Office for National Statistics

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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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 Quartle	
	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

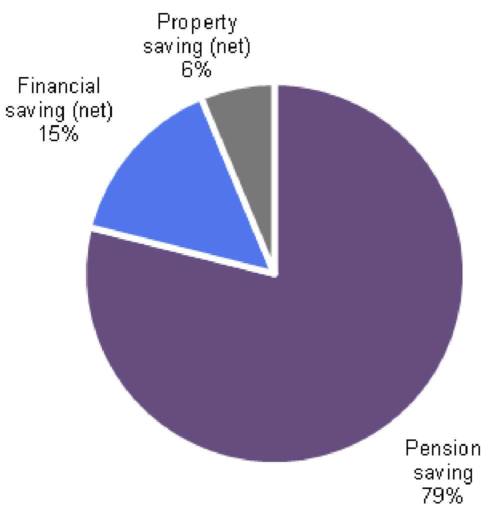
3. Property saving excludes the main residence

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:

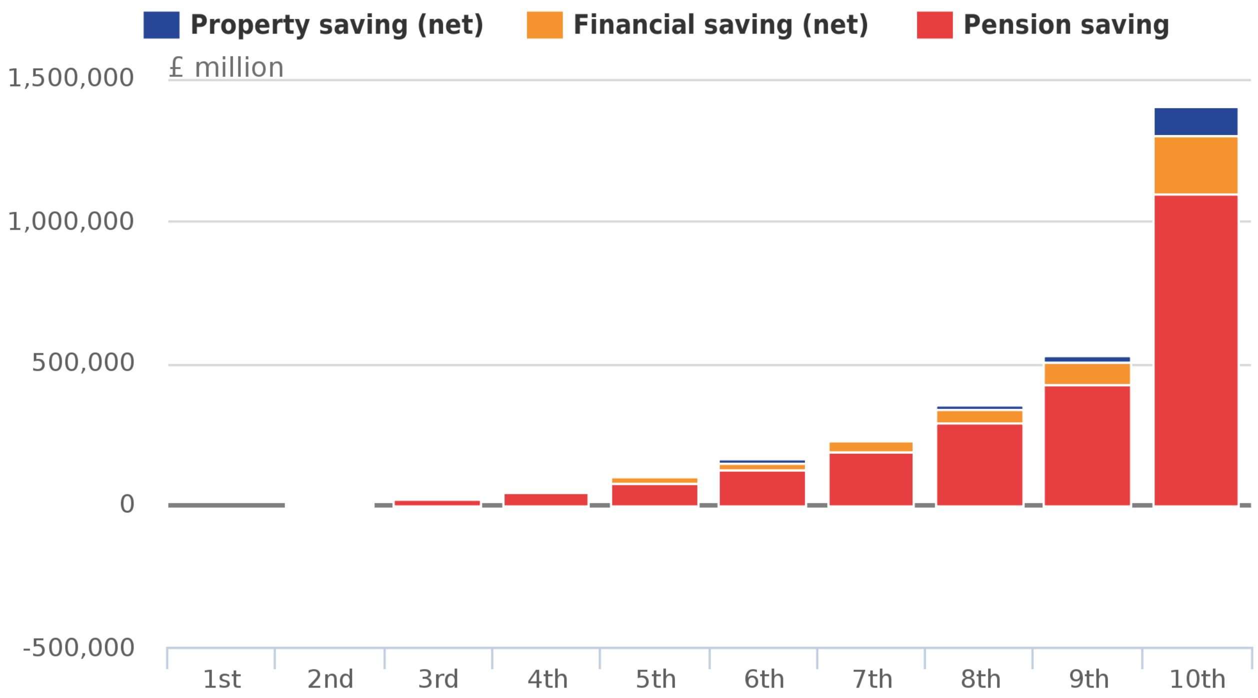
1. Pension saving excludes accrued rights to state pensions
2. Financial saving excludes childrens' assets and trust funds
3. Property saving excludes the main residence

