Office for National Statistics

Compendium

Pension Trends: Compendium

Contributions to private (non-state) pensions. Private pensions considered are: occupational schemes for private sector and public sector employees; and personal pensions, including group personal and stakeholder pensions.

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Chapters in this compendium

Compendium

Chapter 4: The Labour Market and Retirement, 2013 Edition

This chapter examines trends in labour market participation and the transition from work to retirement. Labour market activity is important in the context of pensions because earnings from employment help people to build savings and to make private pension contributions to fund their retirement. Employment also builds entitlement to state pension provision. Questions about pressures on pension adequacy and whether people are extending their working lives in response to increasing life expectancy is one reason why the transition from work to retirement is of interest. The chapter begins by looking at how the economic support ratio, a measure of the economic burden on working people, might be affected by the ageing of the UK population. It then examines changes in labour force participation over time, considers labour force participation of older age groups and examines trends in the average age of withdrawal from the labour market.

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1 . Definitions

Changes to State Pension Age

Currently, the State Pension Age (SPA) for men is 65. SPA for women was 60 until 5 April 2010 but, under the Pensions Act 1995, the SPA for women began to increase on 6 April 2010 (see Pension Trends Chapter 1). The increases are being implemented in stages, with the exact age at which women become entitled to a state pension depending on their date of birth. Under the Pensions Act 1995, women's SPA would have reached 65 (in line with men's) by 2020. However, under the Pensions Act 2011, women's SPA will increase more quickly: to 65 between April 2016 and November 2018.

Under the Pensions Act 2007, the SPA for both men and women would increase to 68 by 2046 (with increases to 66 between 2024 and 2026, to 67 between 2034 and 2036 and 68 between 2044 and 2046). However, the Pensions Act 2011 brings forward the increase from 65 to 66 to between December 2018 and October 2020.

The Government's April 2011 Green Paper, "A state pension for the 21st century", indicated that further changes to SPA might be proposed. In the Chancellors 2011 Autumn Statement and within the Government's January 2013 White Paper, "The single-tier pension: a simple foundation for saving" [1], it was announced that SPA would increase to 67 between 2026 and 2028. However, this change is not yet law and will require the approval of Parliament.

Definitions of labour market status

Rates of employment, unemployment, economic activity and inactivity can be presented for any group of people and are the proportion of that group who have that particular labour market status.

Economic activity

The labour market can be divided into two groups: the economically active and inactive. The economically active are defined as those aged 16 or over who are either in employment or unemployed. Economic inactivity refers to people who are neither 'in employment' nor 'unemployed', for example, people who are looking after a home or family, or who have retired or are long-term sick. The Office for National Statistics (ONS) Labour Force Survey categorises all economically inactive people over 69 years of age as retired.

Employment and unemployment

According to the International Labour Organization (ILO) definition, people in employment may be employees, self-employed, on a government-supported training programme, or unpaid family workers (e.g. working without pay in a family-owned shop). The employment rate is the percentage of people in a given age group who are in one or more hours of paid employment a week.

The ILO definition of unemployment specifies that it applies to people who are without a job, have actively sought work in the last four weeks and are available to start work in the next two weeks, or to people who are out of work and have found a job which they will start in the next two weeks. The unemployment rate is the percentage of economically active people in a given age group who are unemployed.

Headline rates

Historically, ONS reported employment, unemployment and economic inactivity rates for the working age population, which was defined as age 16 to SPA. Until April 2010, SPA was 65 for men and 60 for women. However, SPA for women is now increasing, and it will increase for both sexes in future (see **Definitions**: Changes to State Pension Age).

ONS is reporting headline rates for employment and inactivity for the 16-64 age group. The headline unemployment rate is based on the economically active population aged 16 and over. The employment, unemployment and economic inactivity rates reported in this chapter are on the same basis as the ONS headline rates.

Notes for Definitions

1. For the Chancellor's 2011 Autumn Statement; for the April 2011 Green Paper, "A state pension for the 21st century"; for the January 2013 White Paper, "The single-tier pension: a simple foundation for saving".

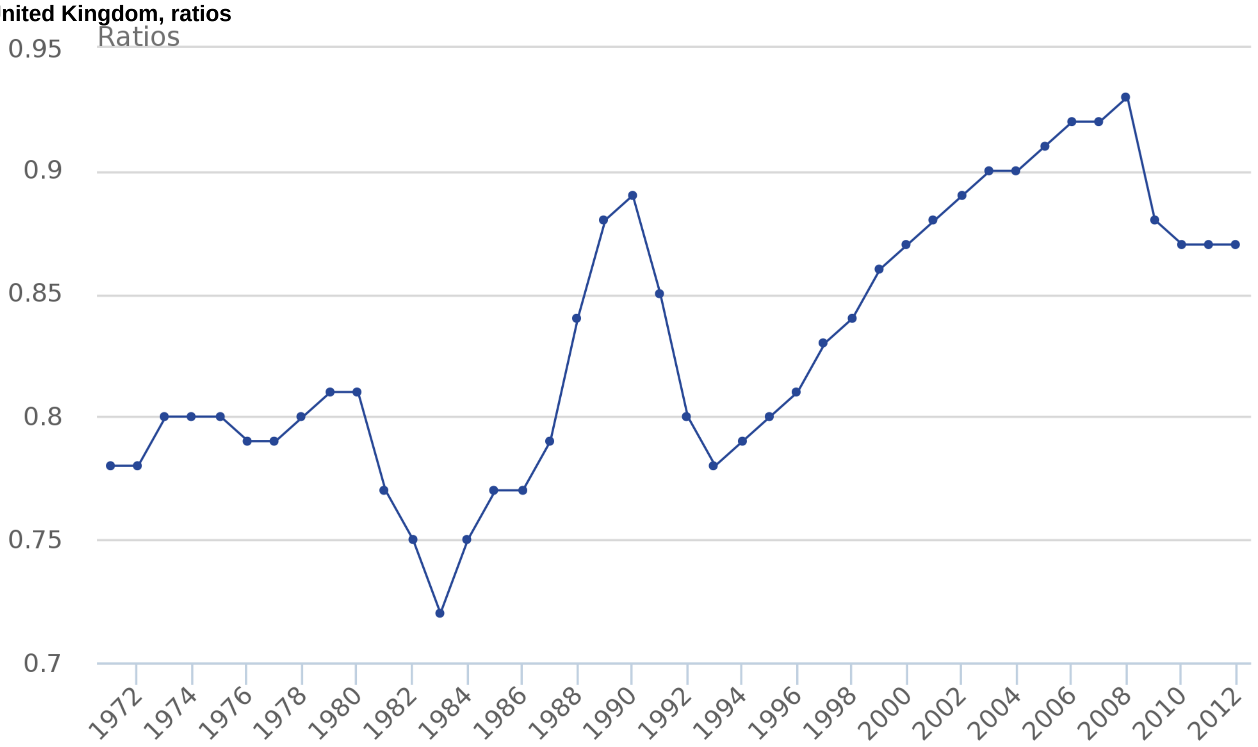
2 . The economic support ratio

Pension Trends Chapter 2 discusses changes in the structure of the UK population. It shows that the old age dependency ratio, the number of people of State Pension Age (SPA) and over for every 1,000 people of working age, is projected to rise in the next few decades despite the planned increases to SPA. This is important because, in the UK, taxes paid by current workers fund the state pensions of current pensioners. If the old age dependency ratio rises, the system will have proportionately more pensioners depending on fewer workers.

However, the old age dependency ratio does not take into account the fact that working-age people who are not in employment and children below working age also receive state support funded by workers' taxes. The economic support ratio, which is related to the old age dependency ratio, attempts to address this issue. The economic support ratio is found by dividing the estimate of the number of working people by the difference between the UK population and this estimate. In the economic support ratio, the population as a whole is considered and this enables the burden placed on workers to be better understood. Figure 4.1 shows that this ratio rose from 0.78 in 1972 to a peak of 0.93 in 2008, although there were dips in the recessions of the early 1980s and 1990s due to increases in unemployment.

Figure 4.1. Economic support ratio, 1971 to 2012

United Kingdom, ratios



Source: Office for National Statistics

Notes:

1. The economic support ratio is the number of people aged 16 and over in employment for every other person of any age, including children

2. The ratio is calculated using employment data collected from the ONS Labour Force Survey (LFS), which excludes communal establishments from its sample, and ONS population estimates and projections, which incorporate communal establishment data

3. The LFS employment data used in the calculation is from March to May for each year (seasonally adjusted)

Previous editions of Pension Trends have calculated that the economic support ratio for the UK would fall in the long term, reflecting the projected 'ageing' of the population (see Pension Trends Chapter 2). However, such projections are now subject to too much uncertainty to be presented here. There are several reasons for this, including the fact that further changes to SPA are not yet law (see **Definitions**: Changes to State Pension Age). In addition to this, there are sources of variability relating to long-term population projections and changes in employment and unemployment rates over economic cycles.

All other things being equal, a decline in the economic support ratio means a greater burden on the employed as there would be more people dependent on fewer workers. However, although the economic support ratio takes into account the number of working people in the population who are available to support others, it still has limitations. For instance, it gives equal weight to each person supported whereas, in reality, different age groups, children, working age people and those over SPA, attract different levels of government support in the form of benefits and tax credits. They also differ in the extent to which they draw upon government-funded services such as health and education. Moreover, many older people who are economically inactive care for grandchildren, thus enabling parents to work.

A second limitation of the economic support ratio is that comparisons of the ratio over time do not take into account changes in productivity in the economy. As the ability of the working population to support pensioners partly depends on the broader context of government spending and productivity, neither the old age dependency ratio (Pension Trends Chapter 2) nor the economic support ratio give a full picture and can only be taken as broadly indicative.

3 . Employment and unemployment

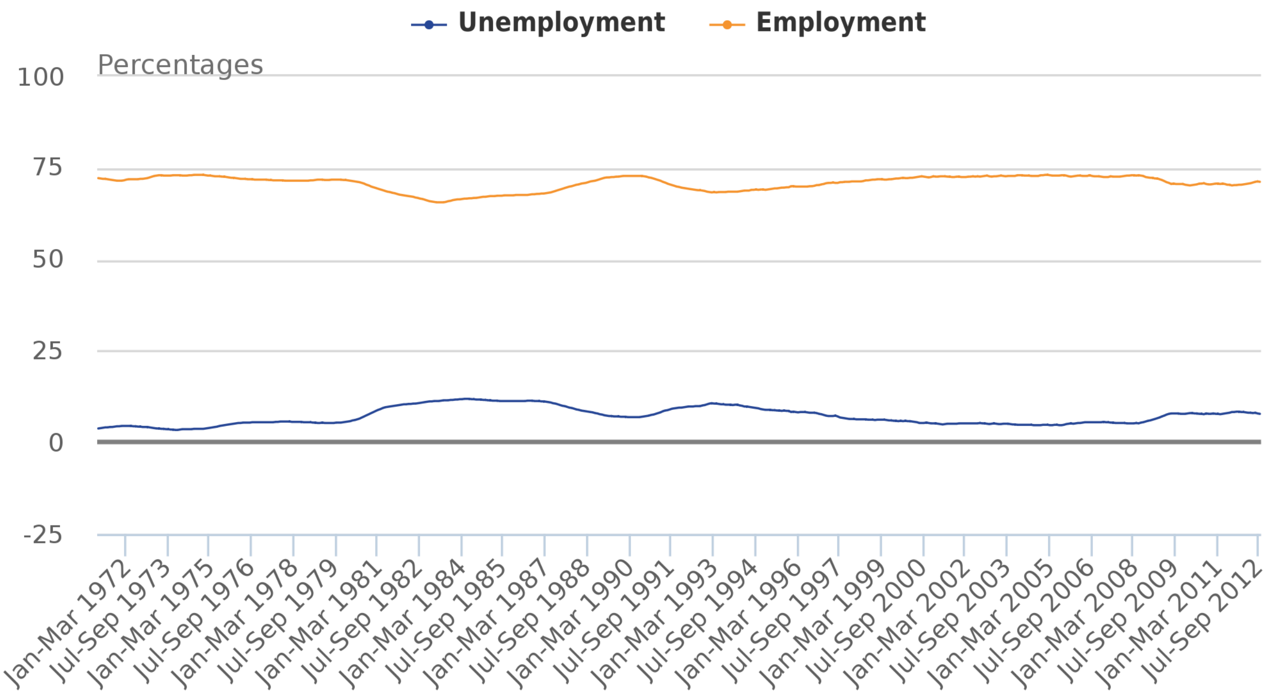
In terms of pensions, analysing the labour market provides an insight into the ability of people to save for their retirement. Labour force participation is important as working people accumulate state pension rights and may build up private pensions and other savings.

Analysis on data from the Labour Force Survey (LFS) shows that unemployment among economically active people aged 16 and over (see **Definitions**: Definitions of labour market status), fell between 1993 and 2004. In the early months of 1993 the number of unemployed people was 3.0 million and this fell to 1.4 million in mid-2004. It then rose gradually until mid-2008 (around 1.7 million) and increased sharply during the 2008 recession. Since this time there has been little change in those recorded as unemployed, with only small fluctuations occurring around the 2.5 million level[1].

Figure 4.2 shows Office for National Statistics (ONS) headline proportional rates of employment and unemployment for three-month rolling quarters from April-June 1971 to July-September 2012. These rates have remained fairly stable except for around periods of recession during the 1980s, the 1990s and 2008.

Figure 4.2. Employment and unemployment rates, 1971 to 2012

United Kingdom, percentages



Source: Labour Force Survey - Office for National Statistics

Notes:

1. Employment rates based on population aged 16-64; unemployment rates are for the economically active population aged 16 and over

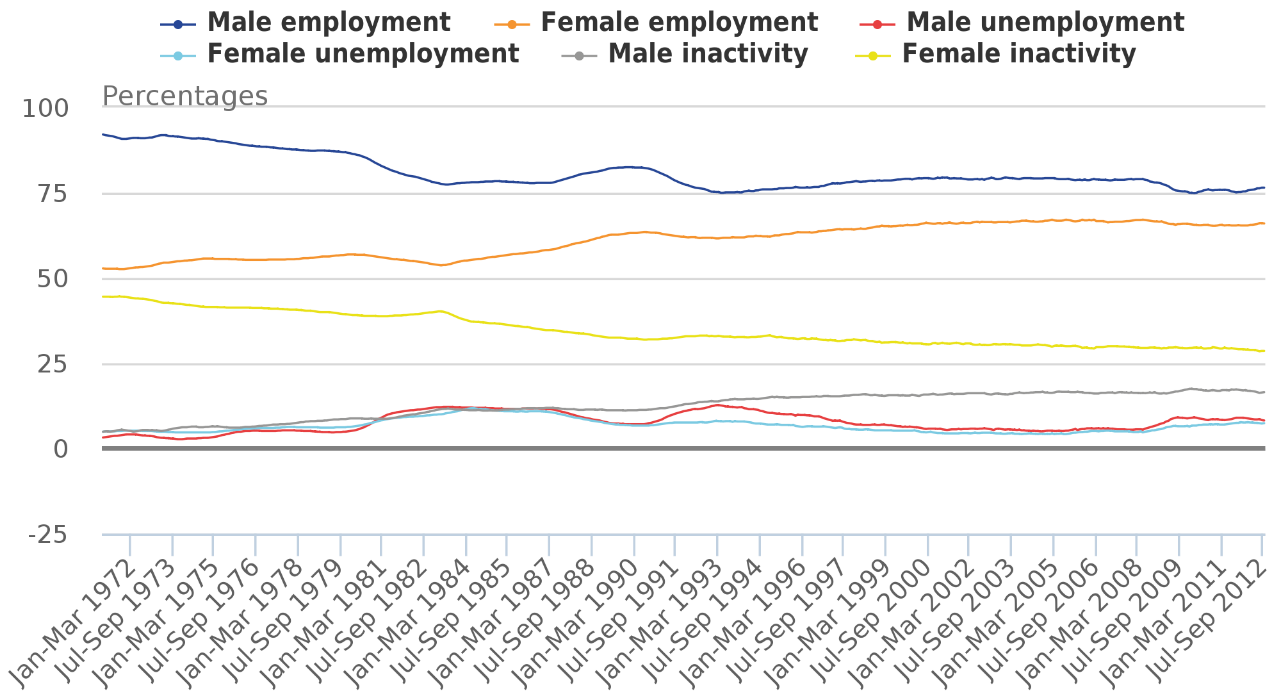
2. Three-month rolling quarters; seasonally adjusted data

It should be noted that employment rates include part-time workers. The highest recorded increase in part-time workers since comparable records began in 1992 occurred between the three months to April 2010 and the three months to July 2010. The three months to August 2011 saw the largest quarterly fall in the number of part-time workers, but the numbers have recovered somewhat since then[1]. In the three months to September 2012 there were an estimated 8.1 million part-time workers.

The trends shown in Figure 4.2 mask important differences between men and women. Figure 4.3 presents the employment, unemployment and inactivity rates for men and women for three-month rolling quarters between April-June 1971 and July-September 2012.

Figure 4.3. Employment, unemployment and economic inactivity rates: by sex 1971 to 2012

United Kingdom, percentages



Source: Labour Force Survey - Office for National Statistics

Notes:

1. Rates based on population aged 16-64 except for unemployment rates, which are for the economically active population aged 16 and over

2. Three-month rolling quarters; seasonally adjusted data

The decrease in the male employment rate since the early 1970s has not been matched by equivalent increases in unemployment, except temporarily as a result of the recessions of the early 1980s, early 1990s and 2008-09. Instead, over this period there has been an increase in the number of men classified as economically inactive (see **Definitions**: Definitions of labour market status). Between the three months to March 1971 and the three months to September 2012, male unemployment rose by 5 percentage points while male inactivity rose by 11.6 percentage points.

This change is widely understood as following from the decline in manufacturing. Manufacturing activity fell sharply through the 1974–75 and 1980–81 recessions and manufacturing jobs were lost as output fell. Official statistics for jobs by sector only began in 1978, but show a decline of manufacturing jobs from 7.1 million at the end of 1978 to 5.3 million by the end of 1983. A full set of data is not available, but the evidence suggests that job losses were disproportionately concentrated among older age groups. The older workers who lost their jobs had more difficulty finding new work and many ended up, more or less permanently, on invalidity or incapacity benefits and were, therefore, likely not to be recorded as unemployed.

For most of the 1970s and early 1980s, the employment rate for women aged 16 to 64 was below 57%. It rose steadily from the beginning of 1983, reaching 63.5% in 1990. The female employment rate fell less than that of men in the early 1990s recession; and it increased from a low of 61.6% at the beginning of 1993 to 65.6% at the start of the 21st century. It then remained fairly stable over the next decade between 65.3% and 67.1%. In the three months to September 2012 it was 66.0%. Meanwhile, the female inactivity rate has fallen from over 40% in the early 1970s to 28.6% in the three months to September 2012.

As the male employment rate has fallen and the female employment rate has risen, the gap between the two has narrowed. In the three months to April 1971, the gap was 39.2 percentage points; in the three months to November 2011 it was 9.8 percentage points. In the three months to September 2012 the difference was 10.4 percentage points. However, a higher proportion of women than men work part-time. In the three months to September 2012, 43.7% of women in employment worked part-time, compared with 13.5% of men.

Notes for Employment and unemployment

1. Labour Market Statistics, ONS Statistical Bulletins

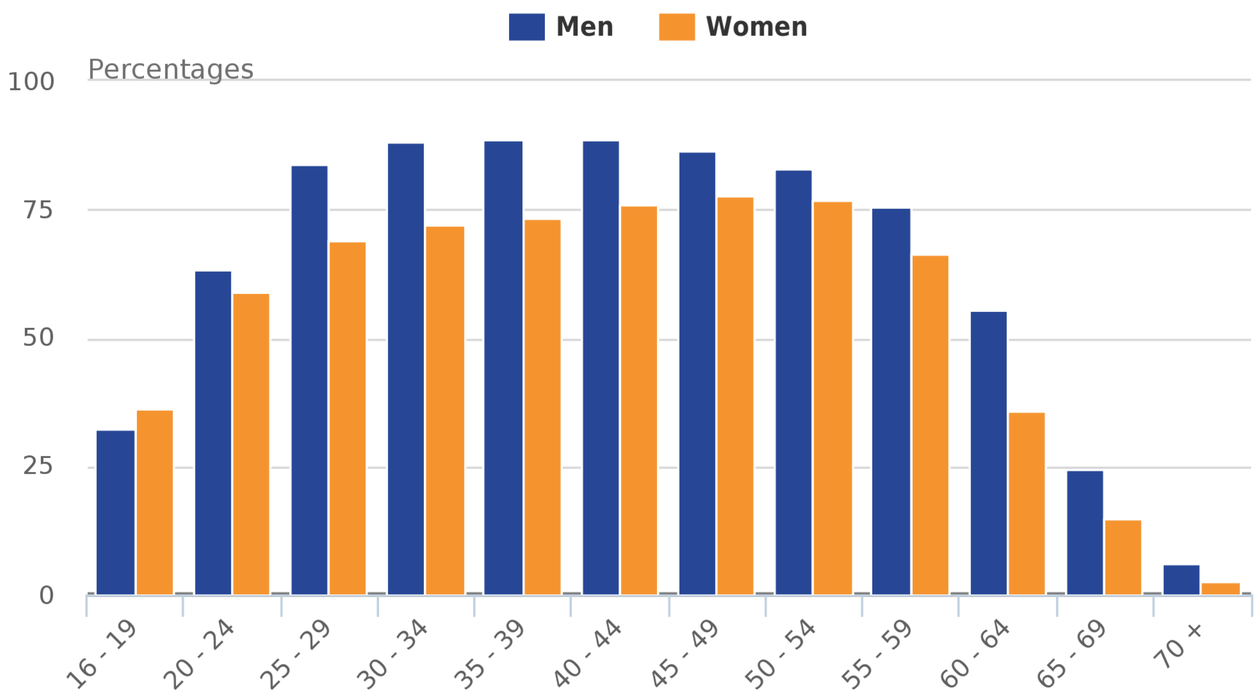
4 . The age structure of employment

Figure 4.4 shows that in April to June 2012, the employment rate for men was highest in the 35 to 39 age group, at 88.7%, compared to 75.4% for those aged 55 to 59 and to 55.3% for those aged 60 to 64, the age group that is nearing their State Pension Age (SPA) of 65. For women, the employment rate was highest for those aged 45 to 49 (77.8%). For women aged 55 to 59, who are nearing their SPA, the employment rate was 66.3%. It fell to 35.8% for those in the 60 to 64 age group, which mainly comprises women who are over SPA [1].

In April to June 2012, employment rates for women were higher than for men in the 16 to 19 age group. For all other age groups, women's employment rates were lower than those of men. For people below age 60, the largest difference between men's and women's employment rates was in the main age groups for child bearing, peaking in the 25 to 39 age range. Within this age group the largest difference between men and women was within the 30 to 34 age range where the proportion in employment was 15.9 percentage points higher for men than women. The other age group where women's employment rates were much lower than men's in April-June 2012 was in the 60 to 64 age group, where men were below SPA and most women were above SPA. The employment rate for women in this age group was 19.5 percentage points lower than the employment rate for men.

Figure 4.4. Employment rates: by sex and age, April to June 2012

United Kingdom, percentages



Source: Labour Force Survey - Office for National Statistics

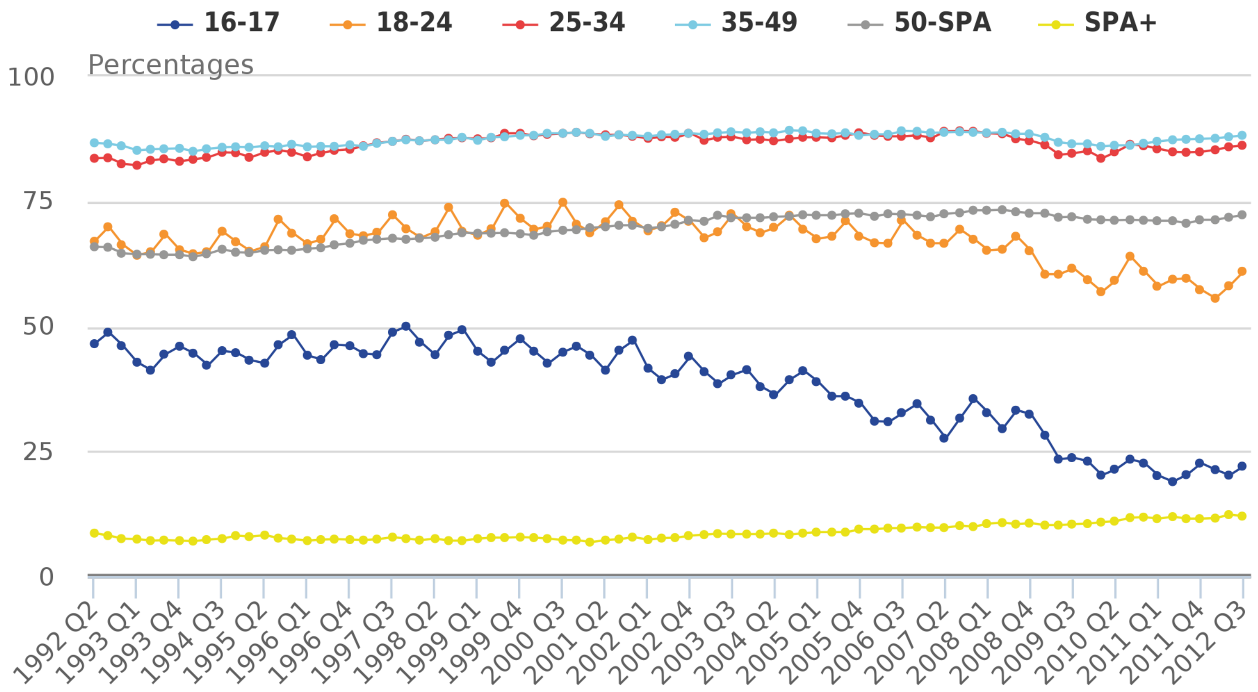
Notes:

1. Data not seasonally adjusted

Figure 4.5 shows how the age structure of the labour market has changed since 1992. It should be noted that it has been produced using data that is not seasonally adjusted. This has been done so that we can divide the upper age bands at SPA as seasonally adjusted data for these age bands are not available. For men at present, SPA is simply age 65; but for women, from 6 April 2010 their date of birth must be used to divide those aged 60 and 61 into 'under SPA' and 'SPA and over' categories. This analysis should shed some light on whether changes in SPA are having an impact on employment rates in older age groups (see below). Other factors, such as changes in the economic climate or women's employment patterns, may also affect employment rates at older ages. Therefore, caution is advised in attributing any changes to a single factor.

Figure 4.5. Employment rates: by sex and age 1992 to 2012

United Kingdom, percentages, men



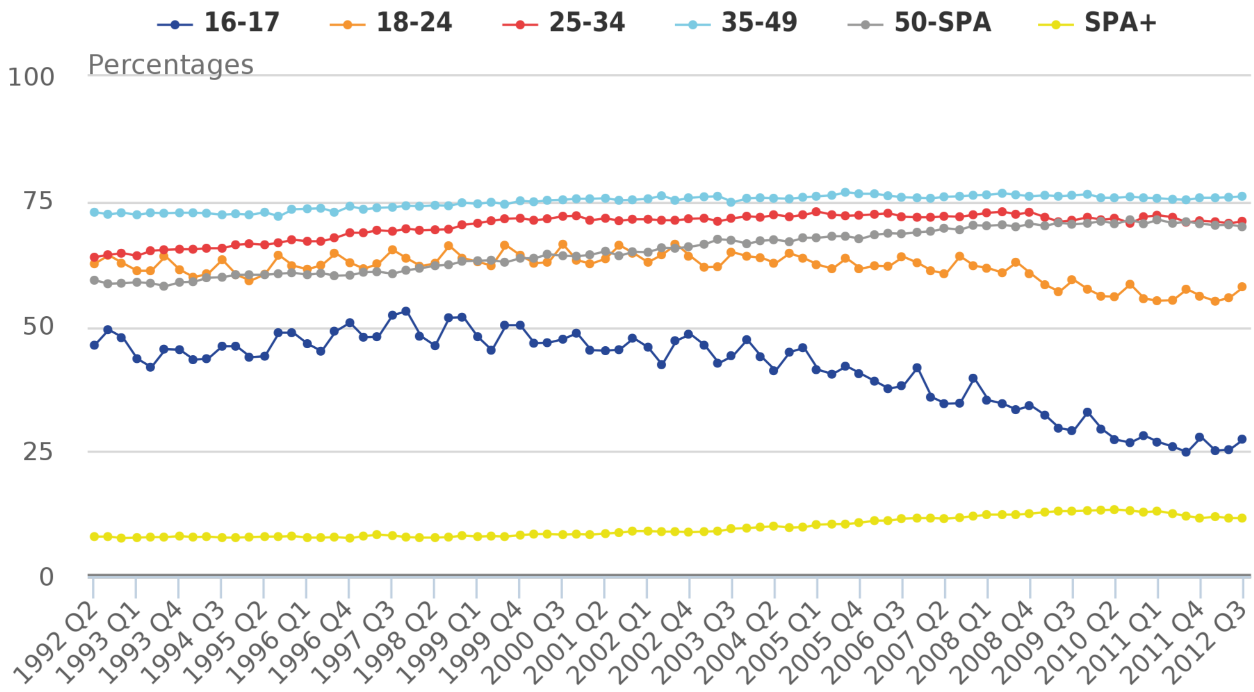
Source: Labour Force Survey - Office for National Statistics

Notes:

1. Three-month rolling quarters; data not seasonally adjusted
2. SPA = State Pension Age; 65 for men and over 60 but under 62 for women, depending on their date of birth

Figure 4.5. Employment rates: by sex and age 1992 to 2012

United Kingdom, percentages, women



Source: Labour Force Survey - Office for National Statistics

Notes:

1. Three-month rolling quarters; data not seasonally adjusted

2. SPA = State Pension Age; 65 for men and over 60 but under 62 for women, depending on their date of birth

Since 1992, there has been an increase in employment rates of older people and a decrease in those of younger people. The former has been driven mainly by rising employment rates for older women. The fall in the employment rate in the 16 to 17 age group since 1992 is largely due to increased participation in further education. The 2008-09 recession caused a large fall in employment rates in the 16 to 17 age group and rates have continued to fall since the recession.

Male employment rates for the age groups 18 to 24, 25 to 34 and 35 to 49 were fairly stable (except for seasonal variations) for the decade to mid-2008, but they fell in the 2008-09 recession and have struggled to recover since. The employment rate for men of SPA and over was relatively stable in the 1990s, at around 7-8% for most of the decade. In the second quarter of 2011, it reached 11.9%, the highest level since 1992. It has remained stable around this point since this time with the employment rate for men in the third quarter of 2012 in this age group being 12%.

Employment rates for women in all age groups over the age of 25 have risen in recent years, with the greatest increases in the rates for women aged between 50 and SPA. In this age group, female employment rates rose from 58.0% in the third quarter of 1993 to 70.9% in the third quarter of 2011. In the ‘SPA and over’ group, employment rates rose from 7.8% in the third quarter of 1993 to 11.6% in the third quarter of 2012.

By contrast, the employment rate for women aged 16 to 17 has fallen since the fourth quarter of 1997, when it reached 53.0%, to 24.8% in the third quarter of 2011. There has been some element of recovery for the employment rates for women in this age group with a rate of 27.4% recorded in the third quarter of 2012. Employment rates for women aged 18 to 24 were fairly stable in the ten years to mid-2008 (except for seasonal variations), but fell in the 2008-09 recession and have continued to fall since then.

It is not yet clear whether the rise in women's SPA since April 2010 is having an impact on employment rates. There are some signs of a change in employment rates in the 'SPA and over' group, with quarter-on-quarter falls in employment rates of this group in four (out of six) quarters since April 2010. It is not clear whether this is attributable to the SPA increases. In 2012, this trend continues to be seen within the employment rates for women in the SPA and over category. Of greater policy interest is the outcome for women who are nearing SPA (age 50 to SPA). However, detailed analysis of this topic is beyond the scope of Pension Trends.

Notes for The age structure of employment

1. Until 5 April 2010, women's SPA was 60. On 6 April 2010, women's SPA started to rise. For the period April-June 2012, an estimated 80% of women aged 60 to 64 were over SPA

5 . The older workforce

The transition to retirement can be examined more closely by focusing on the employment status of the older workforce on either side of State Pension Age (SPA). Due to the increases in women's SPA from 6 April 2010, it is now more difficult to do such analyses. But it is still possible using data that has not been seasonally adjusted from the Labour Force Survey, as explained in the previous section.

Table 4.6 shows that in April-June 2012 fewer women, 11.6%, aged SPA and over were in employment than men. For men in April-June 2012, 12.2% were recorded as being in employment in the SPA and over age group (the sum of full-time and part-time workers presented here is different to Table 4.6 because of rounding). This trend is different to what has been historically reported within this chapter, as previously a higher proportion of women than men have continued to work beyond SPA. It is thought that the numbers and proportions of those recorded as in employment above this age will be affected as the SPA for women gradually increases to become in line with men.

For those who are employed after their SPA there is a preference for part-time work, while for those below it the majority work full-time. In April-June 2012, around 67.2% of those who were in employment and working after SPA did so part-time. This is in comparison to 32.8% who were employed full-time. For those who were aged between 16 and SPA, 74.5% were employed full-time and 25.5% worked part-time.

From Table 4.6 it can be seen that, for men who were aged between 50 and SPA, there were around six times as many working full-time as there were part-time. This ratio is reduced to two-thirds after SPA and might be indicative of male pensioners deciding to work part-time past their SPA so that they can supplement their pension income[1].

For women who are aged between 50 and SPA and SPA and over, the difference in the proportion of those working full or part-time is less pronounced. In April-June 2012, there were around 1.4 full-time workers for every woman that worked part-time in the 50-SPA age group. After SPA this ratio falls to 0.4 and again this might be representative of people deciding to supplement their pension income with part-time work[1].

Table 4.6. Economic activity status of older workers: by sex, April - June 2012

United Kingdom, percentages

	Men		Women	
	50-SPA	SPA and over	50-SPA	SPA and over
Full-time employed	61.7	4.9	40.3	3.2
Part-time employed	9.9	7.4	29.7	8.4
Unemployed	4.3	0.2	2.9	0.3
Economically inactive	23.8	87.5	26.8	88.1

Source: Labour Force Survey, Office for National Statistics

Notes:

1. SPA = State pension age; 65 for men and over 60 but under 62 for women depending on their date of birth

2. Data not seasonally adjusted

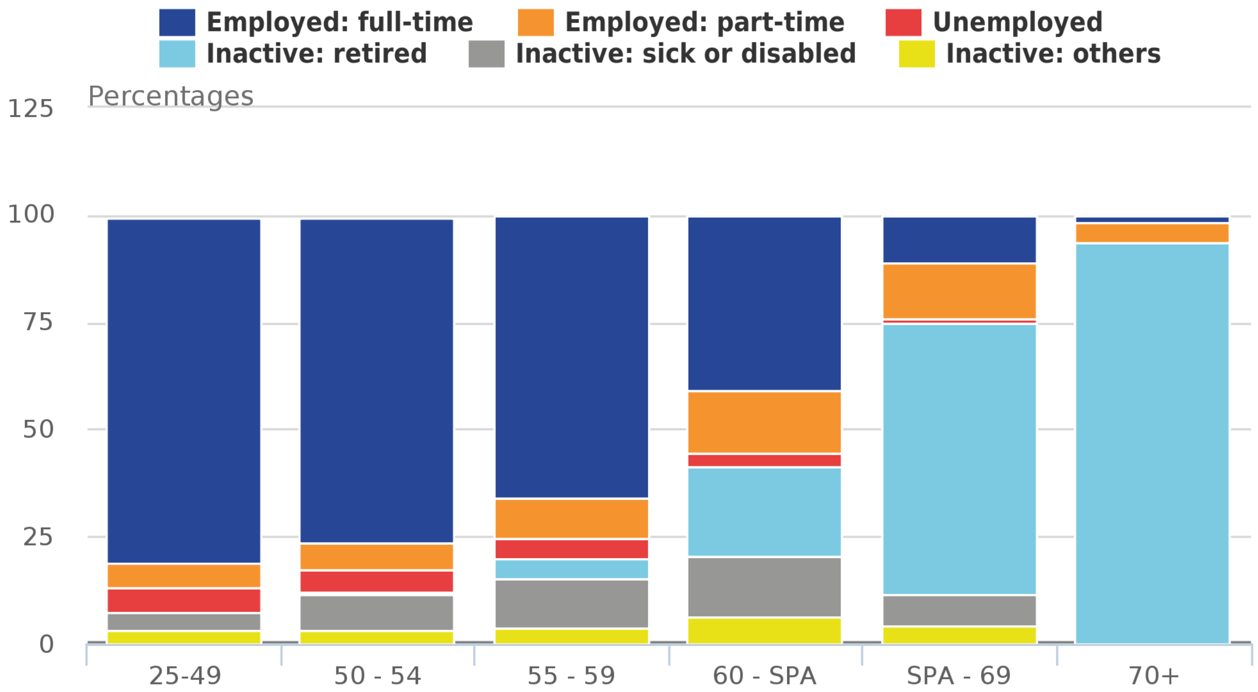
The transition to part-time employment over a worker's life time can be seen more clearly in Figure 4.7. It shows that in April-June 2012, full-time work dominated for men until the 60 to SPA age group (40.7% of men in this age group were in full-time work). As men approach SPA, more of them work part-time. In April-June 2012, 14.3% of men in the 60 to SPA group worked part-time, compared with 9.2% in the 55 to 59 age group and 6.6% in the 50 to 54 age group. For women, there is less change in the proportion working part-time as they approach retirement: 28.6% in the 55 to SPA age group in April-June 2012, compared with 30.9% in the 50 to 54 age group.

Figure 4.7 also shows that the employment rate falls significantly at SPA for both men and women as the majority retire. However, it can be seen that a larger proportion of men than women take early retirement. In April-June 2012, 8.8% of women in the 55 to SPA age group were classified as retired. In comparison, 20.8% of men had already retired in the 60 to SPA age group.

From Figure 4.7 it can also be seen that before SPA a large proportion of people who are economically inactive give sickness or disability as the reason. From SPA, the proportion of sick and disabled falls for both men and women, as many consider themselves retired rather than sick or disabled.

Figure 4.7. Economic activity: by sex and age, April to June 2012

United Kingdom, percentages, men



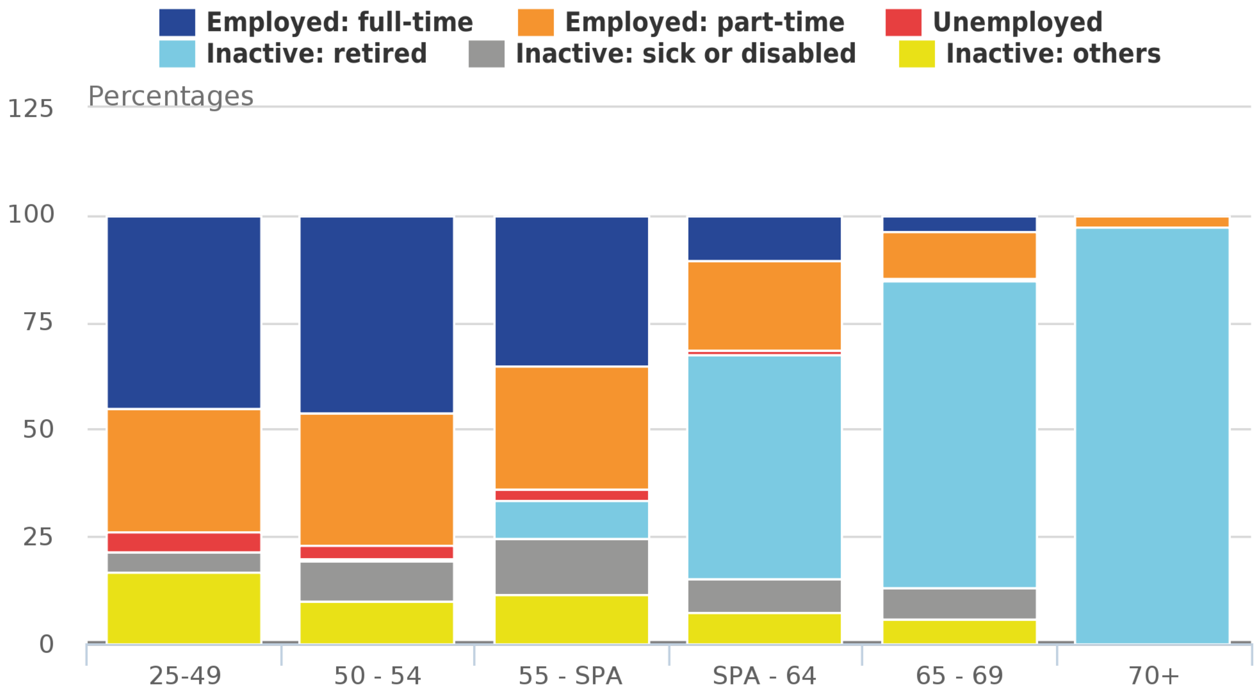
Source: Labour Force Survey - Office for National Statistics

Notes:

1. The ‘inactive: others’ category includes those seeking and not seeking work. This includes students and people looking after family home
2. SPA = State Pension Age; 65 for men and over 60 but under 62 for women depending on their date of birth
3. Data not seasonally adjusted

Figure 4.7. Economic activity: by sex and age, April to June 2012

United Kingdom, percentages, women



Source: Labour Force Survey - Office for National Statistics

Notes:

1. The ‘inactive: others’ category includes those seeking and not seeking work. This includes students and people looking after family home

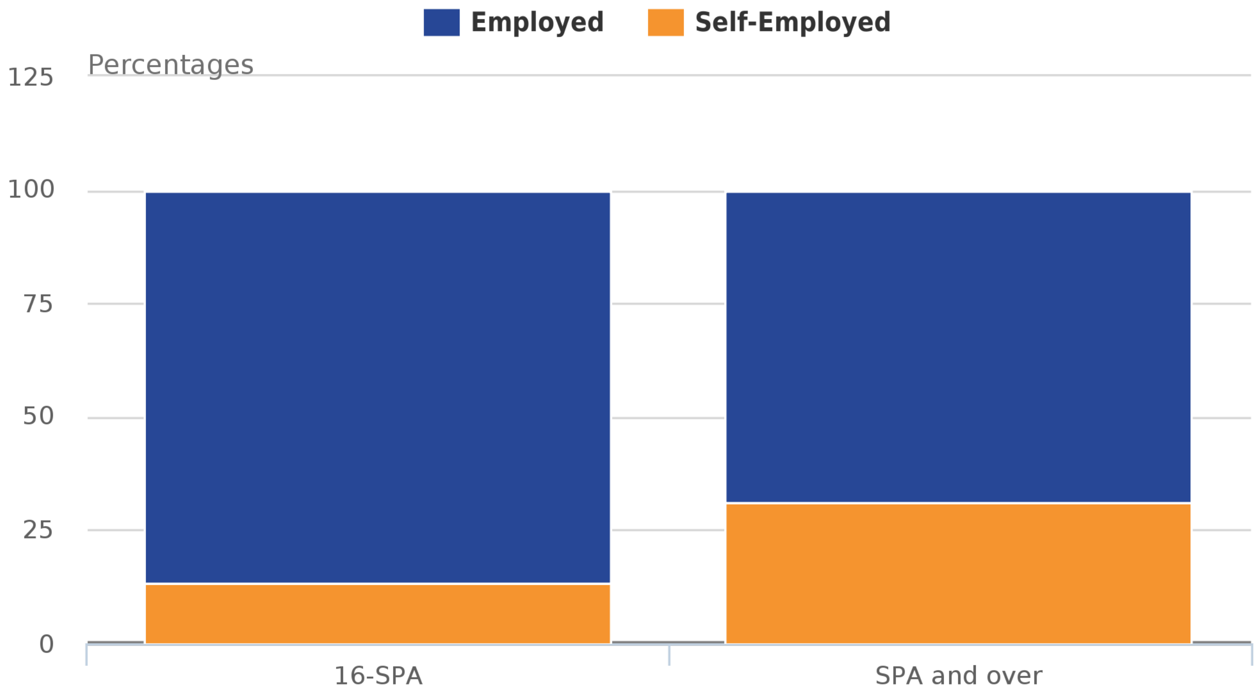
2. SPA = State Pension Age; 65 for men and over 60 but under 62 for women depending on their date of birth

3. Data not seasonally adjusted

For those who are in employment and are at their SPA or above, Figure 4.8 shows that more people are classified as self-employed when compared to their younger counterparts. In April-June 2012, 31.3% of workers at their SPA and above were self-employed. For those aged between 16 and SPA, self-employment accounted for only 13.5% of the total workforce.

Figure 4.8. Employment status of older workers, April - June 2012

United Kingdom, percentages



Source: Labour Force Survey - Office for National Statistics

Notes:

1. SPA = State Pension Age; 65 for men and over 60 but under 62 for women depending on their date of birth

2. Data not seasonally adjusted

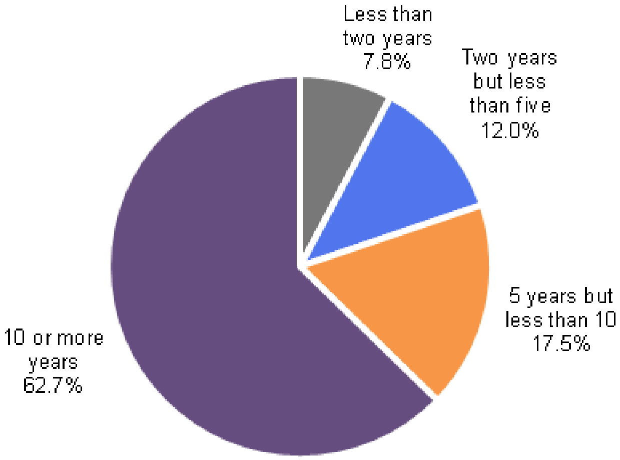
The types of jobs that men and women carry out after their SPA were also different in April-June 2012, with around two thirds of men being classified as working in high skilled jobs. For women, a similar proportion were estimated to be working in lower skilled jobs.

The most common jobs that women undertake at or after their SPA include elementary occupations (such as cleaners), administrative positions and work within the professional occupations. For men the most common jobs include: managers, directors and senior officials; professional occupations; and the skilled trades.

Figure 4.8 shows that in April-June 2012 a significant proportion of those who continue to work after their SPA are still classified as employed. For these people, it can be seen in Figure 4.9 that they are more likely to have worked for the same employer for a significant amount of time. It shows that around two-thirds of people who are working after their SPA have remained with the same employer for 10 years or more. It also shows that around 8 in 10 who are at or above the SPA have worked for the same employer for five years or more.

Figure 4.9. Proportions of workers over SPA by length of duration with their employer, April - June 2012

United Kingdom, percentages



Source: Labour Force Survey - Office for National Statistics

Notes:

1. SPA = State Pension Age; 65 for men and over 60 but under 62 for women depending on their date of birth
2. Data not seasonally adjusted

Notes for The older workforce

1. Older Workers in the Labour Market - 2012

6 . Retirement

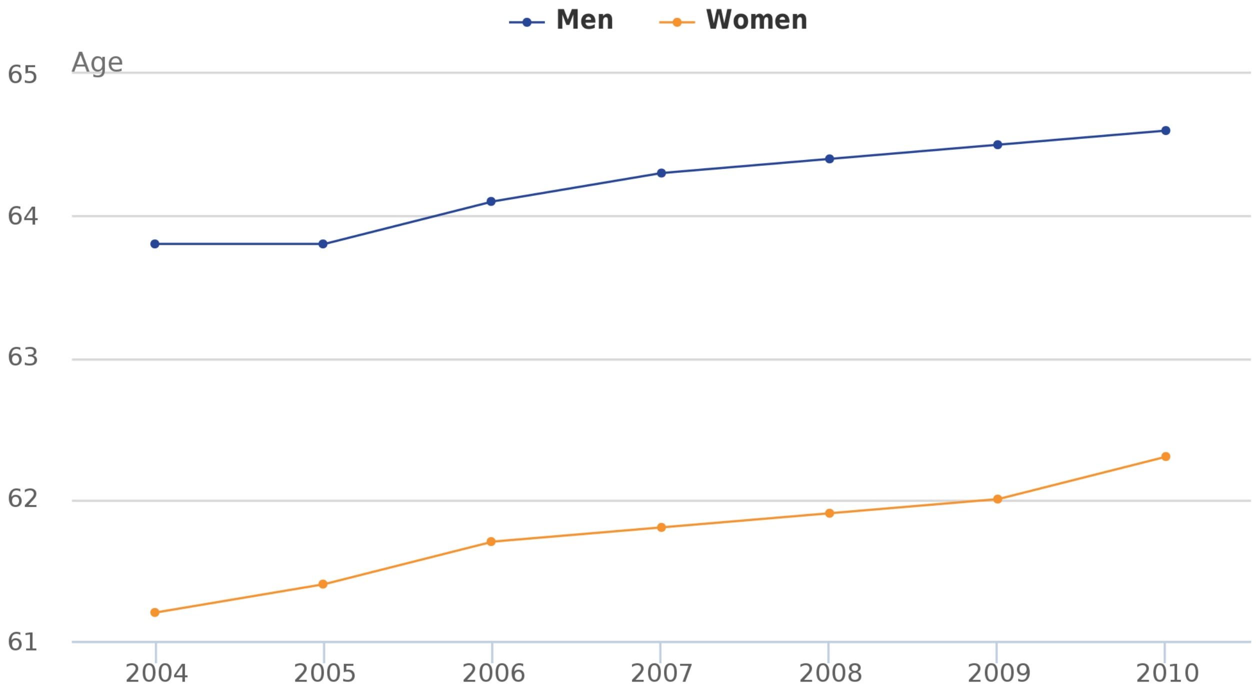
The age at which people retire is difficult to estimate, in part because older people who have become economically inactive may give different reasons for their inactivity – retirement, ill-health, inability to find suitable work – even though their situations are the same. An alternative, more useful approach in the context of pensions is to examine the ages at which older people leave the labour market. To estimate these ages various methodologies can be used and the 'static' and 'duration of working (DWL)' estimates are presented here. Details of the methodologies used to calculate these indicators can be found within a recent article [1] and within the **Average Age of Exit Assumptions** section of this article.

In most cases[2], the point when people leave the labour market is when they cease to generate earnings to build up private pensions or to make National Insurance contributions. Therefore, these people may start to draw on pensions and other savings.

Figure 4.10 shows the trends in average age of withdrawal from the labour market using the DWL-based indicator for 2004 to 2010, the earliest and latest years for which this indicator can be calculated. For men, the estimate of average age of withdrawal increased from 63.8 years in 2004 to 64.6 years in 2010. For women, it increased from 61.2 years in 2004 to 62.3 years in 2010.

Figure 4.10. Average age of withdrawal from the labour market using the duration of working life indicator: by sex, 2004 to 2010

United Kingdom, age



Source: Annual Population Survey (APS) - Office for National Statistics

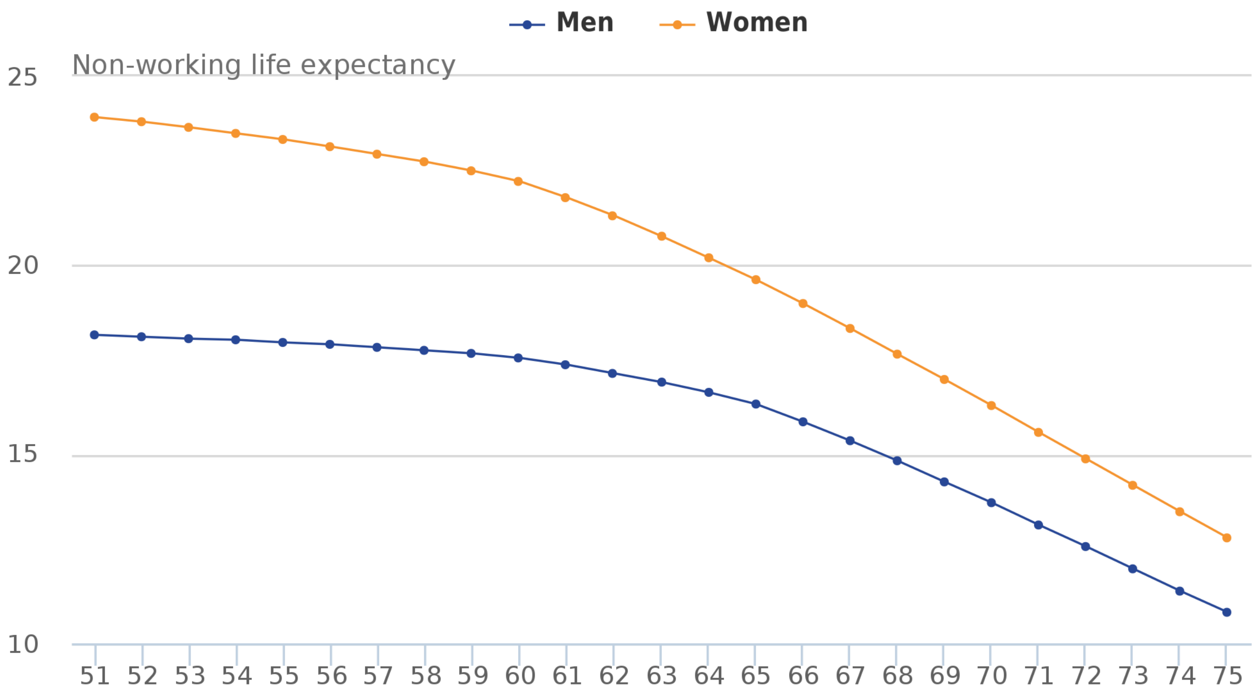
Notes:

1. Although 2011 population figures for the UK have been released based on 2011 Census data, 2011 mid year estimates and the revised back series are not available for the UK at this time. Therefore, ONS has not yet published revised life tables. As the life tables are required to produce this figure, we have used estimates published prior to the release of the 2011 Census data

The DWL estimates underlying the calculation of average age of withdrawal from the labour market throw more light on the differences between men and women. Figure 4.11 shows working life expectancy (or DWL) for people aged 51 to 75. It also shows their non-working life expectancy, which is the difference between life expectancy and working life expectancy. In 2010, men had higher working life expectancy and lower non-working life expectancy than women at every age. For instance, men aged 58 in 2010 had some two years more working life expectancy and some five years less non-working life expectancy than women.

Figure 4.11. Working life expectancy and non-working life expectancy: by sex and age, 2010

United Kingdom, years, non-working life expectancy



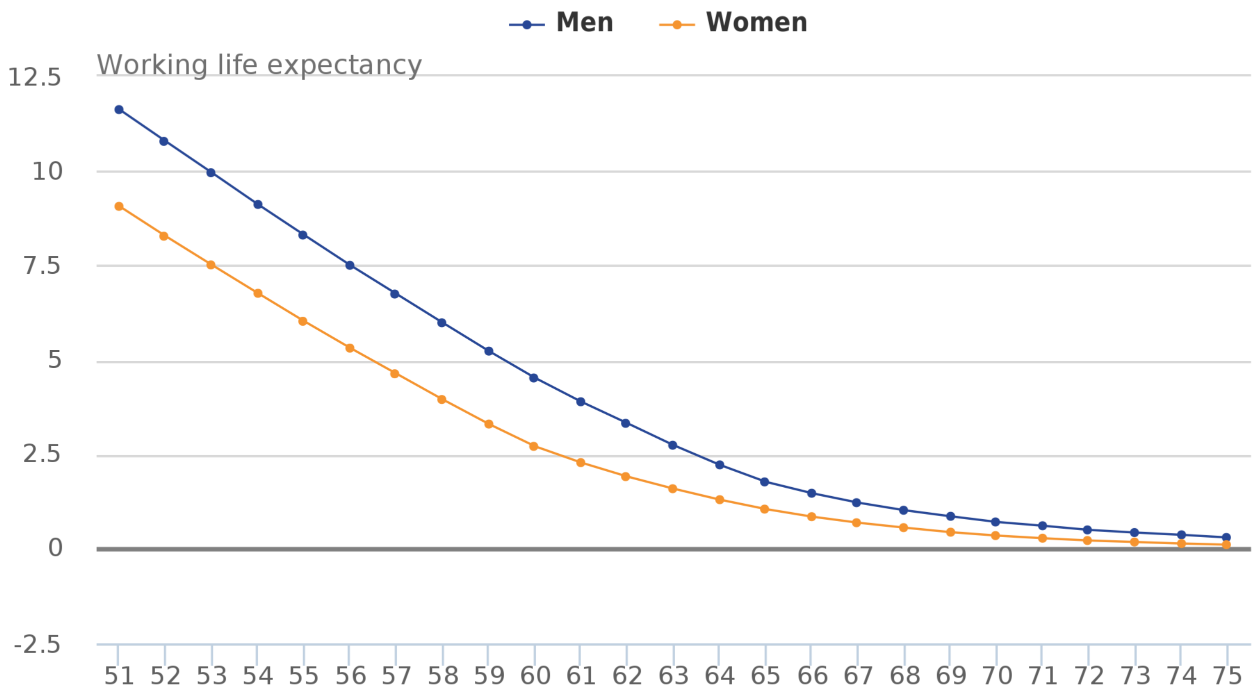
Source: Annual Population Survey (APS) - Office for National Statistics

Notes:

1. Although 2011 population figures for the UK have been released based on 2011 Census data, 2011 mid year estimates and the revised back series are not available for the UK at this time. Therefore, ONS has not yet published revised life tables. As the life tables are required to produce this figure, we have used estimates published prior to the release of the 2011 Census data

Figure 4.11. Working life expectancy and non-working life expectancy: by sex and age, 2010

United Kingdom, years, working life expectancy



Source: Annual Population Survey (APS) - Office for National Statistics

Notes:

1. Although 2011 population figures for the UK have been released based on 2011 Census data, 2011 mid year estimates and the revised back series are not available for the UK at this time. Therefore, ONS has not yet published revised life tables. As the life tables are required to produce this figure, we have used estimates published prior to the release of the 2011 Census data

An additional benefit of using the DWL method is the production of estimates on duration of employment. For example, a man aged 51 in 2010 could expect to be in employment for another 11.0 years, while a woman of the same age could expect to be in employment for 8.8 years [3].

Although the DWL-based measure is now our preferred measure of average age of withdrawal from the labour market, the estimates based on DWL are produced later in the year than those for the static indicator due to the DWL calculation’s reliance on life expectancy data. Also, they can be produced only from 2004 onwards, whereas results are available using the static method for 1984 onwards. For these reasons, this chapter also presents results using the static method.

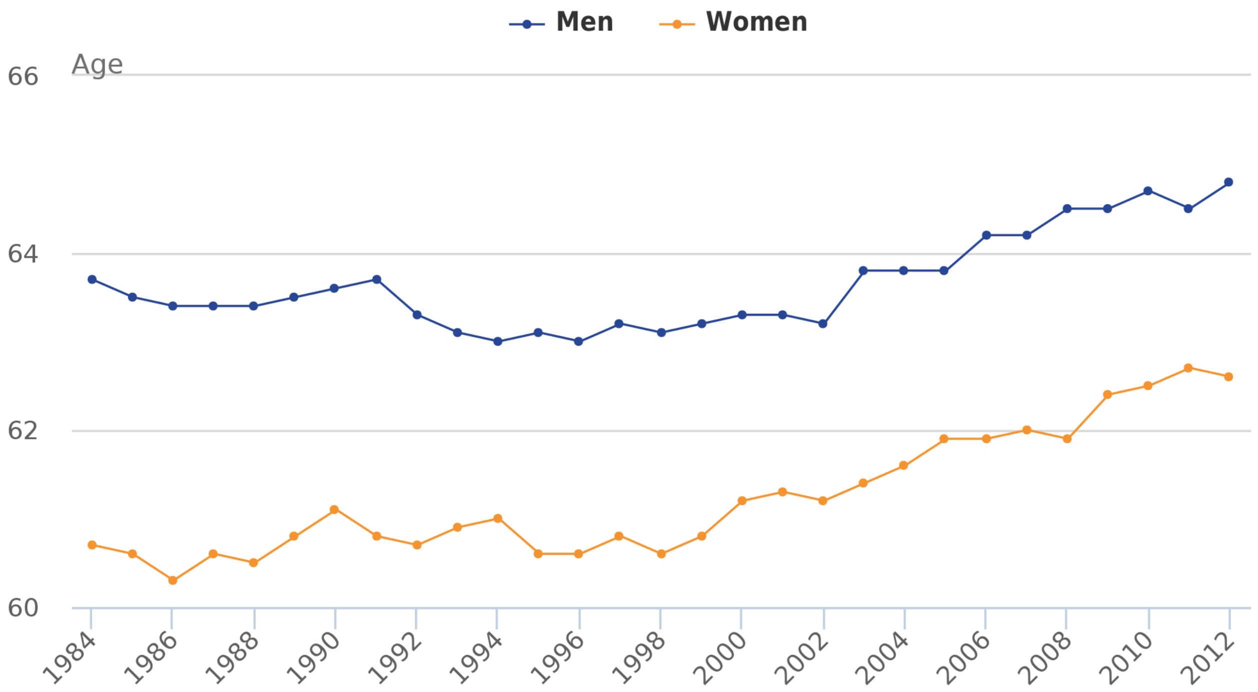
It is possible to compare the results produced using the static indicator for the period 2004 to 2010 in Figure 4.12 with those based on the DWL-based indicator (Figure 4.11 above). For men, the results using the static indicator are similar to those using the DWL-based indicator, with the average age of withdrawal rising from 63.8 years in 2004 to 64.7 years in 2010. The static estimate suggests that the average age of exit from the labour market in 2012 for men was 64.8 years. For women, the results are slightly different: average age of withdrawal based on the static indicator rose from 61.6 years to 62.5 years between 2004 and 2010. In 2012, the average age of exit of women from the labour market as predicted by the static estimate was 62.6 years.

The long-term trends, which can be seen in Figure 4.12, are different for men and women. The estimated average age of withdrawal from the labour market for women has shown a rising trend overall since 1984, and a particularly sharp rise over the past decade. For men, on the other hand, there was a reduction in average age of withdrawal in the early 1990s, after which it remained stable until 2002 and then rose to 64.7 years in 2010. In 2011, it fell slightly. However, in 2012 the average age of withdrawal of men from the labour market, using the static estimate, rose again to 64.8 years.

An analysis of the average age of labour market withdrawal will be particularly important over the next few decades as the State Pension Age (SPA) in the UK increases. Raising the SPA is designed to lower the pension burden on Government and private pension providers by reducing the average number of years spent in retirement and increasing years spent in employment and saving for retirement[4].

Figure 4.12. Average age of withdrawal from the labour market using the static indicator: by sex, 1984 to 2012

United Kingdom, age



Source: Labour Force Survey - Office for National Statistics

Notes:

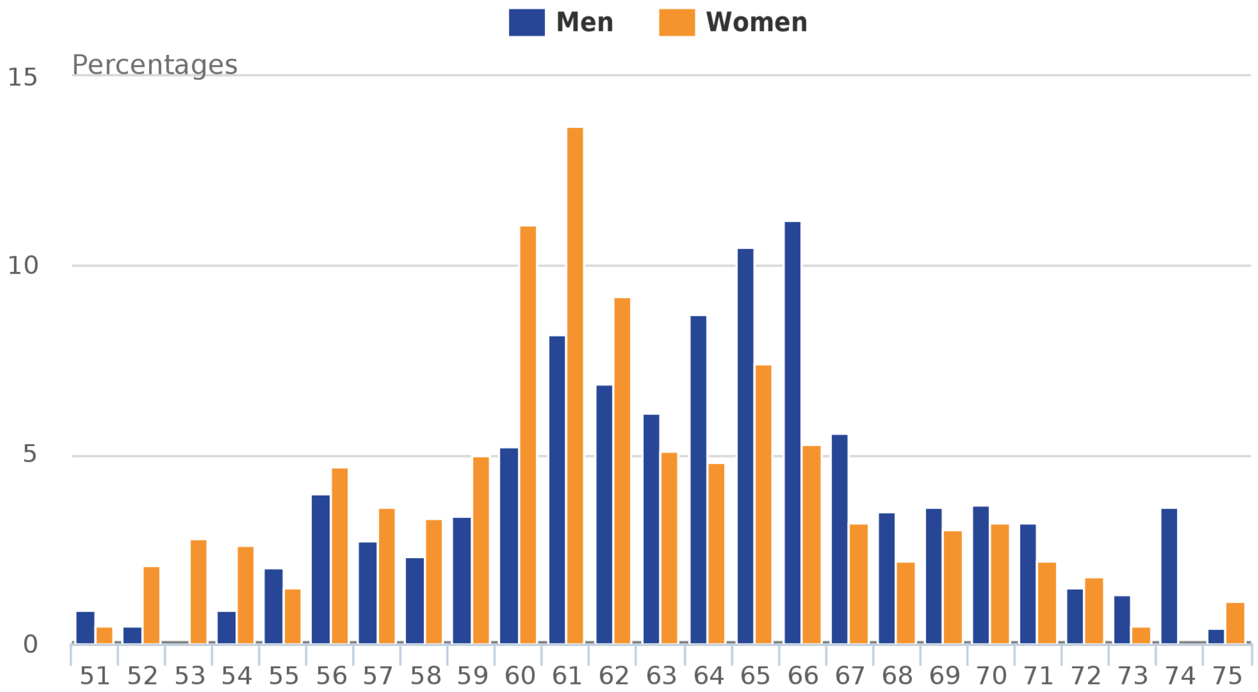
1. Annual data for period 1984 to 1991. April to June data for 1992 to 2012

2. Data not seasonally adjusted

The calculations made to estimate average age of withdrawal from the labour market using the static method can also be used to estimate the proportion of men and women aged between 51 and 75 who leave the labour market at each age. Figure 4.13 shows the results for April-June 2012; for example, 13.7% of women in this age group withdrew from the labour market at the age of 61.

Figure 4.13. Proportion leaving the labour market: by sex and age, April to June 2012

United Kingdom, percentages



Source: Labour Force Survey - Office for National Statistics

Notes:

1. Using the static indicator
2. Data not seasonally adjusted

For men, the age of labour market withdrawal peaks between 64 and 66 years. For women, the peak is between 60 and 62 years. Thus, labour market exits peak around SPA for both sexes. However, many people retire before SPA, and others work beyond SPA. Figure 4.13 shows that in April-June 2012, 37.6% of men and 22.4% of women stopped working after age 65. It also shows that 51.9% of men aged 51 to 64 and 26.3% of women aged 51 to 59 had already left the labour market.

There are signs that the pattern of early retirement may be changing for women as SPA changes. In April-June 2011, the proportion of women aged 51 to 59 who had already left the labour market was higher, at 28.1%. In April-June 2010, when the SPA changes were introduced, the proportion of women who had left the labour market was 32.2%. However, as noted in **The age structure of employment**, caution is advised in attributing such changes to a single factor, as there may be more than one reason for them.

Notes for Retirement

1. Mitchell, H and Guled, G (2010) 'Average age of withdrawal from the labour market: A methodology update' .

2. Individuals in receipt of state benefits such as Incapacity Benefit or Jobseeker's Allowance still get credits towards their state pension.

3. By clicking on Figure 4.11 in the online version of this chapter, it is possible to download spreadsheets containing the estimates of duration of employment and duration of non-employment for 2004 to 2010, together with the estimates of working life expectancy and non-working life expectancy for 2004 to 2010. The methodology for these estimates is explained in Mitchell and Guled (2010).

4. See Chapter 3 of Department for Work and Pensions Security in Retirement (2006) and Chapter 3 of Pension Trends.

7 . Average age of exit assumptions

In 2002, the Barcelona European Council agreed to set an EU target to raise the average age at which people stop working by five years by 2010. In order to monitor this target, the EU adapted an The Organisation for Economic Co-operation and Development (OECD) methodology developed by Peter Scherer [1] for estimating the average age of withdrawal from the labour market of people aged over 50. This is known as the dynamic exit age indicator. However, the Office for National Statistics (ONS) preferred to use the static indicator developed by the International Labour Organization (ILO) for measuring average age of withdrawal from the labour market [2] because the dynamic approach produces more volatile results than the static approach.

Both the static and dynamic indicators are probability-based measures using economic activity rates from labour force surveys. Both methods suffer from weaknesses relating to the simplifying assumptions that need to be made in order to produce the indicators. As a result of concerns about these weaknesses, the EU recommended the use of a new approach based on a duration of working life (DWL) or 'working life expectancy' indicator, which combines information on life expectancy with economic activity rates. A methodology article published by ONS in 2010 entitled Average age of withdrawal from the labour market: A methodology update [3] explained how this recommendation was developed into a feasible methodology for the UK and why ONS now prefers the DWL-based approach to the static exit age indicator. The main reasons for preferring the DWL-based measure are that it is more robust and that it is not affected by unrealistic assumptions about:

- everyone being economically active or inactive below or above certain ages;
- people remaining economically active once they become so (until they finally leave the labour market);
- and the same factors affecting the activity decisions of adjacent cohorts.

All of these assumptions need to be made in the case of the static indicator. The assumption that once someone is economically active they remain so until they leave the labour market is particularly tenuous in the case of women, who are likely to experience temporary periods of economic inactivity in the form of breaks to care for children and elderly relatives. As a result, the static method inflates the probability of remaining in the labour market, particularly for women, resulting in an overestimate of the average age of withdrawal.

Notes for Average age of exit assumptions

1. Scherer, P (2002) 'Age of withdrawal from the labour force in OECD countries', Labour Market and Social Policy - Occasional Papers, No. 49. OECD.

2. Latulippe, D (1996): 'Effective retirement age and duration of retirement in the industrial countries between 1950 and 1990', Issues in social protection. Discussion Paper 2, International Labour Organisation, Geneva.

3. Mitchell, H and Guled, G (2010) 'Average age of withdrawal from the labour market: A methodology update'.

8. Sources and further reading

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9. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

   These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority

Compendium

Chapter 5: State Pensions, 2013 edition

This chapter looks at state pension provision in the UK through the Basic State Pension (BSP), the additional state pension, Pension Credit and related benefits. It starts by examining the state pension system that is expected to be in place until 2016. It then briefly reviews the 2013/14 Pensions Bill and the reforms that are proposed within it. It concludes with an examination of the cost of state pensions, and projections of state pension expenditure, based on proposed changes in the 2013/14 Pensions Bill. The Chancellor's 2013 Autumn Statement proposed further changes in state pension provision but, as not yet enacted, these are not included in the tables and figures in this chapter.

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Release date:
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Next release:
To be announced

Notice

8 January 2016

This publication has been discontinued. The last edition to be published was 28 November 2014.

Table of contents

1 . Background

A key theme of this chapter is change. Some of the recent changes to the state pension system are the result of legislation, while others do not require legislation but are announced by Government (for instance the methods used to increase or 'uprate' state pensions). Other changes are currently in the form of proposals for which there has not yet been any legislation or official policy announcement. Unless otherwise indicated, all of the data presented in the tables and charts in this chapter are based on changes that have already happened.

Most people who are currently working will retire under a state pension system which is different from the one that was in place before the 6 April 2010. People who retired on or after this date have been subject to increases in State Pension Age (SPA) for women, as a result of measures contained in the Pensions Act 1995, and to new criteria to qualify for state pensions under the Pensions Act 2007. If the proposals in the 2013/14 Pensions Bill are enacted, the system for future retirees will change further.

There are an estimated 5.0 million men and 7.3 million women over SPA in the UK in 2013 [1]. Most of these people retired before 6 April 2010 and will experience only part of the changes. It is of interest to understand how the past and current systems compare, and what the potential impact of any further changes in the state pension system may be in the next few decades.

Notes for Background

1. These figures are from the 2012-based population projections for 2013 (ONS). The projections take into account changes to SPA under existing legislation

2 . Mandatory pension provision

Pension systems are normally made up of two distinct components: a mandatory state component [1] and a voluntary private component, although in some countries there is also a mandatory private component.

In the UK, private pension saving is important to ensure adequate income in retirement (see Pension Trends Chapters 6 and 10). However, for many UK pensioners, state pensions and related benefits are an important component of income in retirement. According to the Pensioners' Income Series published by the Department for Work and Pensions (DWP), this is particularly the case for single women pensioners. In 2011/12, 63% of the average gross weekly income of single women pensioners came from state pensions and related benefits. The Pensioners' Income Series estimates that there were 3.3 million single women pensioners in 2011/12.

Notes for Mandatory pension provision

1. The previous edition of Pension Trends Chapter 5 (2011) contains data on gross replacement rates for an average earner from mandatory pension schemes in selected OECD countries. The replacement rate is a measure of how effectively pension systems are able to replace earnings from employment in retirement.

3 . Contributory state pensions

Currently in the UK, state pension provision is divided into 'contributory' and 'non-contributory' pensions. The contributory state pension is made up of two tiers: the Basic State Pension (BSP), which provides a flat-rate pension in retirement[1], and the additional state pension, under which employees (but not the self-employed) may add to the BSP by making extra contributions related to earnings in order to receive additional pension payments.

The additional state pension was first introduced as the state Graduated Retirement Benefit Scheme (GRAD) in 1961. It was replaced by the State Earnings-Related Pension Scheme (SERPS) in 1978 and by the State Second Pension (S2P) in 2002. S2P provides a more generous additional state pension for those on lower earnings than SERPS and extended coverage to people who care for others and those with a long-term illness or disability, provided that they had been in work for at least 10% of their working life (this last aspect was removed in 2010).

