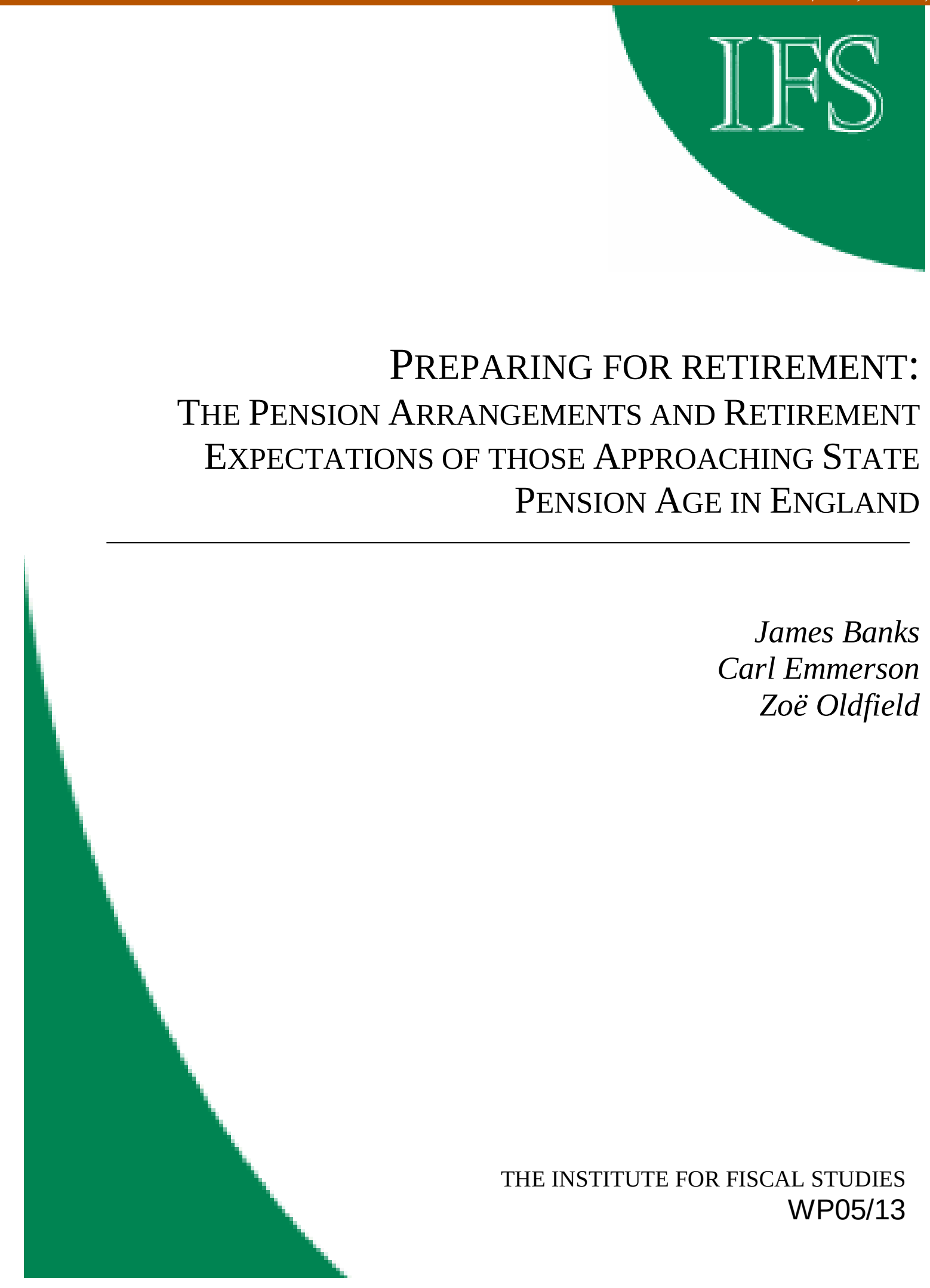

PREPARING FOR RETIREMENT:
THE PENSION ARRANGEMENTS AND RETIREMENT EXPECTATIONS OF THOSE APPROACHING STATE PENSION AGE IN ENGLAND

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THE INSTITUTE FOR FISCAL STUDIES
WP05/13

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July 2005

Abstract
This paper provides a detailed analysis of individuals in households in England aged between 50 and the State Pension Age in terms of their private pension arrangements and current non-pension assets alongside their expectations of future economic circumstances. Our descriptive findings include that members of defined benefit pensions have higher average levels of current earnings than members of defined contribution pensions and that median expected private pension income in retirement is highest for current members of defined benefit schemes. We find that on average those who have, or have had, a private pension have greater non-pension wealth than those who have never had a private pension. In terms of expectations of the future we find that it is those who have the fewest assets who have the least attachment to the labour market and are far less likely to expect any inheritance. Hence we conclude that inequalities in different dimensions of retirement resources tend to reinforce themselves as opposed to offset each other.

[1] **Acknowledgements:** we are grateful to the Pensions Commission for funding the calculation of many of the statistics in this paper and to members of the IFS Pensions and Retirement Saving Consortium for funding additional analysis and the writing up of this research, and also for providing comments at early stages. The Consortium comprises HM Treasury, Department for Work and Pensions, Inland Revenue, Bank of England, Investment Management Association, The Actuarial Profession and the Association of British Insurers. Responsibility for interpretation of the data, as well as for any errors, is the authors' alone.

1. Introduction

The adequacy of retirement saving has become a major policy issue around the world. But the history of reforms to public pensions in the United Kingdom has meant that the nature of the policy issues is slightly different from elsewhere. More specifically, reforms to public pensions have led to projections of costs that appear financially sustainable (at least in comparison to the systems of many other major economies) but this has come at the expense of three other important changes. First, as a result of indexation to prices, the universal flat rate (or 'first-tier') pension is set to become less generous relative to average earnings. Second, a large majority of individuals are now 'contracted out' of the state system as far as their earnings-related 'second-tier' arrangements are concerned. Third, state support for pensioners is increasingly through income-tested support rather than universal or contribution based payments (Disney and Emmerson, 2005).

Taken together this increased targeting of transfer payments from the state coupled with the increased importance of individual rather than state provision means that there will be a much greater role for private arrangements in determining incomes in retirement for future generations of retirees. In particular in 1998 the Government stated that while presently 40% of pension income came from private sources that it wanted to increase this to 60% by 2050 (Department of Social Security, 1998). (This target was repeated as recently as Autumn 2004, Department for Work and Pensions 2004). If private provision fails to provide 'adequate' resources then either there will be further costs to future taxpayers through additional welfare payments for future generations of pensioners, or else future generations of pensioners will have higher rates of poverty (and possibly inequality) than their predecessors.

As a result of these institutional considerations, recent policy debate in the United Kingdom has rightly begun to focus on the private pensions and savings arrangements of the young and the middle aged, whilst also recognising that longer working lives could also provide a margin by which such individuals could provide higher retirement incomes for themselves (see Department for Work and Pensions (2002) or Pension Commission (2004) for recent examples). Yet, it is only recently that data are becoming available with which policy makers and researchers can study these issues. Data from the 1995 and 2000 British Household Panel Study contain some summary information on financial wealth, but little information on pension wealth (see Banks, Smith and Wakefield (2002) for an analysis). The British Retirement Survey which did collect some information on both wealth and pensions is now somewhat out of date since data was collected in 1988/89 and 1994 only. Finally, the Family Resources Survey only collects details of wealth for a relatively small subset of the wealth distribution and has only limited detail on pensions that are not yet in receipt. None of these are ideal for discussing the policy questions raised above.

In this paper we provide evidence relating to these issues for the generations of individuals currently approaching their retirement, more specifically those aged between 50 and the State Pension Age. As a result of our focus on this age group we will be able to utilise new data from the first wave of the English Longitudinal Study of Ageing (ELSA), which was collected between March 2002 and March 2003. In addition to information in many domains, such as health, functioning and social participation, this study contains detailed measurements of all forms of wealth along with details of individual employment and pension arrangements. Previously published data from ELSA has documented the distribution of financial wealth and income in those aged fifty and over (Banks, Karlsen and Oldfield (2004)) and also looked at the nature of employment arrangements (along with summary private pension details) in this age group (Banks and Casanova (2004)). In this paper we provide a considerably more detailed analysis of private pension arrangements and expectations of private pension incomes, and relate both of these to holdings of other private savings vehicles.

The age group on which we focus in this paper is one of particular policy interest. Whilst it is true that, for long run policy issues, it is the youngest generations who will need to adjust their behaviour the most, we currently do not have good data on wealth, savings and pensions for this group. In addition one could argue that for the youngest groups there is still a long horizon over which both behaviour, and pension policy, could change. As such, it takes a very long run view to see these policy issues as immediately the most pressing. On the other hand, the age group we consider here will be the group that reaches the State Pension Age over the next fifteen years. They are also those that are currently at the stage of the life-cycle where we might expect retirement saving to be most important, and hence where we might expect to see the most informative relationships between pensions and other wealth accumulation in the form of private saving. Additionally, it is in this group where retirement expectations are likely to be most well formed, so the correspondence between circumstances and expectations is one of genuine interest for policy makers.