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

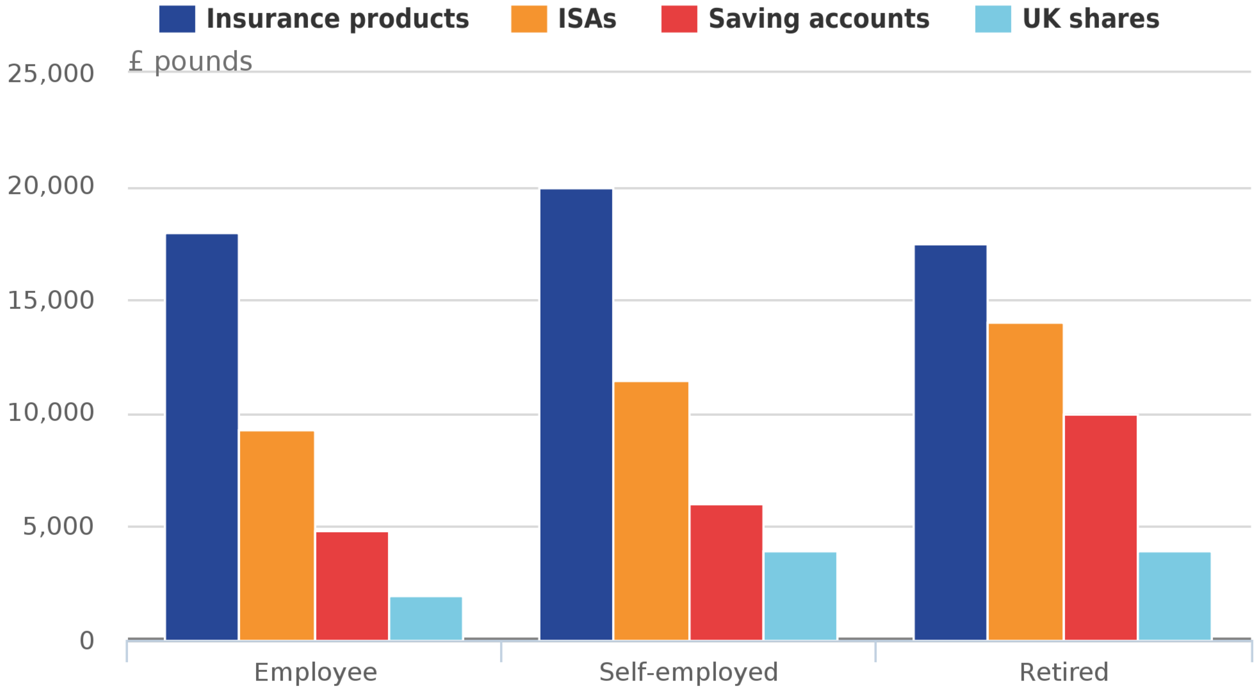
Source: Wealth and Assets Survey, Office for National Statistics

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].

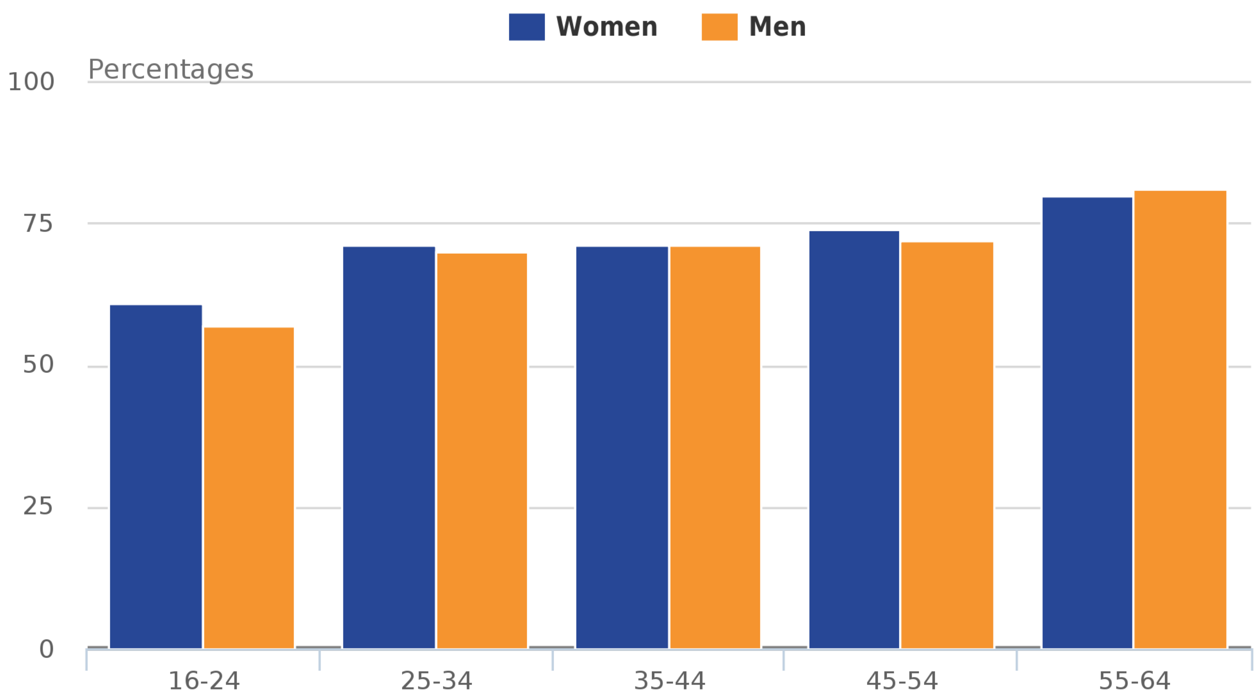
In the second wave of WAS these specific questions were not asked but a similar measure can still be derived. The level of agreement or disagreement with the three following statements was used to define a comparable 'saving orientation' measure:

- 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

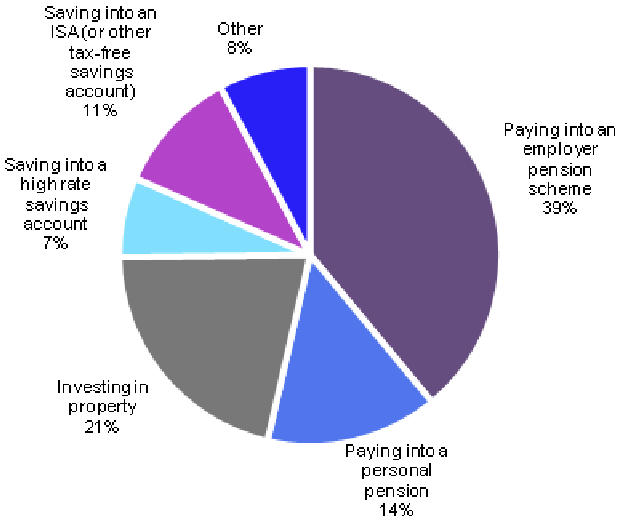
It can be seen from Figure 10.11 that the greatest difference between men and women was in the 16 to 24 age group. In this age group the proportion of women who can be said to have an orientation towards saving was three percentage points higher than men. After this age group, the difference between 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:

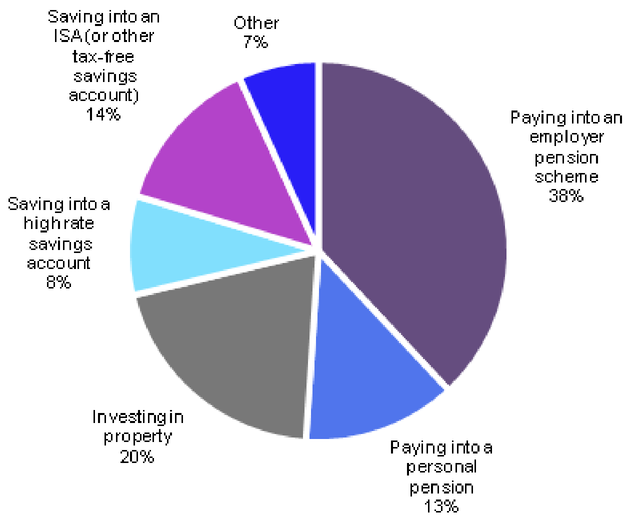
1. paying into an employer pension scheme;
2. paying into a personal pension scheme;
3. investing in the stock market by buying stocks or shares;
4. investing in property;
5. saving into a high rate savings account;
6. saving into an Individual Saving Account (ISA) (or other tax-free savings account);
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.