People are entitled to receive BSP on reaching State Pension Age (SPA), but they can defer receipt in return for higher weekly payments when they decide to draw their pension. The amount of BSP received depends on the number of qualifying years people have accrued (see the section **Qualification for Basic State Pension**). The amount of additional state pension that people receive, if any, depends on their earnings and contributions history.

The current contributory state pension system

In recent years, Parliament has enacted a number of pension reforms, including the Pensions Acts 1995, 2007, 2008 and 2011. Further changes which did not require legislation were announced by the Government in 2010. These changes have begun to transform the nature of state pension provision. This part of the chapter looks at the nature of these reforms and what they will mean for people retiring now and in future. The 2013/14 Pensions Bill, which includes a proposed single tier pension, received its second reading in the House of Lords in December 2013. The nature and potential impact of this bill is discussed at the end of the chapter (see the section **2013/14 Pensions Bill**).

The reforms which have already been enacted or announced cover a number of areas:

- equalising and raising State Pension Age (SPA);
- reducing the number of qualifying years for Basic State Pension (BSP);
- extending the system of carer credits for BSP and State Second Pension (S2P). This will be removed in 2016 if the 2013/14 Pensions Bill is enacted;
- changing the basis of uprating; and
- making S2P into a more flat-rate pension. This will also be removed in 2016 if the 2013/14 Pensions Bill is enacted.

The first key change is the equalisation and raising of SPA. The Pensions Act 1995 increased women's SPA from 60 to 65 between 2010 and 2020 so that, by 2020, women would be entitled to BSP and S2P from age 65 rather than 60. The Pensions Act 2007 provided for further changes, raising SPA for both men and women from 65 to 68 between 2024 and 2046. The Pensions Act 2011 accelerated the increases contained in the 1995 and 2007 Acts. Under the 2011 Act, women's SPA would rise to 65 by November 2018 and SPA for men and women would rise to 66 by October 2020[2]. The 2013/14 Pensions Bill and the Chancellor's 2013 Autumn Statement propose further increases in SPA and set out a framework within which SPA would be reviewed in future. They anticipate that an increase in SPA to 68, and, later, to 69, are likely to come forward as compared to estimates in previous legislation (see the section **2013/14 Pensions Bill**).

Measures affecting SPA have implications not only for receipt of state pensions, but also for benefits where entitlement is dependent on a person having attained SPA. The guarantee credit element of Pension Credit is linked to women's SPA, so as women's SPA rises the age at which both men and women can begin to claim guarantee credit is also rising.

The second key change, under the Pensions Act 2007, is the reduction in the number of qualifying years for BSP (see the section **Qualification for Basic State Pension (BSP)**). People reaching SPA from 6 April 2010 needed only 30 qualifying years to receive full BSP, and they no longer needed to have at least one quarter of the total to get any BSP (see the section **Basic State Pension and additional state pension**). The 2013/14 Pensions Bill proposes to increase the number of qualifying years to 35.

The third change, also from 6 April 2010, is to the mechanisms by which people who are not working but are caring for others can build up BSP. Home Responsibilities Protection (HRP) has been replaced with a new system of weekly 'carer credits' for parents, foster parents and people caring for severely disabled people, and people in these categories are able to build up entitlement to S2P through the same system of credits as for BSP. HRP built up under the old system (up to a maximum of 22 years) has been converted into credits under the new system.

Some of these changes make it easier for people with broken work histories to build up state pension entitlement. The rule that at least one year of the qualifying years must come from paying National Insurance (NI) contributions through working has also been abolished, so people who have never worked will be able to qualify. These changes mean that more people will qualify for a full BSP and, while it still exists, for S2P.

The fourth key change is that from April 2011 the link between BSP and earnings has been restored (see the section Basic State Pension and additional state pension). The 'triple lock' policy of the current Government now guarantees that BSP will be increased each year by average earnings growth, Consumer Price Index (CPI) inflation or 2.5%, whichever is highest. However, the additional state pension will continue to be uprated by prices, using the CPI instead of the Retail Price Index (RPI) from April 2011.

The final key change is the reform of the payments which people will receive though S2P. The Pensions Act 2007 provided for the earnings-related element of the additional state pension to be gradually withdrawn and replaced by a flat-rate accrual for each year of contributions and/or credits. This would be uprated by the general level of earnings growth during working life and by prices from pension age. This is not an entirely new measure. The change to a more flat-rate approach began with SERPS in the 1990s, and has been applied to S2P since 2002. The Pensions Act 2007 increased the pace of change and introduced a fixed flat-rate amount (the transition to the fixed flat rate amount would be complete by the 2030s).

However, this is likely to change as a result of the 2013/14 Pensions Bill, which proposes a single tier, flat-rate state pension set just above the standard guarantee credit level for Pension Credit, at £144 per week in 2012/13 prices. It would be accompanied by the ending of contracting out for defined benefit private pension schemes (see Pension Trends Glossary (198.9 Kb Pdf)). Contracting out has already ended for defined contribution private pensions from April 2012 (see the section **Basic State Pension and additional state pension**).

Notes for Contributory state pensions

1. Although the BSP is mainly contributory, there are two non-contributory elements: Category C and Category D. Category C is payable to people over State Pension Age (SPA) on 5 July 1948 and their widows. Category D is paid to people who reach age 80, satisfy certain residency conditions, and failed to qualify for a pension through their own or their spouse's National Insurance (NI) contributions, or receive less than the non-contributory rate of BSP.

2. Originally the Pensions Bill 2011 proposed to increase SPA to 66 by April 2020. In October 2011, the Government announced that the increase would be delayed by six months, to October 2020.

4 . Qualification for Basic State Pension (BSP)

From April 2010 onwards, to receive full BSP, people need 30 qualifying years (see section **The current contributory state pension system**). A qualifying year is one in which enough National Insurance (NI) contributions have been paid, normally though work. However, qualifying years may also be built up through credits (see the section **Credits and Home Responsibilities Protection (HRP)**). Where entitlement to contributory state pensions is based on payment of NI contributions, the following contribution categories apply:

- Class 1 contributions are mandatory for all employees, and are paid by both the employee and the employer as a percentage of a band of earnings. There is a partial rebate for members of certain Defined Benefit private pension schemes which are contracted out of the additional state pension. However, the Government abolished contracting out on a defined contribution basis from 6 April 2012. Contracting out for defined benefit schemes would also end with the planned introduction of the single tier pension;

- Class 2 contributions are payable by the self-employed and are flat rate. Self-employed people also pay Class 4 (profit-related) contributions; and

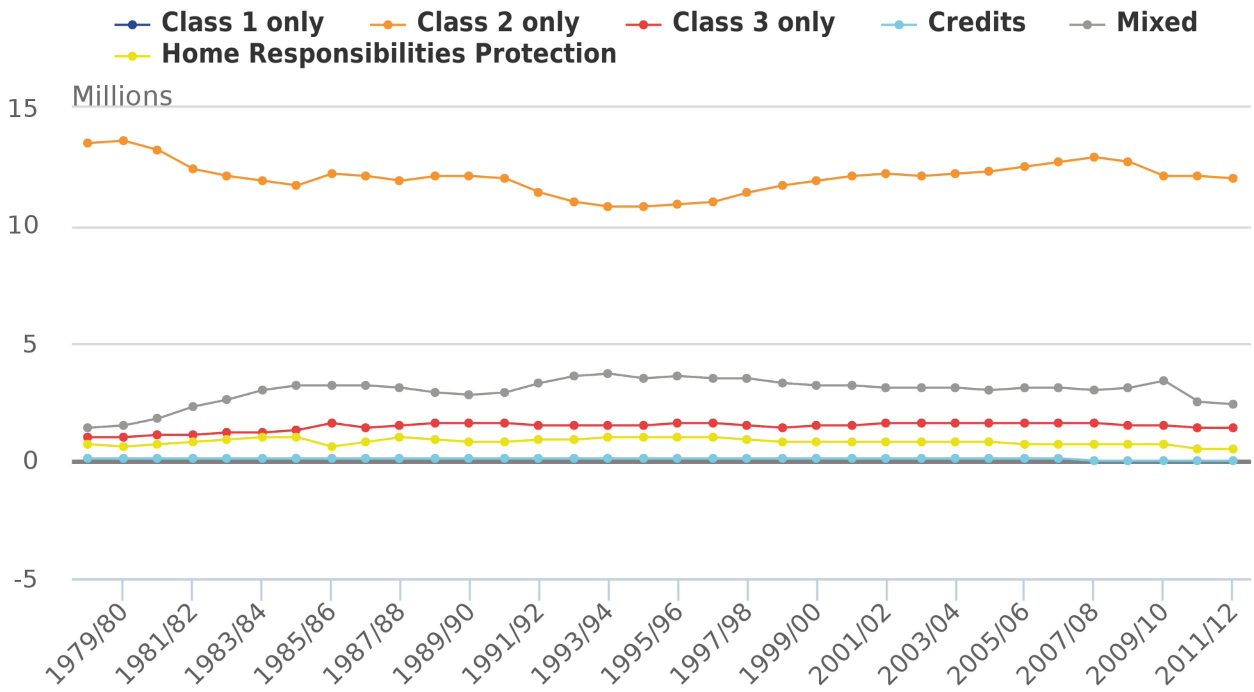
- Class 3 contributions are voluntary, and are often paid in cases where people have not built up a full contributory state pension entitlement through work.

Figure 5.1 shows that most men build up entitlement to contributory state pensions by paying Class 1 NI contributions. There were an estimated 12.0 million men paying ‘Class 1 only’ contributions in 2011/12, down from 12.9 million in 2007/08 and 13.5 million in 1978/79. However, this is higher than during the mid 1990s when there were under 11 million men paying only class 1 contributions. The number of men with NI credits has fallen over the recent years, from 3.4 million in 2009/10 to 2.4 million in 2011/12. This fall is partly explained by the removal of automatic credits being given to men and women for years containing their 16th, 17th and 18th birthdays, from April 2010.

The number with credits rose in the recession and industrial restructuring of the early 1980s, from 1.4 million in 1978/79 to 3.2 million in 1984/85.

Figure 5.1: Number of men accruing a contributing year: by type and contribution, 1978/79 to 2011/12

United Kingdom, millions



Source: Source: Department for Work and Pensions

Notes:

1. The figures for 2010/11 and 2011/12 are provisional. They may change as further information becomes available

2. Contributing year eligibility depends on currently enacted legislation. Therefore, historic figures in previous versions of this chart may be different than presented here

3. The 'Mixed' category represents combinations of credits and classes of National Insurance contributions

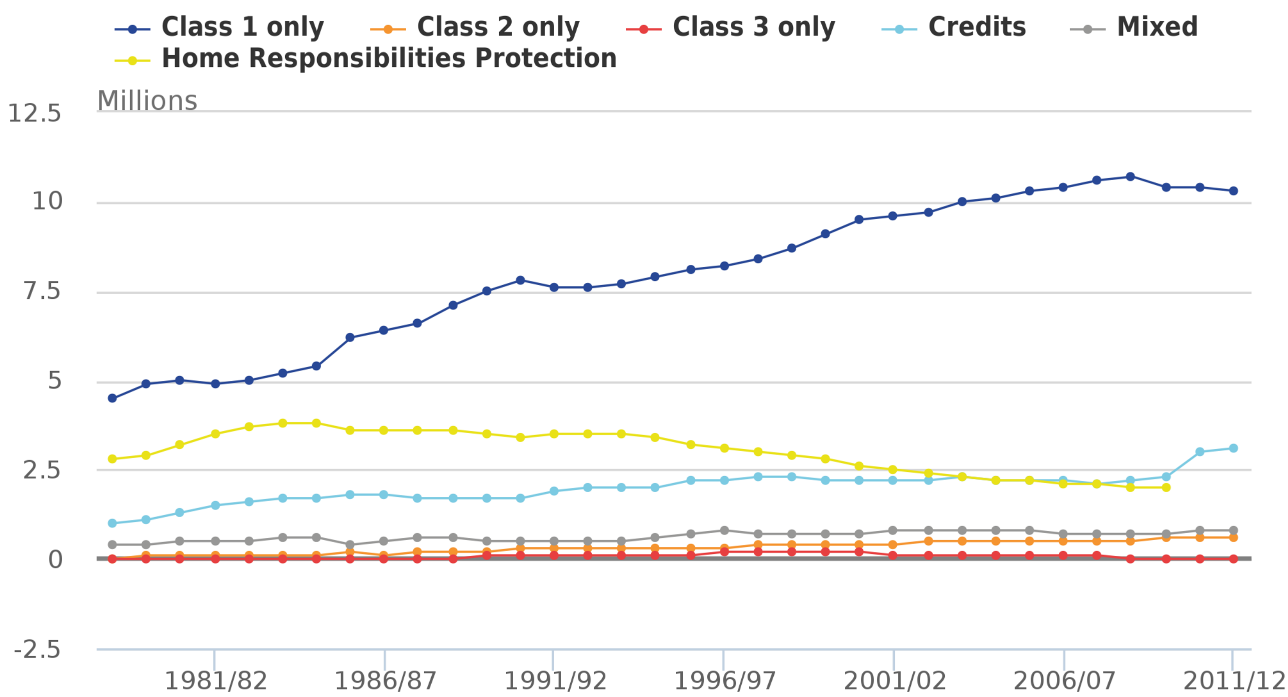
4. The data comes from DWP's Lifetime Labour Market Database 1% sample of the National Insurance Recording System

5. Home Responsibilities Protection (HRP) was replaced with weekly carer credits as of April 2010 (See Credits and Home Responsibilities Protection section)

For women (Figure 5.2), the main change over the last three decades has been a steady increase in numbers building up entitlement to contributory state pensions through Class 1 NI contributions, as women's participation in employment has increased and fewer women have been paying the 'married women's stamp' (see the section **Basic State Pension and additional state pension**). In 2008/09, there were an estimated 10.7 million women with 'Class 1 only' contributions, compared with 4.5 million in 1978/79. However, this has fallen away in recent years, to 10.3 million in 2011/12. Meanwhile, the number of women contributing via HRP has fallen over the past decade, from 2.9 million in 1998/99 to 2.0 million in 2008/09. HRP was replaced with weekly carer credits in April 2010. The increase in the number of women accruing a contributory year through credits, from 2.3 million in 2009 /10 to 3.1 million in 2011/12 may be partly explained by this.

Figure 5.2: Number of women accruing a contributing year: by type of contribution, 1978/79 to 2011/12

United Kingdom, millions



Source: Department for Work and Pensions

Notes:

1. The figures for 2010/11 and 2011/12 are provisional. They may change as further information becomes available

2. Contributing year eligibility depends on currently enacted legislation. Therefore, historic figures in previous versions of this chart may be different than presented here

3. The 'Mixed' category represents combinations of credits and classes of National Insurance contributions

4. The data comes from DWP's Lifetime Labour Market Database 1% sample of the National Insurance Recording System

5. Home Responsibilities Protection (HRP) was replaced with weekly carer credits as of April 2010 (See Credits and Home Responsibilities Protection section)

5 . Credits and Home Responsibilities Protection (HRP)

In April 2010, a new system of weekly 'carer credits' for the Basic State Pension (BSP) and the State Second Pension (S2P) was introduced for parents receiving Child Benefit for children up to age 12, foster parents and people caring for one or more severely disabled person for at least 20 hours a week. Grandparents caring for grandchildren up to age 12 were included from April 2011.

Credits for BSP are awarded to people who cannot work because of sickness or disability, people receiving Carer' s Allowance, Working Tax Credit, Statutory Maternity or Adoption Pay. They are also awarded to people who are unemployed and available for and actively seeking work, people on jury service, prisoners whose convictions have been quashed and people on an Approved Training Course.

The **Non-contributory state pensions and benefits** section gives details on further developments with Pension Credit, and how it will be affected by Universal Credit. Proposed reforms to Pension Credit are also outlined in the **2013/14 Pensions Bill** section.

6 . Basic State Pension and additional state pension

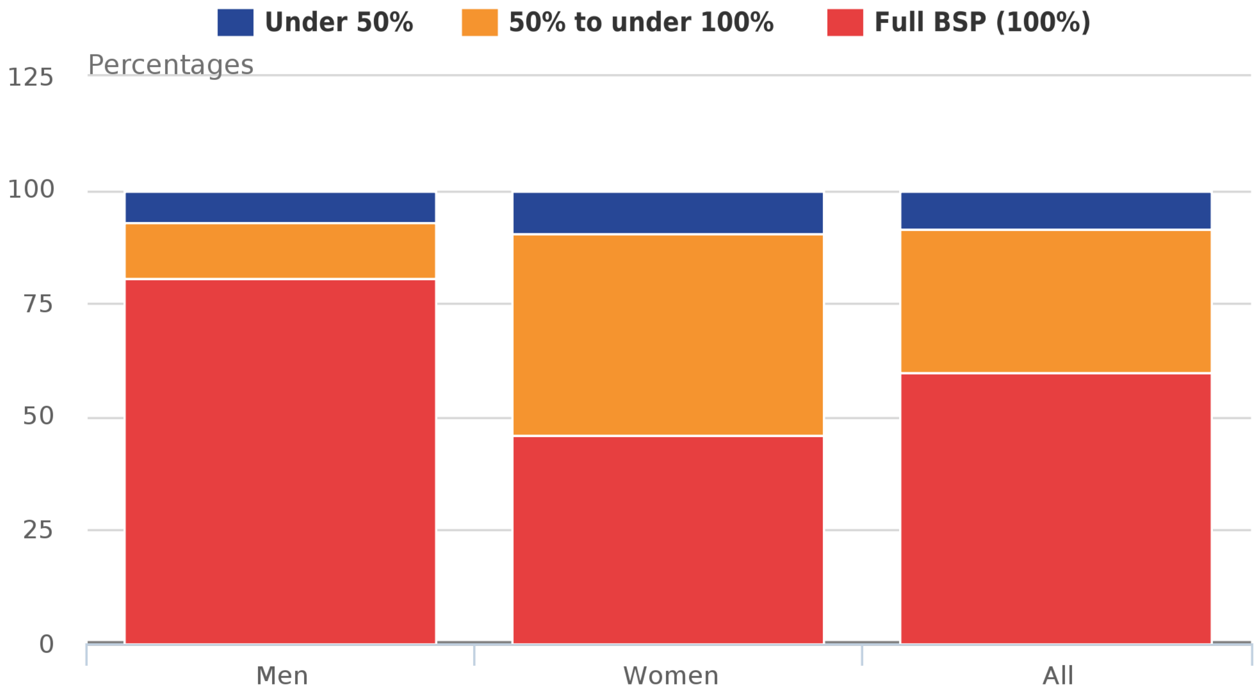
Full Basic State Pension (BSP) is worth £110.15 per week for a single man or woman in 2013/14. In order to qualify for the full amount of BSP, people reaching SPA from 6 April 2010 need to have 30 qualifying years (see sections **The current contributory state pension system and 2013/14 Pensions Bill**). If people have fewer qualifying years than is necessary to receive the full amount of BSP, they receive a partial payment of BSP in proportion to the number of qualifying years they have built up.

Until 6 April 2010, a man needed 44 qualifying years and a woman needed 39 qualifying years to receive full BSP, both men and women needed at least one-quarter of the full number of qualifying years to receive any BSP, and at least one year had to come from paid contributions rather than credits; but this is no longer the case. The changes from 6 April 2010 make it easier for most UK residents to build up full BSP entitlement. The statistics on state pensions thus reflect a system in transition, where many of the current outcomes relate to pensioners who retired under the old system.

Figure 5.3 shows that a larger proportion of women than of men received less than the full BSP in September 2012: only 46% of female pensioners received full BSP compared with 80% of male pensioners. Moreover, 10% of female pensioners received less than half of full BSP, compared with 7% of male pensioners. A higher percentage of women (44%) than men (12%) received more than half but less than the full amount of BSP. These proportions have changed little compared to the previous year. The difference between men and women is because many women in the current generation of pensioners failed to build up a full or near full BSP entitlement under the old system because of broken work histories and part-time work patterns [1]. In addition, some women claim BSP through their husbands rather than in their own right. In such circumstances, women receive approximately 60% of the husband's BSP (£66.60 if their husband receives full BSP in 2013/14) and no additional state pension. This group of women includes women who opted to pay the 'married women's stamp' (reduced rate National Insurance (NI) contributions) when in employment rather than building up their own entitlements. This may partly explain the higher proportion of women compared to men that received 50% to under 100% of BSP.

Figure 5.3: Proportion of pensioners on different percentages of Basic State Pension, September 2012

United Kingdom, percentages



Source: Department for Work and Pensions

Notes:

1. Includes overseas cases

2. The data comes from DWP's Work and Pensions Longitudinal Study (WPLS), 5% sample

Women have been unable to opt to pay the married women's stamp since April 1977, although they could continue to pay it if they had already chosen this option[2]. Until 6 April 2010, BSP payments to women who claimed through their husbands were conditional on the husband claiming his BSP first. This caused problems in cases of separation or divorce. As a result of the Pensions Act 2007, the condition was removed.

Table 5.4 shows that although 6.3 million women were receiving additional state pension in September 2012 compared with 4.6 million men, the mean amount received per week by women was £23 compared with £41 for men. Moreover, the median amount received by women was only £15, indicating that 50% of women received £15 or less per week in additional state pension. This is partly because, when the additional state pension was first introduced, it was assumed that it would be accrued mainly by men, and women would receive a share of the entitlement after their husband's death. Women who have reached SPA more recently, more of whom have built up entitlement to additional state pension in their own right through employment, have higher levels of entitlement than previous cohorts of women.

The amounts of additional state pension shown in Table 5.4 are on a 'net' basis, representing payments received directly from the state. Where people have belonged to private pensions which are contracted out (see Pension Trends Glossary (198.9 Kb Pdf)) of the additional state pension, they forego their direct entitlement to the additional state pension, but generally increase their private pension entitlement.

From April 2012, there should be an increase in the number of employees building up entitlement to the additional state pension because the option to contract out of the additional state pension on a defined contribution basis was abolished. Contracting out for defined benefit schemes would also end with the planned introduction of the single tier pension.

Table 5.4: Additional state pension: numbers receiving and average amounts, September 2012

Great Britain

	Men	Women	All
Numbers receiving (millions)	4.6	6.3	10.9
Mean amount (£ per week, net)	41	23	30
Median amount (£ per week, net)	32	15	22

Source: Department for Work and Pensions

Notes:

1. Additional state pension includes GRAD, SERPS and S2P

2. Numbers receiving excludes overseas cases (around 1 million)

3. Net amounts represent only those amounts paid directly by the state. They exclude amounts equivalent to the additional state pension paid from contracted out private pension schemes

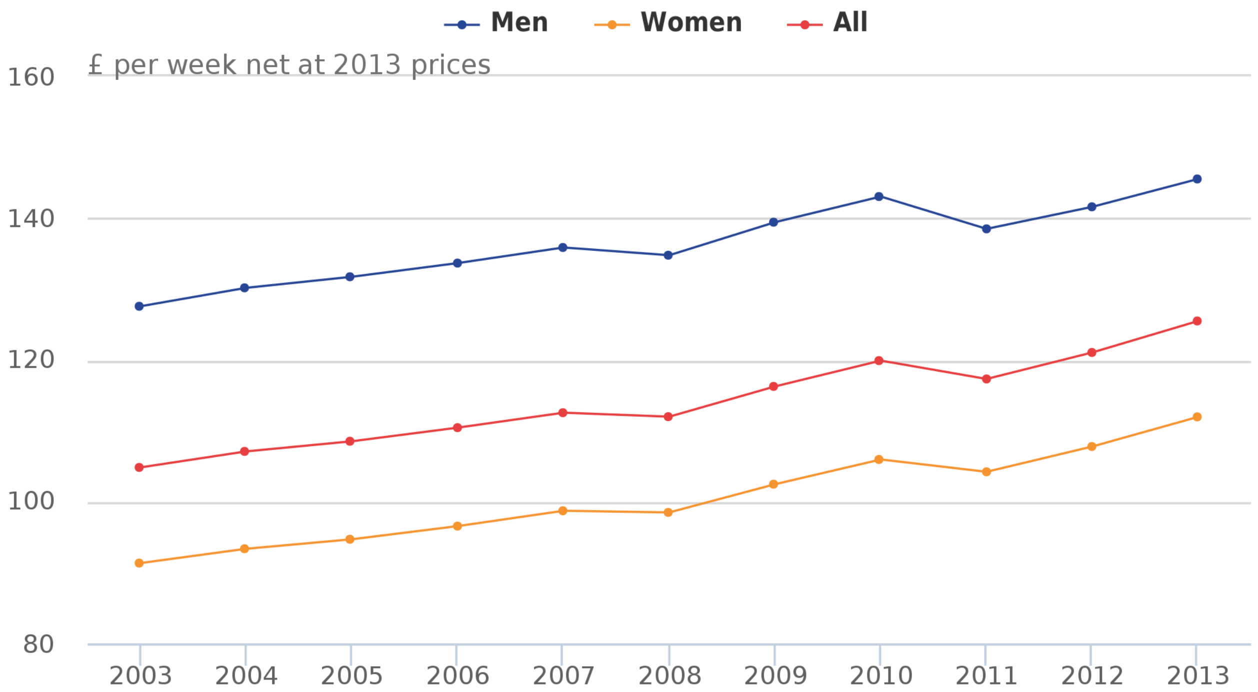
4. The data comes from DWP, Information Directorate

Figure 5.5 shows the average income received from state pension (basic state pension and the additional state pension) from 2003 to 2013. In 2013, men in Great Britain received a higher level of pension payments from the state compared to women. On average, in 2013, state pension payments to men were £145.52 per week and to women £111.95 per week (not including payments made to pensioners that were contracted out of the additional state pension).

The figure, in constant 2013 prices, shows that average net income received from state pension has increased over the period from 2003 to 2013 at a faster rate than Consumer Price Index (CPI) inflation. This real increase is calculated by deflating the nominal increase by the CPI. Average net income received from the state pension increased by an estimated 14% for men and 23% for women in real terms over this period.

Figure 5.5: Mean income from state pensions, 2003 to 2013

Great Britain, £ per week net at 2013 prices



Source: Department for Work and Pensions

Notes:

1. State pensions comprise Basic State Pension and additional state pension, which includes GRAD, SERPS and S2P.

2. Net amounts represent only those amounts paid directly by the state. They exclude amounts equivalent to the additional state pension paid from contracted out private pension schemes

3. Great Britain only, excludes overseas cases

4. The 2013 constant price series is calculated using the Consumer Price Index (CPI)

5. This data is also available in cash or earnings (annual earnings growth) terms within the download accompanying this figure

6. The data comes from DWP's Work and Pensions Longitudinal Study, February of each year

In recent years, a key area of debate in relation to state pensions has been whether they should be increased each year in line with prices or in line with earnings. From the early 1980s until 2011/12, the BSP was uprated in line with prices using the Retail Prices Index (RPI). Although this protected it from inflation, the income that pensioners received from BSP fell behind that of working age people, as the earnings of working age people tended to increase faster than inflation. However, inflation in the UK has exceeded the growth in average earnings in recent years.

The Pensions Act 2007 reintroduced the link between BSP and earnings, to be implemented by 2015 at the latest. In 2010 the Government introduced the 'triple lock' policy guaranteeing that BSP will be increased each year by average earnings growth, inflation or 2.5%, whichever is higher. From 2012/13, for any increases based on inflation, the Consumer Prices Index (CPI) would be used instead of RPI. As both inflation and earnings growth were below 2.5% for the year to September 2012, the 2013/14 BSP increase will be 2.5%. The 2012/13 BSP increase was 5.2%, in line with September 2011 CPI inflation. CPI is also used from 2012/13 instead of RPI to adjust the additional state pension, where uprating remains based on prices.

Although recent changes have somewhat simplified the system of entitlement to state pensions, the two tier approach – involving a combination of BSP and additional state pension – remains difficult for most people to understand. As a result, the 2013/14 Pensions Bill proposes the introduction of a single tier, flat-rate state pension to provide a firm foundation for individuals to plan for their own retirement (see sections **The current contributory state pension system and 2013/14 Pensions Bill**).

Notes for Basic State Pension and additional state pension

1. First Report of the Pensions Commission (2004)

2. In 2011/12, the latest year for which figures are available from DWP, around 3,000 women were paying reduced rate contributions. This figure is not a National Statistic.

7 . Non-contributory state pensions and benefits

The non-contributory Pension Credit[1] was introduced in October 2003 to replace the Minimum Income Guarantee (MIG) for those aged 60 and over, which had been in place since April 1999. Pension Credit is currently made up of two elements: a guarantee credit element which is designed to provide a minimum level of income for pensioners, and a savings credit element, intended to provide an additional amount for pensioners with low or modest incomes to reward private saving. The age for starting to receive guarantee credit is linked to women's State Pension Age (SPA), which was age 60 until 5 April 2010 but is now rising (see section **The current contributory state pension system**). Savings credit is for those aged 65 and over[2]. In the 2013/14 Pensions Bill, the savings credit element of State Pension Credit is abolished for those who reach pensionable age on or after the introduction of the single tier pension.

In 2013/14, the standard guarantee credit level was £145.40 per week for a single person and £222.05 per week for a couple (two people living together). These amounts are known as the standard minimum guarantee because they aim to ensure that all pensioners have access to at least this minimum level of income. In addition to the standard minimum guarantee, a carer may get an extra £33.30 per week and a disabled person may get an extra £59.50 per week added to increase the guarantee credit level. Help with mortgage interest payments or other housing costs not covered by Housing Benefit, may also be provided. The standard minimum guarantee is uprated in line with earnings, The additional amounts for caring and disability are uprated in line with prices [3].

Pension Credit is a tax free income related benefit for those people who are over the qualifying age and live in Great Britain. It is non-contributory: to claim it, there is no requirement that a person must have made National Insurance (NI) contributions (or earned credits). However, the guarantee credit element is means tested, in order to qualify, the pensioner's income is assessed and guarantee credit is paid if income is below a certain level. This may provide a disincentive to low earners to build up private pensions or other savings for their retirement because, if they are assessed for guarantee credit when they retire, income from such savings may count against them. The Pension Credit system attempts to offset this disincentive effect by including the savings credit element, which rewards people over 65 for their savings with payments of up to £18.06 per week for a single person and £22.89 per week for a couple (2013/14). Savings credit accrues on income above a certain level and changes to this level are normally approved by Parliament on a year-to-year basis.

Figure 5.6 shows numbers of Pension Credit beneficiaries in Great Britain in February 2013, by type of claim: guarantee credit only, both guarantee and savings credit, and savings credit only. Single women were the largest group of pensioners receiving guarantee credit, with a total of 1.1 million recipients: 0.6 million on guarantee credit only, and 0.5 million on both guarantee credit and savings credit.

Figure 5.6: Pension Credit beneficiaries: by type of claim, February 2013

Great Britain, thousands

Source: Department for Work and Pensions

Notes:

1. Beneficiaries may include people under 60 years old. Under present legislation, Pension Credit may be claimed provided at least one partner is over Pension Credit qualifying age

2. In the 2011 edition of Pension Trends Chapter 5: State pensions, this figure was presented based on the number of claimants rather than the number of beneficiaries. This affects the section of the chart labelled "Couples". On a claimants basis, "Couples" would refer to the total number of couples only. On a beneficiaries basis, "Couples" refers to the total number of people, male or female, with partners. The figure is available presented on either a claimant or beneficiary basis in the download accompanying this figure

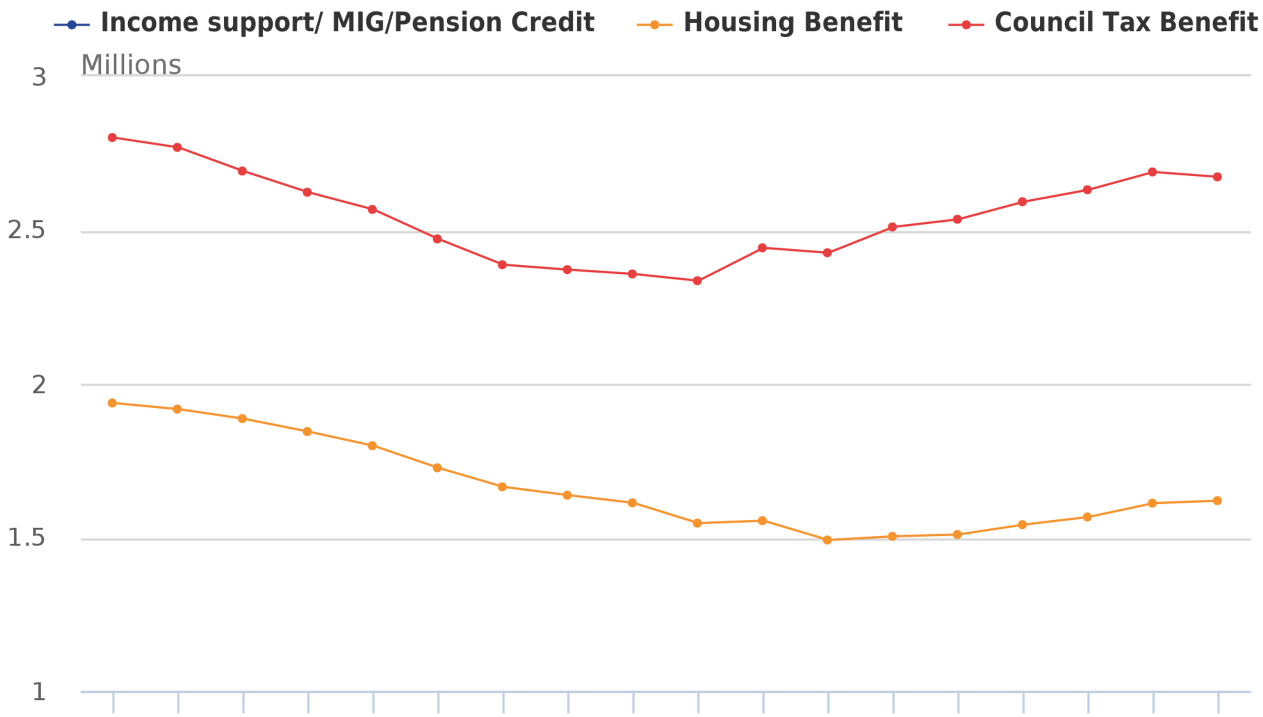
In addition to Pension Credit, there are two other important non-contributory (income-related) benefits for pensioners: Housing Benefit and a new localised Council Tax support system. These are designed to cover rental and council tax costs, which often represent a large part of the budget of pensioners on low incomes (see Pension Trends Chapter 11).Those pensioners who are in receipt of the guarantee credit element of Pension Credit are entitled to receive maximum Housing Benefit; those not in receipt of guarantee credit may still get help depending on their income and capital. Council Tax Benefit was abolished in April 2013 and replaced with local, and in the case of Wales and Scotland, national, reduction schemes, subject to the criteria set by the relevant local authority. Across Great Britain pensioners have been protected from any changes and remain subject to the previous national rules[4].

However, the introduction of the Universal Credit system, which is being gradually introduced from April 2013 will lead to a number of changes in the structure of Pension Credit. Eligibility for Pension Credit will, in future, be changed so that couples will only be able to make a new claim for Pension Credit if both partners are over the Pension Credit qualifying age. For those couples where one is under the qualifying age they will only be able to claim Universal Credit. However, if people in this situation are already receiving Pension Credit when the change is introduced, then receipt of Pension Credit may continue unless they cease to be eligible for Pension Credit. They would not be able to reapply unless both members had reached the Pension Credit qualifying age. The guarantee credit is also due to change to introduce a new additional amount for dependent children, to mirror provisions available through Universal Credit. At this stage an implementation date for both these changes has not been set. Housing Benefit for those over Pension Credit qualifying age will continue for the time being until at least 2017.

Figure 5.7 shows that when the Minimum Income Guarantee (MIG) was replaced with Pension Credit in 2003, there was a sharp increase in people aged 60 and over in Great Britain receiving this type of benefit. However, the number of people receiving Pension Credit has slightly decreased recently, from 3.3 million in 2009/10 to 3.2 million in 2011/12. There was an increase in the numbers claiming Council Tax Benefit from 2.3 million in 2003/04 to 2.7 million in 2011/12, although this represents a fall in the numbers since the early 1990s. By contrast, the numbers of people aged 60 and over in receipt of Housing Benefit declined steadily from 1.9 million in 1994/95 to 1.5 million in 2005/06. Since then, the numbers have increased slightly, to 1.6 million in 2011/12.

Figure 5.7: Beneficiaries of income-related benefits aged 60 and over, 1994/95 to 2011/12

Great Britain



Source: Department for Work and Pensions.

Notes:

1. Pension Credit was introduced in October 2003. Before this, the main income-related benefits for people over 60 were income support and the Minimum Income Guarantee (MIG).

2. Numbers cannot be added together to produce totals, as many individuals receive more than one benefit.

3. Housing Benefit figures for 2007/08 and 2008/09 are estimated.

4. Financial year totals are calculated as the average of the monthly or quarterly totals published by DWP relating to that financial year.

5. Beneficiaries may include some people under 60 years old. Income-related benefits may be claimed as a couple. Where either partner of a couple is aged 60 or over, both partners have been included within the totals shown.

Notes for non-contributory state pensions and benefits

1. The Department for Work and Pensions (DWP) classifies Pension Credit as an Income Related Benefit for pensioners. This is different to a non-contributory pension, such as a Category D State Pension (see the section **Contributory state pensions**).

2. At least one member of a couple must have reached, or be above, the Pension Credit qualifying age (linked to women's SPA) for them to be able to claim guarantee credit. At least one member of the couple must be 65 or over for them to be eligible for savings credit.

3. When introduced in 2003, uprating of the standard minimum guarantee was discretionary but a commitment was given to uprate it in line with earnings. The Pensions Act 2007 introduced a statutory requirement that the standard minimum guarantee would be uprated at least in line with earnings from 2008. In April 2013, it was increased at a rate of 1.9%, which was higher than the relevant earnings rate of 1.6%. This was to ensure that the poorest pensioners (those in receipt of guarantee credit only) benefited from the same cash increase as the Basic State Pension, paying for this by reducing the value of the savings credit.

4. The amount of Housing Benefit/Council Tax Benefit which is awarded may not cover the full rent/council tax liability. This can be for a variety of reasons, for example where the amount of the rent which the legislation says can be covered by Housing Benefit is not the same as the full rent charge. Also, eligible rent can be reduced to reflect the presence of non-dependent adults in the household, who are expected to make a contribution towards household costs.

8 . 2013/14 Pensions Bill

The 2013/14 Pensions Bill[1], which received its second reading in the House of Lords on 3 December 2013, builds upon reforms in previous Pensions Acts, and covers two key areas:

- replacement of the current two tier state pension with a single tier state pension; and
- bringing forward previously proposed increases in State Pension Age (SPA).

The first key change is the proposal to replace the two tier state pension system – Basic State Pension (BSP) plus additional state pension – with a single tier, flat-rate state pension with effect from 6 April 2016. The proposed rate of the single tier pension would be set just above the current standard guarantee credit level for Pension Credit at £144 per week for a single pensioner in 2012/13 terms and would be uprated each year at least in line with earnings.

This change to a single tier pension would apply only to people reaching SPA from 6 April 2016. Current pensioners and those reaching SPA before the introduction date would not be affected and would continue to receive their State Pension based on existing rules. In order to receive the full amount of single tier pension, 35 qualifying years of National Insurance (NI) contributions, or equivalent credits, would be required. People would need to have contributed a minimum of 10 qualifying years to receive any single tier state pension. Those with fewer than 35 qualifying years, but more than the minimum, would receive an amount proportional to the amount of qualifying years they had contributed. The single tier pension would be based on individual qualification, without the facility to inherit entitlement from a spouse or civil partner. A number of transitional protection arrangements would be put in place with accrued rights to the state pension built up under the old system continuing to be recognised under the new single tier system.

The second key change is the proposal to bring forward the date of increase in SPA to 67. Under the 2013/14 Pensions Bill, SPA would gradually rise from 66 to 67 between 2026 and 2028, eight years sooner than under the currently effective legislation of the Pensions Act 2007. The Chancellor’s 2013 Autumn Statement proposes that SPA will be reviewed on a five yearly basis, with the next review of SPA taking place before May 2017. The guiding principles of such reviews are that people should spend less than a third of their lives in retirement and that, on average, all people should spend a similar proportion of their lives receiving State Pension. Future increases in SPA would be based on life expectancy figures at the time of the reviews. The Chancellor's 2013 Autumn Statement anticipates that an increase in SPA to 68, and, later, to 69, are likely to come forward as compared to estimates in previous legislation.

Other 2013/14 Pensions Bill proposals relating to state pension include a change to Pension Credit. The means-tested savings credit element of Pension Credit would close to pensioners who reached SPA after the single tier pension was introduced. The guarantee credit element of Pension Credit would be unaffected by this Bill.

Notes for 2013/14 Pensions Bill

1. For further information, see:

- Department for Work and Pensions, A state pension for the 21st century, April 2011 (Green Paper on state pension reform).
- Department for Work and Pensions, The single tier pension: A simple foundation for saving, January 2013 (White Paper on state pension reform).
- Pensions Bill 2013-14.
- Department for Work and Pensions, Enabling and encouraging saving: The evidence around pension reform and saving, February 2013.

9 . The cost of state pensions

The final part of this chapter looks at expenditure on state pensions. Table 5.8 projects public expenditure on state pensions and other pensioner related benefits on the basis of current policy and the measures contained in the Pensions Act 2011. It also includes a row containing the flat-rate, single tier pension which is outlined in the 2013/14 Pension Bill. Table 5.8 shows that total expenditure is projected to rise from 7.1% of Gross Domestic Product (GDP) in 2012/13 to 9.4% in 2062/63. These estimates were produced prior to the Chancellor’s 2013 Autumn Statement.

Table 5.8 also shows the projected expenditure on the Basic State Pension (BSP), State Earnings Related Pension Scheme (SERPS) and State Second Pension (S2P) diminishing as the proposed single tier pension is introduced. By 2062/63, the expenditure on these components is projected to decrease to £1 billion from £79 billion in 2012/13 if the reforms are enacted. The single tier pension element, with a proposed start in 2016, is projected to increase from £4 billion to £421 billion (0.3% to 8.1% of GDP) between 2017/18 and 2062/63. Table 5.8 uses the Office for Budget Responsibility (OBR)'s preferred assumption which is that disability benefits and Winter Fuel Payments will be uprated in line with growth in earnings.

Expenditure on Housing Benefit and Disability Living Allowance, Personal Independence and Attendance Allowance as a whole is projected to rise from £17 billion in 2012/13 to £54 billion in 2062/63. However, as a percentage of GDP, these total projected benefits change little over the same period, staying at around 1%.

Table 5.8: Projected expenditure on state pensions and related benefits, 2012/13 to 2062/63

	2012 /13	2017 /18	2022 /23	2032 /33	2042 /43	2052 /53	2062 /63
£ billion, 2013/14 prices							
Basic State Pension	63	67	63	45	21	4	1
SERPS and State Second Pension	16	19	16	11	5	1	0
Single Tier Pension	0	4	26	104	208	298	421
Other elements of State Pension	3	3	2	1	0	0	0
Pension Credit	8	6	5	4	3	2	3
Other pension benefits	3	3	3	5	7	10	13
Total state pensions	94	102	116	170	245	315	438
Housing Benefit	6	6	6	8	11	11	13
Disability Living Allowance, Personal Independence Payments and Attendance Allowance	11	10	12	17	24	31	41
Total state pensions and pensioner benefits	110	118	134	194	280	358	491
As % of GDP							
Basic State Pension	4.1	3.8	3.1	1.8	0.7	0.1	0.0
SERPS and State Second Pension	1.0	1.1	0.8	0.4	0.1	0.0	0.0
Single Tier Pension	0.0	0.3	1.3	4.1	6.4	7.2	8.1
Other elements of State Pension	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Pension Credit	0.5	0.4	0.2	0.1	0.1	0.1	0.1
Other pension benefits	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total state pensions	6.0	5.8	5.8	6.6	7.5	7.6	8.4
Housing Benefit	0.4	0.3	0.3	0.3	0.3	0.3	0.2
Disability Living Allowance, Personal Independence Payments and Attendance Allowance	0.7	0.6	0.6	0.7	0.7	0.8	0.8
Total state pensions and pensioner benefits	7.1	6.8	6.7	7.6	8.6	8.7	9.4

Source: Department for Work and Pensions

Notes:

1. Figures cover expenditure in the United Kingdom and overseas, unlike medium-term forecasts on the DWP website, which exclude Northern Ireland

2. Projections are based on the Office for Budget Responsibility's (OBR) Fiscal Sustainability Report. Tables are presented using two alternative assumptions for uprating of disability benefits and Winter Fuel Payments. This table uses the OBR's preferred assumption which is that these payments will be uprated in line with growth in earnings

3. Basic State Pension and Single Tier Pension are uprated using the 'triple lock' (highest of average earnings increases, CPI inflation or 2.5%)

4. Additional Pension is uprated in line with CPI in payment

5. Figures to 2017/18 are consistent with Budget 2013 forecasts

6. Long-term economic assumptions are as determined by the Office for Budget Responsibility, and detailed in their Fiscal Sustainability Report 2013. In the medium-term these are the same as for Budget 2013 forecasts

7. Totals may not sum, due to rounding

8. Figures include impacts of a Single Tier State Pension from April 2016

9. State Pension Age is assumed equalise at 65 by November 2018, with the Pension Credit and Winter Fuel Payment qualifying ages rising in line. State Pension age reaches 66 by October 2020, 67 between 2026 and 2028, and 68 between 2044 and 2046; qualifying ages for Pension Credit, Winter Fuel Payments, Disability Living Allowance and Attendance Allowance rise in line

10. These estimates were produced prior to the Chancellor's 2013 Autumn Statement

10. References

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20. Pensions Policy Institute (2013): The impact of the government's single tier state pension reform, June 2013.

11. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

   These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.

Compendium

Chapter 6: Private Pensions, 2013 Edition

This chapter looks at private pensions in the UK. By contrast with state pensions (see Pension Trends Chapter 5) which are comprised of the basic and additional state pensions, private pensions are provided by employers in the private and public sectors and by insurance companies. The analysis presented here focuses on private pensions in the 'accumulation' stage, when people are building up their pensions. Receipt of state and private pensions is covered in Pension Trends Chapters 11 and 12.

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Notice

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This publication has been discontinued. The last edition to be published was 28 November 2014.

Table of contents

1 . Background

This chapter considers some of the key features of the private pensions system, such as differences between funded and unfunded pensions and between Defined Contribution (DC) and Defined Benefit (DB) pensions. It also presents evidence on how the characteristics of the system are changing over time, and indicates what this may mean for the future of the private pension system.

It observes that the comparison between the public and private sector is more complex than is apparent at first sight. The evidence suggests that the differences are associated with underlying factors, such as size of both pension scheme and employer, and with approaches to management of risk.

Previous editions of this chapter contained data from the Organisation for Economic Co-operation and Development (OECD) that compared the private pension system in the UK with other countries. However, at the time of publication, updates for this information were not available. Therefore, the data presented within the previous versions of this article have not been included in this new edition. Also, the data used in this chapter is prior to the workplace pension reforms introduced in the Pensions Act 2008, which began in October 2012. More details about this can be found within the section entitled Workplace pension reform.

Data sources

The various data sources used in this chapter have different coverage and characteristics. The analyses use the source that is most appropriate for the topic, but this inevitably means that there are differences in the types of pension covered and in the population base between one analysis and another.

The main sources used are:

- the Office for National Statistics (ONS) Occupational Pension Schemes Survey (OPSS), for estimating numbers of active members of occupational pension schemes and deferred member entitlements;
- the Department for Work and Pensions (DWP) Family Resources Survey (FRS) for estimating proportions of populations that belong to a pension; and
- the ONS Annual Survey of Hours and Earnings (ASHE), for providing breakdowns of employee membership according to pension type and other characteristics.

2 . Participation in private pensions

People in the UK are encouraged to participate in private pension schemes in order to supplement the retirement income provided through the state pension system. Pension Trends Chapter 7 provides estimates of membership of private pension schemes in the UK during the ‘accumulation’ stage, while Pension Trends Chapter 12 covers private pension income received in retirement. In 2010/11, 70% of pensioner units [1] in Great Britain were in receipt of private pensions.

Voluntary private pension provision in the UK is encouraged by Government through the tax system [2] and, most recently, through the implementation of auto-enrolment. Further details on auto-enrolment can be found in the **Workplace pension reform** section of this article. Individuals’ contributions to private pensions qualify for tax relief, as do the investment income and capital gains of pension funds. Many people can also take part of their pension as a tax-free lump sum when they retire [3]. In addition, contributions employers make towards their employees’ private pensions are free from both employer and employee National Insurance.

Notes for Participation in private pensions

1. Estimate from the Department for Work and Pensions '[Pensioners' Income Series]'.

   Pensioner units are defined as either:

   - single pensioners: people over state pension age (65 for men and over 60 but under 61 for women in 2010/11); or
   - pensioner couples: married or cohabiting pensioners where one or more are over state pension age.

2. The tax structure of the UK pension system is known as 'Exempt-Exempt-Taxed' (EET) because contributions and earnings from investment are tax exempt, but pensions in payment are taxed.

3. People belonging to defined contribution pension schemes (see **Definitions**) can take up to 25% of their accumulated pension pot as a tax-free lump sum. Those belonging to Defined Benefit schemes (see **Definitions**) can take part of their pension as a tax-free lump sum if their scheme rules permit.

3 . Definitions

Occupational pensions

An occupational scheme is an arrangement, other than accident or permanent health insurance, organised by an employer or on behalf of a group of employers to provide benefits for employees on their retirement and for their dependants on their death. It is a form of workplace pension. In the private sector, occupational schemes have trustees and are governed by trust law.

Total membership comprises:

- Active members. Current employees who contribute (or have contributions made on their behalf) to the pension scheme;
- Deferred members. Former employees who have preserved their pension rights within a scheme but are not yet receiving pension payments, and widows, widowers, other dependents and pension credit [1] members with some preserved pension; and
- Pensioner members. Those who are receiving pension payments from their scheme, and their dependents and pension credit members.

An occupational pension scheme may be open, closed, frozen or winding up. An open scheme admits new members. A closed scheme does not admit new members but may continue to receive contributions from, or on behalf of, existing members who continue to accrue pension rights. In a frozen or 'paid up' scheme, benefits continue to be payable to existing members but no new members are admitted, and no further benefits accrue to existing members. Members can make no more contributions but further employer contributions may be made, and may have to be made, for example to correct a deficit. A scheme that is winding up is in the process of termination, either by buying annuities for the beneficiaries or by transferring assets and liabilities to another scheme or to the Pension Protection Fund [2].

Personal pensions

Personal pensions are available to any UK resident under 75 years of age. They are contract-based, not trust-based. The money from each member's contributions is invested and a fund is built up. The amount of pension payable in retirement depends on:

- the amount of money paid into the scheme,
- how well the investment performs,
- whether an annuity is purchased, which uses a factor to convert the member's fund into a pension, at or after retirement, and
- whether any lump sums are taken.

Stakeholder pensions are a type of personal pension designed to incorporate a minimum set of standards that were introduced in April 2001. They have capped management charges and there are no penalties for stopping contributions or transferring benefits to another scheme.

Self-invested personal pensions (SIPPs) are designed for people who want to manage their own fund. They have relatively high management charges and the more changes that are made to the investment plan, the higher the level of fees charged. On the 6th of April 2006 (known as 'A-day'), the rules surrounding SIPPs were changed to encourage investment in them.

Group personal pensions (GPPs), group stakeholder pensions and group SIPPs are collective arrangements made for the employees of a particular employer to participate on a group basis. They are usually facilitated by employers and are, therefore, a form of workplace pension. However, the legal contract is between the individual and the pension provider, an insurance company.

DB and DC pensions

Defined benefit (DB) pension schemes are those in which the rules specify the rate of benefits to be paid. One of the most common DB schemes is one in which the benefits are based on the number of years of pensionable service, the accrual rate and final salary. However, Career Average Revalued Earnings (CARE) schemes are becoming more common. While people remain within these schemes, pension benefits are based upon their earnings over this part of their career. More information about this can be found within Table 5.7 of the Office for National Statistics' (ONS) annual report on the Occupational Pension Schemes Survey (OPSS) .

A Defined Contribution (DC) pension is one in which the benefits are determined by the contributions paid into the scheme, the investment return on those contributions (less charges), and any annuity that is purchased. DC pensions are also known as money purchase pensions. All personal pensions are DC pensions.

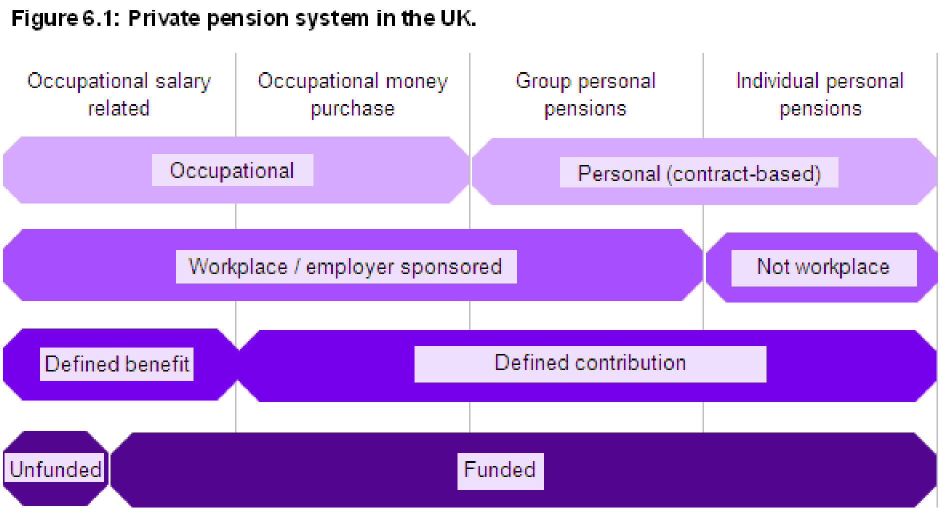
Notes for Definitions

1. Pension credit in this case refers to instances where the spouse of a pension scheme member is given a credit in respect of any pension benefits arising on divorce.
2. The Pension Protection Fund was established in April 2005 to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

4 . Structure of the private pension system

In the UK, private pension schemes can be split into two main groups: occupational and personal (Figure 6.1).

Figure 6.1: Private pension system in the UK



Source: Pensions Commissions 2004

Occupational pensions are provided by employers (see **Definitions**). According to the Office for National Statistics' Occupational Pension Schemes Survey (OPSS), there were 6.2 million active members of occupational pension schemes in 1953. The highest number of active members was recorded in 1967, when there were 12.2 million. In 2011 there were 8.2 million active members, the lowest level since the 1950s.

Personal pensions, including stakeholder pensions and self-invested personal pensions (SIPPs), are those where individuals enter into a contract with a pension provider, usually an insurance company. According to data from HM Revenue and Customs (HMRC), the recent trend in the number of individuals contributing to personal pensions has been downwards. It fell from 7.6 million in 2007/08 to 6.0 million in 2009/10 and fell again in 2010 /11 to 5.7 million .

Workplace pensions comprise:

- occupational pensions (provided by employers), and
- Group Personal Pensions (GPPs), group stakeholder pensions, and group SIPPs (all facilitated by employers).

From October 2012, in a phased implementation based on the employer size, employees have started to be automatically enrolled into workplace pension schemes (see **Workplace pension reform**).

Figure 6.1 shows that occupational schemes can be divided into Defined Benefit (DB) and Defined Contribution (DC) schemes (see **Definitions**). All personal pensions are DC. The private sector has a mixture of DB and DC pensions, while public sector schemes are mainly DB.

Figure 6.1 also shows that private pensions can be classified according to the funding approach taken: funded or unfunded (this is explained further in the Pension Trends Glossary (198.9 Kb Pdf)). 'Funded' consists of private sector occupational pension schemes, individual and employer-sponsored personal pensions and some occupational schemes in the public sector, the largest of which is the Local Government Pension Scheme (LGPS) for local authority employees.

'Unfunded' or 'pay as you go' pension schemes are found in the public sector. The main unfunded pension schemes are for the Civil Service, the Armed Forces, the National Health Service, teachers, police and firefighters. The benefits of unfunded public service schemes are financed from general taxation and employee contributions.

5 . Options at retirement

There are a number of options available to people with DC pensions (occupational and personal) at retirement. Most DC members opt to purchase annuities with their funds. Many also take part of their pension fund as a tax-free lump sum (up to 25% of a DC pension fund can be taken in this way). Tax-free lump sums are also available for Defined Benefit (DB) schemes. Further information about the provision of a tax-free lump sum upon retirement is available on the HM Revenue and Customs (HMRC) website.

Annuities are a financial instrument, provided by an insurance company, that pay a guaranteed annual income to the holder for the rest of their life. Insurance companies are able to offer this by 'pooling' the mortality risks associated with individual annuity holders.

The amount of the annuity offered at retirement will depend on a combination of different factors and these include the size of the individual's fund, the annuity rate used and the type of annuity chosen. There are further details about annuities, including features such as enhanced rates, available on The Money Advice Service's website. There are many different types of annuity that can be purchased at retirement, and these include:

- Level annuities that provide the same level of payments for the whole of retirement. Their real value is eroded over time by inflation;
- Index-linked annuities that provide payments which rise over time in line with some measure of inflation. However, the initial payments will be lower than for a level annuity; and
- Escalating annuities with payments rising over time by a fixed amount every year. Again, the starting point will be lower than for a level annuity.

Until 5 April 2011, unsecured pensions were an alternative to buying an annuity before age 75. In this case, the fund remained invested and may have continued to grow. Members could take an income from the fund either by using income withdrawal, or by using a 'short-term annuity'. However, unsecured pensions could not be continued beyond age 75, when the member had to secure an income by buying an annuity or an Alternatively Secured Pension (ASP). ASPs were introduced in April 2006. They were a more restricted form of income drawdown for those aged over 75 who chose not to buy an annuity.

From 6 April 2011, however, the income restrictions applying to income drawdown arrangements from age 75, which effectively required people with DC pensions to buy an annuity by age 75, were removed. At any time from age 55 they can now either buy an annuity or opt for a 'drawdown pension'. In either case, 25% of the fund can be taken as a tax-free lump sum. The drawdown option allows people with an annual pension income of £20,000 or more to take unlimited amounts out of their pension fund at any time ('flexible drawdown'). In drawdown, after 26th March 2013, people with less than £20,000 other pension income can take up to 120% of the equivalent amount they would receive from an annuity in any one year. This is referred to as 'capped drawdown'1. The fund remains in existence until it is exhausted and on death any unused funds can be passed on to heirs (subject to taxation). The drawdown system replaces the unsecured pension and ASP.

Alternatives to the traditional annuity or drawdown options are Unit Linked Guarantees (ULGs). These are relatively new to the UK. They use a combination of investment growth and risk hedging to guarantee increasing payments during retirement.

Notes for Options at retirement

1. The March 2013 budget included further developments on pension provision.

6 . The changing landscape

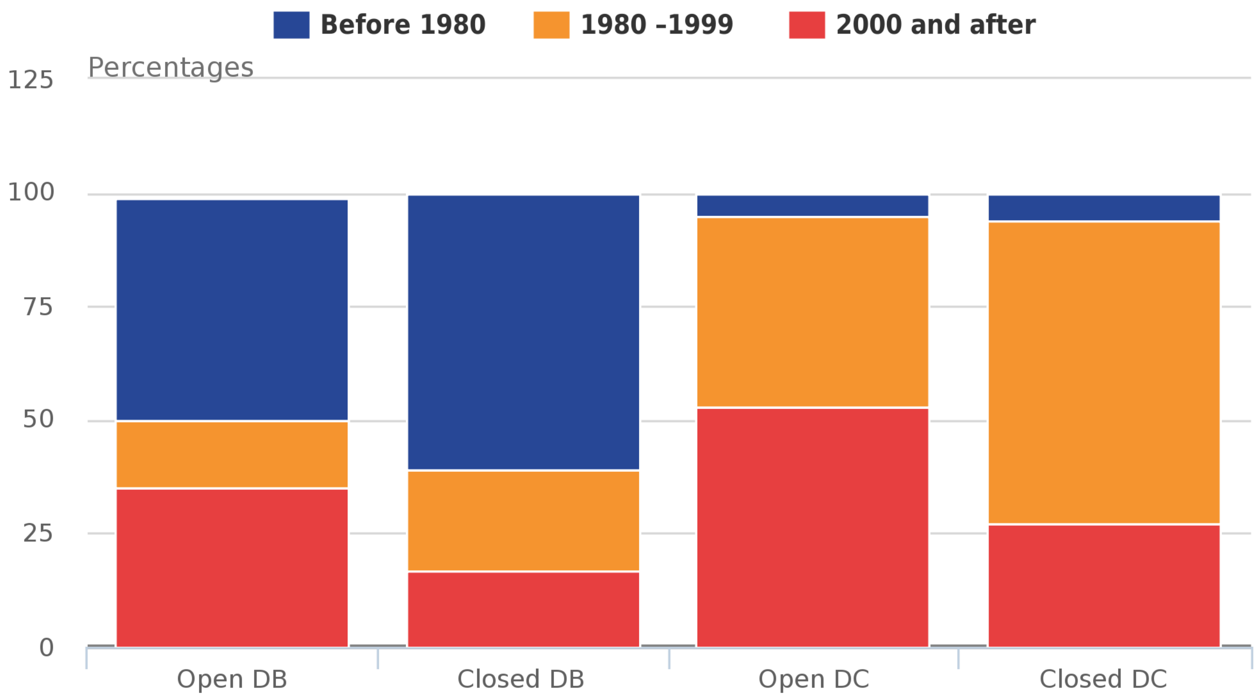
From the 1950s to the 1980s, most occupational pension schemes were Defined Benefit (DB) schemes, and employers had the option to make membership of such schemes compulsory. However, the Social Security Act 1986 made membership of occupational schemes voluntary and introduced changes designed to promote Defined Contribution (DC) occupational pension schemes and personal pensions. The rapid growth of financial markets from the 1980s also made saving in DC pension schemes more of an option than it had been before. The growth of DC occupational pension scheme membership in the private sector dates from this period.

Figure 6.2 shows active membership of private sector DB and DC occupational schemes by their scheme foundation dates. Most (95%) active members of open DC schemes in the 2011 Occupational Pension Schemes Survey (OPSS) were in schemes founded in 1980 or later, and 53% were in schemes founded in 2000 or later. By contrast, 49% of active members of open DB schemes in the 2011 OPSS were in schemes founded before 1980.

Around 35% of active members of open DB schemes were in schemes that were founded in 2000 or later. However, some of these schemes recorded in OPSS as ‘new’ may actually have been replacements for existing schemes, for example Career Average Revalued Earnings (CARE) arrangements replacing final salary schemes.

Figure 6.2: Proportion of active members of private sector occupational pension schemes: by scheme's foundation date, status and benefit structure, 2011

United Kingdom, Percentages



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

Notes:

1. Excludes schemes with fewer than 12 members

2. Proportions are calculated excluding non-response

Figure 6.3 shows the proportion of active members of occupational pension schemes in the UK (employees currently contributing) by sector (public or private), funding approach (funded or unfunded) and benefit structure (DB or DC).

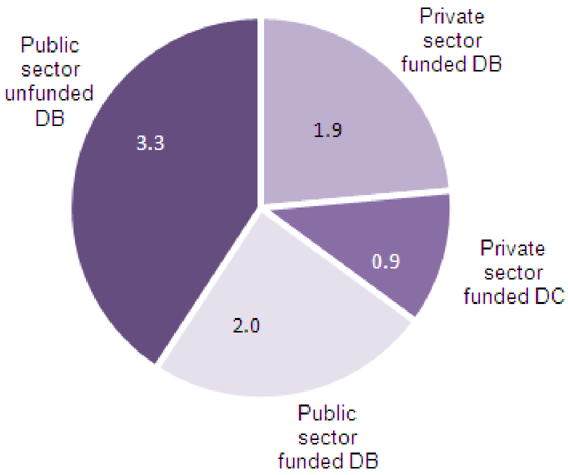
It should be noted that most of the data presented in this chapter is for active (employee) membership of pension schemes, or, in the case of personal pensions, individuals currently contributing. This is because, while looking at income from private pensions (Pension Trends Chapter 12) tells us about the outcome of the private pension system that existed in previous decades, our main focus here is the structure of the current pension system and its implications for the current generation of working age people when they retire.

In 2011, according to the OPSS, there were 8.2 million active members of occupational pension schemes. Of these, 88% (7.2 million) belonged to DB schemes and 12% (0.9 million) to DC schemes (Figure 6.3).

For DB and DC occupational pensions, in 2011, just under two-thirds of membership (65%, or 5.3 million) was in the public sector and just over one-third (35%, or 2.9 million) was in the private sector. This is in contrast to 1953 (when the survey was first run), when active membership of occupational schemes was divided equally between the private and public sectors, each with around 3.1 million members.

Figure 6.3: Active members of occupational pension schemes: by sector, funding approach and benefit structure, 2011

United Kingdom, Millions



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

Notes:

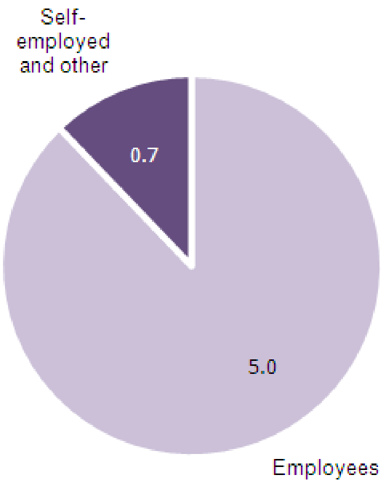
1. Excluding where funding status is unknown (less than 0.01% of public sector active membership). All private sector schemes are funded

Figure 6.3 also shows that, in 2011, 59% of active members of occupational pension schemes belonged to funded schemes. Funded private sector schemes accounted for 35% of active membership, while funded public sector schemes accounted for 24% of active membership and 37% of active membership in the public sector [1]. Unfunded public sector schemes accounted for two-fifths (41%) of all active membership in 2011, and 63% of active membership in the public sector.

The proportion of private sector active members that are in occupational DC schemes has been gradually increasing in recent years, reaching 33% in 2011. However, the actual number of active members, while fluctuating slightly, has remained around 1.0 million. If we add this to the HM Revenue and Customs (HMRC) estimate of the number of individuals contributing to personal pensions (5.7 million), the total active membership of DC pensions can be estimated at 6.6 million [2] in 2011. Membership of employer sponsored (group) personal pensions has been increasing, leading to an overall increase in workplace DC membership (see Figure 6.8). However, as the number of active members in DC occupational pension schemes has remained broadly flat (OPSS) and the number of individual personal (or non-employer sponsored) pensions has been falling, the trend in overall DC membership is downwards.

Figure 6.4: Individuals contributing to all personal pensions: by occupational status, 2010 /11.

United Kingdom, Millions



Source: HM Revenue and Customs

Notes:

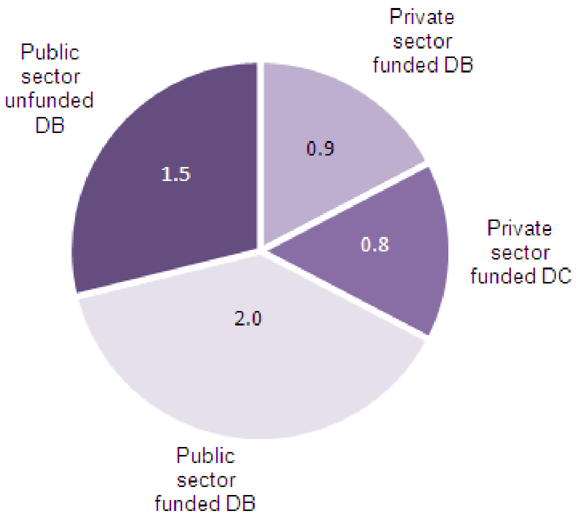
1. Personal pensions include stakeholder pensions and cover both group and individual personal pensions

Figure 6.4 shows information from HMRC on the numbers of individuals contributing to personal pensions, including stakeholder pensions and covering both group and individual personal pensions. The majority (88%) of those contributing to personal pensions were employees. There were 0.7 million 'self-employed and other' individuals contributing to a personal pension in 2010/11, the majority (90%) of which were self-employed. (Pension Trends Chapter 7: Private pension scheme membership includes a section on the self-employed).

Figure 6.5 focuses on open schemes, which accept new members. A comparison of the results with those shown in Figure 6.3 (which includes active members of closed schemes) shows that, for the younger generation, the option of joining a DB scheme is much reduced. In 2011, there were only 0.9 million active members of open DB schemes in the private sector, compared with 1.9 million active members of private sector DB schemes as a whole (Figure 6.3). Over half (56%) of active members of private sector DB schemes were in schemes that were closed to new members. In the public sector, in 2011, over a third (35%) of active members were in schemes that were closed to new members.

Figure 6.5: Active members of open occupational pension schemes: by sector, funding approach and benefit structure, 2011

United Kingdom, Millions



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

Notes:

1. Excluding where funding status is unknown (less than 0.01% of public sector active membership of open schemes)

Notes for The changing landscape

1. The Local Government Pension Scheme for local authority employees is the only major public sector scheme that is funded.

2. It should be noted that there is likely to be a small element of double counting here, as some people with occupational pensions may also contribute to personal pensions. According to estimates from the Family Resources Survey, less than 1% of individuals in the UK who had a pension had both a workplace and a personal pension in 2010/11. It should be noted that there is no public/private sector split available for personal pensions as a whole. While the majority of individuals with personal pensions are likely to be employed in the private sector, public sector employees may also have personal pensions (for example, the Civil Service offers a group stakeholder arrangement called Partnership).

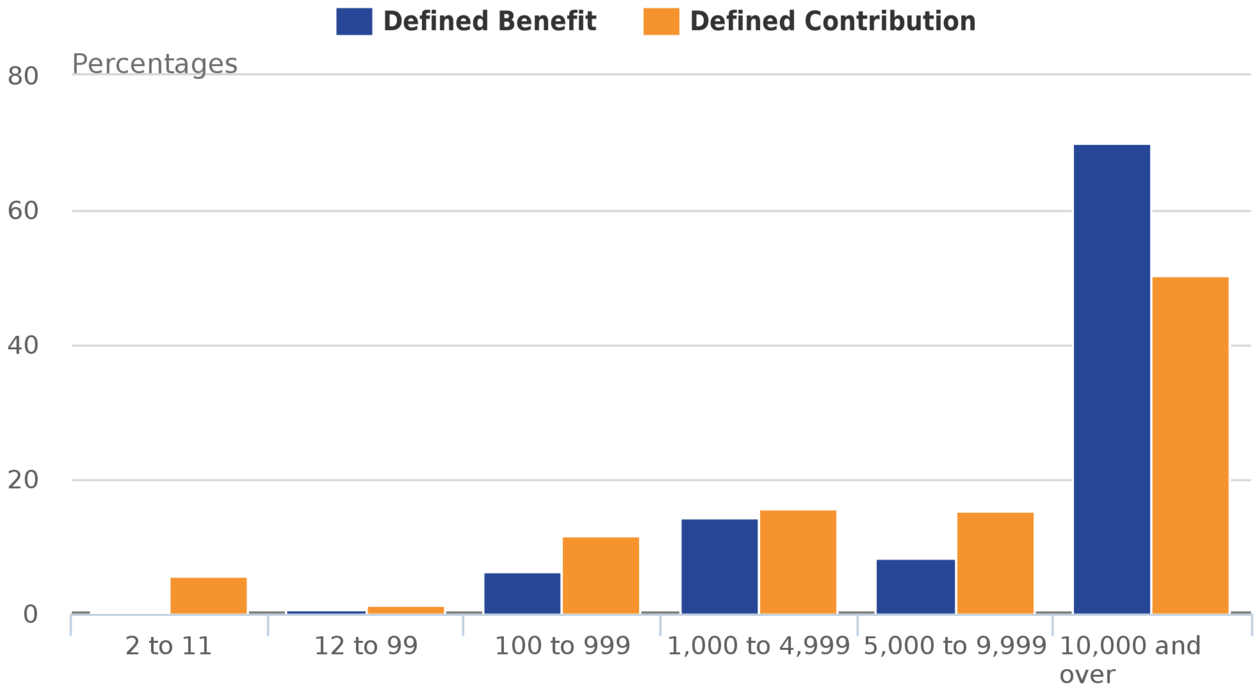
7 . The importance of scheme size

One of the most important factors explaining the structure of the private pension system in the UK is the size of pension schemes, which is usually associated with size of employer. Defined Benefit (DB) schemes are traditionally mainly associated with large employers, while Defined Contribution (DC) schemes are frequently favoured by smaller employers. The public sector, predominately made up of large employers, has schemes which are mainly DB, while the private sector, with a mixture of employer sizes, has a mixture of DB and DC schemes. Further information about this can be found in Table 3.6 of the Office for National Statistics' (ONS) annual report on the Occupational Pension Schemes Survey (OPSS).

Within the private sector, there are a small number of large schemes and a much larger number of small schemes. However, the majority of active members belong to large schemes. This pattern is likely to be reinforced as automatic enrolment polices are implemented and employers enrol their employees into the National Employment Savings Trust (NEST), a large occupational pension scheme (see **Workplace pension reform**). However, given the possibility that NEST may generally be used more by the smaller employers (and their implementation dates are not until 2017 to 2018), the impact may not be seen immediately.