Those already over State Pension Age are an important group for the analysis of poverty and inequality in retirement and they are included in the ELSA sample. However, their wealth accumulation and retirement decisions are (at least to a large extent) already taken and hence policy towards these groups needs to be thought of in the context of redistribution in the population more generally as opposed to in the context of saving and pension policy reform. The savings, pensions and retirement decisions of these age groups were also taken in a very different institutional environment to that which is forecast to prevail in the future, and as a

result descriptive evidence for these groups is not particularly informative for thinking about outcomes for future generations of pensioners.[2]

In what follows we begin by discussing the nature of private pension arrangements in some detail for our sample. This is the first up to date analysis, at the individual level, of the coverage and nature of private pensions and of how this varies in different subgroups of the working age population aged 50 and over. In Section 3 we go on to discuss the distribution of financial wealth in other forms and analyse the relationship between these levels of private saving and other factors, focusing in particular on the private pension arrangements we derived in the previous section. Section 4 provides evidence on how these private pensions and other private savings feed through to, and correlate with, individual expectations for various aspects of retirement. In particular we focus on the probability of employment at older ages and the chances that financial resources will be inadequate. We also relate these factors to individuals expectations of receiving inheritances at some point in the future. Finally, in Section 5 we discuss the results more generally and provide some conclusions.

2. Private pension arrangements

In this section we provide more detail on the characteristics of individuals private pension schemes. We start in section 2.1 by documenting the prevalence of different types of *current* private pension arrangement among those in paid employment aged between 50 and the State Pension Age. Section 2.2 then turns to describing the key determinants of private pension wealth such as current fund value for those with *current* defined contribution pension schemes and years of service and accrual rates for those with *current* private pension schemes that operate on a defined benefit basis. Section 2.3 then turns to examining the extent to which individuals hold *past* private pensions.

Since the analysis of *current* private pension coverage will focus on those who are in paid work Table 2.1 shows the percentage of individuals who are in paid work, by age and family type. On average slightly fewer than seven out of ten individuals aged between 50 and the State Pension Age are in paid work (69.4%). Unsurprisingly, younger individuals within this age group are more likely to be in paid work than those aged nearer to the State Pension Age. Within each age band men are more likely to be in paid work than women (for example 83.3% compared to 75.9% among those aged 50 to 54). Despite this, again within each age band, single men are found to be less likely to be in paid work than single women. Those in

[2] Data on older pensioners can, of course, usefully be used to estimate models capturing the response of some particular behaviour to a set of constraints or incentives. Under the assumption that behaviour is comparable across cohorts, such behavioural models can then be used to analyse how future cohorts might respond to the (different) constraints and incentives that will be faced as they age.

couples are found to be more likely to be in paid work than single individuals with the percentage of women in couples in paid work actually higher than the percentage of single men (or for that matter single women) who are in paid work.

Table 2.1. Percentage in paid work, by family type and age, those under the State Pension Age only.

	50-54	55-59	60-64	All	*Unweighted N*
Single – men	66.9	55.6	39.8	55.0	*466*
Single – women	70.8	59.9	N/a	65.8	*525*
Couples – men	86.8	77.0	50.5	73.2	*2,205*
Couples – women	77.5	61.4	N/a	69.7	*1,667*
Totals:					
All singles	69.2	57.9	39.8	60.0	*991*
All couples	82.3	69.3	50.5	71.8	*3,872*
All men	83.3	72.9	48.4	69.9	*2,671*
All women	75.9	61.1	N/a	68.8	*2,192*
All	79.6	67.0	48.4	69.4	*4,863*

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

2.1 Current private pension coverage

The percentage of individuals in paid work and aged between 50 and the State Pension Age who are currently members of a private pension scheme is shown in Table 2.2. Private pension coverage is high with nearly seven out of ten currently a member of a scheme (69.1%). Coverage among men is higher than coverage among women (73.6% compared to 62.9%). Coverage is also higher among those in couples than single individuals, though looking separately at women in couples, they are found to have levels of coverage similar to single individuals. Also reported in Table 2.2 is the type of scheme of which individuals are members. Much of the existing evidence from microdata is only able to distinguish between membership of an employer's pension scheme and membership of an independent arrangement. ELSA also provides information on whether the scheme operates on a defined benefit or a defined contribution basis, which is of interest as in practice it is likely to affect both the risks and the financial incentives faced by individuals. While employer provided defined benefit schemes are found to be more common than either employer provided defined contribution or independent defined contribution schemes (30.7% compared to 13.9% and 20.3% of those in paid work respectively, with (just) a further 4.2% not knowing what type of scheme they are a member of) the data suggests that more individuals are members of defined contribution schemes (i.e. either employer provided or individually arranged) than defined benefit schemes.

Coverage of employer DC schemes in the ELSA sample seems high relative to, for example, that observed in the Department for Work and Pensions 2nd Tier Pension Provision statistics.[3] This suggests that some individuals might be misclassifying a Stakeholder Pension or a Group Personal Pension as an employer provided defined contribution scheme (perhaps unsurprisingly given the similarity of these schemes). For the purposes of estimating private pension wealth, or thinking about the risks formally borne by employees who are in different types of schemes, this mis-classification would not matter – what matters is that individuals correctly identify whether or not they are in a defined benefit scheme or a defined contribution scheme (whatever the type). The other main fact to note from Table 2.2 is that women are actually more likely to be a member of a defined benefit pension scheme despite their lower overall likelihood of being in any current private pension, presumably because women are more likely to work in the public sector where defined benefit schemes are relatively more common – for example in the Department for Work and Pensions 2nd Tier Pension Provision statistics there are 50% more women aged 50–59 who are a member of a public sector contracted out defined benefit pension scheme than there are men aged 50–59.[4]

[3] See Table 4.1 of http://www.dwp.gov.uk/asd/asd1/dsu/second_tier/second_tier.asp

[4] See Tables 4.2 and 4.3 of http://www.dwp.gov.uk/asd/asd1/dsu/second_tier/second_tier.asp

Table 2.2. Current private pension coverage and pension type, by family type, those aged 50 to the State Pension Age in paid work only.

	% with private pension	% with employer DB	% with employer DC	% with individual DC	% don't know	*Unweighted N*
Single – men	64.3	23.1	15.4	21.6	4.2	*254*
	(3.0)	*(2.7)*	*(2.3)*	*(2.6)*	*(1.3)*	
Single – women	63.6	30.5	13.7	12.1	7.3	*342*
	(2.6)	*(2.5)*	*(1.9)*	*(1.8)*	*(1.4)*	
Couples – men	75.1	30.5	16.0	26.4	2.2	*1,593*
	(1.1)	*(1.2)*	*(0.9)*	*(1.1)*	*(0.4)*	
Couples – women	62.8	33.0	10.5	12.9	6.4	*1,142*
	(*1.4)*	*(1.4)*	*(0.9)*	*(1.0)*	*(0.7)*	
Totals:						
All singles	*64.0*	*26.9*	*14.6*	*16.7*	*5.8*	*596*
	(2.0)	*(1.8)*	*(1.4)*	*(1.5)*	*(1.0)*	
All couples	*70.2*	*31.5*	*13.8*	*21.0*	*3.9*	*2,735*
	(0.9)	*(0.9)*	*(0.7)*	*(0.8)*	*(0.4)*	
All men	*73.6*	*29.4*	*15.9*	*25.7*	*2.5*	*1,847*
	(1.0)	*(1.1)*	*(0.9)*	*(1.0)*	*(0.4)*	
All women	*62.9*	*32.5*	*11.2*	*12.7*	*6.6*	*1,484*
	(1.3)	*(1.2)*	*(0.8)*	*(0.9)*	*(0.6)*	
All	*69.1*	*30.7*	*13.9*	*20.3*	*4.2*	*3,331*
	(0.8)	*(0.8)*	*(0.6)*	*(0.7)*	*(0.3)*	

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work. Sum of percentage with different types of private pension scheme does not always equal the percentage with a private pension due to rounding. Standard errors in parenthesis.

The breakdown of current private pension status by current (equivalised) family income is shown in Table 2.3. This gives coverage by income quintiles estimated across those aged 50 to the State Pension Age who are in paid work. Private pension coverage is positively correlated with current income, although two-thirds of those in the 2nd poorest quintile, and over half of those in the poorest quintile, are currently members of a private pension scheme. Relative to those on lower incomes, those with higher incomes are found to be much more likely to be a member of a defined benefit pension scheme rather than a defined contribution pension scheme. Membership of individual defined contribution pension arrangements is found relatively flat across the income distribution (it is highest among those in the middle income quintile with nearly one in four of this group a member of such a scheme (23.2%)). This relatively flat profile of coverage is similar to that seen in the British Household Panel Survey across the whole population.[5]

[5] See figure 5.2 of Banks, Blundell, Disney and Emmerson (2002).

Table 2.3. Current private pension coverage and pension type, by quintile of family income, those aged 50 to the State Pension Age in paid work only.

