

Institute for
Fiscal Studies



The evolution of wealth in Great Britain: 2006/08 to 2010/12

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Funding gratefully acknowledged from:



Introduction

- Understanding when, how and why households accumulate and decumulate wealth is incredibly important
 - Impact of macroeconomic shocks on household circumstances
 - Concern about households not accumulating enough for retirement
 - Impact of policy changes: auto-enrolment, ISA extensions, removal of annuitisation requirement for pensions
- Existing evidence on this relatively limited in the UK
 - A lack of good data on household level wealth holdings until recently
- This report adds to the evidence base:
 - Documents detailed composition of household wealth
 - Explores how households' wealth changed over the period 2006-2012
 - Examines individuals' attitudes towards saving and retirement income

The Wealth and Assets Survey

- Survey of the household population of Great Britain (all ages)
- Biennial panel survey (interviews conducted over 2 years)
 - Waves to date: 2006/08, 2008/10, 2010/12 (2012/14, 2014/16)
 - Follows the same individuals over time
 - Large sample size (30,000 households in wave 1)
- Detailed consistent information on:
 - Wealth holdings
 - Demographics
 - Employment and income
 - Attitudes



The composition of wealth and its evolution over time

The composition of wealth in 2010-12

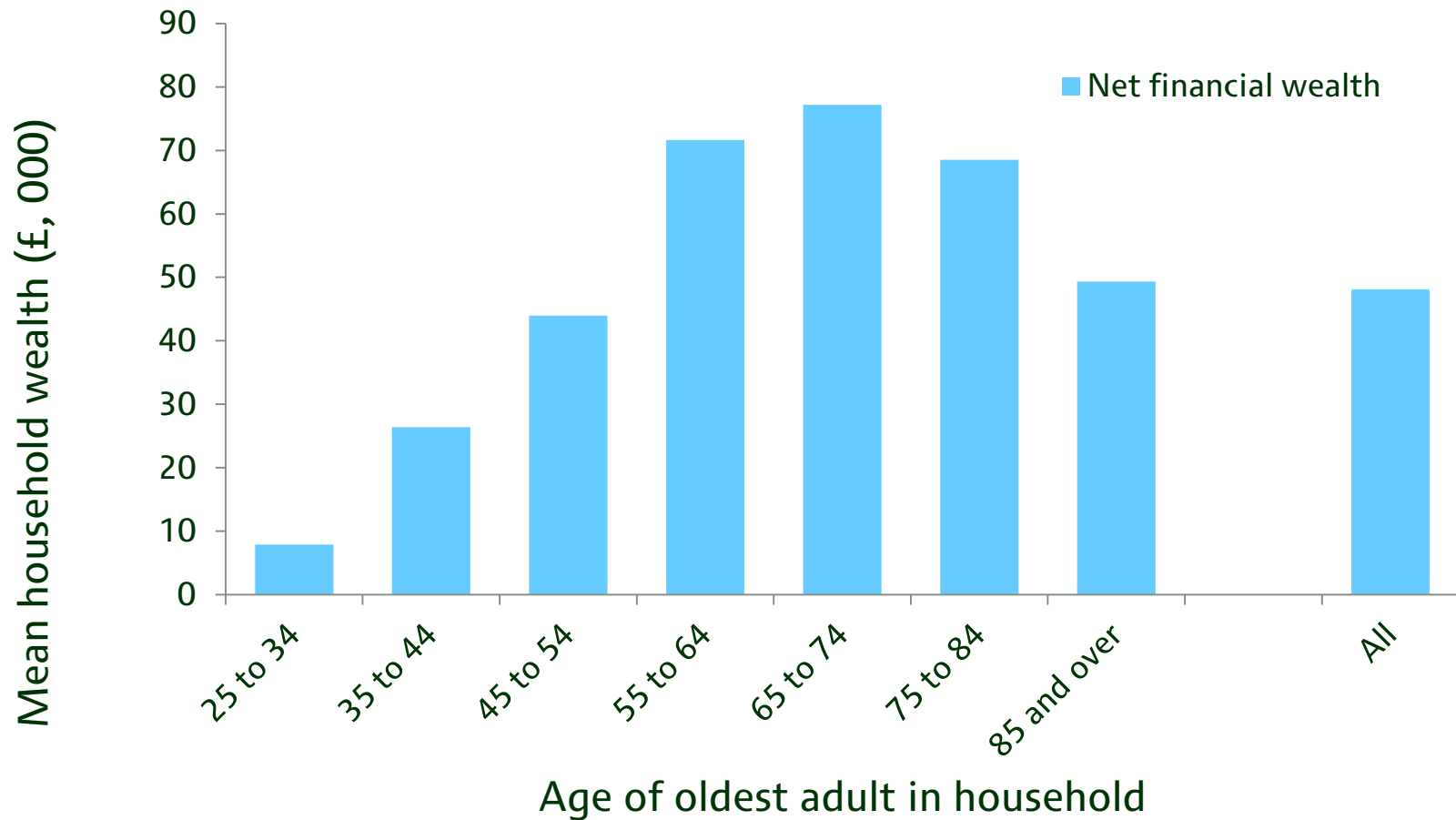
Financial wealth in 2010-12



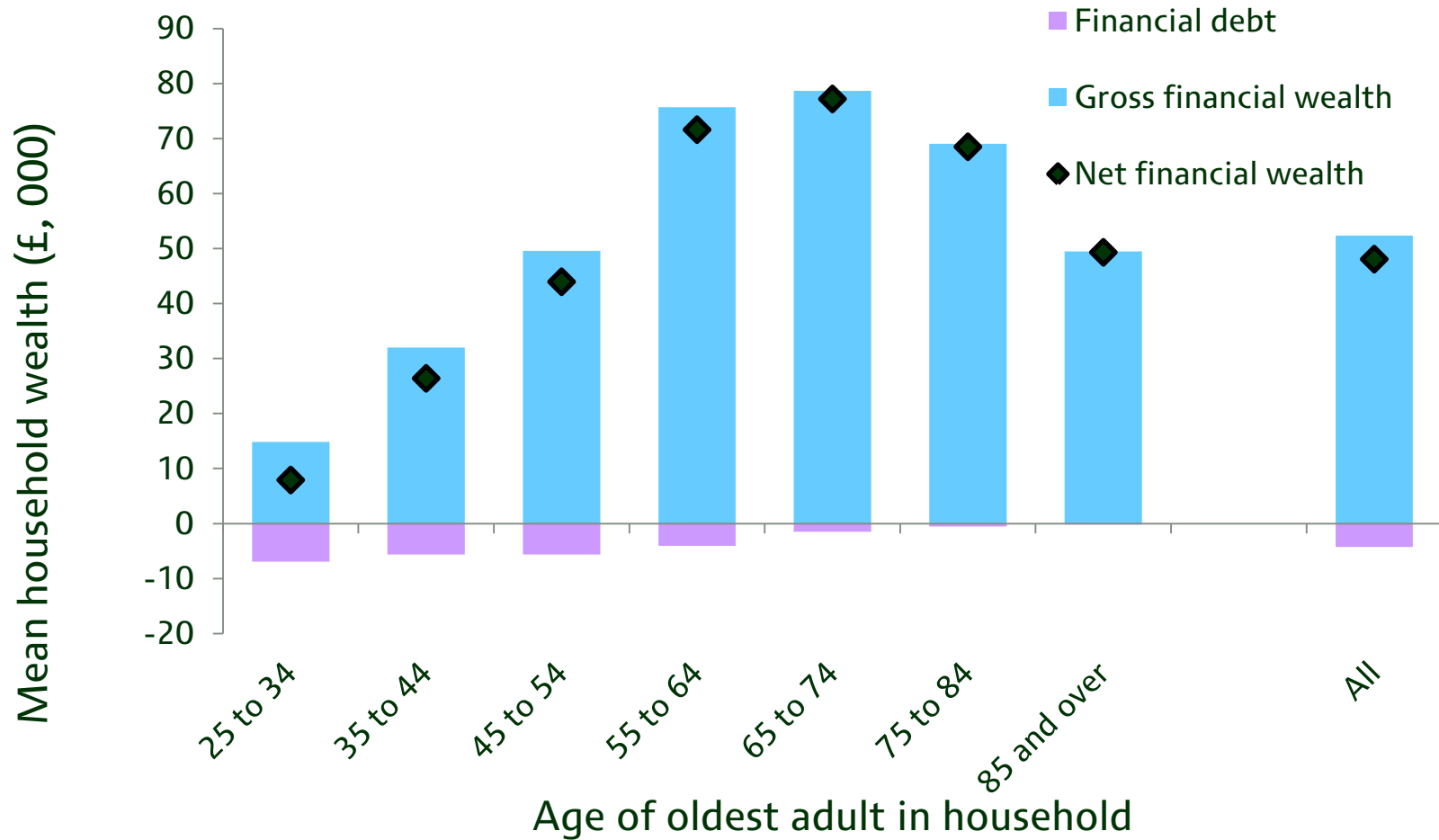
	% who hold	Mean value among holders	% of gross financial assets/liabilities
Financial assets	96.3	52,353	100.0
Current accounts (positive balances)	90.0	3,700	6.4
Savings accounts	58.0	20,051	22.2
Cash ISA	42.8	14,218	11.6
Investment ISA	12.6	32,367	7.8
UK shares	12.0	40,845	9.4
Fixed term investment bonds	11.5	49,763	10.9
Financial liabilities	50.3	8,501	100.0
Credit card balance	24.8	3,722	21.6
Overdrawn current accounts	18.1	1,063	4.5
Formal loans	17.4	9,177	37.3
Hire purchases	13.7	4,401	14.1
Student loans	6.0	11,921	16.6



Net financial wealth in 2010-12



Net financial wealth in 2010-12

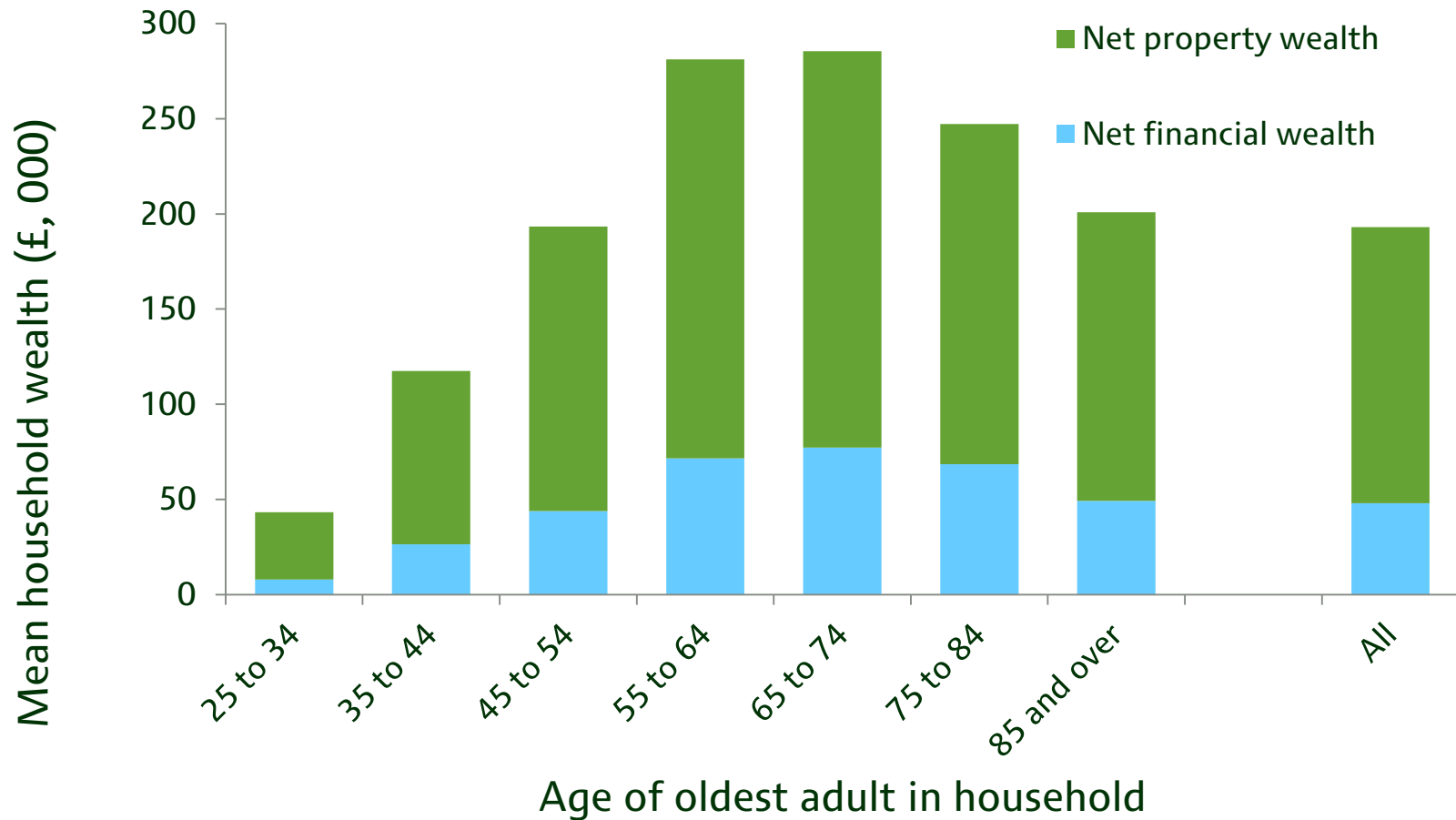


Property wealth in 2010-12

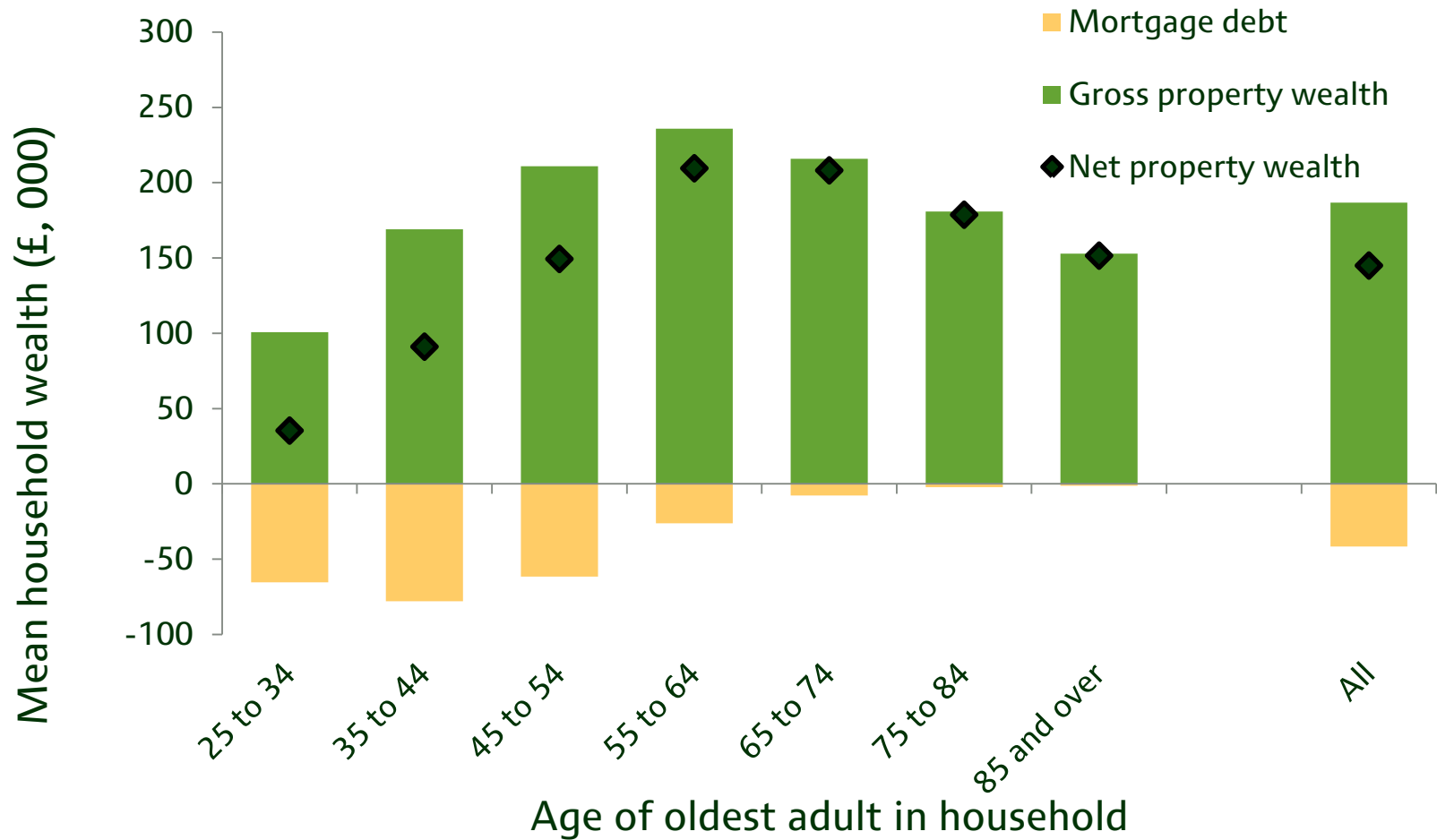


	% who hold	Mean value among holders	% of gross property wealth
Net property wealth	69.5	208,654	
Gross property wealth	69.8	267,578	100.0
Main residence	68.0	235,389	85.8
Other property wealth	7.7	195,562	8.1
Other houses	3.4	207,100	3.8
Overseas land	2.9	149,669	2.3
Other buildings	0.7	254,195	1.0
UK land	0.9	155,906	0.8
Other property	0.3	139,453	0.3
Mortgage debt	38.3	108,913	