Figure 6.6: Distribution of active membership of private sector occupational pension schemes: by scheme size (total membership) and benefit structure, 2011

United Kingdom, Percentages



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

Notes:

1. Open and closed schemes only
2. Scheme size bands are based on total membership, i.e. actives plus pensioners plus those with preserved entitlements

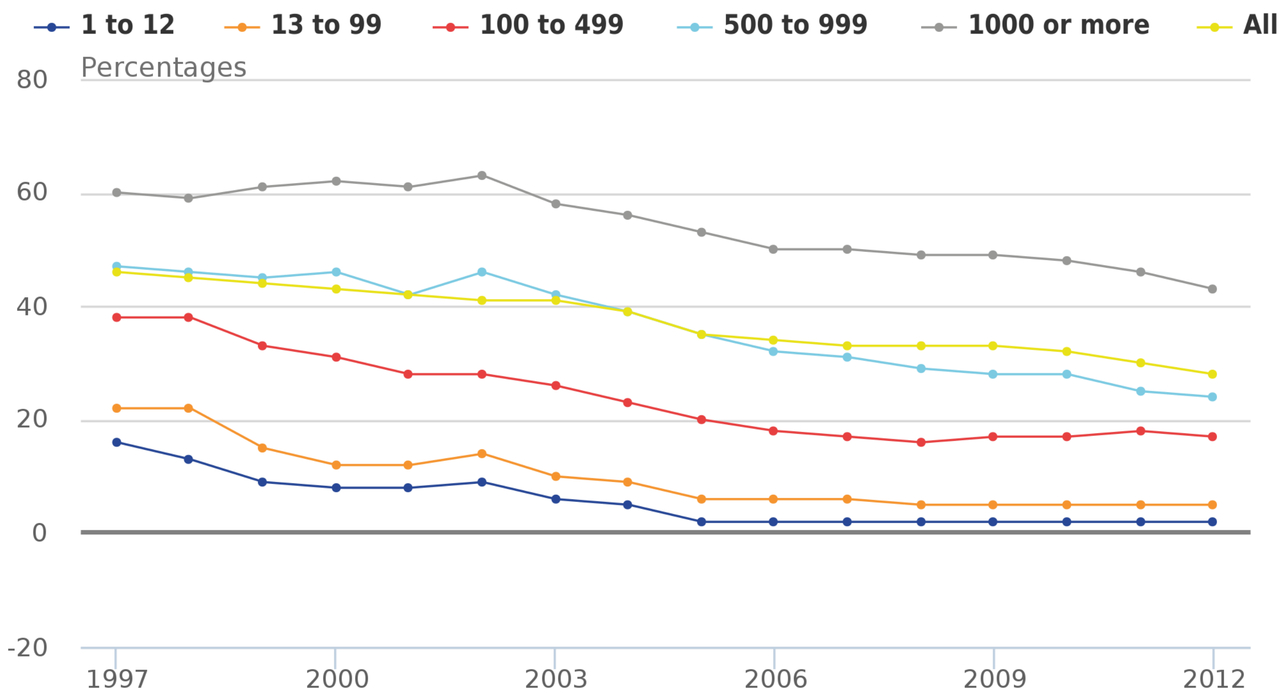
Figure 6.6 shows the 2011 distribution of active membership of open and closed private sector occupational pension schemes by scheme size (based on total membership) and benefit structure. DB schemes with 2 to 11 members made up less than 1% of active DB membership and DC schemes with 2 to 11 members accounted for around 6% of active DC membership. Membership was concentrated in the larger schemes, with 81% of active members of DC schemes belonging to those with 1,000 or more members. In 2011, 50% of active members of DC were in schemes with 10,000 or more members, a slight increase on the 2010 proportion of 44%.

The equivalent figures for DB schemes show that 93% of active members were in schemes with 1,000 or more members and 70% were in schemes with 10,000 or more members. DB schemes with 10,000 or more members accounted for nearly half (47%) of active membership of private sector occupational pension schemes in 2011.

Figures 6.7 and 6.8 use data from the Annual Survey of Hours and Earnings (ASHE) to examine trends in DB and DC workplace pension provision over time by size of employer.

Figure 6.7: Proportion of employees with a defined benefit workplace pension: by size of employer, 1997 to 2012

United Kingdom, Percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Pension is arranged through an employer, main pension only
2. The size of the employer is determined by the number of employees
3. Results for 2005 onwards are based on a new questionnaire and may not be comparable with earlier results
4. In 2011, the ASHE results were reweighted as a result of the introduction of the new SOC classification. Results for 2011 are presented on the SOC2010 basis. Estimates on the SOC2000 basis are less than 0.2 percentage points different from those presented in Figure 6.7

Figure 6.7 shows, for a given employer size, the proportion of employees who belonged to DB occupational pension schemes between 1997 and 2012. Overall, this proportion has fallen, from 46% in 1997 to 28% in 2012. Larger employers have a higher proportion of employees who are members of DB schemes than do smaller employers.

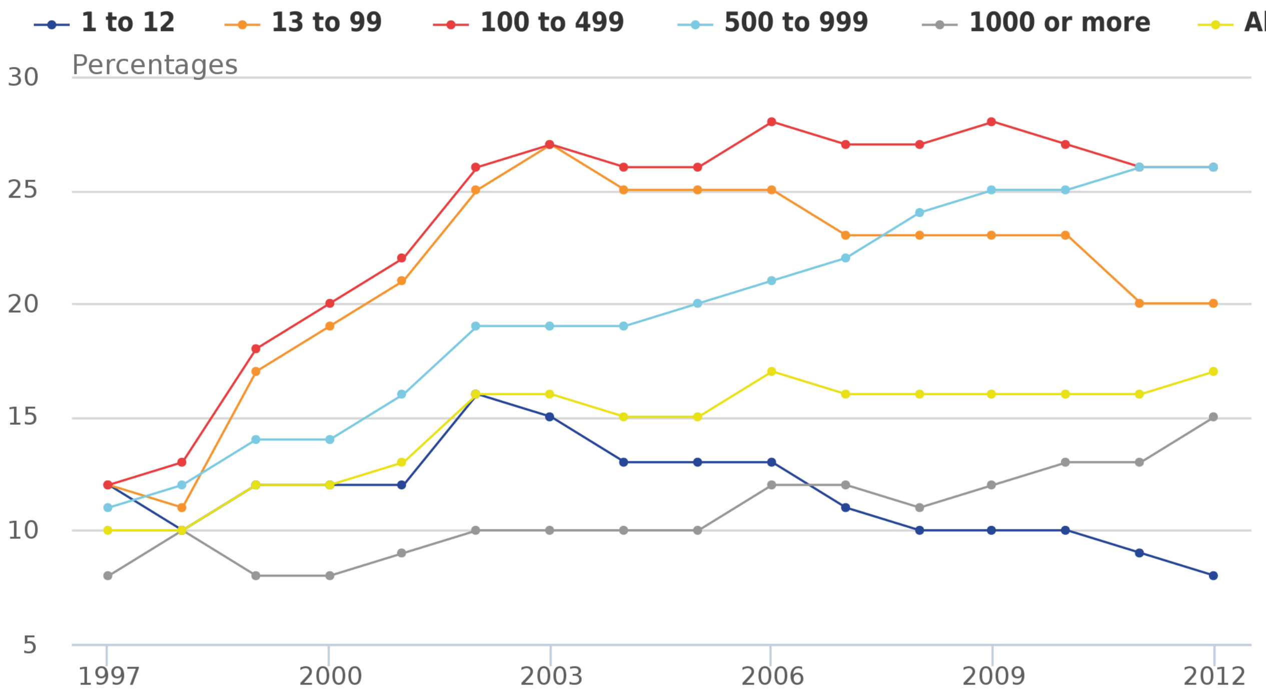
However, for employers with 1,000 or more employees, the proportion of employees who were members of DB occupational pension schemes has fallen from 60% in 1997 to 42% in 2012. For employers with 500 to 999 employees, the proportion has fallen from 47% in 1997 to 24% in 2012, while for employers with 100 to 499 employees, the proportion has fallen from 38% in 1997 to 17% in 2012.

At the same time, there has been an increase in DC pension provision in the workplace (DC occupational pension schemes, Group Personal Pensions (GPPs) and group stakeholder pensions). Figure 6.8 shows, for a given employer size, the proportion of employees with DC workplace pensions between 1997 and 2012. Overall, the proportion of employees with such pensions has risen from 10% to 17% over this period.

Most of the increase has taken place within companies that have between 100 and 999 employees. For employers with 100 to 499 employees, the proportion of employees with DC pensions increased from 12% in 1997 to 26% in 2012. For employers with 500 to 999 employees, the proportion increased from 11% in 1997 to 26% in 2012. The proportion of employees with DC pensions working for employers with 1,000 or more employees rose from 8% to 15%. Meanwhile, for employees working for small firms (with 1 to 12 employees and 13 to 99 employees), membership of DC pensions increased in the first part of this period, from 1997 to 2002 and 2003, before falling off in the second half.

Figure 6.8: Proportion of employees with a defined contribution workplace pension: by size of employer, 1997 to 2012

United Kingdom, Percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Pension is arranged through an employer, main pension only.
2. Defined contribution (DC) covers occupational DC schemes, group personal and group stakeholder pensions
3. The size of the employer is determined by the number of employees
4. Results presented exclude membership where pension type is unknown, some of which will be DC membership
5. Results for 2005 onwards are based on a new questionnaire and may not be comparable to earlier results
6. In 2011, the ASHE results were reweighted as a result of the introduction of the new SOC classification. Results for 2011 onwards are presented on the SOC2010 basis

8 . Public and private sector defined benefit scheme benefits

It is sometimes suggested that public sector schemes provide better pensions than private sector schemes. It is difficult to compare benefits in the two sectors because of their different structures. The public sector is predominantly Defined Benefit (DB), while there is a mixture of DB and Defined Contribution (DC) provision in the private sector. However, one method of comparing benefits is to look at the ‘accrual rate’ for current employees in DB schemes in the two sectors. The accrual rate is the fraction of salary accrued by the employee for each year of service that will form the basis of the annual pension at retirement[1]. Table 6.9 compares the accrual rates of DB schemes in the public and private sectors.

Table 6.9: Proportion of active members of defined benefit occupational pension schemes: by accrual rate and sector, 2011

United Kingdom

Percentages

	Private	Public
50ths or better	4	0
Between 50ths and 60ths	5	..
60ths plus an additional lump sum	2	12
60ths	38	36
80ths plus 3/80ths lump sum	26	48
Between 60ths and 80ths	14	4
80ths	8	..
Less generous than 80ths	2	0

Source: Occupational Pension Schemes Survey, Office for National Statistics

Notes:

1. Percentages are calculated excluding non-response

2. Excludes schemes with fewer than 12 members

3. .. indicates cells that have been suppressed to protect confidentiality

In 2011, 84% of public sector and 64% of private sector scheme members were accruing benefits at 60ths or at 80ths plus an additional 3/80ths lump sum (which is seen as comparable with 60ths in terms of benefits). Roughly the same proportion of scheme members, 12%, within both the public and private sector were accruing benefits at more generous rates than this. In the private sector, 24% of scheme members were accruing benefits at less generous rates than this, compared with approximately 4% of public sector scheme members.

Public sector schemes have traditionally had earlier pension ages[2] (age 60 or lower) than private sector schemes. Since the 1970s, OPSS results have shown that most private sector scheme members belong to schemes with a normal pension age of 65; in 2011, the figure was 74%. In the public sector, 56% of active members in 2011 were still accruing pension rights under rules which allowed them to retire at age 60 or before.

However, most public sector schemes have increased normal pension age to 65 in recent years, either for new entrants or for all members, so there will be increasing numbers of public sector employees to whom a normal pension age of 65 applies.

Recent legislation provides for the normal pension age for most public sector schemes to increase in line with State Pension Age (SPA). Some pension scheme members within the uniformed services will be exempt from this. For those members who are within schemes where the changes are applicable, such as those within the Civil Service pension scheme, this age is applicable to both new and existing members. However, those who are approaching their scheme's previous normal pension age will not be affected.

These changes were implemented as a result of recommendations in the 2011 report by the Independent Public Service Pensions Commission. The suggested changes were enacted by the 2013 Public Service Pensions Act, with Royal Assent on the 25th of April 2013.

Notes for Public and private sector defined benefit scheme benefits

1. For example, a 'final salary' defined benefit scheme might provide a pension based on an annual accrual rate of 1/80th: a person retiring after 40 years' service would accrue 40 times 1/80th or 40/80ths and, therefore, receive half of their final salary as a pension

2. Normal pension age is defined as the age at which active members and deferred pensioners become entitled to receive their benefits

9 . Approaches to risk

Another important factor which helps to explain the structure of the private pension system, in particular the shift from Defined Benefit (DB) to Defined Contribution (DC) schemes in the private sector, is the approach to risk.

In DB schemes, the scheme rules specify or 'define' the rates of benefit to be paid. In funded DB schemes, the employer bears the investment risk and must pay out pensions at the agreed rate, regardless of the returns made on the invested contributions. Costs may be passed on to the next generation of employees in terms of reduced benefits, but current scheme members have a good idea of the pension that they will receive on retirement. This contrasts with the position of DC pensions, where current members' future pension benefits are not 'defined' and may be eroded by a fall in the value of pension fund investments. The stock market decline of 2008 was a reminder for many people with DC pensions that investment risk in such pensions is assumed by individual members rather than by their employers.

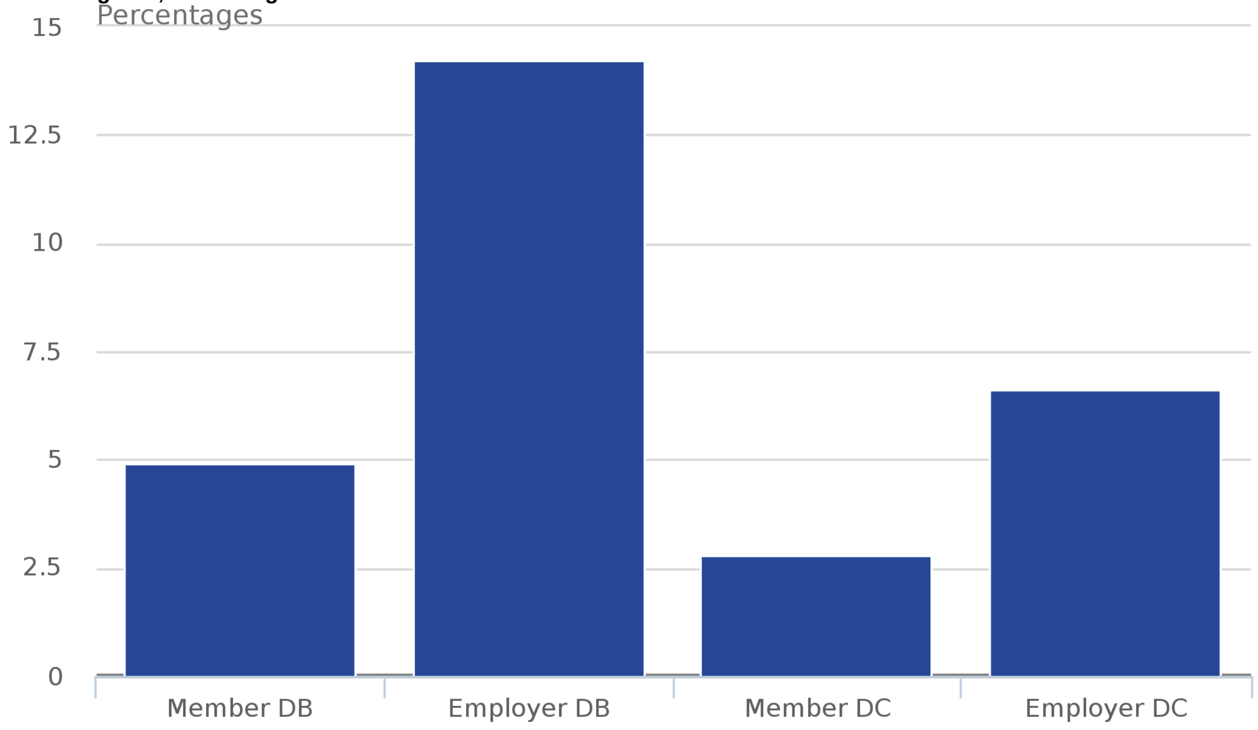
In addition to investment risk, employers providing DB pensions must account for longevity risk, the risk that the actual life expectancy of scheme members after retirement is different from that anticipated (see Pension Trends Chapters 2 & 3), and also for the cost of compulsory indexation to compensate for inflation in the case of deferred and pensioner members. For DC pensions, these and other risks, in particular those associated with purchasing an annuity, are borne by individual members rather than by employers. In recent years, people with DC pensions have faced declining annuity rates, which mean that their accumulated pension savings buy a smaller annual pension income than previously. More information about this can be found within Pension Trends Chapter 10 – Saving for Retirement. Further information about annuities in general can be found on The Money Advice Service's website.

DB schemes have to take account of risk in their funding strategies, and this has traditionally meant higher contributions from employers in order to be certain that the schemes can meet their projected pension liabilities. Employers with DC pensions do not have to make such payments because members are not guaranteed any particular level of pension.

Figure 6.10 shows the contribution rates for private sector occupational pension schemes, taken from the Occupational Pension Schemes Survey (OPSS). In 2011, employers with DB schemes paid 14.2% on average, compared with 6.6% for employers with DC schemes. Employees also contributed more into DB schemes on average than they did into DC schemes (4.9% and 2.8% respectively). The system of contracting out (at the time of the 2011 OPSS data collection) could account for some of the difference in contribution rates (see [Pension Trends Chapter 8]), but it may be that most of the difference can be attributed to the different approaches to risk management of DB and DC schemes.

Figure 6.10: Weighted-average contribution rates to private sector occupational pension schemes: by benefit structure and contributor, 2011

United Kingdom, Percentages



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

Notes:

1. Includes schemes where standard contributions (from either the employee or the employer) were zero

2. Excludes normal contributions paid as fixed amounts

3. Includes reported rates for open, closed and frozen schemes

4. Excludes schemes with fewer than 12 members

Private sector schemes providing DB pensions and which have no Government guarantee must also pay an annual levy to the [Pension Protection Fund (PPF)] to protect members' pensions should the employer become insolvent. The PPF was set up under the [Pensions Act 2004] to provide compensation to members of such pension schemes in cases when employers are declared insolvent and there are insufficient assets in the pension scheme to cover its liabilities.

10 . De-risking and risk sharing

Given the rising costs of providing Defined Benefit (DB) pensions, which may be partly due to DB schemes' approach to dealing with risk and partly due to increasing longevity, a growing number of private sector employers have sought to 'de-risk' pension provision by closing DB schemes and replacing them with Defined Contribution (DC) schemes. More information on longevity and increasing life expectancy can be found within Pension Trends Chapter 3 – Life Expectancy and Healthy Ageing . This partly explains the shift in membership from DB to DC pensions in recent years. Also, some schemes have negotiated for existing DB liabilities to be permanently bought out by insurance companies and specialist buy-out firms (see Pension Trends Glossary (198.9 Kb Pdf)).

In addition, a variety of alternative retirement saving vehicles have emerged that attempt to offer a way of sharing the risks associated with workplace pension provision so that the risks for employers are smaller than in final salary DB schemes but do not fall entirely on the employee, as they do in DC pensions. Career Average Revalued Earnings (CARE) schemes (see **Definitions**), such as the Nuvos scheme for the Civil Service introduced in 2007, are an example of risk sharing.

Average member contribution rates to CARE schemes, at 5.4%, were higher than both the rates for DB schemes as a whole (4.9%) and for DC schemes (2.8%). Average employer contribution rates, at 11.5%, were lower than for DB schemes as a whole (14.2%) and higher than DC rates (6.6%).

Another risk sharing option involves providing a larger proportion of the final salary pension as a lump sum, or even providing the whole amount as a lump sum which the member has to annuitise or draw down. Here, the employer still bears the investment risk during the accumulation phase but avoids part or all of the post-retirement indexation and longevity risk. Hybrid pension schemes, which combine both DB and DC elements, are another way of sharing risk.

Further proposals for risk sharing can be found within a Department for Work and Pensions (DWP) paper produced in 2012 that is entitled, "Reinvigorating workplace pensions". In this, details are provided on new workplace pension arrangements known as Defined Ambition (DA), see Glossary (198.9 Kb Pdf) .

11 . Workplace pension reform

Although the UK has a well-established private pension system, there are concerns about funding retirement benefits for an ageing population (see Pension Trends Chapter 2). The Pensions Act 2008 put in place a framework for workplace pension reform designed to increase saving for retirement. This framework was amended slightly by the Pensions Act 2011 but, broadly, the reforms make the following changes:

- All eligible employees are to be automatically enrolled into a qualifying workplace pension scheme; and
- A new trust-based Defined Contribution DC pension scheme has been created, known as the National Employment Savings Trust (NEST), to assist employers with provision. NEST first started taking on new members at the end of 2011.

Starting in October 2012, with gradual roll-out to all employers by 2018, employers have a duty automatically to enrol all eligible employees into a qualifying pension scheme and to make contributions on their behalf. Workers will be able to opt out of their employer's scheme if they choose not to participate but, if they are still eligible, they will be re-enrolled after a three year period.

In order to qualify, most DC schemes will eventually have to make minimum contributions of 8% of an employee's qualifying earnings, of which at least 3% must come from the employer. However, there is a phasing in period, during which lower contributions are allowed (see Pension Trends Chapter 8).

The Pensions Act 2011 also introduced: an annual review of the auto-enrolment earnings trigger; an annual review of the upper or lower limits of the qualifying earnings band; and an optional waiting period of up to three months before an employee needs to be automatically enrolled into a workplace pension [1].

NEST meets the qualifying scheme standards and provides another option, in addition to the existing ones, for employers who do not have a scheme. It offers a choice of investment funds in addition to its default Retirement Date Funds for those members who do not make an investment choice [2]. Employees who join the scheme will be able to retain membership of NEST when they move jobs. Further details about this can be found within an explanatory note available on The Money Advice Service's website and within the **References** section of this article.

The 2012 reforms represent a major change in the UK private pension system, aiming to extend coverage to millions of employees who lack a private pension, in particular those in the target market of moderate to low earners. NEST, the option which is likely to be taken up by many employers who do not have a private pension scheme at present, has been set up on a DC basis. This is expected to increase the number of people contributing to DC pensions and it is thought that the primary users of NEST will be smaller employers.

Although the Pensions Act 2008 created NEST, other separate trust-based arrangements, known as master trusts (see Glossary (198.9 Kb Pdf)), have also been set up to facilitate auto-enrolment. Examples of these include Now Pensions and The People's Pension.

Further changes to private pension provision are being considered. For example, within the Department for Work and Pensions (DWP) report entitled, "Meeting future workplace pension challenges: improving transfers and dealing with small pension pots", some changes to the rules for the movement of small pension pots were considered. The proposals within this paper apply to DC pensions only. DWP have estimated that people will work for 11 different employers during their life and, as a result of auto-enrolment, they might acquire a number of small pensions from shorter periods of employment. One consideration is how easy these smaller values might be to annuitize in the current market. If this proves to be an issue, then it could possibly prevent people from obtaining the level of income they expect to receive in retirement. It might also be the case that some people may forget about the small pots they have acquired and so will receive no benefits from them.

Consequently, it has been proposed that smaller pension pots should follow people as they move jobs. It is thought that this will allow people to aggregate their pension saving into a pot which may have greater value when they retire. More information about this can be found in a DWP public consultation report and within the Pensions Bill 2013-14.

Notes for Workplace pension reform

1. For the 2011 Pensions Act and for information on the latest earnings trigger and qualifying earnings bands
2. See the NEST website for further details about this scheme

12. Supporting information

Further information

Pension Trends – Chapter 7: Private Pension Scheme Membership, 2013 Edition - This chapter discusses membership of all types of non-state pension, referred to here as private pensions. These comprise occupational schemes for private sector and public sector employees; and personal pensions, including group personal pensions and stakeholder pensions.

Pension Trends Chapter 8: Pension Contributions, 2013 edition - This chapter looks at contributions to private (non-state) pensions using data from the Occupational Pension Schemes Survey, the Annual Survey of Hours and Earnings and from HM Revenue and Customs.

Related Internet links

Pension Trends - consists of 14 chapters bringing together official statistics on pensions and retirement.

13. References

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4. Department for Work and Pensions (2011): Meeting future workplace pension challenges: improving transfers and dealing with small pension pots.

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6. Pensions Act 2011.

7. Pensions Act 2008.

8. Pension Protection Fund.

9. Public Sector Pensions Act 2013.

10. HM Revenue and Customs pension statistics website.

11. Independent Public Service Pensions Commission.

12. Martin, J. P. & Whitehouse, E.R. (2008) 'Reforming Retirement-Income Systems: Lessons from the Recent Experiences of OECD Countries', OECD Social, Employment and Migration Working Paper No. 66.

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16. OECD (2008), OECD Private Pensions Outlook, OECD, Paris.

17. Office for National Statistics, Occupational Pension Schemes Annual Report.

18. Office for National Statistics, Annual Survey of Hours and Earnings.

19. Office for National Statistics, Glossary - Pension Trends. (198.9 Kb Pdf)

20. Pensions Commission (2004) Pensions: Challenges and Choices, The First Report of the Pensions Commission. The Stationery Office: London

14. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

   These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.

Compendium

Chapter 7: Pension scheme membership, 2014 edition

This chapter discusses membership of all types of non-state pension, referred to here as private pensions. These are comprised of occupational schemes for private sector and public sector employees; and personal pensions, including individual, group and stakeholder pensions. Unlike occupational pensions, personal pensions are available to the self-employed.

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Notice

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This publication has been discontinued. The last edition to be published was 28 November 2014.

Table of contents

1 . Background

People are living longer and are likely to enjoy a longer retirement. But many people are not saving for their retirement at all, and many that are saving are not saving enough. This chapter aims to support the development of pensions policy by providing up to date information on private pension scheme membership.

The chapter looks first at active members of occupational schemes. Then it considers the proportion of the population aged 16 to 64 which contributes to private pensions, both occupational and personal. For employees and the self-employed, further breakdowns of pension scheme membership are presented. Finally, the chapter examines some of the characteristics associated with pension scheme membership.

A person may be a member of several different pension schemes simultaneously. Employees may be active members[1] of a workplace pension, which could be either an occupational scheme or an employer-sponsored group personal or stakeholder pension. They may also have an individual personal pension that they have taken out independently. In addition, people may be deferred members of a scheme, retaining pension rights from a previous employer[2], or hold personal pensions which no longer receive contributions. The Pension Trends Glossary (198.9 Kb Pdf) provides more information on the various pension types. The analysis in this chapter mainly relates to 2013. The Pensions Act 2008 introduced automatic enrolment, which began in October 2012 (see Supporting Information section). The data for 2013 will include the early stages of automatic enrolment.

Notes for background

1. Active members are current employees who are contributing or having contributions made on their behalf. For a definition of terms see Pension Trends Chapter 6 and the Pension Trends Glossary (198.9 Kb Pdf).

2. Preserved member entitlements are rights held by people who are no longer actively contributing to the scheme. Most belong to former employees who have preserved their pension rights within a scheme but are not yet receiving pension payments. Some belong to widows, widowers, dependents and those who have gained rights following pension sharing on divorce.

2 . Data sources

The various data sources used in this chapter have different coverage and characteristics. The analyses use the source that is most appropriate for the topic, but this inevitably means that there are differences in the types of pension covered and in the population base between one analysis and another.

The main sources used are:

- the Office for National Statistics (ONS) Occupational Pension Schemes Survey (OPSS), for estimating numbers of active members of occupational pension schemes and also deferred and in payment member entitlements;

- the Department for Work and Pensions (DWP) Family Resources Survey (FRS) and the Office for National Statistics Wealth and Assets Survey (WAS) and General Lifestyle Survey (GLF), for estimating proportions of populations that belong to a pension and for providing information on the characteristics of members;

- the Office for National Statistics Annual Survey of Hours and Earnings (ASHE), for providing breakdowns of employee pension scheme membership according to pension type and other characteristics. Employee membership in ASHE is measured in terms of 'employee jobs' rather than individuals, and individuals may have more than one job.

- HM Revenue and Customs data (HMRC) for estimates of personal pension membership. HRMC calculates the number of individuals contributing by aggregating individuals who show a contribution against their national insurance number.

Quality and methodology information is available on the ONS website for the following sources OPSS (354.5 Kb Pdf), ASHE (212.6 Kb Pdf), WAS (107.7 Kb Pdf), and GLF (107.1 Kb Pdf).

3 . Estimates of total private pension membership

Private pensions consist of occupational pensions, which are trust based, and personal pensions, which are based on a contract between an individual and an insurance company. Personal pensions include group pensions where the contracts are facilitated by an employer, and individual personal pensions where the contract is arranged independently. Personal pensions also include group stakeholder pensions and self-invested personal pensions.

The Occupational Pension Schemes Survey (OPSS) estimates that, in 2013, total occupational scheme membership was 27.9 million, with:

- 8.1 million active members;

- 9.6 million pensions in payment; and

- 10.2 million deferred members (those with preserved pension entitlements).

HM Revenue and Customs (HMRC) estimates that in 2012/13 there were 8.2 million active members of personal and stakeholder pensions.

The number of members relates to reported scheme membership, which will be higher than the number of individuals as an individual can belong to more than one scheme. Some individuals may have a deferred entitlement in more than one pension scheme, while some with deferred entitlements may still be actively contributing to another pension. There are also some people still contributing to retirement annuity contracts (the predecessors to personal pensions) although this number will reduce over time.

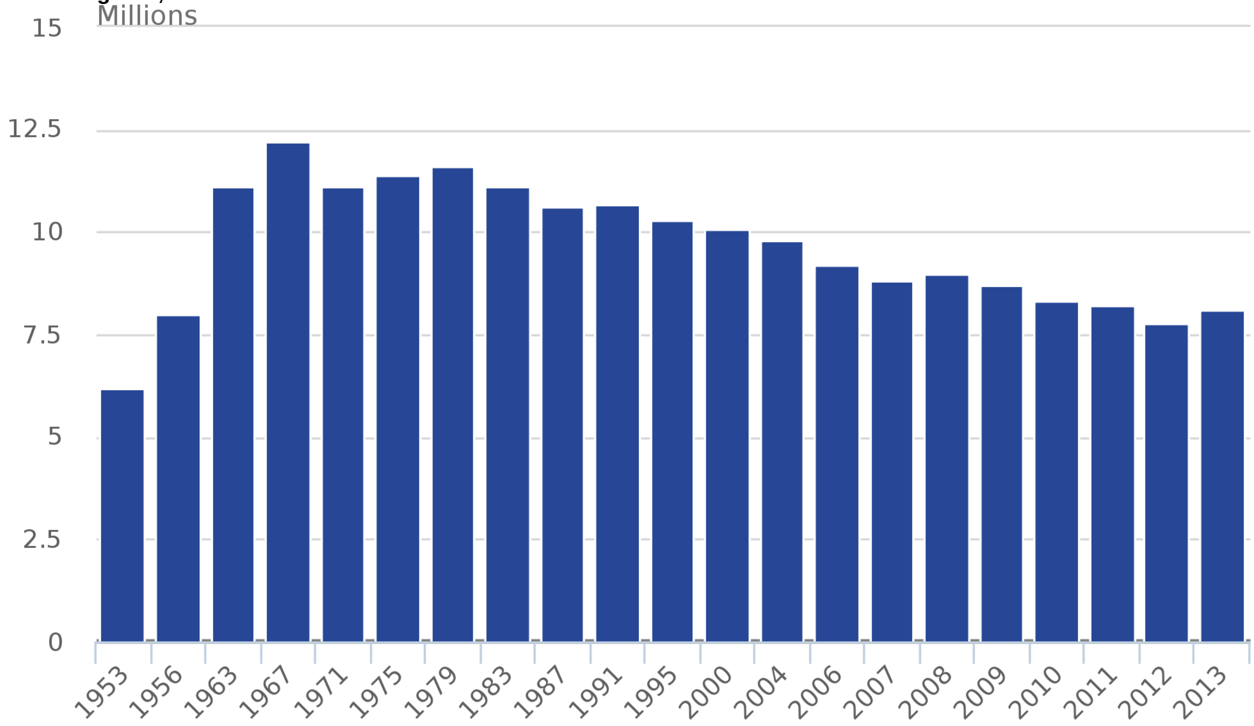
4 . Trends in active membership

The longest consistent series of membership in the UK is for occupational pension schemes. Membership estimates are available from the 1950s from the Occupational Pension Schemes Survey (OPSS). The most recent OPSS release presents data for 2013.

There was a marked increase in the number of active members (those currently contributing or having contribution made on their behalf) between 1953 and 1967 from 6.2 million to 12.2 million, followed by an almost continuous decline between 1967 and 2012 to 7.8 million (Figure 7.1). In 2013, occupational membership rose to 8.1 million.

Figure 7.1: Active members of occupational pension schemes, 1953 to 2013

United Kingdom, millions



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

Notes:

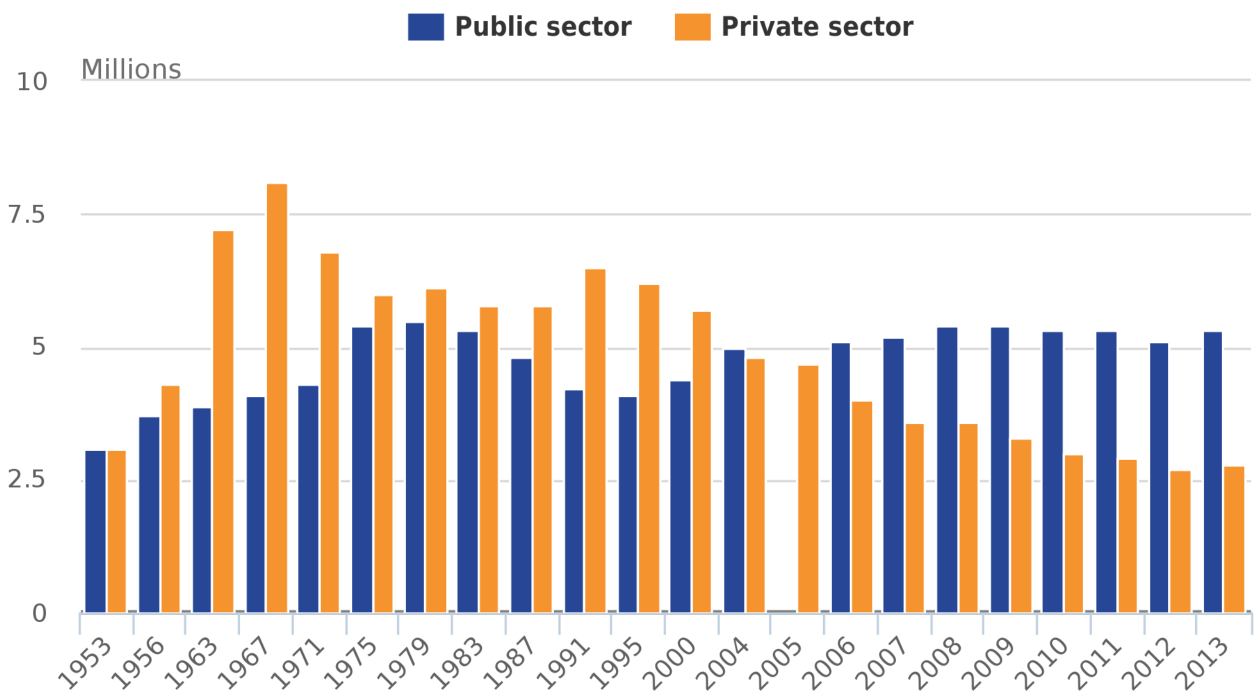
1. The 2005 OPSS did not cover the public sector
2. Changes to methodology from 2006 onwards mean that comparisons with 2005 and earlier should be treated with caution

Figure 7.2 shows the number of active members of occupational pension schemes by sector. In the private sector, there have been considerable changes in the level of membership since the start of the series. In 1953, private sector membership stood at 3.1 million. In the following years, membership almost tripled, reaching a peak of 8.1 million in 1967. Since then, membership has been on a general downward trend. In 2012, private sector membership reached its lowest point of the entire series, at 2.7 million. However in 2013 this number increased to 2.8 million, potentially due to automatic enrolment (see supporting information section).

The number of active members in the public sector has varied considerably throughout the duration of the survey reaching a peak of 5.5 million in 1979. From 1995 to 2008, public sector membership increased from 4.1 million to 5.4 million, despite the reclassification from 2000 of some large public sector schemes, such as the Post Office and the BBC, to the private sector. Between 2008 and 2012, active membership fell to 5.1million. In 2013, active membership increased to 5.3 million (Figure 7.2).

Figure 7.2: Active members of occupational pension schemes: by sector, 1953 to 2013

United Kingdom, millions



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

Notes:

1. Due to changes in the definition of the private and public sectors, estimates for 2000 and onwards differ from earlier years. From 2000 organisations such as the Post Office and the BBC were reclassified from the public to the private sector

2. The 2005 OPSS did not cover the public sector

3. Changes to methodology from 2006 onwards mean that comparisons with 2005 and earlier should be treated with caution

5 . Breakdown of total private pension membership

Figure 7.3 shows Family Resources Survey (FRS) estimates of the proportion of men and women in the 16 to 64 age group contributing to private pensions, both occupational and personal.

By combining the FRS estimate of the proportion of all people aged 16 to 64 contributing to private pensions in 2012/13 (33%) with Labour Force Survey (LFS) estimates of population aged 16 to 64 in January to March 2013 (40.5 million), we can estimate that around 13.4 million people aged 16 to 64 in Great Britain were active participants in private pensions.

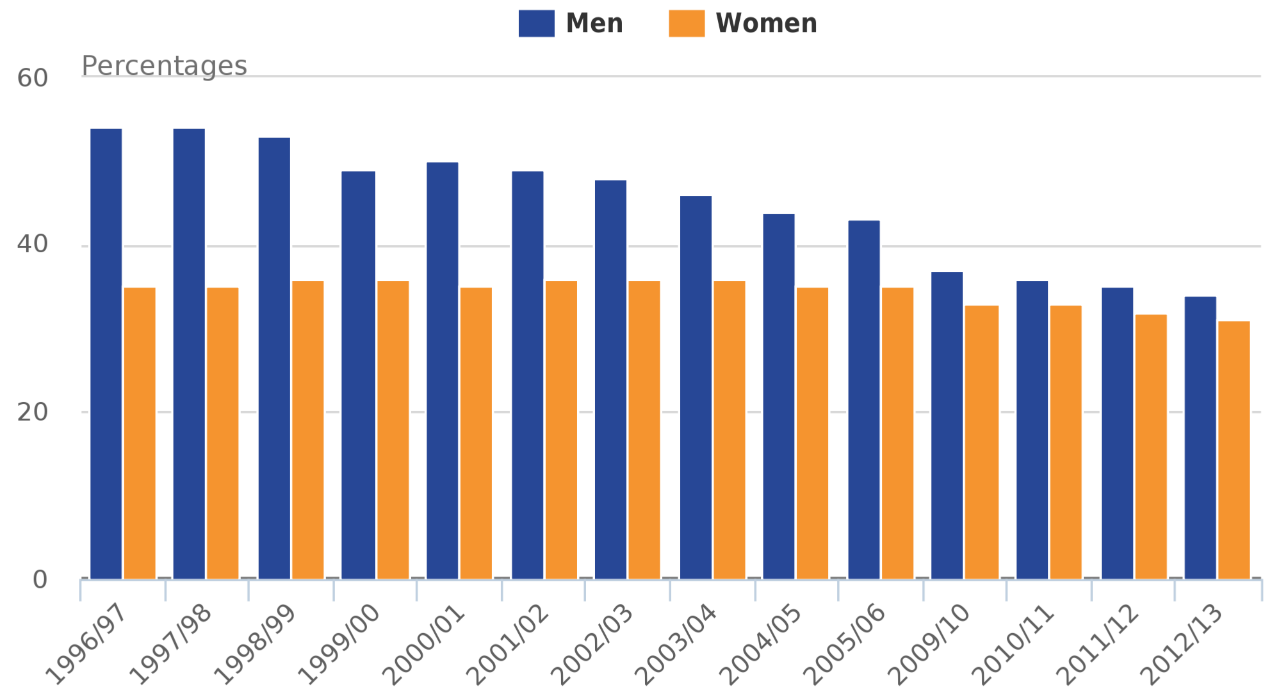
The proportion of private pension membership for men was higher than that for women in all years shown in Figure 7.3. However, the gender gap is decreasing. The difference in 1996/97 was nearly 20 percentage points and in 2012/13 it was 3 percentage points.

For men, the proportion contributing to private pensions fell steeply from 54% to 34% between 1996/97 and 2012 /13. In 2012/13, 6.8 million men aged 16 to 64 were contributing to a private pension.

For women, the proportion contributing to private pensions was more stable. It was around 35% in 1996/97, about 33% in 2009/10 and 31% in 2012/13. This represents 6.3 million women aged 16 to 64 contributing to a private pension in 2012/13.

Figure 7.3: Proportion of men and women aged 16 to 64 contributing to private pensions, 1996/97 to 2012/13

Great Britain, percentages



Source: Family Resources Survey - Department for Work and Pensions

Notes:

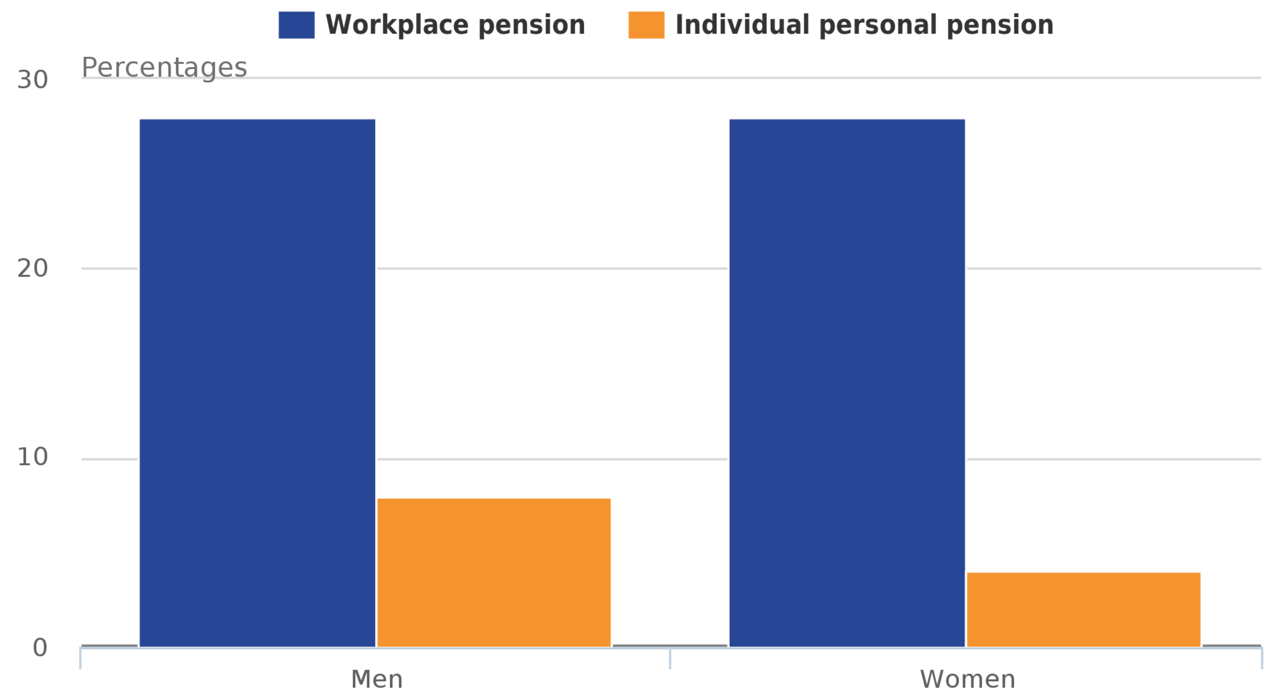
1. Data from 1999/2000 onwards are not comparable with earlier data because of the implementation from that date of improvements in government surveys relating to pensions
2. Figures for 2005/06 and earlier years may exclude members whose only pension contribution came from the National Insurance rebate
3. Data for 2006/07, 2007/08 and 2008/09 are not available
4. Data from 2009/10 onwards are not comparable with earlier data because of changes to the pension provision questions more accurately to capture information on active membership

Figure 7.4 shows the latest figures (2012/13) for men and women aged 16 to 64 by whether they contributed to a workplace pension or to an individual personal pension. The participation rates in workplace pensions were the same for men and women (28%); 4% of women had individual personal pensions compared with 8% of men.

This probably reflects the fact that self-employment is more prevalent among men than women [1] as the pension provision for the self-employed is usually in the form of personal pensions (see Self-employed pension membership section).

Figure 7.4: Proportion of men and women aged 16 to 64 contributing to private pensions: by pension type, 2012-13

Great Britain, percentages



Source: Family Resources Survey - Department for Work and Pensions

Notes:

1. Working age is 16 to 64 for both men and women
2. Percentages have been rounded to the nearest 1%
3. The estimates are based on sample counts that have been adjusted for non-response using multi-purpose grossing factors that control for tenure type, Council Tax Band and a number of demographic variables
4. Estimates are subject to sampling error and remaining non-sampling bias

Notes for breakdown of total private pension membership

1. In January to March 2013, the Labour Force Survey (LFS) estimates there were 2.9 million self-employed men and 1.3 million self-employed women.

6 . Employee pension scheme membership

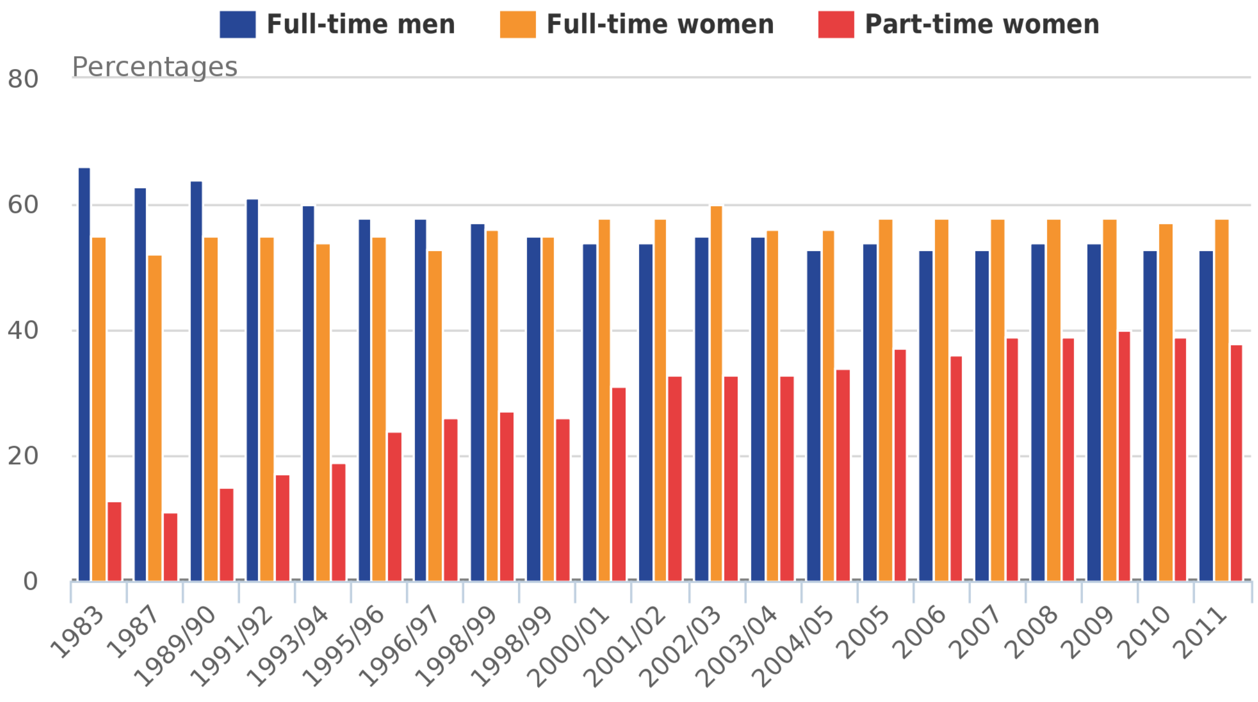
The General Lifestyle Survey (GLF) provides a consistent data source for employee occupational pension scheme membership over time. The GLF was recently discontinued with 2011 being the final data point. This series will be replaced with data from the Family Resources Survey in time for the next edition of this chapter. Figure 7.5 shows employee participation in employer's occupational pension schemes by gender and working pattern. In 2011:

- a higher percentage of full-time female employees than full-time male employees were members of their current employer's occupational pension scheme; and
- full-time employees had a higher percentage of members than part-time employees, who are mainly women. Information is not shown for part-time men, as sample sizes are not large enough to provide reliable estimates.

Some 66% of male employees in Great Britain in 1983 who were working full-time were members of their current employer's occupational pension scheme, falling to 53% in 2011 (Figure 7.5). For female employees working full-time, 55% were members in 1983, increasing slightly to 58% in 2011. Each year since 2000/01, the GLF has recorded higher membership rates for full-time women than for full-time men. Among women working part-time, there was a steady increase from 13% in 1983 to 40% in 2009 before falling again to 38% in 2011. The increase since 1995 may be partly explained by changes following a European Court of Justice ruling in May 1995 that made it illegal for pension schemes to exclude part-time workers.

Figure 7.5: Employee membership of current employer's occupational pension scheme: by sex, 1983 to 2011

Great Britain, percentages



Source: General Lifestyle Survey - Office for National Statistics

Notes:

1. Employees aged 16 and over, excluding Youth Trainees and Employment Trainees. Membership includes a few people who were not sure if they were in a scheme but thought it possible
2. Data from 1983 to 1996/97 is unweighted. From 1998/99 the data is weighted to compensate for non-response and to match known population distributions. For 1998/99 (shown by the first dotted line) unweighted and weighted data is shown for comparison
3. 2005 data includes last quarter of 2004/05 data as the survey changed from financial year to calendar year (shown by the second dotted line). Results for 2006 onwards (the third dotted line) include longitudinal data
4. Information is not shown for part-time men, as sample sizes are not large enough to provide reliable estimates

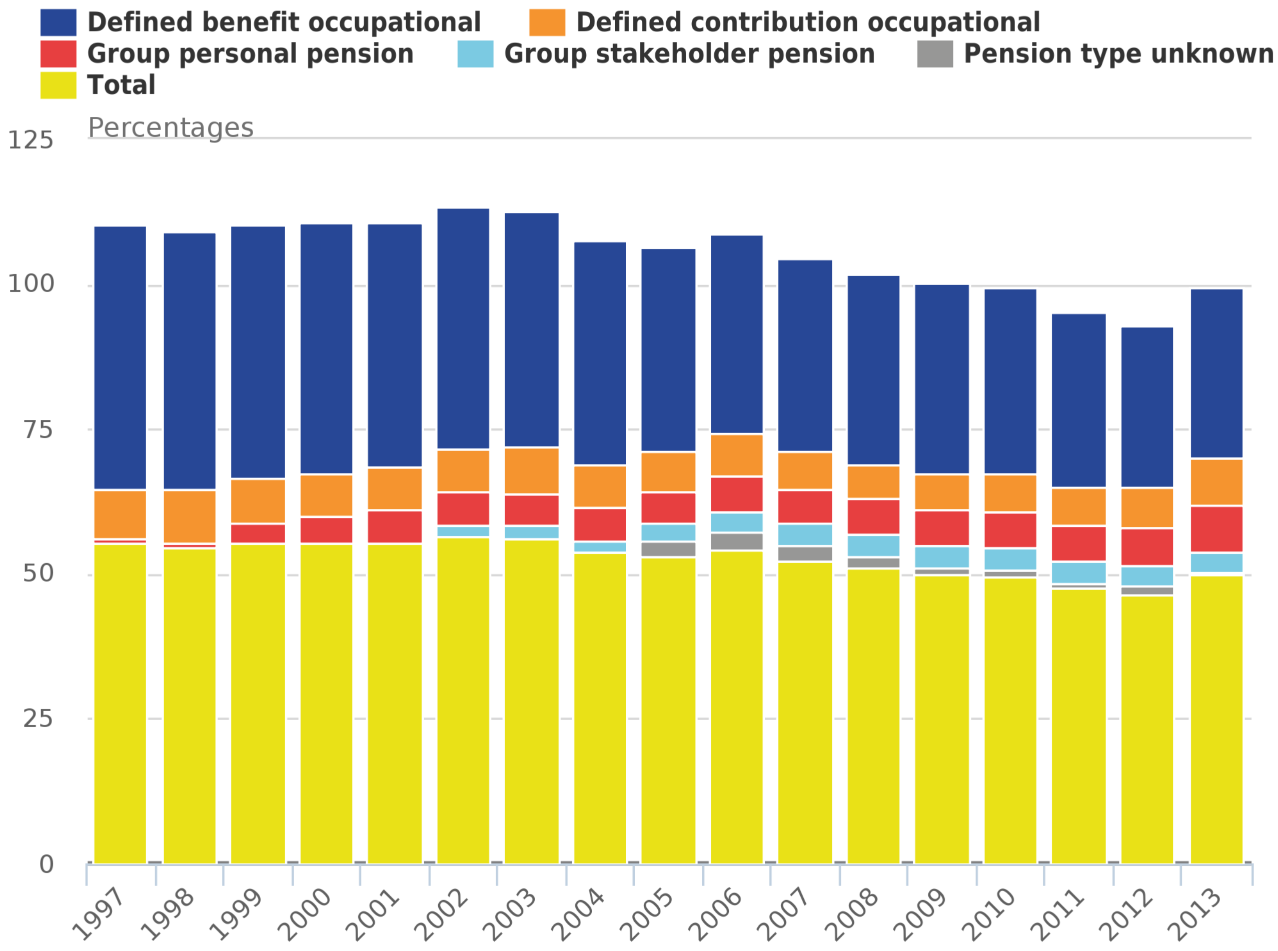
Data from the Annual Survey of Hours and Earnings (ASHE) is available from 1997 onwards only, but is the most useful source of information on the type of pension that employees have because it covers all workplace pensions: occupational pension schemes, Group Personal Pensions (GPPs), group stakeholder and group self-invested personal pensions. Nevertheless, ASHE may overestimate pension scheme membership as its sample is drawn from the Pay As You Earn (PAYE) system, so that low-paid workers earning below the PAYE threshold, who are less likely to belong to a pension, may be under-represented.

Figure 7.6 shows the proportion of employees aged 16 and over in the UK who belong to workplace pensions. It shows that:

- for all schemes; between 1997 and 2012, the percentage belonging to workplace pensions declined from 55% to 47%. However, in 2013 there was an increase to 50%;
- membership of defined benefit occupational, defined contribution occupational and group personal pensions each increased by 1 percentage point between 2012 and 2013;
- the largest share of membership was in defined benefit(salary related) pension schemes. However, the percentage of employees aged 16 and over with a defined benefit workplace pension has declined from 46% in 1997 to 29% in 2013;
- the percentage of employees aged 16 and over with a defined contribution occupational scheme remained about 6-9% from 1997 to 2013; and
- there was an increase in the percentage with Group Personal Pensions and Group Stakeholder Pensions (introduced in 2001), together representing 1% in 1997 and 12% in 2013.

Figure 7.6: Employee membership of a workplace pension: by pension type, 1997 to 2013

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. Results for 2005 are based on a new questionnaire and may not be comparable with earlier results
3. In 2011, ASHE replaced the Standard Occupational Classification 2000 (SOC 2000) with the Standard Occupational Classification 2010 (SOC 2010). The change to SOC 2010 has affected the survey weighting. Rounded to the nearest percentage, the proportions in this figure are the same whether the estimates are calculated on the old or new SOC basis
4. Group stakeholder pensions were first introduced in 2001
5. Group self invested personal pensions are included in the group personal pension category

Figure 7.7 looks at whether UK employees with workplace pensions are contracted out of the State Second Pension (S2P, formerly the State Earnings Related Pension Scheme or SERPS). Employees who are contracted out pay reduced National Insurance contributions or receive contracted out rebates from National Insurance payments. Employers also pay reduced National insurance contributions. The Government abolished contracting out on a defined contribution basis from 6 April 2012. Contracting out for DB schemes will also end with the planned introduction of the single-tier pension in 2016.

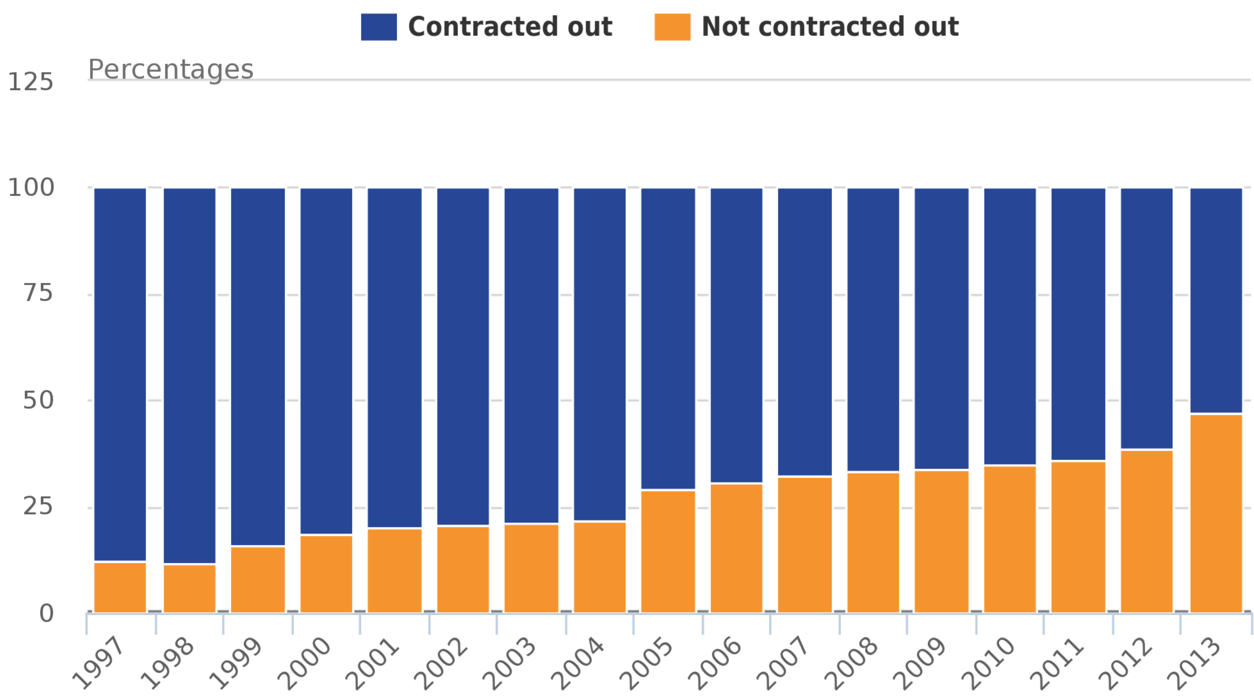
The contracted out rebate was reduced during the 1990s, making contracting out less attractive, especially for employers. In 1997, 88% of employees with workplace pensions were contracted out, but by 2013 this figure has fallen to 53%.

The fall in the percentage of members who were contracted out over the period 1997 to 2013 is likely to be due in part to the decline in defined benefit occupational pension scheme membership in the private sector (see Figure 7.9), as most defined benefit schemes are contracted out. Also, from 2005 ASHE data includes stakeholder pensions, most of which are not contracted out, reducing the proportion of members contracted out further.

Contracting out for defined contribution schemes ended in April 2012 and, therefore, 2013 data fully reflects this change. Results showed that the proportion of employees in contracted out schemes had fallen in 2013, compared to 2011, by nearly 11 percentage points to 53% (Figure 7.7).

Figure 7.7: Employee membership of a workplace pension: by contracted out status, 1997 to 2013

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. Results for 2005 are based on a new questionnaire and may not be comparable with earlier results (indicated by the first dotted line). In particular, breakdowns by contracting out status include stakeholder pensions from 2005; before then, they are for occupational pension schemes and group personal pensions only
3. In 2011 (indicated by the second dotted line), ASHE replaced the Standard Occupational Classification 2000 (SOC 2000) with the Standard Occupational Classification 2010 (SOC 2010). The change to SOC 2010 has affected the survey weighting. Rounded to the nearest percentage, the proportions in this figure are the same whether the estimates are calculated on the old or new SOC basis
4. For 2012 (indicated by the third dotted line), ASHE respondents provided information in respect of the pay period that included 18 April. The returned data did not reflect the Pensions Act 2007 change to defined contribution contracting out. That is, results showed roughly the same proportion of employees in the contracted out defined contribution category in 2012 as in 2011
5. For 2013 (indicated by the fourth dotted line), the Pensions Act 2007 changes ending contracting out for defined contribution schemes are fully reflected in the data, resulting in a lower proportion of pension members who were contracted out

In 2013, almost half of male and female employees (49% and 50% respectively) were members of workplace pensions according to the Annual Survey of Hours and Earnings (ASHE). However, Figure 7.8 shows differences in public and private sector membership:

- membership rates in the public sector were more than twice that of the private sector for both men and women in 2013;
- membership rates were higher for men than for women in both sectors in all years; and
- The gender gap was smaller in the public sector.

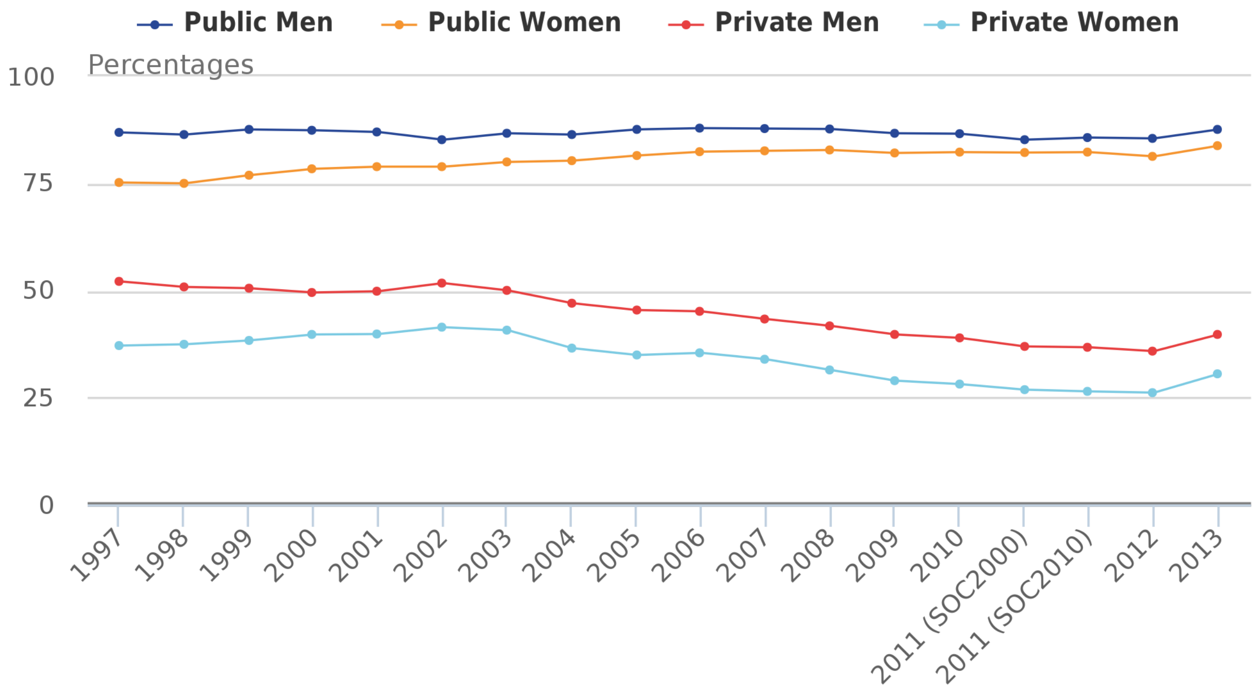
The data in Figure 7.8 shows an increase in total pension membership in 2013 in both public and private sectors, the first increases in the private sector since 2002, possibly reflecting the introduction of automatic enrolment in October 2012.

The membership rate for males was relatively stable in the public sector between 1997 and 2013. In the private sector, male employee membership declined from 52% in 1997 to 36% in 2012. However, membership rose to 40% in 2013.

Female membership in the public sector increased from 75% in 1997 to 84% in 2013. In the private sector, it increased from 37% in 1997 to 41% in 2002. After that, it fell until 2012 to 26% and then rose to nearly 31% in 2013.

Figure 7.8: Employee membership of a workplace pension: by sex and sector, 1997 to 2013

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. Results for 2005 (the first dotted line) are based on a new questionnaire and may not be comparable with earlier results
3. Between 2008 and 2009 (the second dotted line) Lloyds Banking Group, the Royal Bank of Scotland Group and HBOS plc were reclassified from the private sector to the public sector
4. In 2011 (the third dotted line), ASHE replaced the Standard Occupational Classification 2000 (SOC 2000) with the Standard Occupational Classification 2010 (SOC 2010). The change to SOC 2010 has affected the survey weighting. The estimates for women in the private sector have changed (by less than one percentage point) as a result of this adjustment. The download file for this chart includes 2011 estimates on both the SOC 2000 and the SOC 2010 basis

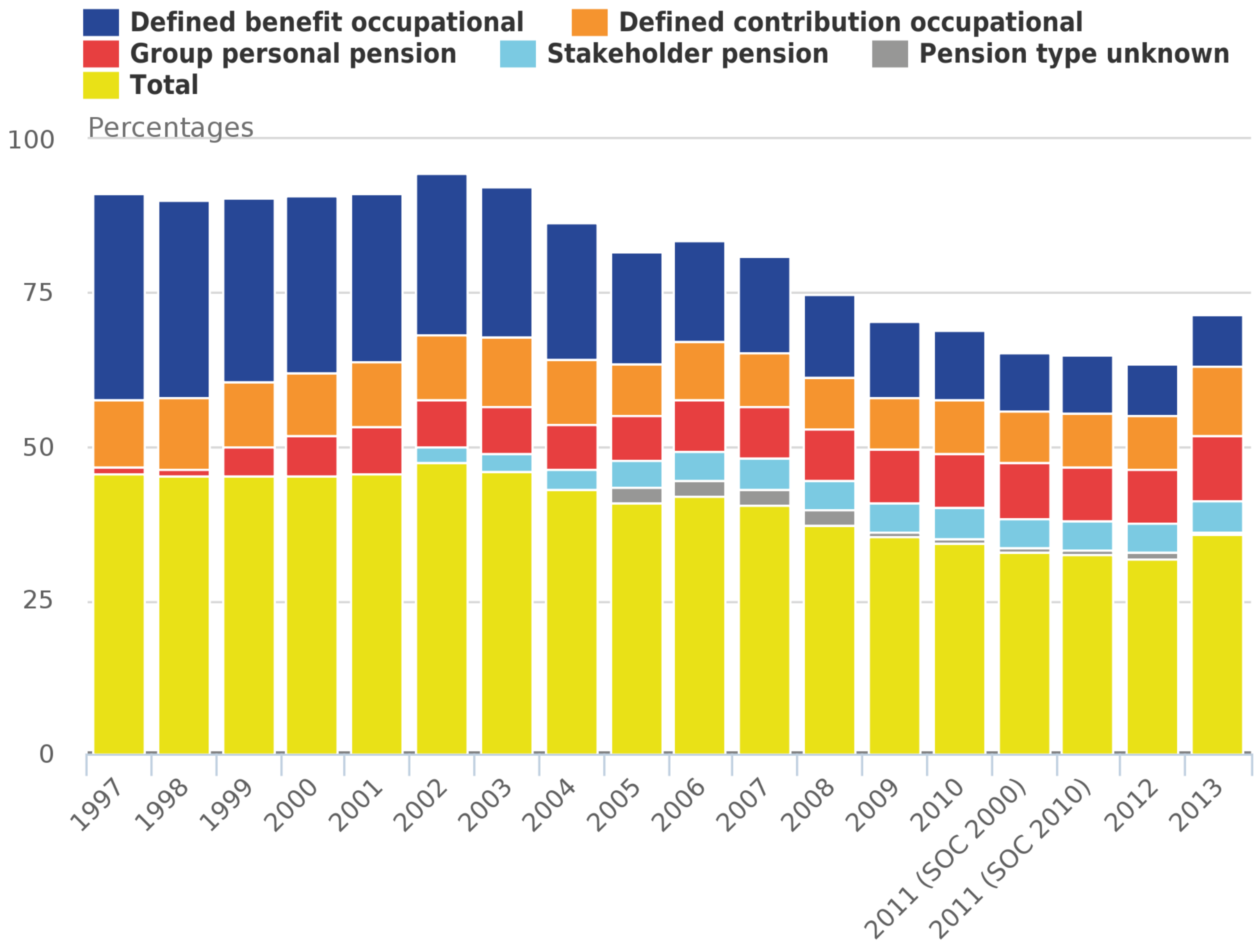
Private sector pension scheme membership has historically been much lower than in the public sector. The different kinds of private sector workplace pensions are presented in Figure 7.9.

Figure 7.9 shows that, for private sector workplace pensions:

- overall membership of workplace pensions fell from 46% in 1997 to 32% in 2012, rising to 36% in 2013;
- membership of defined benefit occupational pension schemes fell from 34% in 1997 to 9% in 2013;
- membership of defined contribution occupational schemes fell slightly, from 11% in 1997 to 9% in 2012, rising to 11% in 2013; and
- membership of group personal and group stakeholder pensions, has increased from 1% in 1997 to 16% in 2013.

Figure 7.9: Employee membership of a private sector workplace pension: by pension type, 1997 to 2013

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only.
2. Results for 2005 (the first dotted line) are based on a new questionnaire and may not be comparable with earlier results
3. Between 2008 and 2009 (the second dotted line) Lloyds Banking Group, the Royal Bank of Scotland Group and HBOS plc were reclassified from the private sector to the public sector
4. In 2011 (the third dotted line), ASHE replaced the Standard Occupational Classification 2000 (SOC 2000) with the Standard Occupational Classification 2010 (SOC 2010). The change to SOC 2010 has affected the survey weighting. The overall proportions of employees in the private sector with a pension has changed (by less than one percentage point) as a result of this adjustment. The download file for this chart includes estimates for 2011 on the SOC 2000 and SOC 2010 basis
5. Group stakeholder pensions were first introduced in 2001 in the UK
6. Group self invested personal pensions are included in the group personal pension category

7 . Self-employed pension membership

In January-March 2013, 4.2 million people aged 16 and over were self-employed in the UK according to the Labour Force Survey (LFS). Of this total, 58% were men working full-time, 12% were men working part-time, 14% were women working full-time and 16% were women working part-time.

Personal pensions, individual and group, were first introduced in 1988, and stakeholder pensions in April 2001. Until recently, these were the only form of private pension that the self-employed could take out, although some self-employed people are still investing in retirement annuity contracts set up before 1988.

From the end of 2011, the National Employment Savings Trust (NEST) provided another option for the self-employed who wish to contribute to a private pension. NEST is an example of a master trust that was set up by the Government under the Pension Act 2008. (For further information about master trusts and other examples, please see Supporting Information. Not all master trusts are open to the self-employed). Although NEST was primarily intended to provide pensions for employees, the National Employment Saving Trust Order 2010 established that NEST can also accept self-employed workers, single person directors and memberships resulting from pension sharing on divorce.

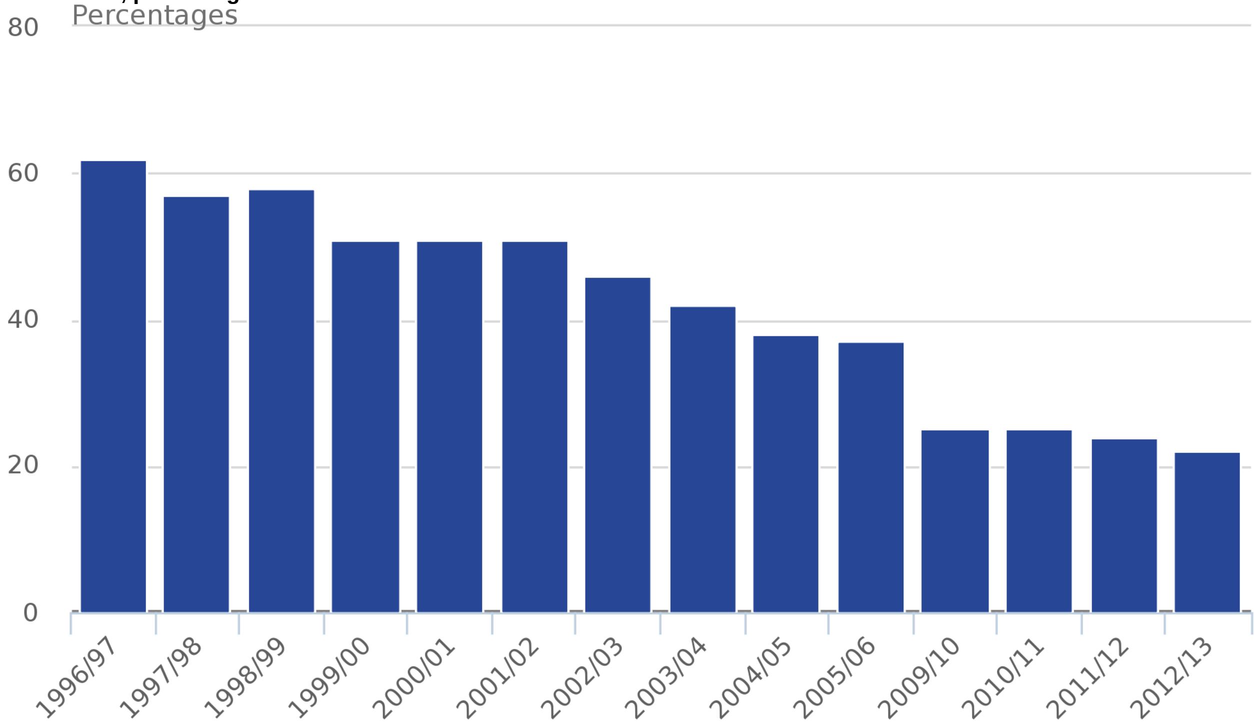
Figure 7.10 refers to self-employed men aged 16 to 64. It shows that 22% of self-employed men contributed to a personal pension in 2012/13, compared to 62% in 1996/97 [1].