	% with private pension	% with employer DB	% with employer DC	% with individual DC	% don't know	*Unweighted N*
Poorest	53.3	17.1	12.1	19.8	4.4	*667*
	(1.9)	*(1.5)*	*(1.3)*	*(1.5)*	*(0.8)*	
Quintile 2	66.7	25.7	13.7	21.4	5.9	*666*
	(1.8)	*(1.7)*	*(1.3)*	*(1.6)*	*(0.9)*	
Quintile 3	73.9	30.2	15.2	23.2	5.2	*666*
	(1.7)	*(1.8)*	*(1.4)*	*(1.6)*	*(0.9)*	
Quintile 4	75.5	39.1	13.5	19.4	3.6	*666*
	(1.7)	*(1.9)*	*(1.3)*	*(1.5)*	*(0.7)*	
Richest	76.4	41.6	15.2	17.5	2.1	*666*
	(1.6)	*(1.9)*	*(1.4)*	*(1.5)*	*(0.6)*	
All	69.1	30.7	13.9	20.3	4.2	*3,331*
	(0.8)	*(0.8)*	*(0.6)*	*(0.7)*	*(0.3)*	

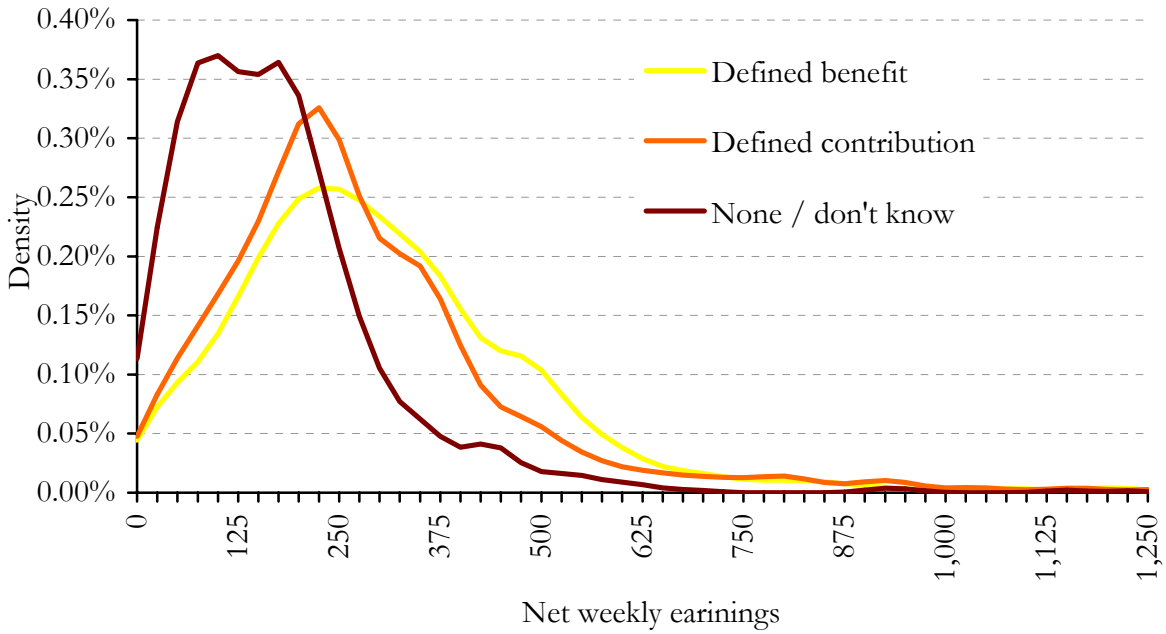
Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work. Sum of percentage with different types of private pension scheme does not always equal the percentage with a private pension due to rounding. Standard errors in parenthesis.

2.2. Current private pension characteristics

This section examines in more detail some of the key components of the determinants of private pension wealth. For those in defined benefit schemes their pension will primarily depend on years of service, the accrual rate in their scheme and a measure of earnings (typically final salary).[6] For those in defined contribution pension schemes it will depend on the current value of the fund, the size of contributions made to the fund between now and retirement, the rate of return on the investments held and the annuity rate at the time of decumulation. Figure 2.1 shows the (net) earnings distribution for those in a defined benefit pension scheme compared with that of those who are in a defined contribution pension scheme and those who are not currently a member of a private pension (and hence will have been covered by SERPS / State Second Pension unless they earn below the Lower Earnings Level). On average those in defined benefit pension schemes earn more than those in defined contribution schemes who in turn on average earn more than those who are not currently a member of a private pension scheme.

[6] It will also depend on how the scheme is indexed once in payment and also whether or not the scheme is integrated, and if so with what.

Figure 2.1 Current pension type by individual earnings



The distribution of current pension tenures for those in defined benefit pension schemes is shown in Table 2.4, again presented alongside the distributions of pension tenures for those in other types of private pension arrangement. On average those in (employer provided) defined benefit pension schemes have been in those schemes longer than those in employer provided defined contribution schemes or individually provided defined contribution pension schemes. This is to be expected given the backloaded nature of pension accrual in final salary pension schemes which are the most common forms of defined benefit pension schemes in the UK.[7] Pension tenures in defined contribution schemes are also typically quite high given that personal pensions were only introduced in 1988 (i.e. 14 years before 2002). Over one in four of those currently in employer provided defined contribution schemes have managed 14 years of membership or more, while more than one in four of those in individually arranged defined contribution schemes have managed 20 years. This suggests that either there is over reporting of pension tenures by some respondents, or alternatively that some individuals are still members of pre-1988 defined contribution arrangements such as section 226 plans for the self-employed. Alternatively individuals might have changed plans (and possibly, but not necessarily, provider) and transferred their funds but are reporting that the scheme started at the date at the beginning of the first contract.

[7] Disney and Emmerson (2002) show that those who choose not to join an employers (typically DB) pension scheme are subsequently more likely to move job than those who do join.

Table 2.4. Distribution of current pension years, by current pension type, those in paid work aged 50 to the State Pension Age only.

	25th percentile	Median	75th percentile	Mean	*Unweighted N*
Employer DB	7	17	27	17	*1,012*
Employer DC	2	5	14	9	*459*
Independent DC	10	15	20	14	*655*
Don't know	2	6	12	9	*132*
No current private pension	0	0	0	0	*1,042*
All DC	5	12	18	13	*1,076*
All > 0	6	13	21	15	*2,187*

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

While only relatively small proportions of individuals respond that they do not know their current pension type or their current pension tenure over half of those in defined benefit schemes report that they do not know the accrual rate in their current scheme. This is shown in Table 2.5. Among those who do report an accrual rate just under two-thirds (63.7%) respond that the rate is 1/80th, just over one-third (34.3%) respond that it is one-sixtieth with the remaining 2.0% reporting a different fraction.

Table 2.5. Defined benefit pension accrual rate, those in paid work aged 50 to the State Pension Age with a defined benefit pension only.

	All with current DB pension	All with current DB pension who know fraction
Don't know	51.5	N/a
One eightieth	30.9	63.7
One sixtieth	16.7	34.3
Other	1.0	2.0
All	*100.0*	*100.0*
Unweighted N	*1,019*	*497*

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

Obtaining the current value of defined contribution pension schemes is a simpler task as it is possible to simply ask the respondent for the valuation from their last statement. The distribution of current defined contribution pension fund value is shown by current pension type in table 2.6. Among those in a defined contribution pension scheme median fund value is £16,250. However the distribution is considerably skewed with some very large values – hence the mean fund value is much higher at £35,535. On average the fund value of individually arranged defined contribution schemes is found to be higher than employer

provided defined contribution schemes, which is perhaps not surprising given that, as was shown in table 2.4, on average individuals report that they have been members of those arrangements for much longer. (Some individuals with current DB pensions also report having some DC pension wealth as ELSA respondents are asked about two current pensions. Those making Additional Voluntary Contributions (AVCs) or Free Standing Additional Voluntary Contributions (FSAVCS) would have a current DB scheme and some current DC pension wealth).

Table 2.6. Distribution of current DC fund value, by current pension type, those in paid work aged 50 to the State Pension Age only.

	25th percentile	Median	75th percentile	Mean	*Unweighted N*
Independent DC	6,199	16,250	48,500	38,591	*558*
Employer DC	4,326	15,631	39,000	33,445	*376*
Employer DB	0	0	0	1,493	*1,009*
Don't know	0	0	0	604	*141*
No current private pension	0	0	0	0	*1,042*
All DC	5,000	16,250	40,000	35,535	*934*
All > 0	5,000	16,250	38,449	36,014	*992*

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

2.3. Previous private pensions

It is not just current pension scheme membership but also membership of previous private pension schemes that will determine an individuals private pension income. Table 2.7 shows the number of private pension arrangements that individuals aged between 50 and the State Pension Age report having, split by whether or not they are currently a member of a private pension scheme. The ELSA questionnaire asks for details of up to three past private pensions. Individuals who have more than three are asked to report the three "most important" ones, defined in terms of their overall value, but it is still reassuring to see that only relatively small numbers of individuals report that they have more than 3 past private pension arrangements.

Table 2.7. Number of previous private pensions, by whether or not currently in paid work aged 50 to the State Pension Age only.

	In current employment			Not in current employment			All
	No current pension	Has current pension	All	No current pension	Has current pension	All	
Don't know	0.4	0.1	0.2	0.2	0.0	0.2	0.2
None	43.9	63.0	57.1	40.7	61.5	42.5	52.7
1	40.6	25.2	30.0	45.8	25.9	44.1	34.3
2	10.9	7.5	8.5	9.6	9.9	9.7	8.9
3	3.4	2.9	3.0	2.8	1.3	2.7	2.9
4	0.7	1.0	1.0	0.7	0.0	0.6	0.8
5 or more	0.2	0.2	0.2	0.2	1.3	0.3	0.3
Unweighted N	*1,042*	*2,289*	*3,331*	*1,399*	*133*	*1,532*	*4,863*

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work. Columns may not sum to 100 due to rounding.