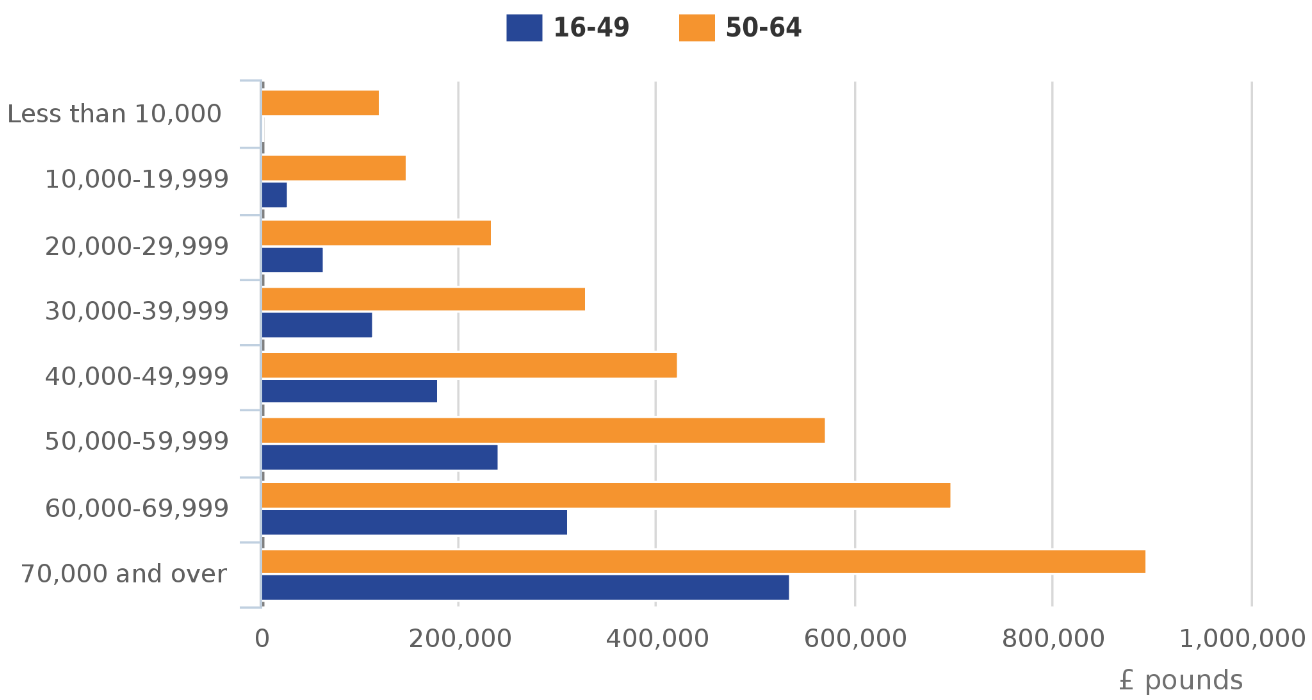
In the following analysis, households’ earned income is divided into eight bands, from less than £10,000 to £70,000 and over. The analysis is presented for households headed by people aged 16 to 49 and 50 to 64. Proportionally, households are distributed in a similar way between the income bands in both 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

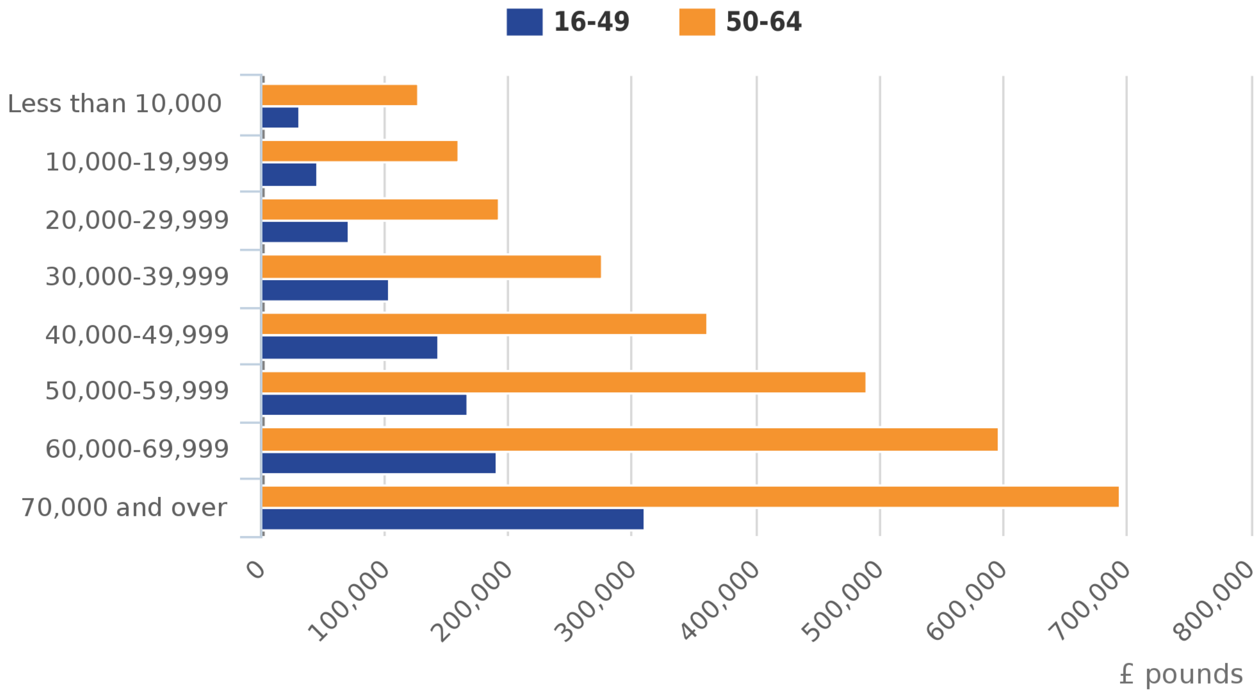
The difference in total saving shows younger people saving less than older people. Figure 10.13 shows that, taking the savings of the 16 to 49 age band as a percentage of the 50 to 64 age band, the gap in saving is greatest at low levels of income. From the £10,000-£19,999 earned income band upwards, 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.