There are several possible reasons why the self-employed participation in personal pensions has declined. In 1999, the Individual Saving Account (ISA) was introduced, giving people the opportunity to save tax-free and thus offering an alternative to the personal pension. The percentage of self-employed men that were members of a personal pension fell from 58% in 1998/99 to 51% in 2000/2001.

The 2008/09 recession may have also had an impact on self-employed personal pension membership. Between 2005/06 and 2009/10, male membership fell from 37% to 25%, and it fell further to 22% in 2012/13.

Figure 7.10: Self-employed, working age men, by whether currently contributing to a personal pension, 1996/97 to 2012/13

Great Britain, percentages



Source: Family Resources Survey - Department for Work and Pensions

Notes:

1. Working age is 16 to 64

2. Percentages have been rounded to the nearest 1%

3. The estimates are based on sample counts that have been adjusted for non-response using multi-purpose grossing factors that control for tenure type, Council Tax Band and a number of demographic variables

4. Estimates are subject to sampling error and remaining non-sampling bias

5. Data for 2006/07, 2007/08 and 2008/09 are not available

Notes for self-employed pension membership

1. In pension trends chapter 7, 2013 edition, the estimates presented were from the General Lifestyle Survey (GLF) and showed the percentage of self-employed men currently belonging to a pension as 34% in 2011. The estimate for 2011/12 in Figure 7.10 is 24%. The GLF estimate included full time self-employed men only, whereas Figure 7.10 is for all self-employed men. Part-time employees are less likely to be members of a private pension scheme and, therefore, we would expect the estimates in Figure 7.10 to be lower. Comparison of the GLF and Family Resources Survey estimates is further complicated by the differing questions used in the respective surveys.

8 . Contributions to personal and stakeholder pensions

HM Revenue and Customs (HMRC) publishes statistics based on administrative data from pension providers which show the number of individuals contributing to personal and stakeholder pensions (a subset of the total number holding personal and stakeholder pensions, which includes pension holders not currently contributing.) The figures include pensions where the only contribution was the national insurance rebate.

In the 2012/13 tax year, 5.5 million individuals in the UK contributed to individual or employer sponsored (group personal) pensions. There were 3.4 million men contributing to personal pensions and 2.1 million women. In terms of employment status, 4.9 million were employees and 0.5 million self-employed; the remaining individuals were not in employment.

9 . Characteristics of pension members

This section explores some of the characteristics of private pension scheme members. First, using data from the Annual Survey of Hours and Earnings (ASHE), it shows how workplace pension membership relates to the member's age, the industry in which the member is employed and earnings.

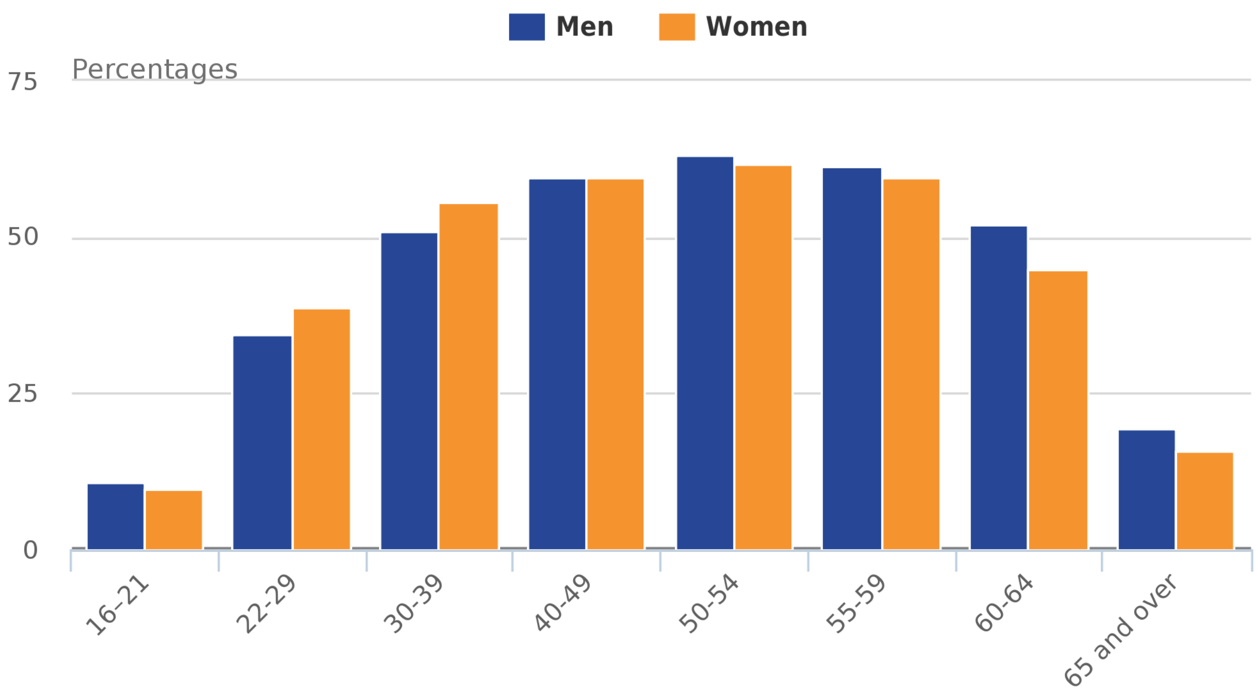
Then it presents analysis from the Wealth and Assets Survey (WAS), looking at the characteristics of active pension scheme members in terms of the type of household they live in.

Figure 7.11 looks at the proportion of employees aged 16 and over who were active members of a workplace pension in the UK in 2013, by sex and age:

- men and women in their 40s and 50s were most likely to be members of their employer's pension scheme;
- membership was highest in the 50 to 54 age group. In this age group 63% of male employees and 62% of female employees were members in 2013;
- for both male and female employees, membership was least likely at the beginning of their working life. For employees aged 16 to 21, around 10% of male and female employees belonged to their employer's pension scheme. For those aged 65 and over, 19% of male and 16% of female employees were members in 2013; and
- generally, membership was higher for women in the younger age groups. It was higher for men for the age groups 50-54 and above.

Figure 7.11: Employee membership of a workplace pension: by sex and age, 2013

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only

2. In 2011 ASHE replaced the Standard Occupational Classification 2000 (SOC 2000) with the Standard Occupational Classification 2010 (SOC 2010). The change to SOC 2010 has affected the survey weighting. The download file for this chart includes estimates for 2011 on the SOC 2000 and SOC 2010 basis

3. The age bands are not uniform: narrower bands are presented for those at the beginning and end of their working lives

Between industries, there was considerable variation in employee membership of workplace pensions. The variations between industries reflect differences in the extent to which employers offer pension schemes as well as the rate at which employees take up schemes offered. Sectors with high public sector employment, such as public administration, defence and social security, education, and health and social work, tend to have high levels of pension membership.

One factor behind the variations between industries is likely to be the differences in average earnings between sectors. The higher people's weekly earnings, the more likely they are to belong to a workplace pension and the lower their earnings, the less likely they are to belong to a workplace pension.

Table 7.12 presents employees aged 16 and over who were members of a workplace pension, by sex and industry. In 2013:

- for men and women in 2013, those working in public administration , defence and social security were most likely to be members (over 90% for both); and

- the industry where both men and women were least likely to be members was accommodation and food service industries (16% and 14% respectively), Several increases in the percentages of employees with pensions were observed between 2012 and 2013, for both men and women. For example, there has been a 15 percentage point increase for women working in electricity, gas, steam and air conditioning from 66% in 2012 to 81% in 2013. In the accommodation and food service industries, the percentage of members has more than doubled since 2012 to 16% and 14% in 2013 for men and women respectively.

Table 7.12: Employee membership of a workplace pension: by sex and industry, 2013

United Kingdom

Percentages

	Men	Women
Public admin, defence, social security	92.3	90.7
Electricity, gas, steam and air conditioning	90.0	80.6
Education	77.0	75.3
Financial and insurance activities	81.5	77.6
Health and social work	60.0	54.6
Information and communication	56.9	50.4
Transportation and storage	56.3	57.1
Manufacturing	51.6	44.5
Professional, scientific and technical	49.0	39.9
Real estate activities	42.4	33.6
Water supply and other	54.7	61.6
Construction	28.6	25.4
Mining and quarrying	64.1	:
Wholesale and retail trade, and other	31.4	29.1
Arts, entertainment and recreation	23.3	23.1
Agriculture, forestry and fishing	18.4	12.3
Administration and support services	16.5	12.7
Accommodation and food service industries	15.9	13.8
Other service activities	36.3	23.9

Source: Annual Survey of Hours and Earnings, Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only

2. Industries are grouped according to the Standard Industrial Classification (SIC) 2007

3. The 'other' category in 'Water supply and other' covers sewerage, waste management & remediation activities

4. " : " denotes that results have been suppressed due to concerns over quality (the coefficient of variation is greater than 20)

Figure 7.13 shows the proportion of employees aged 16 and over contributing to a workplace pension, by sex and earnings level for full-time employees. In 2013:

- 74% of male and 83% of female full-time employees reporting gross weekly earnings of £600 and over were members of a workplace pension; and
- 20% of men and 28% of women full-time employees earning less than £300 a week were members of a workplace pension.

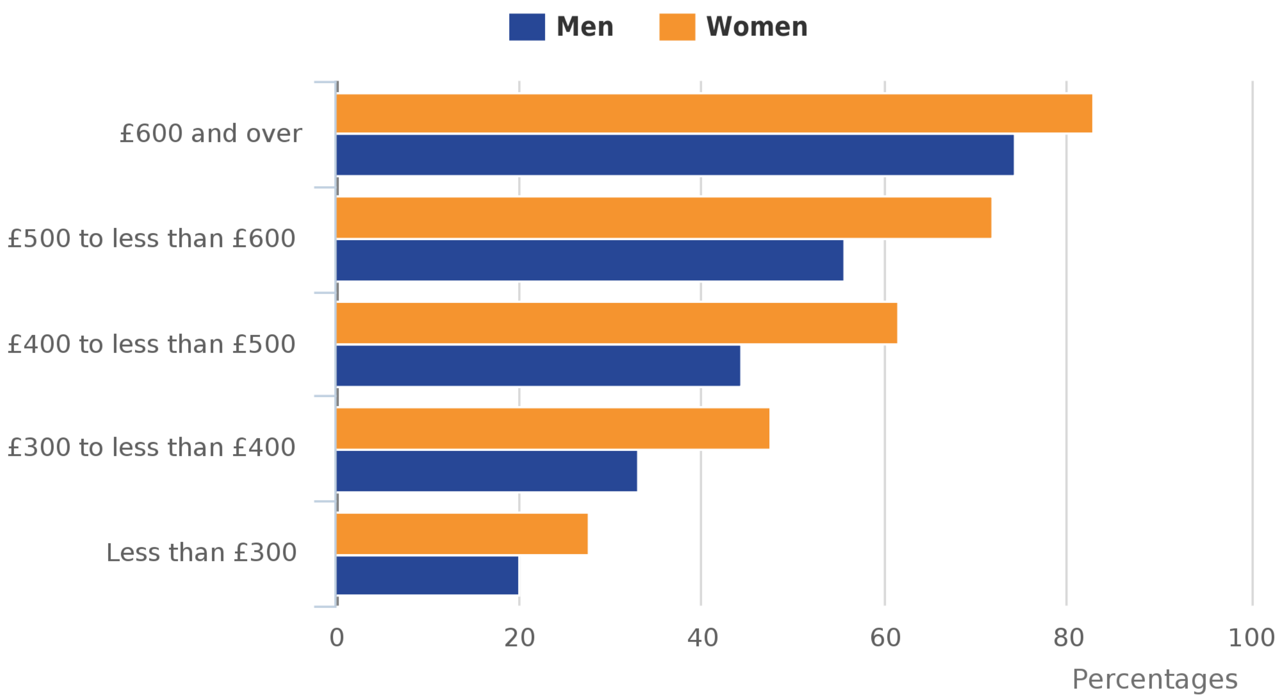
The proportion of female full-time employees contributing to a workplace pension was greater than that for males in all earnings bands[1]. In the '£400 to less than £500' earnings band workplace pension membership was 17 percentage points higher for women compared to men.

Comparing 2013 with 2012 (not shown in Figure 7.13):

- the percentage of both male and female employees with a pension increased across all five pay bands; and
- the greatest increase occurred in the lowest pay band, 'less than £300', an increase of 7 percentage points for men and 6 percentage points for women.

Figure 7.13: Full-time employee membership of a workplace pension: by sex and gross weekly earnings, 2013

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. In 2011 ASHE replaced the Standard Occupational Classification 2000 (SOC 2000) with the Standard Occupational Classification 2010 (SOC 2010). The change to SOC 2010 has affected the survey weighting. The download file for this chart includes estimates for 2011 on the SOC 2000 and SOC 2010 basis
3. Data from 2005 to 2013 is available in the download

Notes for characteristics of pension members

1. We believe there may be several reasons why Figure 7.13 shows a higher percentage of women with a pension, a pattern largely not seen in Figure 7.3. Figure 7.3 includes all men and women aged 16-64, while figure 7.13 covers full-time employees. There are large numbers of female employees in industries where pension membership is relatively high (see for example Table 7.12 ‘public administration, defence and social security). These female employees will be spread across the earnings bands in Figure 7.13 and so raise the membership level for women in each earnings band. Also, men had higher weekly earnings than women, and those with high earnings are more likely to be a member of a workplace pension. Further differences can be explained by the different data sources for figure 7.3 and 7.13. For more information please see the data sources section. Similar reasons are believed to account for the results in Figure 7.14.

10 . Characteristics of individuals by household type

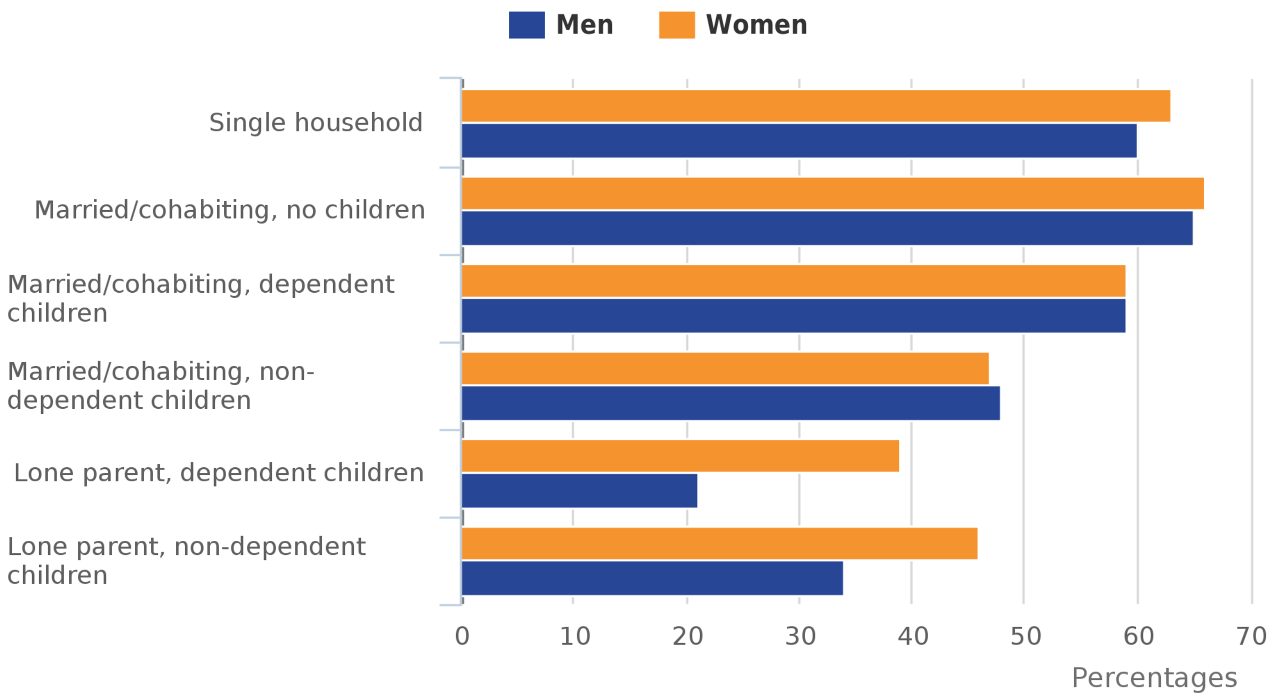
Figure 7.14 shows the proportion of economically active individuals who are currently active members of a private pension scheme, by sex and household type. All private pensions were included, both workplace and personal. Only men aged 16 to 64 and women aged 16 to 59 are included in this analysis [1].

Individuals who were married/cohabiting without children had the highest proportion of membership, 65% for men and 66% for women. The second highest membership was for men and women in single households (60% and 63% respectively).

The lowest proportion of private pension membership was for lone parent with dependent children (men 21%, women 39%); and the second lowest for lone parent with non-dependent children (men 34%, women 46%).

Figure 7.14: Current pension scheme membership of economically active individuals: by sex and household type, 2010/12

Great Britain, percentages



Source: Wealth and Assets Survey - Office for National Statistics

Notes:

1. Men aged 16-64 and women aged 16- 59 who were not in full time education are included in the analysis
2. Estimates for individuals in households with pensioners (over 65 for men and 60 for women) and multiple family/other households were not calculated
3. The economically active are defined as those ages 16 or over who are either in employment or unemployed
4. Current/active members are those who are currently contributing or having contributions paid on their behalf to a private pension scheme

Notes for characteristics of individuals by household type

1. We believe there may be several reasons why Figure 7.13 shows a higher percentage of women with a pension, a pattern largely not seen in Figure 7.3. Figure 7.3 includes all men and women aged 16-64, while figure 7.13 covers full-time employees. There are large numbers of female employees in industries where pension membership is relatively high (see for example Table 7.12 ‘public administration, defence and social security). These female employees will be spread across the earnings bands in Figure 7.13 and so raise the membership level for women in each earnings band. Also, men had higher weekly earnings than women, and those with high earnings are more likely to be a member of a workplace pension. Further differences can be explained by the different data sources for figure 7.3 and 7.13. For more information please see the data sources section. Similar reasons are believed to account for the results in Figure 7.14.

11. Supporting information

Automatic enrolment - Starting in October 2012, with gradual roll-out by 2018, all employers have a duty to automatically enroll eligible employees into a qualifying pension scheme and to make contributions on their behalf. Automatic enrolment is being introduced in stages, based on the size of the employers’ PAYE scheme as of 1 April 2012, commencing with the larger employers. Pension Trends Chapter 6 and Chapter 8 contain further details of automatic enrolment.

A master trust is a multi-employer occupational pension scheme where each employer has its own division within the master arrangement rather than on an individual basis. Several master trusts are prepared to accept members who have been automatically enrolled. Not all master trusts accept the self-employed.

Pension Trends consists of 14 chapters bringing together official statistics on pensions and retirement. Pension Trends Chapter 6: Private Pensions and Pension Trends Chapter 8: Pension Contributions complement the content of this chapter.

12. References

1. Department for Work and Pensions, Family Resources Survey
2. HM Revenue & Customs, Pension Statistics
3. Office for National Statistics, Occupational Pension Schemes Annual Report 2013
4. Office for National Statistics, Annual Survey of Hours and Earnings Pensions
5. Office for National Statistics, General Lifestyle Survey
6. Office for National Statistics, Pension Trends
7. Office for National Statistics, Pension Trends Glossary (198.9 Kb Pdf)

13. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

   These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.

Compendium

Chapter 8: Pension contributions, 2014 edition

People are living longer and are likely to enjoy a longer retirement. But many people are not saving for their retirement, and many that are saving are not saving enough. One way of saving for retirement is by making pension contributions. This chapter looks at contributions to private (non-state) pensions. These are: occupational schemes for private sector and public sector employees; and personal pensions, including group personal pensions and stakeholder pensions. The chapter starts by considering the level of contributions to private sector occupational pension schemes made by scheme members and their employers. This information is presented for Defined Benefit (DB) and Defined Contribution (DC) schemes. It concludes by considering the level of contributions made to personal pensions.

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28 November 2014

Next release:
To be announced

Notice

8 January 2016

This publication has been discontinued. The last edition to be published was 28 November 2014.

Table of contents

1 . Background

Most member and employer contributions to private pensions are made as a percentage of the employee's pay. Such contributions, along with fixed amount payments, can be made as part of a schedule of normal (or regular) contributions. Members may also choose to make additional contributions to their private pension. Both of these types of contributions are considered within this chapter. When special cash payments are made to schemes (for example to address a deficit in a defined benefit schemes' liabilities), these payments are not considered normal contributions. Information on such payments are not considered in this chapter.

The level of contributions alone does not provide a measure of pension adequacy. In Defined Contribution (DC) schemes, also known as money purchase schemes, the pension is determined by the level of contributions, the investment returns received while the contributions are invested in a pension fund and, if an annuity is purchased, by the annuity market (see Defined Contribution pension savings). In Defined Benefit (DB) schemes, the scheme rules determine the amount of pension that will be received in retirement, based on the accrual rate, length of service and salary. (For definitions, see Pension Trends Glossary (198.9 Kb Pdf). For information regarding membership of all types of non-state pension see Pension Trends Chapter 7.)

There is considerable variation in the level of contributions between schemes, and in employer and employee contributions. At one extreme, employers bear the whole cost of running the pension scheme. These schemes are called non-contributory as their members pay no contributions. At the other end of the spectrum, there are pensions where the employer makes no contribution and the full cost of pension saving is carried by the individual. These are personal pensions.

Based on average contribution rates, around three-quarters of the cost of private sector DB occupational pension schemes falls on the employer. With DC occupational pension schemes, the employer makes around two-thirds of total contributions.

The amount an employer contributes to a private sector DB pension scheme can vary and is usually based on actuarial estimates of the fund required to meet payments of scheme benefits (see Pension Trends Chapter 9). In the 1990s, when the strong equity market led to significant growth in fund values, some employers took contribution holidays to reduce pension fund surpluses. In contrast, the global economic downturn in the early 21st century meant that some pension schemes went into deficit and employers had to make additional special contributions.

2 . Workplace pension reforms

Starting in October 2012, with gradual roll out by 2018, all employers have a duty automatically to enrol eligible employees into a qualifying pension scheme and to make contributions on their behalf. Automatic enrolment is being introduced in stages, based on the size of the employers' Pay As You Earn (PAYE) scheme on 1 April 2012, commencing with the larger employers. Minimum workplace pension contribution levels for employers have also been introduced, in a phased process, again with full implementation by 2018.

The minimum contribution levels vary depending upon the scheme's definition of pensionable pay. In the case of a scheme with a definition of pensionable pay equivalent to that of qualifying earnings [1], the minimum level of contributions, expressed as a proportion of the employees' qualifying earnings, are as follows:

- between October 2012 and September 2017 Defined Contribution (DC) schemes or personal pensions must have contributions of at least 2%, with at least 1% coming from the employer;
- between October 2017 to September 2018 the minimum contribution will be 5%, with at least 2% coming from the employer; and
- from October 2018 it will be 8%, with at least 3% coming from the employer.

It should be noted that workplace pension reforms are not taking place in isolation. Other reforms, (for example, state pension reform, see section: **Contracting out of private sector workplace pension schemes**) and other factors, such as the use of salary sacrifice arrangements[2], employment levels, disposable household income levels and attitudes to saving for retirement, may all affect contribution rates

For more detailed information on workplace pension reforms and links to further information please see **Supporting information: Workplace pension reforms**.

Notes for workplace pension reforms

1. Qualifying earnings refer to earnings between £5,668 to £41,450 in 2013/14. Qualifying earnings include earnings from bonuses and overtime. Some pension scheme rules do not include these items in their definition of pensionable pay.

2. Employer contributions levels can be affected by salary sacrifice arrangements whereby higher contributions are made by the employer with the member in return accepting a lower rate of pay. Where such arrangements exist, the member and employer both benefit from lower National Insurance payments.

3 . Data sources

The various data sources used in this chapter have different coverage and characteristics. The analyses use the source that is most appropriate for the topic, but this inevitably means that there are differences in the types of pension covered and in the population base between one analysis and another. The main sources used are:

- the Office for National Statistics (ONS) Occupational Pension Schemes Survey (OPSS), for estimating numbers of active members of occupational pension schemes, average contribution rates and the distribution of employee and employer contribution rates in occupational schemes;

- the ONS Annual Survey of Hours and Earnings (ASHE), for the distribution of employee and employer contribution rates for workplace pensions; and

- HM Revenue and Customs administrative data for the number and size of contributions to personal pensions.

The OPSS collects regular contribution rates, excluding fixed amount payments, but can also identify the proportion of members in schemes with fixed amount payments. In ASHE, contributions include one-off fixed amount payments from either the employee or employer. Both ASHE and OPSS exclude additional voluntary contributions (AVC's) made by employees, and employer contributions which cover more than one employee, for example, deficit reduction payments to a scheme.

The reference date for the 2013 estimates from the OPSS and ASHE is April 2013. The 2013 results are the first estimates to be produced from these surveys following the introduction of the Workplace pension reforms. While reference is made to these reforms within the chapter, it should be noted that the phased implementation of the reforms was at an early stage in April 2013.

Caution should be exercised when interpreting changes in estimates of average contribution rates over time. Changes over time may reflect variation in sample estimates rather than significant shifts in contributions rates. Quality and methodology information is available on the ONS website for the OPSS (354.5 Kb Pdf) and ASHE (212.6 Kb Pdf), both of which are designated as National Statistics in accordance with the Statistics and Registration Service Act 2007.

4 . Private sector occupational pension contribution rates

On average, regular contribution rates (excluding fixed amount payments) are higher for Defined Benefit (DB) schemes than for Defined Contribution (DC) schemes. The 2013 Occupational Pension Schemes Survey (OPSS) found that the average total contribution rate (employee plus employer contributions) for private sector DB occupational pension schemes was 20.6%, while for DC schemes it was 9.1%.

Table 8.1 shows weighted-average contribution rates since 2000, for the years for which data are available from the OPSS. Between 2011 and 2013, employer contribution rates for DB schemes have risen slightly, from 14.2% to 15.4%. It may be that schemes increase their regular contribution rates in order to minimise deficits or the risk of falling into deficit. Pension Protection Fund (PPF) estimates of DB schemes liabilities have increased over the last few years (Table 4.2 of the Purple Book 2014), suggesting schemes may need to consider raising regular contribution rates.

The recent fall in average employer contribution rates for DC schemes, from 6.6% in 2012 to 6.1% in 2013, may be linked to the impact of workplace pension reforms. Whilst it is not possible to isolate the effect of these reforms, an increase in the number of new members starting pensions on the minimum contribution rates would lower the average rate. The fall may also be due to employers reducing contributions into existing pensions, referred to as ‘levelling down’. Analysis conducted by the Department of Work and Pensions (DWP) suggests the incidence of ‘levelling down’ has remained at a level consistent with that found before the introduction of automatic enrolment.

Table 8.1: Weighted-average contribution rates to private sector occupational pension schemes: by benefit structure and contributor, 2000 to 2013

United Kingdom

Percentages

Year	Defined benefit			Defined contribution		
	Employee	Employer	Total	Employee	Employer	Total
2000	4.2	9.9	14.0	2.7	4.3	7.0
2004	4.3	14.5	18.8	2.9	6.0	8.9
2005	4.4	16.0	20.4	2.7	6.3	9.0
2006	4.7	15.0	19.7	3.0	5.9	8.9
2007	4.9	15.6	20.5	2.7	6.5	9.1
2008	4.9	16.6	21.6	3.0	6.1	9.0
2009	5.2	16.5	21.7	2.9	6.4	9.3
2010	5.1	15.8	20.8	2.7	6.2	8.9
2011	4.9	14.2	19.2	2.8	6.6	9.4
2012	4.9	15.2	20.2	3.1	6.6	9.7
2013	5.2	15.4	20.6	2.9	6.1	9.1

Source: Occupational Pension Schemes Survey, Office for National Statistics

Notes:

1. Includes schemes where standard contributions (from either the employee or the employer) were zero

2. Excludes normal contributions paid as fixed amounts

3. Includes rates for open, closed and frozen schemes

4. Excludes schemes with fewer than 12 members

5. Changes to methodology for 2006 onwards mean that comparisons with 2005 and earlier should be treated with caution

6. In 2010, the OPSS questionnaire was redeveloped to ensure that, if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and

the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and onwards with earlier estimates

7. Prior to 2013, Defined Contribution (DC) pension schemes could classify themselves in OPSS as either contracted out or not contracted out of the additional state pension. The Pensions Act 2007 abolished the option for DC pensions to contract out of the additional state pension, with effect from April 2012. 2012 data may not fully reflect the impact of this change. See Pensions Trends Chapter 8: Pension Contributions, 2014 edition, section: Contracting out of private sector occupational pension schemes

Changes in contributions over time can also be examined by looking at the distribution of active members (or employees) across contribution rate bands. It should be noted that some of the changes in the distribution of members across contribution bands reflect underlying changes, such as the shift in membership from DB to DC schemes (see Pension Trends Chapter 7) or changes to the ability of schemes to contract out of the additional state pension (see section **Contracting out of private sector occupational pension schemes**). The following sections look at the distribution of employee and employer contribution rates.

Employee contribution rates for private sector occupational pension schemes

This section looks at employee contribution rates for private sector occupational Defined Benefit (DB) and Defined Contribution (DC) schemes with 12 or more members. In 2013, according to results from the OPSS, an employee in a private sector occupational DB scheme contributed, on average, 5.2% of salary. For occupational DC schemes, the average contribution rate was 2.9%. The average contribution rate for employees in private sector occupational DB schemes, was estimated to have increased from 2000 to 2009, fell to 4.9% by 2012 but then increased to 5.2% in 2013. For occupational DC schemes, there has been little change in employee contribution rates (Table 8.1).

The total number of active members of private sector occupational pension schemes fell from 6.3 million in 1991 to 2.7 million in 2012 then increasing to 2.8 million in 2013 (For information about private pension membership see Pension Trends Chapter 7). These figures exclude very small schemes (with fewer than 12 members) as data on contribution rates are less robust for such schemes and they account for only a small amount of private sector occupational pension scheme membership, 0.1 million members in 2013. The estimates provided in this section also exclude those that did not provide information on their contribution rates, around 0.1 million members in 2013.

Table 8.2 shows information from OPSS on the proportion of employees within each employee contribution rate band. For 2013, the proportion of members in the lowest contribution band (under 3%) was around 9% of the total, 3 percentage points higher than in 2012. The proportion of active members in the highest contribution band increased from just under 22% in 1991 to over 42% in 2009 but then fell to just under 35% by 2013.

Table 8.2: Proportion of active members of private sector occupational pension schemes: by employee contribution rates, 1991 to 2013

United Kingdom

Percentages

Year	Under 3%	3% to under 5%	5% to under 6%	6% and over	Non-contributory or other basis
1991	5	22	30	22	22
1995	10	27	30	14	19
2000	10	20	33	22	16
2004	7	21	19	32	21
2005	7	18	21	32	22
2006	7	20	20	38	15
2007	7	19	17	39	18

2008	6	24	14	40	16
2009	6	23	13	42	16
2010	6	16	18	39	21
2011	6	15	21	37	20
2012	6	19	19	36	19
2013	10	19	20	35	17

Source: Occupational Pension Schemes Survey, Office for National Statistics

Notes:

1. Excludes schemes with fewer than 12 members and non-respondents

2. Due to changes in the definition of the private and public sectors, estimates for 2000 and onwards differ from earlier years. From 2000, organisations such as the Post Office and the BBC were reclassified from the public to the private sector

3. Changes to methodology for 2006 onwards mean that comparisons with 2005 and earlier should be treated with caution

4. In 2010, the OPSS questionnaire was redeveloped to ensure that if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and onwards with earlier estimates

5. 'Other basis' means contributions made other than as a percentage of salary. For 2006 and before, 'other basis' may have included fixed amount or voluntary payments. For 2007 onwards, 'other basis' includes members of defined benefit schemes with normal contributions paid as fixed amounts only. If contributions were made both as a percentage of earnings and as fixed amount payments, membership is included in the percentage contribution rows

Figure 8.3 shows the breakdown of DB and DC employee contribution rates by bands for 2009 to 2013. For DB schemes, the most common rate for employee contributions was ‘6% and over’. This band represented 60% of active members in 2013. Contribution rates were generally lower for DC schemes. Tthe most common rate for DC employee contributions was ’3% to 4%’. This band represented around 25% of active members in 2013. This difference might be explained by the different characteristics of DB and DC schemes. For DB schemes, the level of contributions employees (and employers) make is based on actuarial estimates of the amount of money required to meet the promised level of pension payment to all scheme members on retirement. For DC schemes, no promise regarding the level of pension payment that will be received by members in retirement is made.

Between 2012 and 2013, the proportion of employee members of DC schemes contributing ‘Under 2%’ increased from 3% to 12%. This may be, in part, due to the impact of the workplace pension reforms, with new members starting DC pensions in 2013 as a result of automatic enrolment potentially making only the minimum contributions required.

Figure 8.3: Distribution of active membership of private sector occupational pension schemes: by type of scheme and employee contribution rate, 2009 to 2013

United Kingdom, percentages

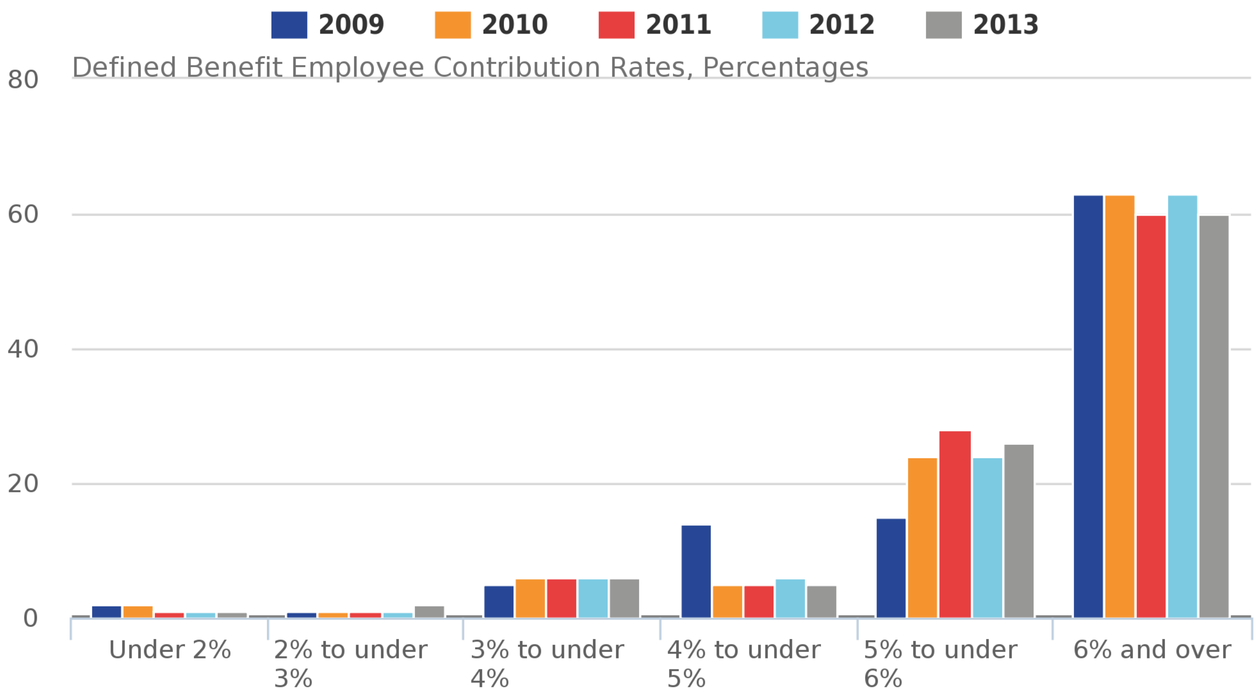
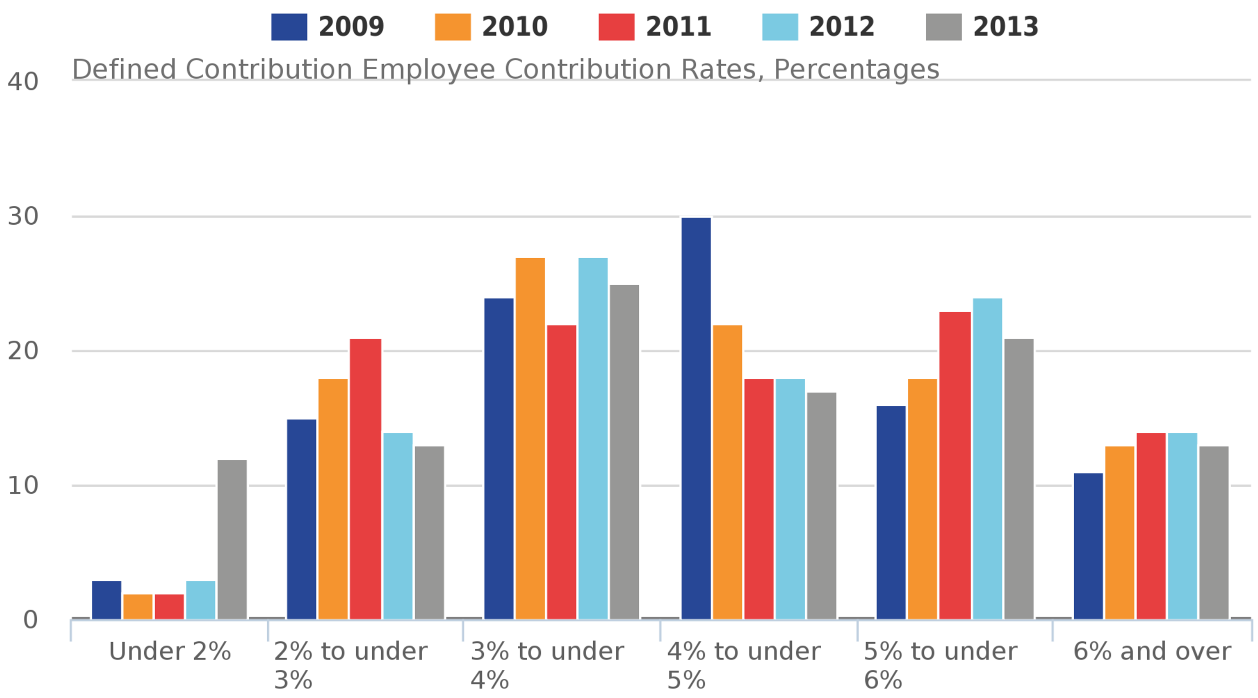


Figure 8.3: Distribution of active membership of private sector occupational pension schemes: by type of scheme and employee contribution rate, 2009 to 2013

United Kingdom, percentages



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

Notes:

1. Excludes schemes with fewer than 12 members

2. Excludes non-contributory arrangements and contributions paid as fixed amounts only

3. Percentages are calculated excluding non-response

4. In 2010, the OPSS questionnaire was redeveloped to ensure that, if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and onwards with earlier estimates

5. Prior to 2013 Defined Contribution (DC) pension schemes could classify themselves in OPSS as either contracted out or not contracted out of the additional state pension. The Pensions Act 2007 abolished the option for DC pensions to contract out of the additional state pension, with effect from April 2012. 2012 data may not fully reflect the impact of this change. See section: Contracting out of private sector occupational pension schemes

Employer contribution rates for private sector occupational pension schemes

In this section, we look at employers' regular contribution rates using results from the OPSS. The data excludes additional contributions paid as fixed amounts though additional contributions can be substantial where employers are correcting deficits in DB schemes.

There is a marked difference between employer contribution rates in DB and DC pension schemes. In 2013, the average employer contribution rate for private sector DB occupational pension schemes was 15.4% of salary. This compares with an average employer contribution rate of 6.1% for DC schemes (see Table 8.1). Part of the difference between contribution rates in DB and DC schemes is attributable to the different characteristics of the schemes and their members:

- DC occupational pension schemes can no longer contract out of the additional state pension. The Pensions Act 2007 abolished the option for DC pensions to contract out with effect from April 2012. Even prior to this, most DC occupational schemes were not contracted out. Most DB occupational schemes are contracted out (see section **Contracting out of private sector occupational pension schemes**);

- most DC schemes are not as long established as DB schemes. As DB pension schemes membership matures, it is possible higher contribution rates are more likely in order that the schemes can meet their liability to these members (for more information see Pension Trends Chapter 6).

The distribution of active membership by level of employer contributions is shown in Figure 8.4. In 2013, 71% of active members of private sector DB schemes had employer contributions of 12% of salary or more. The proportion with employer contribution rates of '15% and over' fell from just below 58% in 2012 to just below 50% in 2013. Whilst, as stated previously, it is not possible to isolate the effect of workplace pension reforms, the lower proportion in the '15% and over' band in 2013, may reflect an increase in the number of employees being automatically enrolled into existing DB pension schemes with employer contributions in the lower contribution bands. It may also reflect employers reducing contributions into existing pensions.

Figure 8.4: Distribution of active membership of private sector occupational pension schemes: by type of scheme and employer contribution rate, 2009 to 2013

United Kingdom, percentages

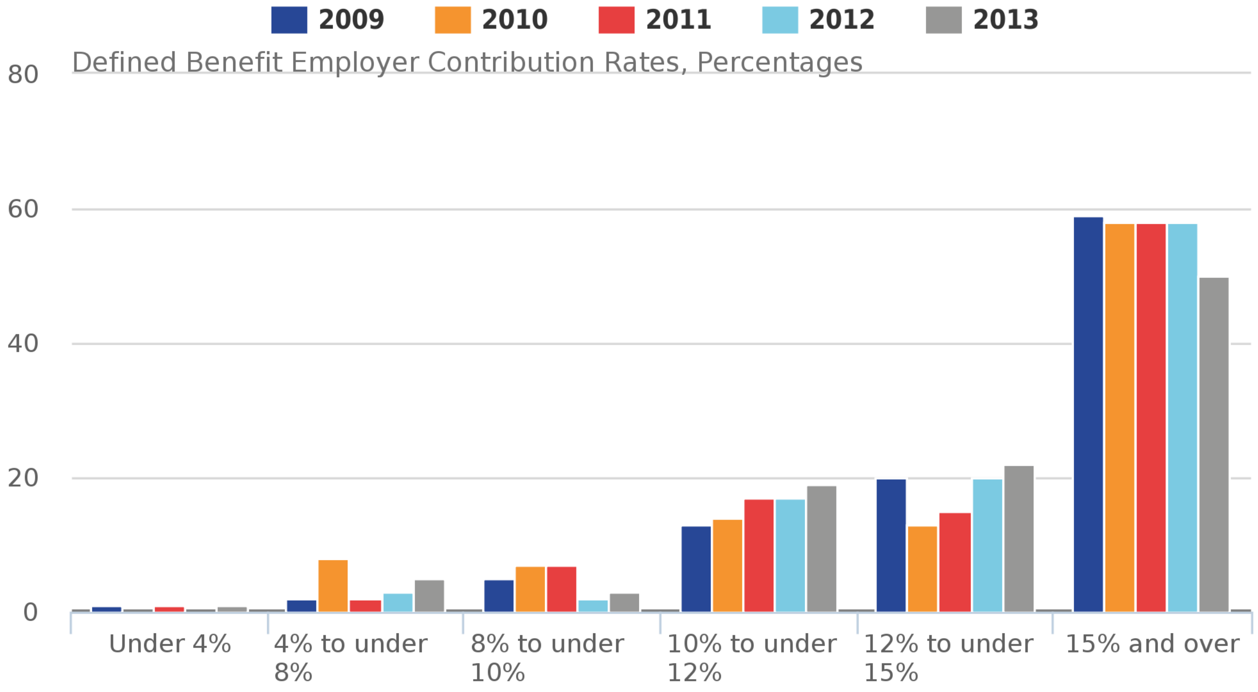
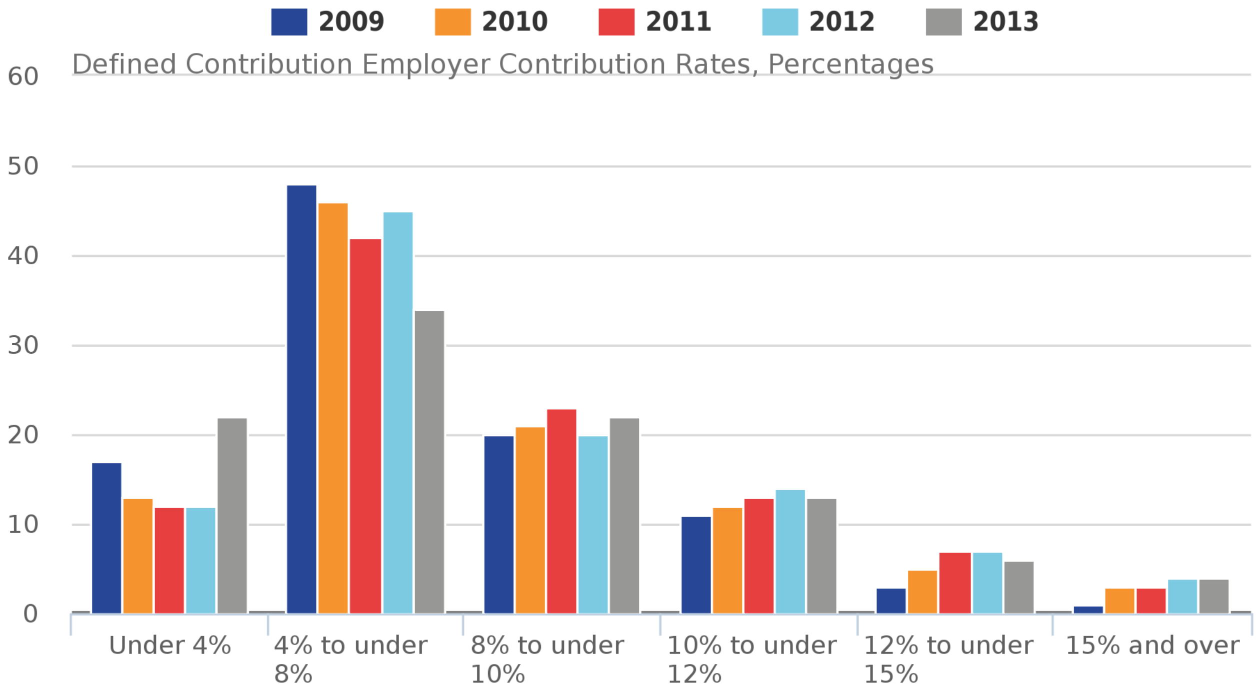


Figure 8.4: Distribution of active membership of private sector occupational pension schemes: by type of scheme and employer contribution rate, 2009 to 2013

United Kingdom, percentages



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

Notes:

1. Excludes schemes with fewer than 12 members

2. Excludes non-contributory arrangements and contributions paid as fixed amounts only

3. Percentages are calculated excluding non-response

4. In 2010, the OPSS questionnaire was redeveloped to ensure that, if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and onwards with earlier estimates

5. Prior to 2013 Defined Contribution (DC) pension schemes could classify themselves in OPSS as either contracted out or not contracted out of the additional state pension. The Pensions Act 2007 abolished the option for DC pensions to contract out of the additional state pension, with effect from April 2012. 2012 data may not fully reflect the impact of this change. See section: Contracting out of private sector occupational pension schemes

Only 4% of active members of DC schemes were in the '15% and over' employer contribution rate band in 2013. The proportion of DC schemes with employer contribution rates of 'Under 4%' increased from around 11% in 2012 to almost 22% in 2013. This increase may reflect an increase in the number of employees starting new pensions on the minimum contribution rates required under automatic enrolment.

Contracting out of private sector occupational pension schemes

The Pensions Act 2007 abolished the option for Defined Contribution (DC) pensions to contract out of the additional state pension, from April 2012. Contracting out for Defined Benefit (DB) schemes will also end with the planned introduction of the single-tier pension in April 2016. In 2013, 1.3 million members, 80% of all active members of private sector DB schemes, belonged to contracted out schemes.

Employers contributing to schemes that are not contracted out pay higher National Insurance contributions that will deliver benefits in the form of additional state pension for their employees. Employers contributing to contracted out schemes make lower National Insurance contributions, with the pension benefit from the scheme expected to make up for the loss of any additional state pension that could have potentially been accrued. It is reasonable to expect that employer contributions made to contracted out pension schemes will be higher than those made to not contracted out pension schemes.

Table 8.5: Active members of private sector occupational pension schemes: by employer contribution rate, type of scheme and contracting out status, 2013

United Kingdom

Millions

Contributions as percentage of salary	Defined Benefit		Defined Contribution
	Contracted out	Not contracted out	Not contracted out
Under 8%	0.0	0.1	0.6
8% to under 12%	0.3	0.0	0.3
12% to under 15%	0.2	0.1	0.1
15% and over	0.7	0.1	0.0
Non-contributory or other basis	0.1	0.0	0.0
Total	1.3	0.3	1.1

Source: Occupational Pension Scheme Survey, Office for National Statistics

Notes:

1. Excludes schemes with fewer than 12 members and non respondents (less than 0.2 million active members)

2. 'Other basis' means contributions made other than as a percentage of salary. It includes members of defined benefit schemes with normal contributions paid as fixed amounts only; if contributions were made both as a percentage of earnings and as fixed amount payments, membership is included in the percentage contribution rows

3. Pensions Act 2007 changes meant that from April 2012, the option to contract out of the additional state pension for defined contribution pensions was abolished. See Pensions Trends Chapter 8: Pension Contributions, 2014 edition, section: Contracting out of private sector occupational pension schemes

The data would seem to support this. In contracted out DB schemes, 93% of active members received contribution rates of 8% and over and 53% received 15% and over. This contrasted with not contracted out DC schemes, where 49% of active members received employer contribution rates of less than 8% in 2013.

OPSS estimates that the employer contribution rate for contracted out DB schemes in 2013 was, on average, 16.4% . For not contracted out DB schemes the rate was 11.5%, for not contracted out DC schemes the rate was 6.1% (these estimates are available in the download file for Table 8.5).

The relatively low employer contribution rates of DC schemes might be partially explained by all DC schemes being not contracted out, from April 2012. If this were the case, then it would be expected that, before that, such DC schemes would have employer contribution rates similar to those of contracted out DB schemes. Historically, the data has shown that, to some extent, this is the case. The download file for Table 8.5 gives the historical data [1] . However, the ‘not contracted out’ status of DC schemes does not fully explain their lower employer contribution rates.

Contributions to private sector occupational Defined Contribution (DC) pensions

This section looks at total (employer + employee) contribution rates to occupational ‘not contracted out’ DC schemes by various factors such as age, sex, occupation and earnings [2].

Data from ASHE is used. ASHE is a good source of data on contribution patterns because it collects information for employees, whereas OPSS collects information for schemes. However, it should be noted that it is not possible to compare average contribution rates from ASHE with those from OPSS. This is because ASHE potentially includes small numbers of individuals making large one off fixed amount contributions (see section **Data sources**), while the OPSS figures are based on regular contributions made as a percentage of salary only.

Table 8.6 shows the distribution of employee members of private sector ‘not contracted out’ DC schemes by total contribution rates for each year between 2009 and 2013. The estimates show a slight shift to higher total contribution rates from 2009 to 2012. For example, in 2009, 32% of members were in receipt of contributions of less than 8% with 37% in receipt of contributions of 12% or more. By 2012, 25% of members were receiving less than 8% and over 44% were receiving contributions of 12% or more.

In 2013, following the introduction of automatic enrolment and the end to the possibility of contracting out for DC schemes, 32% of members were receiving contributions of less than 8% and 16% received contributions of under 4%. In 2013, 41% were receiving contributions of 12% or more.

Table 8.6: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by total contribution rates, 2009 to 2013

United Kingdom

Percentages

Year	Greater than 0 and under 4%	4% to under 8%	8% to under 12%	12% to under 16%	16% to under 20%	20% to under 24%	24% and over
2009	6	26	32	19	8	5	4
2010	5	23	33	20	8	4	6

2011	5	21	31	21	10	5	6
2012	5	20	31	23	10	6	6
2013	16	16	27	18	14	5	5

Source: Annual Survey of Hours and Earnings, Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only

2. Employee plus employer contributions: at least one is greater than zero

3. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees

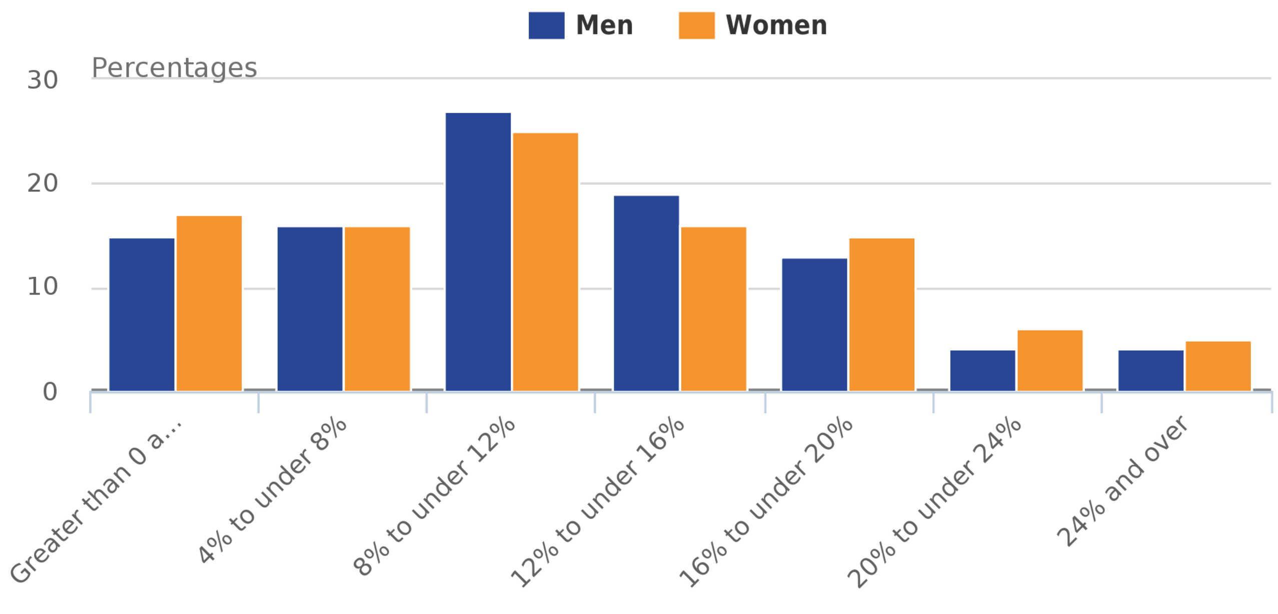
4. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities

5. The Pensions Act 2007 abolished the option for DC pensions to contract out of the additional state pension, with effect from April 2012. See Pensions Trends Chapter 8: Pension Contributions, 2014 edition, section: Contracting out of private sector occupational pension schemes

Figure 8.7 shows modest differences in total contribution rates between male and female employees in DC occupational pension schemes not contracted out of the additional state pension. In 2013, as in most previous years, the most common contribution rate for men and women was ‘8% to under 12%’ of earnings. A higher proportion of women contributed in the ‘Greater than 0 and under 4%’ band; and in all bands from ‘16% to under 20%’ and above.

Figure 8.7: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by sex and total contribution rates, 2013

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. Employee plus employer contributions: at least one is greater than zero

3. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees

4. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities

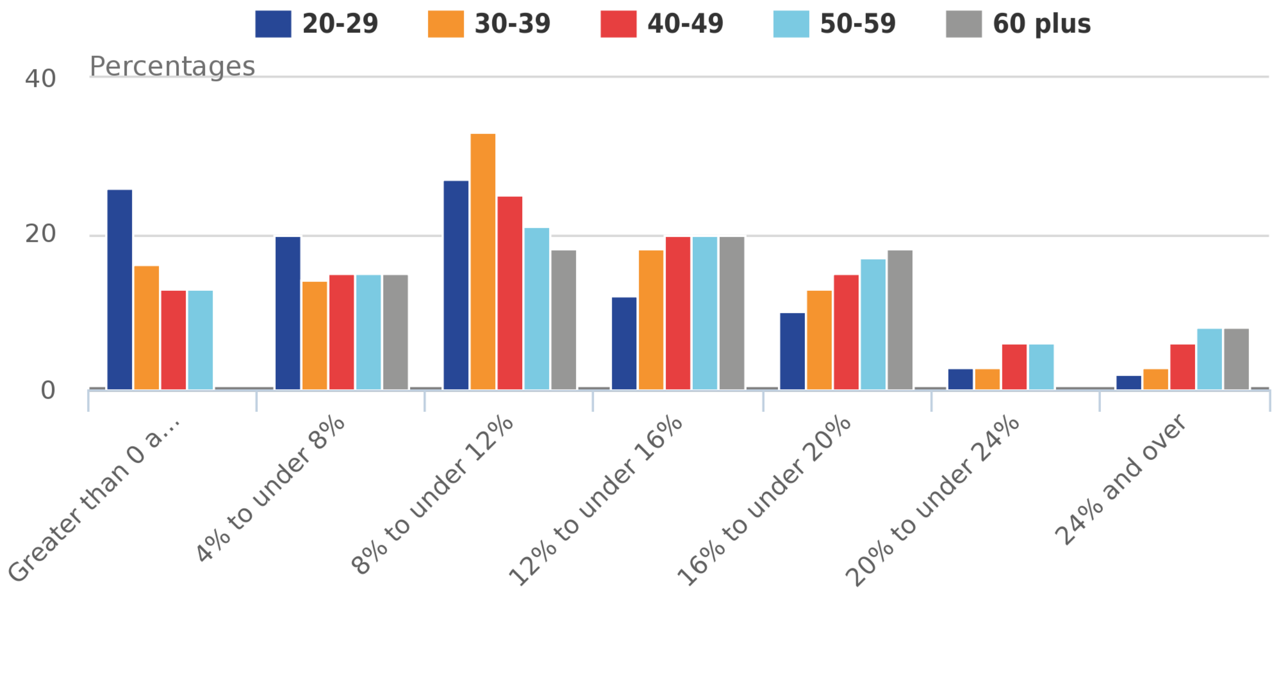
5. Estimates for 2005 onwards are available in the download file

As employees approach retirement they may wish to increase their pension contributions to try to improve their retirement benefits, if this option is offered as part of the scheme rules [3]. If members increase contributions as they approach retirement we would expect to see a relatively high proportion of older members in the higher contribution bands. Figure 8.8 shows some evidence of this for DC schemes in 2013. The older age groups represent a greater proportion than the younger ones in most of the higher contribution bands (16% and over); and the younger age groups represent a greater proportion than the older ones in the lower contribution bands, in particular the 4-8% band.

The contribution rates reported for different age bands might reflect a ‘cohort effect’ rather than, or as well as, contribution patterns over individual lifetimes. In other words, they may show that many older workers benefited from higher total contribution rates over their working lives because they joined their pension schemes earlier, when regular contribution rates might have been higher. We cannot establish whether such an effect exists, as the data on contribution rates is not available before 2005.

Figure 8.8: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by age and total contribution rates, 2013

United Kingdom



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only

2. Employee plus employer contributions: at least one is greater than zero

3. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees

4. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities

5. Estimates for the '60 plus' age group are included in the download file

In 2013, employees in elementary occupations, such as cleaning or labouring, had low contribution rates: 45% of employees in this occupational category had total contributions of less than 8% of earnings, compared with 32% for all occupations. In 2012, 8% of employees in elementary occupations had total contribution rates 'Greater than 0 and under 4%'. In 2013, this figure had increased to 34%. This may be, in part, due to the impact of **Workplace pension reforms**, with new members starting DC pensions in 2013 as a result of automatic enrolment potentially making the minimum contributions required (see Pension Trends Chapter 7). The gross earnings threshold for eligibility for automatic enrolment in 2013/14 was £182 per week.

Managers and senior officials had the highest total contribution rates: 33% had total contributions of 16% or more in 2013, and only 20% had total contributions of less than 8%.

Table 8.9: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by selected occupations (SOC 2010) and total contribution rates, 2013

United Kingdom

Percentages

Occupation	Greater than 0 and under 4%	4% to under 8%	8% to under 12%	12% to under 16%	16% to under 20%	20% to under 24%	24% and over
Managers, directors and senior officials	9	11	27	20	19	6	8
Professional	6	15	33	25	11	5	5
Associate professional and technical	7	15	32	22	12	5	6
Administrative and secretarial	15	16	31	17	11	4	6
Skilled trades	25	20	25	17	9	u	u
Sales and customer service	25	20	20	9	20	u	u
Process, plant and machine operatives	23	23	26	18	6	u	u
Elementary	34	11	14	11	u	u	u

Source: Annual Survey of Hours and Earnings, Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only

2. Employee plus employer contributions: at least one is greater than zero

3. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees

4. "u" indicates that cells have been suppressed on quality grounds: The quality of an estimate is measured by its CV, which is the ratio of the standard error of an estimate to the estimate. Secondary suppression has also been applied where necessary

5. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities

The impact of different earnings levels is shown in Table 8.10. As in previous years, in 2013 employees with higher earnings tended to have higher total pension contribution rates. Just over 50% of employees earning over

£600 per week had total contribution rates of 12% of earnings or more. In contrast, nearly 60% of employees earning under £200 per week had rates of less than 12% of earnings.

Table 8.10: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by gross weekly earnings and total contribution rates, 2013

United Kingdom

Percentages

Gross weekly earnings	Greater than 0 and under 4%	4 to under 8%	8 to under 12%	12 to under 16%	16 to under 20%	20 to under 24%	24% and over
Under £200	22	20	16	7	21	u	u
£200 to under £300	39	14	16	7	14	u	u
£300 to under £400	28	17	22	12	15	2	3
£400 to under £500	17	22	28	15	11	3	4
£500 to under £600	14	16	34	18	11	3	3
Over £600	6	13	31	25	13	6	6

Source: Annual Survey of Hours and Earnings, Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only

2. Employee plus employer contributions: at least one is greater than zero

3. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees

4. "u" indicates that cells have been suppressed on quality grounds: The quality of an estimate is measured by its CV, which is the ratio of the standard error of an estimate to the estimate. Secondary suppression has also been applied where necessary

5. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities

Notes for private sector occupational pension contribution rates

1. In 2013, all active members of Defined Contribution (DC) schemes are by law, not contracted out. In 2011, prior to the implementation of this legislation, there were still only 0.1 million active members of ‘contracted out’ DC schemes. This relatively small figure made it difficult to compare the proportions in each contribution band with the distribution of active members in contracted out Defined Benefit (DB) schemes.

2. The Annual Survey of Hours and Earnings 2013 pension tables, in particular tables P6 to P12, show the proportion of employees by employee and employer contribution rate bands for the other pension types.

3. In 2013, OPSS asked the larger defined contribution schemes (those with 12 or more members) the question “Are the normal contributions to the scheme made at variable rates that depend on the member’s age?" 15% of active members were in schemes that said yes.

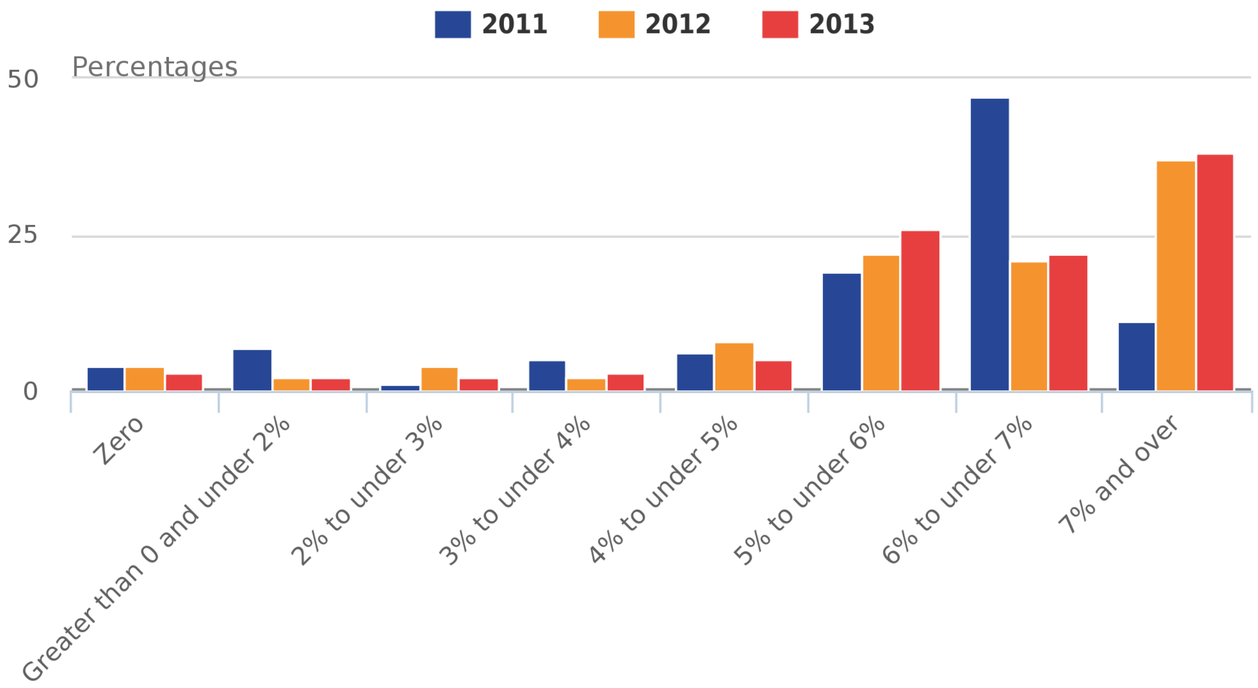
5 . Public sector occupational pension schemes

Nearly all public sector occupational pension schemes are Defined Benefit (DB) schemes. The majority of membership is in the seven big public sector employers: the civil service, the armed forces, the National Health Service (NHS), teachers, local government (the Local Government Pension Scheme), police and fire-fighters. Apart from the Local Government Pension Scheme, which is funded, all of these schemes are run on an unfunded basis (see Pension Trends Glossary (198.9 Kb Pdf)). In the Annual Survey of Hours and Earnings (ASHE), the public sector is classified using the legal status from the Inter-Departmental Business Register.

Since 2011, many public sector pension schemes have made changes to their employee contribution rates. These have been made as a result of recommendations outlined in the 2011 report of the Independent Public Service Pensions Commission chaired by Lord Hutton of Furness. In general, these changes have led to increased contribution rates at all levels. Many schemes have introduced, or were already using, tiered structures where the contribution rate is determined by the employee's earnings band.

Figure 8.11: Distribution of employee members of public sector occupational pension schemes: by employee contribution rates, 2011 to 2013

United Kingdom



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. The public sector is classified using the legal status from the Inter-Departmental Business Register

Figure 8.11 shows that, in 2011, 11% of employees were paying contribution rates in the '7% and over' band, with 47% paying '6% to under 7%'. Employee contribution rates had increased by 2013, with 38% paying contributions in the '7% and over' band and 22% paying '6% to under 7%'.

Employer contributions to unfunded public sector pension schemes are largely an internal accounting transaction within government. For most of these schemes, the level of contributions is estimated using a model known as SCAPE (Superannuation Contribution Adjusted for Past Experience). The model estimates the level of contributions which will be sufficient, over time, to cover the scheme's liabilities.

6 . Personal pensions

Personal pensions, which include stakeholder pensions and Self-Invested Personal Pensions (SIPPs)[1], are those where individuals enter into a contract with a pension provider, usually an insurance company (by contrast, occupational schemes have trustees and are governed by trust law, see Pension Trends Glossary (198.9 Kb Pdf)). Personal pensions may be taken out on an individual basis or arranged on a 'group' basis, usually facilitated by employers, who may make contributions for members. Employers may use 'group' personal pensions to meet their obligations under Automatic Enrolment (AE).

Employer contributions to personal pensions

Some employers operate Group Personal Pensions (GPPs) either as well as an occupational pension scheme or as the main form of pension provision. The GPP's employers operate may include group stakeholder pensions and group self-invested personal pensions. Although the employees contributing to GPPs have individual contracts, the administration costs are likely to be lower than if they arranged an individual personal pension independently.

One of the reasons behind the introduction of stakeholder pensions in 2001 was to improve pension provision for people working for small employers. Small employers had been unable to provide the more traditional form of occupational pension scheme for cost reasons, but stakeholder pensions are a relatively low-cost type of scheme. Due to the staged nature of AE, at April 2013, the reference date of the ASHE, only larger employers needed to have introduced AE and to be making the associated minimum contributions (see section: **Workplace Pension Reforms**). Therefore, it is of interest to examine employer contribution rates to GPPs (including group SIPPs) and stakeholder pensions specifically, by size of employer.

Figures 8.12 and 8.13 show the proportion of GPP and stakeholder pension members by employer contribution rate for private sector employers in 2013, for employers:

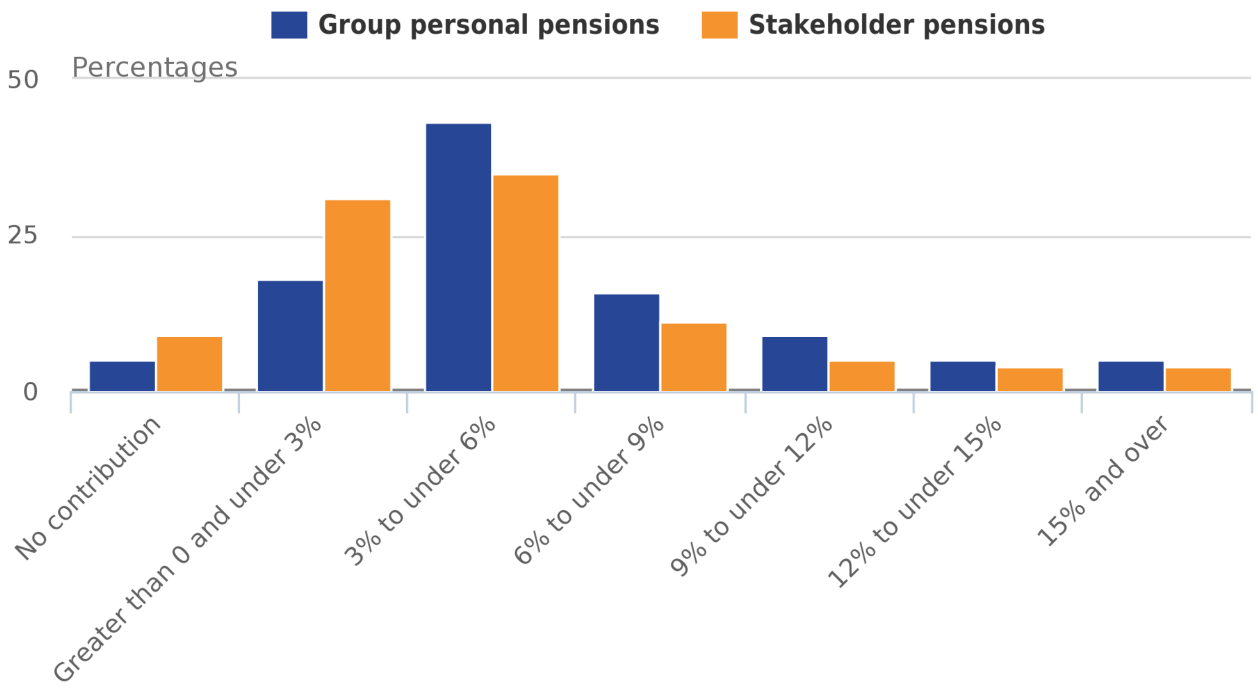
- with fewer than 100 employees (Figure 8.12); and
- with 100 or more employees (Figure 8.13).

The charts show a clear difference. In smaller employers, 34% of those with GPPs and 25% of those with stakeholder pensions had employer contribution rates of 6% and over. For larger employers, 43% of those with GPPs and 38% of those with stakeholder pensions had employer contribution rates of 6% and over.

In larger employers (Figure 8.13), 4% of those with GPPs and 5% of those with stakeholder pensions received no employer contribution in 2013; this compares with 5% and 9 % respectively for smaller employers (Figure 8.12).