2.4. Expectations of private pension income

The first wave of ELSA also contains information on individuals' self-reported expectation of private pension income in retirement, from pensions not already been received.[8] In total, just over half of ELSA respondents aged between 50 and the State Pension Age report that they expect to receive some private pension income in retirement (52%). Median expected income is just £500 a year, while mean expected income is much higher at £5,822 a year. Across just those who expect to receive some private pension income, median expected private pension income is £5,375 and mean expected private pension income is £10,912. Table 2.8 shows how this varies by current pension type. At the median those in employer defined benefit pension schemes report the highest level of expected private pension income, followed by those in employer defined contribution pension schemes and then those in independent defined contribution schemes.

[8] The second wave of ELSA contains a question on individual's expected state pension income.

Table 2.8. Distribution of expected future individual private pension income, by current pension type, those in paid work aged 50 to the State Pension Age only.

	25th percentile	Median	75th percentile	Mean	*Unweighted N*
Those currently in paid work	0	2,500	10,000	8,055	*2,814*
Of which:					
Independent DC	2,496	5,000	12,500	12,140	*513*
Employer DC	2,725	8,000	12,500	13,061	*365*
Employer DB	3,100	9,259	16,625	12,619	*804*
Don't know	0	0	1,250	1,208	*137*
No current private pension	0	0	0	1,163	*995*

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

To give a better indication of individuals' likely private pension income in retirement table 2.9 presents information on the sum of the amount of current private pension income being received and the amount of additional private pension income that an individual expects to receive in retirement. This is split by both by current employment status and whether or not they are currently receiving any private pension income. Among those who are not in paid employment and already in receipt of a private pension total expected private pension income in retirement is, at the median, £8,422 a year which is higher than the median across all of those currently in paid employment (£5,000). In contrast those who are not in paid employment and not yet in receipt of a private pension tend, on average, to expect to receive very little private pension income in retirement with the person at the 75th percentile expecting to receive just £300 a year.

Table 2.9. Distribution of expected individual private pension income, by whether in paid work and whether already receiving private pension income, those aged 50 to the State Pension Age only.

	25th percentile	Median	75th percentile	Mean	*Unweighted N*
Those currently in paid work	500	5,000	12,102	9,419	*2,814*
Of which:					
Already receiving private pension	5,164	9,607	15,396	11,869	*420*
Not yet receiving private pension	0	3,750	10,950	9,000	*2,394*
Those not currently in paid work	0	960	7,698	5,398	*1,479*
Of which:					
Already receiving private pension	3,987	8,422	13,857	11,062	*577*
Not yet receiving private pension	0	0	300	1,833	*902*
All	0	3,230	10,625	8,072	*4,293*
Of which:					
Already receiving private pension	4,359	9,069	14,817	11,408	*997*
Not yet receiving private pension	0	1,400	8,750	7,095	*3,296*

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

A better idea of an individual's expected living standard in retirement might be provided by looking at the total expected private pension income at the family level (including both private pensions already in receipt and expected additional private pension income in retirement) and using a simple equivalence scale (in this case 1 for a single person and 1.5 for a couple). Table 2.10 presents the distribution of expected family private pension income in retirement by quintile of current family income. Median expected private pension income is £5,833 while mean expected private pension income is £8,946. Unsurprisingly those higher up the current income distribution report higher average expected private pension income. For example median expected family private pension income is £950 in the lowest current income

quintile, £3,018 in the 2nd income quintile, £5,832 in the middle quintile, £9,168 in the 2nd highest income quintile and £13,750 in the highest income quintile.

Table 2.10. Distribution of equivalised expected family private pension income, by current income quintile, those aged 50 to the State Pension Age only.

	25th percentile	Median	75th percentile	Mean	*Unweighted N*
Poorest	0	950	4,906	4,488	*665*
Quintile 2	333	3,018	6,992	5,274	*665*
Quintile 3	1,667	5,832	9,546	7,647	*664*
Quintile 4	13,164	9,168	13,164	11,101	*665*
Richest	21,555	13,750	21,555	16,326	*665*
All	11,832	5,833	11,832	8,946	*3,324*

3. Non-pension wealth

Previous work using ELSA data[9] has shown that the distribution of wealth is very unequal. While the mean level of total financial wealth is around £43,000, half the population aged 50 or over have less than £12,000 of financial assets and a quarter have less than £1,500. Adding in other assets – housing and physical wealth (business assets and antiques for example) results in a mean level of total non-pension wealth of over £150,000 but again the distribution is very unequal. At least a quarter of single men and single women aged less than 60 have little or no wealth at all. Couples are wealthier on average than singles where 75 per cent have about £40,000 or more total non-pension wealth.

Although non-pension wealth is important and for some people may provide funds for retirement, the important component of wealth that has not been studied in detail so far is pension wealth. Previous work has looked in very broad terms at the relationship between holdings of financial, housing and private pensions and found there is a positive correlation. In section 3.1, we look in more detail at this correlation by looking at how holdings of financial, physical and housing wealth vary with much more detailed private pension information. In section 3.2 we examine how the proportion of non-pension wealth held in each of these forms varies by, in particular, the individuals' current pension status.

3.1 Level and distribution of non-pension wealth

The analysis in this section looks at all individuals aged between 50 and the State Pension Age, but with statistics disaggregated by whether or not the individual is currently in paid work or not. What will matter for resources in retirement will be total wealth – i.e. non-

[9] See Banks, Karlsen and Oldfield (2003).

pension wealth plus accumulated rights in both private and state pensions. In the absence of (yet) having measures of private and state pension wealth Table 3.1 shows how non-pension and non-owner occupied wealth holdings[10] vary by whether or not an individual is currently a member of a private pension scheme. Median non-pension and non-owner occupied housing wealth is £22,600, and is higher among those currently in paid work (£26,500) than those not currently in paid work (£13,400).

Among those not in paid work who have never had a private pension, non-pension non-owner occupied housing wealth is very low at just £800. Looking at those who are not currently but who have in the past been a member of a private pension, non-pension, non-owner occupied housing wealth is, slightly *higher* at the median amongst those who are not in paid work compared to those those who are in paid work.

Among those who are currently in paid work it is also the case that those who are or have been a member of a private pension have, at the median, higher non-pension and non-owner occupied housing wealth than those who have never been a member of a private pension.

Also shown in Table 3.1 is the level and distribution of non-pension wealth by the type of private pension scheme that an individual is currently a member of (for those currently in paid work only). On average those who are currently a member of an individual defined contribution pension have the highest non-pension wealth. Those who are currently a member of defined benefit pension scheme are found on average to have slightly higher levels of non-pension wealth than those who report currently being a member of an employers defined contribution pension scheme.

[10] This includes liquid financial assets net of any debts plus physical wealth such as business assets and jewellery and any non-owner occupied housing wealth.

Table 3.1. Distribution of total non-pension, non-owner occupied housing wealth, by whether currently in paid work and private pension status, those aged 50 to the State Pension Age (£'000).

	25th pctile	Median	75th pctile	Mean	*Un-weighted N*
All	*2.0*	*22.6*	*86.0*	*102.9*	*4,863*
Not in paid work	0.0	13.4	81.0	97.0	*1,532*
Of which:					
Never in a private pension	0.0	0.8	25.6	61.3	*573*
Past private pension but no current pension	1.5	28.8	104.0	105.7	*826*
Has a current private pension	3.0	27.0	153.5	197.4	*133*
In paid work	4.0	26.5	87.8	105.4	*3,331*
Of which:					
Never in a private pension	0.5	10.0	58.8	103.5	*464*
Past private pension but no current pension	4.8	26.4	98.8	120.2	*578*
Has a current private pension	5.7	29.7	91.1	102.1	*2,289*
Of which:					
Employer DB	6.9	29.9	87.0	73.7	*1,019*
Employer DC	2.9	22.5	75.0	103.6	*462*
Individual DC	7.8	38.2	112.0	153.5	*663*
Don't know	2.0	15.9	54.0	56.8	*145*

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

It is also possible that owner-occupied housing wealth could, at least in part, be used to supplement future retirement incomes. The equivalent figures to those shown in Table 3.1 once this is included is presented in Table 3.2. Including owner occupied housing, increases median total wealth among all those aged between 50 and the State Pension Age from £22,600 (the figure shown in Table 3.1) to £144,000.

Table 3.2. Distribution of total non-pension wealth, by whether currently in paid work and private pension status, those aged 50 to the State Pension Age (£'000).

	25th pctile	Median	75th pctile	Mean	*Unweighted N*
All	*60.2*	*144.0*	*279.0*	*236.7*	*4,863*
Not in paid work	3.1	104.0	268.7	210.0	*1,532*
Of which:					
Never in a private pension	0.0	36.0	165.9	140.2	*573*
Past private pension but no current pension	46.5	145.0	309.0	235.8	*826*
Has a current private pension	64.0	165.3	341.0	349.8	*133*
In paid work	79.8	155.1	281.8	248.4	*3,331*
Of which:					
Never in a private pension	30.0	104.5	229.0	212.5	*464*
Past private pension but no current pension	70.4	154.8	298.3	265.1	*578*
Has a current private pension	89.4	164.0	283.0	251.4	*2,289*
Of which:					
Employer DB	90.3	169.0	278.5	217.1	*1,019*
Employer DC	78.0	156.1	277.7	250.5	*462*
Individual DC	105.0	185.0	349.0	323.6	*663*
Don't know	49.5	120.7	175.3	156.6	*145*

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

Table 3.3 shows the distribution of (equivalised) expected family private pension income (including private pensions already in receipt) by current non-pension wealth. On average, families with higher levels of non-pension wealth report that they expect to receive higher private pension income in retirement. Median expected private pension income among those in the middle quintile of the non-pension wealth distribution is £6,923 a year, while among those in the richest non-pension wealth quintile it is £12,153. The difference at the median across income quintiles (shown in table 2.10) is larger – with those in the richest quintile found to have more than twice as much pension wealth as those in the middle income quintile.