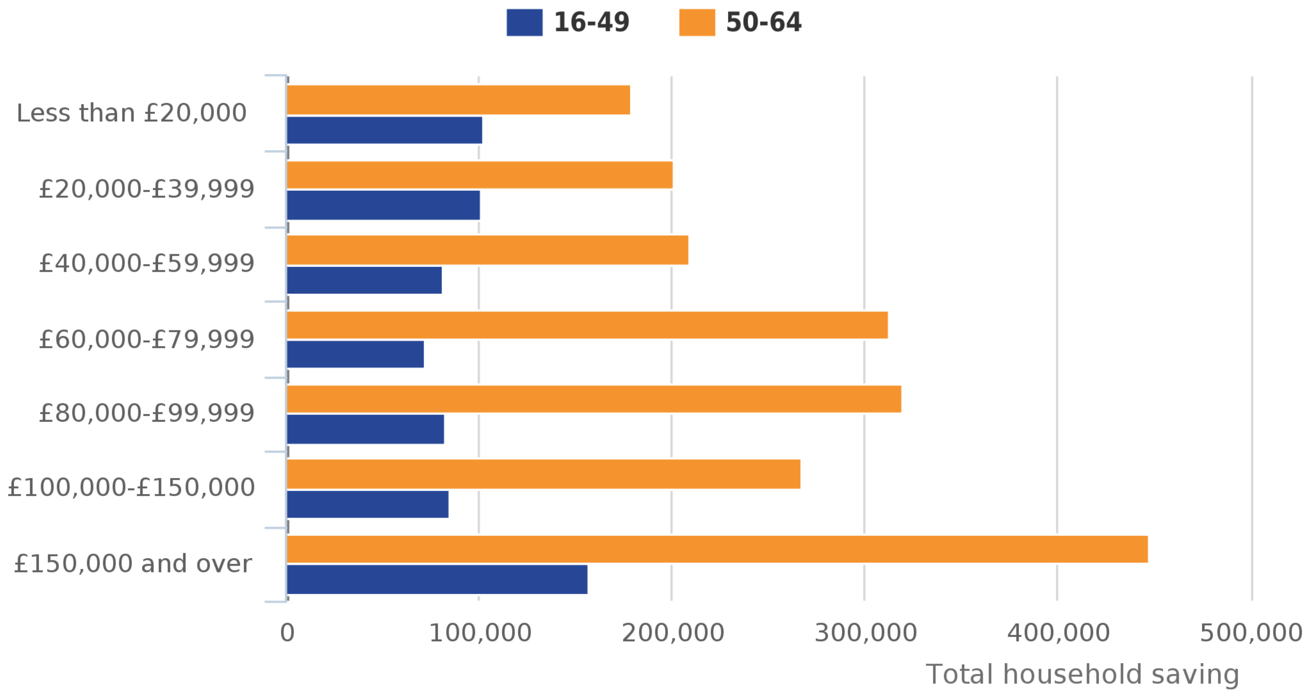
In 2008/10, 51% of households in the 50 to 64 age group had financial liabilities, compared with 69% in the 16 to 49 age group. This compares to 49% and 67% in the first wave of the Wealth and Assets Survey (WAS). In 2006/08, 40% of households in the 50 to 64 age group had outstanding mortgages, compared 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