The composition of wealth in 2010-12



Net property wealth in 2010-12





Private pension wealth in 2010-12

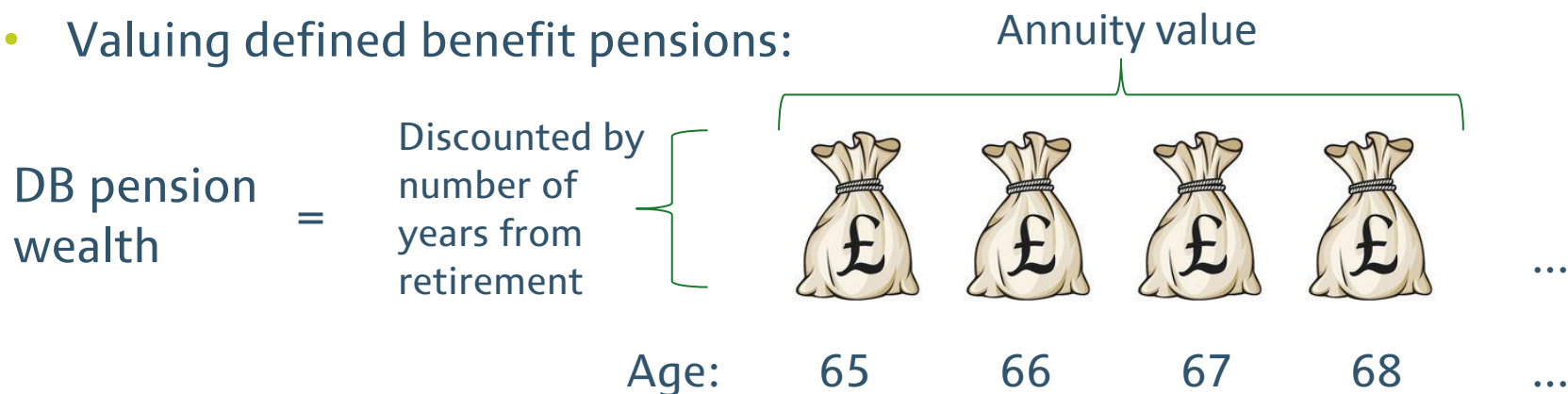
	% who hold	Mean value among holders	% of pension wealth
Private pension wealth	76.0	194,663	100.0
Current pensions	45.7	130,008	40.2
Current DB pensions	30.7	156,400	32.5
Current DC pensions	25.5	44,327	7.6
Retained pensions	27.3	66,229	12.2
Retained DB pensions	17.5	67,466	8.0
Retained DC pensions	16.2	38,359	4.2
Pensions in payment	29.9	232,463	47.0



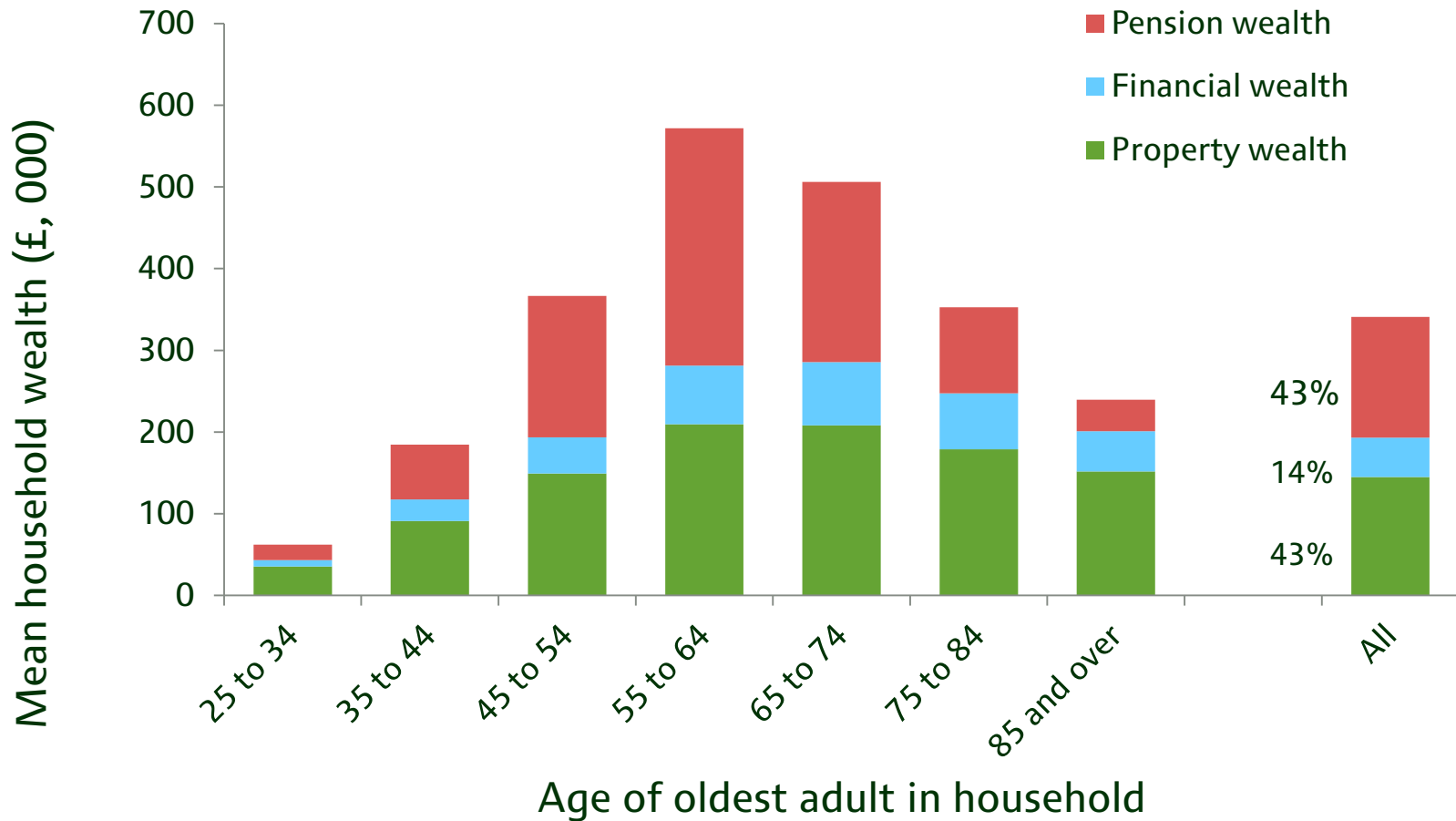
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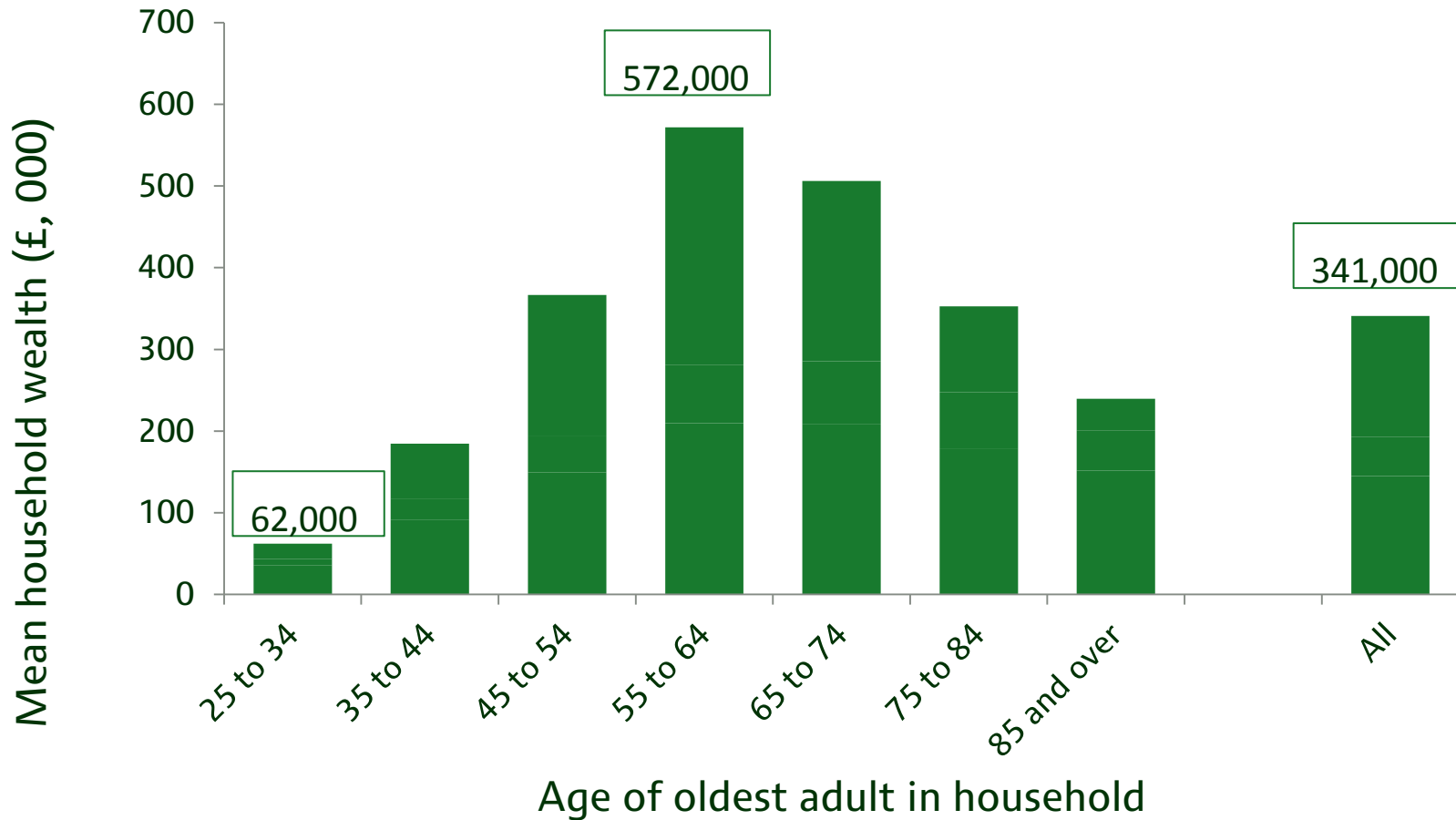
- Valuing defined benefit pensions:



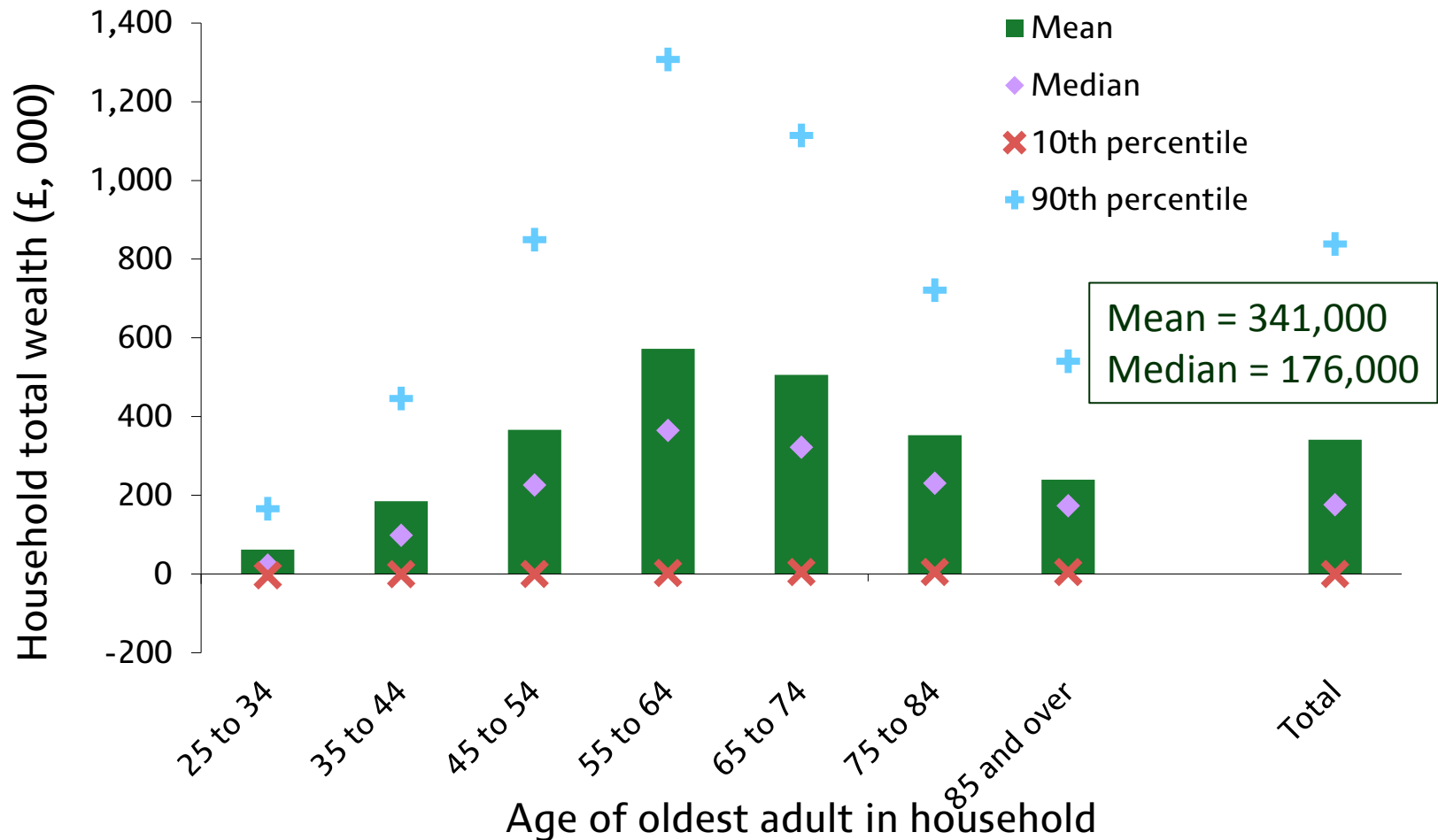
The composition of wealth in 2010-12



Total household wealth in 2010-12



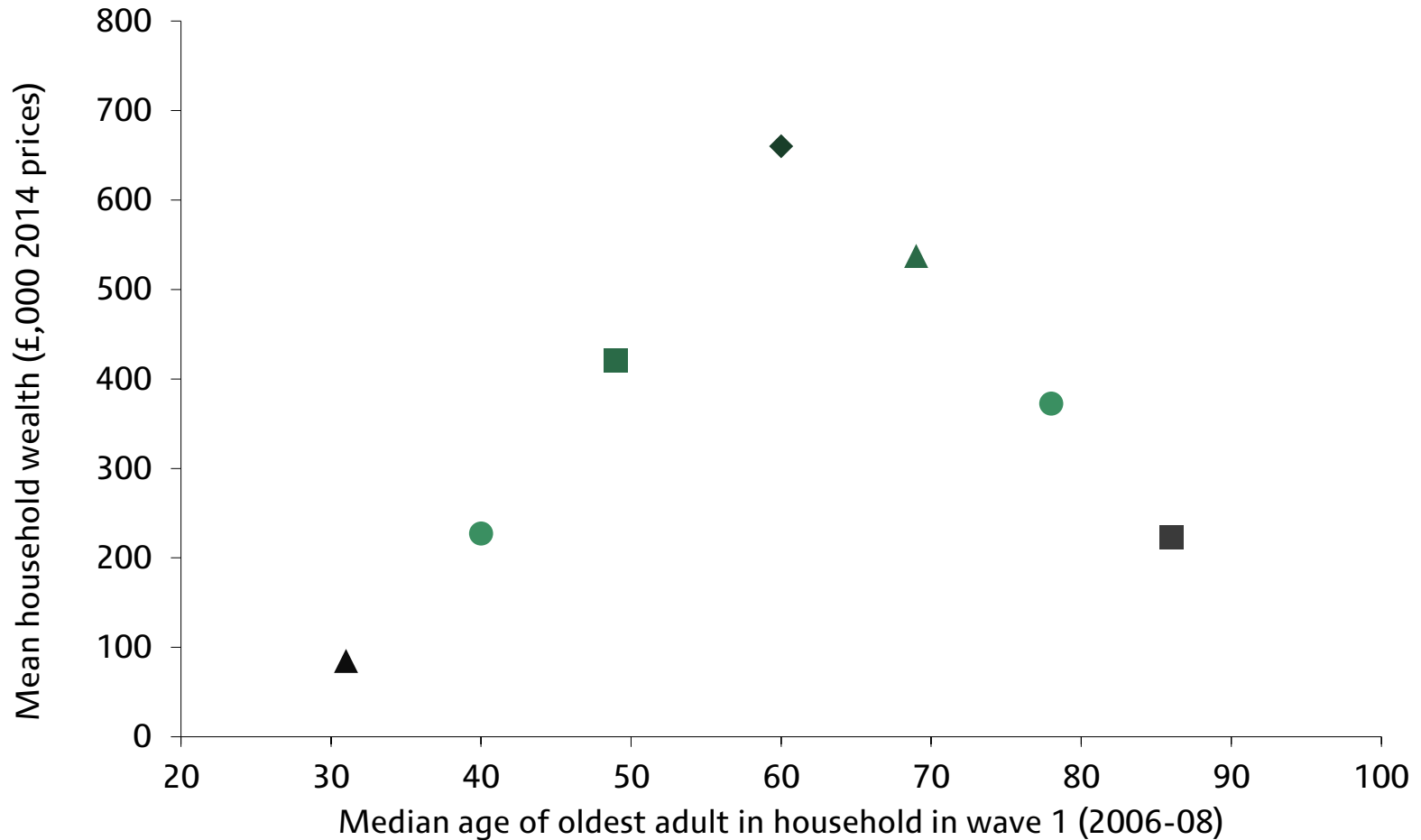
The distribution of wealth by age 2010-12