Table 3.3. Distribution of equivalised expected family private pension income, by current non-pension wealth quintile, those aged 50 to the State Pension Age only

	25th percentile	Median	75th percentile	Mean	*Unweighted N*
Poorest	0	167	2,887	2,436	*665*
Quintile 2	973	4,106	7,698	6,124	*665*
Quintile 3	2,767	6,923	11,551	9,178	*664*
Quintile 4	4,354	9,118	14,986	11,948	*665*
Richest	6,061	12,153	20,452	15,327	*665*
All	1,250	5,833	11,832	8,946	*3324*

3.2 Portfolio shares

This section turns to examining how the composition of non-pension wealth holdings between that held in owner occupied housing, that held in other physical wealth and that held in liquid financial assets (net of debts). Figure 3.1 shows the mean holding of net financial wealth, net (non-owner occupied) physical wealth and net owner-occupied housing wealth among those aged between 50 and the State Pension Age by current pension status.

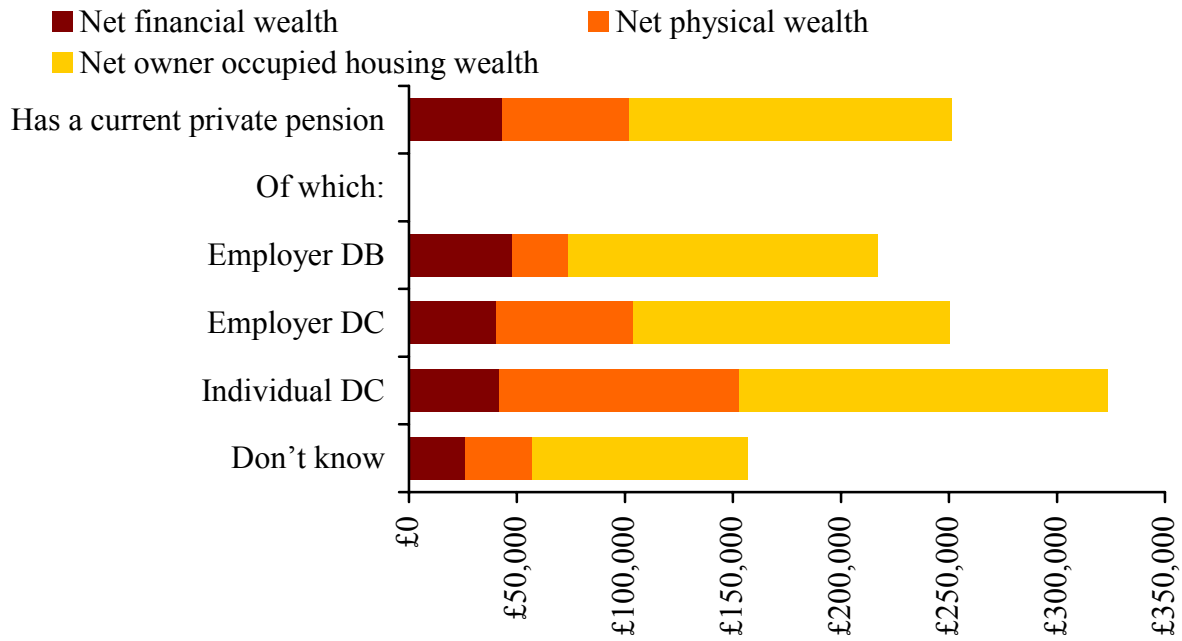
On average those currently in paid work are found to have a greater level of net physical and owner-occupied wealth, but a lower amount of net financial wealth than those not in paid work. Among those not currently in paid work, those who currently have a private pension have the largest average amount of wealth in all forms, while those who previously have had a private pension have, on average, a higher level of net financial wealth and owner-occupied housing wealth, and a similar level of net physical wealth, than those who have never had a private pension. Among those who are currently in paid work there is little difference between the mean holding of wealth (in all forms) of those who currently have a private pension and those who do not currently have a private pension but have had one in the past. Those who have never had a private pension have slightly lower levels of own-occupied housing wealth but higher average levels of net physical wealth.

Figure 3.1. Mean composition of non-pension wealth holdings by, by current private pension status and whether in paid employment, those aged 50 to the State Pension Age.

Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

Figure 3.2 takes those individuals who are in paid work who currently have a private pension and shows whether the levels of non-pension wealth held in different forms varies by the type of private pension that an individual is currently contributing to. Among those who are currently contributing to a private pension there is little difference in the mean level of net financial wealth or owner-occupied housing wealth by type of current private pension. However, those with individual defined contribution pensions are found on average to have much greater levels of net physical wealth than those with an employer defined contribution pension. Those currently in an employer defined benefit pension are found, on average, to have the lower levels of net physical wealth and owner-occupied housing wealth than those contributing to other types of private pension.

Figure 3.2. Mean composition of non-pension wealth holdings by, by type of current private pension, those aged 50 to the State Pension Age who are in paid work with a current private pension only.

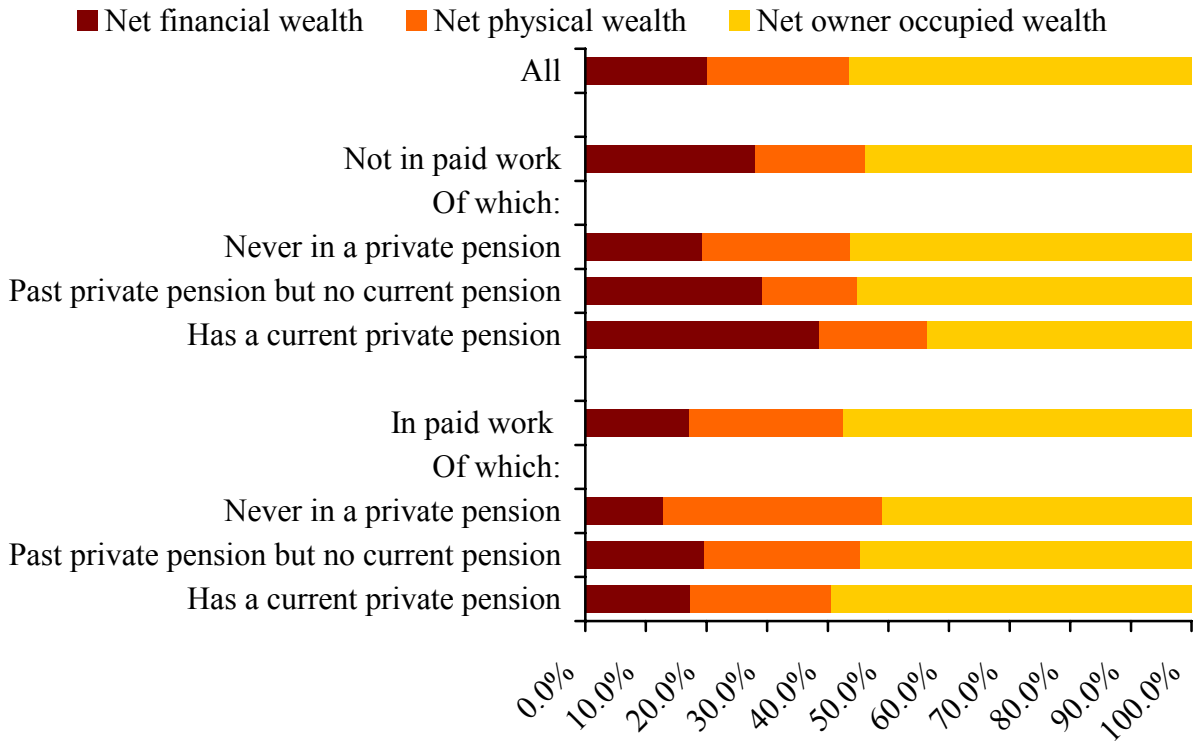


Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

Figure 3.3 examines the mean composition of non-pension wealth by whether or not the individual is currently in paid work and also whether they have ever contributed to a private pension. Comparing those in paid work to those not in paid work, those currently in paid work are found to hold a similar proportion of their non-pension wealth in owner occupied housing but a larger proportion in physical assets and a correspondingly lower proportion in net financial assets.

Among those not currently in paid work those who currently have a private pension have the largest share of wealth held in financial assets and those who have never had a private pension the lowest. It is also the case that among those currently in paid work it is those who have never had a private pension that the share of wealth held in financial assets is lowest.