Figure 8.12: Distribution of employee members of private sector group personal pensions and stakeholder pensions where employer has less than 100 employees: by employer contribution rates, 2013

United Kingdom



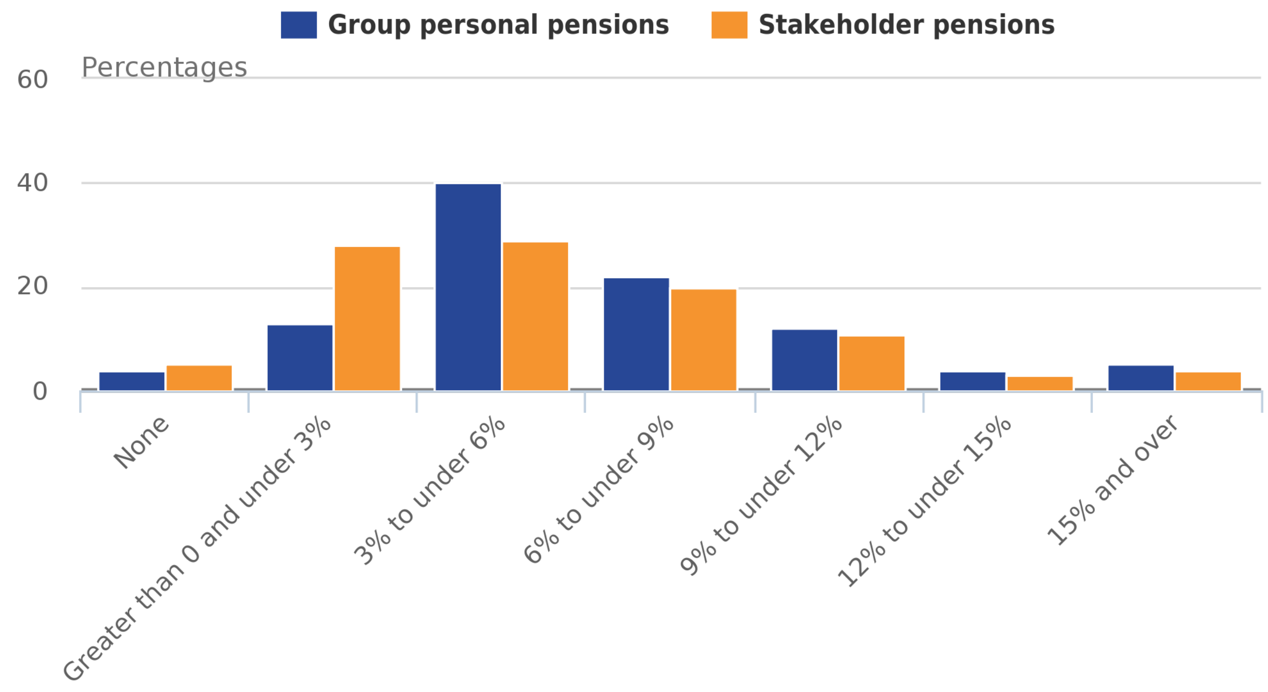
Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee
3. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities
4. Data for Group Self-Invested Personal Pensions (GSIPPs) is included within the category Group Personal Pensions (GPPs)

Figure 8.13: Distribution of employee members of private sector group personal pensions and stakeholder pensions where employer has 100 employees or more: by employer contribution rates, 2013

United Kingdom



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee
3. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities
4. Data for Group Self-Invested Personal Pensions (GSIPPs) is included within the category Group Personal Pensions (GPPs)

Total contributions to personal pensions

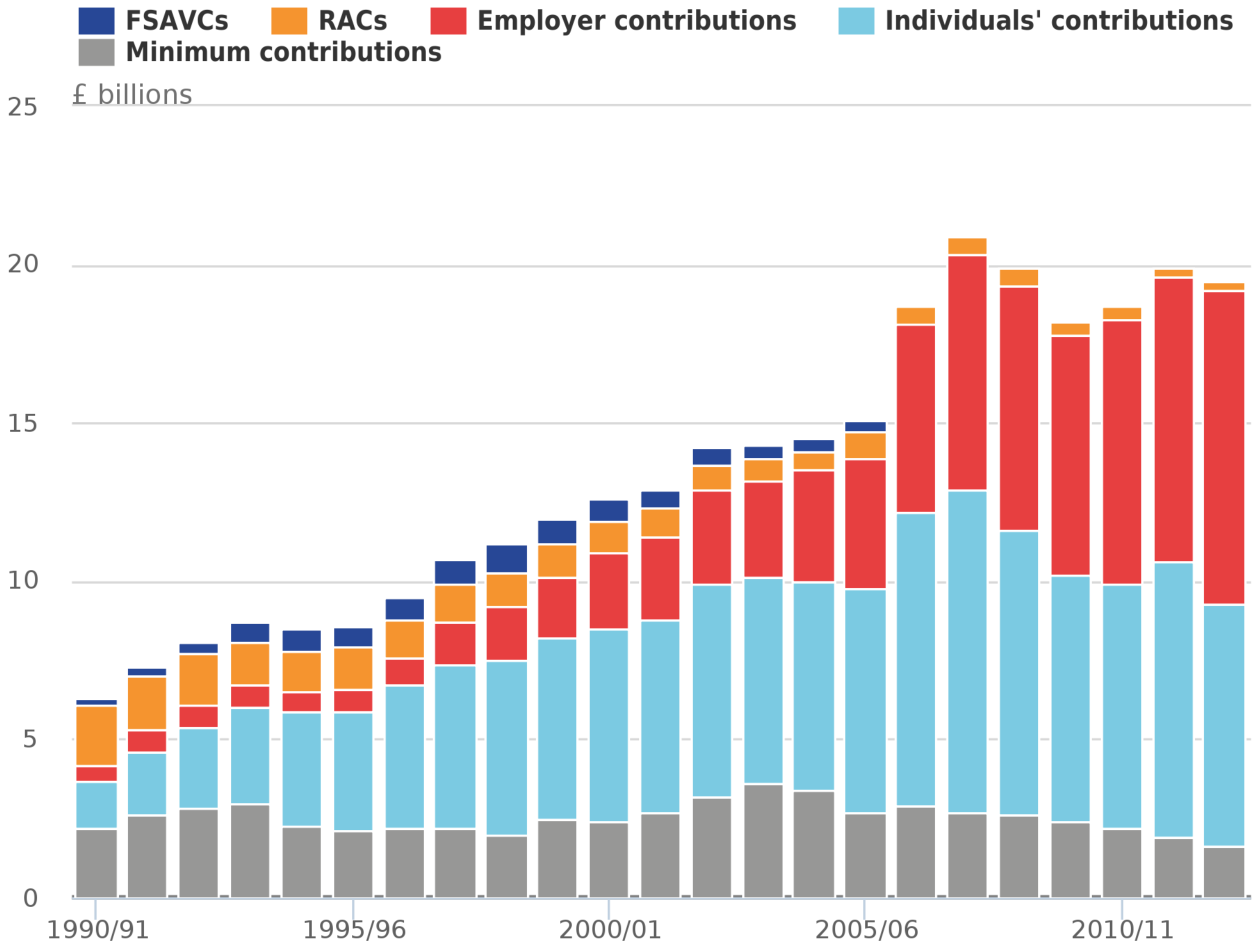
Her Majesty's Revenue and Customs (HMRC) publishes estimates of the number of people making contributions to personal and stakeholder pensions and average amounts contributed. All estimates of contributions are in nominal terms (values are not adjusted for inflation).

In 2012/13, the total number of individuals making contributions to personal and stakeholder pensions (whether individual or group personal pensions) was estimated to be 5.5 million. Of those, 4.9 million were employees, 0.5 million were self-employed people and around 0.06 million (60,000) were 'others' (children, people in full-time education, carers, the unemployed and those in receipt of a pension). There were more people contributing in 2012/13 than in 2011/12 (see HMRC Table PEN3). The average contribution per person was lower in 2012/13 (£3,510) than in 2011/12. For employees, the average contribution in 2012/13 was £3,490, down from £3,640 in 2011/12. For the self-employed, the average contribution was £3,760 in 2012/13, down from £4,250 in 2011/12.

For the self-employed, individual personal and stakeholder pensions are the main options for private pension saving. The self-employed may also join some master trusts (see Pension Trends Glossary (198.9 Kb Pdf)). The self-employed also rely more on private pensions than employees as they do not have access to the additional state pension.

Figure 8.14: Contributions to personal and stakeholder pensions by contribution type (minimum, employer or individual) and to RACs and FSAVCs, 1990/91 to 2012/13

United Kingdom



Source: HM Revenue and Customs

Notes:

1. RACs = Retirement Annuity Contracts; no new RACs could be taken out from 1 July 1988, although those with contracts at this date could still continue to contribute to them

2. FSAVCs = Free Standing Additional Voluntary Contributions; from 2006/07 these contributions are combined with individual contributions

3. Minimum contributions represent the rebate paid by HMRC to funds of individuals who have used their personal/stakeholder pension to contract out of the state second pension (state earnings related pension scheme prior to April 2002) . The Pensions Act 2007 abolished the option for personal pensions to contract out of the additional state pension, with effect from April 2012

4. Figures for individual contributions comprise contributions by employees, the self-employed and non-earners; from 2006/07 they include FSAVCs

5. Figures for individual contributions and FSAVCs include basic rate tax relief repaid to scheme administrators by HMRC

6. Self-Invested Personal Pensions (SIPPs) cannot be separately identified from the information collected by HMRC on personal pensions

7. All estimates of contributions are in nominal terms (values are not adjusted for inflation)

The total value of contributions paid into personal and stakeholder pensions, Retirement Annuity Contracts (RACs) and Freestanding Additional Voluntary Contributions (FSAVCs) is shown in Figure 8.14 (for definitions see Pension Trends Glossary (198.9 Kb Pdf)). Contributions to personal and stakeholder pensions consist of minimum contributions and contributions by employers and individuals (employees, the self-employed and non-earners). The figures include contributions to employer and non-employer sponsored personal pensions. Minimum contributions represent the rebate paid by HMRC to individuals who have used their personal or stakeholder pension to contract out of the additional state pension. Personal and stakeholder pensions are flexible, allowing people to make contributions when they are able. Total contributions to personal and stakeholder pensions, RACs and FSAVCs reached £20.9 billion in 2007/08, but then fell during the recession, largely due to the fall in the number of people contributing to personal and stakeholder pensions. By 2011/12, they had increased to £19.9 billion, falling to £19.5 billion in 2012/13.

Employer contributions to personal and stakeholder pensions have seen increases in most years, reaching £9.9 billion in 2012/13 compared with £0.5 billion in 1990/91. On the other hand, individuals' contributions rose from £1.5 billion in 1990/91 to £10.2 billion in 2007/08, but then fell during the recession to £9.0 billion in 2008/09, £7.8 billion in 2009/10 and £7.7 billion in 2010/11. In 2011/12, they had increased to £8.7 billion but then fell to £7.7 billion in 2012/13.

FSAVCs can be made by members of occupational schemes. The decline since 1999/2000 is because many have chosen to save through stakeholder pensions rather than FSAVCs, partly because the administration costs are lower and partly because stakeholder pensions provide a more flexible method of saving. From 6 April 2006, FSAVCs are no longer separately identified and are included in individuals' contributions.

Minimum contributions reached £3.6 billion in 2003/04. By 2012/13 the level of minimum contributions, which represent contracted out rebates to individuals in contracted out schemes, was much lower at £1.6 billion. This is as may be expected given the ending of the ability to contract out (see section **Contracting out of private sector occupational pension schemes**).

Notes for personal pensions

1. Available since 2001, stakeholder pensions are a flexible, portable, personal pension arrangement (provided by insurance companies) with capped management charges. They must meet the conditions set out in the Welfare Reform and Pensions Act 1999 and be registered with The Pensions Regulator. Self-invested personal pensions are a type of pension in which the policy holder rather than the pension company chooses the investments made.

7. Supporting information

Workplace pension reforms

The Pensions Act 2008 put in place a framework for workplace pension reform designed to increase private pension saving in the UK. This framework was amended slightly by the Pensions Act 2011 and Pensions Act 2014 . One of the key reforms was that, from October 2012, all eligible employees were to be automatically enrolled into a qualifying workplace pension scheme. These reforms represent a major change in the UK private pension system, aiming to extend coverage to the millions of employees without a private pension, in particular those in the target market of moderate to low earners. The reforms are designed to expand coverage of pensions to more people of working age.

Automatic enrolment is being introduced in stages, based on the size of the employers' PAYE scheme on 1st April 2012. Automatic enrolment started in October 2012 for employers with over 120,000 employees, with gradual roll-out to all employers by 2018.

In 2013/14, eligible employees were those aged between 22 and the state pension age, who earnt more than £9,440 per year and were not participating in a workplace pension scheme.

Under automatic enrolment, employers select a pension scheme for their employees. Employers have a duty to enrol all eligible employees into a pension scheme meeting the qualifying requirements set out within the Pensions Act 2008 and 2011 and to make contributions to this scheme on their employees' behalf. This may be an occupational or personal pension scheme provided that the scheme meets the qualifying requirements. Workers are able to opt out of their employer's scheme if they wish but, if they are still eligible, they will be re-enrolled after a three year period.

Minimum contribution levels are being phased in over the period to 2018. The minimum contribution levels vary depending upon the scheme's definition of pensionable pay.

In the case of a scheme with a definition of pensionable pay equivalent to that of qualifying earnings ('qualifying earnings' refer to earnings between £5,668 and £41,450 in 2013/14, see the 'Certification' section in the TPR guidance for pension schemes under the new employer duties) the minimum level of contributions, expressed as a proportion of the jobholder's qualifying earnings, are as follows:

- between October 2012 and September 2017 DC schemes or personal pensions must have contributions of at least 2%, with at least 1% coming from the employer

- between October 2017 to September 2018 the minimum contribution will be 5%, with at least 2% coming from the employer, and

- from October 2018 it will be 8%, with at least 3% coming from the employer.

The Pensions Act 2008 created the National Employment Savings Trust (NEST), a new trust-based Defined Contribution (DC) pension scheme, to assist employers with pension provision. Other separate trust-based arrangements, known as master trusts (see Pension Trends Glossary (198.9 Kb Pdf)), have also been set up to facilitate automatic enrolment. A full list of Pension Quality Mark (PQM) ready master trusts is available on the PQM website.

Employers who intend to use their existing schemes for automatic enrolment can use certification to show that their schemes meet the minimum requirements set out by the legislation and explained in the "Preparing for auto-enrolment" guidance from the Pension Regulator (TPR).

In November 2014, the Department for Work and Pensions published the Automatic Enrolment Evaluation Report 2014. Estimates published within the evaluation report relate to those eligible for automatic enrolment only. Chapter 4 deals with 'increasing the amount of savings' and looks at contributions. Along with other topics, it discusses the concern that employers may reduce the contributions that they currently pay into pension schemes because they are obliged to contribute only the minimum amounts. This is referred to as 'levelling down'. This could also occur because employers may now need to contribute to a wider range of employees, increasing their costs if contribution rates remain unchanged. However, Chapter 4 of the evaluation report quotes data from the Employer Pension Provision Survey on how employers had so far dealt with the reforms and notes, for example, that the majority of automatically enrolling employers (92 per cent) chose not to alter their contribution rates for existing members of their workplace pension scheme.

8. References

1. Department for Work and Pensions, Workplace pension reforms, Baseline evaluation report
2. Department for Work and Pensions, Automatic enrolment evaluation report 2013
3. Department for Work and Pensions, Automatic enrolment evaluation report 2014
4. Department for Work and Pensions, Employer Pension Provision Survey 2013
5. HM Revenue and Customs: Pension statistics
6. Office for National Statistics, Annual Survey of Hours and Earnings
7. Office for National Statistics, Occupational Pension Schemes Survey Statistical Bulletin
8. Office for National Statistics, Pensions short stories
9. Office for National Statistics, Pension Trends
10. Office for National Statistics, Pension Trends Glossary (198.9 Kb Pdf)
11. Office for National Statistics, Improved methods for calculating private pension contributions
12. The Pension Protection Fund, The Purple Book 2014
13. The Pensions Regulator, Automatic enrolment detailed guidance

9. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

   These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.

Compendium

Chapter 9: Pension scheme funding and investment, 2013 edition

This chapter is about how pension schemes ensure that they have the money to fulfil their obligations of paying out benefits to pensioners and their dependents. Specifically, the chapter is about 'funded' pension schemes, those in which benefits (the schemes' liabilities) are met from a fund built up in advance from contributions and returns on investment. It does not cover 'unfunded' (or pay-as-you-go) pension schemes – most public sector occupational pension schemes and the state pension system – where liabilities are not underpinned by a fund.

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Notice

8 January 2016

This publication has been discontinued. The last edition to be published was 28 November 2014.

Table of contents

1 . Summary

Within the ‘funded’ pension scheme category, the chapter focuses mainly on **defined benefit** occupational schemes, because it is these schemes which have to pay out benefits based on a defined set of rules, even if the scheme is in deficit. As a result, the trustees of such schemes are tasked with ensuring that the schemes build up enough assets to cover their future liabilities. This is done by investing the contributions received from members and their employers via a pension fund (see **Pension schemes and pension funds**). Defined contribution occupational schemes also invest via pension funds, but the ‘pot of money’ that individuals have on retirement is determined simply by the contributions paid into the scheme and the return, after charges, from investing these contributions in pension funds; so it is not possible for such schemes to have a funding shortfall (deficit).

In 2011, the value of assets held in UK funded pensions was £2,040.7 billion (135% of GDP). These figures are not National Statistics. Figure 9.1 shows a breakdown of these assets by the four main types (see Glossary):

- self-administered pension funds;
- occupational pensions administered by insurance companies in the accumulation phase, excluding ‘insurance-managed funds’;
- personal (including group personal) pensions administered by insurance companies in the accumulation phase; and
- annuities and income drawdown administered by insurance companies in the decumulation phase.

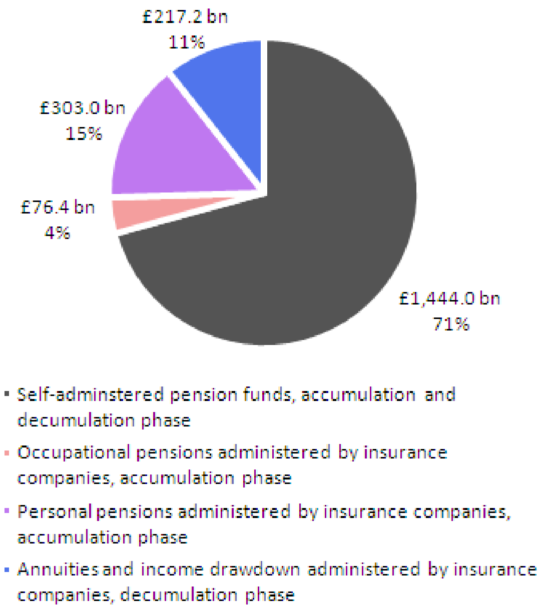
In the previous publication of this chapter, insurance-managed funds were included in occupational pensions administered by insurance companies, but are now included in self-administered pension funds.

There are no official statistics for the other category of pension assets, Self Invested Personal Pensions (SIPPs) but, according to a report by Mintel (see **References**), there were over £80 billion worth of assets under management in SIPPs in December 2010. It should be noted that this information is not a National Statistic.

In 2011, self-administered pension funds accounted for £1,444.0 billion, 71% of the total value of assets in pensions.

Figure 9.1: Assets held in funded pensions, 2011

United Kingdom



Source: Office for National Statistics and Financial Services Authority

Notes:

1. Information on self-administered pension funds is from ONS's series: Investment by Insurance Companies, Pension Funds and Trusts. Information on insurance company assets held in pensions is from the Financial Services Authority (insurance companies' pension reserves, net)

2. Occupational pensions administered by insurance companies, accumulation phase: assets of insurance-managed funds have been subtracted from this category because they are shown as part of self-administered pension funds

3. Insurance company administered personal pensions comprise individual and group personal (including stakeholder) pensions. They exclude Self Invested Personal Pensions (SIPPs)

4. Figures may not sum to the total due to rounding

Self-administered pension funds' percentage of total assets held in pension funds was 55% in 2009 and 71% in 2011. Part of the increase is attributable to insurance-managed funds now being included in self-administered pension funds, rather than in occupational pensions administered by insurance companies. The download for Figure 9.1 shows the figures for 2011 and 2009, in both years excluding insurance-managed funds from self-administered pension funds and including them in occupational pensions administered by insurance companies. It shows self-administered pension funds holding 66% of assets held in pension funds in 2011, compared with 55% in 2009. It also indicates that assets held in occupational pensions administered by insurance companies fell by nearly 60% between 2009 and 2011. The results should be treated with caution due to a change in data sources between this and the previous publication.

The next section reviews pension schemes and pension funds, providing background information and definitions for both. The chapter then moves on to examine the funding positions of private sector defined benefit occupational pension schemes. The Pension Protection Fund (PPF) was set up under the Pensions Act 2004 to provide compensation to members of such pension schemes in cases when employers are declared insolvent and there are insufficient assets in the pension scheme to cover its liabilities [1]. The analysis examines the funding positions of schemes which are eligible for PPF assistance.

The chapter then looks at the pension funds in which pension schemes' money is invested, in particular their income, expenditure and asset holdings. The analysis covers only self-administered pension funds, which are funds managed by scheme trustees or investment managers (including insurance-managed funds, where an insurance company acts as investment manager but does not have title to the assets). It includes funds of the Local Government Pension Scheme, which is a funded public sector defined benefit scheme with some 100 pension funds.

Most self-administered pension funds are associated with defined benefit occupational pension schemes. In some schemes, called non-contributory schemes, employees make no contributions, but in other schemes employees make contributions which are expressed as a proportion of salary (see Pension Trends Chapter 8). Employer contribution rates generally vary according to fund pressures. Members of defined benefit schemes build up entitlements over long periods and these are unaffected by changes in the value of the fund, except in the case where the scheme sponsor becomes insolvent and the fund is too small to meet the scheme liabilities. In defined benefit schemes, it is the employers who bear the full risk of market volatility.

Other self-administered funds are associated with defined contribution schemes, where each member's pension benefits, their pension pot, depends on the value and timing of the contributions made by themselves and their employer, and on how well the fund assets purchased by those contributions perform up to their retirement. Members do not build up entitlements to pension benefits. Instead, they gain access to their pension pot when they retire, which they normally use to purchase an insurance policy, known as an annuity, paying them a guaranteed income until death (see Pension Trends Chapter 6); or they draw an income from their fund, subject to certain scheme rules. Employees bear all the full risk of market volatility in defined contribution schemes, although they can defer the purchase of annuities[2] giving them some flexibility to counteract market uncertainty. They also bear all longevity risk in defined contribution schemes.

Notes for Summary

1. Further information is available at the Pension Protection Fund website
2. In the past, people could only defer securing an income, usually by the purchase of an annuity, until age 75. Under the Finance (No. 2) Act 2010, the requirement to secure an income at age 75 was removed from 6 April 2011

2 . Pension schemes and pension funds

A pension **scheme** is an arrangement to provide benefits on retirement. An occupational scheme is organised by an employer, or on behalf of a group of employers, to provide benefits for one or more employees. In the private sector, such schemes have trustees and are governed by trust law. There are two[1] main types of occupational pension scheme:

- defined benefit schemes are those in which the rules specify the rate of benefits to be paid. The most common defined benefit scheme is a 'final salary' scheme, but 'career average' schemes (see Glossary) are increasingly important; and
- a defined contribution or 'money purchase' scheme is one in which the benefits are determined by the contributions paid in, the investment return on those contributions, and the type of annuity purchased on retirement.

Contributions made to the pension schemes are invested via a pension **fund** and the proceeds from that fund provide the benefits paid out on retirement. A pension fund can be thought of as the assets, the pot of money, associated with a pension scheme; it may not be a separate legal entity. The relationship between pension schemes and pension funds may be:

- one-to-one: a scheme's assets are invested in a single fund and the entire fund belongs to that scheme;

- many-to-one: a number of schemes' assets are invested into a single fund and proportions of the fund belong to each scheme. The schemes may be run by a single employer or a group of employers, with different rates of contributions and benefits for different groups of employees; and

- one-to-many: a scheme's assets are invested in a number of funds and each fund belongs to a separate group of members in the scheme. This arrangement is less common, but a key example is the local government scheme (the only major public sector scheme that is funded2). A single set of rules covers all local government employees, with each local authority or small group of authorities having its own fund.

An alternative to occupational pension schemes is the personal pension. This is an arrangement between an individual and a financial institution, although employers may facilitate and/or sponsor personal pensions. The individual's contribution, either separately or in a group personal pension, forms the basis of the pot of money which is available to convert into a pension on retirement. This chapter does not cover personal pensions, with the exception of Figure 9.1 and the accompanying analysis.

Notes for Pension schemes and pension funds

1. There are also hybrid schemes, which are workplace pensions that offer members either a choice, or mixture, of defined benefit and defined contribution rights at retirement (see Glossary)

2. Most other public sector schemes are run on an unfunded basis, meaning that there is no pot of money associated with the schemes. Instead, liabilities are met by employers as they fall due

3 . Pension scheme funding positions

Defined benefit pension schemes have to ensure that they have sufficient resources (assets) to meet their obligations (liabilities) when they fall due. When liabilities exceed assets, the pension scheme has a funding shortfall or deficit. In such cases, sponsoring employers usually increase contribution levels. If pension assets exceed liabilities, pension schemes are in surplus. When this occurs, the schemes sometimes offer breaks from contributing (known as contribution holidays). Whether a pension scheme is in deficit or in surplus will depend on the performance of its assets and the nature of its liabilities.

Pension scheme assets are normally valued on a market price basis, so they are easy to estimate. It is much harder to estimate pension scheme liabilities. A number of factors must be considered, including the length of time that pensions will need to be paid to each member – which depends on members' life expectancies – and the amount by which pensions will need to increase each year. The future stream of payments must then be valued in 'present value' terms using a technique known as discounting, which converts the value of future payments which will be made over a number of years into present-day equivalent value. For the purpose of setting contributions, the UK's scheme-specific funding regime requires the scheme's trustees and sponsoring employer to agree an appropriate discount rate (based on actuarial advice) with The Pensions Regulator. This measure of liabilities is known as Technical Provisions, and varies across schemes.

In the UK, the most comprehensive dataset for estimating liabilities of defined benefit occupational pension schemes is that which is used to compile the Purple Book published by the Pension Protection Fund (PPF) and The Pensions Regulator (TPR). The Purple Book (2012) estimates these liabilities for schemes in the 'PPF universe' (mainly private sector schemes)1 using two methods: the full buy-out approach and the section 179 (s179) method. The full buy-out approach estimates the cost of fully insuring the scheme, while the s179 method estimates the cost of buying out PPF levels of compensation with an insurer2. The Technical Provisions measure is between these two measures of liabilities. The results are shown in Table 9.2.

Table 9.2: Total liabilities of PPF-eligible defined benefit occupational pension schemes, 2006 to 2012

United Kingdom

£ billion

	2006	2007	2008	2009	2010	2011	2012

Full buy-out	1,273.5	1,289.3	1,356.0	1,351.6	1,359.2	1,435.5	1,702.6
s179	792.2	769.9	842.3	981.0	887.9	969.7	1,231.0

Source: Purple Book 2012, Pension Protection Fund and The Pensions Regulator

Notes:

1. The information in this table is not a National Statistic

2. Headline funding figures as presented in Purple Books 2008 to 2013. For 2006 and 2007, the figures are based on the extended Purple datasets published in the Annexes to Purple 2007 and 2008. The liabilities are those at 31 March for each year

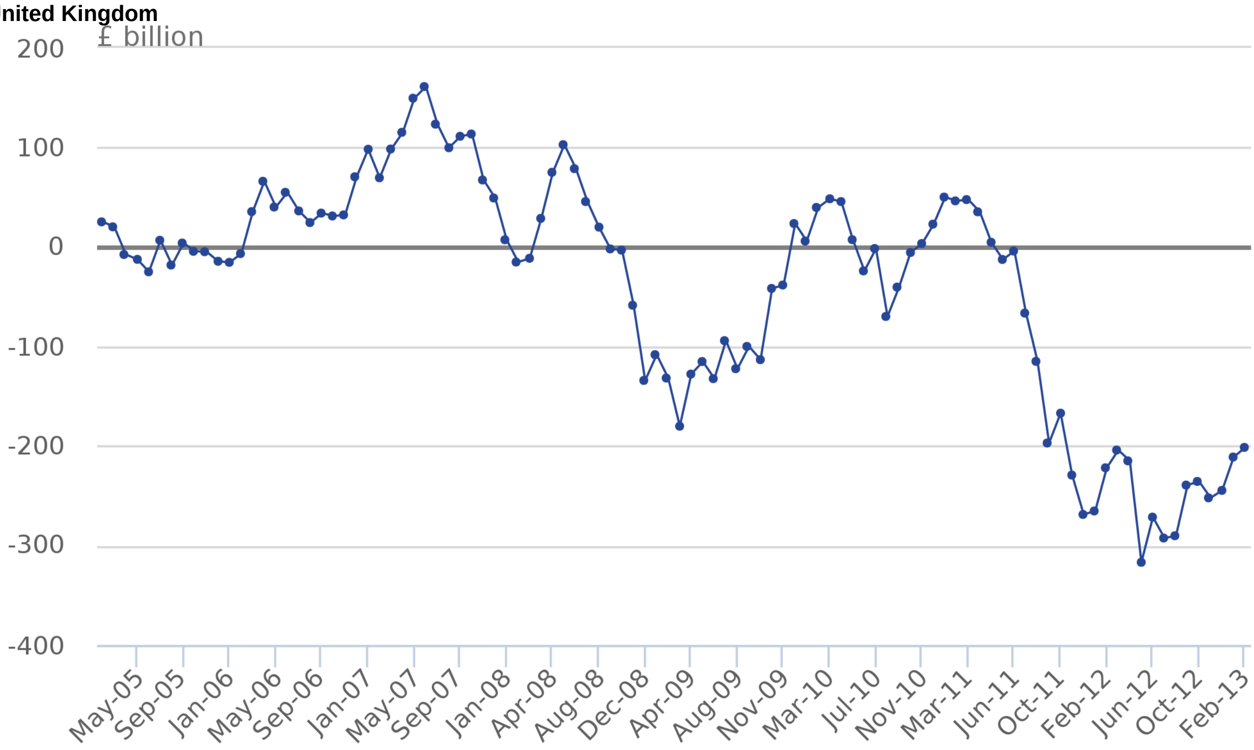
3. Figures before 2010 include schemes in assessment. These are schemes that enter an assessment period to determine their ability to pay PPF levels of compensation, before being transferred into the PPF

Both s179 and full buy-out estimates of total liabilities show an increase over the time period, especially between 2011 and 2012. However, some caution is required for the interpretation of movements in aggregate liabilities of defined benefit schemes. This is because they are sensitive to changes in accounting assumptions, particularly in relation to the discount rate. The discount rate used for the s179 and full buy-out method is based on gilt yields. Gilt yields fell during the 2008–09 recession and, since the spring of 2011, have decreased again to a greater extent, pushing up these measures of liabilities.

Figure 9.3 shows the monthly aggregate funding position (assets minus liabilities) for all PPF-eligible schemes using the s179 method. There has been considerable volatility over the past eight years. Starting from a surplus of £25.2 billion in February 2005, the overall funding position was slightly negative until early 2006, mainly because of poor returns from equities. The improvement in the stock market and rising bond yields in 2006 and 2007 saw the aggregate funding position moving into surplus, peaking at £161.2 billion in June 2007. In 2008, falling equity markets and bond yields led to a worsening of the funding position. There appeared to be some recovery in spring 2008, but this was largely due to a change in actuarial assumptions at the end of March, which produced a one-off decrease in liabilities of £40.1 billion. The funding deficit increased during the rest of 2008 and early 2009, peaking at £180.2 billion in March 2009. The funding position moved back to surplus in December 2009 (£23.5 billion) in part due to new actuarial assumptions introduced in October 2009 which led to a one-off reduction in liabilities of £71.6 billion. Between June and October 2010 a deficit was registered once more as bond yields fell, but in November 2010 the funding position returned to surplus until May 2011.

Figure 9.3: Aggregate funding position of defined benefit occupational pension schemes in the PPF 7800 index, February 2005 to February 2013

United Kingdom



Source: Pension Protection Fund 7800 Index, end-February 2013

Notes:

1. The information in this chart is not a National Statistic
2. Aggregate funding position equals total assets minus total liabilities, on an s179 basis
3. The '7800 index' covers the 6,316 defined benefit occupational pension schemes potentially eligible for entry to the PPF (at February 2013). The number of schemes in the index has declined over time
4. Changes made to actuarial assumptions from 31 March 2008 produced a one-off decrease in liabilities of £40.1 billion
5. Changes made to actuarial assumptions from 31 October 2009 produced a one-off decrease in liabilities of £71.6 billion
6. Changes made to actuarial assumptions from 1 April 2011 produced a one-off decrease in liabilities of £30.6 billion

In April 2011, further changes to actuarial assumptions brought about a one-off increase in liabilities of £30.6 billion, reducing the surplus in that month. From May 2011, increasing deficits were registered, reaching a peak of £317.0 billion in May 2012. The lowest funding ratio in May 2012 mainly reflected low levels for 15-year gilt yields (see Purple Book (2012)). Since then, the deficit has decreased to £201.5 billion in February 2013.

Notes for Pension scheme funding positions

1. The Purple Book (2012), Chapter 4 (see **References**). The PPF universe covers private sector defined benefit schemes (with some exceptions); it does not include the Local Government Pension Scheme (a public sector defined benefit scheme). The sample of 6,316 schemes covers 98% of the total number of PPF-eligible defined benefit schemes, and over 99% of their liabilities.

2. For pension scheme members who are below their scheme's normal pension age, PPF compensation may be below full benefit levels, outlined in [What is the Pension Protection Fund and What Do We Do?](#) This is why the estimates of aggregate liabilities based on s179 (the cost of buying out PPF levels of compensation with an insurer) are well below the estimates based on the full buy-out method.

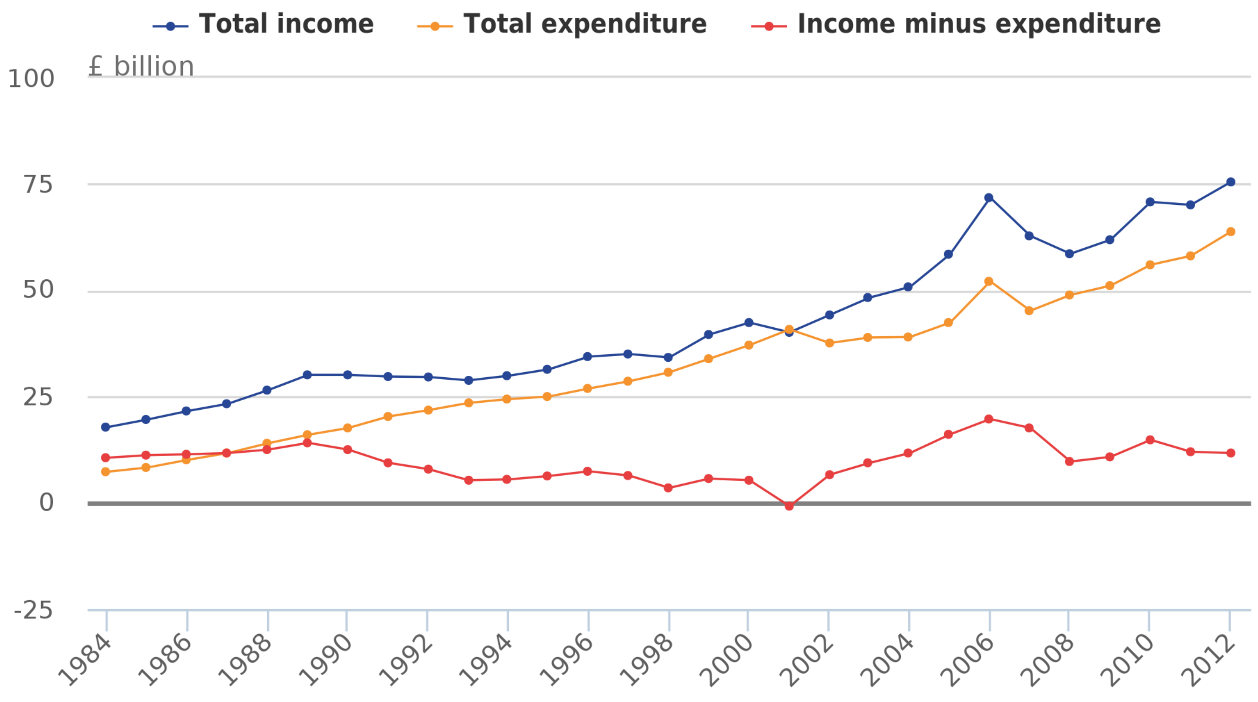
4 . Pension funds' income and expenditure

To ensure that they build up enough assets to cover their future liabilities, occupational pension schemes invest the contributions received from members and their employers via a pension fund. In the remainder of this chapter we look at these pension funds, using data from the Office for National Statistics (ONS) series Investment by Insurance Companies, Pension Funds and Trusts (sometimes referred to as 'MQ5'[1]). The presented analysis covers only self-administered pension funds, which are funds managed by scheme trustees or investment managers (including insurance-managed funds, where an insurance company acts as investment manager). Self-administered pension funds include funds associated with the Local Government Pension Scheme.

Figure 9.4 shows the growth in total income and expenditure of self-administered pension funds between 1984 and 2012. Total income for self-administered pension funds consists of employers' and employees' contributions, income from rents, interest and dividends, and inward transfer payments. Total income rose from £17.8 billion in 1984 to £71.8 billion in 2006. From 1984 to 2006, annual income growth averaged 7%, although there were some periods of stagnation, particularly during the economic downturn of the early 1990s. Total income fell to £62.8 billion in 2007 and £58.6 billion in 2008 - the biggest falls since the start of the series. In 2009 it recovered somewhat and in 2012 it reached £75.5 billion, surpassing the previous peak in 2006. The reasons for these movements are explored in the next section.

Figure 9.4: Self-administered pension funds' total income and expenditure, 1984 to 2012

United Kingdom



Source: Office for National Statistics

Total expenditure for self-administered pension funds consists of pensions and other payments to members and their dependants, outward transfers and other expenditure, mainly administration costs. Expenditure rose steadily from £7.3 billion in 1984 to £40.8 billion in 2001, with an average annual growth rate of 11%. After falling by 8% in 2002, expenditure increased from 2003 to 2006, peaking at £52.1 billion. In 2007, expenditure by self-administered pension funds fell by 13% to £45.2 billion. Most of the fall came from a decrease in pension payments and transfers to other pension schemes. Total expenditure by self-administered pension funds increased in the following three years, to a new peak of £63.8 billion in 2012, as a result of increases in payments of pensions and transfers to other pension schemes. The components of expenditure are discussed in detail below.

Net income – total income minus expenditure – fell from £14.1 billion in 1989 to minus £0.8 billion in 2001, before rising to reach a peak of £19.7 billion in 2006. In 2012, net income was £11.7 billion.

Notes for Pension funds' income and expenditure

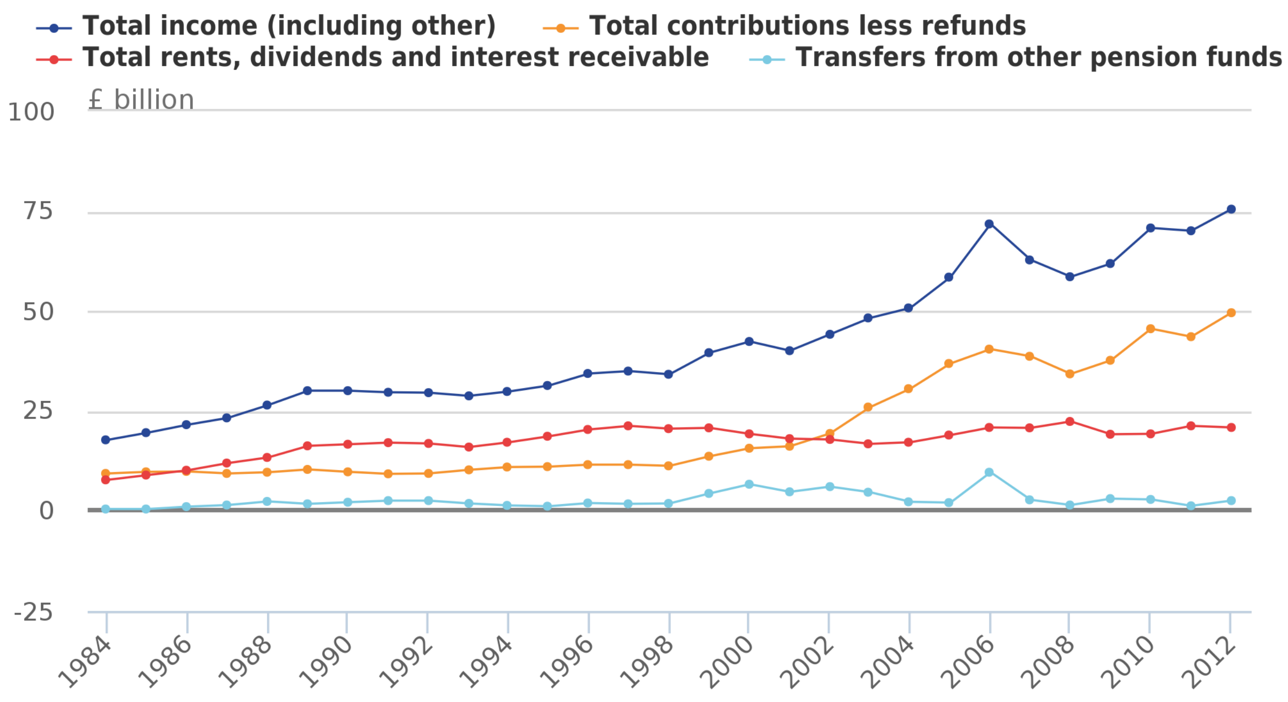
1. MQ5 data are based on a sample of insurance companies, pension funds, investment trusts, unit trusts and property unit trusts (see MQ5 Quality and Methodology Information for details).

5 . Fund income

In 2012, most of the income of self-administered pension funds came from contributions (less refunds) and from investment income (income from rents, dividends and interest receivable), as shown in Figure 9.5. Total contributions were more or less flat from 1984 to 1998, as pension schemes acted to reduce surpluses by lowering contribution rates and granting contribution holidays.

Figure 9.5: Self-administered pension fund income, 1984 to 2012

United Kingdom



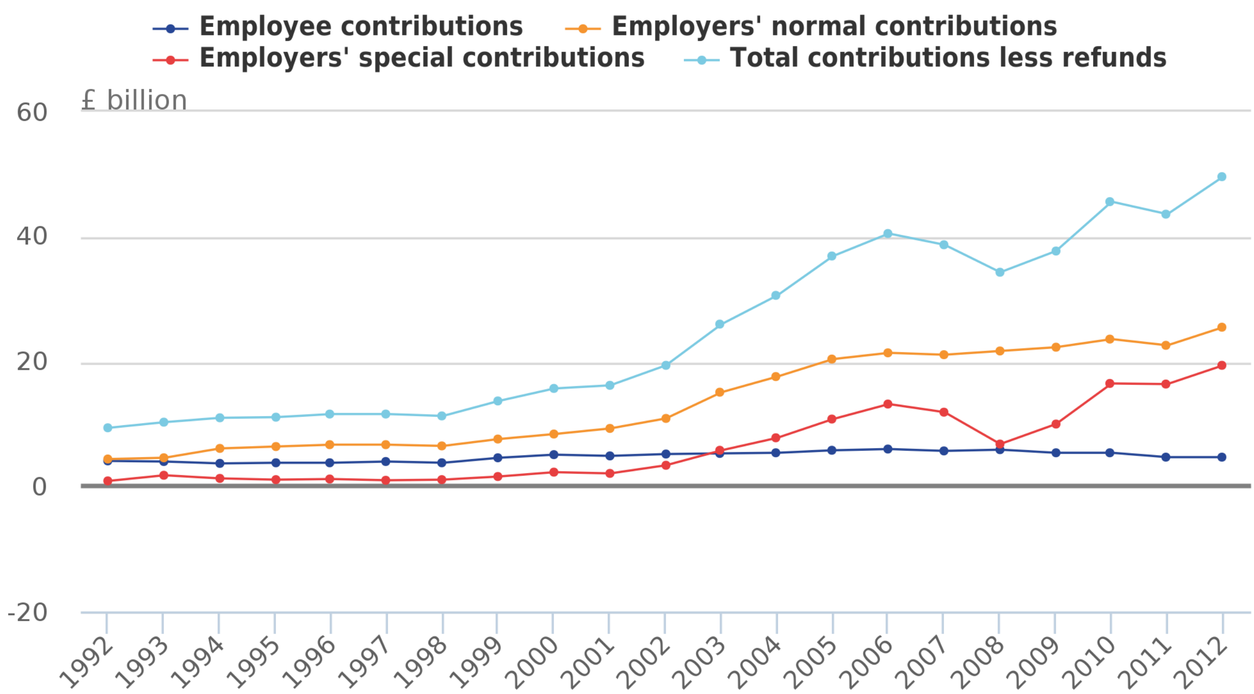
Source: Office for National Statistics

Total contributions to self-administered pension funds rose between 1999 and 2006 as pension schemes attempted to rebuild their finances in light of disappointing investment returns and the increasing longevity of retirees (see Pension Trends Chapter 2 and Chapter 3). The fall in total contributions in 2007 (to £38.7 billion) may partly reflect the relatively strong funding position of defined benefit pension schemes that year (Figure 9.3). The number of schemes in the PPF 7800 index that were estimated to be in surplus reached 4,810 (76% of the total) at end-June 2007[1]. Financial pressures at the onset of the 2008–09 recession, when the funding position of defined benefit pension schemes deteriorated, may help to explain the further fall in total contributions to £34.3 billion in 2008. The number of schemes in the PPF 7800 index that were estimated to be in deficit reached 4,938 (78% of schemes) at end-December 2008. However, in 2009 total contributions rose to £37.7 billion and in 2012 they were £49.6 billion. This suggests that defined benefit schemes may have been trying to repair their funding position as a result of recent recessions.

Figure 9.6 looks at contributions in more detail for the period since 1992, when breakdowns first became available. Total contributions are made up of employee contributions (regular and Additional Voluntary Contributions) and employer contributions (normal and special). Special contributions are payments made by employers, over and above normal payments, to reduce funding deficits or to meet additional costs as required by the scheme rules. The distinction between normal and special contributions may be blurred in some cases, if the employer makes up the balance between employee contributions and the amount required to maintain a healthy scheme funding position. Nevertheless, the trend in employers' special contributions since 2006 suggests that this is the part of total contributions that responds most to changes in the funding position.

Figure 9.6: Contributions to self-administered pension funds, 1992 to 2012

United Kingdom



Source: Office for National Statistics

Employee contributions were fairly flat for the entire period shown in Figure 9.6, 1992 to 2012. The stagnation of employee contributions in recent years may be associated with falling numbers of contributors. Active membership of private sector defined benefit schemes (which does not include members of the Local Government Pension Scheme) fell from 3.0 million in 2006 to 1.9 million in 2011, the latest year for which such figures are available[2].

Employer contributions grew strongly between 1999 and 2006. Normal contributions from employers rose from under £5 billion in 1992 to £25.5 billion in 2012. Employers' special contributions started to increase from 1999 and peaked at £13.2 billion in 2006, before falling to £11.9 billion in 2007 and £6.8 billion in 2008. In 2009, special contributions by employers rose to £10.0 billion and in 2012 they reached £19.4 billion.

Figures from Investment by Insurance Companies, Pension Funds and Trusts show that total contributions to defined benefit schemes are substantially higher than those to defined contribution schemes. Contributions to defined contribution schemes accounted for only 12% of normal contributions to self-administered pension funds in 2012, reflecting the small proportion of such schemes with self-administered funds. The position is different for insured occupational pension schemes (see Glossary), where most of the contributions are to defined contribution rather than defined benefit schemes (see MQ5: Investment by Insurance Companies, Pension Funds and Trusts, specifically Reference Table 2.5).

The economic recovery in the second half of the 1980s and the mid-1990s contributed to a rise in self-administered pension funds' investment income (income from rents, dividends and interest, Figure 9.5). Income in this category fell from £21.3 billion in 1997 to £16.8 billion in 2003 before recovering to £22.4 billion in 2008, despite the onset of the recession. In 2012, it was £20.9 billion.

Periodically, transfer payments into pension funds have a significant impact on the total income of self-administered pension funds. These are payments made from one pension fund to another in lieu of benefits that have accrued to the transferring member or members to enable the receiving pension arrangement to provide alternative benefits. Transfers may occur when people change employers or when pension schemes are merged. They have become an important component of self-administered pension fund income since 1999. Transfers into pension funds peaked at £9.7 billion in 2006 before falling to £1.5 billion in 2008. In 2012, income from transfers into pension funds was £2.7 billion (Figure 9.5).

Notes for Fund income

1. Pension Protection Fund, 7800 Index, March 2013 update containing figures to end-February (see **References**).

2. Occupational Pension Schemes Annual Report 2011, Chapter 3 (see **References**).

6 . Fund expenditure

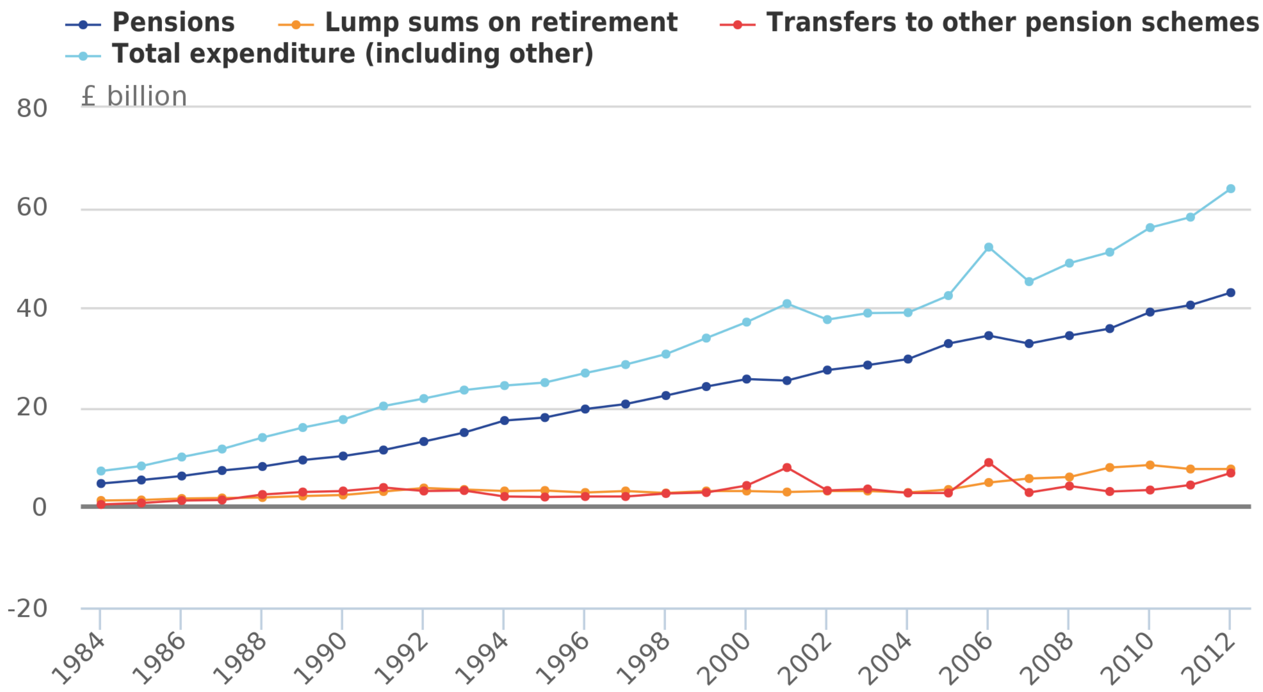
Most expenditure by self-administered pension funds is on regular pension payments (Figure 9.7). Since 1984, the amount spent on pensions has increased in most years. The upward trend is largely due to the impact of the increasing maturity of pension schemes, as employees who joined pension schemes in the 1950s and 1960s, a period when membership rose (see Pension Trends Chapter 7), enter retirement.

The way pension rights are increased to compensate for inflation (known as revaluation or indexation) also has an impact on pension funds' expenditure. Revaluation became compulsory in 1987 for pension rights accruing before retirement. For pensions in payment relating to contributions made from April 1997, Limited Price Indexation (LPI) applies. Under LPI, pensions had to be increased by 5% per year or by the increase in prices, whichever was less, until 2005, when the rate was changed to 2.5% or the increase in prices. In 2010, the government announced that indexation would, in future, be based on the Consumer Price Index (CPI) rather than the RPI. This change affects public sector pensions and some private sector pensions.

Self-administered pension funds' expenditure on pensions rose from £4.8 billion in 1984 to £25.7 billion in 2000 (Figure 9.7). After a slight decrease in 2001, growth resumed until 2006, when expenditure on pensions reached £34.4 billion. In 2007, expenditure fell by 5%, the first significant decrease since the beginning of the series. The fall was reversed in 2008, and expenditure on pensions reached £43.0 billion in 2012.

Figure 9.7: Self-administered pension fund expenditure, 1984 to 2012

United Kingdom



Source: Office for National Statistics

The other main components of pension fund expenditure are lump sums payable on retirement, death benefits, transfers to other pension schemes (outward transfers), and administrative costs. Expenditure on lump sums fluctuated around £3 billion from the mid-1990s until 2004, but then rose rapidly, reaching a peak of £8.5 billion in 2010. It then fell back to £7.7 billion in 2012.

Expenditure on outward transfers varied between 1984 and 2012, and mirrored trends in income from inward transfers. Since 1988, transfer payments have tended to range between £2 billion and £4 billion. However, they reached £8.0 billion in 2001 and £9.0 billion in 2006. In 2012, transfer payments were valued at £6.9 billion.

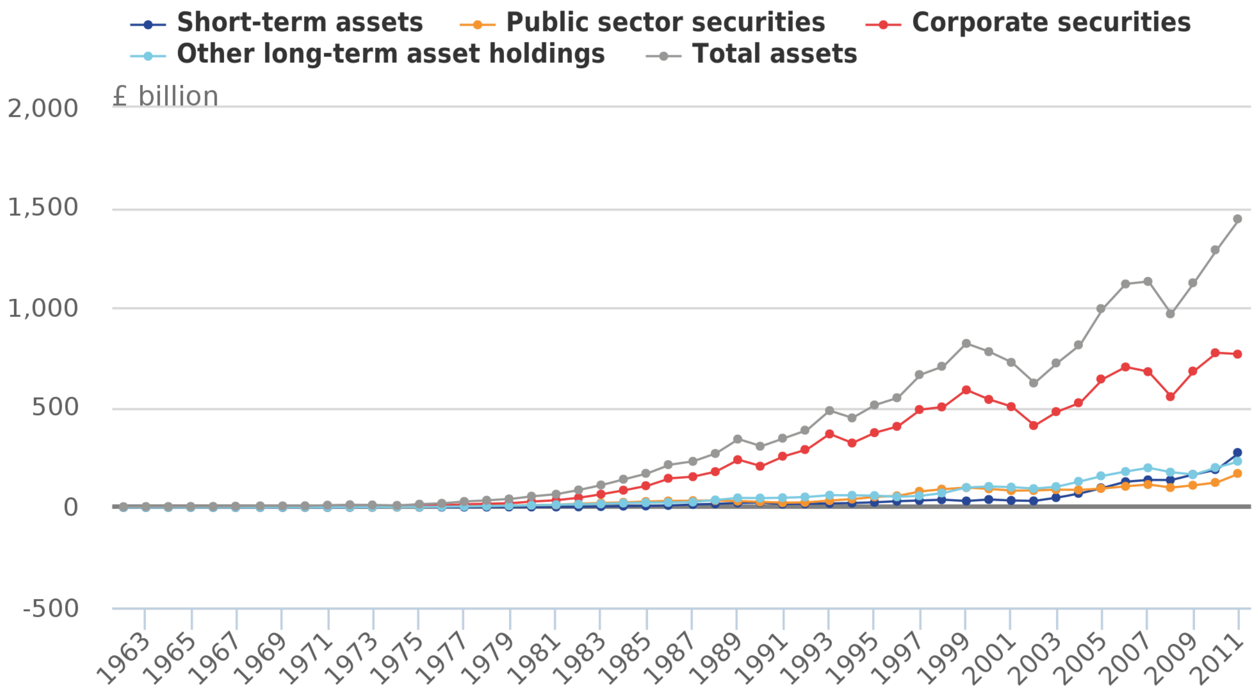
7 . Asset holdings

The final section in this chapter focuses on the investments made by self-administered pension funds on behalf of pension scheme members. It presents an overview of the funds' asset holdings as well as breakdowns by location of the investment (UK and overseas) and by type of investment. For asset holdings and investments, the latest year for which figures are available is 2011.

The overall composition of self-administered pension funds' asset holdings between 1986 and 2011 is shown in Figure 9.8. In 2011, long-term assets accounted for 81% (£1,169.1 billion) of total assets; short-term assets such as cash formed a small part of the total. Long-term assets consist of corporate securities, public sector securities and other long-term asset holdings, including fixed assets such as buildings, land and machinery, holdings in insurance-managed funds, and holdings of overseas government securities. Within the category of other long-term assets, a key growth area in recent years has been holdings of insurance-managed funds (where insurance companies offer participation in pooled funds). The value of holdings of these funds increased from around £20 billion in the mid-1990s to £103.6 billion in 2007. The recession in 2008–09 eroded their value, and they were worth £70.3 billion in 2009. Their value has recovered somewhat in 2011, reaching £93.8 billion.

Figure 9.8: Self-administered pension fund asset holdings at market values, 1986 to 2011

United Kingdom



Source: Office for National Statistics

Notes:

1. 'Other long-term asset holdings' comprise overseas government securities; loans and mortgages; fixed assets; holdings in insurance-managed funds; and other UK or overseas asset holdings. Property unit trust holdings, which used to be classified as 'other long-term asset holdings', has now been included in 'corporate securities'

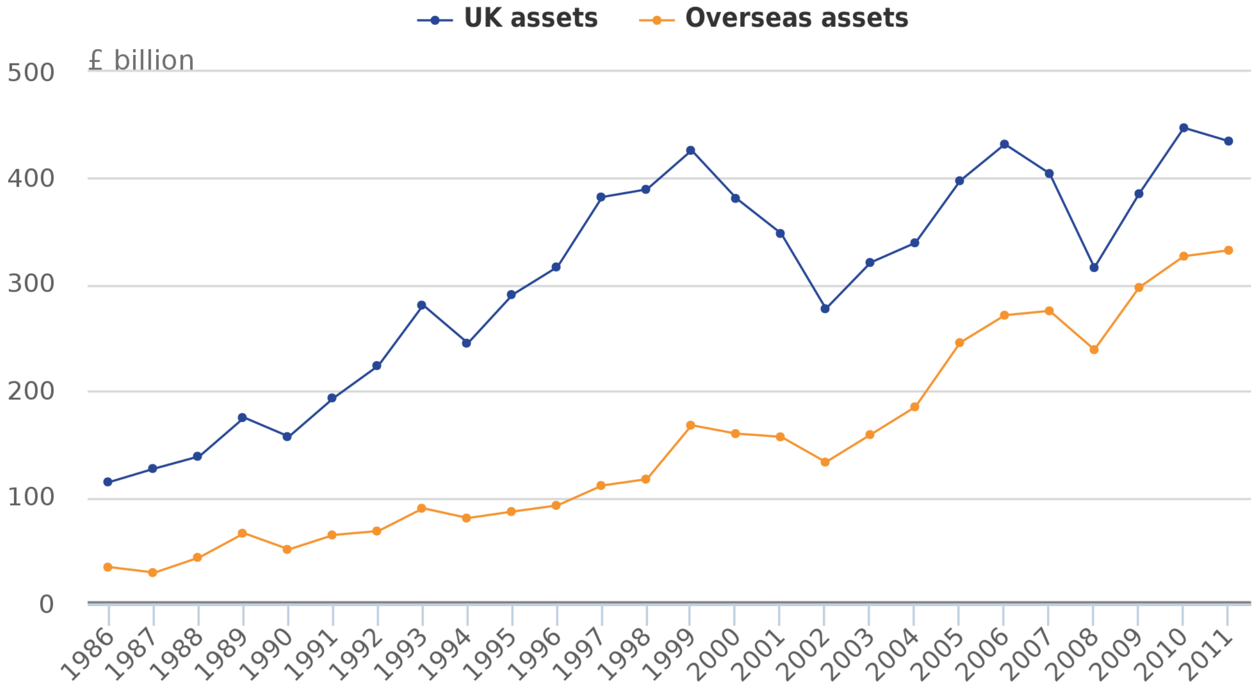
Changes in the UK stock market have a significant impact on the total value of pension fund assets. The growth in the market in the 1980s and 1990s led to significant increases in fund assets. The downturn in the stock market in 2000–03 decreased the value of pension fund investments. The value of pension fund assets fell from £820.9 billion in 1999 to £622.9 billion in 2002. Stock market growth, thereafter, contributed to raising the value of these assets to £1,131.1 billion in 2007, but in 2008 their value fell to £968.8 billion as stock markets fell at the start of the recession. The recovery in the UK stock market towards the end of 2009 increased the value of pension fund assets that year to £1,124.3 billion, reversing the fall in 2008. The value of these assets continued to increase in following years, reaching £1,444.0 billion in 2011.

Changes in the performance of stock markets can be seen in the 'corporate securities' category of asset holdings, comprising bonds issued by companies, company shares and mutual funds. For most of the 1990s, the value of investments in corporate securities accounted for over 70% of total assets held by self-administered pension funds. However, the proportion has fallen since then; in 2011, it was 53%. The value of self-administered pension funds' investment in corporate securities rose steadily throughout the 1980s and for most of the 1990s to reach a high of £588.3 billion in 1999. It fell sharply in the first years of the 21st century, but then recovered to reach a new high of £703.1 billion in 2006. After a fall in 2008, to £554.6 billion, the value of the funds' investment in corporate securities reached £774.1 billion in 2010. The increased holdings in mutual funds after 2008 were a key driver in the rise of holdings of corporate securities, which fed through to the increase in total assets during this period (Figure 9.10). Although the value of corporate securities decreased slightly in 2011, the other asset classes contributed to an overall increase in total assets.

Figure 9.9 shows self-administered pension funds' holdings of corporate securities broken down by whether the securities are located in the UK or overseas. Over time, the location of corporate securities in which the funds invest has shifted. The UK accounted for around three quarters of assets held in corporate securities for most of the 1990s. Since 1998, the proportion invested in UK company bonds, shares and mutual funds has steadily decreased and the proportion invested in their overseas equivalents has increased. In 2011, 57% (£434.9 billion) of the total was invested in the UK and 43% (£332.2 billion) overseas.

Figure 9.9: Self-administered pension fund holdings of corporate securities: by location of assets, 1986 to 2011

United Kingdom



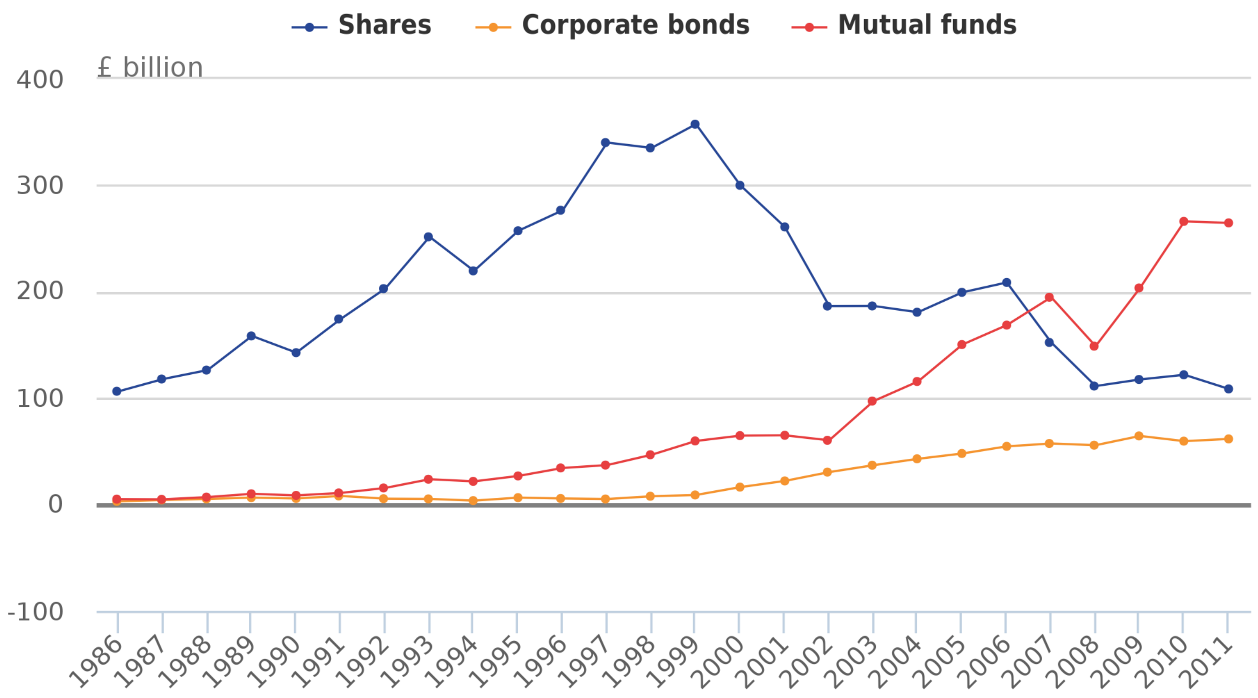
Source: Office for National Statistics

The composition of self-administered pension funds' investments in UK corporate securities has changed significantly from 1986 to 2011 (Figure 9.10). The proportion of assets invested in UK mutual funds rose from 4% of total investment in UK corporate securities in 1986 to 11% in 1996 and 22% in 2002. It then rose more rapidly, reaching 39% in 2006 and 61% in 2011.

The most marked increase in the level of mutual funds was after 2008, when the value of holdings stood at £148.8 billion. In 2009 and 2010, holdings in mutual funds increased to £203.5 billion and £266.1 billion respectively. They then fell slightly in 2011 to £264.7. The strong increases in 2009 and 2010 can be linked to rises in the UK authorised unit trusts, investment trusts, open ended investment companies, property unit trusts and 'other mutual funds' which make up the total mutual funds figure. The proportion of corporate assets held in mutual funds increased in every year after 2008.

Figure 9.10: Self-administered pension fund holdings of corporate securities: by type of UK asset, 1986 to 2011

United Kingdom



Source: Office for National Statistics

Notes:

1. Property unit trust holdings, which used to be classified as 'other long-term asset holdings' are now included in 'corporate securities: mutual funds'. The historical series has been revised

The proportion invested in company shares has fallen[1]. In 1986, 93% of investment in UK corporate securities was in shares. This proportion fell slowly at first, to 87% in 1996, and then more rapidly, to 48% in 2006 and 25% in 2011.

Between 1986 and 2000, investment in UK company bonds remained flat, at under 5% of investment in UK corporate securities. It then rose, reaching 11% in 2002. It peaked at 18% in 2008, before falling to 14% in 2011. Figures in £ billion for each asset class for the entire period are available in the chart download.

A number of factors may have encouraged self-administered pension funds to alter their asset allocations at the beginning of this century, giving greater weight to bonds. In addition to changes in the performance of equities, especially the stock market downturn of 2000–03, fund investment decisions may have been influenced by the maturing of defined benefit pension schemes and closures to new members, by changes to accounting standards for reporting pension scheme deficits with the introduction of Financial Reporting Standard 17 (FRS17), and by the setting up of the Pension Protection Fund (PPF):

- as pension schemes mature, fund managers are likely to want to reduce exposure to equities and their associated risks, and move into bonds. Many private sector defined benefit schemes set up in the 1950s and 1960s have been maturing in recent years, and many are now closing to new members, further reducing the proportion of younger members (for whom a relatively high proportion of investment in shares is appropriate). The de-risking of investments as schemes mature may be part of broader liability driven investment (LDI) strategies, which construct investment portfolios to reflect the nature of schemes' liabilities [2];
- FRS17 was introduced from 2001 and became mandatory from January 2005. It meant that pension schemes' funding positions had to be fully recognised on company balance sheets. If a defined benefit

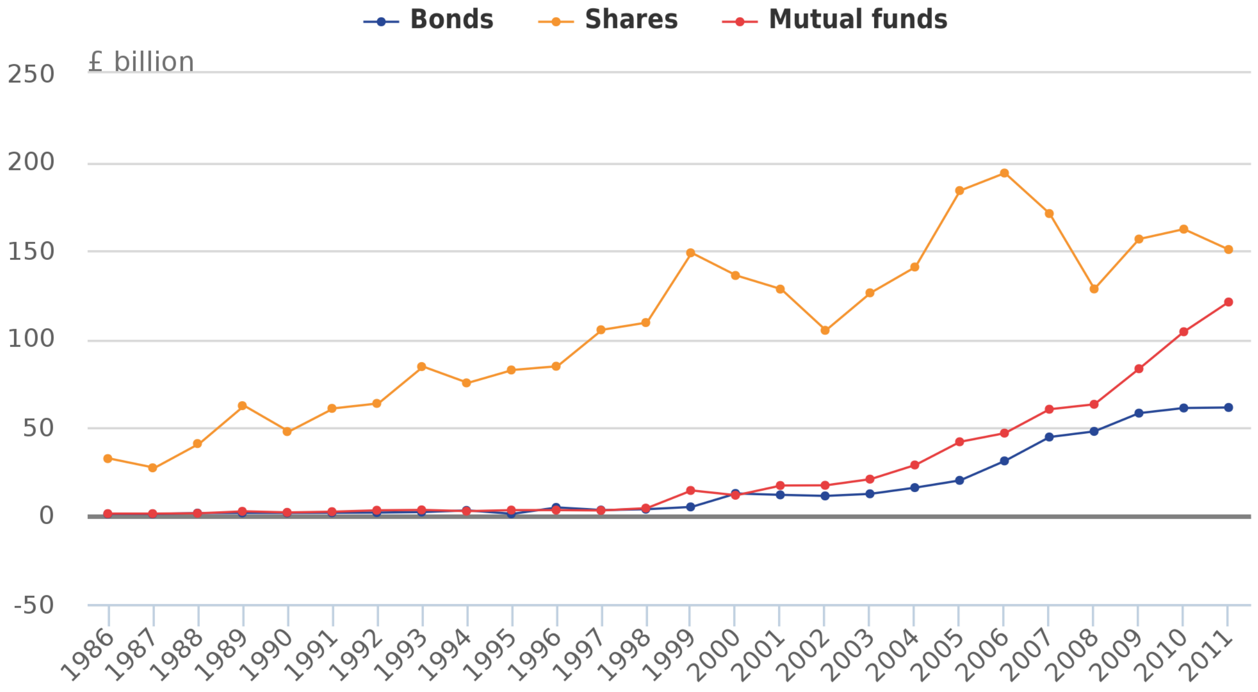
scheme moved suddenly into deficit because of a stock market downturn or a pronounced change in bond yields, this would affect the company's reported results. Therefore, some employers may have encouraged a shift in the asset allocation of pension funds associated with such schemes away from shares into less volatile assets such as bonds; and

- since 2006, most private sector defined benefit pension schemes have been subject to the PPF levy, which takes account of risk. It has been suggested that this provides an incentive for such schemes to shift their investments into lower-risk assets such as high-grade bonds. However, the formula used to calculate individual scheme levies does not, at present, take into account scheme-specific investment risk; only underfunding and insolvency risk of the sponsoring employer are used. From 2012/13, the PPF will take into account scheme-specific funding and investment risk as part of a move to a new framework [3]. PPF analysis suggests that the introduction of investment risk as a factor in the risk-based levy formula would not affect schemes' investment strategies to a significant degree.

Self-administered pension funds have also made changes to the composition of their overseas holdings of corporate securities (Figure 9.11). The changes have been similar to those seen in the UK holdings. In 1986, 94% of investment in overseas corporate securities was in shares; this fell to 92% in 1996, 71% in 2006 and 45% in 2011.

Figure 9.11: Self-administered pension fund holdings of corporate securities: by type of overseas asset, 1986 to 2011

United Kingdom



Source: Office for National Statistics

In the case of mutual funds, the increase in the proportion of the total invested in this type of asset overseas began later than for UK mutual funds, with the proportion remaining under 5% from 1986 to 1998, and then rising to 11% in 2001 and 17% in 2005. In 2011 it reached 36%.

The proportion of investment in overseas corporate securities held in company bonds remained relatively low between 1986 and 1999, but then rose to 8% in 2000 and to 20% in 2008. This proportion fell back to 18% in 2011. Until the 2011-12 levy year, the formula used to calculate individual scheme levies included just underfunding and insolvency risk of the sponsoring employer. From 2012-13, the formula will also include scheme-specific investment risk. Analysis carried out by the PPF in 2010 suggested that the introduction of investment risk would not affect schemes' investment strategies to a significant degree.

The chart download contains figures in £ billion for each overseas asset class for the entire period. Further information on the allocations of other asset classes, such as property, hedge funds and splits of gilts into conventional and index-linked gilts can be found in Purple Book: Chapter 7.

Notes for Asset holdings

1. It should be noted that, although the proportion invested in shares has fallen, mutual funds often invest heavily in shares.

2. The Purple Book 2010, Chapter 12: Section 12.6.

3. The PPF implemented a new levy framework from 2012/13 which includes funding and scheme-specific investment risk in the formula used to calculate the risk-based levy. Analysis carried out the PPF in 2010 suggested that the introduction of investment risk would not affect schemes' investment strategies to a significant degree. See PPF (2012): A Guide to the Pension Protection Levy 2012/13.

8. References

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9. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

   These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.

Compendium

Chapter 10: Saving for Retirement, 2013 Edition

This chapter of Pension Trends looks at the broader picture of saving for retirement by using the second wave of the Wealth and Assets Survey (WAS) to estimate financial, property and private pension saving. Within the article information on the distribution of aggregate saving, attitudes towards saving, saving constraints and the relationship between inheritance and saving is explored. Evidence is presented within this article that suggests some people face constraints which prevent them from saving and that many people are not in a position to save for retirement. In this chapter, saving is mostly measured at the household level. The analysis looks at households where the household head is aged between 16 and 64. As the key interest is on saving for retirement, we also focus our analysis on households headed by someone who is aged between 50 and 64. The median is the preferred measure of central tendency in this chapter because a proportion of households will have higher saving and the mean is likely to be influenced by these values, so it would not reflect the experience of most households.