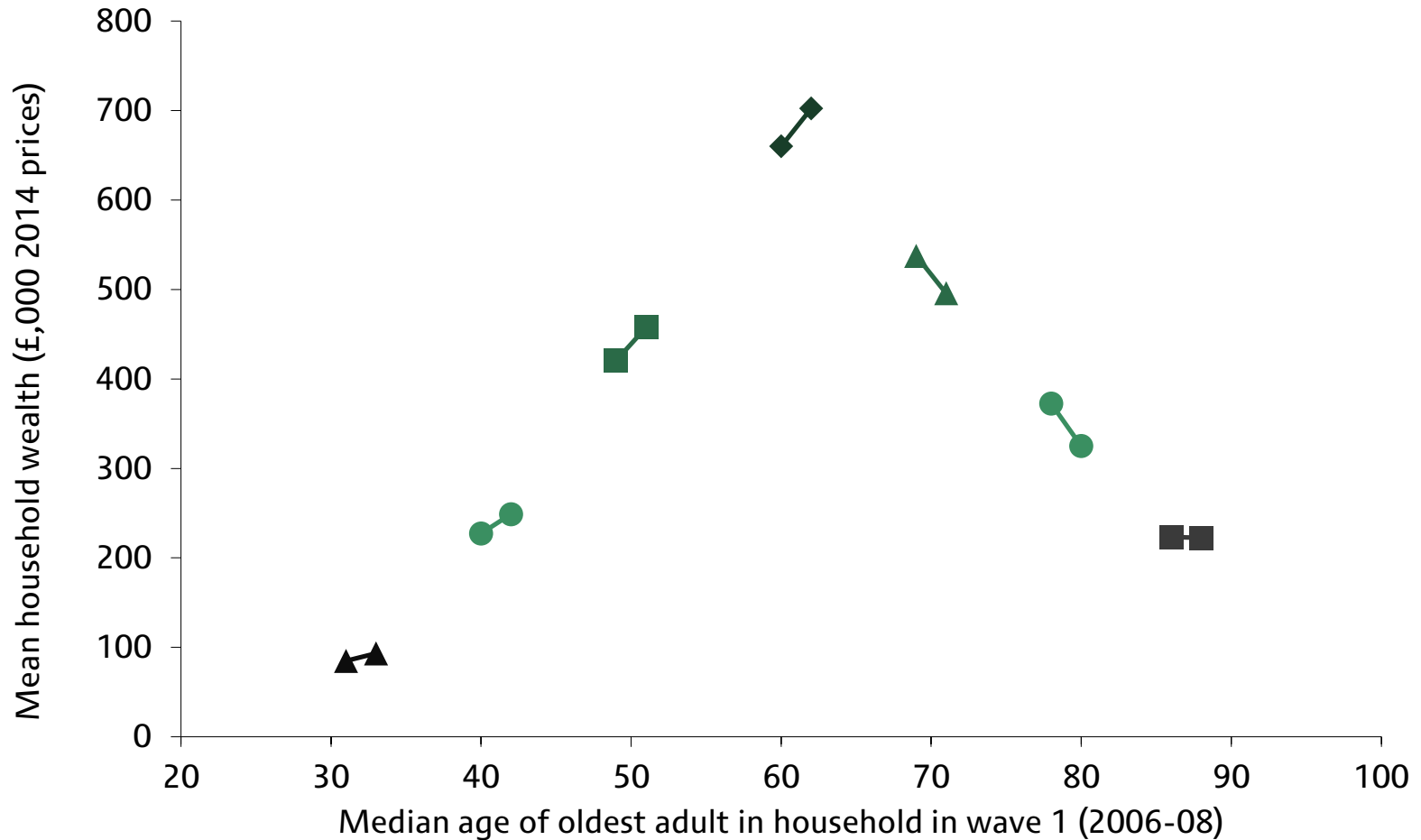
The evolution of wealth 2006-08 to 2010-12

- Sample of households in all 3 waves of WAS
- and that are stable across all 3 waves
 - No adult joins
 - No adult leaves
- Apply weights to account for sample selection
- Adjust wealth for consumer price inflation to compare spending power of wealth over time

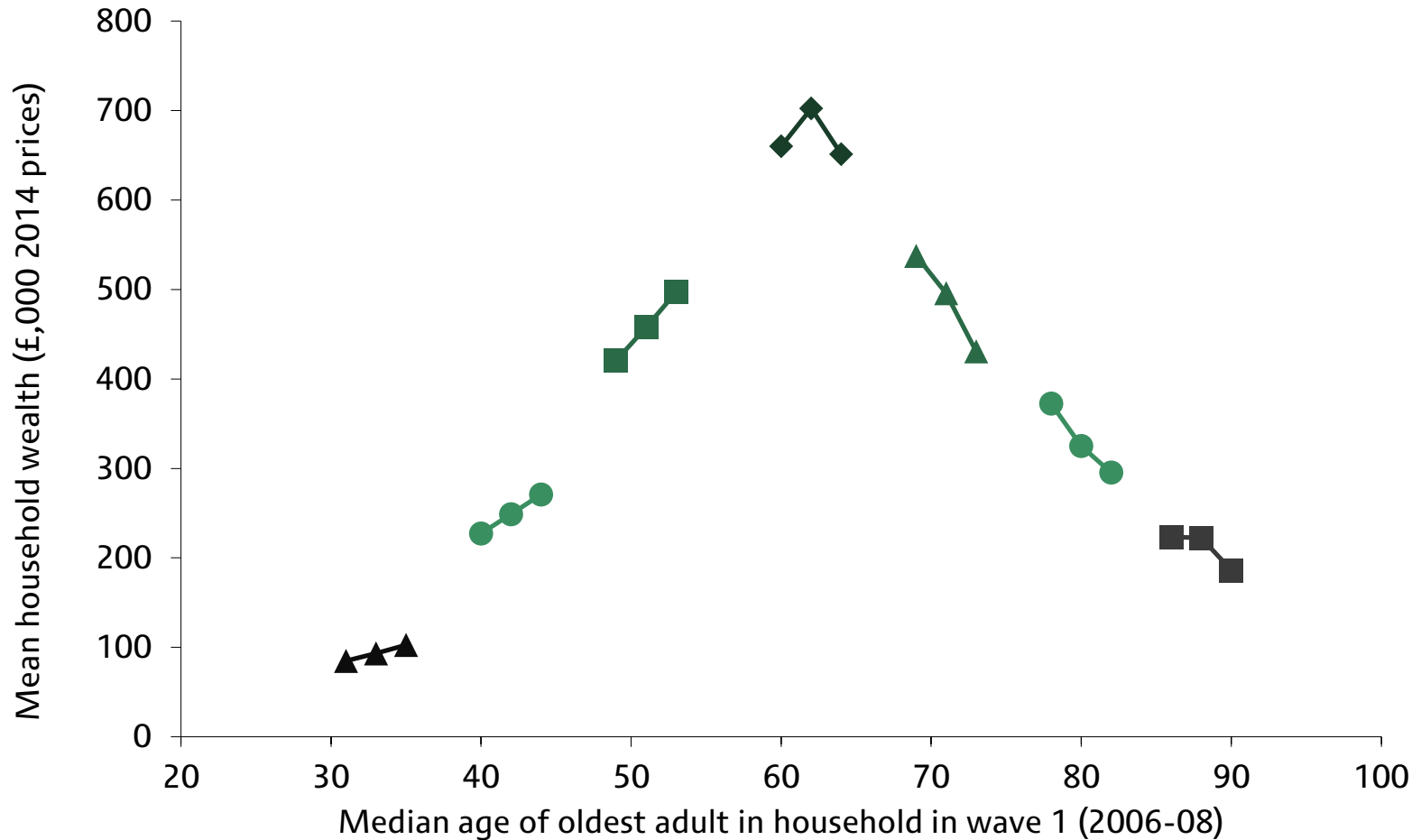
The evolution of wealth 2006-08 to 2010-12



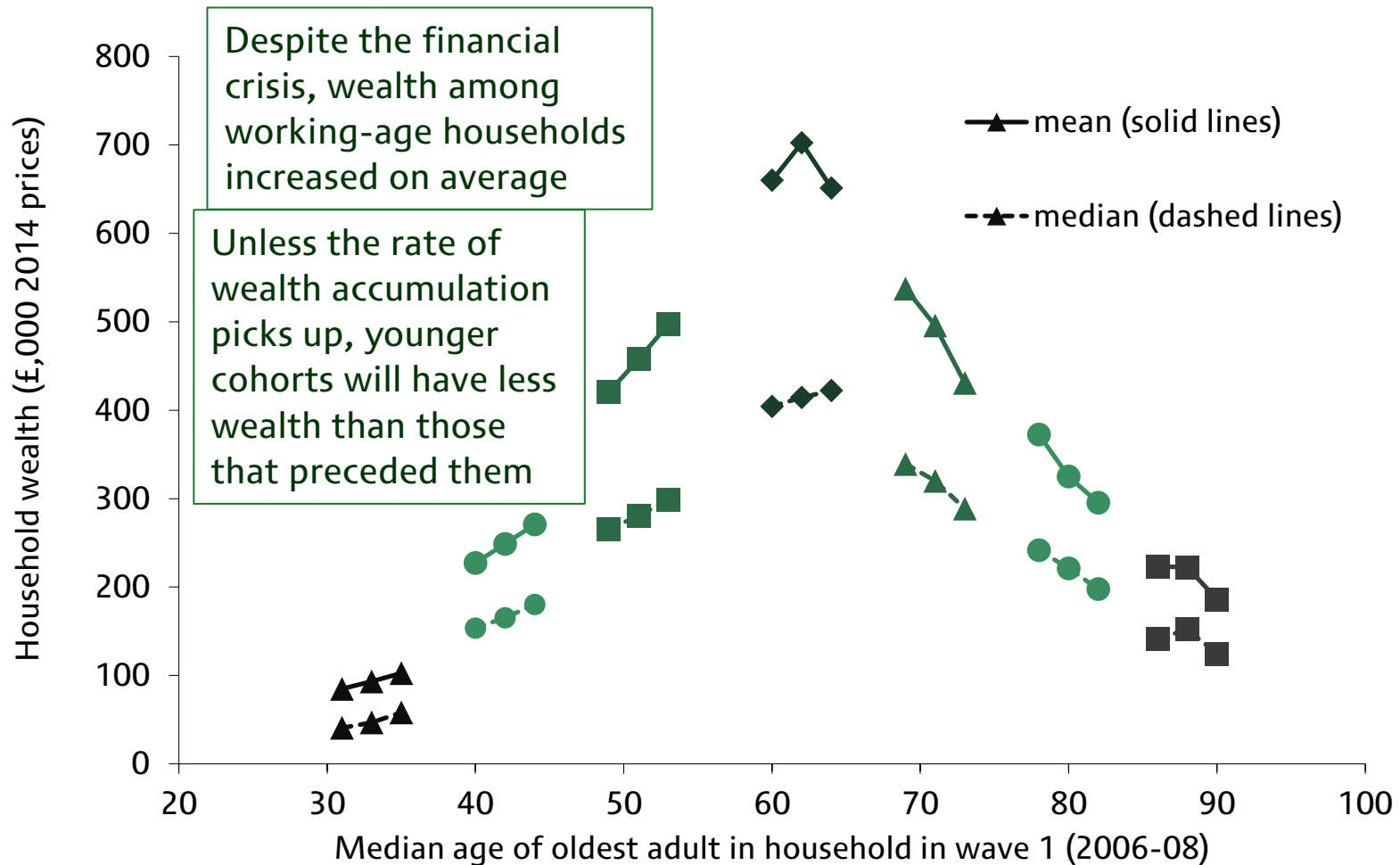
The evolution of wealth 2006-08 to 2010-12



The evolution of wealth 2006-08 to 2010-12



The evolution of wealth 2006-08 to 2010-12



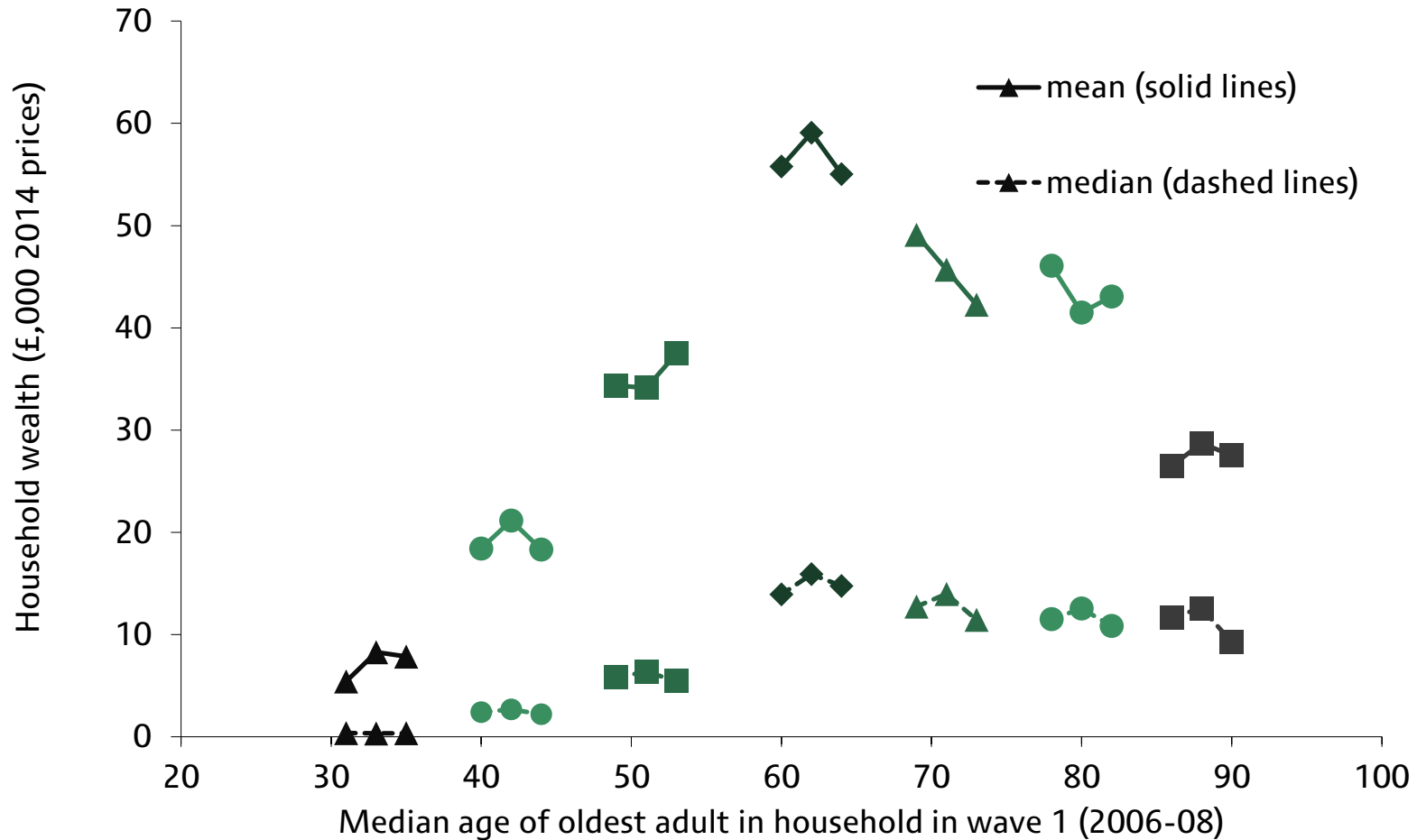
Digging deeper...

1. How did each of the components of wealth evolve?
2. Is the evolution of wealth driven by *active* or *passive* changes?
 - Active changes are from saving out of current income or spending out of current wealth
 - Passive changes are those resulting from returns on existing capital
3. How did changes in wealth differ across households and what explains this?