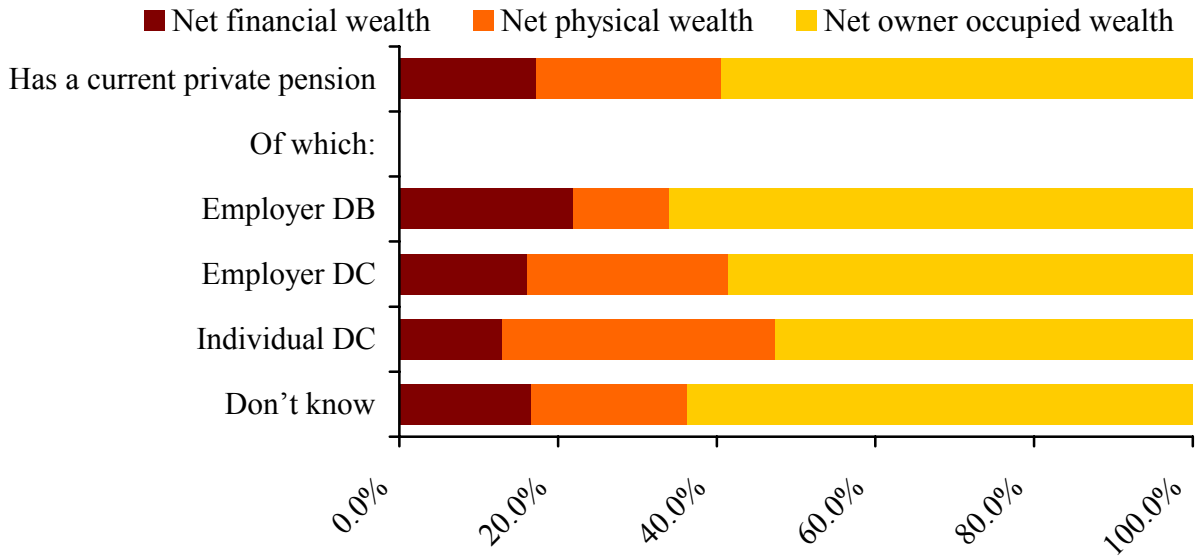
Figure 3.3. Mean portfolio shares, by current private pension status and whether in paid employment, those aged 50 to the State Pension Age.



Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

Figure 3.4 shows how the non-pension wealth portfolio shares vary among those who are currently in paid work and contributing to a private pension by the type of pension that they have. This shows that those currently in an employers defined benefit pension scheme are found to have a larger proportion of their non-pension wealth held in owner occupied housing and net financial assets and a correspondingly lower proportion held in physical assets than those who are currently a member of either an employers defined contribution pension or an individual defined contribution pension.

Figure 3.4. Mean portfolio shares, those aged 50 to the State Pension Age who are in paid work with a current private pension only.



Note: In paid work includes those in paid employment or self-employment and those who report waiting to take-up paid work.

4. Future Expectations

The previous sections have shown that part of the population aged between 50 and State Pension Age have few economic resources (pensions, housing and financial wealth) which they will be able to draw upon in retirement. Other things being equal, these people look set to be relatively poor in retirement – probably relying largely on transfers from the state for support. However, this group has up to 15 years before they reach the state pension age and their circumstances may change during that time. Also, there are factors other than current wealth and circumstances which might increase (or decrease) financial well-being in retirement which should be taken into consideration. For example, people might receive a large inheritance or they may continue to work up to or past state pension age. Both these factors would increase resources in a way that is not measured by current wealth or income.

Whether individuals expect these factors to happen is important if we believe that expected future events influence current behaviour. For example, other things being equal, we would expect someone who anticipates receiving a large inheritance to save less for their retirement than someone who does not. One explanation for the low level of wealth observed in some parts of the 50 to 59 year old age group is that they expect a future event to occur which would increase the level of resources they would have in retirement.

This section of the paper explores these ideas by using questions in ELSA designed to measure peoples expectations about the future. These questions are unique in the UK but have been used successfully in the Health and Retirement Survey in the US. The questions ask what are the chances of a particular event happening at some point in the future. Respondents are asked to reply on a scale of 0 to 100 where 0 means "you think there is absolutely no chance an event will happen" and 100 means "you think the event is absolutely certain to happen".

Annex 4. contains tables of numbers which correlate these expectations with other characteristics such as age, gender, health and occupation. In the remainder of this section we focus on the correlation of these expectations with wealth.

Labour market participation

As mentioned above, the extent to which someone chooses to work up to or past state pension age will be an important factor in determining economic resources in old age. Previous work has shown that only a small proportion of the current generation aged above state pension age is in paid work. For example, Banks and Casanova (2003) found that around 17 per cent of men aged 65-69 were economically active and only around 7 per cent were employed full time. However the labour market behaviour of the current generation of over state pension age is not necessarily a good indication of the future labour market behaviour of those below state pension age, not least because the latter will, on average, receive less generous state pensions than their predecessors. ELSA respondents are asked to report the chances that they will be working after they reach a particular age. Male respondents aged 50-59 are asked what are the chances they will be working after they have reached age 60 and female respondents aged 50-54 are asked what are the chances that they will be working after they reach age 55.[11]

[11] All men and women aged below state pension age are asked a form of this question but the "target" age increases for older respondents. The results for older ages are reported in tables A4.62 and A4.68.

Figure 4.1. Mean expected chance of working after the age of 55/60 by portfolio status

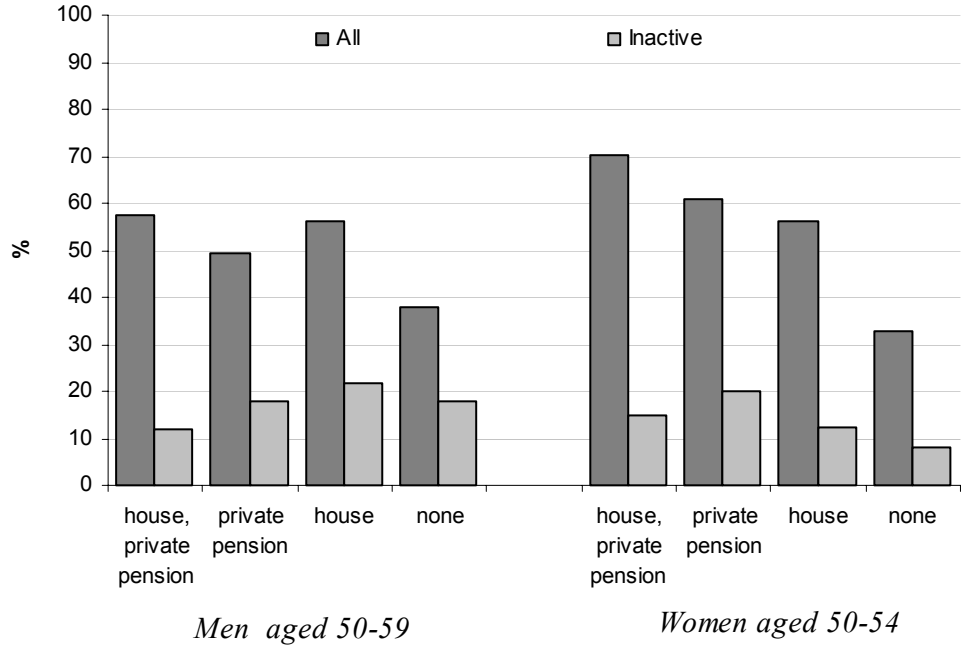


Table 4.1 The distribution of expected chances of working after the age of 55/60 by portfolio status

	Expected chances					
	0	1-39	40-60	61-99	100	N
			%			
All men aged 50-59	**20.1**	**13.3**	**16.9**	**27.8**	**21.8**	**1845**
house, private pension	17.4	14.4	16.9	28.9	22.5	1477
private pension	29.9	9.2	16.7	23.9	20.3	229
house	26.0	4.1	18.1	27.1	24.7	68
none	37.5	15.2	16.2	20.4	10.7	71
Inactive men aged 50-59	**64.4**	**16.7**	**10.2**	**6.0**	**2.6**	**409**
house, private pension	68.1	17.6	6.7	5.4	2.1	238
private pension	61.6	14.2	13.6	8.4	2.1	98
house	62.9	6.1	18.4	3.5	9.2	28
none	54.2	23.6	14.2	5.7	2.3	45
All women aged 50-54	**17.5**	**8.0**	**12.1**	**26.9**	**35.4**	**1053**
house, private pension	12.9	7.5	11.9	30.9	36.8	789
private pension	19.4	10.2	15.3	20.9	34.1	119
house	26.0	10.7	12.7	10.5	40.1	68
none	54.6	7.5	8.7	9.7	19.5	77
Inactive women aged 50-54	**64.1**	**17.7**	**13.0**	**3.4**	**1.8**	**262**
house, private pension	61.5	20.3	13.2	3.0	2.0	137
private pension	54.4	16.8	22.1	4.6	2.1	45
house	63.5	21.3	11.2	0.0	3.9	28
none	79.6	9.4	5.7	5.3	0.0	52

Figure 4.1 plots the mean expected chances of working past age 60 (for men) and 55 (for women) for all men aged 50-59 and all women aged 50-54 and then separately for the subgroup who are inactive. Table 4.1 summarises the distribution of responses by reporting the percentage who report an expected chance of 0% or 100% and the percentage who report an expectation in the intervals 1%-39%, 40%-60% and 61%-99%. Both the Figure and the Table report chances at the individual level but portfolio status is defined according to whether any member of the benefit unit owns a house, has ever contributed to a private pension, both of these or neither. Looking first in Figure 4.1 at the mean expected chance of working after age 60 amongst all men (the dark grey bars on the left hand side of Figure 4.1), there is little variation across those groups who have at least one asset. However, the group who own neither a private pension nor a house, on average expect the lowest chance of working after the age of 60 – this group has a mean expected chance of around 40 per cent compared to a mean of 50 per cent and above for the other three groups. For women, those with both a private pension and a house are slightly more likely on average to expect to be working after age 55 than the other 3 groups but again it is the women with neither asset who are the least likely on average to expect to be working after age 55. Table A4.65 in Appendix 4 shows that of men aged 50-59 who own neither a house nor a pension and who report that there is no chance that they will be working at age 60, 85% report that they are in poor health. This compares to around 30% of men who also report that there is no chance that they will be working after age 60 but who have both a house and a pension. A similar pattern is found for women. This suggests that poor health may have an important part to play for lack of attachment to the labour market for those with few assets.

