single men and women pensioners at the 1st quartile, the median and the 3rd quartile shows that annual retirement pension income for single women in 2008/09 was some £400 to £500 lower than for single men. However, receipt of pension credit and other benefits narrows the gap between men and women, particularly at the lower end of the distribution: for state benefit income, the gap between

single men and women pensioners was £200 at the 1st quartile and £100 at the median in 2008/09.

Figure 12.2 shows in more detail the distribution of state benefit income for all pensioner types. Pensioners at the lower end of the distribution receive only small amounts of basic state pension and winter fuel allowance. They have worked fewer than the number of years needed to qualify for a full basic state pension. Many have other income from private pensions and/or non-pension income which disqualifies them from means-tested benefits. This group may also include some who have failed to claim pension credit and other means-tested benefits.

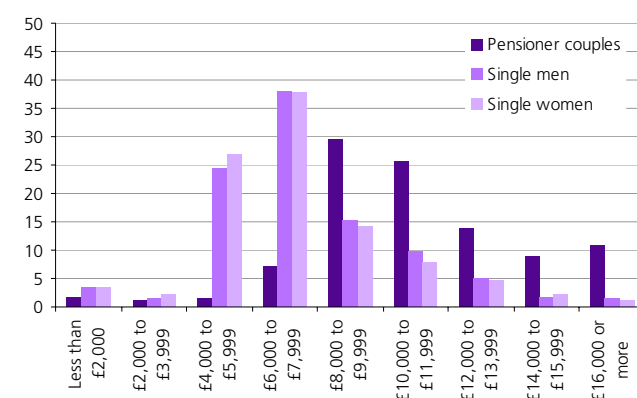
Pensioners in the central part of the distribution have accumulated more basic state pension and additional pension, and/or are entitled to pension credit and other benefits. The upper end of the distribution comprises pensioners who have accumulated strong entitlements to basic state pension and/or additional pension and/or have claimed additional benefits, such as disability living allowance or attendance allowance.

In 2008/09, the peak of the distribution of benefit income for pensioner couples was in the central part of the distribution – in the £8,000 to £9,999 category. This category includes the level of standard guarantee credit for a pensioner couple (£9,873), which can be seen as representing an acceptable minimum income for the standard pensioner couple household (see Pension Trends Chapters 5 and 13).

Figure 12.2
Proportion of pensioner households with state benefit income: by annual payments received¹, 2008/09

United Kingdom

Percentages



1 There is considerable variability in these estimates over time, so they should be treated with caution.

Source: Family Resources Survey, Department for Work and Pensions

The distributions of benefit income for single men and women pensioners in 2008/09 were similar. The highest proportion of single pensioners was in the £6,000 to £7,999 category (38 per cent of men and women); the second highest proportion was in the £4,000 to £5,999 category (25 per cent of men and 27 per cent of women).

Private pension resources

Estimates from the FRS show that there were 4.6 million pensioner households receiving private pension payments in 2008/09⁶. Of this total, 47 per cent were pensioner couples, 16 per cent were single men pensioners and 37 per cent were single women pensioners.

The FRS collects information on private pension income from occupational pension schemes (both private and public sector), personal pensions, trade union and friendly society pensions, widows' shares of employee pensions, divorcees' shares of employee or personal pensions, annuities, and trust- and covenant-based pensions. Of these, the most common source of private pension income is occupational pension schemes.

Table 12.3

Annual private pension payments – summary statistics¹, 2008/09

United Kingdom	£/year			
	Mean	1st quartile	Median	3rd quartile
Pensioner couples	11,200	3,200	7,200	14,800
Single men	7,100	1,800	4,300	9,600
Single women	5,500	1,400	3,500	7,400

1 There is considerable variability in these estimates over time, so they should be treated with caution.

Source: Family Resources Survey, Department for Work and Pensions

Table 12.3 presents summary statistics for those in receipt of private pension payments. It should be noted that estimates for private pension income are particularly susceptible to year-to-year volatility associated with the presence of outliers⁷.

In 2008/09, mean private pension income of pensioner couples was £11,200, while for single men it was £7,100 and for single women it was £5,500. The gap between single men and women pensioners appears to be higher at the upper end of the distribution than at the lower end, as private pension income of single men is £2,200 higher than that of women at the 3rd quartile compared with a difference of £400 at the 1st quartile. However, in proportional terms the gap is similar, with women receiving around four-fifths as much as men at the 1st quartile, median and 3rd quartile points.