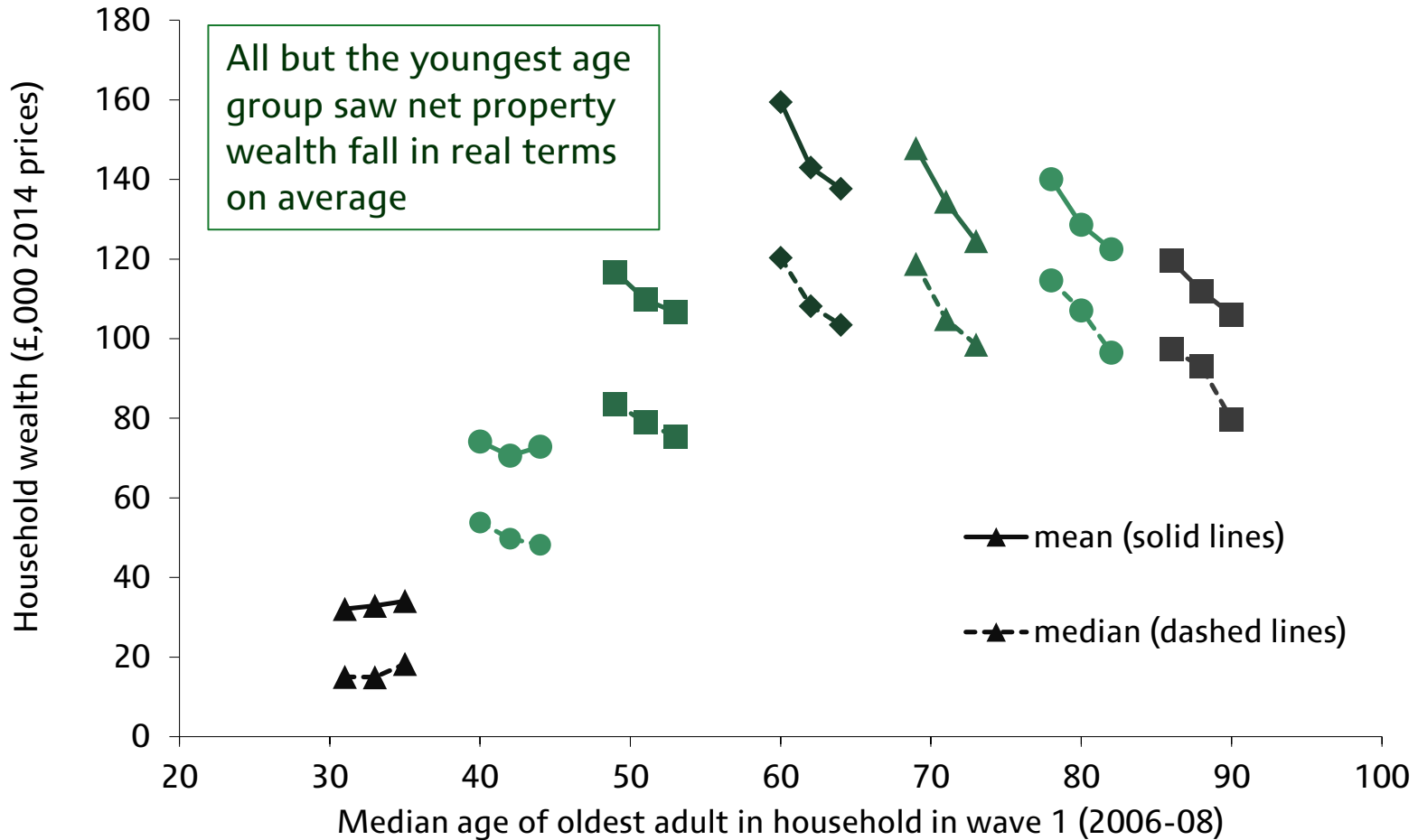
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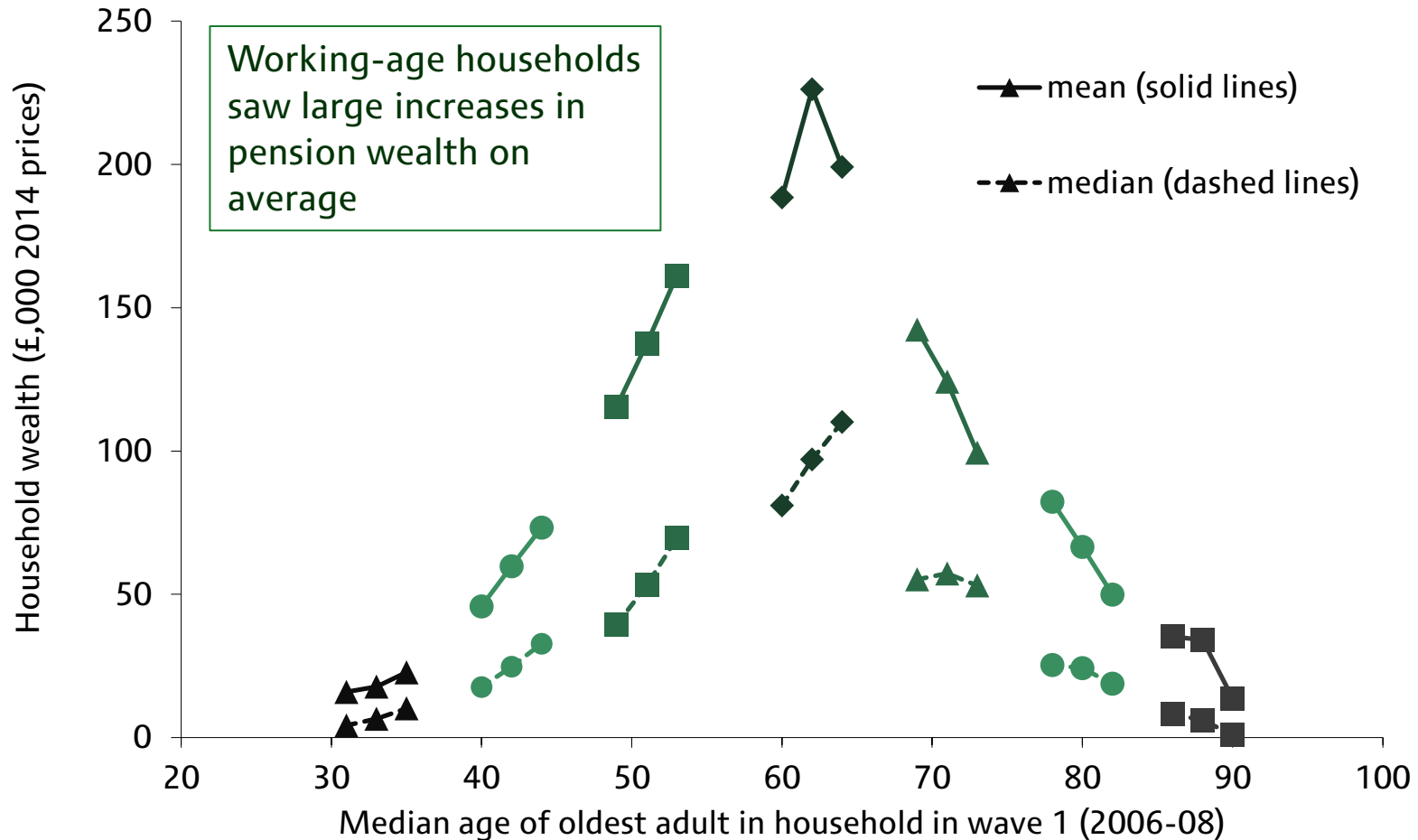
The evolution of financial wealth 2006-08 to 2010-12



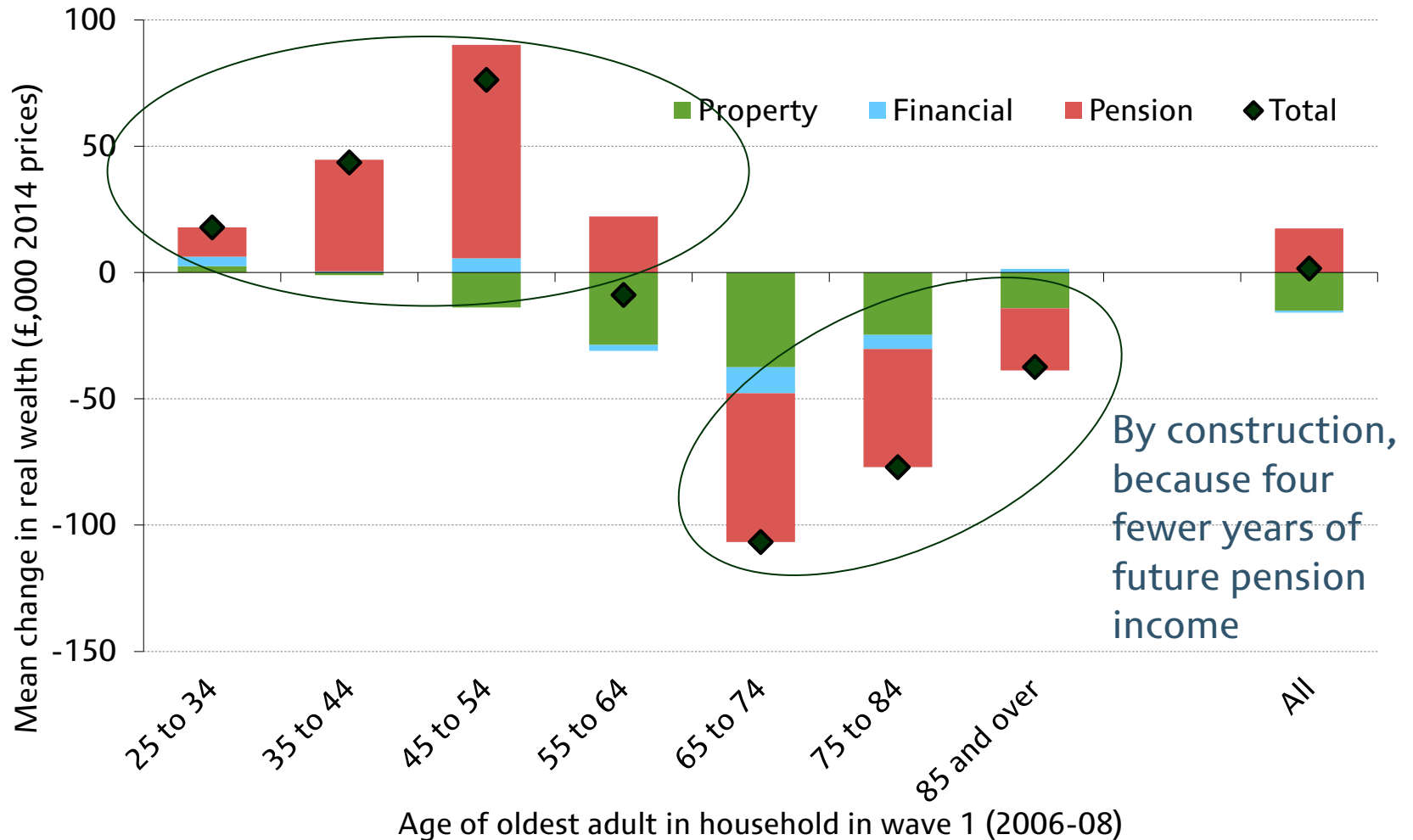
The evolution of property wealth 2006-08 to 2010-12