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To be announced

Notice

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This publication has been discontinued. The last edition to be published was 28 November 2014.

Table of contents

1 . Introduction

People save in different ways and saving into a pension is only one of the ways to prepare for retirement. Many people will have alternative or complementary approaches to saving for retirement, so it is important to gain a complete picture of all assets accumulated over someone's lifetime. Information of this type can be sourced from the Office for National Statistics (ONS)'s Wealth and Assets Survey (WAS). Technical details about WAS and our methods of analysis can be found within the **Methodology** section of this chapter. Some of the differences between wave one and wave two results are accounted for by methodological changes between the waves, so it is important to refer to the background methodological documents. Further information about the technical details of modelling pension wealth within WAS can also be found in an annex on pension wealth in the Wealth in Great Britain Wave 2 , 2008-2010 (Part 2) report.

Household retirement income can be sourced from any pension, financial or property savings that its occupants have built up during their lifetime. The adequacy of this saving for a household will depend on what level of expenditure they consider necessary for retirement. Different households will have different needs, which means that a standard or minimum requirement is hard to define. Pension Trends Chapter 13 covers inequalities in poverty in retirement in more detail.

However, it is possible to calculate the pot of savings that an individual needs to have in order to attain a particular level of income in retirement through the purchase of an annuity. The level of income given by the annuity will depend on the size of the pot built up and the annuity rate available at the time of retirement. Table 10.1 shows the stock of saving needed at age 65 to attain chosen levels of income in retirement in December 2009, and for comparison purposes, in March 2013. It can be seen from Table 10.1 that in December 2009, women who were aged 65 needed a larger pot of savings than similarly aged men for all levels of income because they had longer life expectancies1 (see Pension Trends Chapter 3).

Table 10.1 shows that, for both men and women in March 2013, the amount of pension saving required to purchase a particular annuity has increased relative to December 2009. For instance, a 65 year old single man in 2009 would have needed a pension pot of £118,000 to receive an annual income of £5,000. In 2013, he would have needed 29% more money in his pot to purchase a similar level of annuity. From December 2012, the annuity rates provided to both men and women have equalised due to European legislation. It should be noted that these figures are not National Statistics and have been calculated using the best rates available on a single life basis from The Money Advice Service. Caution should be exercised when comparing the stock of savings shown in Table 10.1 with the WAS findings on household savings presented within this chapter. This is because they are not a representative sample of all rates available and the time periods are different.

Table 10.1. Savings required to produce different levels of annual income in retirement at age 65: December 2009 and March 2013

United Kingdom

£ pounds

Annual income	£5,000	£10,000	£15,000	£20,000	£25,000
Saving of men at 65 in 2009	118,000	236,100	354,100	472,100	590,200
Saving of women at 65 in 2009	133,500	267,100	400,600	534,200	667,700
Saving for men and women in 2013	152,800	305,600	458,300	611,100	763,900

Source: ONS pensions analysts' calculations based on information from The Money Advice Service

1. Calculations for 2013 are based on best available single life inflation-linked annuity rates quoted by the The Money Advice Service

2. Annuity rates for 2009 are based on those used within the financial assumptions of the Wealth and Assets (WAS) survey

3. The information shown here is not classed as National Statistics

4. From December 2012 the annuity rates provided to both men and women have equalised due to European legislation

5. Rates for December 2009 are included as they represent the most appropriate reference period for information collected in wave two of the Wealth and Assets Survey

Notes for Introduction

1. Table 10.1 includes estimates for December 2009 and March 2013. December 2009 represents the most appropriate reference period for information collected in wave two of the Wealth and Assets Survey. The fieldwork for wave two ran from July 2008 to June 2010. March 2013 was the latest information available at the time of compiling the chapter. Annuity rates provided to men and women were equalised due to the European Court of Justice ruling from December 2012.

2 . An overview of household saving

The previous edition of this chapter used information that was derived from the first wave of the Wealth and Assets Survey (WAS) that was conducted during 2006/08. WAS wave one data published in this chapter differs slightly from the previous edition, mainly due to re-imputation. Further details about this can be found within Chapter Four of Part One of the Wealth in Great Britain Wave 2 2008/10 report .

In 2006/08, 72% of households headed by someone who was aged between 16 and 64 had pension saving and this compares to 76% in 2008/10. Analysis of household financial saving in 2006/08 reveals that around 68% had positive balances and 32% were negative. In 2008/10, the percentages were almost identical. Around 67% of household financial balances were positive and 33% were negative. For the property component of saving it can be determined from the first wave of WAS that 97% of people with such saving had positive balances. In 2008/10, 96% of households with property saving had positive balances, again an almost identical percentage.

These elements of saving are explored further within Table 10.2, which shows summary statistics for total household saving and its components in both 2006/08 and 2008/10 for households headed by someone aged between 16 and 64.

Table 10.2 shows that median total saving (net) of all households headed by 16 to 64 year olds in 2006/08 was £54,000. This has increased to £79,200 in 2008/10. Table 10.2 also shows that in both 2006/08 and 2008/10, the highest level of saving was held within private pensions. In 2006/08 private pension saving had a median value of £30,000 and in 2008/10 this value increased to £53,000.

It should be noted that, following a period of consultation, the financial assumptions used in the calculation of some parts of pension wealth were updated at wave two to reflect market developments. Since these assumptions have a significant impact on the valuation of wealth, the change has made it difficult to interpret movements in wealth between waves. Additional information about this is included in an annex of the Wealth in Great Britain Wave 2, 2008-2010 (Part 2) report.

For both waves, median net financial saving was considerably lower than private pension saving and median net property saving was zero. Details about total saving and its components can be found within the 'Estimating Savings' section of this article's **Methodology**.

Table 10.2. Summary statistics for household saving (net): where household head is aged 16 to 64, 2006 /08 and 2008/10

Great Britain

£ Pounds

	Mean		1st Quartile		Median		3rd Quartile	
	2006 /08	2008 /10	2006 /08	2008 /10	2006 /08	2008 /10	2006 /08	2008 /10

Total saving (net)	208,400	262,500	1,700	5,000	54,000	79,200	231,500	294,800
Private pension saving	149,500	205,300	0	600	30,000	53,000	155,500	216,800
Financial saving (net)	37,300	38,200	-600	-1,100	2,800	3,100	31,000	32,000
Property saving (net)	21,600	18,900	0	0	0	0	0	0

Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. Pension saving excludes accrued rights to state pensions
2. Financial saving excludes childrens' assets and trust funds
3. Property saving excludes the main residence

It is the 50 to 64 age group that is most likely to be affected by decisions related to saving for retirement. Table 10.3 presents summary statistics for households headed by these people in 2006/08 and 2008/10. It can be seen from this table that median total saving (net) in the 50-64 age group was £158,800 in 2006/08. This increased to £195,600 in 2008/10.

Further analysis has revealed that there has been an increase in the number of households headed by someone who was aged between 50 and 64 with pension saving in 2008/10 compared to 2006/08. In 2008/10, around 83% of households had some form of pension saving, excluding rights to the state pension. This compares to 81% in 2006/08.

Between wave one and wave two of WAS there has also been a small increase in the percentages of those with negative financial and property balances. In 2006/08, it is estimated that 18% of households had negative financial balances. This increased to 20% in 2008/10. For property saving it can be estimated from the first wave of WAS that in 2006/08, 2% of households had negative balances. In 2008/10, 4% of households had negative property saving balances.

Table 10.3. Summary statistics for household saving (net): where household head is aged 50 to 64, 2006 /08 and 2008/10

Great Britain

£ Pounds

	Mean		1st Quartile		Median		3rd Quartle	
	2006 /08	2008 /10	2006 /08	2008 /10	2006 /08	2008 /10	2006 /08	2008 /10
Total saving (net)	356,800	440,700	24,400	35,200	158,800	195,600	446,900	545,400
Private pension saving	260,200	348,000	8,200	17,000	100,000	135,200	330,800	422,700
Financial saving (net)	65,100	65,100	400	200	15,100	14,500	62,600	65,000
Property saving (net)	31,500	27,700	0	0	0	0	0	0

Source: Wealth and Assets Survey, Office for National Statistics

Notes:

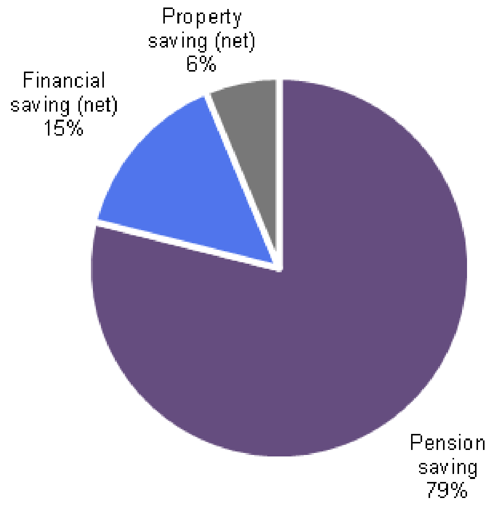
1. Pension saving excludes accrued rights to state pensions
2. Financial saving excludes childrens' assets and trust funds
3. Property saving excludes the main residence

3 . Aggregate saving

This section focuses on aggregate saving for the 50 to 64 year old age group in Great Britain in 2008/10. Figure 10.4 shows the composition of aggregate saving of households in Great Britain where the household head was aged 50 to 64 in 2008/10. It should be noted that the property saving analysed here does not include the value of the main residence, which may be sold when people retire ('downsizing') or used to raise money to fund retirement (equity release) – see section entitled **Property**.

Figure 10.4. Breakdown of aggregate saving (net) where household head is aged 50 to 64: by components, 2008/10

Great Britain, percentages



Source: Wealth and Assets Survey, Office for National Statistics

Notes:

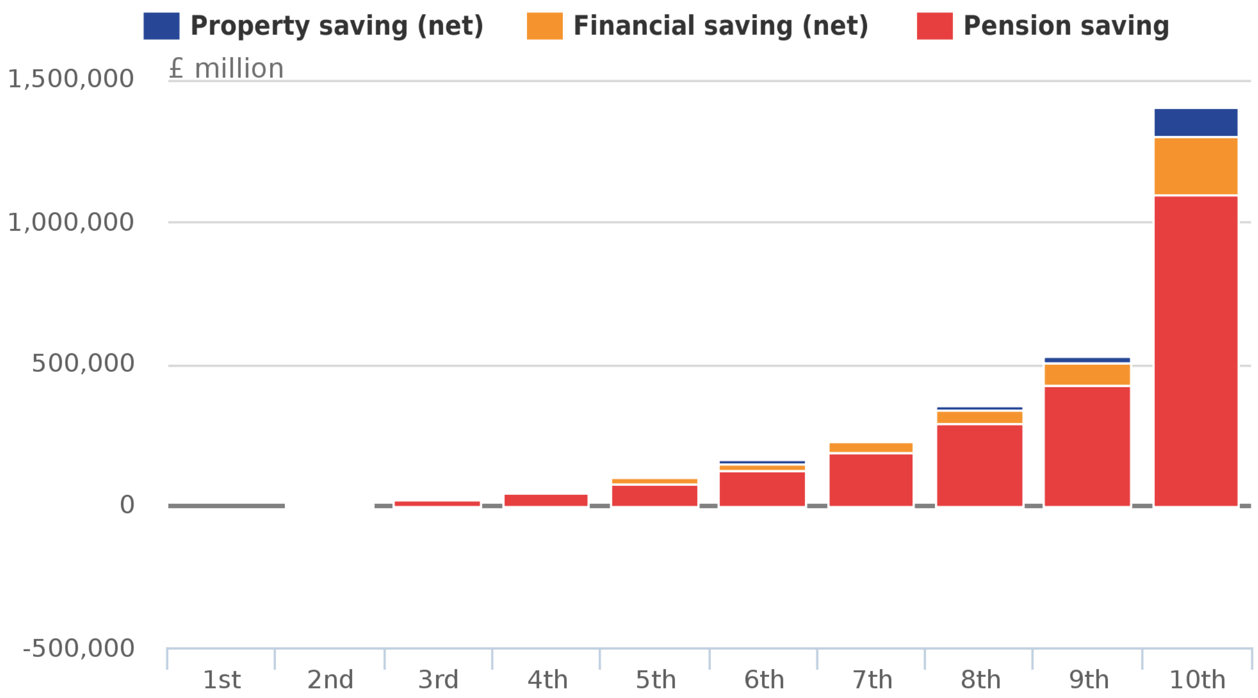
1. Pension saving excludes accrued rights to state pensions
2. Financial saving excludes childrens' assets and trust funds
3. Property saving excludes the main residence

The estimated aggregate saving of households headed by 50 to 64 year olds in 2008/10 was £2.9 trillion (a trillion is defined as a million million). In 2006/08 the aggregate saving was £2.2 trillion and pension, net financial and net property saving accounted for 73%, 18% and 9% of the total, respectively. It should be noted, that following a period of consultation, the financial assumptions used in the calculation of some parts of pension wealth were updated at wave two to reflect market developments. Since these assumptions have a significant impact on the valuation of wealth, the change has made it difficult to interpret movements in wealth between waves. Additional information about this is included within an annex of the Wealth in Great Britain Wave 2, 2008-2010 (Part 2) report .

Figure 10.5 shows aggregate household saving by deciles, indicating how the aggregate saving of households is distributed. Deciles divide the data into ten equal parts so that each part represents 10% of the distribution, in this example showing households with the least saving in the 1st decile and households with the most saving in the 10th decile.

Figure 10.5. Breakdown of aggregate saving, where household head is aged 50 to 64: by deciles and components, 2008/10

Great Britain



Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. Pension saving excludes accrued rights to state pensions
2. Financial saving excludes children's assets and trust funds
3. Property saving excludes the main residence

In 2008/10, households headed by someone aged 50 to 64 in the 10th decile had aggregate saving of £1.4 trillion, £1.2 trillion more saving than those in the bottom five deciles combined, in total about eight times as much total saving. The aggregate saving of the bottom 50% of households combined was £182 billion and this accounted for only 6% of the total. In 2006/08, the households in the top 10% had 0.9 trillion more than the bottom five combined and, again, had roughly 8 times as much saving in total.

The following analysis compares the composition of total saving between deciles in 2008/10. In all of the deciles, pension saving made the biggest contribution to total household saving. In the 1st decile, pension saving provided the only positive contribution, as there were negative values for both net financial and net property saving, making the value of total saving negative (minus £4.1 billion). Within the other deciles net pension saving contributed between 68% (2nd decile) and 81% (8th and 9th decile) of total saving.

In 2008/10, the contribution of positive balances for financial saving to total saving was highest in the 2nd decile where it contributed 34% of the total, and lowest in the top three deciles, where it accounted for between 13% and 14%. For property saving, there were only small positive contributions from the third decile onwards. These numbers are generally consistent with wave one of the Wealth and Assets Survey (WAS).

4 . Pension saving

The type of saving most closely related to saving for retirement is a pension. This is because, unlike other types of saving, private pensions are only accessible from a certain age. In most cases, the earliest age that it was possible to receive a pension from a registered pension scheme in 2008/10 was age 55, following the Finance Act (2004) [1].

People with pensions may be:

- contributing currently to the pension (known as active membership),
- no longer contributing, with retained rights from a former contribution period (deferred membership), or
- receiving a pension as a ‘pensioner member’

Employees and former employees may have either Defined Benefit (DB) or Defined Contribution (DC) pension saving (please see the Pension Trends Glossary), while the self-employed generally have a type of DC pension known as a personal pension. The self-employed are unlikely to have DB pensions unless they relate to a time when they were working as an employee.

This section looks at pension saving of households where the household head is aged between 50 and 64. The analysis looks first at pension savings which are still accumulating (they have not yet been taken as pension income) and then looks at pensions that are already being paid out.

The methods for calculating the different types of pension wealth are explained within the Wealth in Great Britain Wave 2, 2008-2010 (Part 2) report annex. For example, the income from pensions in payment has been turned into a stock value by calculating the present value of the future income stream that the household is expected to receive during retirement. This is equivalent to the pension pot they would need to buy an annual pension income at the level they have reported when interviewed, from the time of the survey until death.

Table 10.6 shows summary statistics for private pension savings still accumulating for households which have such savings. Median household pension saving still accumulating in 2008/10 was £125,000.

Households can either have both DB and DC pension types or they could only have one. In the following analysis, no distinction has been made between those with both and those with only one. Therefore, households found within the percentages of one pension type, might be present within the other.

In 2008/10 for households with pension saving, 48% of households had DB pension saving and 51% had DC pension saving. From the revised Wealth and Assets Survey (WAS) wave one dataset the estimated proportions of those with DB and DC pension saving was 41% and 46% respectively. In 2008/10, median DB pension saving for households with such saving was £177,900, much higher than the equivalent £29,000 for DC pensions. In 2006/08, the median private pension saving for DB and DC schemes was £162,600 and £23,200 respectively.

Table 10.6. Summary statistics for household private pension saving (still accumulating), where household head is aged 50 to 64, 2008/10

Great Britain

£ Pounds

	% with	Mean	1st Quartile	Median	3rd Quartile
DB pension saving:	48	324,200	70,700	177,900	422,300
Current occupational DB pensions	36	315,600	75,700	188,200	445,100

Retained rights in DB pensions	22	197,700	31,800	83,400	190,300
DC pension saving:	51	73,000	10,000	29,000	70,000
Current occupational DC pensions	16	45,500	5,700	15,400	45,100
Retained rights in DC pensions	22	51,600	6,000	17,000	41,500
Personal pensions	27	61,400	10,000	26,000	62,000
AVCs	3	19,000	4,600	11,000	23,000
Pensions expected from spouse or partner	2	96,200	12,000	30,000	90,000
Total pension saving (excluding pensions in payment)	73	267,400	38,200	125,000	326,000

Source: Wealth and Assets Survey, Office for National Statistics

1. Excludes those with zero pension saving

2. AVC = Additional Voluntary Contributions, DC = Defined Contribution, DB = Defined Benefit

3. "DC pension saving" includes the value of retained personal pensions

There are some households where the household head is aged 50 to 64 where someone in the household is receiving a regular income from a pension, even though this person or other people in the household may continue to earn income from employment and may also continue to build up other pensions. In both waves of WAS, around 31% of households in the 50 to 64 age group were in this position.

In 2006/08, the median stock value of pensions in payment for households receiving pensions was £203,700. In 2008/10, the median value was £237,100 (Table 10.7). This is higher than the median values of pensions still accumulating in the same age group at this time as shown in Table 10.6. This finding may suggest that better pension provision enables people to draw a pension earlier, which may, other things being equal, facilitate early retirement. Separate analysis carried out by the 2008 English Longitudinal Study of Ageing found that people in England with Defined Benefit (DB) pensions were almost twice as likely to be retired before State Pension Age (SPA) as those with no private pension. However, people with Defined Contribution (DC) pensions were 24% less likely to retire before SPA[2].

Table 10.7. Summary statistics for stock value of pensions in payment where household head is aged 50 to 64, 2008/10

Great Britain

£ Pounds

	% with	Mean	1st Quartile	Median	3rd Quartile
Pensions in payment	31	498,800	76,600	237,100	529,200

Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. Results exclude zeros (households without this type of saving)

Notes for Pension saving

1. The minimum pension age was raised from 50 to 55 from 6 April 2010 under the Finance Act 2004. Some public sector employees, in particular members of the Armed Forces, can draw a pension earlier.

2. For the 2008 English Longitudinal Study of Ageing (Wave 4) paper on Financial circumstances, health and well-being of the older population in England.

5 . Financial saving

This section looks at the financial saving of households where the household head is aged 50 to 64. The figures presented are net financial savings: assets minus the value of any financial liabilities.

Table 10.8 shows that, in 2008/10, the median value of net financial saving was £14,500. In 2006/08, the median net financial saving for households headed by someone who was aged between 50 and 64 was £15,100. In 2008 /10, it can be estimated that 80% of households had positive financial balances. Similar analysis on the wave one WAS dataset reveals that 82% of households had positive financial balances in 2006/08. There has been a slight drop in the estimated median for net financial saving between the two waves of the Wealth and Assets Survey (WAS).

Table 10.8. Summary statistics for household financial saving: where household head is aged 50 to 64, 2008/10

Great Britain

£ Pounds

	% with	Mean	1st Quartile	Median	3rd Quartile
Financial assets	97	68,800	2,000	17,400	67,500
Financial liabilities	51	3,800	0	0	3,500
Net financial saving		65,100	200	14,500	65,000

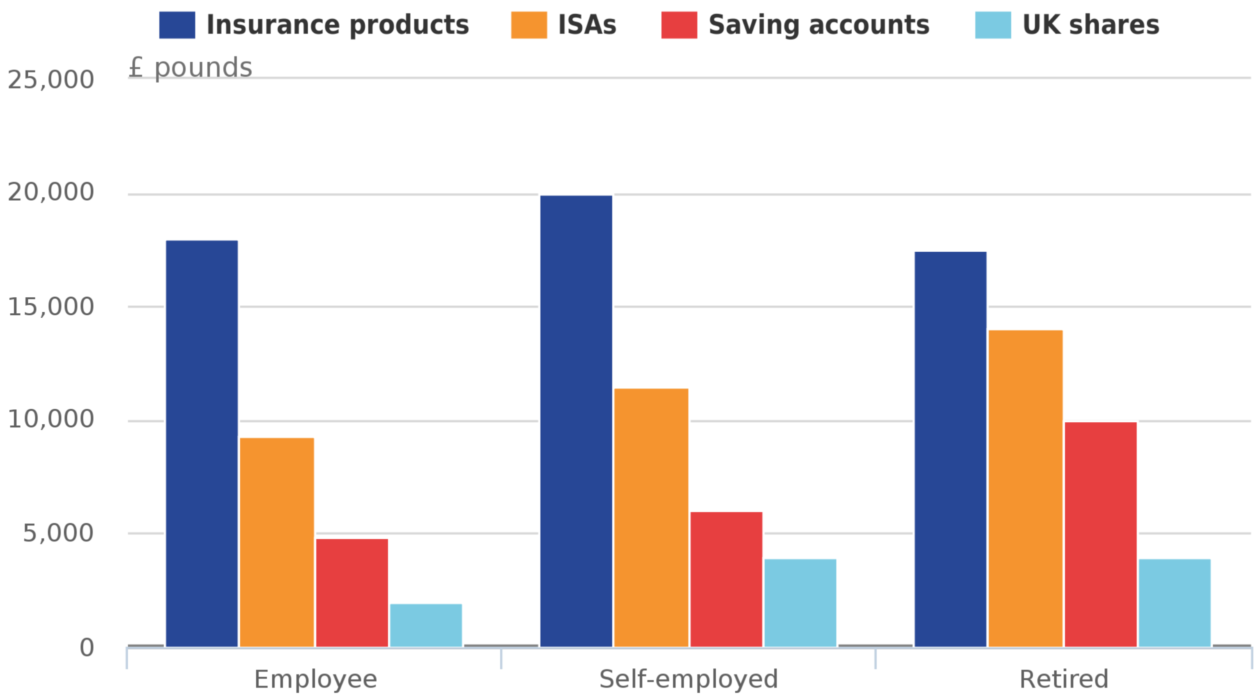
Source: Wealth and Assets Survey, Office for National Statistics

Figure 10.9 shows how median household saving in the commonly held financial assets varies by the employment status of the household head. In 2008/10, median saving in insurance products was highest for households classified as self-employed (£20,000) and lowest for households where the household head was retired (£17,500). For the other financial assets, except for UK shares where the median value for the self-employed and the retired was the same, it was those classified as retired that held the largest amount of median savings. For example, households where the household head was retired had median savings of £14,000 in ISAs compared with £11,500 for those classified as self-employed and £9,300 for those where the household head was an employee. This reflects the relative wealth of households headed by early retirees in the 50 to 64 age group compared with those where the household head is still working.

Similar trends as above can be seen when analysis is conducted on data from the first wave of the WAS. In 2006 /08, the self-employed had higher savings within insurance products (median savings of £21,000), compared to those who were retired (£15,000) and those in employment (£18,000). In 2006/08, retired households had higher saving within all other categories of financial assets. The analysis that was completed for the revised wave one of WAS is included within the chart download for Figure 10.9.

Figure 10.9. Median household saving in commonly held financial assets where household head is aged 50 to 64: by employment status of household head, 2008/10

Great Britain



Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. Results exclude zeros (households without this type of saving)
2. Main categories of employment status are shown; not shown = unemployed, student, looking after family /home, sick/disabled and other inactive
3. Households headed by an employee make up 58% of all households in this age group; those headed by the self-employed account for 11%; those headed by retired people account for 15%

The periods of time that the two waves of WAS covered was around the 2008 recession. It is interesting to note how the saving position of households has changed during this time. A measure of this is provided by the household saving ratio produced by the Office for National Statistics, further details can be found within [The Economic Position of Households - Q3 2012 report].

The household saving ratio, a key indicator of the economic situation of households, is the amount of saving that households make in relation to available resources. As the saving ratio is constructed by dividing savings (a relatively small number) by households' available resources (a relatively large number), the series has volatility and so care should be taken when looking at longer term trends alongside the latest change. The saving ratio's turning points are seen as a key indicator of the direction of the economy.

Before the recession in 2008, the saving ratio had been on a downward trend, driven by high levels of household spending. However, between the first quarter of 2008 and the second quarter of 2009, the saving ratio increased from -0.2% in the first quarter of 2008 to a peak of 8.2% in the second quarter of 2009.

6 . Property

This section looks at the property saving by households where the household head is aged 50 to 64. The figures presented are net values which are equal to assets minus the value of any mortgages.

When calculating property saving, properties such as a second home or a buy-to-let have been included. Second homes and buy-to-let properties are a form of investment which can be sold to fund retirement or let to provide income in retirement. The main residence, on the other hand, has been excluded from our measure of property saving. Some commentators have suggested that people's homes should also be included, for two reasons:

- households may 'downsize' on retirement by selling a large home and buying a smaller one, thereby freeing up capital to provide an income in retirement; and
- households may take part in 'equity release' schemes, which allow older people to free up capital from their homes while continuing to live there.

However, research by the Pensions Policy Institute [1] has shown that most people are reluctant to downsize, and participation in equity release is also rare at present (the Wealth and Assets Survey (WAS) found that in both 2006/08 and 2008/10, only 2% of households in the 65 and older age group were involved in such schemes [2]). If we exclude the main residence from our measure of saving, there is likely to be an underestimate of property saving. However, if we include it, our estimate of property saving would be inflated.

In 2008/10, the median net value of property saving was £120,000 for households with such saving in the 50 to 64 age group (Table 10.10). It can be seen from Table 10.10, that median net property saving is the same between the two waves of WAS. Caution is advised when interpreting the figures in Table 10.10 because, in surveys, people might over-report the value of the property that they own. In such cases, their point of reference is likely to be asking prices which they have seen advertised rather than 'sold prices' which reflect true market value. It should also be noted that in both waves of WAS only 13% of people owned property other than their main residence. A comparison of 2006/08 with 2008/10 will also be affected by changes in house prices between the two WAS periods. Further details of this can be found within Chapter 2 of the Wealth in Great Britain report (Part 1) [2].

Table 10.10. Household net non-main residence property saving where household head is aged 50 to 64, 2006/08 and 2008/10

Great Britain

£ Pounds

	Mean	1st Quartile	Median	3rd Quartile
Property owners 2006/08	238,500	50,000	120,000	250,000
Property owners 2008/10	205,700	50,000	120,000	225,000

Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. Property saving is calculated net: assets minus liabilities (mortgage debt). It excludes value of main residence and those without such saving

Notes for Property

1. For reports on the role of property in funding retirement

2. Office for National Statistics (2011): Wealth in Great Britain: Main Results from the Wealth and Assets Survey: 2008/10 and Office for National Statistics (2009): Wealth in Great Britain: Main Results from the Wealth and Assets Survey: 2006/08

7 . Attitudes towards saving

The attitudes of individuals towards spending, borrowing and saving provides us with information on their willingness to save for retirement. In the Wealth and Assets Survey (WAS), there were a set of questions about people's attitudes towards spending and saving. Some of the questions asked in wave one (2006/08) were not included in wave two (2008/10). Wave two included some new questions and some of these are considered in the following section. Unlike the rest of the chapter, the analysis in this section is at the individual level and it is for all adults aged between 16 and 64.

In the first wave of WAS it was possible to define a 'saving orientation' measure, following research conducted by the University of Bristol. Their measure related to a series of questions asked about spending, saving and credit use, and depended on the level of agreement or disagreement with the three statements:

- I tend to buy things when I can't really afford them;
- I tend to buy things on credit and pay it off later; and
- I am more of a saver than a spender

The answers to the three statements correlated highly with each other and strongly reflected a single underlying attitude, so they were combined to create a single measure. This classed people as having a 'spending orientation' if they had a moderate or strong orientation towards spending based on their responses to the three above statements. Alternatively they were said to have a 'saving orientation' if their responses indicated a moderate or strong orientation towards saving[1].

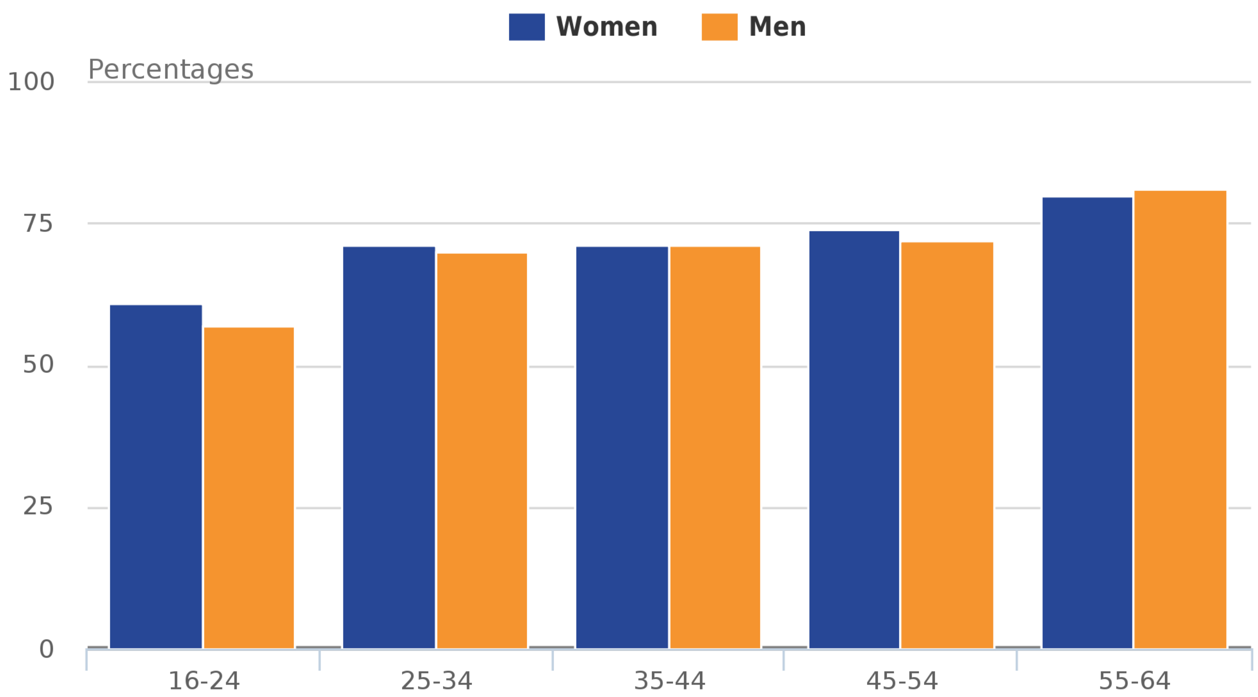
In the second wave of WAS these specific questions were not asked but a similar measure can still be derived. The level of agreement or disagreement with the three following statements was used to define a comparable 'saving orientation' measure:

- I tend to live for today and let tomorrow take care of itself;
- I prefer to buy things on credit rather than save up and wait; and
- I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month

Caution should be exercised when interpreting any differences between these two measures of saving orientation. Figure 10.11 shows the proportion of individuals who were classed as having a 'saving orientation', as defined in wave two, by age and by sex.

Figure 10.11. Proportion of individuals with a saving orientation: by age and sex, 2008/10

Great Britain



Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. Adults aged 16-64 responding in person, excluding 'don't knows'

2. A saving orientation is defined as those with a moderate or strong orientation towards saving based on responses to the following statements: I tend to live for today and let tomorrow take care of itself; I prefer to buy things on credit rather than save up and wait; I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month

It can be seen from Figure 10.11 that the greatest difference between men and women was in the 16 to 24 age group. In this age group the proportion of women who can be said to have an orientation towards saving was three percentage points higher than men. After this age group, the difference between men and women is minimal. It can also be noted that the proportions of those with a saving orientation increases with age. There may be many reasons for this including the fact that older age groups have fewer outgoings, such as mortgages.

For those with a saving orientation, it is possible to derive their perception of the safest way to save for retirement. Figure 10.12 presents information for each sex between ages 16 and 64 on what “savers” thought was the best way to save for retirement. This analysis is possible because a new question in the second WAS wave asked: “Which of these options do you think would be the safest way to save for retirement?”. Possible responses to this question were:

1. paying into an employer pension scheme;

2. paying into a personal pension scheme;

3. investing in the stock market by buying stocks or shares;

4. investing in property;

5. saving into a high rate savings account;

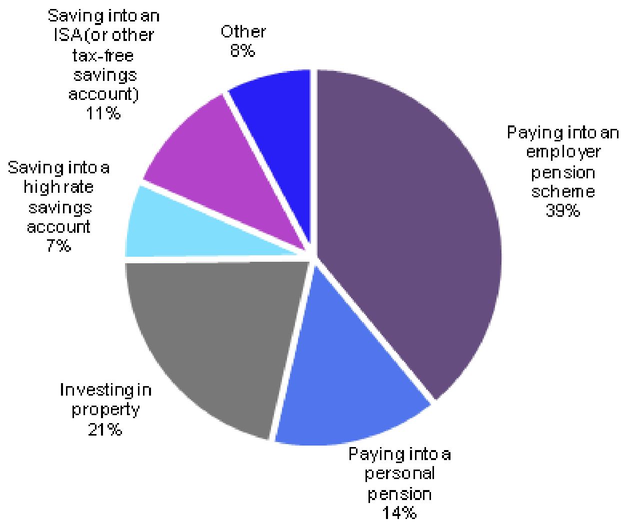
6. saving into an Individual Saving Account (ISA) (or other tax-free savings account);

7. buying Premium Bonds; or

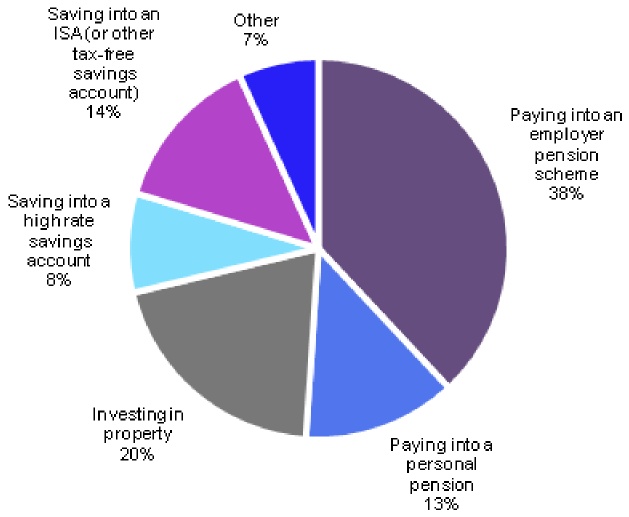
8. other

Figure 10.12. Safest way to save for retirement proportions for those with a saving orientation: by sex, 2008/10

Great Britain, percentages, men



Great Britain, percentages, women



Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. Adults aged 16-64 responding in person, excluding 'don't knows'

2. A saving orientation is defined as those with a moderate or strong orientation towards saving based on responses to the statements: I tend to live for today and let tomorrow take care of itself; I prefer to buy things on credit rather than save up and wait; I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month

3. The other category includes responses given for investing in the stock market by buying stocks or shares, buying Premium Bonds and other

4. ISA = Individual Saving Account

From Figure 10.12, it can be seen that for both men and women that there is a belief that ‘paying into an employer pension scheme’ and ‘investing in property’ will provide the safest way to save for retirement. There is very little difference between men and women except within the ‘saving into an ISA (or other tax-free savings account)’ category. For this option it can be estimated that the proportion of women (14%) who believed this to be the safest way of saving for retirement was around three percentage points higher than men (11%).

Other measures related to attitudes towards saving for retirement can also be estimated from WAS. For instance, the reason for people not contributing to a pension scheme, for those who are under 60 and who are not receiving a pension, can be derived. For men the top five reasons for not currently contributing to a pension, sorted in order of importance with the most important first, were:

- can’t afford to (general);
- low income/not working/still in education;
- too many other expenses/bills/debts;
- prefer alternative forms of saving; and
- not interested/not thought about it/got around to it.

For women in 2008/10 the top five reasons for not contributing to a pension scheme were:

- low income/not working/still in education;
- can’t afford to (general);
- too many other expenses/bills/debts;
- not interested/not thought about it/got around to it; and
- don't know enough about pensions.

The top five reasons for not contributing are generally consistent between men and women. The results presented here are similar to those published within the Department for Work and Pensions (DWP) 2012 report on Attitudes to Pensions [2]. This survey found that 51% of those with no resources for later life, which DWP defines as not having a private pension or other resources for later life, could not afford to save for retirement.

Notes for Attitudes towards saving

1. The original measure was created by Andrea Finney of the University of Bristol for the Wealth in Great Britain (2009) report, Chapter 8

2. Department for Work and Pensions (2012) Attitudes to Pensions

8 . The effect of income

The aggregated total level of income for a household is thought to have an effect on its ability to save. At present, for both waves of the Wealth and Assets Survey (WAS), consistent data relating only to the earned income of employees is available. Therefore, this section only considers this form of income. Further income information will become available with the third wave of WAS. Since the income for household members who are not employees (e.g. the self-employed and other non-working household members) is not included in this analysis, the results are not representative of the population as a whole.

Readers should also note that because income refers to the current time, while savings are accumulated over time, it is possible for people with low current incomes to have accumulated savings previously when their incomes were higher. This is particularly likely for retired people.

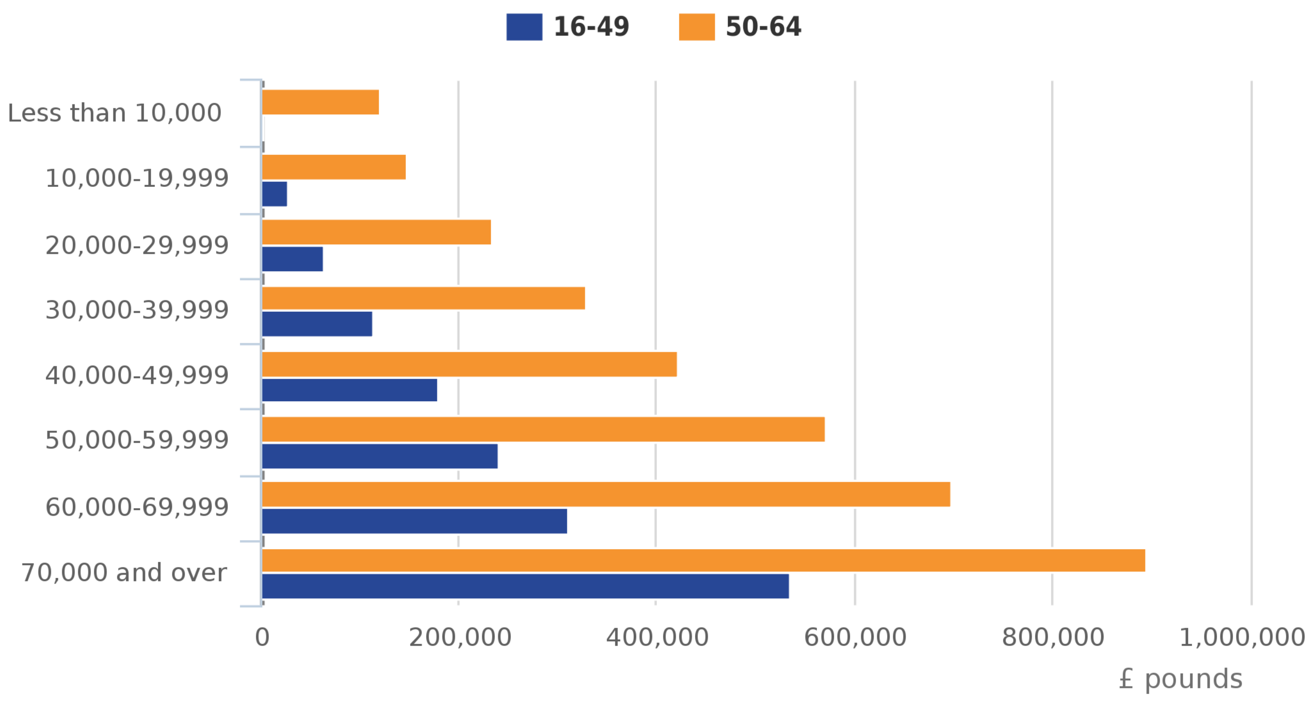
In the following analysis, households' earned income is divided into eight bands, from less than £10,000 to £70,000 and over. The analysis is presented for households headed by people aged 16 to 49 and 50 to 64. Proportionally, households are distributed in a similar way between the income bands in both age groups [1].

Figure 10.13 shows median total saving by earned income from employment in 2008/10. For both age groups, total saving increased with earned income. For households where the household head was aged 16 to 49, those in the lowest income band (with earned income below £10,000) had median total saving of £1,800, while those in the highest income band (with earned income of £70,000 and over) had a median total saving of £535,800. For households headed by those aged 50 to 64, median total saving ranged from £119,300 in the lowest earned income band to £895,600 in highest band. Information on how total saving for households was calculated can be found within this article's **Methodology** section.

In 2006/08, for households headed by someone between 16 and 49 the median saving for those in the lowest income band was £1,500 and £333,700 in the top income band. Also in 2006/08, for those households headed by someone aged between 50 and 64 the median saving for those in the lowest income band was £85,200 and £1,050,500 in the highest band.

Figure 10.13. Median total household saving (net): by age group and earned income from employment, 2008/10

Great Britain



Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. Earned income is income of household members, but only those who are employees from their main job

2. Analysis excludes households which have no earned income from employees

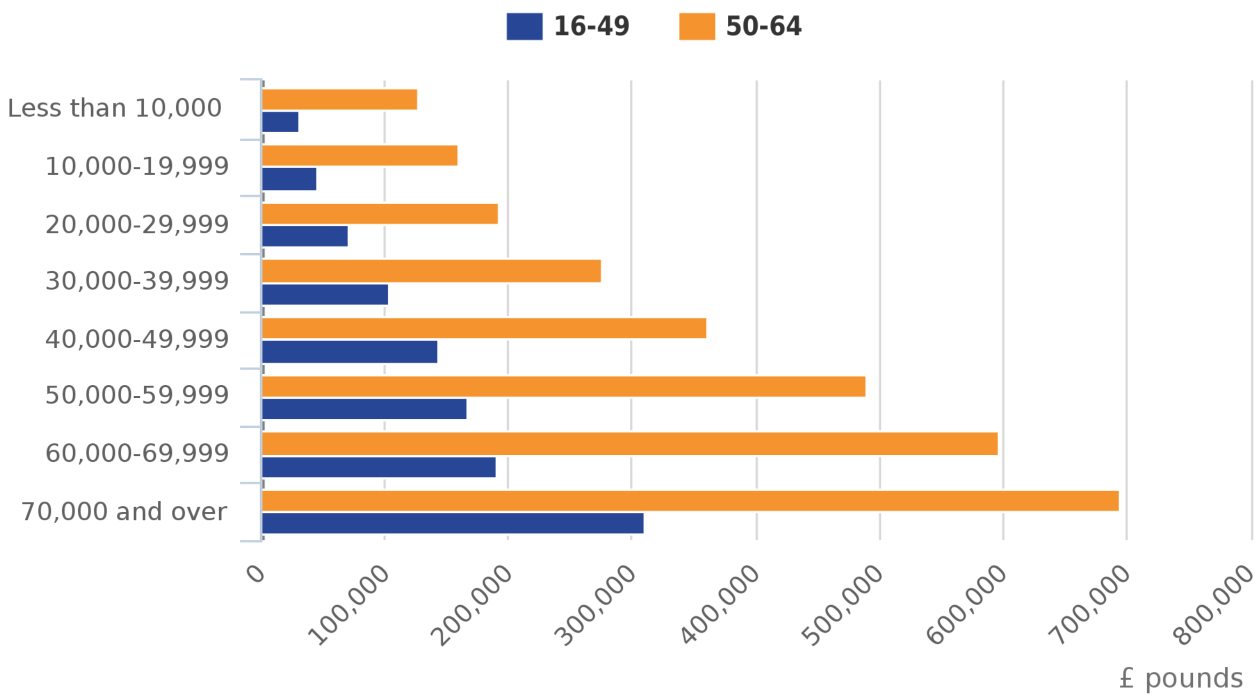
The difference in total saving shows younger people saving less than older people. Figure 10.13 shows that, taking the savings of the 16 to 49 age band as a percentage of the 50 to 64 age band, the gap in saving is greatest at low levels of income. From the £10,000-£19,999 earned income band upwards, the older age group had between two and five times more saving than the younger age group in each earned income band. Similar analysis on the first wave of WAS shows that the older age groups had between two and seven times more median household saving than those in the 16-49 age group.

The lowest earned income band (less than £10,000) for households in the 50 to 64 age group is unusual. Due to the presence of retired people, saving is relatively high in this band, much higher than for households in the same earned income band in the 16 to 49 age group.

Figure 10.14 shows median pension saving, for those households that had such saving, by earned income for households headed by people aged 16 to 49 and 50 to 64 in 2008/10. For both age groups, median pension saving increased with earned income. For households in the 50 to 64 age group with this type of saving, the median pension saving of households in the £60,000 and over earned income band was over four times higher than the combined pension saving of the bottom two. In the first wave of WAS those in the top two income bands had nearly five times more than the bottom two.

Figure 10.14. Median household pension saving: by age group and earned income, 2008/10

Great Britain



Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. Earned income is income of household members, but only those who are employees from their main job

2. Analysis excludes households which have no earned income from employees

3. Results exclude households with zero pension saving

Notes for The effect of income

1. Households are distributed as follows from the lowest to the highest earned income bands (figures are percentages; excluding households with no earned income). For the 16 to 49 age group: 12%, 25%, 24%, 18%, 10%, 6%, 3% and 3%. For the 50 to 64 age group: 16%, 27%, 21%, 15%, 10%, 5%, 3%, 3%. For example, 12% of households headed by someone aged 16 to 49 are in the lowest income band, compared with 16% of households headed by someone aged 50 to 64. These proportions are similar to the first wave of WAS.

9 . The effect of debt

In the previous section, the analysis looked at the influence of income on saving. In this section, we explore the hypothesis that another factor constraining the ability to save is debt, as debt can put pressure on resources and reduce capacity to save. There are two main classes of debt: financial liabilities [1] and property liabilities. In this case, we include liabilities on the main residence as well as on second homes and buy-to-lets (but not equity release mortgages in either of these), because the aim of the analysis is to explore how households' indebtedness affects their ability to save.

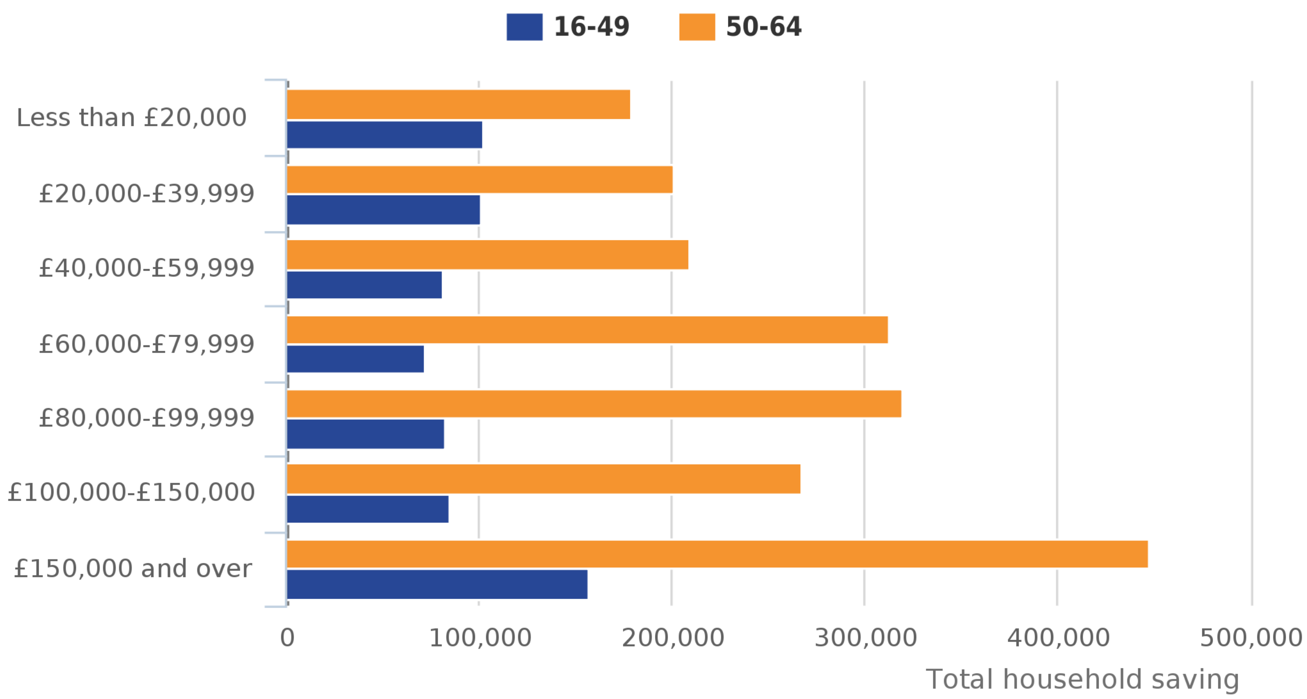
In 2008/10, 51% of households in the 50 to 64 age group had financial liabilities, compared with 69% in the 16 to 49 age group. This compares to 49% and 67% in the first wave of the Wealth and Assets Survey (WAS). In 2006 /08, 40% of households in the 50 to 64 age group had outstanding mortgages, compared with 57% in the 16 to 49 age group. In 2008/10, for those aged between 50 and 64, there was a slight difference in the proportions of those with mortgage debt (39%) in comparison to wave one. The rate for those with mortgage debt for the 16 to 49 age group was similar between waves.

Figure 10.15 presents results for total saving (net) by mortgage debt for households headed by people aged 16 to 49 and 50 to 64. The results do not show a clear relationship between total saving and mortgage debt.

It would appear at first sight that, at least for the older age group, there is a moderate tendency for saving to increase as debt increases. However, the causality is more likely to be the other way round: increased saving may make it possible for households to borrow more. There may also be a third factor: income. The previous section showed that there was a close relationship between total saving and earned income. The results shown in Figure 10.15 are difficult to interpret because they include information about households with good borrowing records as well as about households which are having difficulty repaying debt. In theory, debt would represent a constraint on saving for the latter but not necessarily for the former. Detailed analysis of this topic is beyond the scope of Pension Trends.

Figure 10.15. Median total household saving (net): by age group and mortgage debt, 2008/10

Great Britain, £ pounds



Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. Total household savings are comprised of net financial, net property and pension saving
2. Mortgage debts comprises all borrowing against homes and other properties
3. Results exclude households with zero mortgage debt

Notes for The effect of debt

1. Financial liabilities in WAS comprise current accounts which are overdrawn, non-mortgage borrowing, and arrears on household bills. Non-mortgage borrowing is defined as the use of any credit or store cards that are not settled in full each month, overdrafts and all forms of fixed-term loans (including personal loans, hire purchase agreements and mail order accounts). Arrears are defined as falling behind with any household bills (utility bills, council tax and rent) or with a mortgage, or if any household member was behind with non-mortgage borrowing repayments.

10 . Inheritance and saving

The final section of this chapter considers the relationship between inheritance and saving for people aged between 50 and 64.

Table 10.16 shows how receipt of an inheritance is related to saving in pensions, savings accounts and Individual Saving Accounts (ISAs). In the first wave (2006/08) of the Wealth and Assets Survey (WAS), respondents were asked about all inheritances received in the past five years. In the second wave (2008/10), only inheritances that were received in the past two years and valued at £1,000 or more were recorded. Therefore, the analysis presented here is on a slightly different basis for the two waves.

In 2008/10, 5% of people had received an inheritance valued at £1,000 or more in the past two years. Table 10.16 shows that people who were in receipt of an inheritance of £1,000 or more in both 2006/08 and 2008/10 had higher median saving within pensions, savings accounts and ISAs.

Table 10.16. Median saving in pensions, savings accounts and ISAs for people aged 50 to 64: by whether or not a inheritance has been received, 2006/08 and 2008/10

Great Britain

£ Pounds

	2006/08		2008/10	
	Inheritance received		Inheritance received	
	Yes	No	Yes	No
Pensions	70,000	28,300	113,200	50,000
Savings accounts	3,000	200	5,000	300
ISAs	3,000	0	4,500	0

Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. For 2006/08, the results for inheritance received were sourced from the following question on the WAS survey: "In the last five years have you personally received an inheritance valued at £1,000 or more"

2. For 2008/10, the results for inheritance received were sourced from the following question on the WAS survey: "In the last two years have you personally received an inheritance valued at £1,000 or more"

3. ISAs = Individual Saving Account

The findings presented in Table 10.16 are supported by a study published in 2008 by the International Longevity Centre (ILC) and NatCen based on the British Household Panel Survey and the English Longitudinal Study of Ageing[1], which found that wealthier individuals had higher expectations of receiving inheritances (and leaving bequests) than the less wealthy.

However, it should be noted that the finding that people with inheritances have much higher levels of saving than those without does not give a complete picture of how inheritances affect saving behaviour. For example, it could be that individuals with inheritances actually save less than they would otherwise have done because of the effect of the inheritance.

Notes for Inheritance and saving

1. Ross, A. Lloyd, J. and Weinhardt, M. (2008) The Age of Inheritance

11 . Methodology

Estimating saving

Information on saving presented within this article comes from cross-sectional analysis that was carried out on the first and second waves of the Wealth and Assets Survey (WAS), which took place in 2006/08 and 2008/10. WAS captures detailed information on wealth and related factors such as income, education level, socio-economic classification, debt and attitudes towards saving. It excludes business assets and rights to state pensions as well as assets held in trusts.

The first wave of WAS covered around 55,000 adults and around 31,000 households. The results were published in the 2009 Wealth in Great Britain report[1], which analysed four components of wealth: property (net of mortgages), financial wealth (net of borrowing), physical wealth and private pensions.

The second wave of the WAS covered around 36,000 adults and over 20,000 households. The results were published in the 2011 Wealth in Great Britain report[2]. The components of wealth were analysed in the same way in both waves, although in some instances slightly different questions between the two waves were asked.

This chapter uses data from WAS, but focuses on saving. Certain types of wealth that cannot be classed as saving are excluded: physical assets (household contents, vehicles and valuables) and people's homes. We also exclude children's financial assets as these are unlikely to contribute to saving for retirement. The saving measure is made up of private pensions, financial assets and property excluding the home. The most difficult decision on what to include and exclude from saving concerns the home. People who own their homes get both consumption and investment value from them. Some analysts have argued that the value of the home can be drawn upon in retirement, so it should be seen as a form of saving. However, on balance the evidence suggests that few people at present realise the value of their homes in retirement, either by 'downsizing' or through equity release (see section on: **Property**). Therefore, we have excluded the home (main residence) from our measure of saving.

Households and age groups

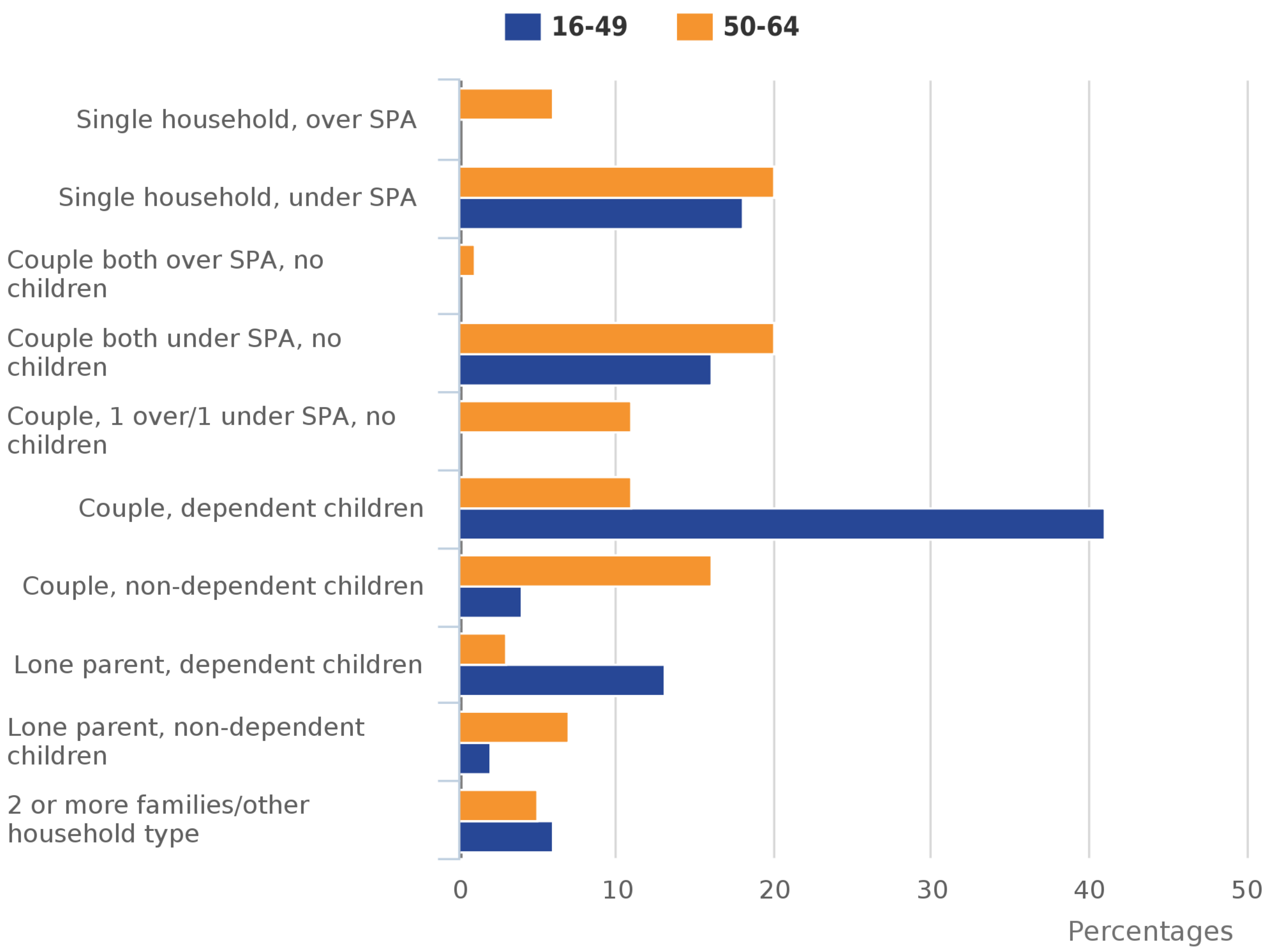
All information on wealth and saving within WAS 2006/08 and 2008/10 can be analysed at the household level. Some information can also be analysed at the individual level. However, property tends to be held jointly by members of a couple. Financial assets and pensions are more likely to be held in the name of one person, but a spouse or partner may have a share of these assets or rights to them in case of divorce. Therefore, splitting saving between individuals within households is difficult, and we have chosen to present the analysis at household level.

This chapter focuses on the 'pre-retirement' age group. As people retire at different ages, there is no perfect way of defining such a group, even at the individual level. In the past, Pension Trends has used State Pension Age (SPA – 65 for men and 60 for women until April 2010) as the dividing line (see [Pension Trends Chapter 4]). However, SPA is now changing for women, people are working longer and the Office for National Statistics (ONS) is producing its headline labour market indicators for the 16 to 64 age group.

Therefore, we have decided to use age 65 rather than SPA as the dividing point for this analysis. In this chapter, households headed by someone aged 50 to 64 represent the 'pre-retirement' age group, where saving for retirement is likely to be most relevant. However, readers should note that a household headed by someone aged 50 to 64 may include adults of other ages: some may be over SPA, some may be over 64, and some may be below 50. Figure 10.17 shows the composition of households headed by someone aged 50 to 64 – and, for comparison, by someone aged 16 to 49 – by household type.

Figure 10.17. Proportion of households: by household type and age of household head, 2008/10

Great Britain



Source: Wealth and Assets Survey, Office for National Statistics

Notes:

1. State pension age (SPA) is 65 for men and is currently above 61 but below 62 for women
2. Couple is defined as two adults who are married or cohabiting

Notes for Methodology

1. Office for National Statistics (2009): Wealth in Great Britain: Main Results from the Wealth and Assets Survey: 2006/08
2. Office for National Statistics (2011): Wealth in Great Britain: Main Results from the Wealth and Assets Survey: 2008/10

12. References

1. Banks, J. Lessof, C. Nazroo, J. Rogers, N. Stafford, M. and Steptoe, A. eds (2010) Financial circumstances, health and well-being of the older population in England: The 2008 English Longitudinal Study of Ageing (Wave 4).
2. Bozio, A. Crawford, R. Emmerson, C. and Tetlow, G. (2010) 'Retirement outcomes and lifetime earnings: descriptive evidence from linked ELSA - NI data', DWP Working Paper No 81.

3. Bozio, A. Emmerson, C. and Tetlow, G. (2011) ‘How much do lifetime earnings explain retirement resources?’ Institute for Fiscal Studies Working Paper 11/02.

4. Clery, E. Humphrey, A. and Bourne, T. (2010): Attitudes to pensions: The 2009 survey, Department for Work and Pensions, Research Report No 701

5. The Money Advice Service (successor to the Consumer Financial Education Body) -an independent body, established by the Financial Services Authority. Information in Table 10.1 was sourced in March of 2013.

6. Office for National Statistics (2009): Wealth in Great Britain: Main Results from the Wealth and Assets Survey: 2006/08

7. Office for National Statistics (2011): Wealth in Great Britain: Main Results from the Wealth and Assets Survey: 2008/10

8. Pat MacLeod, Alice Fitzpatrick, Becky Hamlyn,Andrew Jones, Andrea Kinver and Leon Page (2012). Attitudes to Pensions: The 2012 survey.

9. Ross, A. Lloyd, J. and Weinhardt, M. (2008) The Age of Inheritance

13. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

   These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.

Compendium

Chapter 11: Pensioner Income and Expenditure, (2012 Edition)

This chapter examines the income and expenditure of pensioners. The main sources are the Department for Work and Pensions' 'Pensioners' Income Series 2010-11' and the Office for National Statistics' 'Family Spending, 2011 edition'.

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Release date:
24 October 2012

Next release:
To be announced

Notice

8 January 2016

This publication has been discontinued. The last edition to be published was 28 November 2014.

Table of contents

1 . Key points

- In 2010/11, pensioner couples received average income of £610 per week, compared with £345 per week for single men pensioners and £279 per week for single women pensioners.

- In 2010/11, the average weekly income of couples in the ‘under 75’ category was 32 per cent higher than that of couples in the ’75 or over’ category (Figure 11.1). A key reason for this is that younger pensioner couples are more likely to have some income from employment than older pensioner couples.

- Average gross pensioner incomes increased by an estimated 50 per cent in real terms between 1994/95 and 2010/11 (Figure 11.2).

- Average incomes conceal considerable variations between poorer and richer pensioners. In 2008-11, the median net income of pensioners in the highest income quintile was three to four times higher than that of pensioners in the lowest income quintile (Figure 11.3).

- The largest source of income for pensioners is ‘benefit income’, which includes state pension income and benefits such as housing and disability benefits. Occupational pensions are also a significant source of income (Table 11.4 and Figure 11.5).

- In 2010/11, median income from occupational pensions – for those with such pensions – was £172 per week for pensioner couples and £81 per week for single pensioners. Median income from personal pensions, for those with such pensions, was £42 per week for couples and £33 per week for single pensioners (Figure 11.6).

- In 2010, the average weekly expenditure of households headed by someone aged 65 to 74 was £365, of which 33 per cent was spent on food and non-alcoholic drink, domestic energy bills, housing and council tax/domestic rates. For households headed by someone aged 75 or over, average expenditure was £240 per week, of which 41 per cent was spent on these items (Table 11.7).

2 . Introduction

This chapter examines the income and expenditure of pensioners. In 2010/11, there were 8.70 million ‘pensioner benefit units’ according to the Pensioners’ Incomes Series published by the Department for Work and Pensions. Single pensioners accounted for more than half of this total (4.55 million), and most of these were single women (3.35 million).

The median is the preferred measure of central tendency or ‘average’ for this chapter as the data distributions tend to be skewed to the right. This is because a small proportion of individuals have very high pensioner income and expenditure. In unequal distributions, the mean is likely to be influenced by high values, so it does not reflect the experience of most individuals. The median has been used where available, although in many cases the level of detail presented was not available in the form of medians.

3 . Pensioners' Income Series definitions

The Pensioners’ Incomes Series 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”. Prior to April 2010, State Pension Age (SPA) was 65 for men and 60 for women. For 2010/11, women are defined to be over SPA based on date of birth and date of interview. In the Pensioners’ Incomes Series, some benefit units are part of larger households – for instance where pensioners are living with relatives – but the income of the other members of the household is not considered here.

The Pensioners’ Incomes Series defines ‘pensioner couples’ as two married or cohabiting adults where one or more are of SPA or over. Some of the couples in the series are mixed status (one person below and one above SPA). A ‘single pensioner’ is a single man or a single woman over the relevant SPA. Although most pensioners have retired, some still work full-time or part-time (see Pension Trends Chapter 4).

4 . Income

The income discussed in this chapter is that of single pensioners and couples. The data comes from the Pensioners’ Incomes Series, which is based on the Family Resources Survey (FRS).

Pensioner units where the head of the benefit unit is less than five years over SPA are described as ‘recently retired’. Pensioners in this group are most likely to be still in employment (including self employment).

Estimates from the 2010/11 Pensioners’ Incomes Series show that 26 per cent of recently retired single pensioners were in receipt of income from earnings (including earnings from self employment), compared with 8 per cent of all single pensioners.

For pensioner couples, 36 per cent of recently retired couples were receiving income from earnings, compared with 29 per cent of all pensioner couples.

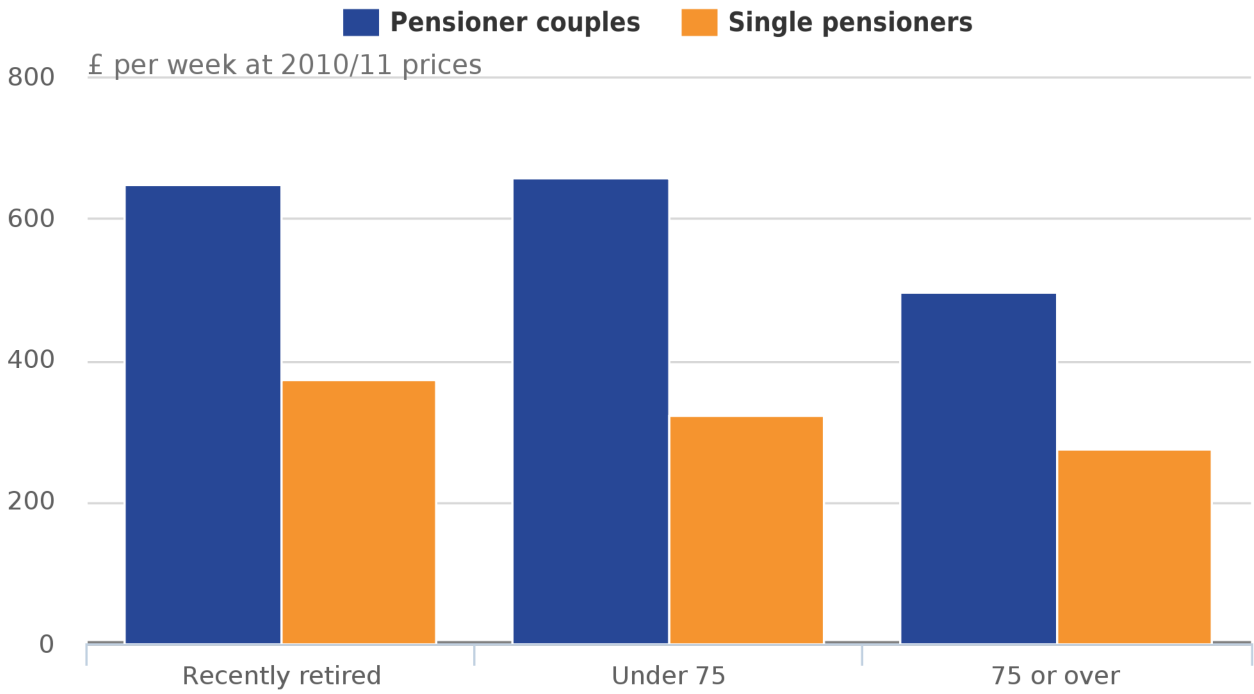
Figure 11.1 shows that the mean gross (pre-tax) income of pensioner units in 2010/11 was higher for those where the head of the unit was under 75 than for those where the head of the unit was 75 or over. The difference was particularly clear for couples: the average weekly income of couples in the ‘under 75’ category was 32 per cent higher than that of couples in the ‘75 or over’ category.

One of the reasons for this is that younger pensioners are more likely to have income from employment than older pensioners. This is particularly the case if one member of a pensioner couple is below SPA, which is more likely in the ‘under 75’ and ‘recently retired’ categories than for the ’75 or over’ category. See Chapter 5 of The Pensioners’ Incomes Series 2010-11 (DWP, 2012) for information on ‘mixed status couples’ (couples where one partner is above SPA and one is below).

Another reason is that average earnings have increased more quickly than prices in recent years with the result that newly retired pensioners with salary-related pensions generally receive a higher pension than someone in an equivalent job who retired several years earlier with the same pension entitlement.

Figure 11.1 Mean gross income of pensioners: by age of head of benefit unit, 2010/11

United Kingdom



Source: The Pensioners' Income Series 2010/11, Department for Work and pensions

Notes:

1. Recently retired pensioner units are those where the head of the benefit unit is less than five years over SPA
2. The under 75 category includes the recently retired
3. The 2010/11 price series is calculated using the Retail Price Index (RPI), excluding Council Tax

The mean gross incomes of all pensioner units increased from £297 per week at 2010/11 prices in 1994/95 to £446 per week in 2010/11 (Figure 11.2). Data before 2002/03 is for Great Britain whereas data after this year is for the United Kingdom, but this has made little difference to the results. According to The Pensioners' Incomes Series 2005/6 (Revised): "The results for Great Britain and the United Kingdom are nearly identical and the move to a United Kingdom basis made no significant difference to any of the main Pensioners' Income results or growth rates".

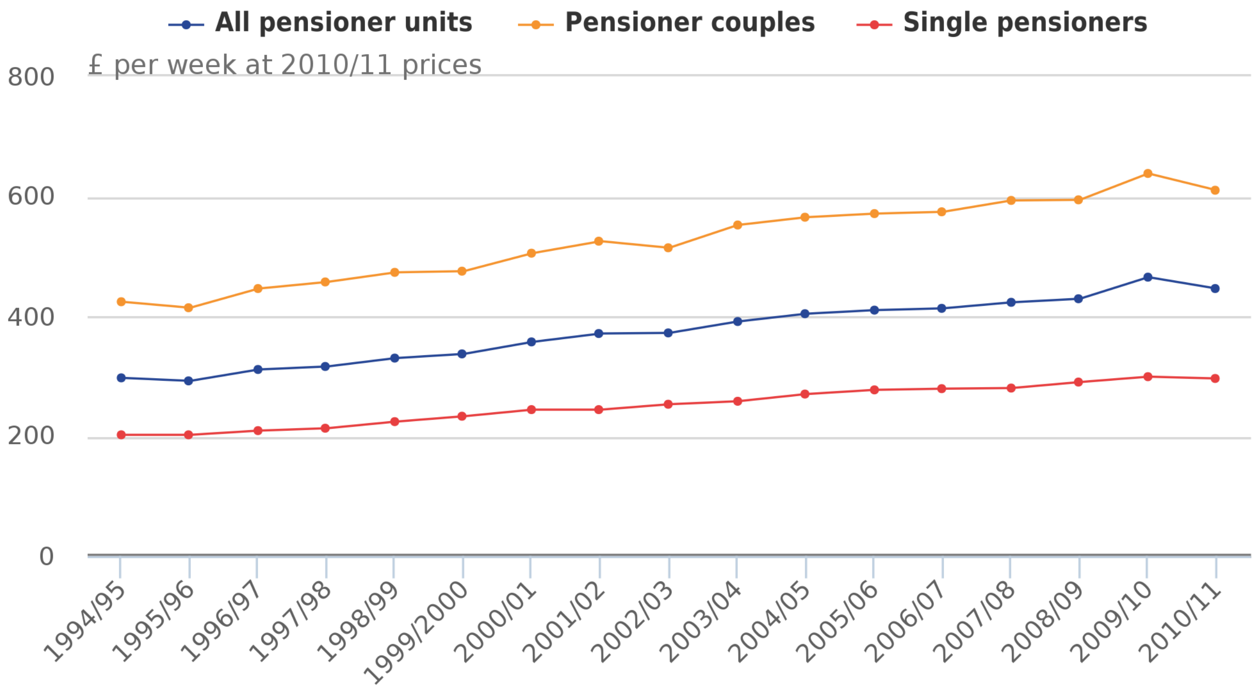
On average, in 2010/11 the incomes of pensioner couples (£610 per week) were more than twice the incomes of single pensioners (£296 per week). Single women pensioners, with £279 per week, were on lower average incomes than single men pensioners, with £345 per week.