The PI Series estimates that pensioner couples in receipt of private pensions had mean private pension income of £222 per week (equivalent to £11,600 per year) and median private pension income of £148 per week (£7,700 per year) in 2008/09 and that single pensioners had mean private pension income of £112 per week (equivalent to £5,800 per year) and median private pension income of £69 per week (£3,600 per year)⁸. This is broadly in line with the analysis presented here, although there are some differences owing to differences in approach and definitions (see **Box 1**).

There are significant numbers of pensioner couples and single pensioners with only small amounts of private pension income. The 1st quartile results in Table 12.3 emphasise this: 25 per cent of pensioner couples with private pension income had private pension income of £3,200 or less in 2008/09. For single men, the 1st quartile figure was £1,800, while for single women it was £1,400.

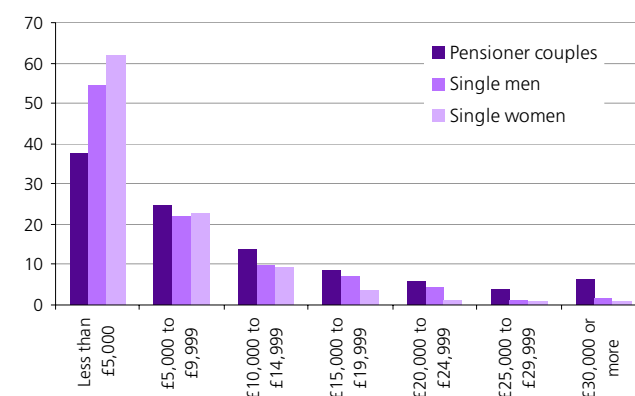
Moreover, an estimated 29 per cent of pensioner households had no private pension income in 2008/09. The PI Series published by the DWP estimates that 40 per cent of single pensioners and 33 per cent of pensioner couples had no private pension income in 2008/09.

Figure 12.4

Proportion of pensioner households with private pension income: by annual payments received¹, 2008/09

United Kingdom

Percentages



1 There is considerable variability in these estimates over time, so they should be treated with caution.

Source: Family Resources Survey, Department for Work and Pensions

The distribution of private pension income for those in receipt of such income in 2008/09 is shown in Figure 12.4. A significant number of pensioner households had low levels of private pension income: 62 per cent of single women pensioners and 55 per cent of single men pensioners with private pension income received an annual amount of less

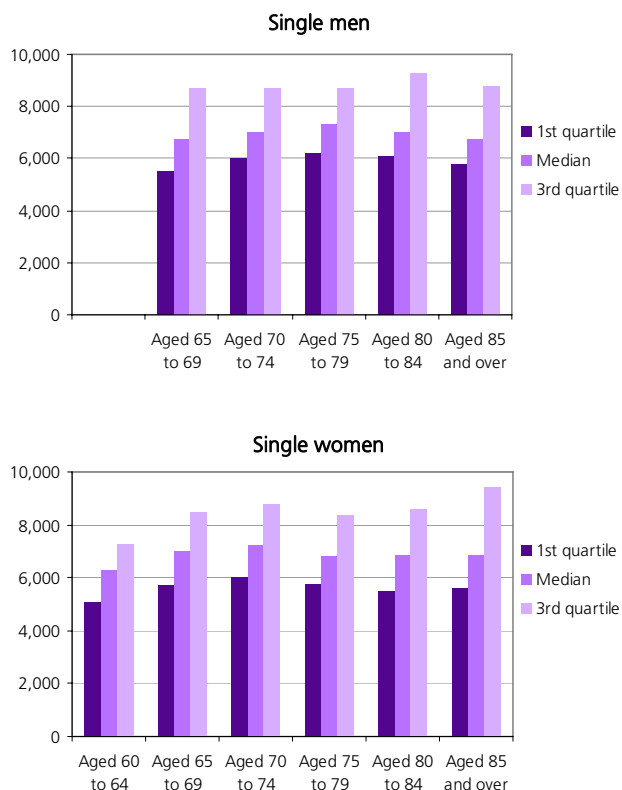
than £5,000. Pensioner couples had higher levels of private pension income than single pensioners; nevertheless, 38 per cent of pensioner couples with private pension income had annual income from this source of less than £5,000. Only 16 per cent of pensioner couples, 7 per cent of single men and 2 per cent of single women pensioners with private pensions had private pension income of £20,000 or more in 2008/09.