The evolution of private pension wealth 2006-08 to 2010-12

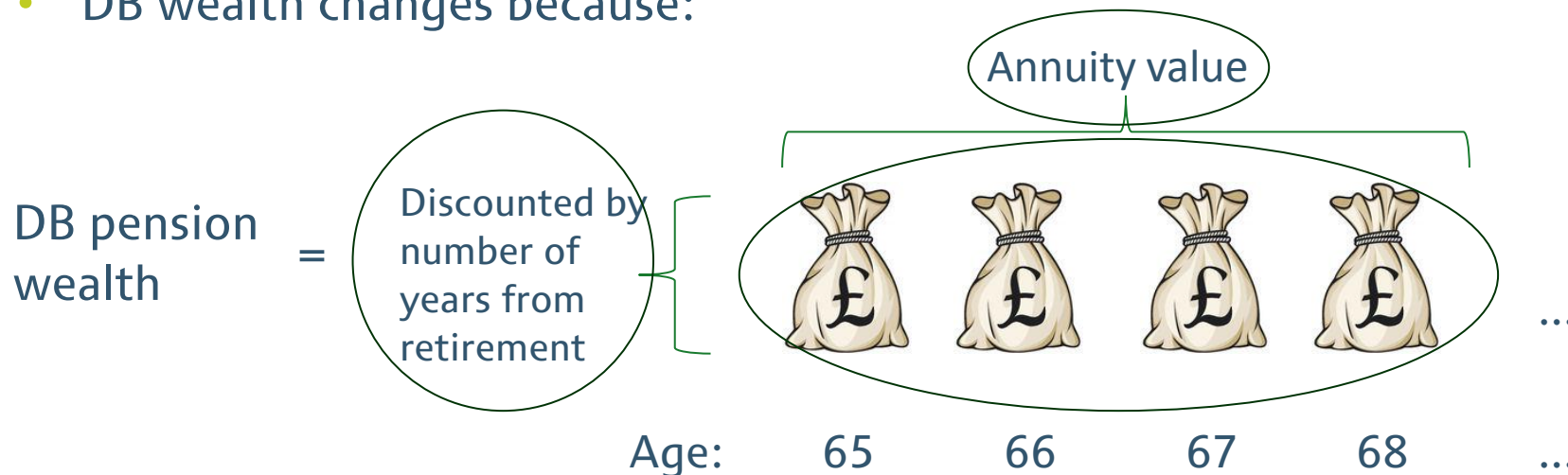


Changes in wealth 2006-08 to 2010-12

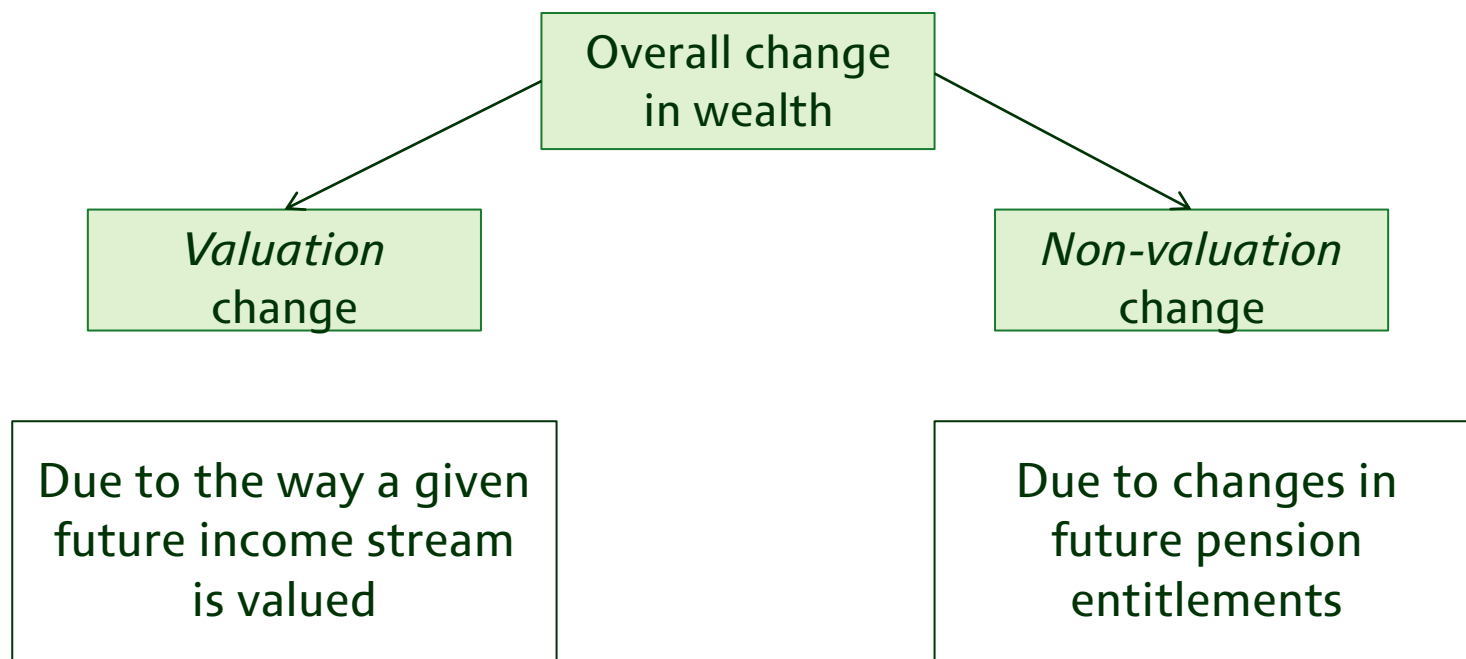


Pension valuation changes

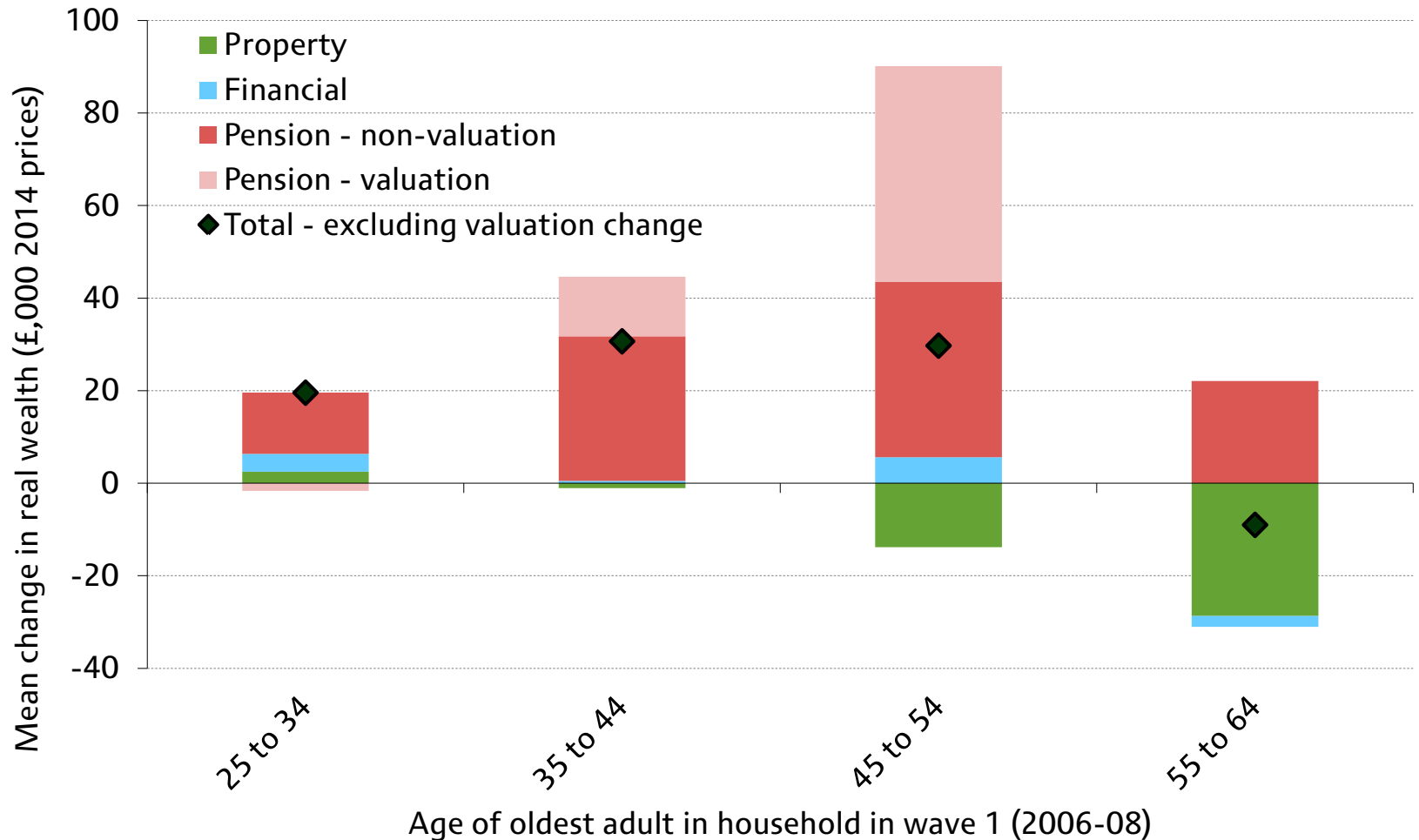
- Some of the increases in pension wealth may be due to the way that *defined benefit* pension wealth is valued
 - i.e. they don't reflect changes in pension entitlements
- DB wealth changes because:



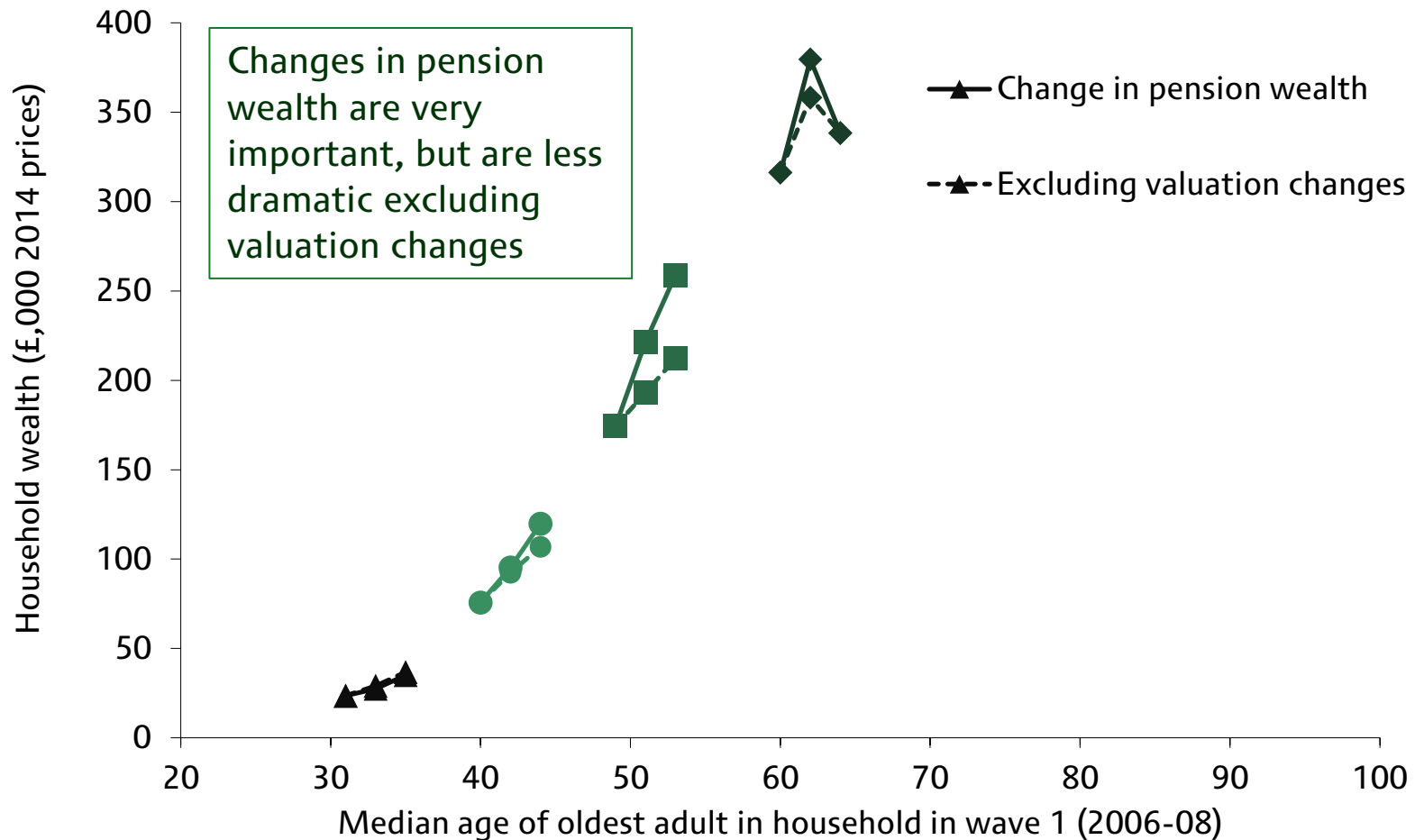
Pension valuation changes



Changes in wealth 2006-08 to 2010-12: excluding pension valuation changes



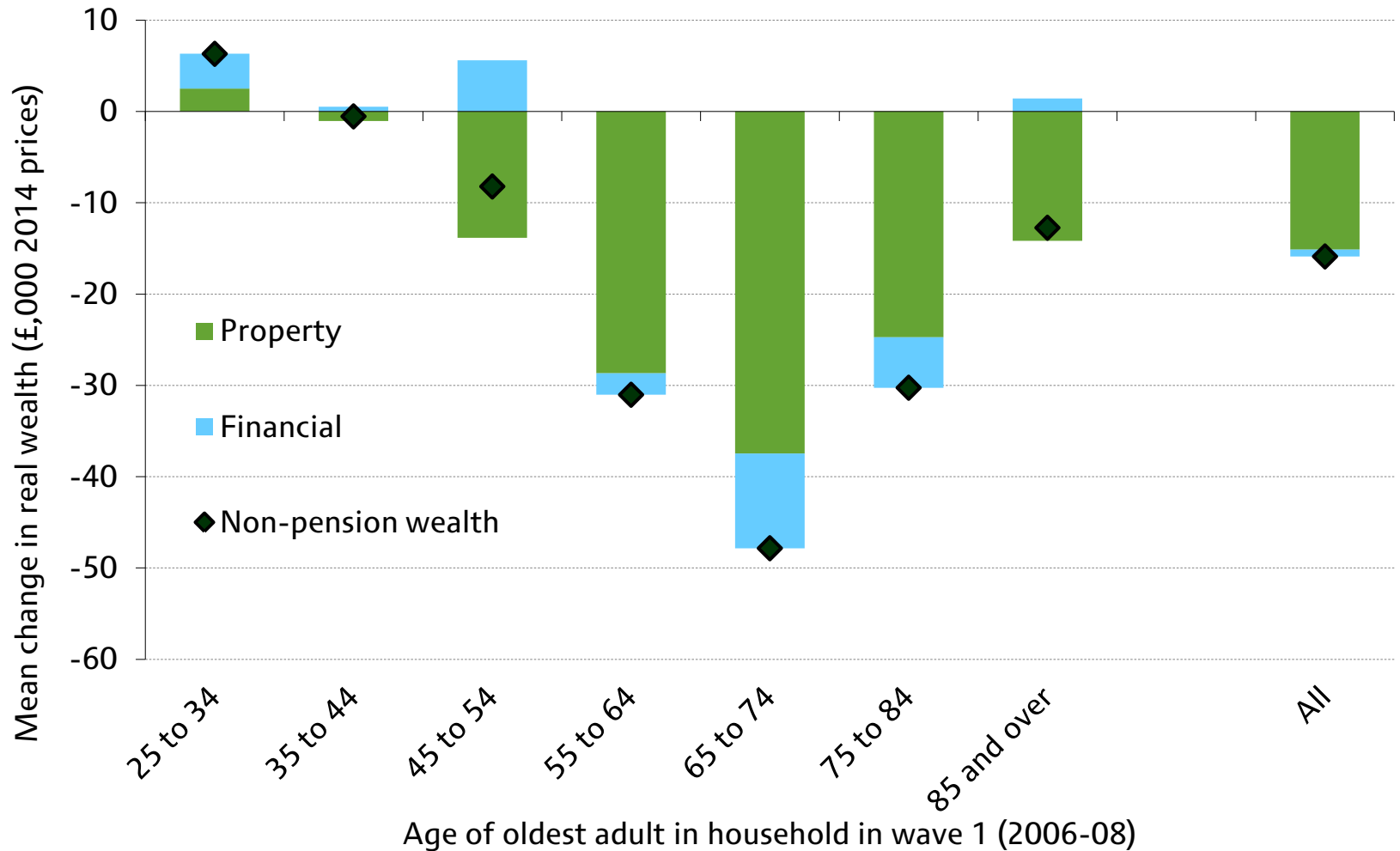
The evolution of private pension wealth 2006-08 to 2010-12: excluding valuation changes



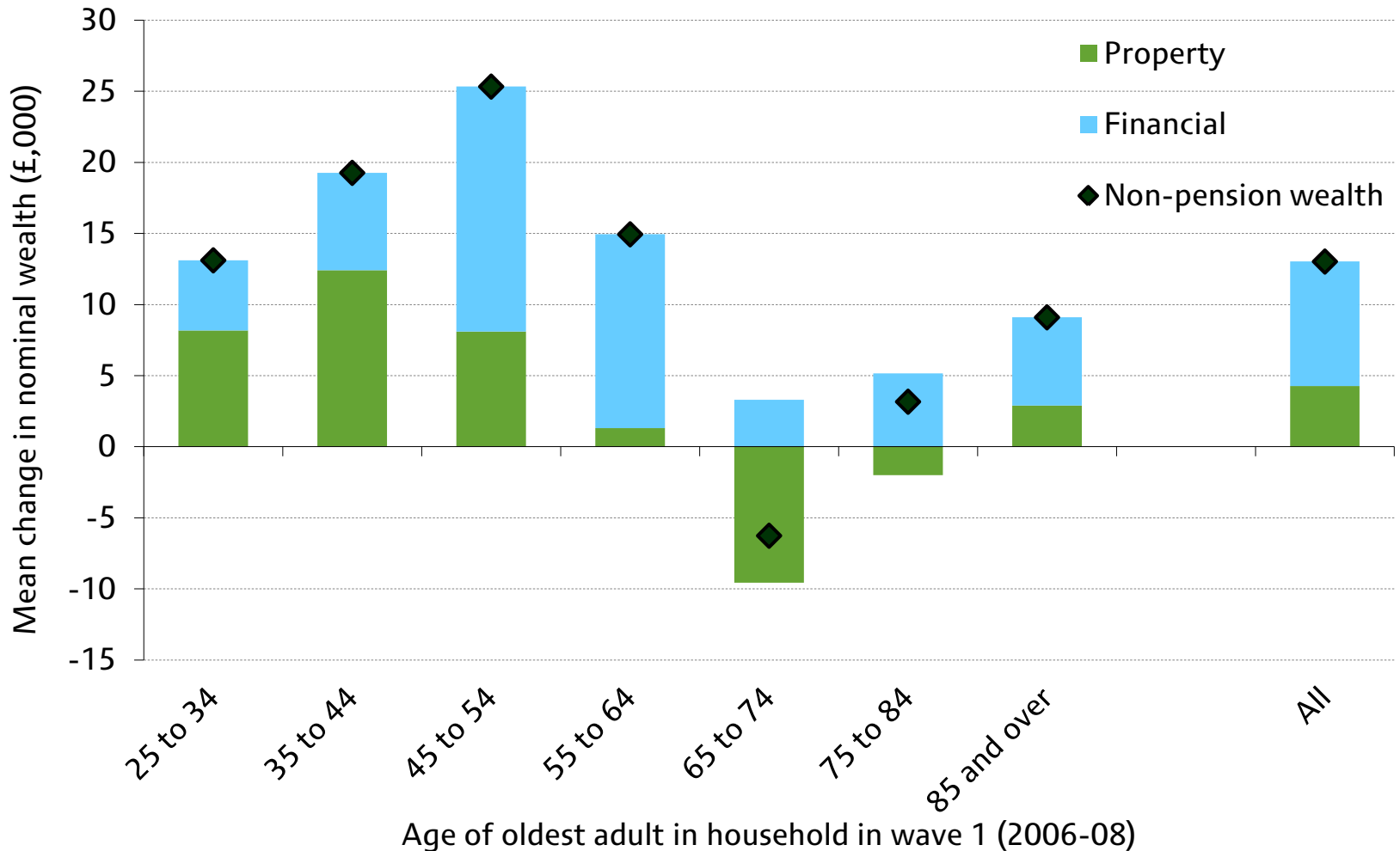
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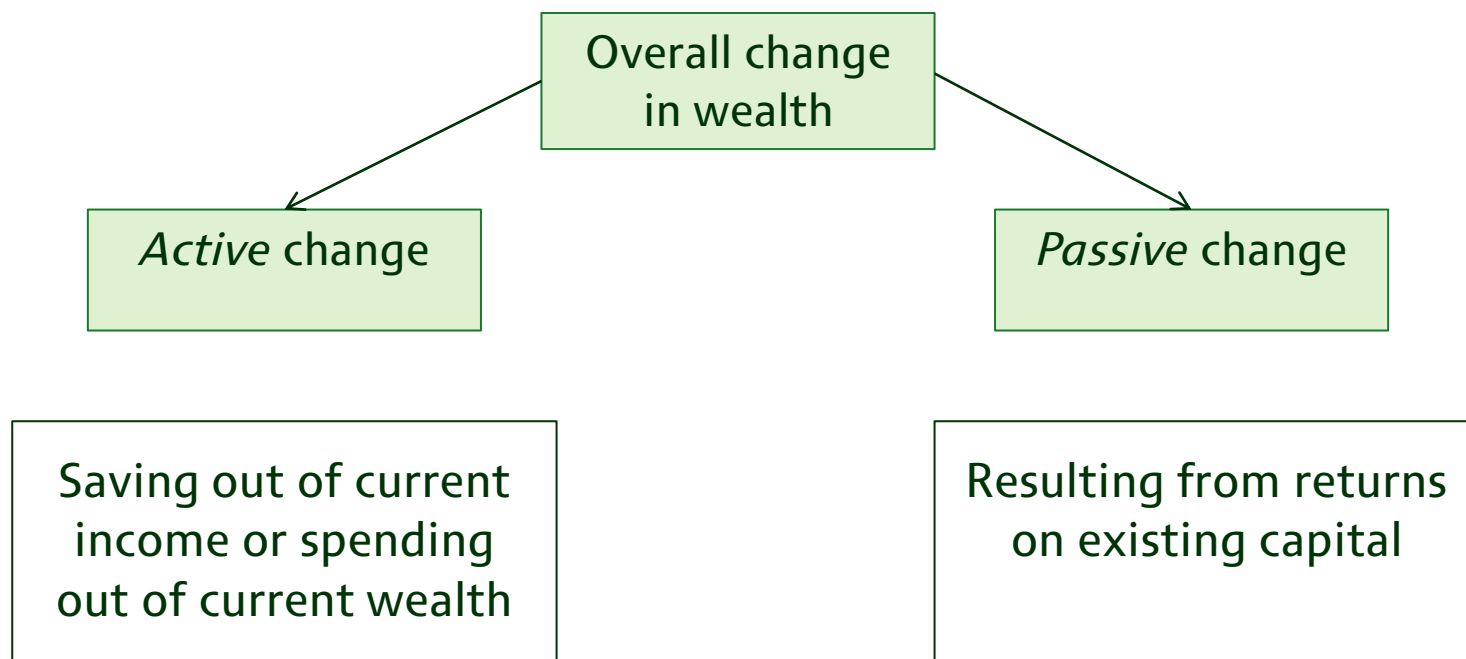
Changes in non-pension wealth 2006-08 to 2010-12