The light grey bars in Figure 4.1 show the mean expected chances of working after age 65 for men and women who are currently inactive. It is well known that individuals in this age group, once they exit the labour market, are unlikely to re-enter. What is apparent is that inactive individuals are much less likely than active individuals to expect to be working after the age of 55 or 60 and this is true across all portfolio status groups. Table 4.1 shows that around 64 per cent of inactive men and women are absolutely certain that they will not work after the age of 55 or 60. This suggests that in the absence of any external funds such as inheritance, those who are currently inactive are unlikely to accumulate any more wealth in the future and so their current wealth closely reflects the total of funds available for them to fund their retirement.

Thus, these results do not support the idea that those who have the fewest resources for retirement are expecting to work until an older age than those who are wealthier. Tables A4.63 and A4.64 in Appendix 4 further split the sample according to whether the individual's benefit unit has any financial wealth and whether the benefit unit has financial wealth greater

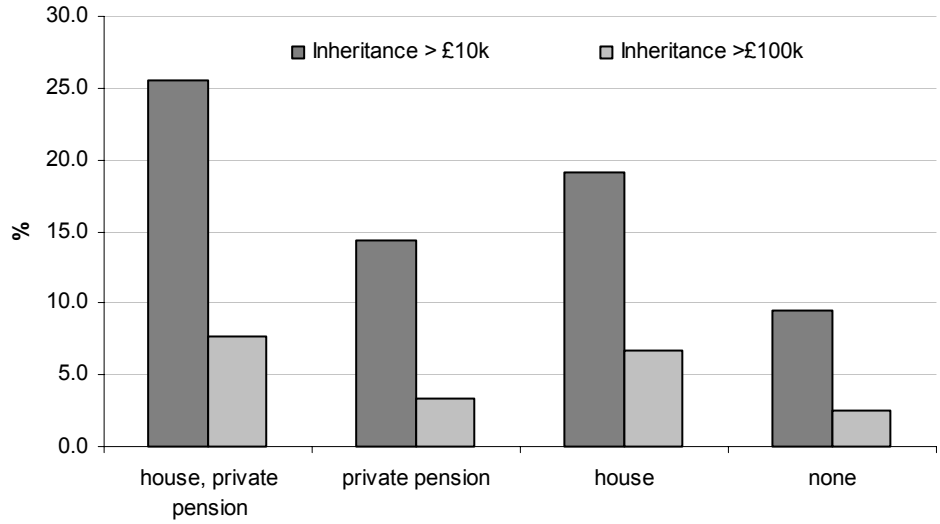
than £10,0000. The tables show that the more financial wealth the benefit unit has, the higher the chances, on average, the individual has of working past the "target age".

Inheritance

A second factor that could be important for providing additional resources for retirement is inheritance. Those aged 50-60 (and particularly those aged less than 55) are likely to have at least one parent alive.[12] Inheritance could be an important source of funds for people approaching retirement and, particularly with the dramatic increase in house prices of the past few years, any inheritance could amount to substantial sums of money. The potential importance of inherited housing wealth was noted by the Pensions Commission in their interim report.[13]

ELSA asked a set of questions relating to inheritance.[14] Respondents are first asked what are the chances that they receive any inheritance at all. The subset who have a non-zero chance of receiving some inheritance are asked what the chances are of receiving inheritance of £10,000 or more and then a further subset is asked what are the chances of receiving at least £100,000.

Figure 4.2. Mean expected chance of receiving inheritance >£10,000 and >£100,000, all aged under 60, by portfolio status



[12] Gjonca and Calderwood (2003) show that around 50 per cent of men and women aged under 55 have a mother who is alive.

[13] Pensions Commission (2004).

[14] The survey also asks about bequests and these numbers are reported in tables A4.51-A4.54 in Appendix 4.

Table 4.2. The distribution of expected chances of receiving inheritance >£10,000 and >£100,000, all aged under 60, by portfolio status

	Expected chances					
	0	1-39	40-60	61-99	100	N
Inheritance > £10,000			**%**			
All aged <60	**57.2**	**14.8**	**9.3**	**12.8**	**5.9**	**3970**
house, private pension	53.5	15.5	10.0	14.5	6.6	3104
private pension	69.9	13.3	7.2	5.5	4.1	441
house	62.3	14.3	8.8	11.2	3.5	206
none	79.4	9.0	4.6	5.0	2.0	219
Inheritance > £100,000						
All aged <60	**82.2**	**9.8**	**3.2**	**3.4**	**1.4**	**3969**
house, private pension	80.4	10.5	3.5	3.9	1.6	3106
private pension	90.5	5.9	1.6	1.1	0.9	439
house	84.0	7.3	4.5	3.8	0.4	206
none	89.2	9.0	0.0	0.6	1.2	218

Figure 4.2 reports the mean expected chance of respondents receiving inheritance of at least £10,000[15] and £100,000 by portfolio status (as defined in Figure 4.1) and Table 4.2 summarises the distribution of responses. Tables A4.28 in Appendix 4 shows similar numbers for the chance of receiving any inheritance.

Figure 4.2 shows that the mean expected chance of receiving inheritance greater than £10,000 across all groups is fairly low – less than 30 per cent. There is some variation across groups holding different combinations of assets with those who own both a house and a pension where the mean expected chance of receiving inheritance of £10,000 is around 25 per cent compared to those who have neither asset where the mean expected chance is around 10 per cent. Nearly 80 per cent of the latter group report that there is "absolutely no chance" that they will receive inheritance of at least £10,000. Nearly half of those with both a house and a pension report some chance of receiving inheritance totalling £10,000 or more.

As a proportion of total income, for all but the very poorest an inheritance of £10,000, is not large enough to make a big difference to economic resources in retirement (£10,000 would typically generate an annuity income of less than £500 per year). Figure 4.2 and Table 4.2 also show the mean and distribution of expected chances of receiving inheritance of at least £100,000. Table 4.2 shows that over 80 per cent of those aged under 60 with both a house and a pension and nearly 90 per cent of those with neither, report a zero chance of receiving an

[15] Note that people who are routed out of this question because they report a zero chance of receiving any inheritance at all, are also defined as reporting zero chance of receiving inheritance of £10,000 and £100,000.

inheritance greater than £100,000 there is little evidence that inheritances will provide a substantial top up to retirement resources particularly for those who currently have low wealth.

Life expectancy

It is well known that wealth and mortality are correlated, with the least wealthy likely to die earlier. The direction of causality could run in either direction (or indeed both) but one possibility is that those who have not saved very much, are not expecting to live many years into their retirement (and therefore their resources will not need to stretch as far). ELSA included a question which asked "What are the chances that you will live to be age X" where X varies according to your current age. Of course we cannot establish the direction of causality without much more rigorous research (and not least, further waves of data), but we can look at the correlation between life expectancy and resources. Figure 4.4 shows the expected chances of living to be age 75 or more for men and women aged 65 or under.

Figure 4.3. Mean expected chance of living to be age 75 by portfolio status and gender, all aged 65 or under

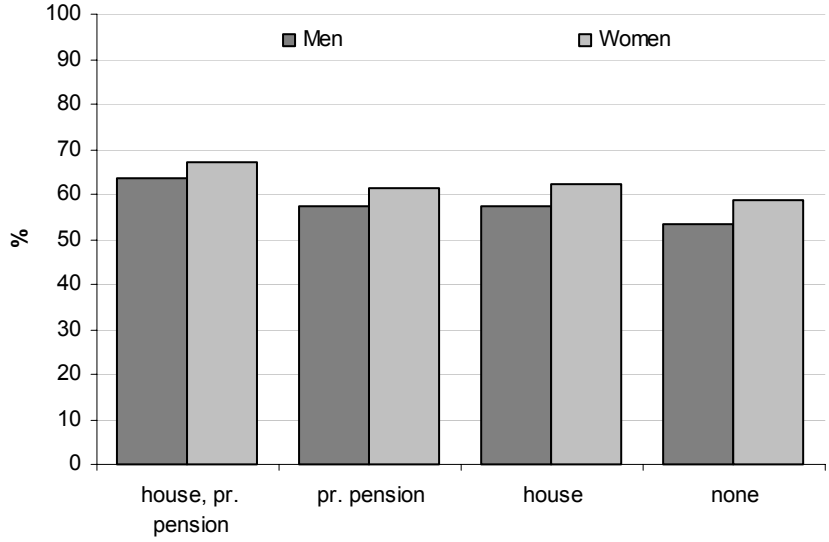


Table 4.3. Distribution of expected chance of living to be age 75, by portfolio status and gender, all aged 65 or under