Pension resource distribution by age

Our analysis of household pension resources considered the hypothesis that the data on pension payments might conceal important variations by age. Such differences would appear in comparisons of individual pensioners grouped into age bands, representing successive cohorts of retirees. This section presents statistics for the 1st quartile, median and 3rd quartile by age band for single pensioners. We have not produced comparable analyses for pensioner couples, as members of couples often belong to different age bands.

Figure 12.5
State benefit income payments – summary statistics for single pensioners: by age band¹, 2008/09

United Kingdom
£/year



¹ There is considerable variability in these estimates over time, so they should be treated with caution.

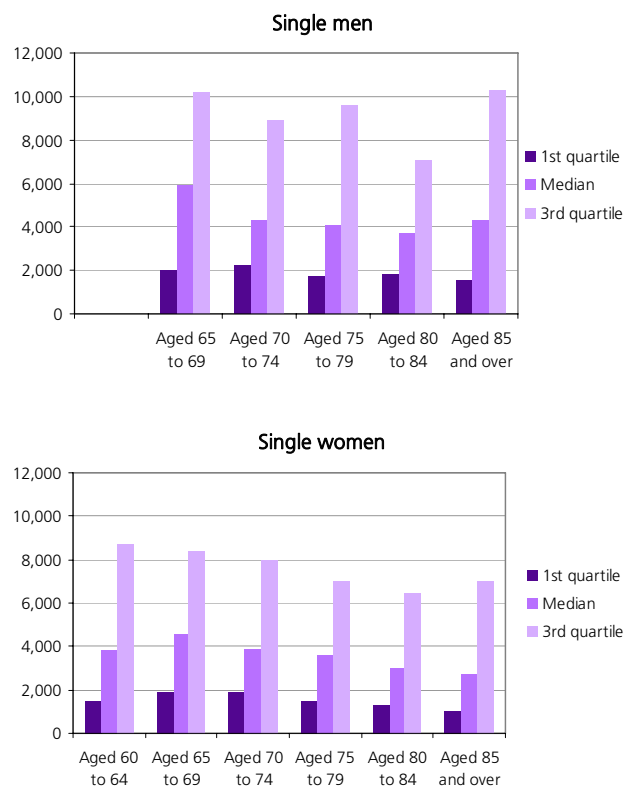
Source: Family Resources Survey, Department for Work and Pensions

Figure 12.5 shows that for single men pensioners receiving state benefit income, there is little variation between age bands. For women there is little difference in median estimates between age bands, but the gap between the 1st and 3rd quartiles is wider in the older age groups (80 to 84, and 85 and over). This is associated with lower 1st quartile values than those in the previous three age bands (women between the ages of 65 and 79) and, in the 85 and over age band, a higher 3rd quartile value than in the lower age bands.

Figure 12.6 shows that for private pensions there is greater variation by age than for state benefit income. For men, there does not appear to be a clear relationship between private pension income and age. For women, the 1st quartile, median and 3rd quartile estimates are lower in the older age bands. For instance, median annual private pension income for women aged 85 and over in 2008/09 was £2,700, compared with £4,600 for women aged 65 to 69 and £3,900 for women aged 70 to 74.

Figure 12.6
Private pension payments – summary statistics for single pensioners: by age band¹, 2008/09

United Kingdom
£/year



¹ There is considerable variability in these estimates over time, so they should be treated with caution.

Source: Family Resources Survey, Department for Work and Pensions

These patterns are hard to interpret. They are a number of possible reasons for lower private pension income in older age groups:

- Lower occupational pension accrual than in younger cohorts, who benefited from the expansion of defined benefit occupational pension schemes in the 1960s.
- Newly retired pensioners with defined benefit pensions are likely to receive a higher pension than an equivalent person who retired several years earlier because average earnings have increased faster than prices in recent years.
- Over two-thirds of pension annuities are flat-rate, and do not increase in line with inflation.

For women, additional factors are:

- Many single women in the older age bands are widows with occupational pensions from their spouse or partner's former employer, which would normally be worth half the full-rate pension.
- Younger cohorts of women have had greater opportunities to build up private pensions in their own right during their working lives than older women, because of better job access since the 1960s.

Finally, there may be some differences between age groups that are associated with the introduction of personal pensions from 1988 and changes in conditions on the stock market and in annuity markets during the late 1980s and 1990s. Individuals who built up large personal pensions are likely to have seen the size of their private pension income affected by good or bad market conditions, depending on when they retired (which is broadly related to their age group).