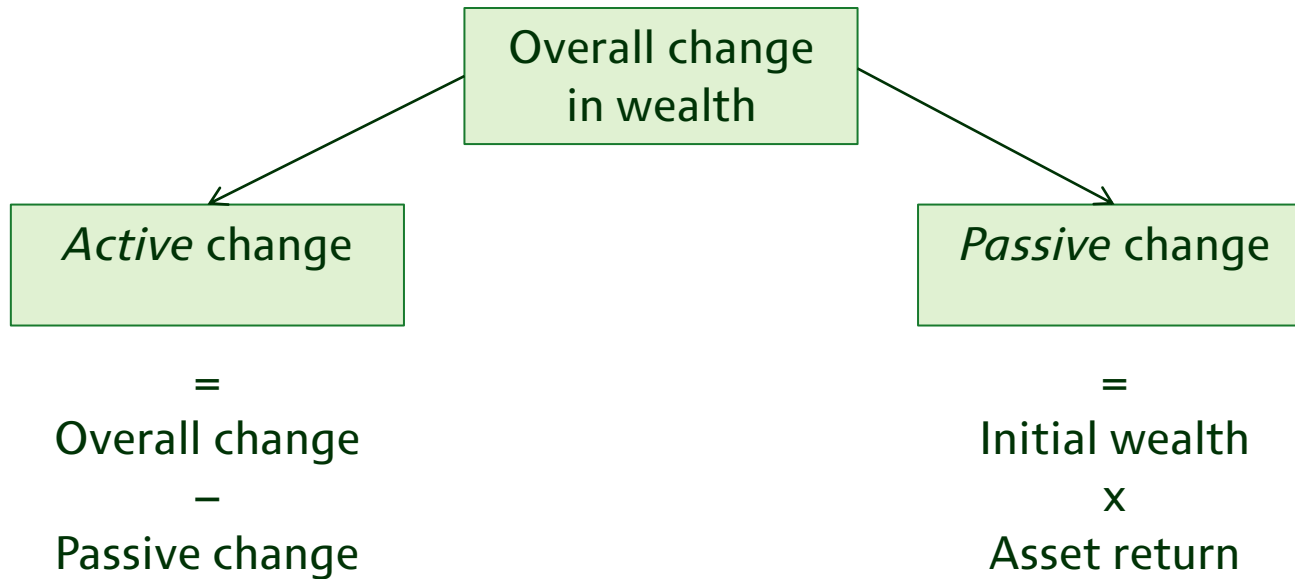
Nominal changes in non-pension wealth 2006-08 to 2010-12



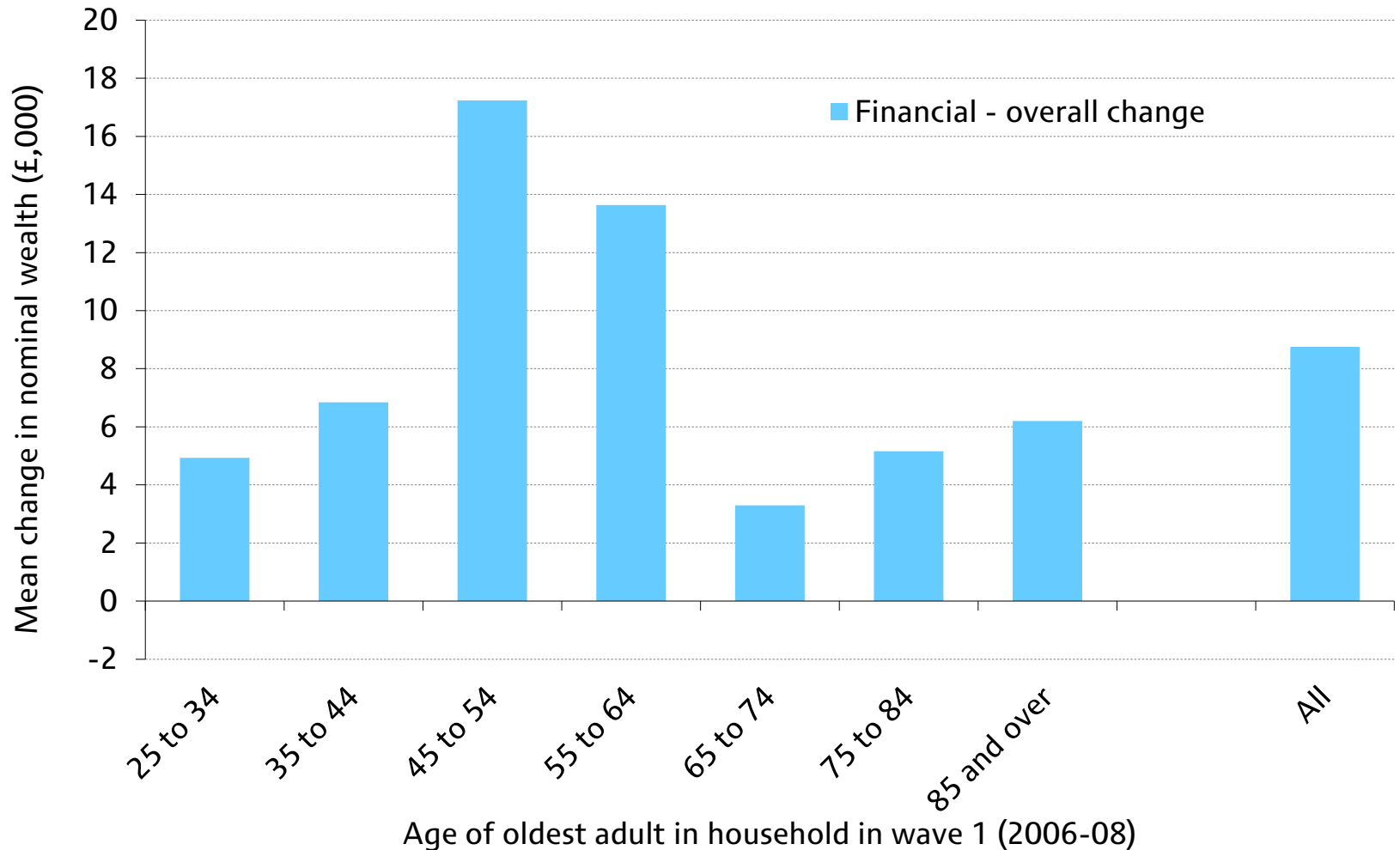
Active and passive saving



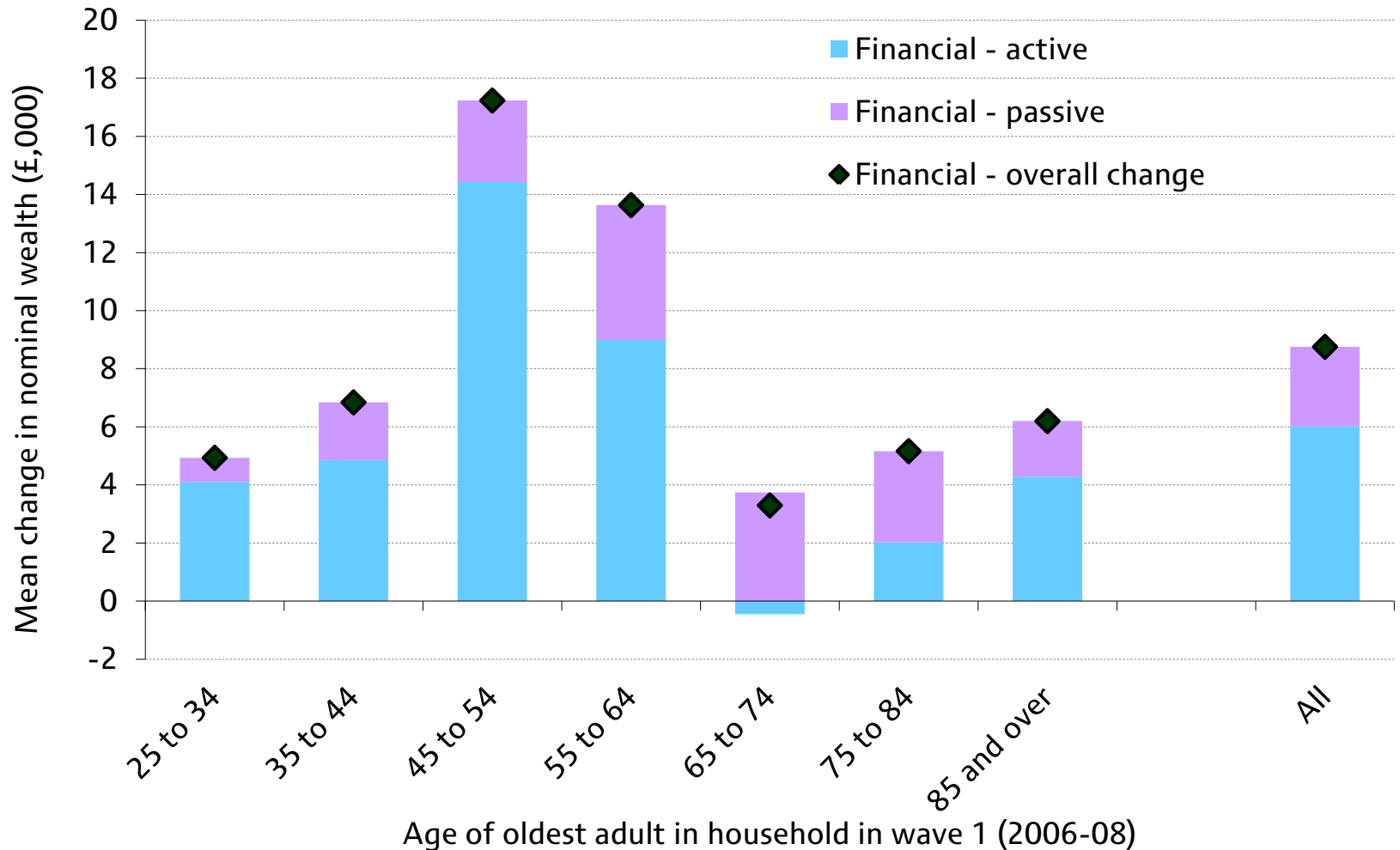
Active and passive saving



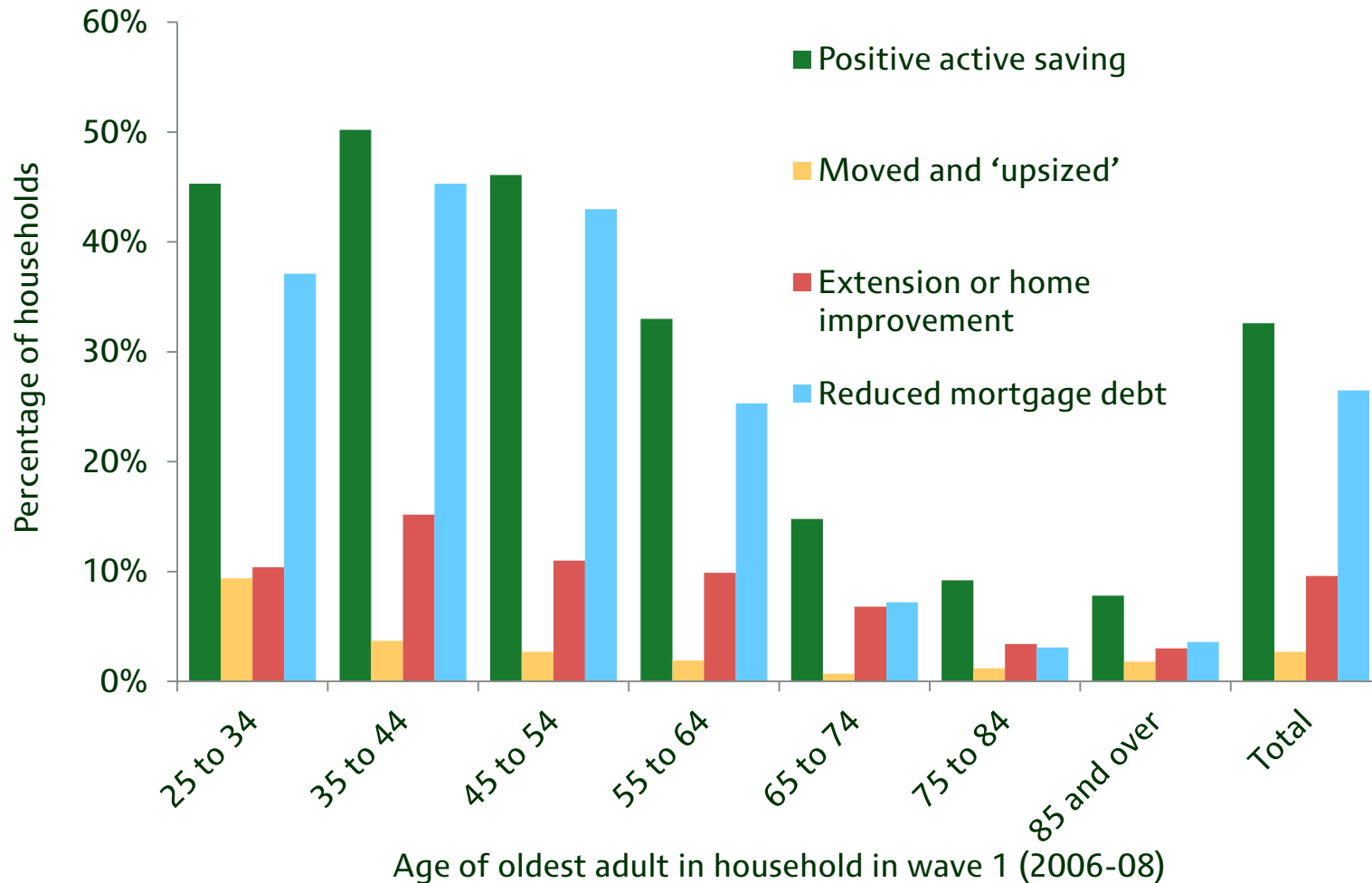
Active and passive saving – financial wealth



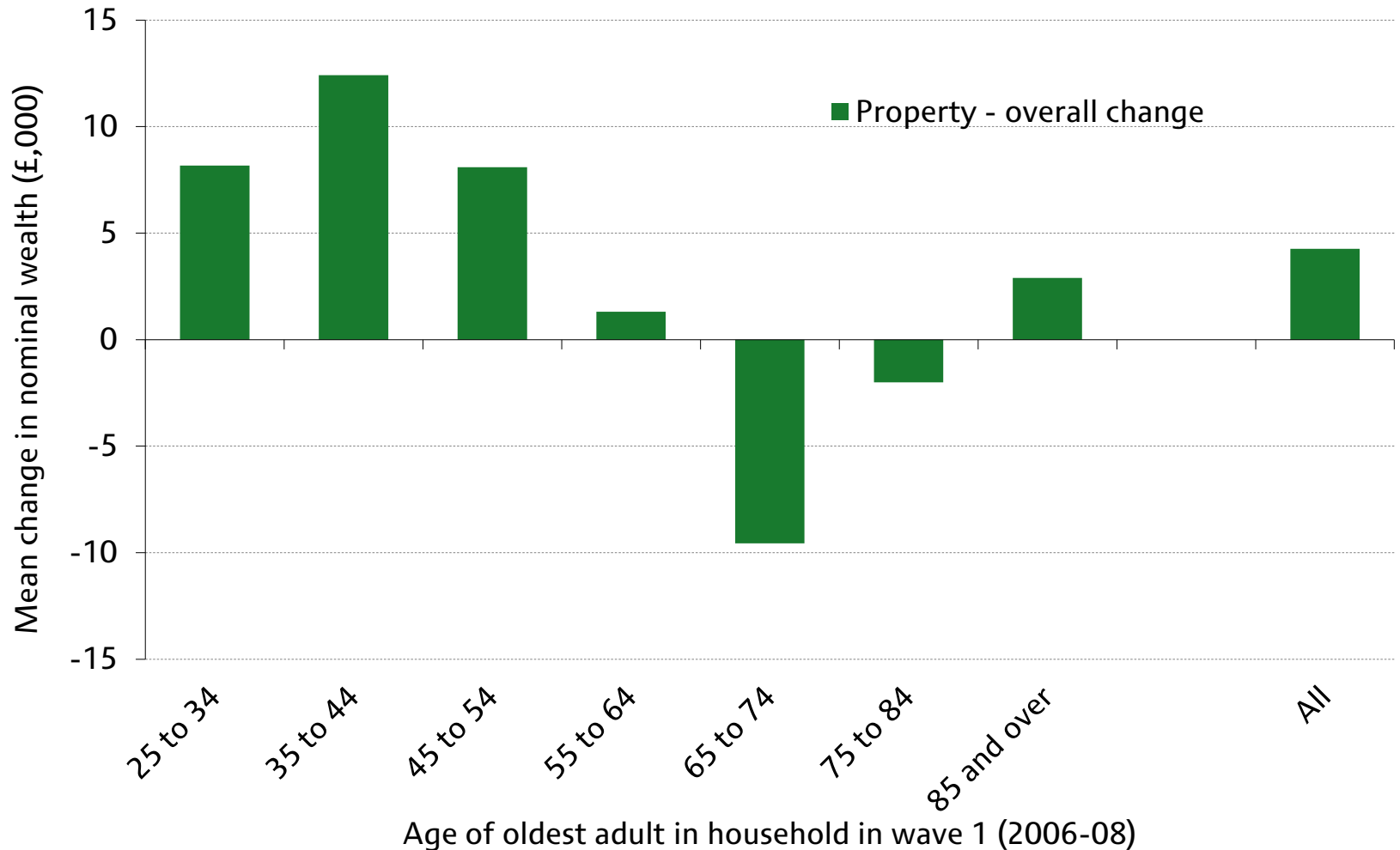
Active and passive saving – financial wealth