Mean gross pensioner incomes increased by an estimated 50 per cent in real terms between 1994/95 and 2010/11. The real increase in average gross pensioner incomes is calculated in the Pensioners' Incomes Series by deflating the nominal increase by the Retail Price Index excluding Council Taxes/rates.

The increase in average gross pensioner incomes may seem surprising, given that during this period the basic state pension has been linked to prices, which have risen more slowly than earnings. The main reason for the increase is that occupational pensions have grown in importance during this period (see: **Sources of income**). However, 'average' growth figures conceal considerable variations between the experience of poorer and richer pensioners, as the following analysis shows (see also Pension Trends Chapter 13).

Figure 11.2: Mean gross income of pensioner units, 1994/95 to 2010/11

Great Britain/United Kingdom



Source: The Pensioners' Incomes Series 2010/11, Department for Work and Pensions

Notes:

1. Data before 2002/03 is for Great Britain. Data for 2002/03 onwards is for the United Kingdom

2. The 2010/11 constant price series is calculated using the Retail Price Index (RPI), excluding Council Tax

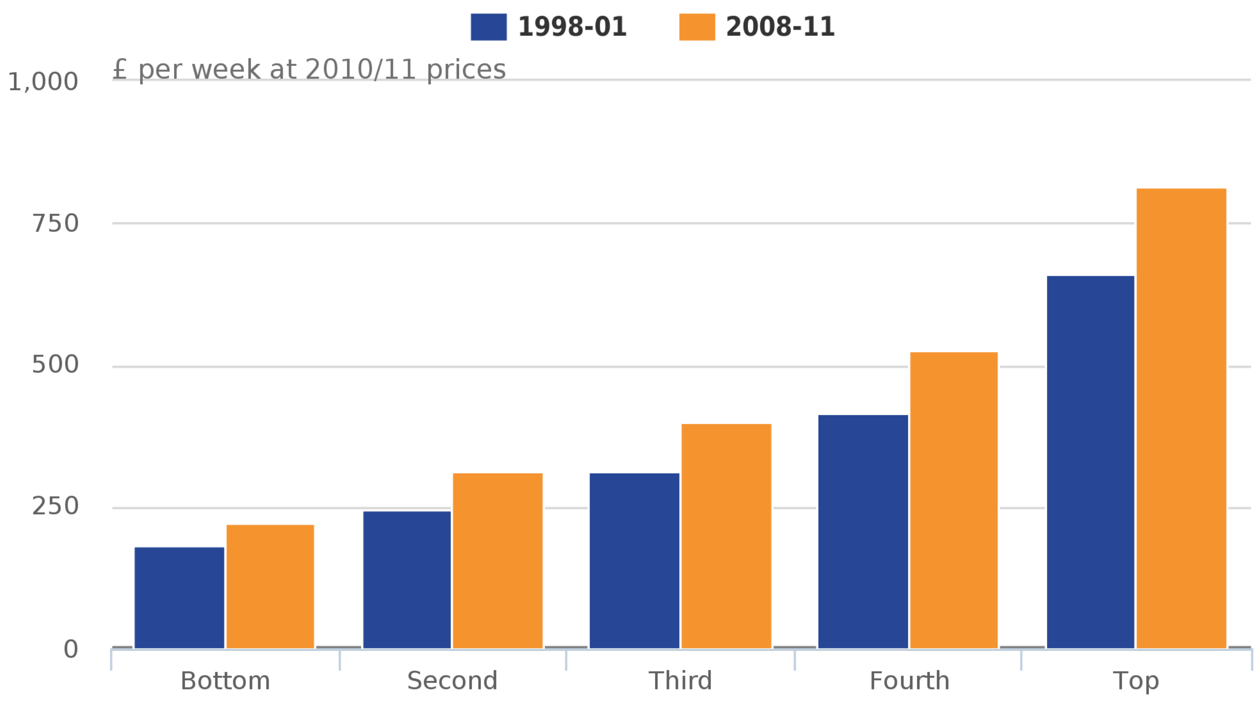
When looking at income distributions, comparisons are most commonly made on the basis of the differences between income quintiles. Quintiles divide the data, ranked in ascending order, into five equal parts – from pensioners with the lowest incomes in the bottom quintile group to those with the highest incomes in the top quintile group. Figure 11.3 shows median net income by income quintile for pensioner couples and single pensioners in 1998/01 and 2008/11. Net income estimates provide a more consistent measure of relative standards of living than gross income.

Figure 11.3 shows that there are big differences between quintiles, with couples in the highest income quintile group receiving median net income of £815 per week (at 2010/11 prices) in 2008-11, which was nearly four times that of those in the lowest income quintile group (£221 per week in 2010/11 prices).

Single pensioners in the highest income quintile group received median net income which was around three times that of single pensioners in the lowest income quintile. The middle and upper income quintiles groups are more likely to include pensioners who are still working, or whose spouse or partner is still working.

Figure 11.3: Median net income for pensioner couples: by income quintile, 1998-01 and 2008-11

Great Britain/United Kingdom



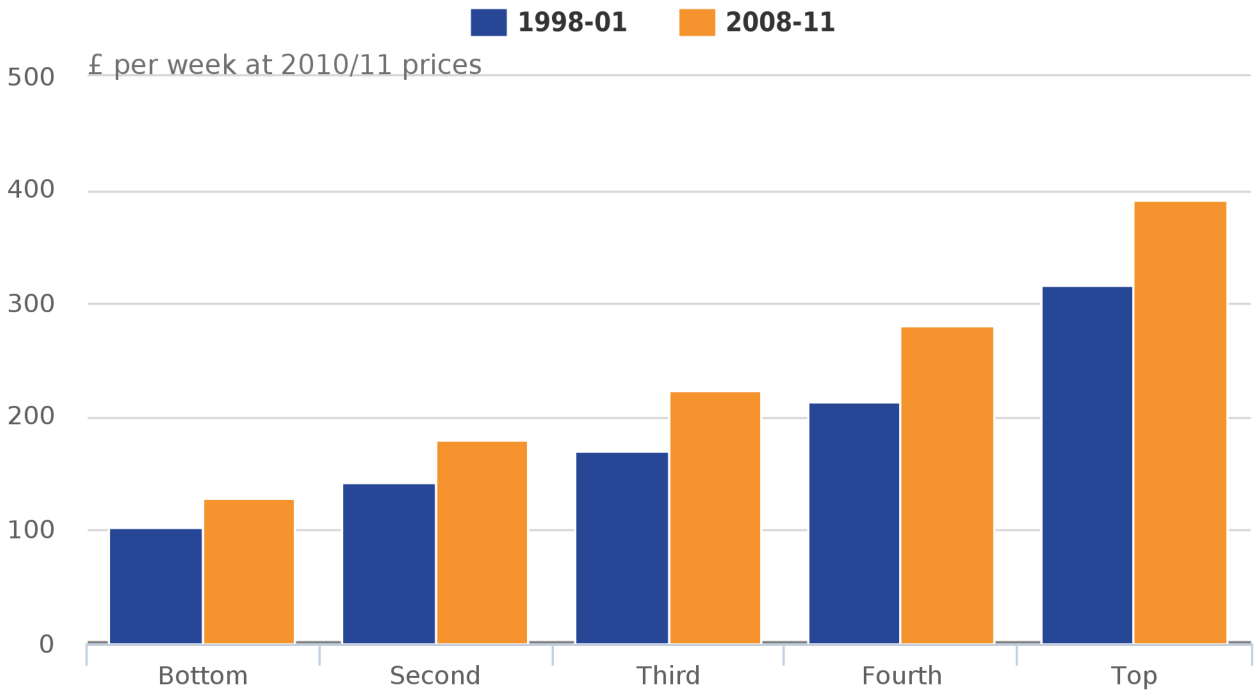
Source: The Pensioners' Incomes Series 2010/11, Department for Work and Pensions

Notes:

1. The median of a distribution is the value below which 50 per cent of the values lie when the data is arranged in ascending order from the lowest to the highest value
2. Income quintiles are calculated on net income before housing costs; they are calculated separately for pensioner couples and single pensioners
3. The Data before 2002/03 is for Great Britain. Data for 2002/03 onwards in for the United Kingdom
4. The 2010/11 constant price series is calculated using the Retail Price Index (RPI), excluding Council Tax
5. Quintiles divide the data, ranked in ascending order, into five equal parts – from pensioners with the lowest incomes in the bottom quintile group to those with the highest incomes in the top quintile group
6. Figures are presented in the form of three-year averages because results may be volatile from one year to the next

Figure 11.3: Median net income for single pensioners: by income quintile, 1998-01 and 2008-11

Great Britain/United Kingdom



Source: The Pensioners' Incomes Series 2010/11, Department for Work and Pensions

Notes:

1. The median of a distribution is the value below which 50 per cent of the values lie when the data is arranged in ascending order from the lowest to the highest value
2. Income quintiles are calculated on net income before housing costs; they are calculated separately for pensioner couples and single pensioners
3. The Data before 2002/03 is for Great Britain. Data for 2002/03 onwards in for the United Kingdom
4. The 2010/11 constant price series is calculated using the Retail Price Index (RPI), excluding Council Tax
5. Quintiles divide the data, ranked in ascending order, into five equal parts – from pensioners with the lowest incomes in the bottom quintile group to those with the highest incomes in the top quintile group Figures are presented in the form of three-year averages because results may be volatile from one year to the next

5 . Sources of income

Table 11.4 Mean gross income of pensioner couples and single pensioners: by age of head of benefit unit and source of income, 2010/11

United Kingdom

£ per week/percentages

	Pensioner couples				Single pensioners			
	Head is under 75		75 and over		Under 75		75 and over	
	£ per week	%	£ per week	%	£ per week	%	£ per week	%
Gross income	657	100	498	100	322	100	274	100
Benefit income	196	30	243	49	170	53	178	65

Occupational pension income	165	25	161	32	74	23	68	25
Personal pension income	27	4	21	4	8	2	6	2
Investment income	53	8	43	9	22	7	14	5
Earnings	211	32	26	5	45	14	4	1
Other income	5	1	5	1	3	1	4	1

Source: The Pensioners' Incomes Series 2010/11, Department for Work and Pensions

Notes:

1. Benefit income 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; winter fuel payments; and carer's allowance

Pensioner income may be derived from various sources: state pensions and benefits, private pensions, employment income and income from investments. Table 11.4 shows the main income sources for pensioner couples and single pensioners in different age groups.

The largest source of income is ‘benefit income’, which 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; winter fuel payments; and carer's allowance. State pensions and benefits are particularly important for those aged 75 or over, comprising nearly half of mean gross income for pensioner couples and 65 per cent of mean gross income for single pensioners in this age group in 2010/11.

Income from occupational pensions is also significant, accounting for nearly a quarter of mean gross income for single pensioners and over one-quarter of mean gross income for pensioner couples in 2010/11 (Table 11.4 and Figure 11.5). Personal pensions accounted for only a small proportion of mean gross income.

There was a marked increase in occupational pension provision by employers in the 1950s and 1960s and many of these employees are now retired. Pensioner couples, in particular, are benefiting from occupational pensions. Some 67 per cent of pensioner couples and 55 per cent of single pensioners received occupational pension income in 2010/11.

Figure 11.5 shows that single women are more dependent on state pensions and benefits than single men pensioners. In 2010/11, 63 per cent of the mean gross weekly income of single women pensioners came from ‘benefit income’, compared with 50 per cent for single men. Occupational pension income accounted for 22 per cent of the total for single women, compared with 29 per cent for single men.

Figure 11.5 Mean gross weekly income of pensioner couples and single pensioners: by source of income, 2010/11

United Kingdom

Source: The Pensioners' Incomes Series 2010/11, Department for Work and Pensions

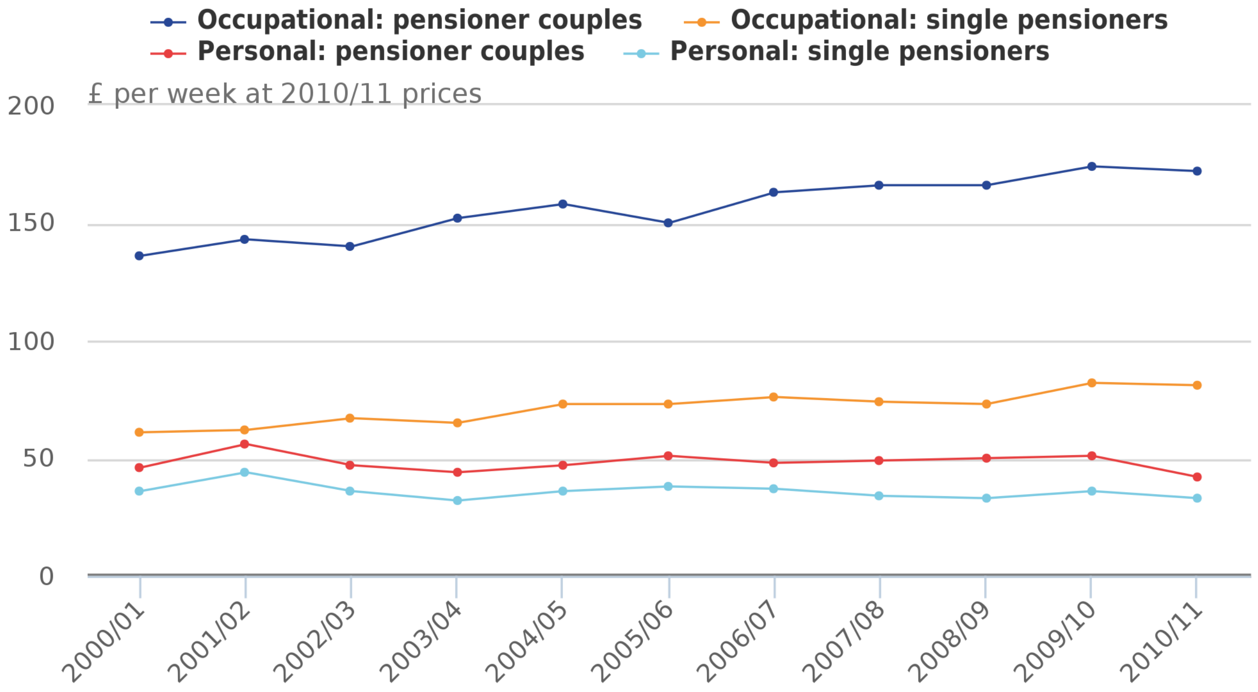
Notes:

1. Benefit income 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; winter fuel payments; and carer's allowance

There are a number of reasons for the differences between single men and women pensioners. Women generally have less opportunity to build up pension entitlement during their working life because of lower pay and greater likelihood of discontinuities in their employment history. Also, a proportion of single women pensioners are widows. The level of occupational pension received by a widow is generally only half the level of the pension received by the couple when the man was alive.

Figure 11.6 Median income from occupational and personal pensions for pensioner couples and single pensioners in receipt of such income, 2000/01 to 2010/11

Great Britain/United Kingdom



Source: The Pensioners' Incomes Series 2010/11, Department for Work and Pensions

Notes:

1. The median of a distribution is the value below which 50 per cent of the values lie when the data is arranged in ascending order from the lowest to the highest value. It is calculated excluding non-recipients of occupational/personal pension income

2. Data before 2002/03 is for Great Britain. Data for 2002/03 onwards is for the United Kingdom

3. The 2010/11 constant price series is calculated using the Retail Price Index (RPI), excluding Council Tax

In 2010/11, median income from occupational pensions, for those receiving income from this source, was £172 per week for pensioner couples. This represents an increase of 26 per cent in real terms since 2000/01 (Figure 11.6).

The gains were slightly higher for single pensioners: their median income from this source rose by 32 per cent between 2000/01 and 2010/11. However, there are big differences in absolute terms between pensioner couples and single pensioners.

For single pensioners in 2010/11, median income from occupational pensions, for those receiving income from this source, was only £81 per week. Many single pensioners who receive income from occupational pensions are widows receiving a survivor's pension, which is usually around half of the pension paid to their husband or partner.

Personal pensions are a more recent development than occupational pensions, having been introduced in 1988 (see Pension Trends Chapter 1). Only 24 per cent of pensioner couples and 10 per cent of single pensioners received personal pension income in 2010/11. Median income from personal pensions is lower than for occupational pensions (Figure 11.6).

There was a peak in 2001/02, when median income from personal pensions (in 2010/11 prices) reached £56 per week for pensioner couples and £44 per week for single pensioners. While median income for both categories has fallen in 2010/11, there is no clear trend over time. In 2010/11, median income from personal pensions was £42 per week for pensioner couples and £33 per week for single pensioners.

6 . Expenditure

The second part of this chapter explores data from the Office for National Statistics' Living Costs and Food Survey which shows the differences in expenditure patterns between different age groups and different types of retired household.

Table 11.7 shows that in 2010, the latest year available, household expenditure was lowest for households where the household reference person (see 'Pension Trends Glossary') was aged 75 or over. This is partly explained by the relatively high proportion of single person households in this age group. Households in the 75 or over age group have on average 1.4 persons compared with 2.2 persons on average in households where the reference person was aged 50 to 64, and 1.8 persons in households of the 65 to 74 age group.

However, average expenditure per person is also lower in the older age groups: in the 75 or over age group, average expenditure per person per week in 2010 was £173, compared with £233 in the 50 to 64 age group and £208 in the 65 to 74 age group. Possible causes of this decline in consumption with age are the reduction in income as people get older and constraints imposed by lack of mobility or ill health, which make it harder to access local shops and other facilities.

Patterns of expenditure also change with age. Table 11.7 shows that the proportion of total expenditure allocated to food and non-alcoholic drink, domestic energy bills and council tax (or domestic rates) rises with age. This is because a certain amount of expenditure on these items is essential for older people. By contrast, older person households spend a smaller proportion of the total on mortgage interest payments than middle aged households.

Table 11.7 Household expenditure as a percentage of total expenditure: by age of household reference person, 2010

United Kingdom

Percentages

	Less than 30	30 to 49	50 to 64	65 to 74	75 or over	All households
Food and non-alcoholic drinks	9	10	11	14	16	11
Alcoholic drinks, tobacco and narcotics	2	2	3	3	2	2
Clothing and footwear	5	5	5	4	3	5
Housing (net), fuel and power	20	12	10	13	18	13
of which net rent (gross rent minus benefit payments)	15	6	2	3	3	5
of which electricity, gas and other fuels	4	4	5	6	8	5
Household goods and services	5	6	8	7	8	7
Health	0	1	1	2	2	1
Transport	13	14	15	13	8	14
Communication	3	3	3	3	3	3
Recreation and culture	9	11	14	15	11	12
Education	6	2	2	0	0	2
Restaurants and hotels	9	9	9	7	6	8

Miscellaneous goods and services	7	8	7	8	9	8
Other expenditure items	12	16	13	11	13	14
of which mortgage interest payments (primary dwelling)	5	8	4	1	0	5
of which council tax/domestic rates	3	4	4	5	7	4
All household expenditure(£ per week)	448.40	573.10	518.60	365.20	240.40	473.60
Average expenditure per person (£ per week)	190.10	193.70	233.10	208.20	173.40	203.10
Weighted average household size (number of persons)	2.4	3.0	2.2	1.8	1.4	2.3

Source: Family Spending 2011, Office for National Statistics

Notes:

1. Housing (net) includes net rent, maintenance and repair, water supply, service charges and insurance. Excludes mortgage interest payments, Council Tax and Northern Ireland rates

2. All household expenditure excludes property purchase, mortgage capital repayments, household alterations and improvements

In 2010, the average weekly expenditure of households headed by someone aged 65 to 74 was £365, of which 33 per cent was spent on food and non-alcoholic drink, domestic energy bills, housing and council tax or domestic rates. For households headed by someone aged 75 or over, average expenditure was £240 per week, of which 41 per cent was spent on food and non-alcoholic drink, domestic energy bills, housing and council tax or domestic rates.

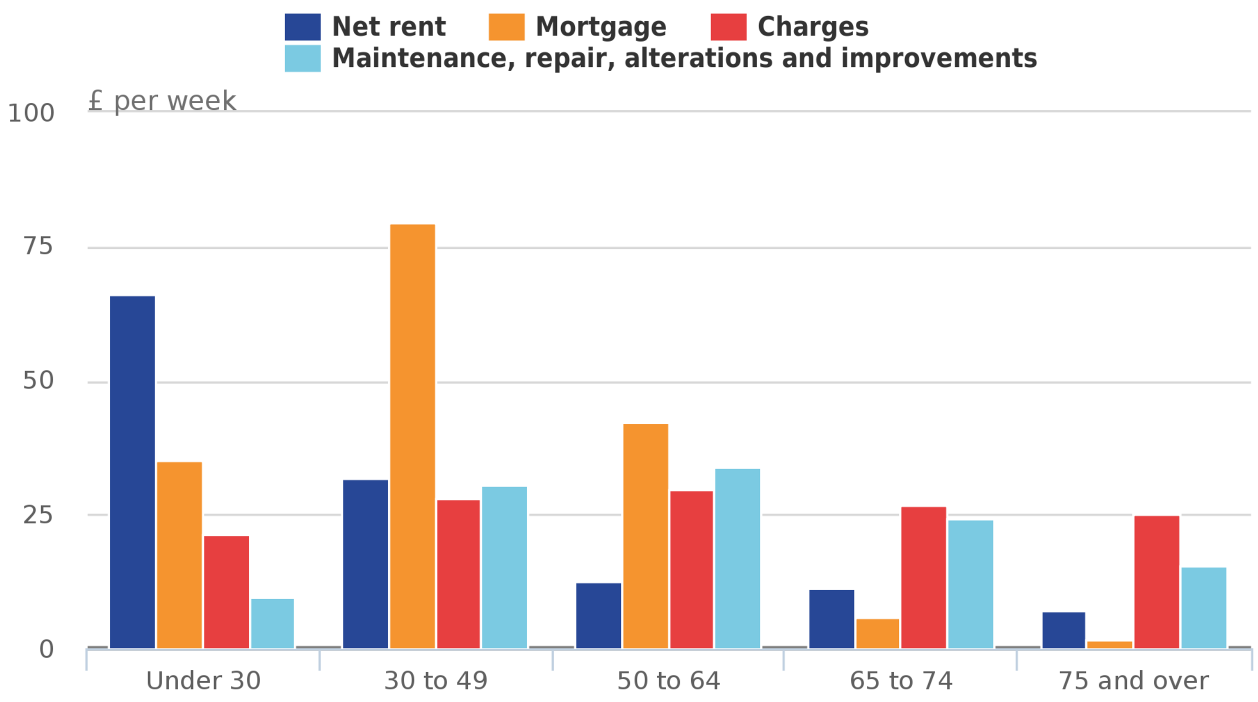
Figure 11.8 shows expenditure on housing in 2010. Here, expenditure on housing comprises all categories of housing expenditure, including those classified as ‘other expenditure’ in Table 11.7, or excluded altogether from Table 11.7.

Total housing expenditure reached its peak in the 30 to 49 age group, when on average households spent £170 per week on housing, with mortgage payments comprising almost half of this total. By contrast, in the 65 to 74 age group, total expenditure on housing was £69 per week on average, and mortgage payments represented 9 per cent of the total.

For people in the 65 to 74 and 75 or over age groups, the two largest categories of housing expenditure were council tax/ domestic rates and maintenance, repair, alterations and improvements, which accounted for three quarters of the total between them.

Figure 11.8 Main categories of housing expenditure: by age of household reference person, 2010

United Kingdom



Source: Family Spending 2011, Office for National Statistics

Notes:

1. Average household expenditure

2. Net rent is gross rent less housing benefit, rebates and allowances received

3. Mortgage payments comprise mortgage interest payments, mortgage capital repayments and mortgage protection premiums

Table 11.9 explores differences in expenditure patterns in 2010 between different types of retired household: those which are mainly dependent on state pensions and related benefits and other retired households (see: **Retired households in the LCF**). These groups are further divided into single person households and one man, one woman couples.

7 . Retired households in the LCF

The Living Costs and Food (LCF) Survey defines retired households as those where the household reference person is over State Pension Age (SPA) which was 65 for men and increasing from 60 for women from April 2010, and economically inactive (neither working nor waiting to take up a job). Two categories of retired households are identified:

- retired household ‘mainly dependent on state pensions’ is one in which at least three-quarters of the total income of the household is derived from state pensions and related benefits.

- Other retired households are those which have more than a quarter of their income from other sources, such as private pensions, savings and investments.

Further information can be found in Family Spending 2011.

Table 11.9 shows that average expenditure of couples on goods and services where amounts spent are related to the number of people in the household (such as food, drink and clothing), is almost double the expenditure of single people on such categories.

By contrast, couples and single people spend similar amounts on housing (net) – excluding mortgage payments and council tax/domestic rates – fuel and power, because expenditure in this category is mainly determined by the characteristics of the household's accommodation rather than by the number of people in the household. Thus, single people spend a greater proportion of the total than couples on housing (net), fuel and power.

Table 11.9 shows considerable differences between types of couple. Average total expenditure for 'other retired' couples (£397) is nearly one and a half times that of couples who depend mainly on state pensions and related benefits (£277). This difference does not translate into major differences between the absolute amounts spent on basic goods and services such as food and non-alcoholic drinks and housing, fuel and power.

However, 'other retired' couples spend considerably more than their counterparts on non-essential items such as recreation and culture, transport, and restaurants and hotels. As a result, couples who depend mainly on state pensions and related benefits spend a greater proportion of the total than 'other retired' households on basic goods and services such as food and non-alcoholic drinks (17 per cent of average weekly expenditure, compared with 14 per cent for 'other retired' couples) and housing, fuel and power (15 per cent, compared with 12 per cent).

These differences in expenditure patterns probably reflect differences in income, with couples who depend on state pensions and related benefits having tighter budgets than their 'other retired' counterparts.

Average weekly expenditure of 'other retired' single people (£214) is 33 per cent higher than that of single people who depend mainly on state pensions and related benefits (£161). Households which depend mainly on state pensions and related benefits spend a greater proportion of their total expenditure than 'other retired' households on basic goods and services such as food and non-alcoholic drinks and housing, fuel and power.

'Other retired' single people also spend more on non-essential items than those who depend mainly on state pensions and related benefits. However, the differences in non-essential expenditure appear to be smaller between the two types of single person than between the two types of couple, particularly for social activities.

This may be due to a difference of lifestyles among single people (compared with couples), or it may be a reflection of tight budgets for some groups of single people in the 'other retired' category who have not built up strong state pension entitlements or private pensions (see Pension Trends Chapter 12).

Table 11.9 Average household expenditure of retired households: by composition of household, 2010

United Kingdom

£ per week/percentages

	State pension				Other retired			
	One person	One person	Two adults	Two adults	One person	One person	Two adults	Two adults
		%		%		%		%
1. Food & non-alcoholic drinks	28.10	17	47.80	17	29.70	14	56.70	14
2. Alcoholic drinks, tobacco & narcotics	4.70	3	8.70	3	5.10	2	10.60	3
3. Clothing & footwear	5.50	3	9.10	3	6.80	3	15.20	4
4. Housing(net), fuel & power	37.00	23	41.20	15	41.60	19	46.10	12
	12.40	8	20.30	7	18.30	9	29.50	7

5. Household goods & services								
6. Health	2.30	1	4.60	2	4.50	2	8.00	2
7. Transport	9.50	6	27.80	10	19.50	9	50.60	13
8. Communication	5.60	3	7.80	3	6.70	3	9.80	2
9. Recreation & culture	16.50	10	37.00	13	25.90	12	61.50	15
10. Education	..	2	-	-	..	0	..	0
11. Restaurants & hotels	7.00	4	18.20	7	11.50	5	31.50	8
12. Miscellaneous goods & services	13.10	8	22.90	8	17.10	8	32.10	8
1-12. All expenditure groups	144.30	90	245.40	89	186.80	87	352.10	89
13. Other expenditure items	16.90	10	31.10	11	27.50	13	45.10	11
Total expenditure	161.10	100	276.50	100	214.20	100	397.20	100
Average weekly expenditure per person (£)								
Total expenditure	161.10		138.30		214.20		198.60	

Source: Family Spending 2011, Office for National Statistics

Notes:

1. The column entitled "State Pension" covers retired households mainly dependent on state pensions, i.e. households where at least three-quarters of the total income of the household is derived from state pensions and related benefits. The "Other retired" column covers households which have more than a quarter of their income coming from other sources, such as private pensions, savings and investments

2. Housing (net) includes net rent, maintenance and repair, water supply, service charges and insurance. Excludes mortgage interest payments, Council Tax and Northern Ireland rates

3. Other expenditure items are mainly mortgage interest payments and protection premiums, council tax/domestic rates; it also includes expenditure on education

4. All household expenditure excludes property purchase, mortgage capital repayments, household alterations and improvements

8. References

1. Department for Work and Pensions (2012) The Pensioners' Incomes Series 2010-11.
2. Office for National Statistics (2011), Family Spending, 2011 edition.
3. Office for National Statistics, Pension Trends Glossary (198.9 Kb Pdf) .
4. Office for National Statistics, Pension Trends.

9. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

   These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.

Compendium

Chapter 12: Household Pension Resources, (2012 Edition)

This chapter looks at the resources from private pension savings and state benefit income (including state pension). 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. The analyses also give breakdowns by age band and annual payments received. Comparisons between single male and female pensioners are made, as well as with pensioner couples.

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Next release:
To be announced

Notice

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This publication has been discontinued. The last edition to be published was 28 November 2014.

Table of contents

1 . Key points

- There were 6.7 million pensioner households receiving state benefit income and 4.8 million pensioner households receiving private pensions in 2010/11, according to estimates from the Family Resources Survey (FRS).

- In 2010/11, mean annual state benefit income (including state pension income) for pensioner couples with both members over State Pension Age (SPA) was £12,200, compared with £8,100 for single men and £8,000 for single women (Table 12.1).

- Mean annual private pension income of pensioner couples with both members over state pension age was £11,900 in 2010/11, while for single men it was £8,500 and for single women £5,900 (Table 12.3).

- In 2010/11, 34 per cent of pensioner couples, 47 per cent of single men pensioners and 60 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 2010/11, the median annual private pension of single women pensioners aged 85 and over was £3,000, compared with £4,100 for those aged 65 to 69 (Figure 12.8).

- Pensions provide modest levels of annual income for many pensioner households. In 2010/11, 45 per cent of single pensioners had total pension income (state benefit income and private pension income) of less than £10,000, while 27 per cent of pensioner couples had less than £15,000 (Figure 12.9).

2 . Summary

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 (198.9 Kb Pdf)) such as an occupational money purchase pension scheme or a personal pension fund.

- Entitlements accumulated as part of a private 'defined benefit' (salary-related) occupational pension scheme (see Glossary (198.9 Kb Pdf)).

- state pensions and related benefits such as pension credit, disability living allowance, attendance allowance, incapacity benefit and winter fuel payments.

- 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.

3 . Estimating pension resources

The Family Resources Survey (FRS), sponsored by the Department for Work and Pensions (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 State Pension Age (SPA)[1]. 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 Pensioners' Income Series (PI Series). The main differences are presented in the **Approach and definitions** section.

This chapter presents information from the latest available FRS (2010/11). 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.

Notes for Estimating pension resources

1. The report of the FRS 2010-11 (DWP 2012b, **References**) defines State Pension Age (SPA): "The State Pension Age is 65 for men born before 6 April 1959. For women born on or before 5 April 1950, State Pension Age is 60. From 6 April 2010, the State Pension Age for women born on or after 6 April 1950 will increase gradually between April 2010 and November 2018. From December 2018, the State Pension Age for both men and women will start to increase to reach 66 in October 2020. For 2010/11 data, women are defined to be of State Pension Age based on their date of birth and the date of interview".

4 . State pensions and related benefits in the Family Resources Survey (FRS)

The FRS collects information on the basic state pension and on the additional pension, which is known as the State Second Pension (S2P), previously the State Earnings Related Pension Scheme (SERPS). These are recorded as retirement pensions. 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. 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 estimates[1].

Notes for State pensions and related benefits in the Family Resources Survey (FRS)

1. The report of the FRS 2010-11 (DWP 2012b, References) 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".

5 . Approach and definitions

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 Penson Age". In the PI Series, some benefit units are part of larger households – for instance where pensioners are living with relatives. The DWP definition of benefit unit can be found in the FRS Glossary.

In 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. 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.

Pensioner couples

The PI Series defines pensioner couples as two married or cohabiting adults where one or more are of SPA or over; consequently, 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.

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 2010/11, 2 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, the 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 benefits such as housing or Council Tax benefits, for example, 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 make[1].

Private pension income

In our analysis, private pension income comes from occupational pensions (for private and public sector workers), 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.

More information about the methodology and definitions used in the PI Series can be found in DWP (2012a, **References**).

Notes for Approach and definitions

1. According to Pensions Policy Institute (2012, **References**), in 2008/09 around one-fifth and one-half of pensioner households were eligible for housing benefit and Council Tax benefit respectively, although not all those eligible took up these benefits. In 2008/09, the mean value of combined housing and Council Tax benefit recorded in the Family Resources Survey (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).

6 . State pension resources

After State Pension Age (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 2010/11 was £5,092 for a single person. However, many people received less than the full amount because they had 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.

For both men and women retiring after 6 April 2010, this has reduced to 30 qualifying years. The minimum number of years required to obtain a payment for those retiring before 6 April 2010 was one-quarter of the total qualifying years (equal to 11 years for men and 9.75 years for women), 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. For those retiring after 6 April 2010, it is no longer necessary to have obtained a quarter of the qualifying years to receive any state pension.

In a couple, both members are treated as individuals, so a couple where both members have a full basic state pension would have received £10,184 in 2010/11. 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 per cent 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 the age of 60 who has total income below a certain level. The standard rate was £6,914 for single people and £10,554 for couples in 2010/11[1]. 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 saving[2].

In this section, we look at pension payments known as 'retirement pension' in the Family Resources Survey (FRS), as well as the wider category of 'benefit income' (see **Approach and definitions**). In 2010/11, the estimates from the FRS show that there were 6.7 million pensioner households receiving benefit income (of which 42 per cent were couples, 16 per cent were single men and 42 per cent were single women).

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 **Approach and definitions**).

Table 12.1: Annual total benefit income and retirement pension payments – summary statistics, 2010/11

United Kingdom

£/year

	Mean	1st quartile	Median	3rd quartile
Pensioner couples				
Total benefit income	12,200	9,900	11,400	14,100
Retirement pension	10,600	9,100	10,200	12,000
Single men				
Total benefit income	8,100	6,500	7,400	9,300
Retirement pension	6,800	5,500	6,500	7,700
Single women				
Total benefit income	8,000	6,200	7,300	9,300
Retirement pension	6,400	5,100	6,000	7,400

Source: Family Resources Survey, Department for Work and Pensions

Notes:

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

2. Retirement pension = state pension

3. Total benefit income = retirement pension plus other state benefits (pension credit, disability living allowance, attendance allowance, incapacity benefits, winter fuel payments)

In 2010/11, pensioner couples received £10,600 mean annual retirement pension and £12,200 mean annual benefit income. The mean values for pensioner couples were lower than twice the value for single pensioners. In 2010/11, mean benefit income for single men pensioners was £8,100 and for single women pensioners it was £8,000.

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 £10,200 or less in 2010/11. For half of single male pensioners, it was £6,500 or less and for half of single female pensioners it was £6,000 or less.

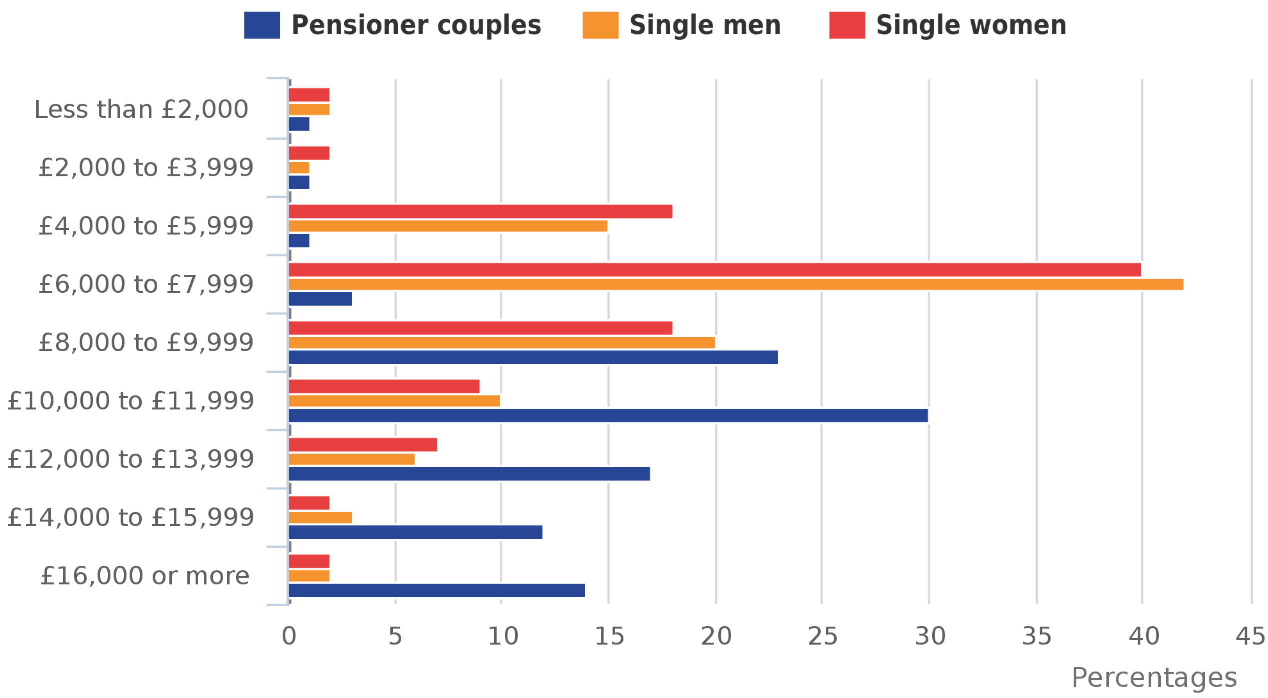
Traditionally, women have been seen as faring less well than men under the state pension system, due to broken work histories relating to caring responsibilities. Looking at the gap between single men and women pensioners (at the 1st quartile, the median and the 3rd quartile) shows that annual retirement pension income for single women in 2010/11 was some £300 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 £300 at the 1st quartile and £100 at the median in 2010/11. At the 3rd quartile, the difference between men and women was negligible.

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 disqualify them from means-tested benefits. This group may also include some who have failed to claim pension credit and other means-tested benefits.

Figure 12.2: Proportion of pensioner households with state benefit income: by annual payments received, 2010/11

United Kingdom



Source: Family Resources Survey - Department for Work and Pensions

Notes:

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

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 2010/11, the peak of the distribution of benefit income for pensioner couples was in the central part of the distribution – in the £10,000 to £11,999 category. This category includes the level of standard guarantee credit for a pensioner couple (£10,554), which can be seen as representing an acceptable minimum income for the standard pensioner couple household (see Pension Trends Chapter 5 and Chapter 13).

In 2010/11, the distributions of benefit income for single men and women pensioners were similar. The highest proportion of single pensioners was in the £6,000 to £7,999 category (42 per cent of men and 40 per cent of women); the second highest proportion was in the £8,000 to £9,999 category (20 per cent of men and 18 per cent of women).

Notes for State pension resources

1. 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.

2. Further information on state benefits for pensioners can be found at the Pensions and retirement planning section of the Directgov website

7 . Private pension resources

Estimates from the Family Resources Survey (FRS) show that there were 4.8 million pensioner households receiving private pension payments in 2010/11. Of this total, 48 per cent were pensioner couples, 16 per cent were single male pensioners and 36 per cent were single female 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 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 outliers. Therefore the estimates should be treated with caution. The Department for Work and Pensions (DWP) FRS editors check the validity of outliers. However, if there is no evidence to suggest the outlier is an error, it is retained.

Table 12.3: Annual private pension payments – summary statistics, 2010/11

United Kingdom

£/year

	Mean	1st quartile	Median	3rd quartile
Pensioner couples	11,900	3,600	8,400	15,800
Single men	8,500	2,300	5,400	11,200
Single women	5,900	1,600	3,700	7,800

Source: Family Resources Survey, Department for Work and Pensions

Notes:

1. Estimates for private pension income are particularly susceptible to year-to-year volatility associated with the presence of outliers. Therefore, these estimates should be treated with caution

In 2010/11, mean private pension income of pensioner couples was £11,900, while for single men it was £8,500 and for single women it was £5,900. 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 was £3,500 higher than that of women at the 3rd quartile compared with a difference of £800 at the 1st quartile. However, in proportional terms the gap was almost identical, with women receiving around 70 per cent as much as men at the 1st quartile, median and 3rd quartile points[1].

The Pensioners' Income Series (PI Series, Table 3.9) estimates that pensioner couples in receipt of private pensions had mean private pension income of £240 per week (equivalent to £12,500 per year) and median private pension income of £161 per week (£8,400 per year) in 2010/11 and that single pensioners had mean private pension income of £127 per week (equivalent to £6,600 per year) and median private pension income of £78 per week (£4,100 per year). This is broadly in line with the analysis presented here, although there are some differences owing to variations in approach and definitions (see **Approach and definitions**).

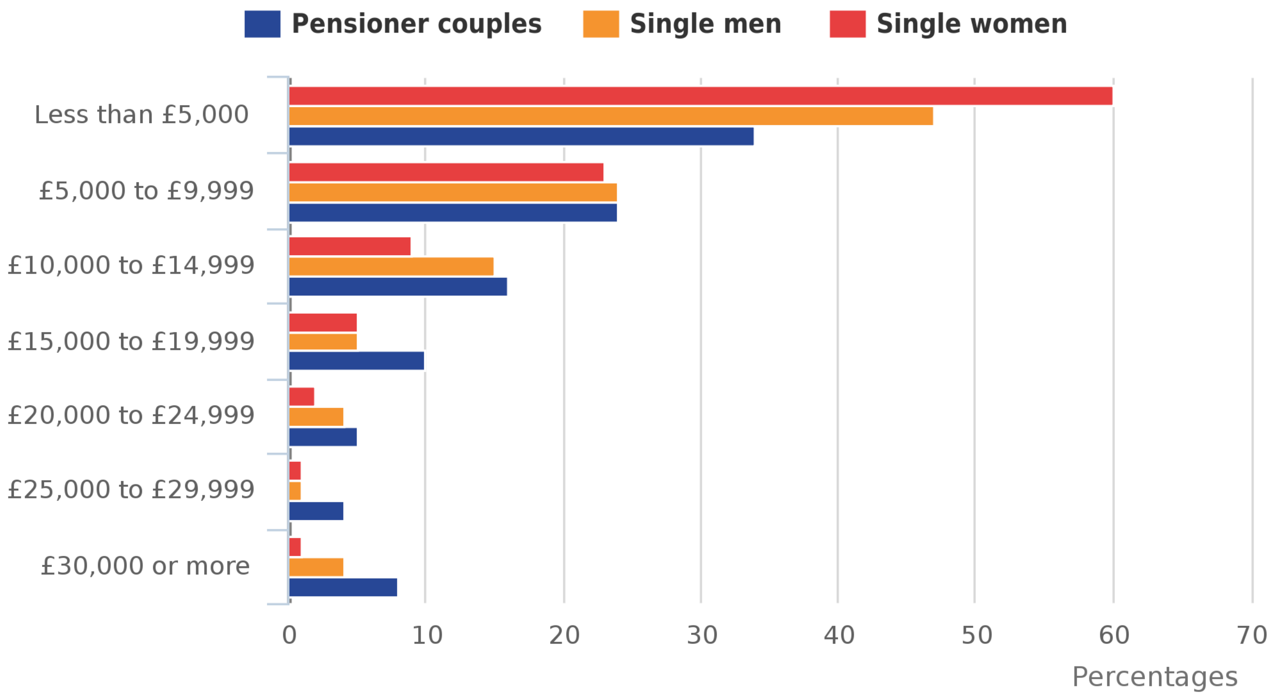
There were significant numbers of pensioner couples and single pensioners with only small amounts of private pension income. The 1st quartile results in Table 12.3 emphasise this: 25 per cent of pensioner couples with private pension income had private pension income of £3,600 or less in 2010/11. For single men, the 1st quartile figure was £2,300, while for single women it was £1,600.

The PI Series published by the DWP estimates that 30 per cent of total pensioner units had no private pension income in 2010/11. This comprised 39 per cent of single pensioners and 21 per cent of pensioner couples.

The distribution of private pension income for those in receipt of such income in 2010/11 is shown in Figure 12.4.

Figure 12.4: Proportion of pensioner households with private pension income: by annual payments received, 2010/11

United Kingdom



Source: Family Resources Survey - Department for Work and Pensions

Notes:

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

A significant number of pensioner households had low levels of private pension income: 60 per cent of single female pensioners and 47 per cent of single male 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, 34 per cent of pensioner couples with private pension income had annual income from this source of less than £5,000. Only 17 per cent of pensioner couples, 9 per cent of single male and 3 per cent of single female pensioners with private pensions had private pension income of £20,000 or more in 2010/11.

Notes for Private pension resources

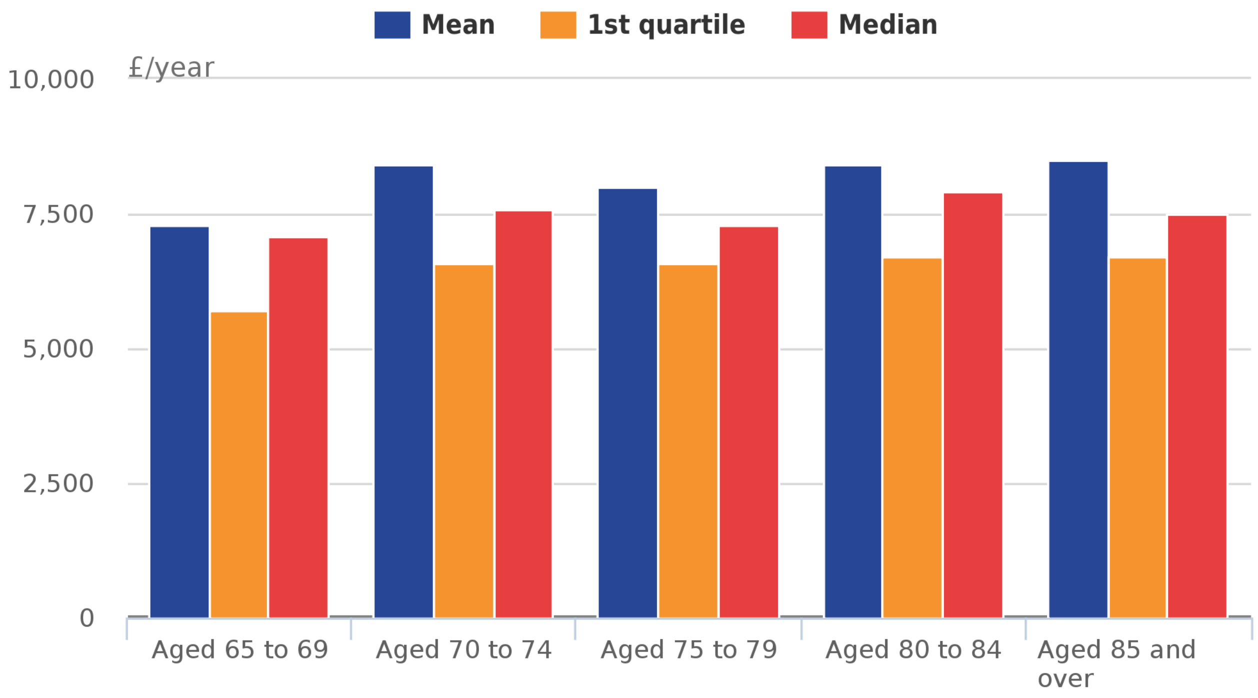
1. Figures may not match those in the table due to rounding.

8 . 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. Comparable analyses for pensioner couples have not been produced, as members of couples often belong to different age bands.

Figure 12.5: State benefit income payments – summary statistics for single male pensioners: by age band, 2010/11

United Kingdom



Source: Family Resources Survey - Department for Work and Pensions

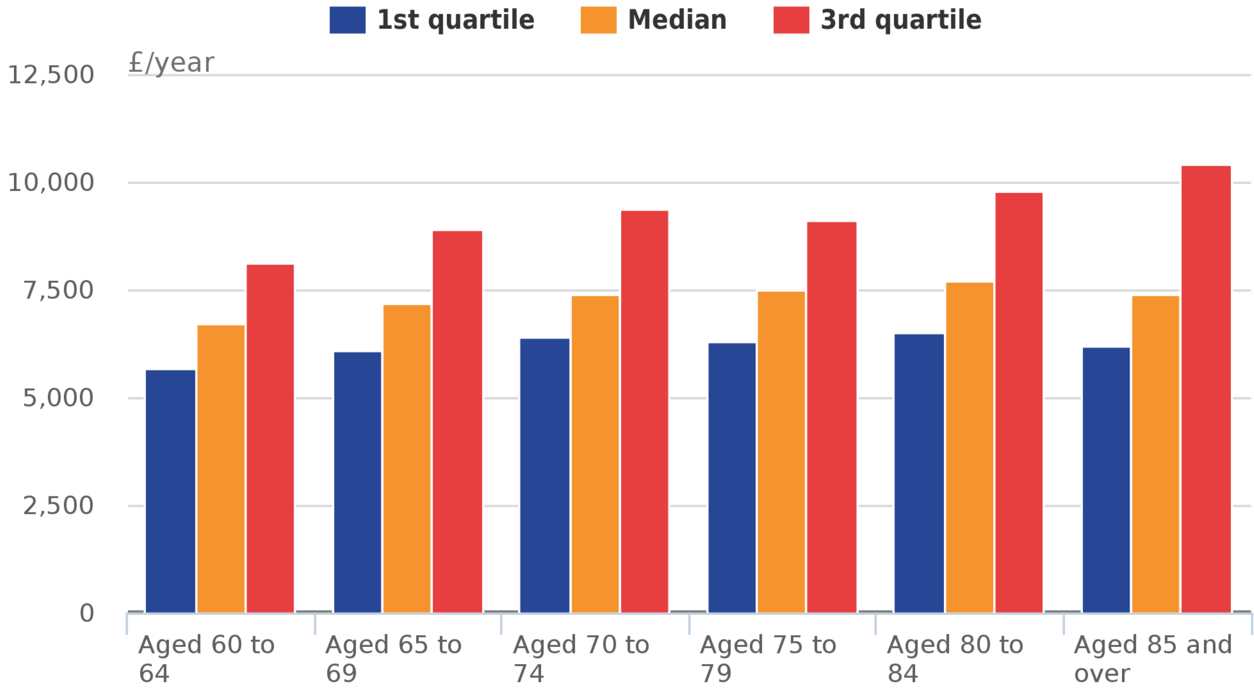
Notes:

1. There is considerable variability in these estimates over time, so they should be treated with caution
2. State benefit income includes state retirement pension

For single male pensioners receiving state benefit income, there was little variation between age bands for the first quartile other than for the 65 to 69 age band, where income was lower than the others. At the median and 3rd quartile, single male pensioners in the 80 to 84 age band received the highest level of benefit income (Figure 12.5).

Figure 12.6: State benefit income payments – summary statistics for single female pensioners: by age band, 2010/11

United Kingdom



Source: Family Resources Survey - Department for Work and Pensions

Notes:

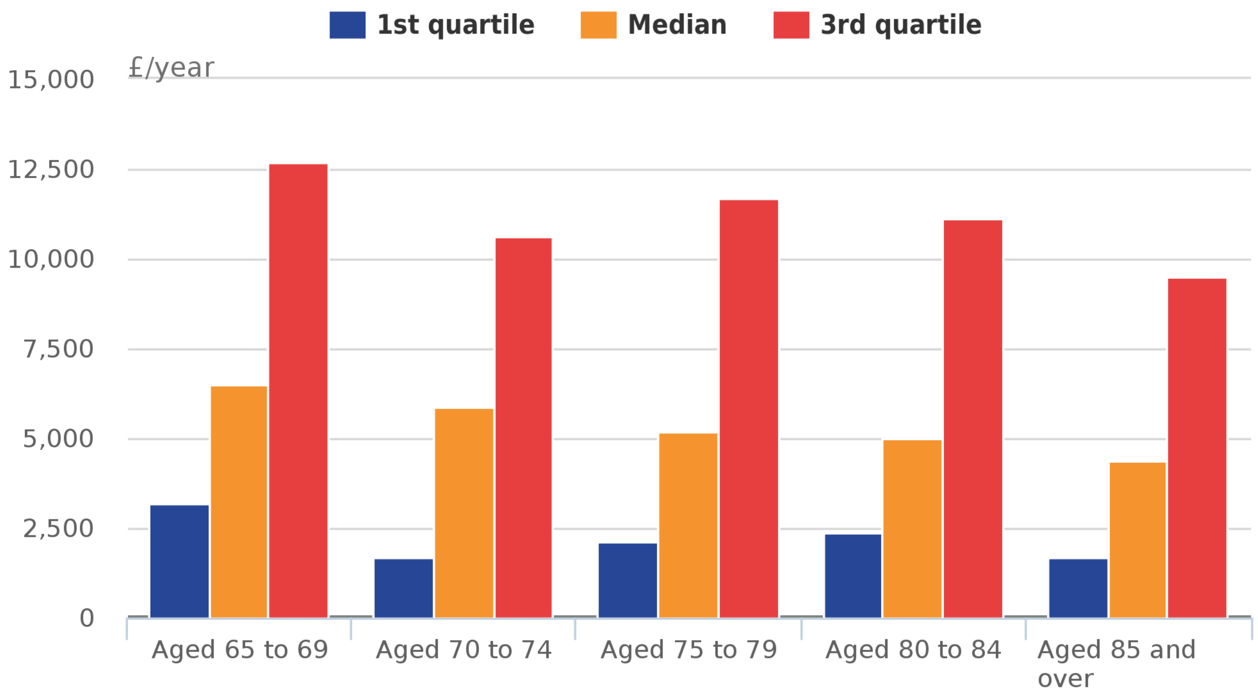
1. There is considerable variability in these estimates over time, so they should be treated with caution
2. State benefit income includes state retirement pension

State benefit income for single female pensioners was lowest in the 60 to 64 age band (Figure 12.6).

Figures 12.7 and 12.8 show, for private pensions, there was greater variation by age than for state benefit income. The median private pension payments for both men and women decreased for older age bands. However, for the 1st and 3rd quartiles, there was no clear relationship between age bands, although payments to the oldest age band (85 years and over) were the lowest for both men and women.

Figure 12.7: Private pension payments – summary statistics for single male pensioners: by age band, 2010/11

United Kingdom



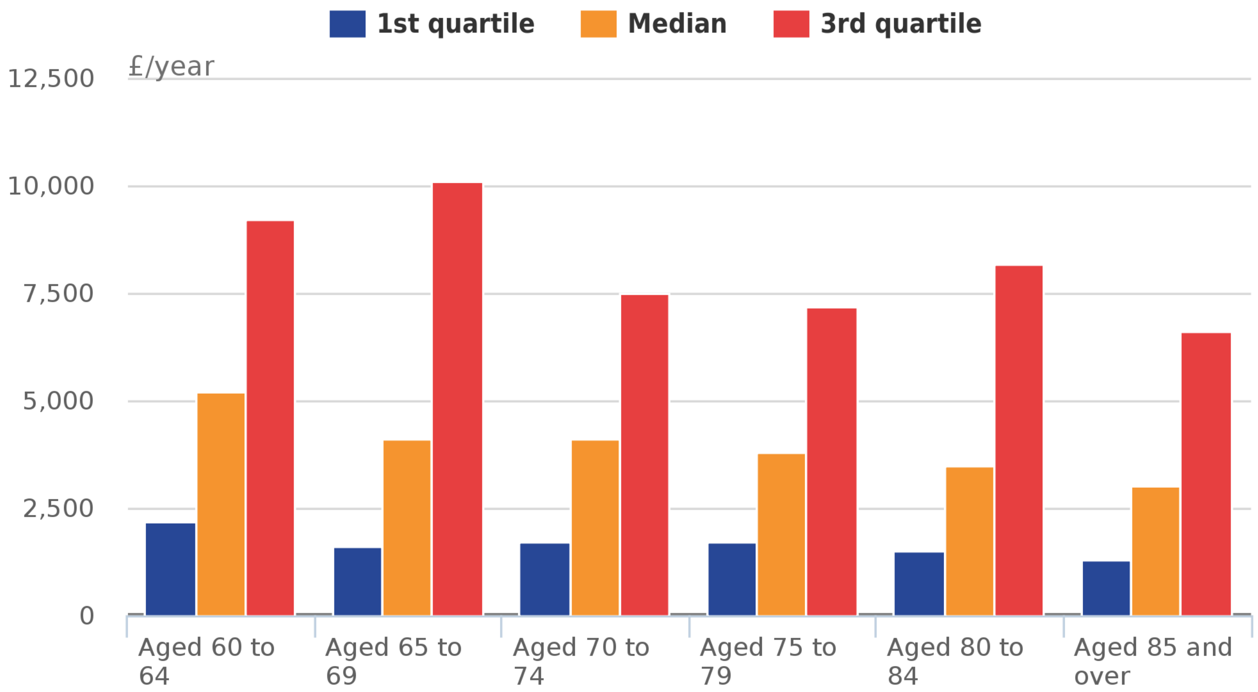
Source: Family Resources Survey - Department for Work and Pensions

Notes:

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

Figure 12.8: Private pension payments – summary statistics for single female pensioners: by age band, 2010/11

United Kingdom



Source: Family Resources Survey - Department for Work and Pensions

Notes:

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

The level of private pension payments for men was higher than for women over all age bands. Within age bands, there was a greater variation in pension payments for men compared to women. For example, in the 70 to 74 year group, there was a difference of £8,900 between the 1st and 3rd quartiles, compared to £5,800 for women.

These patterns are hard to interpret. There 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.

For women, an additional factor is that 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 will 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).

9 . 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 and related benefit system.

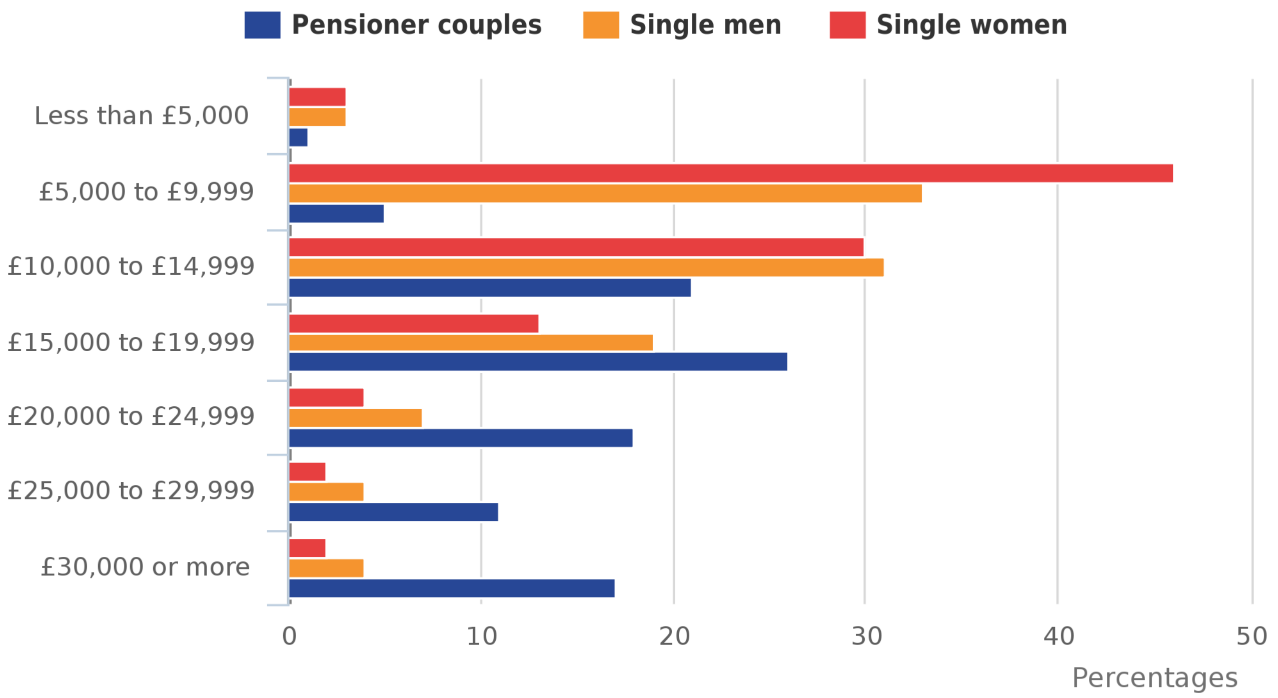
According to the Department for Work and Pensions (DWP)'s Pensioners' Income Series (PI Series, Table 2.1), income from the pension system (including state benefits) made up 72 per cent of average gross pensioner income in 2010/11 – 29 per cent from private pensions and 43 per cent from state benefit income (using PI Series definitions, see **Approach and definitions**). Single pensioners were more dependent on pension income (including state benefits) than pensioner couples.

Figure 12.9 shows the distribution of all pension income (state benefit income and private pension income) for pensioner couples and single pensioners in 2010/11. It suggests that in general, pensions provide only modest levels of annual income for many pensioner households: 45 per cent of single pensioners had total pension income of less than £10,000 in 2010/11, while 27 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).

Figure 12.9: Proportion of pensioner households with pension income: by annual payments received, 2010/11

United Kingdom



Source: Family Resources Survey - Department for Work and Pensions

Notes:

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

At the top end of the pension resource distribution, 17 per cent of pensioner couples had annual pension incomes of £30,000 or more in 2010/11, while 10 per cent of single pensioners had annual pension incomes of £20,000 or more.

At the bottom end of the distribution, there were small groups of pensioners with annual pension income of less than £5,000: in particular 3 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 to which they are entitled.

10. References

1. Department for Work and Pensions (2012a) The Pensioners' Income Series 2010-11.

2. Department for Work and Pensions (2012b) Family Resources Survey, United Kingdom, 2010-11, ed. Clay, S. Evans, D. et al.

3. Pensions Policy Institute (2012) The Pensions Primer, updated February 2012.

4. Office for National Statistics, Pension Trends.

11. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

   These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.

Compendium

Chapter 13: Inequalities and Poverty in Retirement, (2012 edition)

This chapter looks at inequalities and poverty in retirement. The analysis looks at average incomes and income inequalities of retired and non-retired households over time. The contributing factors which affect inequalities are discussed and methods of analysing pensioner poverty are investigated.

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Notice

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This publication has been discontinued. The last edition to be published was 28 November 2014.

Table of contents

1 . Key points

- Although retired households' income is lower than that of non-retired households, the relative position of retired households has improved over the last three decades (Figure 13.2).
- In 2010/11, income from private pensions accounted for a similar proportion of the average gross income of retired households as the state pension (Figure 13.6): 41 per cent and 38 per cent respectively.
- In 2010/11, pensioners with private pensions were more likely to be in the higher income quintile groups (Figure 13.8).
- 37 per cent of white pensioners were in the top two income quintile groups, while 35 per cent of Pakistani and Bangladeshi pensioners were found in the bottom income quintile (Figure 13.12).
- In 2010/11, an estimated 14 per cent of pensioners in the UK were living on less than 60 per cent of equivalised contemporary median income after housing costs (see **Definitions**). This is compared to 28 per cent in 1999/2000 (Figure 13.15).
- In 2010/11 around 9 per cent of pensioners were classified as being materially deprived. Material deprivation refers to whether people have access to common necessities.
- There were 1.1 million households of single people aged 60 or over in 'fuel poverty' in England in 2010 according to data published by the Department of Energy and Climate Change (Figure 13.19).

2 . Introduction

This chapter looks at inequalities and poverty in retirement. Inequality is a relative concept, in which the position of one individual or household in a distribution, normally an income distribution, is compared with that of other individuals or households. There is no single definition of poverty. The concept can refer to an absolute standard, such as a minimum level of income which society agrees to be acceptable for providing a basic standard of living (a 'poverty line'). Alternatively, poverty can be measured in relative terms.

The analysis begins by looking at inequalities. First, it compares average incomes and income inequalities of retired and non-retired households over the last three decades. Then it looks at the effect that different sources of income have on a pensioner household's position within the income distribution. The discussion of income inequality concludes with an exploration of other characteristics associated with a household's position in the income distribution, such as the type of household, age, ethnicity, employment status and housing tenure.

The second part of the chapter looks at pensioner poverty. It also presents one of the officially used measures of poverty, which is based on a proportion of contemporary median income (see **Definitions**). An alternative indicator to this, which is the analysis of the number of households falling below absolute poverty income thresholds, is also discussed. This is defined within the Households Below Average Income (HBAI) data series as those households which fall below a specific percentage (50, 60 and 70 per cent) of inflation adjusted median income in 1998/99. It also discusses alternative measures, including attempts to establish minimum income standards, measures of material deprivation and measures based on expenditure.

3 . Definitions

The equivalisation of household income

The needs of a household grow with each additional member, but the need for housing space, electricity and the like, will not be three times as high for a household with three members as for a single person household. With the help of equivalence scales, each household type in the population is assigned a value in proportion to its needs. Equivalence scales conventionally take an adult couple without children as the reference point, with an equivalence value of one.

The calculation process then increases the income of single person households (since their incomes are divided by a value of less than one) and reduces the incomes of households with three or more persons, which have an equivalence value of greater than one. The household income data presented in this chapter has been adjusted using the modified Organisation for Economic Co-operation and Development (OECD) scale.

Household income before and after housing costs

In the modified OECD equivalence scale two separate versions are used, one for income Before Housing Costs (BHC) and another for income After Housing Costs (AHC). BHC measures of income are often used when considering the distribution of income across the entire population, whereas AHC measures of income subtract housing costs from income. AHC is mainly used when looking at the living standards of individuals at the lower end of the income scale or when measuring pensioner poverty.

The main issues when deciding which measure to use are whether people face genuine choices over their housing and whether differences in housing costs reflect differences in housing quality. For individuals who exercise a considerable degree of choice over housing costs and quality, a BHC income measure may be appropriate as housing can be seen as a consumption good. Where individuals have little choice about housing and where rents may be set with little reference to housing quality, for instance in the social housing sector, it can be argued that an AHC measure of income is more suitable.

AHC measures of income are also considered appropriate for pensioners, as around 70 per cent of pensioners own their homes outright. This group of pensioners can attain a higher standard of living than those with the same income level BHC but with mortgage or rental payments which reduce their AHC incomes. However, an AHC measure of income will understate the relative standard of living of those benefiting from better quality of housing by paying more for their accommodation.

Household income data sources

Information on household income in this chapter comes from two sources:

- A report on the Effects of Taxes and Benefits on Household Income (ETB) which is produced by the Office of National Statistics (ONS).
- The Households Below Average Income (HBAI) data series which is produced by the Department for Work and Pensions (DWP).

The income distribution used in both the ETB and HBAI analyses are based on a ranking of households by equivalised disposable household income (see **The equivalisation of household income**). All data published by the ETB series are BHC because of the difficulty in producing AHC adjusted values from the Living Costs and Food (LCF) survey.

Disposable income in both sources includes income from employment and self employment, state benefits, pensions and investment income, less payments of income tax, National Insurance contributions and Council Tax.

One of the most important differences is that for the ETB the unit of analysis is the household, while for HBAI the primary unit of analysis is the person. The income distribution appearing in the HBAI series is not a distribution of households, but rather a distribution of people according to the income of the household in which they live.

In the current ETB series, an individual is defined as retired if:

- They describe themselves as ‘retired’.
- If they are over the minimum National Insurance pension age and are either ‘unoccupied’ or ‘sick or injured but not intending to seek work’.

A household is defined as retired in ETB when more than 50 per cent of the household income is received by retired members of the household.

In the HBAI series, pensioners are defined as those over State Pension Age (SPA) at the time of the interview and, with the exception of the data used in Figure 13.10, results for pensioner couples exclude partners who are of working age. The SPA has recently undergone changes and has resulted in an increase of time needed for women to work before they can begin collecting their state pension. The SPA for women is set to rise to 65 by November 2018.

It was decided to use data sets from the ETB in this chapter instead of the DWP’s Pensioner Income (PI) series, as used in Pension Trends Chapter 11, because of the extensive time series it provides. The start year from which ETB data can be sourced is 1961/62. However, only after 1977 can data be accurately compared between years.

4 . Inequalities

Income in retirement

The incomes of retired and non-retired households differ in terms of their level, distribution and composition. The following section focuses on the income of retired households, presenting results for non-retired households for comparison.

Figure 13.1 shows that over the last thirty years, the average equivalised disposable income has been lower for retired households than for non-retired households. Incomes of both retired and non-retired households have risen in real terms.

Figure 13.1. Average equivalised disposable income (BHC) of retired and non-retired households

United Kingdom

Source: Living Costs and Food Survey - Office for National Statistics

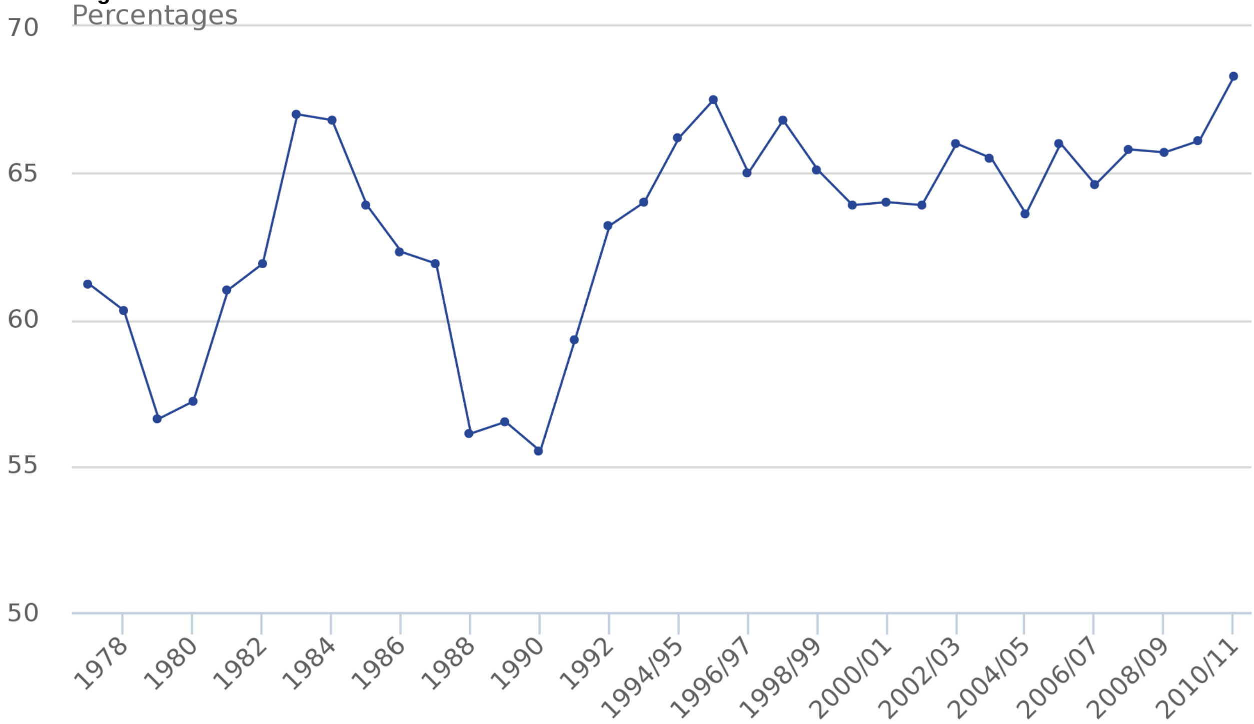
Notes:

1. Includes income from employment and self employment, state benefits, pensions and investment income less payments of income tax, National Insurance contributions and Council Tax

2. AHC figures are not available from the ETB data series

Figure 13.2: Average equivalised disposable income (BHC) of retired households as a proportion of income of non-retired households

United Kingdom



Source: Living Costs and Food Survey - Office for National Statistics

Notes:

1. Includes income from employment and self employment, state benefits, pensions and investment income less payments of income tax, National Insurance contributions and Council Tax

2. AHC figures are not available from the ETB data series

The average disposable incomes of non-retired households are subject to fluctuations associated with economic cycles. In the recession of the early 1990s, they peaked just before the recession and then fell, recovering in the second half of the decade. There is a similar pattern of decline in the incomes of non-retired households associated with the 2008/09 recession.

In contrast, incomes from state pensions and from private pensions, which are the main components of retirement income (see **Income inequalities**), show little fluctuation from year to year. Consequently, the incomes of retired households have grown more steadily than those of non-retired households over the last three decades.