Total pension resources

The concluding section of this chapter focuses on total pension resources available to pensioners as a result of private pension saving and through entitlements to state pensions and related benefits. It is important to note that the focus here is not on total household income in retirement (covered in Pension Trends Chapter 11), which includes non-pension income from investments, property and other sources. Rather, it is on the income available to pensioner households through the pension system. According to the DWP's PI Series, income from the pension system made up 71 per cent of average gross pensioner income of £21,200 in 2008/09 – 28 per cent from private pensions and 43 per cent from state benefit income⁹ (using PI Series definitions, see **Box 1**). Single pensioners were more dependent on pension income (84 per cent of total average gross income of £14,400 in 2008/09) than pensioner couples (64 per cent of £29,400).

Figure 12.7 shows the distribution of all pension income (state benefit income and private pension income) for pensioner couples and single pensioners in 2008/09. It suggests that in general, pensions provide only modest levels of annual income for many pensioner households: 53 per cent of single pensioners had total pension income of less than £10,000 in 2008/09, while 36 per cent of pensioner couples had less than £15,000. Although pension income is not the only type of income available in retirement, these figures reflect the combination, for many households, of substantial reliance on state pensions and related benefits (Figure 12.2) and low levels of private pension saving (Figure 12.4).

At the top end of the pension resource distribution, 15 per cent of pensioner couples had annual pension incomes of £30,000 or more in 2008/09, while 8 per cent of single pensioners had annual pension incomes of £20,000 or more.

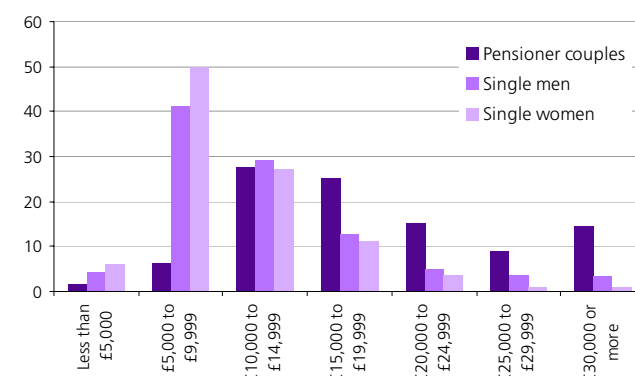
At the bottom end of the distribution, there are substantial groups of pensioners with annual pension income of less than £5,000: in particular 6 per cent of single pensioners, mostly women. Some of these people may have non-pension incomes which disqualify them from claiming means-tested state benefits such as pension credit. However, others may not have sufficient non-pension income and may be failing to claim the state benefits that they are entitled to.

Figure 12.7

Proportion of pensioner households with pension income: by annual payments received^{1,2}, 2008/09

United Kingdom

Percentages



1 State benefit income (state pensions and related benefits) plus private pension income.

2 There is considerable variability in these estimates over time, so they should be treated with caution.

Source: Family Resources Survey, Department for Work and Pensions

References

- 1 More information about the methodology and definitions used in the PI Series can be found in DWP (2010a, **Sources and further reading**). The DWP definition of benefit unit can be found at: http://research.dwp.gov.uk/asd/frs/2008_09/glossary.pdf
- 2 According to Pensions Policy Institute (2010), around one-fifth and one-half of pensioner households are eligible for housing benefit and council tax benefit respectively, although not all those eligible take up these benefits. In 2008/09, the mean value of combined housing and council tax benefit recorded in the FRS (for those in receipt of either or both benefits) was £37 per week for pensioner couples, £54 for single men pensioners and £48 for single women pensioners (figures provided by DWP analysts).
- 3 The amounts of guarantee credit referred to in this chapter are the standard rates. Additional amounts can be claimed by individuals with severe disabilities and by carers.
- 4 Further information on state benefits for pensioners can be found at: www.direct.gov.uk/en/Pensionsandretirementplanning/index.htm
- 5 The report of the FRS 2008-09 (DWP 2010b, **Sources and further reading**) notes that: "Despite much time and effort being spent on benefit validation, there are still areas where there are known problems with the FRS data. The FRS under-reports receipt for most of the benefits. The discrepancies between FRS and administrative data are particularly pronounced for Attendance Allowance and Pension Credit".
- 6 Private pension payments include payments from public sector occupational pension schemes.
- 7 DWP's FRS editors check the validity of outliers. However, if there is no evidence to suggest the outlier is an error, it is retained.
- 8 See *The Pensioners' Income Series 2008-09* Table 3.9, page 47.
- 9 See *The Pensioners' Income Series 2008-09* Table 2.1, page 17.

Sources and further reading

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