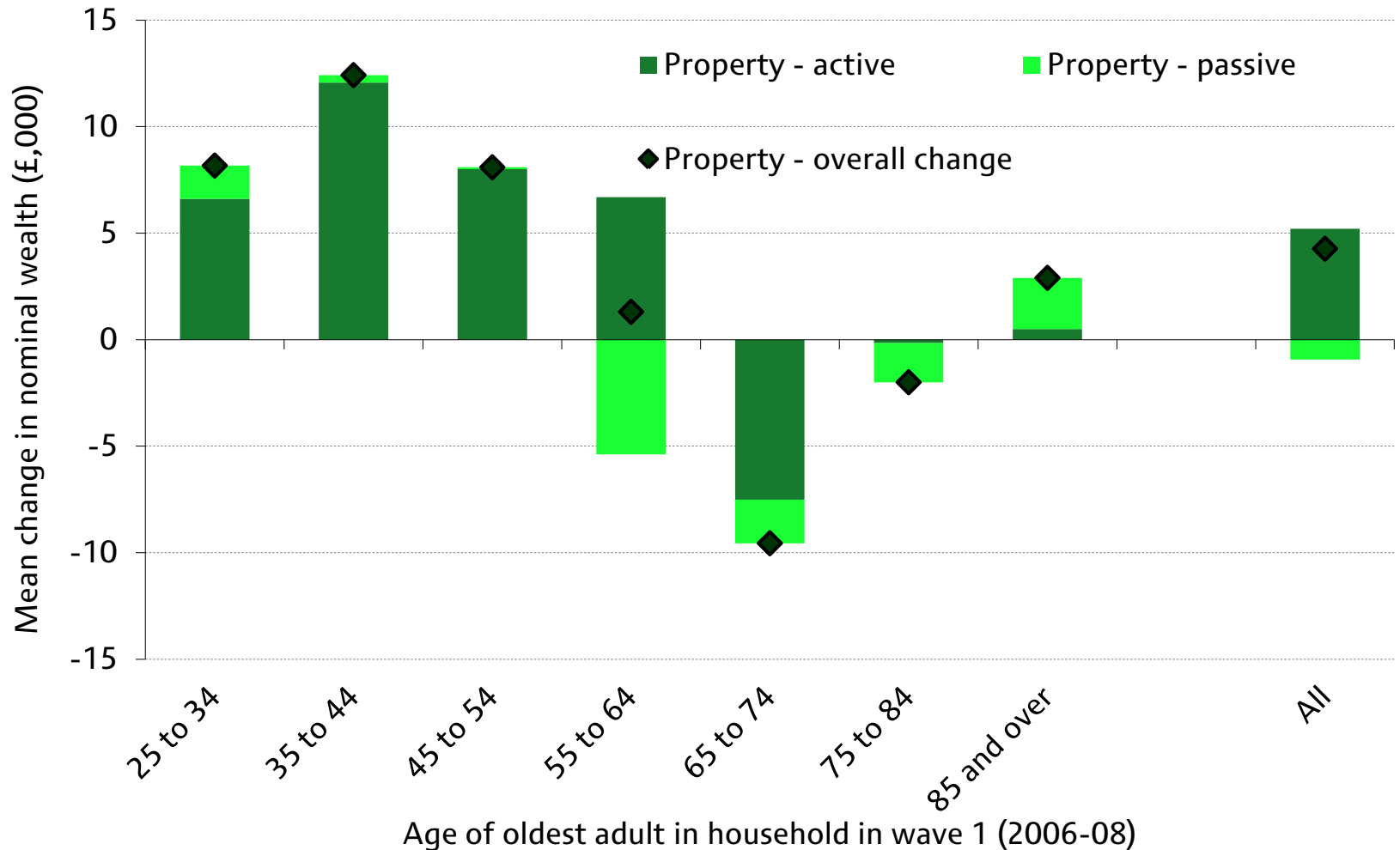
Active and passive saving – property wealth



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Active and passive saving – property wealth



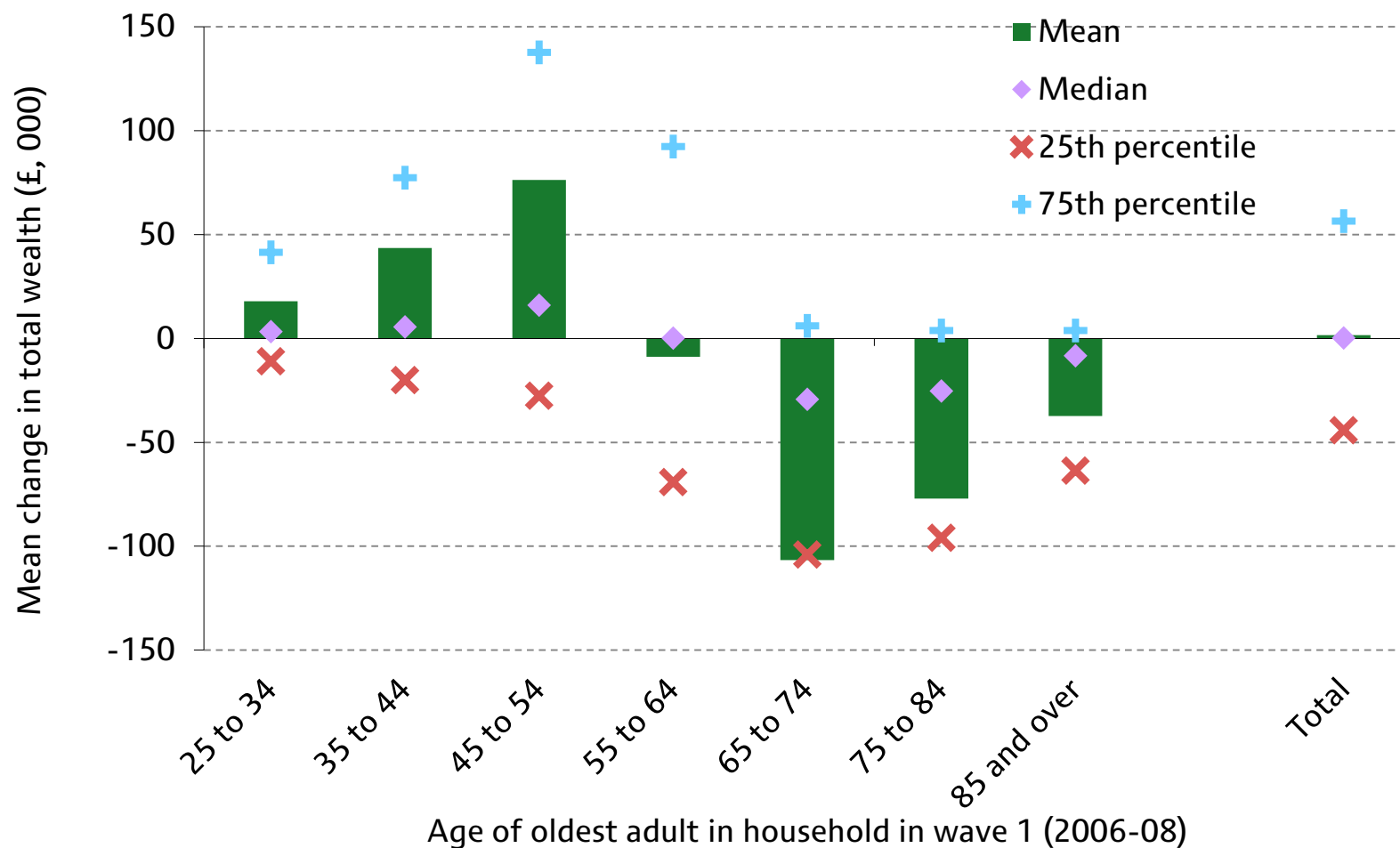
Total active saving

- Defining total active saving as active saving in financial and property wealth plus non-valuation changes in pension wealth:
 - Active saving equivalent to 100% of net wealth change for 25 to 34 year olds; 75% for 35 to 44 year olds; and 42% for 45 to 54 year olds
 - All three cohorts aged 35 to 64 had roughly the same level (approx £50k over four years) of active saving
 - Active saving in property and financial wealth were, on average, small relative to non-valuation changes in pension wealth

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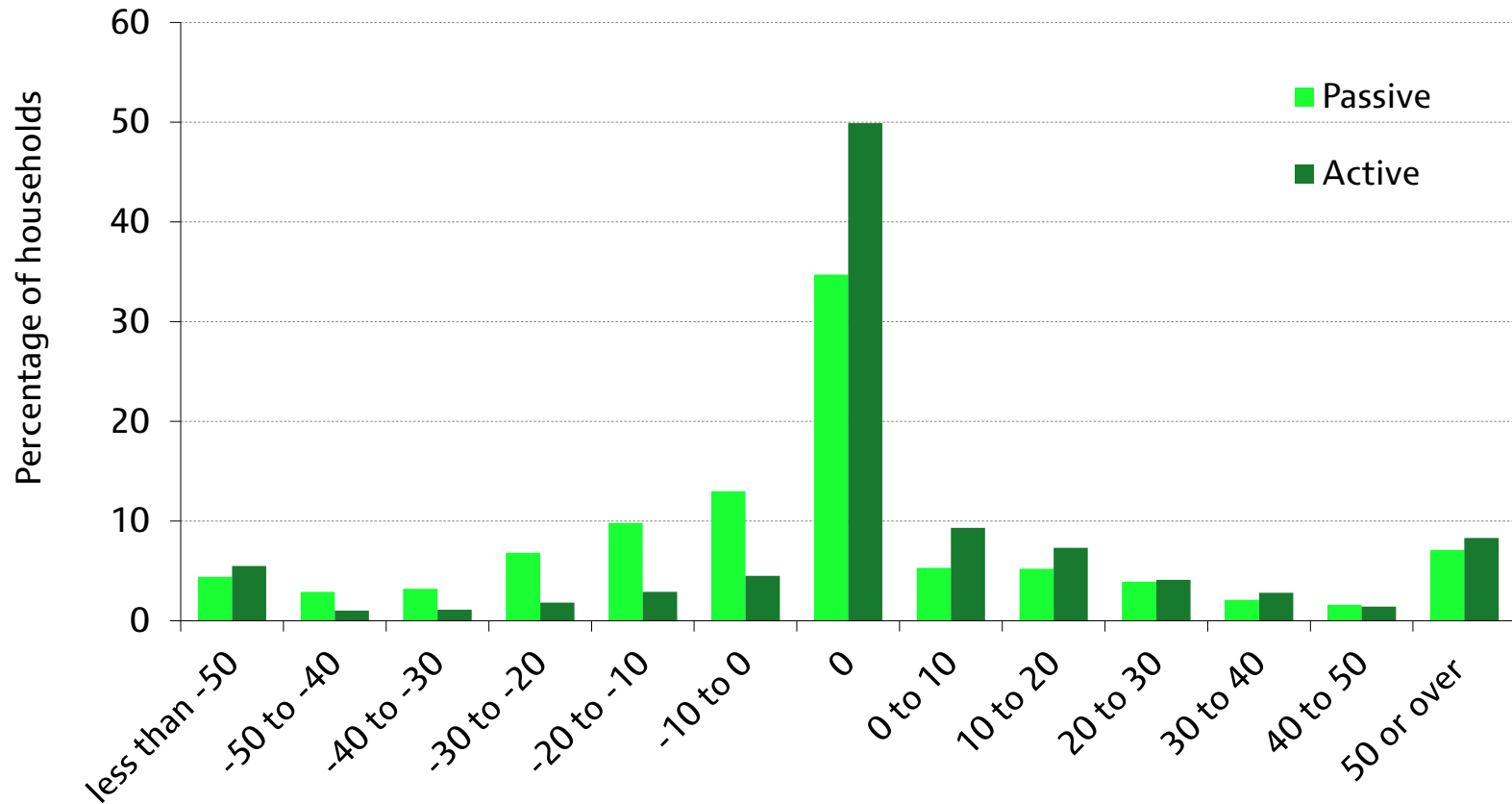
Distribution of changes in wealth 2006-08 to 2010-12



Distribution of active and passive saving – financial wealth



Distribution of active and passive saving – property wealth



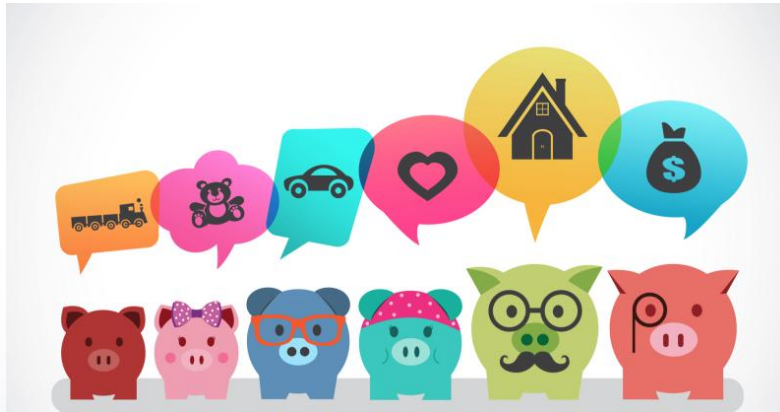
Change in nominal property wealth 2006/08 to 2010/12 (£ 000s)

Who *actively* saves?

- Not much of the variation across households in active saving is explained by the household characteristics we consider
 - Wealth, income, age group, household type, employment and education status
- Younger households have more active saving; older households less
- Highest income households have higher active saving
 - For financial wealth, both in cash terms and as a percentage of income
- Wealthier households have lower active saving

The evolution of wealth - key findings

- Average total household wealth increased for working-age households despite the financial crisis
 - But young will have less wealth at each age than earlier generations did, unless the rate at which they are accumulating wealth picks up
- Increases in average wealth for working-age households were driven by increases in pension wealth
 - These appear smaller when we exclude valuation changes
- Virtually all age groups saw average property wealth fall in real terms
 - The exception are households aged 25 to 34
- At all ages, there is a wide distribution of wealth changes across households
 - Young and high income households are most likely to actively save



Attitudes towards saving

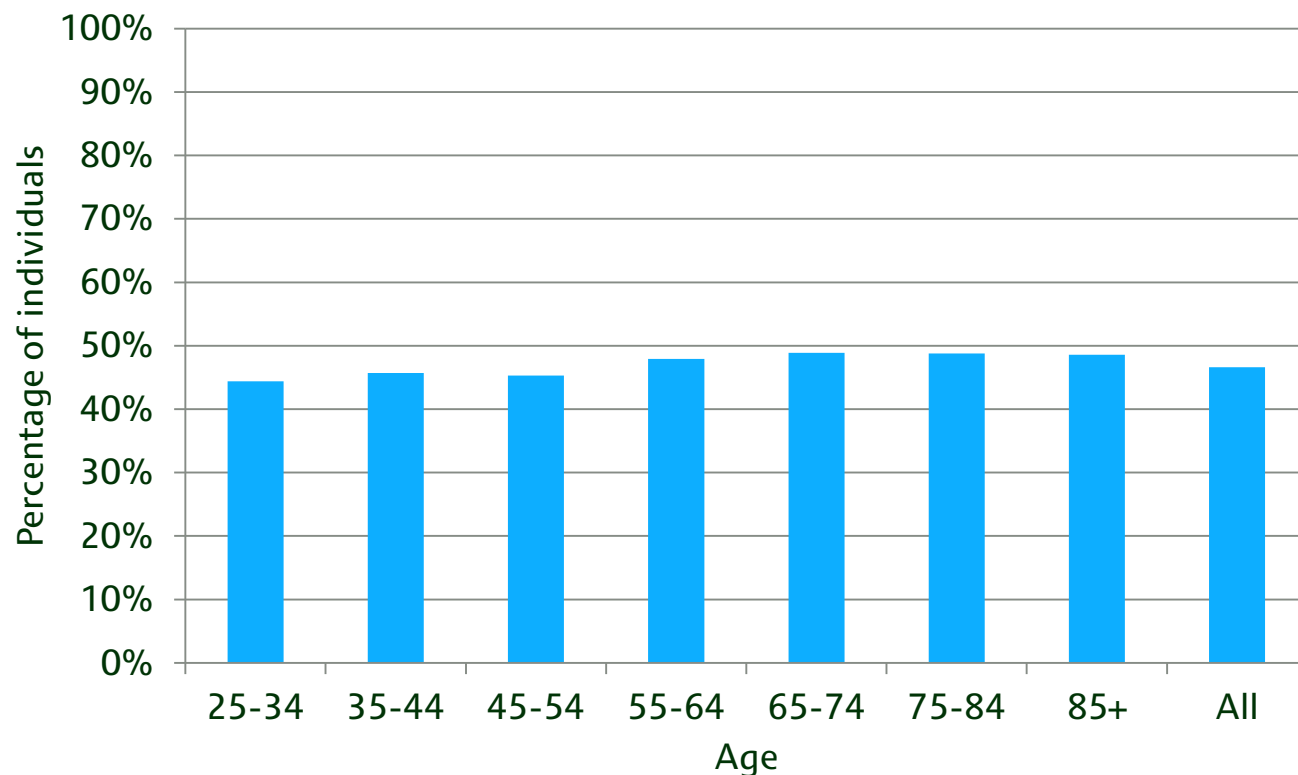
Aspects of attitudes that we explore

- Self-reported savings behaviour
 - Who reports saving in financial assets
 - What are stated reasons for saving or not saving
- Expectations about future retirement income sources
- Who is trusted for advice about retirement saving