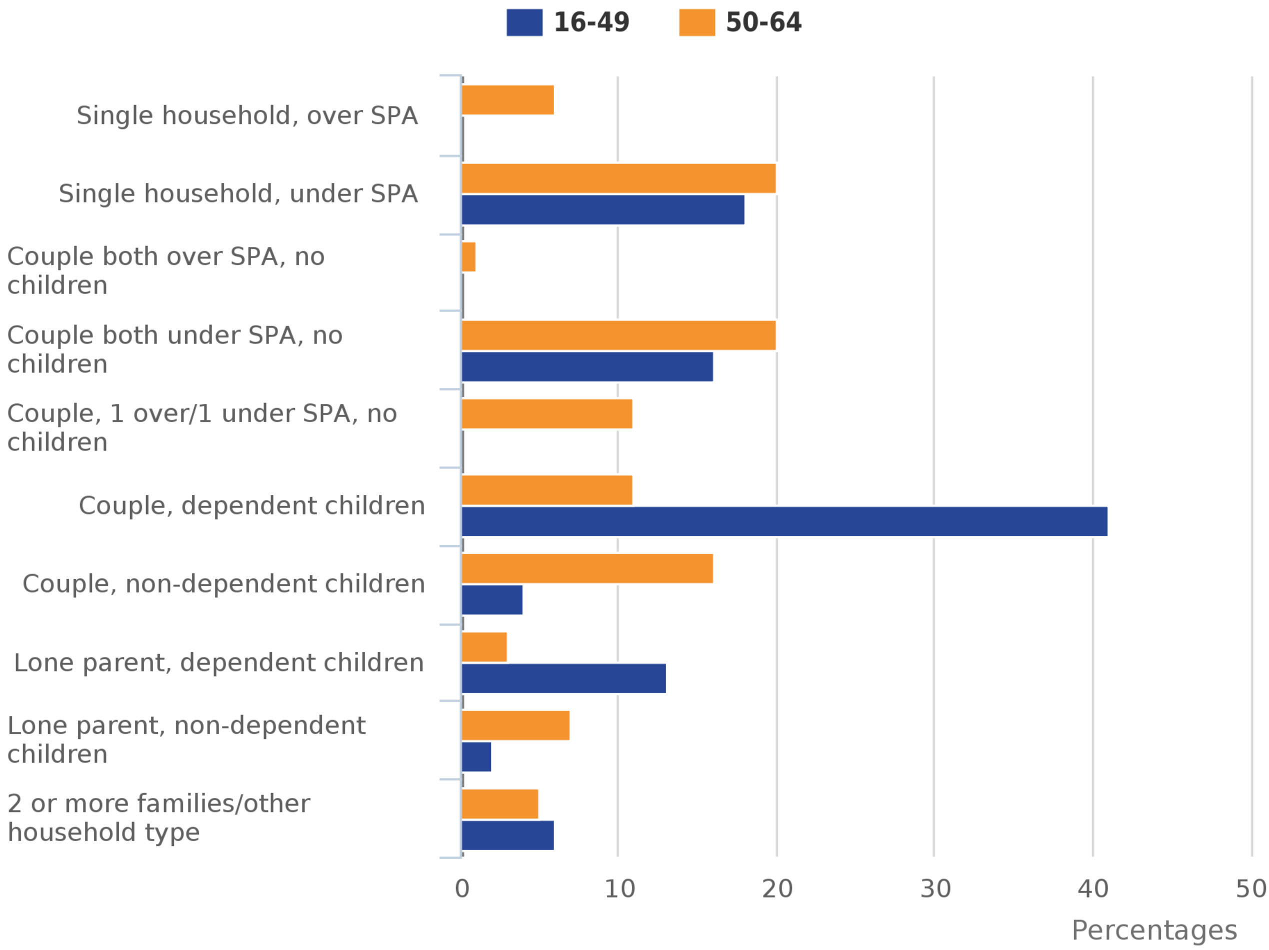
All information on wealth and saving within WAS 2006/08 and 2008/10 can be analysed at the household level. Some information can also be analysed at the individual level. However, property tends to be held jointly by members of a couple. Financial assets and pensions are more likely to be held in the 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.