	Expected chances					
	0	1-39	40-60	61-99	100	N
			%			
Men						
All aged <66	**2.6**	**10.6**	**35.6**	**43.2**	**8.0**	**2766**
house, private pension	1.8	9.5	34.8	46.2	7.7	2195
private pension	5.6	12.8	38.4	34.2	9.0	334
house	4.3	14.2	42.1	32.3	7.0	113
none	6.2	19.1	37.3	27.2	10.3	124
Women						
All aged <60	**1.7**	**7.9**	**34.0**	**46.6**	**9.9**	**3165**
house, private pension	1.2	6.3	33.1	49.9	9.5	2400
private pension	2.3	11.5	38.2	39.1	8.9	297
house	2.7	9.0	40.4	38.2	9.7	241
none	4.5	18.9	31.0	29.7	15.9	227

Previous work[16] has compared actual life expectancy to expected longevity and shows that on average, individuals in this age group underestimate the chance that they will live to be age 75 or more. However that research also showed that the self reported longevity expectations in ELSA are correlated with other characteristics (for example health) in a way that we would expect. Indeed, Figure 4.3 shows that on average, women expect to live longer than men. Figure 4.3 also shows that the correlation that is documented between wealth and actual life expectancy follows through to some extent to the relationship between wealth and expected life expectancy.

Adequacy of resources

The results in this section show that those who have the least wealth have lower expectations of working up to state pension age and have lower expectations of receiving inheritance. Disentangling the reasons behind this is already, and is likely to continue to be, the subject of many research papers and cannot be answered here. However, what we can ask is whether this group of people understand that they are likely to be poor in the future. ELSA respondents are asked what are the chances that they will have insufficient resources to meet their needs at some point in the future. The definition of "needs" is of course subjective and the interpretation of the responses should be carried out with care.

[16] See Banks, Emmerson and Oldfield (2004).

Much policy discussion has focused on encouraging (or indeed compelling) individuals to save adequately for their retirement (or work longer). If individuals do not fully understand the implications of their current saving decisions for their economic well-being in retirement, this policy discussion should be encouraged. If on the other hand individuals understand that they are likely to have insufficient resources in retirement but have been *unable* to save in the past, then this could suggest that greater redistribution rather than the provision of more information or increased compulsion might be a more appropriate policy response if the objective is to make these individuals better off.

Figure 4.4. Mean expected chance of having insufficient resources to meet needs at some point in the future, by portfolio status: all aged under 60

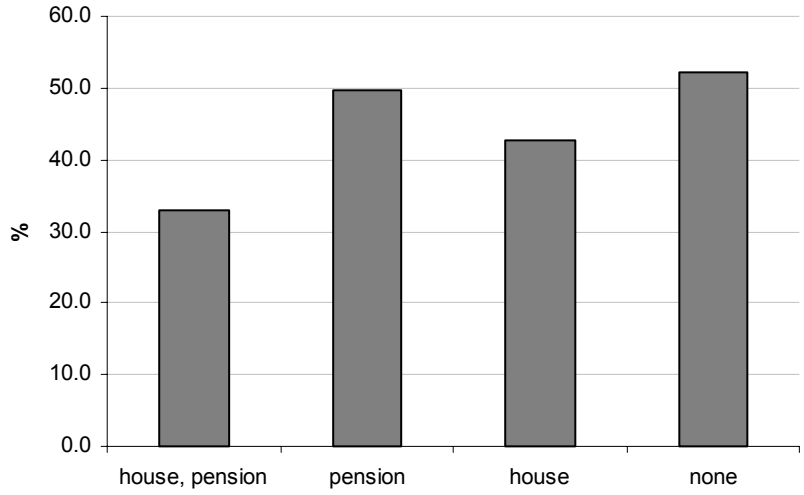


Table 4.4. The distribution of expected chances of having insufficient resources to meet needs at some point in the future, by portfolio status: all aged under 60

	Expected chances					
	0	1-39	40-60	61-99	100	N
			%			
All aged < 60	**13.8**	**39.6**	**28.0**	**14.9**	**3.7**	**3963**
house, private pension	14.7	44.1	26.2	13.0	2.1	3111
private pension	9.0	21.8	38.1	21.9	9.4	435
house	14.3	30.6	29.1	18.2	7.9	204
none	11.9	19.0	31.8	24.7	12.6	213

Figure 4.4 shows the mean expected chance of having insufficient resources at some point in the future by portfolio status. Table 4.4 shows the distribution of responses. The mean expected chance of having insufficient resources amongst those who have both a house and a pension is around 30 per cent whilst amongst those who have neither asset, the mean is

around 50 per cent. Whilst there is little difference across the groups in the percentage of individuals who say there is no chance of having insufficient resources, a much lower percentage of individuals in the group with neither a house nor a pension report a "low" chance (1-39) than in the group with both a house and a pension.

Figure 4.4 does show that at least to some extent those in the group with neither a house nor a pension, do realise that their funds may not be adequate to meet their needs in the future. However, there is substantial proportion (over 30 per cent) of individuals with neither a house nor a pension who report a low chance of having insufficient resources. While this does not necessarily mean that these individuals mistakenly believe that they have saved enough (since there are a number of alternative explanations), it certainly raises the possibility that this is the case.

5. Conclusion

This paper has provided a detailed analysis of the English household population aged between 50 and the State Pension Age in terms of their current private pension arrangements and current non-pension assets alongside their expectations of future economic circumstances. This group is particularly important for policy since current levels of pension provision will, for many of this group at least, be an important determinant of their retirement income. Furthermore the information presented on the expectations of this group also helps to build a fuller picture of what their financial (and non-financial) well-being in retirement could be. Our analysis has been entirely descriptive and aims simply to present evidence from the 2002 wave of the English Longitudinal Study of Ageing regarding the details of individuals pension arrangements and how these relate to other economic circumstances.

In terms of current pension coverage we find that, while coverage of employer provided defined benefit schemes are more common than either employer provided defined contribution schemes or independent defined contribution schemes, overall current contributions to defined contribution schemes are actually more prevalent than contributions to defined benefit schemes. One possible cause of this is the number of individuals who have free standing additional voluntary contributions on top of their defined benefit scheme. We find that while women are less likely than men to be a member of a private pension of any type they are actually more likely to be a member of a defined benefit pension scheme than men. This is likely to be due to women being more likely to work in the public sector where defined benefit pension schemes are more common.

On average those who are currently a member of a defined benefit pension scheme have higher levels of current earnings than those who are a member of a defined contribution pension scheme, with those who are not currently a member of a private pension scheme

being found, on average, to earn the least. Similarly median expected private pension income is highest for those currently in employer defined benefit schemes. Pension tenures are also found to be highest for those in defined benefit pension schemes although median tenure of those in defined contribution schemes is still relatively high at 12 years. Despite this, the median fund value of those currently in a defined contribution pension scheme is found to be just £16,250.

Other forms of wealth may also play an important role in providing resources in retirement. The distribution of total non-pension wealth (which comprises liquid financial wealth net of debts, owner-occupied housing wealth and other physical wealth such as other housing, jewellery and business assets) is found to be very skewed. The 25th percentile of this measure of wealth is £60,200, the median £144,000, the 75th percentile £279,000 and the mean £136,700. On average those who have, or have had, a private pension have greater non-pension wealth than those who have never had a private pension. This is due to higher average levels of both liquid net financial wealth and owner-occupied housing wealth. In terms of differences in holdings of non-pension wealth by current pension type those who currently have defined benefit pension schemes are found, on average, to hold a larger share of their non-pension wealth in liquid financial wealth and a lower share in physical assets. Those in independent defined contribution pension schemes are found, again on average, to hold a particularly large share in physical wealth and less in both net financial wealth and owner-occupied wealth. This is likely to be due to a larger proportion of those in independent defined contribution pension schemes having business assets due to being self-employed.

Looking at current resources alone could potentially miss some important aspects of resources for retirement. Individuals in their fifties have up to 15 years before they reach state pension age and for some, this may mean up to 15 additional years (or more) in the labour market. This is important because those who are able to might use this time to increase provision for retirement income. Additionally every extra year in the labour market reduces the length of retirement by one year and so reduces the need to save. It is therefore important to take into account individuals' future labour market participation in assessing the extent to which individuals are preparing for retirement. Our results have shown however that it is those who have the fewest assets who have the least attachment to the labour market. Another potentially important source of resources for retirement that is not captured by current wealth or income is potential inheritances. Again, those who have the fewest resources of retirement are far less likely to expect any inheritance.

Putting all this together we have a picture of inequalities in many dimensions of retirement resources for the cohorts soon to arrive at retirement age. Looking at the correlation across dimensions we find, somewhat unsurprisingly, that these inequalities reinforce themselves as

opposed to offset each other. That is, those who are the poorest in one dimension are also amongst the poorest in others. This positive correlation across asset types and other forms of retirement resources suggests that there is a group of people that we might expect to have extremely limited resources when they retire. Indeed, this is reflected in individuals own expectations of adequacy of future resources – those with the least assets are more likely to expect to report a high probability of having insufficient resources to meet their needs at some point in the future.

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