Although retired households' income is lower than that of non-retired households, the position of retired households has improved since 1977. Figure 13.2 shows that between 1977 and 1991 the average equivalised income of retired households was, on average, 61 per cent of that of non-retired households. For the period between 1992 and 2010/11 this proportion was around 65 per cent.

Income inequalities

The Gini coefficient is a widely-used measure of income inequality. Gini coefficients take a value from 0 to 1, with zero indicating total income equality (that is each household has an equal share of total household income) and higher values indicating greater income inequality. These proportions can also be expressed as percentages (0 to 100 per cent).

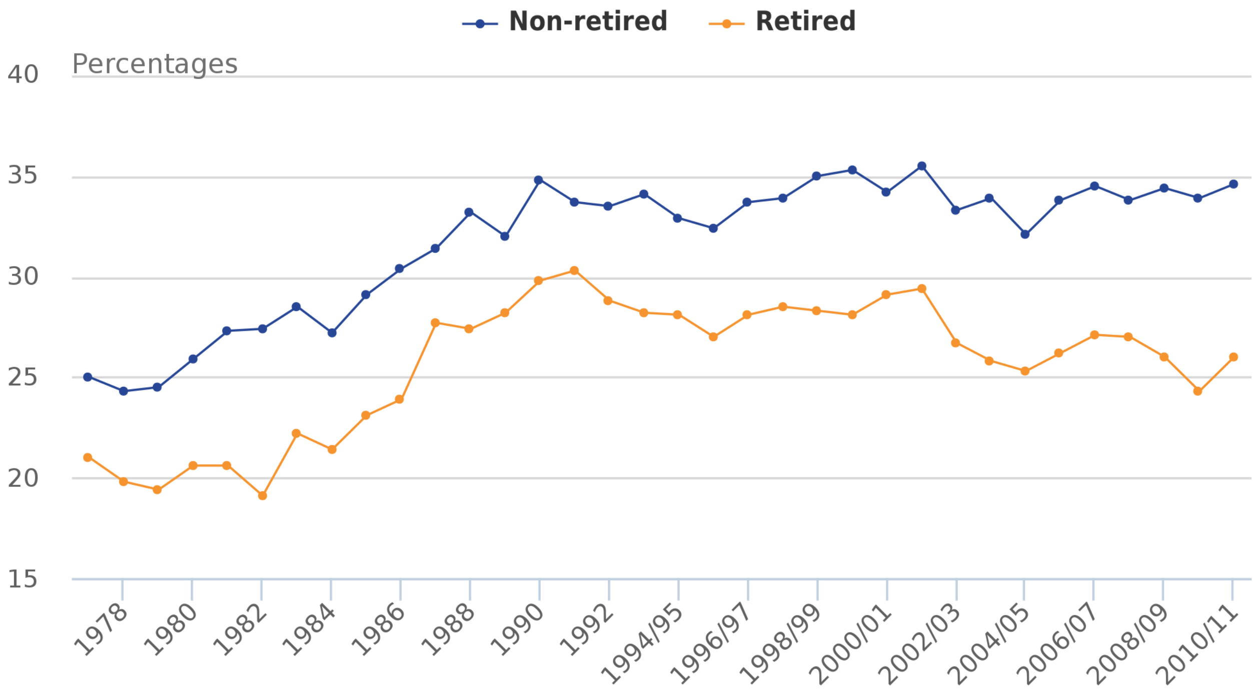
Figure 13.3 shows that over the last three decades income distribution has been less unequal (the Gini coefficient is lower) for retired households than for non-retired households. However, it should be noted that this result does not say anything about the poverty of retired households compared with that of non-retired households. Poverty is discussed later in this chapter.

The distribution of income has become more unequal over the last three decades for both retired and non-retired households, particularly between 1977 and 1990. Over this period, the Gini coefficient increased from 21 per cent to around 30 per cent for retired households and from 25 per cent to 35 per cent for non-retired households.

The similarity of these changes may be considered surprising, as the main sources of income of retired and non-retired households are quite different. Between 1991 and 2010/11 there has been a fall in the Gini coefficient for pensioners, representing an increasing equality in disposable pensioner income. In 1991 it was at a maximum of around 30 per cent for pensioners and this has fallen by 4 per cent to 26 per cent in 2010/11. There has been some variation, but little change overall for non-retired households over the same period.

Figure 13.3: Gini coefficients for equivalised disposable income (BHC) of retired and non-retired households

United Kingdom



Source: Living Costs and Food Survey - Office for National Statistics

Notes:

1. Includes income from employment and self employment, state benefits, pensions and investment income less payments of income tax, National Insurance contributions and Council Tax

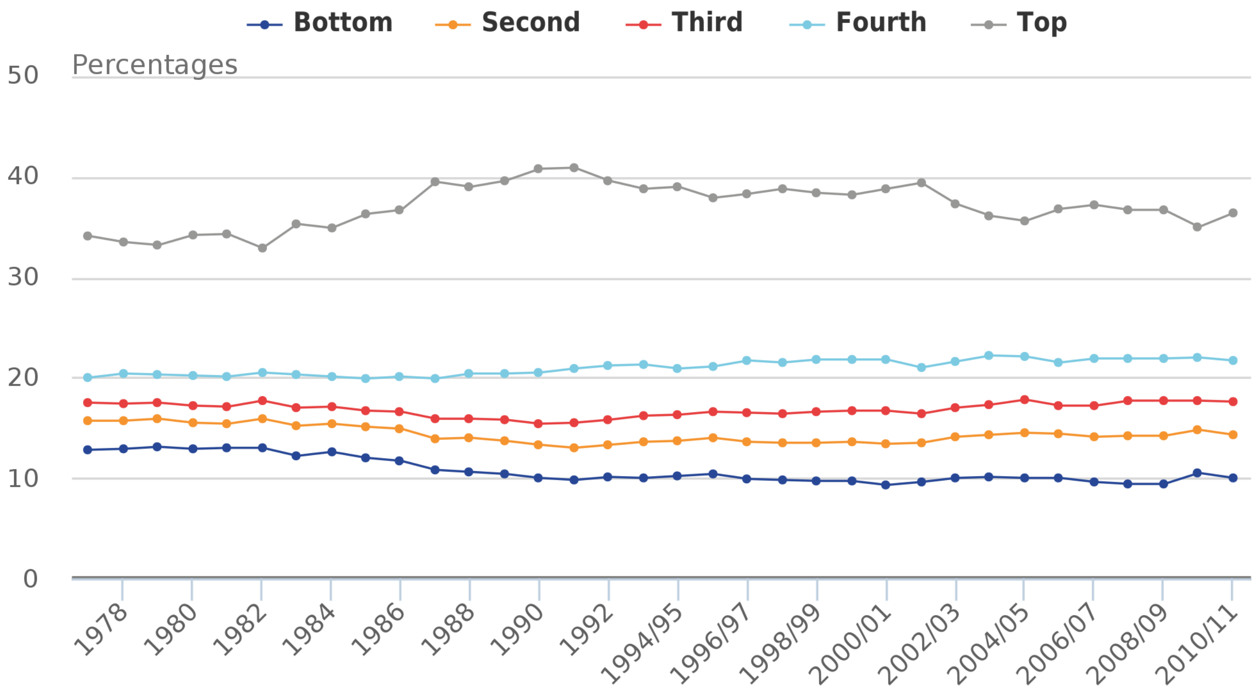
2. AHC figures are not available from the ETB data series

Figure 13.4 examines the percentage shares of total equivalised disposable income (BHC) for retired households by income quintile group. Quintiles divide the data, ranked in ascending order, into five equal parts, from households with the lowest incomes in the bottom quintile group to households with the highest incomes in the top quintile group. Between 1977 and 2010/11 the top two income quintile groups of retired households increased their share of total retired household income while the bottom two quintile groups saw the size of their shares fall. The bottom income quintile group saw the largest fall, from around 13 per cent in 1977 to 10 per cent in 2010/11.

It is clear from figure 13.4 that the overall trend can be split into two distinct phases. The first is between 1977 and 1990, when the top quintile group of retired households increased its share of total household income from 34 per cent to 41 per cent at the expense of the lowest three income quintile groups. In the second phase, between 1991 and 2010/11, the share of total income held by the top quintile group fell to 36 per cent, while that for the second, third and fourth quintile groups increased.

Figure 13.4: Percentage shares of total equivalised disposable income (BHC) for retired households by income quintile group

United Kingdom



Source: Living Costs and Food Survey - Office for National Statistics

Notes:

1. Includes income from employment and self employment, state benefits, pensions and investment income less payments of income tax, National Insurance contributions and Council Tax

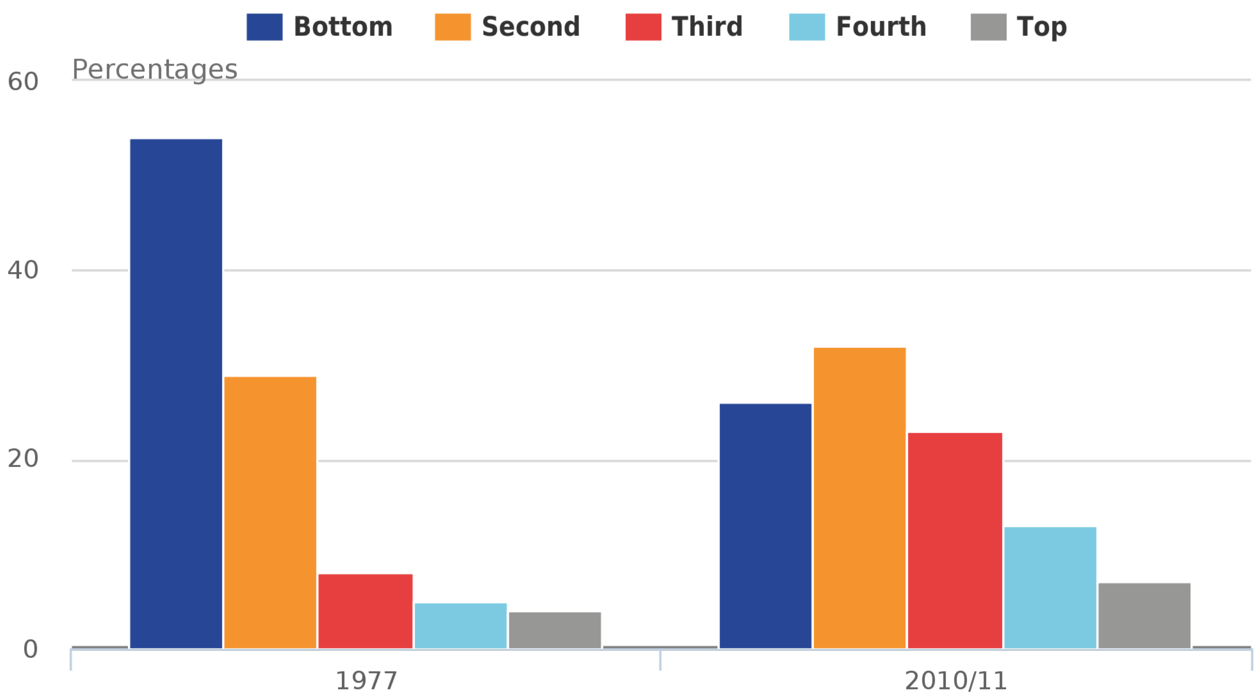
2. Households are ranked by equivalised disposable income

3. AHC figures are not available from the ETB data series

While Figure 13.4 divides retired households into income quintile groups, Figure 13.5 details the proportion of retired households within each income quintile group.

Figure 13.5: Proportion of retired households in each income quintile group (BHC)

United Kingdom



Source: Living Costs and Food Survey - Office for National Statistics

Notes:

1. Includes income from employment and self employment, state benefits, pensions and investment income less payments of income tax, National Insurance contributions and Council Tax

2. AHC figures are not available from the ETB data series

Overall, the proportion of retired households in the bottom income quintile has fallen since 1977, while the proportion in the four higher quintile groups has increased. In 1977, retired households made up the largest proportion of the bottom income quintile group (54 per cent). By 2010/11, this had fallen to 26 per cent. Over the same period, the proportion of retired households in the four higher income quintiles increased. This was most pronounced in the third (middle) quintile, where the proportion of retired households increased from 8 per cent in 1977 to 23 per cent in 2010/11.

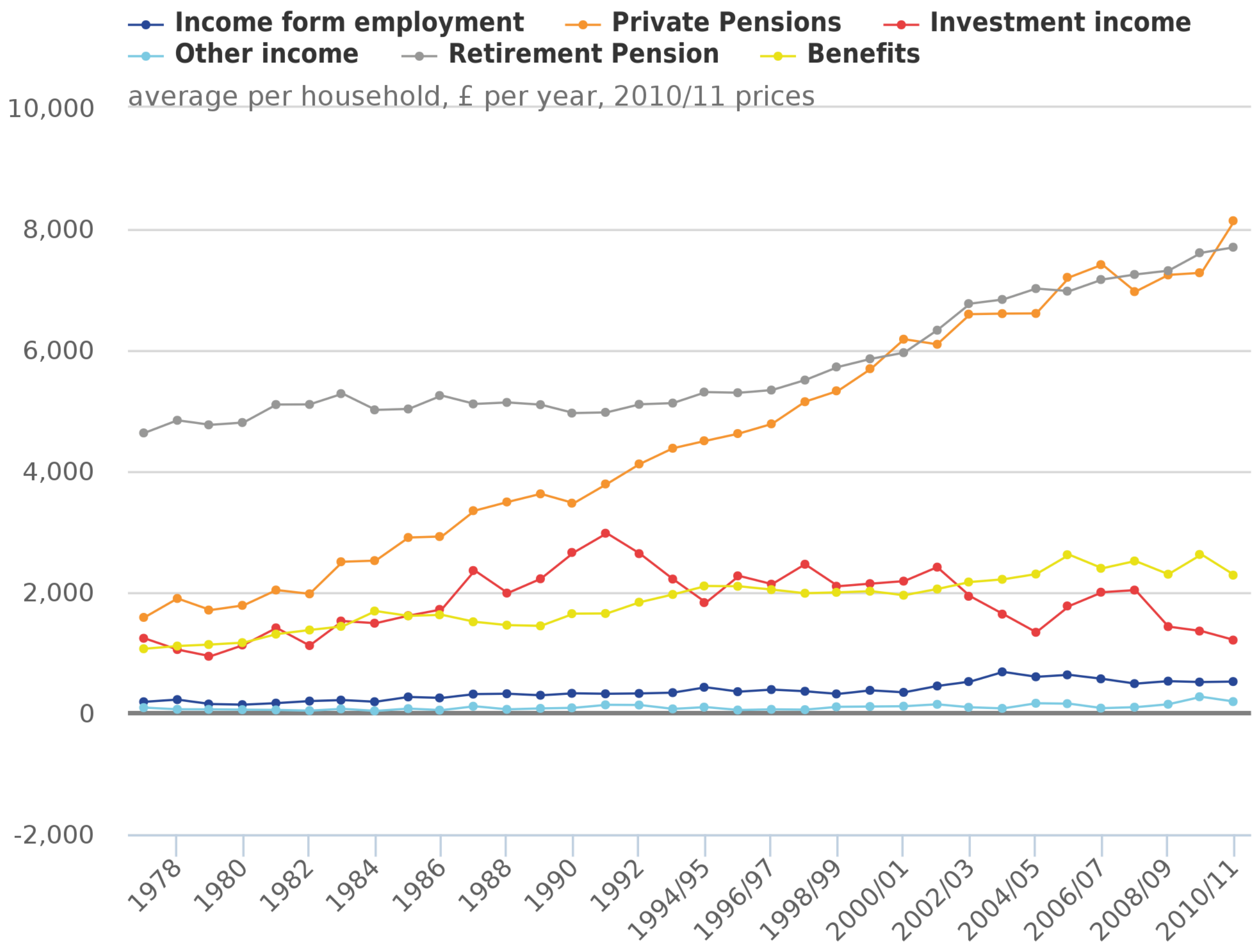
Income sources and inequalities

The main sources of income for retired households have changed substantially over the last three decades. Figure 13.6 shows that in 1977, income from private pensions accounted for just 18 per cent of the average gross income of retired households, compared with 53 per cent from the state retirement pension (the basic state pension and additional state pensions combined).

The state retirement pension was the largest source of income for retired households until 2000/01. Income from private pensions increased almost continuously over the three decades to 2006/07. It fell slightly the following year, but then recovered. In 2010/11, income from private pensions accounted for a similar proportion of the average gross income of retired households as the state retirement pension: 41 per cent and 38 per cent respectively.

Figure 13.6: Gross income by source (BHC) for retired households

United Kingdom



Source: Living Costs and Food Survey - Office for National Statistics

Notes:

1. Gross income is income before tax, unequivalised
2. Includes Pension Credit, introduced in October 2003
3. AHC figures are not available from the ETB data series

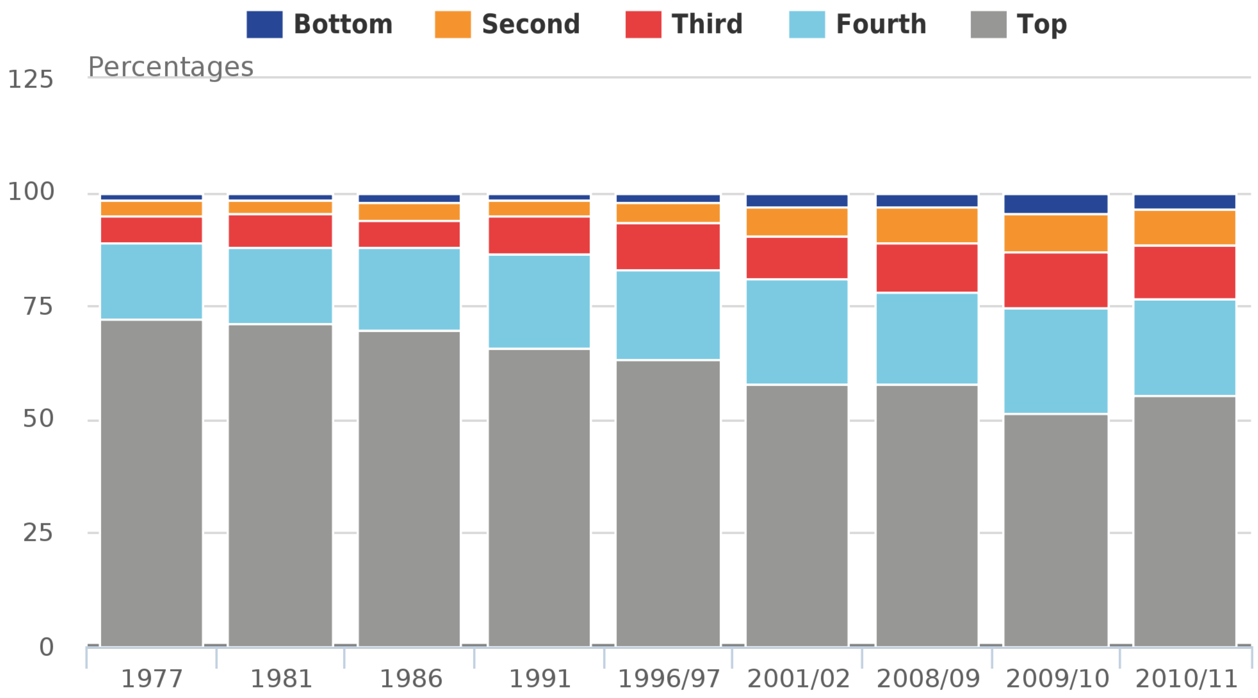
Investment income was also an important source of income for retired households between 1977 and 2010/11. The level of investment income depends on the level of financial assets held by retired households and the returns on these investments in the form of dividends and interest payments. Investment income rose from 14 per cent of average gross income of retired households in 1977 to peak at 21 per cent in 1991. However, it represented only 6 per cent of the total average income for retired households in 2010/11 and this can largely be attributed to the recession.

Income from benefits doubled in real terms between 1977 and 1994/95. The largest increases were in housing, invalidity, disability and carers' benefits. Income from benefits fell slightly in the remainder of the 1990s, before increasing in the early part of the 21st century, probably due, at least in part, to the introduction of Pension Credit in October 2003 (see Pension Trends Chapter 5). However, the average contribution to income provided by benefits has changed little since 1977. Between 1977 and 2010/11 it varied between 11 and 15 per cent and in 2010/11 it represented 11 per cent of the average income of retired households.

The sources of income of retired households are related to their position in the income distribution. Figure 13.7 shows percentage shares of income from private pensions for retired households by retired household income quintiles from 1977 to 2010/11. Income from private pensions has become more evenly distributed across the retired population since the mid-1990s, although more than half still goes to those in the top income quintile group. In 1991, around 66 per cent of income from private pensions went to retired households in the top income quintile, falling to nearly 55 per cent in 2010/11.

Figure 13.7: Percentage shares of income (BHC) from private pensions for retired households: by retired household income quintiles

United Kingdom



Source: Living Costs and Food Survey - Office for National Statistics

Notes:

1. Unequivalised income

2. Households are ranked by equivalised disposable income

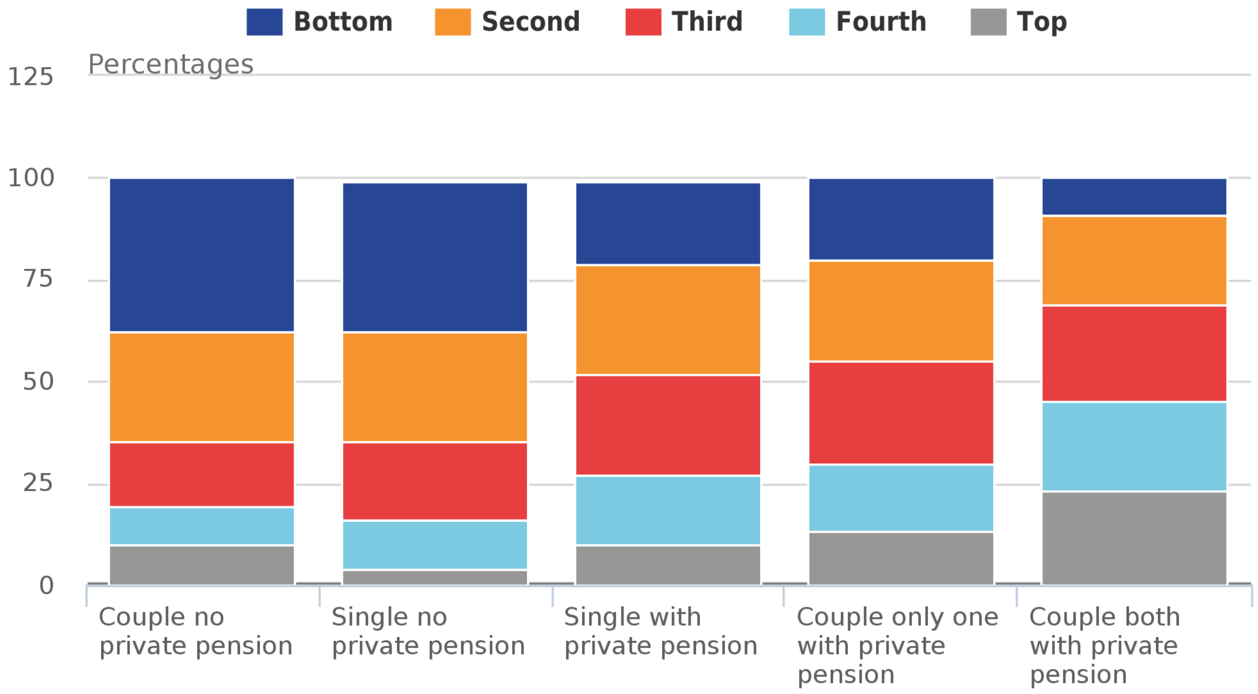
3. AHC figures are not available from the ETB data series

Figure 13.8 takes data from the Households below Average Income (HBAI) series to illustrate the effect of private pensions on the income levels of single pensioners and pensioner couples.

In 2010/11, pensioners with private pensions were more likely to be in the higher income quintile groups than those without private pensions. Pensioner couples where both partners had private pensions were the most likely of all the categories in Figure 13.8 to be in the top two income quintile groups and the least likely to be in the bottom two groups. Over three-fifths of pensioners with no private pensions were in the bottom two income quintile groups. Single people with no private pension were the least likely to be in the top two income quintile groups and couples with no private pension were the most likely to be in the bottom two.

Figure 13.8: Quintile distribution of income (BHC) for single pensioners and pensioner couples: by private pension status, 2010/11

United Kingdom



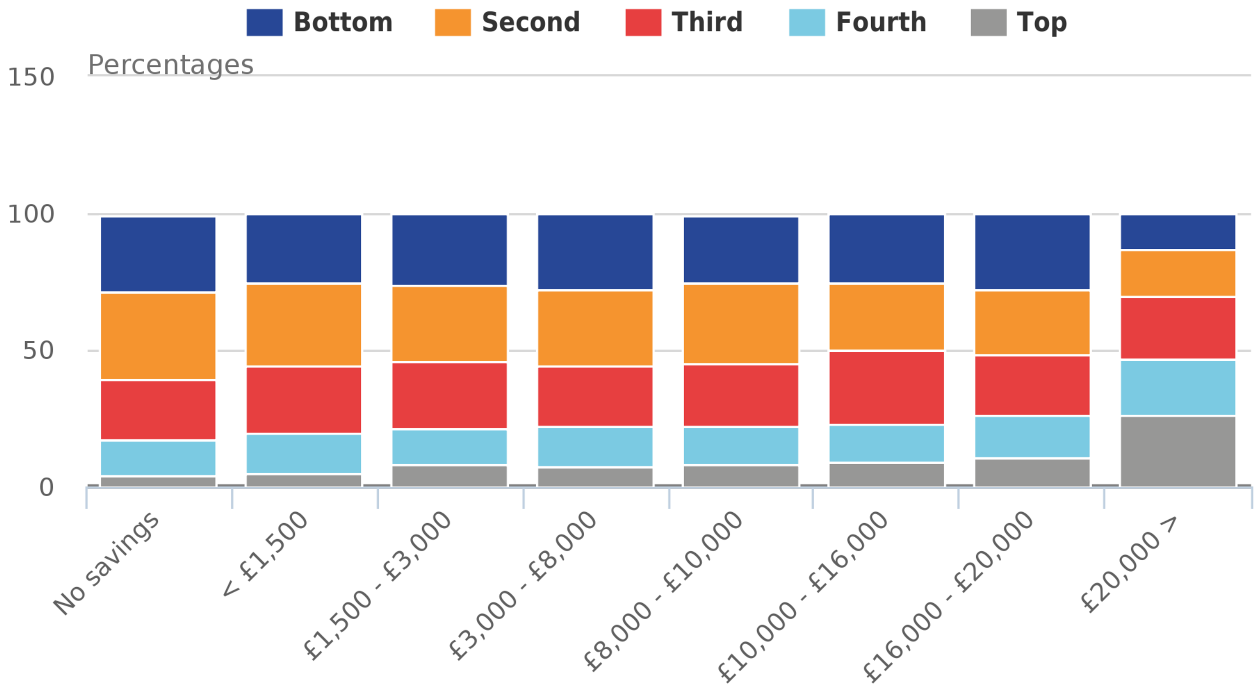
Source: Department for Work and Pensions

Notes:

1. Net equivalised disposable household income
2. Care should be taken in comparing results for singles and couples as conclusions drawn from them are sensitive to the choice of equivalence scale
3. Pensioners are defined as individuals above State Pension Age (SPA) at the time of interview. At the time that the data was collected the SPA for women was between 60 and 61. For men it was 65. Results for couples exclude partners of working age
4. BHC was used to provide a complete picture of pensioner income

Figure 13.9. Quintile distribution of income for pensioners (BHC): by value of savings, 2010/11

United Kingdom



Source: Living Costs and Food Survey - Office for National Statistics

Notes:

1. Net equivalised disposable household income

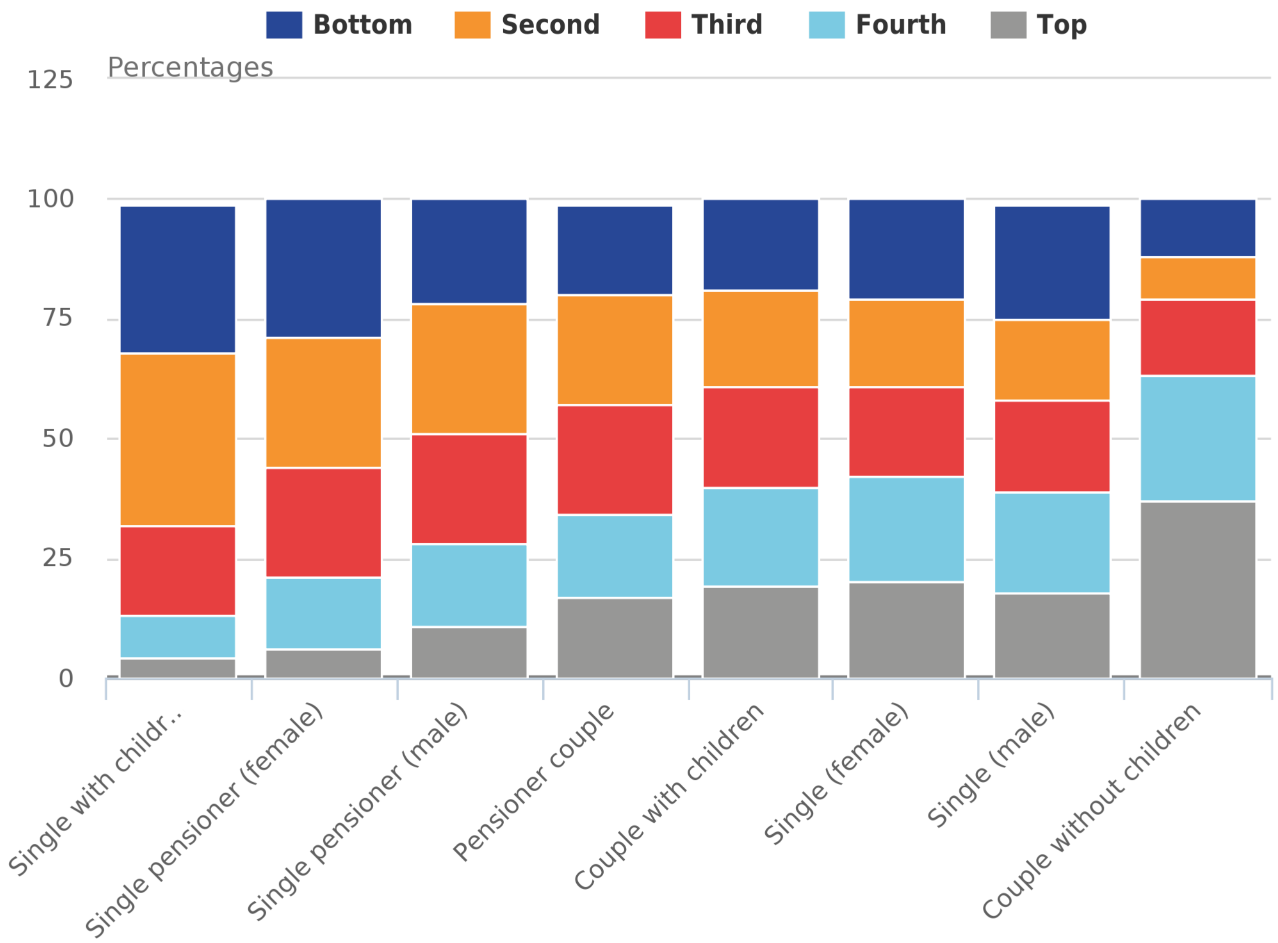
2. Pensioners are defined as individuals above State Pension Age (SPA) at the time of interview. At the time that the data was collected the SPA for women was between 60 and 61. For men it was 65. Results for couples exclude partners of working age

3. Percentages may not sum to 100 because of rounding

4. BHC was used to provide a complete picture of pensioner income

Figure 13.10: Quintile distribution of income (BHC): by various family and household characteristics, 2010 /11

United Kingdom



Source: Department for Work and Pensions

Notes:

1. Net equivalised disposable household income
2. The classification 'pensioner couple' includes individuals in a family unit where one member is above state pension age and one is below above state pension age
3. Percentages may not sum to 100 because of rounding
4. BHC was used to provide a complete picture of pensioner income

The higher the value of pensioners' savings, the more likely they are to be at the upper end of the income distribution. Figure 13.9 shows that over three-fifths of pensioners with no savings were in the bottom two income quintiles in 2010/11. At the other extreme, around half of pensioners with savings of £20,000 or more were in the top two income quintiles. Pensioners with this level of savings were also the least likely to be found in the bottom two quintiles.

Other characteristics associated with income inequality

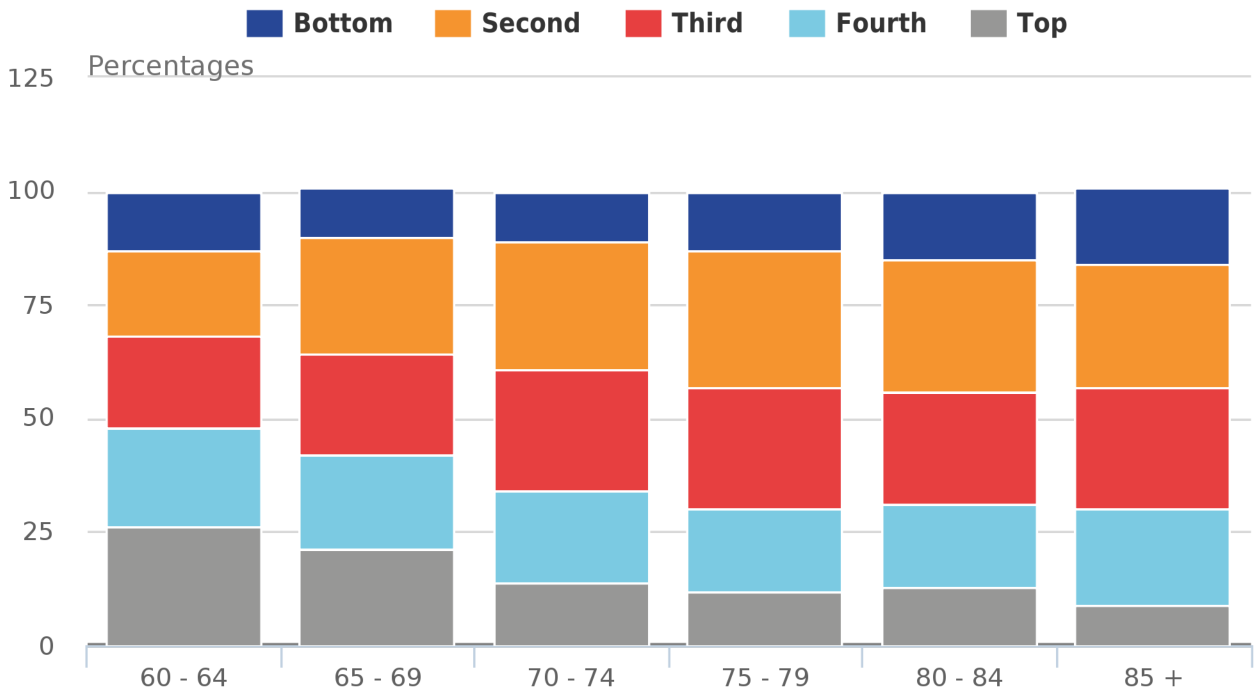
Family and household characteristics are also related to the individual's position within the income distribution. Figure 13.10, which is for the whole population including non-pensioners, shows that the group with the largest proportion of individuals in the bottom two income quintiles in 2010/11 was working age single parents (67 per cent), followed by single female pensioners (56 per cent) and single male pensioners (49 per cent). Single parents and single pensioners also had the smallest proportions in the top two quintiles, with 13 per cent of single parents, 21 per cent of single female pensioners and 28 per cent of single male pensioners in the top two quintile groups.

The results in Figure 13.10 are presented for income Before Housing Costs (BHC). On an income After Housing Costs (AHC) basis the proportion of single pensioners in the lower income quintiles is smaller. In 2010/11, 47 per cent of single female pensioners and 37 per cent of single male pensioners were in the bottom two income quintiles, while 31 per cent of female and 39 per cent of male pensioners were in the top two income quintiles.

Figure 13.11 shows (on an income AHC basis) that in 2010/11, the younger the pensioner, the more likely they were to be in the upper income quintile groups for the whole population. Pensioners aged 60 to 64 were the most likely to be in the top income quintile (26 per cent in this age group). Pensioners aged 85 or more were the least likely to be in the top income quintile group (9 per cent).

Figure 13.11: Quintile distribution of income for pensioners (AHC): by age band, 2010/11

United Kingdom



Source: Department for Work and Pensions

Notes:

1. Net equivalised disposable household income

2. Pensioners are defined as individuals above State Pension Age (SPA) at the time of the interview. At the time that the data was collected the SPA for women was between 60 and 61. However, for men it was 65. Results for couples exclude partners of working age

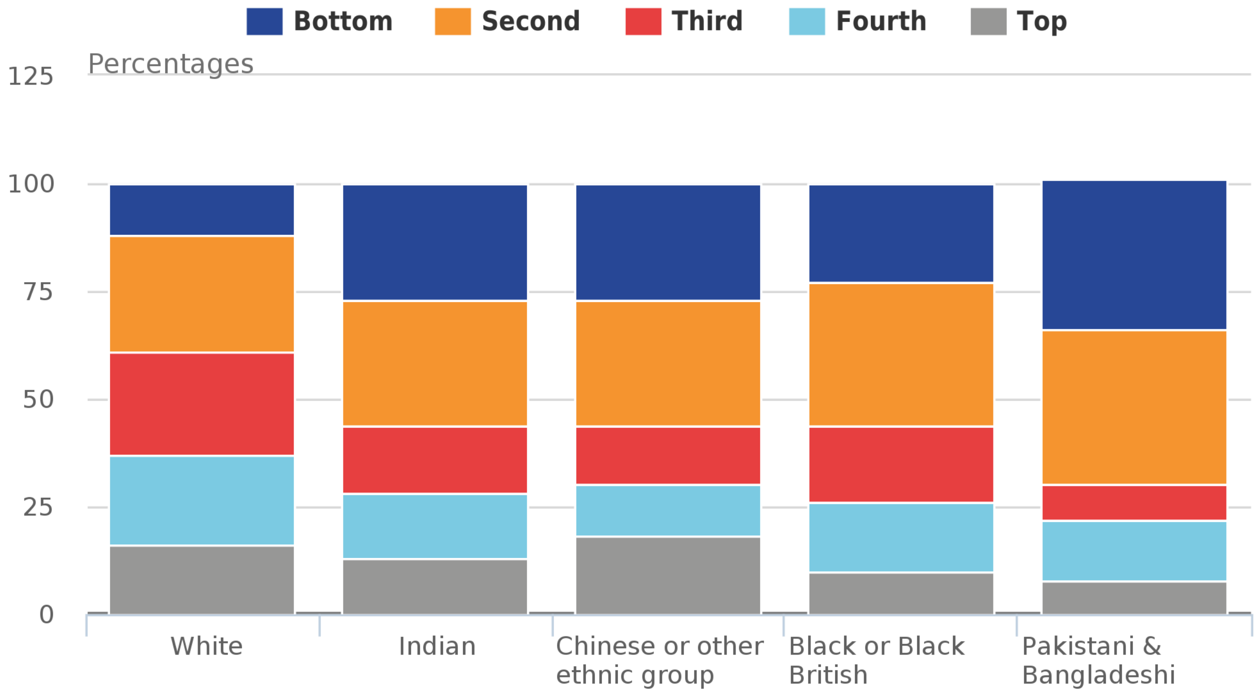
3. AHC was used to enable comparison with earlier figures in the chapter, which used BHC

Figure 13.12 shows that Pakistani and Bangladeshi pensioners were the most likely of all ethnic groups to be found in the bottom two income quintile groups (71 per cent). White pensioners were the most likely to be in the top two income quintile groups (37 per cent), closely followed by those from Chinese or other ethnic groups (30 per cent) and Indian pensioners (28 per cent). White pensioners were the least likely to be found in the bottom income quintile group (12 per cent), while Pakistani and Bangladeshi pensioners were the most likely (35 per cent).

One reason for this may be that people from ethnic minority groups are more likely than those from white backgrounds to have characteristics associated with low pension incomes. These include lower rates of pension scheme membership, lower rates of employment and earnings, lower rates of eligibility for the additional state pension, and lower rates of employment at older ages. Pakistani and Bangladeshi workers are also more likely to work part-time than white workers[3].

Figure 13.12: Quintile distribution of income for pensioners (AHC): by ethnic group, 2010/11

United Kingdom



Source: Department for Work and Pensions

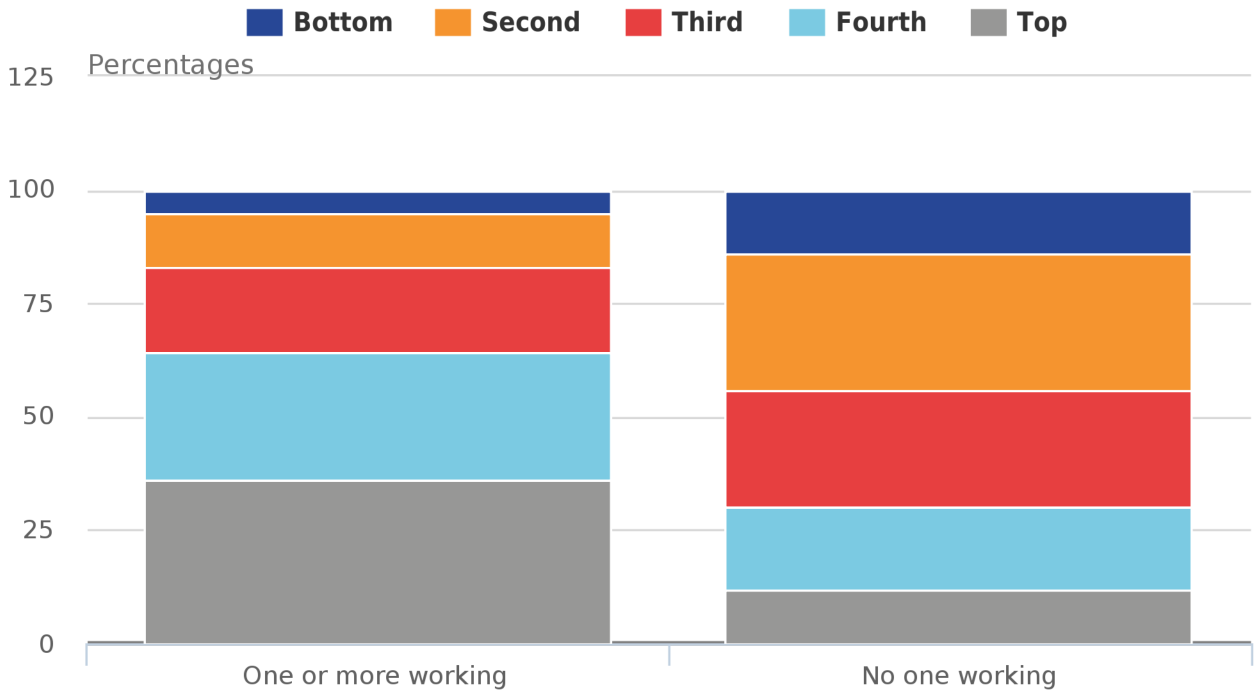
Notes:

1. Net equivalised disposable household income
2. Pensioners are defined as individuals above State Pension Age (SPA) at the time of the interview. At the time that the data was collected the SPA for women was between 60 and 61. However, for men it was 65. Results for couples exclude partners of working age
3. Estimates are based on a three-year average
4. AHC was used to enable comparison with earlier figures in the chapter, which used BHC

For pensioners, being in employment is associated with a better position within the income distribution (Figure 13.13). In 2010/11, pensioner households with one or more members working were more likely to be found in the top income quintile group (36 per cent) than those in which no one was employed (12 per cent). These households were also less likely to be found in the bottom two income quintiles (17 per cent) than those where no one was employed (44 per cent).

Figure 13.13: Quintile distribution of income for pensioners (AHC): by employment status, 2010/11

United Kingdom



Source: Department for Work and Pensions

Notes:

1. Net equivalised disposable household income

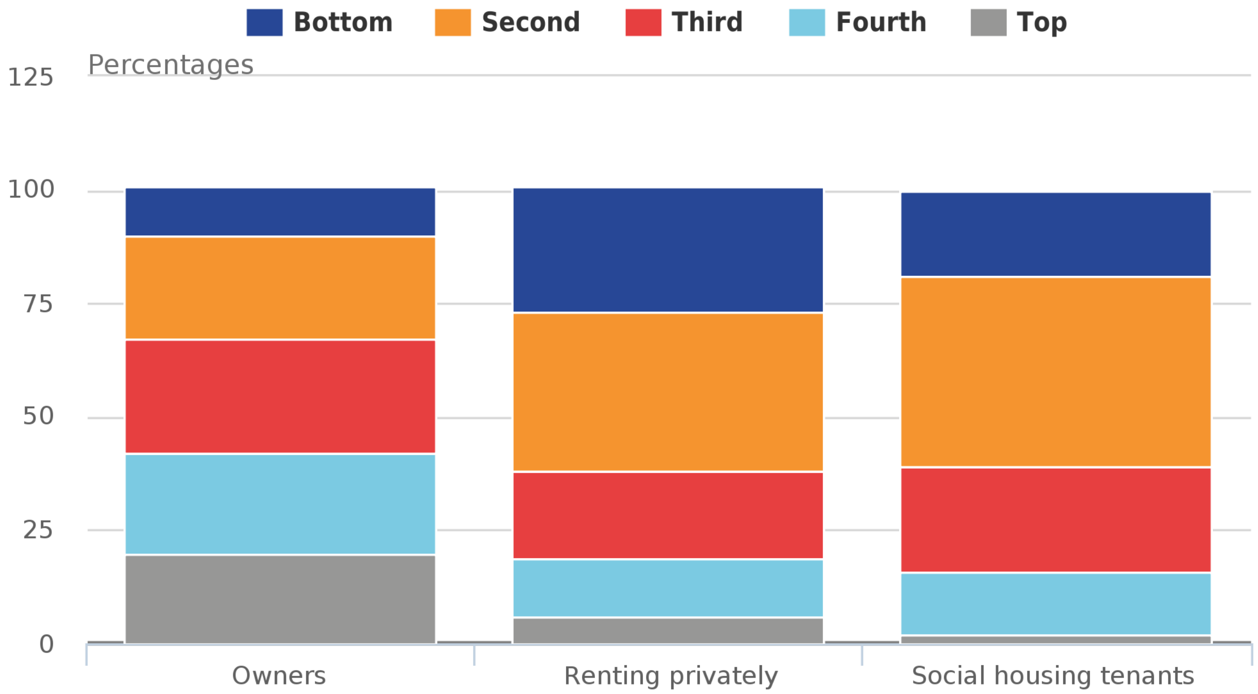
2. Pensioners are defined as individuals above State Pension Age (SPA) at the time of the interview. At the time that the data was collected the SPA for women was between 60 and 61. However, for men it was 65. Results for couples exclude partners of working age

3. AHC was used to enable comparison with earlier figures in the chapter, which used BHC

There is also a relationship between housing tenure and position in the income distribution. Figure 13.14 shows that in 2010/11, pensioners who were social housing tenants were least likely to be found in the top two income quintile groups (16 per cent). Pensioners who rented privately were most likely to be in the bottom income quintile group (28 per cent). Pensioners who owned their own homes were most likely to be in the top two income quintiles groups (42 per cent).

Figure 13.14: Quintile distribution of income for pensioners (AHC): by housing tenure, 2010/11

United Kingdom



Source: Department for Work and Pensions

Notes:

1. Net equivalised disposable household income

2. Pensioners are defined as individuals above State Pension Age (SPA) at the time of the interview. At the time that the data was collected the SPA for women was between 60 and 61. However, for men it was 65. Results for couples exclude partners of working age

3. In this instance, AHC data was chosen because of the comparison between social housing tenants and other types of housing tenure

Notes for Inequalities

1. Figure 13.6 can be interpreted as presenting the breakdown for the 'average household' (based on the mean). However, the distribution of income from pensions and other sources varies considerably between households (see Pension Trends Chapters 11 and 12)

2. In figure 13.6, the fall in income from private pensions and annuities in 2007/08 should be treated with caution as it may be the result of sampling variation

3. Information regarding the working characteristics of ethnic minorities is sourced from Steventon, A and Sanchez, C (2008) The under pensioned: disabled people and people from ethnic minorities Research Report No. 5 Pension Policy Institute, Equality and Human Rights Commission

5 . Pensioner poverty

Whereas the previous section presented measures of income inequality for pensioners by examining their position within the income distribution, this section explores indicators of poverty. The UK has no official 'poverty line' (a minimum level of income which society agrees to be acceptable for providing a basic standard of living).

One of the official poverty measures used by the Government is a relative one: a proportion of equivalised contemporary median household income After Housing Costs (AHC) (see **Definitions**). For other measures please see the recent Households Below Average Income report (HBAI) published by the Department for Work and Pensions (DWP).

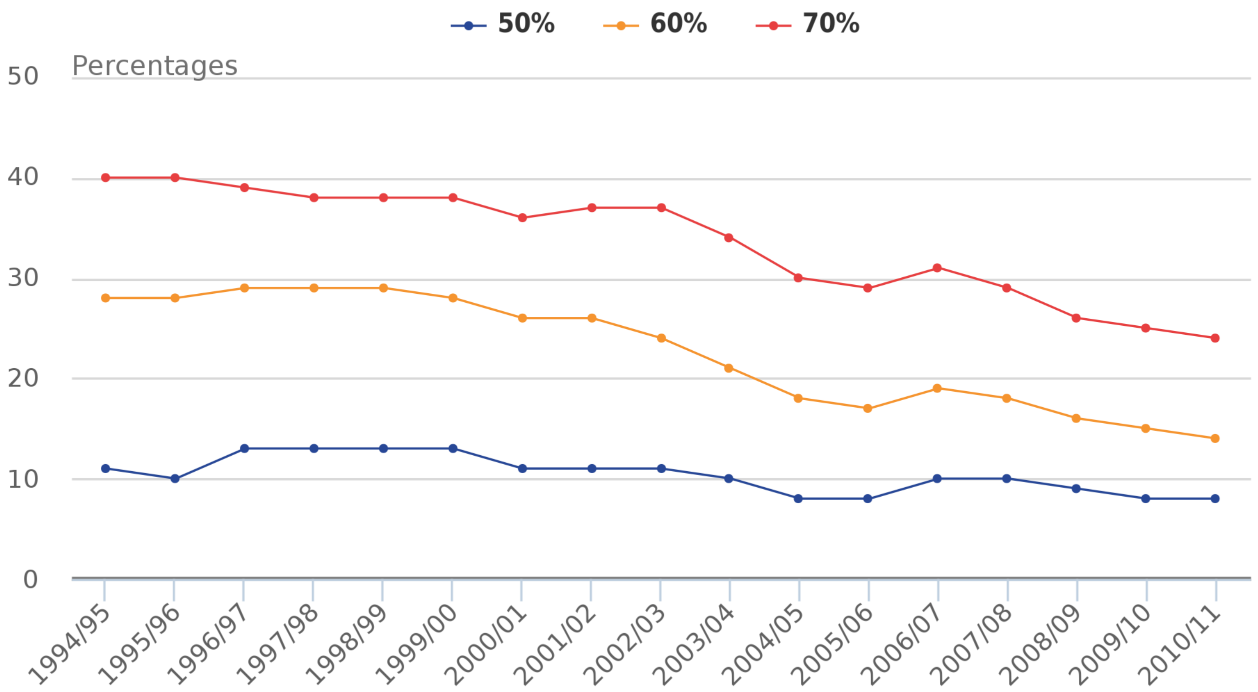
The equivalised contemporary measure shows a downward trend in the proportion of pensioners living in poverty since the mid-1990s. Figure 13.15 shows the proportion of pensioners falling below 50, 60 and 70 per cent of equivalised contemporary median income AHC, which is a relative poverty income measure (see the ' HBAI' report published by the DWP for a description of the alternative absolute poverty measure). In 1994/95, when contemporary median income for a couple with no children was £277 per week in 2010/11-equivalent money values, 40 per cent of pensioners fell below the 70 per cent threshold.

By 2010/11, when equivalised contemporary median income AHC was £359 per week, this proportion had fallen to 24 per cent. In 1994/95, 28 per cent of pensioners fell below the 60 per cent threshold; by 2010/11 this had fallen to 14 per cent. The proportion of pensioner households falling below 50 per cent of contemporary median income has varied between 8 and 13 per cent since 1994/95.

For the HBAI absolute poverty measure in 2010/11, where current incomes are compared against inflation adjusted median income values in 1998/99, 14 per cent of pensioners fell below the 70 per cent threshold, 9 per cent of pensioners fell below the 60 per cent median income threshold and 5 per cent fell below the 50 per cent threshold. The proportion of pensioners falling below the 50 per cent absolute poverty income threshold has varied between 8 and 5 per cent since 2000/01.

Figure 13.15: Percentage of pensioners falling below thresholds of equivalised contemporary median household income (AHC)

Great Britain/United Kingdom



Source: Department for Work and Pensions

Notes:

1. Pensioners are defined as individuals above State Pension Age (SPA) at the time of the interview. At the time that the data was collected the SPA for women was between 60 and 61. However, for men it was 65. Results for couples exclude partners of working age

2. Data are for Great Britain until 1997/98 and the United Kingdom thereafter

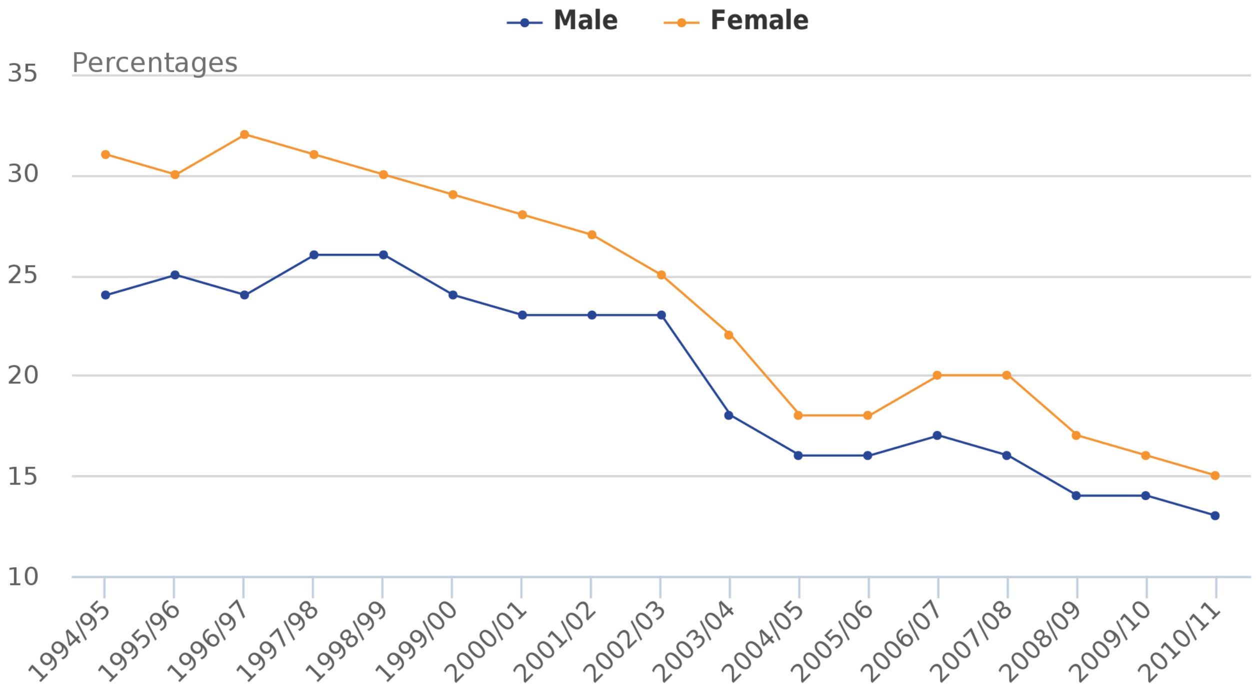
Returning to the AHC meaure, in 2006/07, there was an increase in the proportion of pensioner households falling below all three thresholds (50, 60 and 70 per cent). However, this increase has been reversed since 2007/08.

The most commonly used proportion of contemporary median household income AHC is 60 per cent. In 2010/11, an estimated 1.7 million pensioners in the UK were living on less than 60 per cent of equivalised contemporary median income AHC, compared with 2.8 million in 1999/2000.

Figure 13.16 shows that a larger proportion of female pensioners than male pensioners live in households with incomes below 60 per cent of contemporary median income. However, the gap has narrowed since 1994/95, when 31 per cent of female pensioners and 24 per cent of male pensioners were living in households with less than 60 per cent of contemporary median income. In 2010/11, these proportions had fallen to 15 per cent and 13 per cent respectively.

Figure 13.16: Percentage of pensioners living in households with less than 60 per cent of equivalised contemporary median household income (AHC): by sex

Great Britain/United Kingdom



Source: Department for Work and Pensions

Notes:

1. Pensioners are defined as individuals above State Pension Age (SPA) at the time of the interview. At the time that the data was collected the SPA for women was between 60 and 61. However, for men it was 65. Results for couples exclude partners of working age

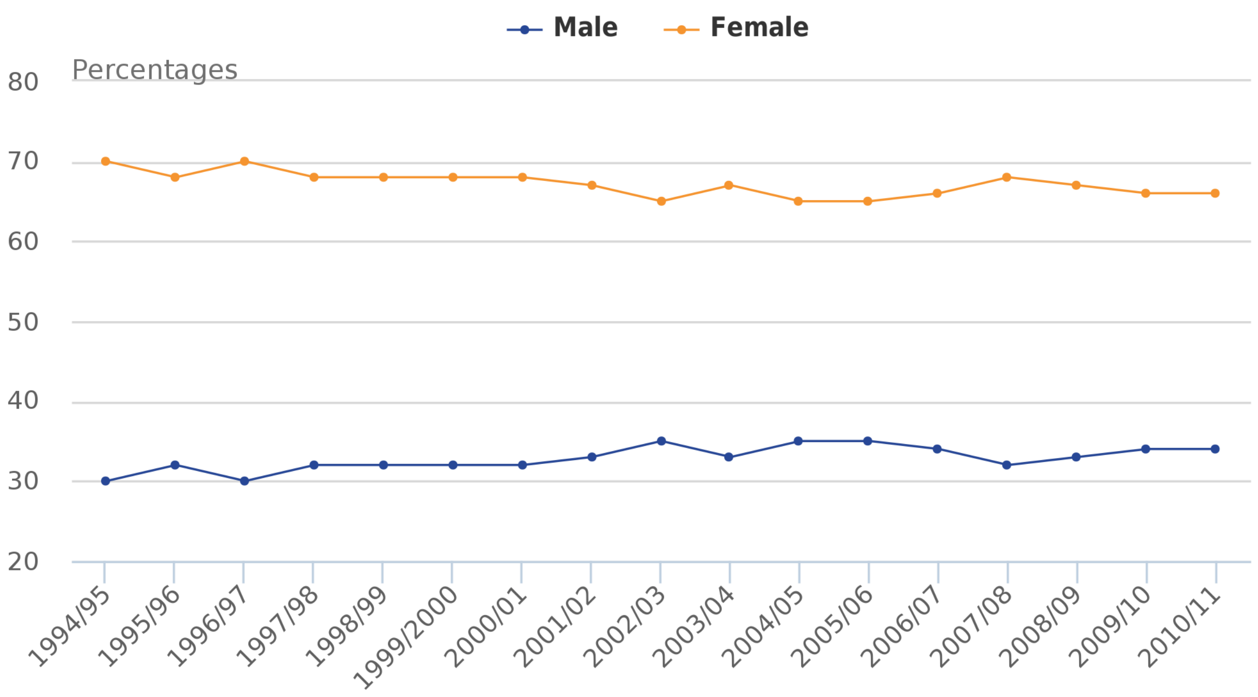
2. Data are for Great Britain until 1997/98 and the United Kingdom thereafter

Figure 13.17 shows what proportion of the total pensioner population living in households with less than 60 per cent of contemporary median household income (AHC) are men, and what proportion are women. Despite a slight reduction since 1994/95, over two-thirds of pensioners living in relative poverty are still women. This is partly because there are more female than male pensioners in the pensioner population as a whole, and partly because of the low income levels of many women pensioners.

The low income levels of women pensioners reflect the gender pay gap during people's working lives as well as interrupted working histories due to caring responsibilities, which impair the ability of women to save for retirement though the pension system. In addition, many older women pensioners are widows, and the level of occupational pension received by a widow is generally only half the level of the pension received by the couple when the man was alive.

Figure 13.17: Male and female pensioners living in households with less than 60 per cent of equivalised contemporary median household income (AHC)

Great Britain/United Kingdom



Source: Department for Work and Pensions

Notes:

1. Pensioners are defined as individuals above SPA at the time of the interview. At the time that the data was collected the SPA for women was between 60 and 61. However, for men it was 65. Results for couples exclude partners of working age

2. Data are for Great Britain until 1997/98 and the United Kingdom thereafter

6 . Alternative measures of poverty : measuring pensioners' poverty

The measure of poverty discussed in the previous section was a relative measure. This section discusses two different measures which could be used for measuring pensioner poverty in the UK. The first is the Standard Minimum Guarantee associated with the 'guarantee credit' element of Pension Credit, which is designed to provide a minimum acceptable level of income for pensioners (see Pension Trends Chapter 5).

The standard guarantee credit level is set by Parliament, and in 2011/12 was £137.35 per week for a single person and £209.70 per week for a couple (two people living together). This is set to rise to £142.70 and £217.90 respectively in 2012/13. In addition to the standard amount, carers and disabled pensioners may receive additional supplements.

A similar measure has been developed by the Centre for Research in Social Policy (CRSP) at Loughborough University and the Family Budget Unit (FBU) at the University of York. This is known as the Minimum Income

Standard (MIS) for Britain. It is based on public consultation and expert opinion. The MIS shows the cost of basic goods and services for different household types and is calculated by specifying baskets of goods and services required by different households in order to meet their needs and to participate in society.

The MIS claims to represent a level of income below which it is socially unacceptable for anyone to live. Almost all households officially defined as being in relative poverty, with incomes below 60 per cent of contemporary median income, are also below the MIS. In April 2012, the MIS for pensioner couples was £205.93 (AHC).

7 . Alternative measures of poverty : material deprivation

The measures of poverty discussed so far in this chapter are based on income. An alternative to this is to consider indicators of standards of living or material deprivation.

Material deprivation is calculated from the responses people give to interview questions about how accessible they find everyday necessities. Their responses are weighted by the prevalence of the item within the population so that the more commonplace an item is, the more deprived someone is who cannot afford it. A record of material deprivation for pensioners aged over 65 has been collected over the past two years within the Family Resources Survey (FRS) and this is published in the Households Below Average Income (HBAI) report.

The essential items queried in this survey include the ability of a person to socialise with friends or family, their ability to have one filling meal a day, their access to a car or taxi and whether or not they could afford an unexpected two hundred pound expense.

According to the 2010/11 HBAI report around 9 per cent of pensioners aged 65 or over were classified as being materially deprived (a 0.1 per cent drop since 2009/10). Generally, the bottom two income quintile groups gave more negative responses to the survey (AHC) than the top two and key findings of the 2010/11 results include:

- 51 per cent of pensioners within the bottom quintile group were not able to take a holiday away from home.
- 86 per cent of the bottom quintile group had regular access to a car or taxi. This is in contrast to 98 per cent in the fourth quintile.
- in the bottom two quintile groups 30 per cent and 29 per cent of pensioners respectively were not able to go out socially once a month. This compares with 24 per cent and 11 per cent in the top two quintiles.

The published results have also shown the importance of receiving payments from private pensions. In 2010, according to the FRS the proportion of the 26 per cent of pensioners who did not have a private pension and who were classified as materially deprived was around 60 per cent. This is in contrast to those who were receiving a private pension, where around 40 per cent were described as being materially deprived. However, care should be taken with these figures as the provision of a private pension is one factor out of the many that are required to determine the risk of being materially deprived.

8 . Alternative measures of poverty : expenditure

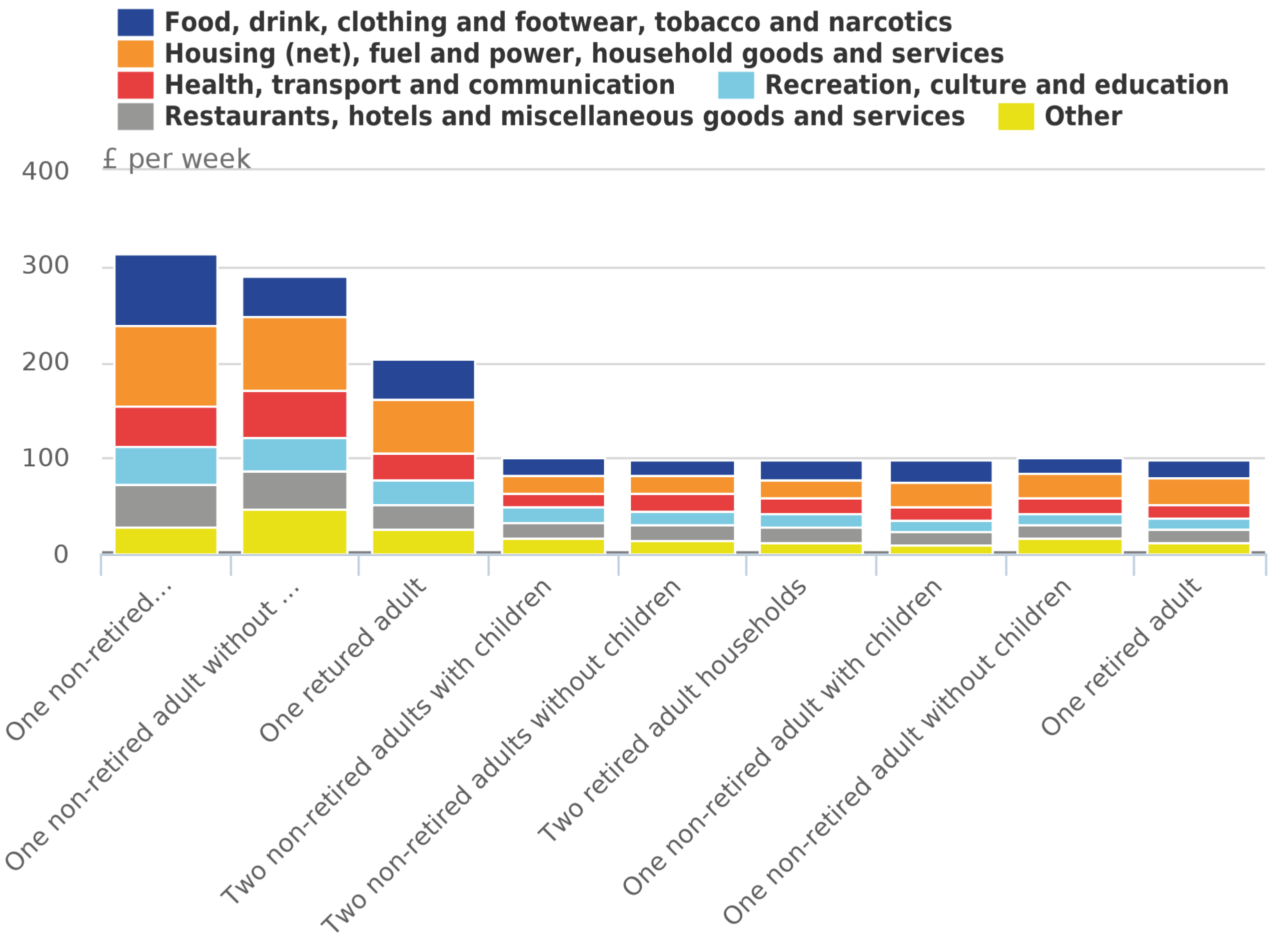
Standard poverty measures based on income, whether designed to measure relative or absolute poverty, ignore factors which may be associated with increased income needs (such as those of people living with health problems or disabilities). The final section of this chapter examines measures that consider households' expenditure needs.

Expenditure levels vary greatly between types of retired and non-retired household, according to results from the Office for National Statistics (ONS) Living Costs and Food Survey (Figure 13.18). Couples had higher average expenditure levels than single households in 2010. Non-retired households with two adults had the highest levels of expenditure, while single retired households had the lowest levels of expenditure. One- and two-adult retired households had around two-thirds of the expenditure levels of their non-retired counterparts without children.

The average proportion of total expenditure spent on different items also varies according to household type. In 2010, a larger proportion of the expenditure of one- and two-adult retired households was on net housing costs, fuel and power, and household goods and services than it was for one- and two- adult non-retired households (without children). For single retired households, expenditure on housing, fuel and power, and household goods and services made up over one-quarter of total expenditure, compared with nearly one-fifth for two-adult non-retired households with children (see also Pension Trends Chapter 11).

Figure 13.18: Expenditure of households: by type, 2010

United Kingdom



Source: Living Costs and Food Survey - Office for National Statistics

Notes:

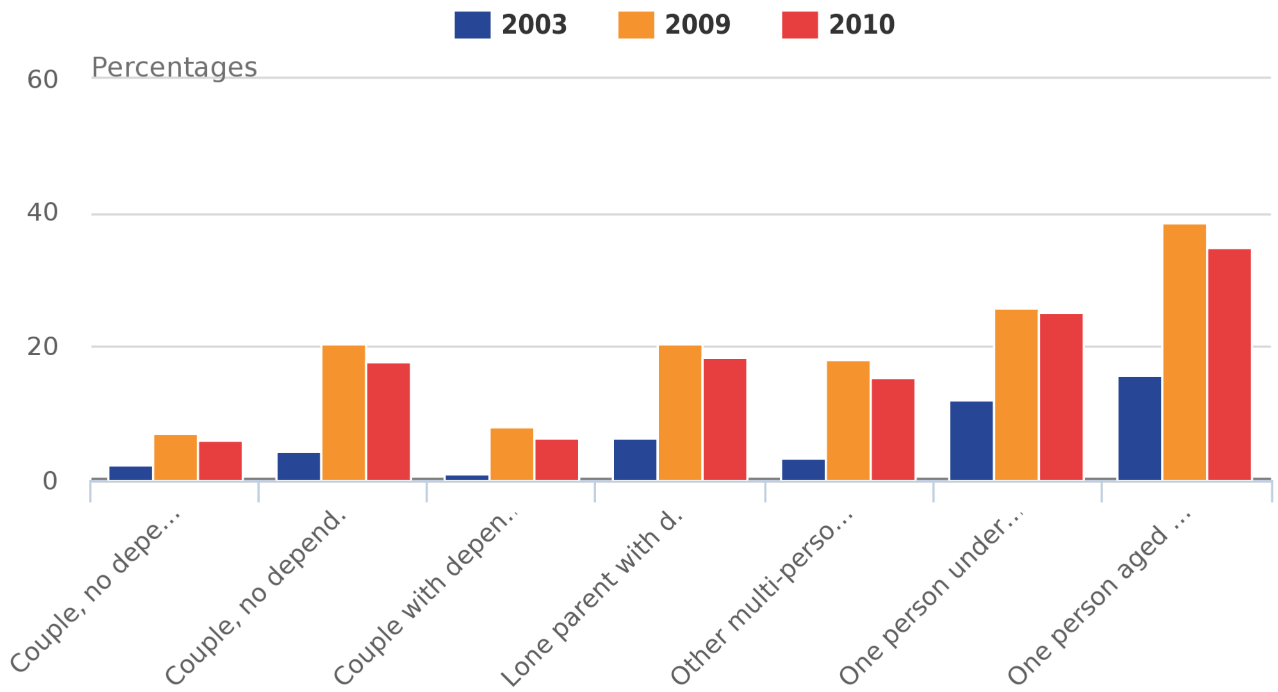
1. Retired households are those where the household reference person is retired. The household reference person is defined as retired if they are 65 years of age or more and male or 60 years of age or more and female, and economically inactive
2. Excluding mortgage interest payments, Council Tax and Northern Ireland rates
3. 'Other' expenditure includes mortgage interest payments, Council Tax, licences, fines, gifts and holidays

A related concept is that of ‘fuel poverty’. Households are considered to be in fuel poverty if they have to spend more than 10 per cent of their income on fuel to maintain a satisfactory level of heating (21 degrees Celsius for the main living area and 18 degrees Celsius for other occupied rooms). A report published by the Department of Energy and Climate Change in 2012 revealed that every year since 2003 there has been an increase in the number of pensioners falling into fuel poverty.

In 2003, there were 0.5 million pensioners said to be in fuel poverty and this increased to 1.1 million in 2010. However, current trends demonstrate that relative to 2009 the number of those classified as being in fuel poverty in 2010 has dropped for all categories including pensioners. The type of household most affected by fuel poverty was that of single people aged 60 or over where around 35 per cent of these households in England were in fuel poverty (Figure 13.19).

Figure 13.19: Proportion of households in fuel poverty: by type, 2003, 2009 and 2010

England



Source: Energy and Climate Change

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10. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

   These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.

Compendium

Chapter 14: Pensions and the National Accounts, 2013 edition

The Pension Trends series is being reviewed and is likely to be replaced. There are no plans to release Pension Trends chapters in future. There will be consultation on a new approach. These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.

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Next release:
To be announced

Notice

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This publication has been discontinued. The last edition to be published was 28 November 2014.

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