Self-reported savings behaviour

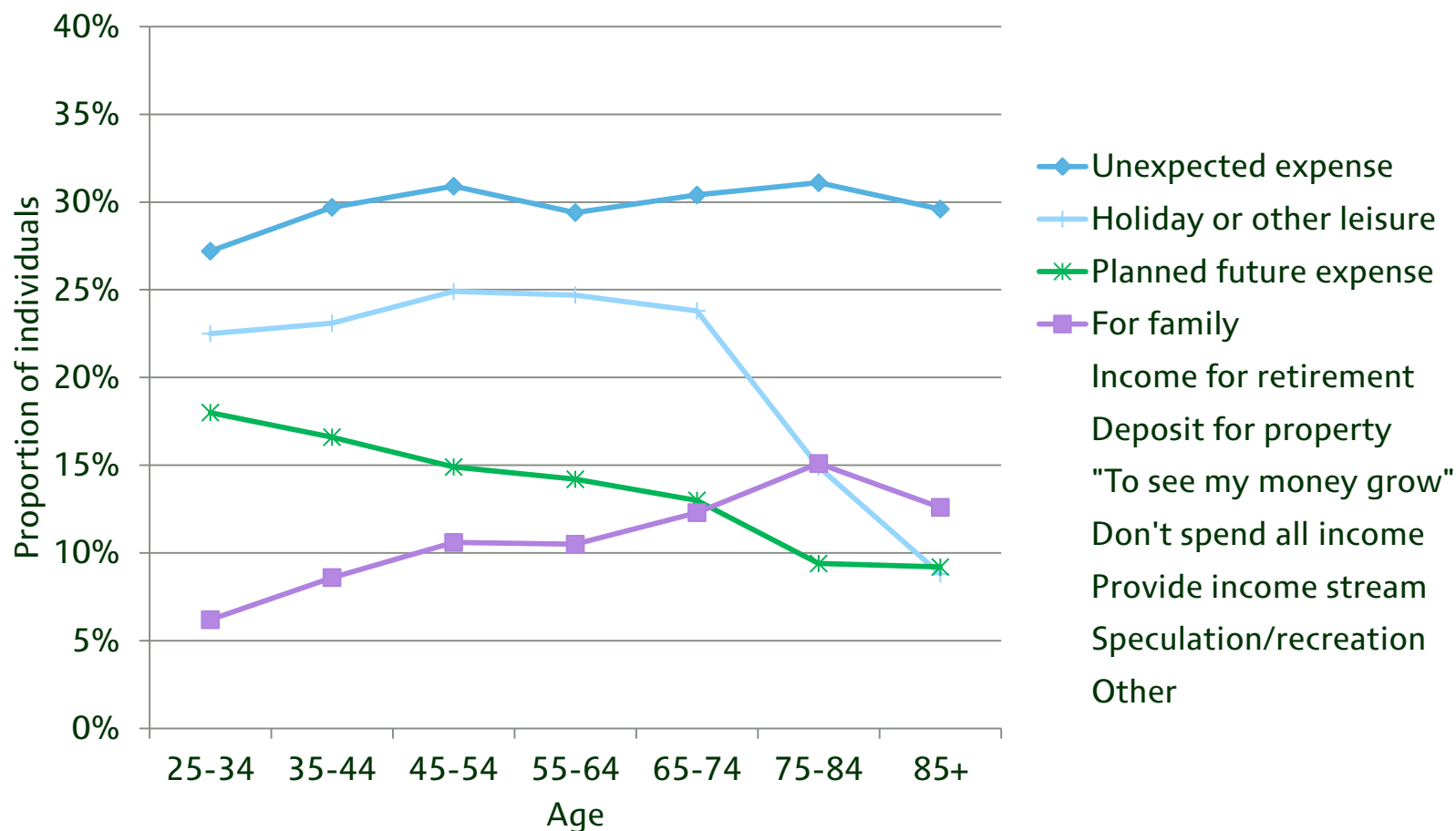
Self-report financial saving (2010/12)

- “Have you saved any of your income in the last two years, for example, by putting something away in a bank, building society or Post Office account other than to meet regular bills? (*exclude pensions, include shares etc*)”



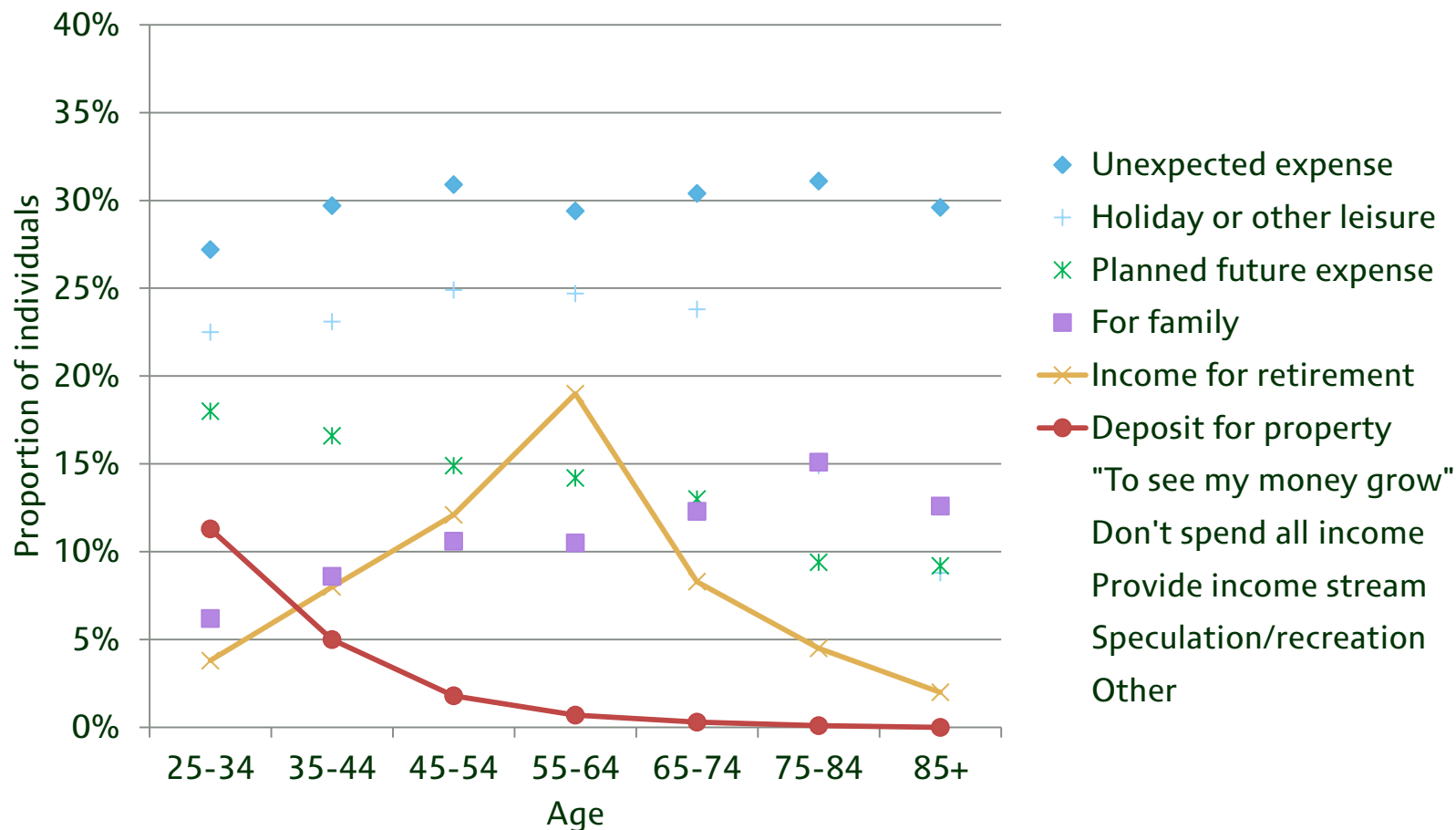
Note: Weighted cross section of all individuals aged 25 and over in 2010-12.

Reported main reasons for saving (2010/12)



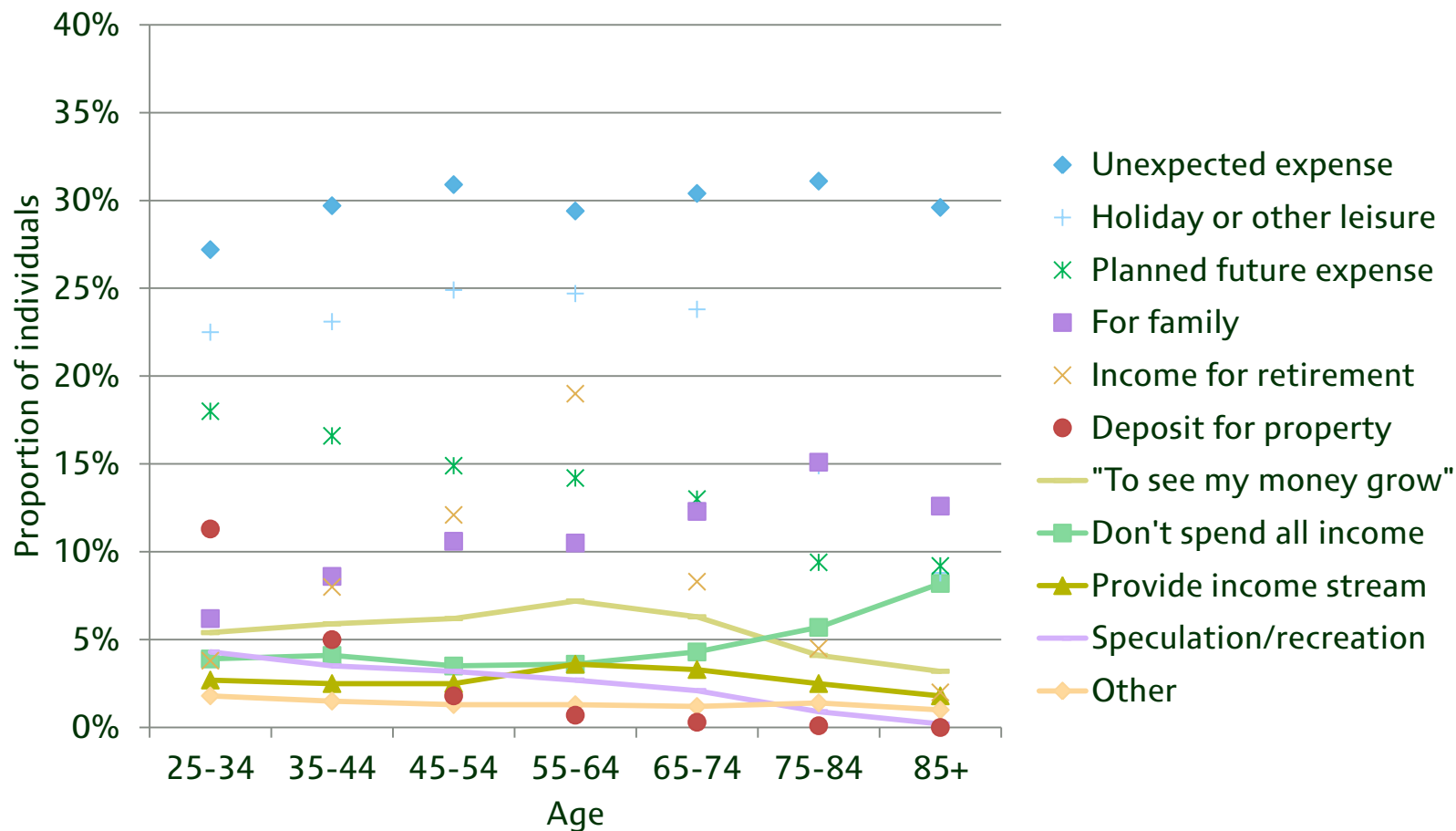
Note: Weighted cross section of all individuals aged 25 and over in 2010-12. Multiple main reasons for saving are permitted. Source: Figure 7.1 and Table 7.1.

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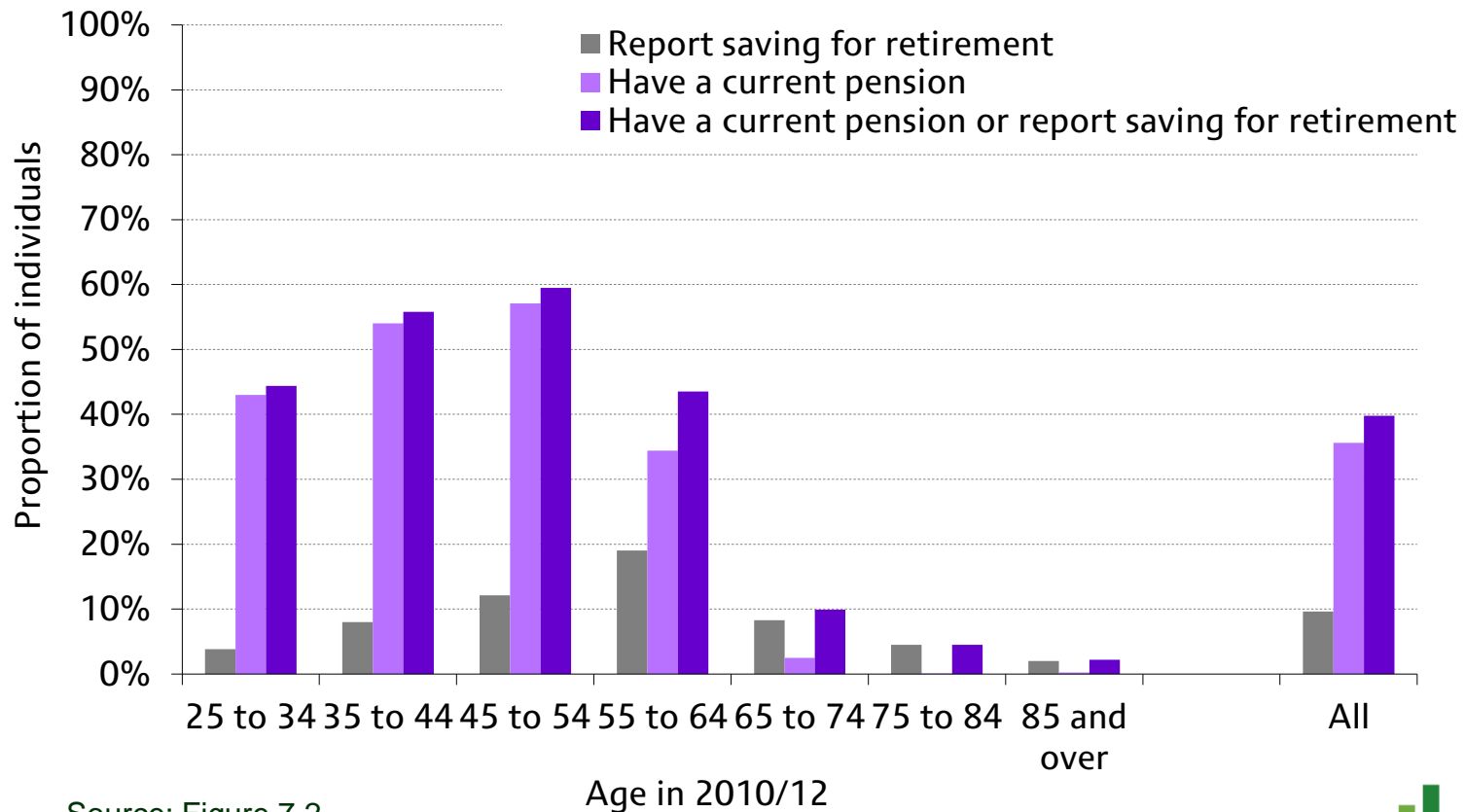
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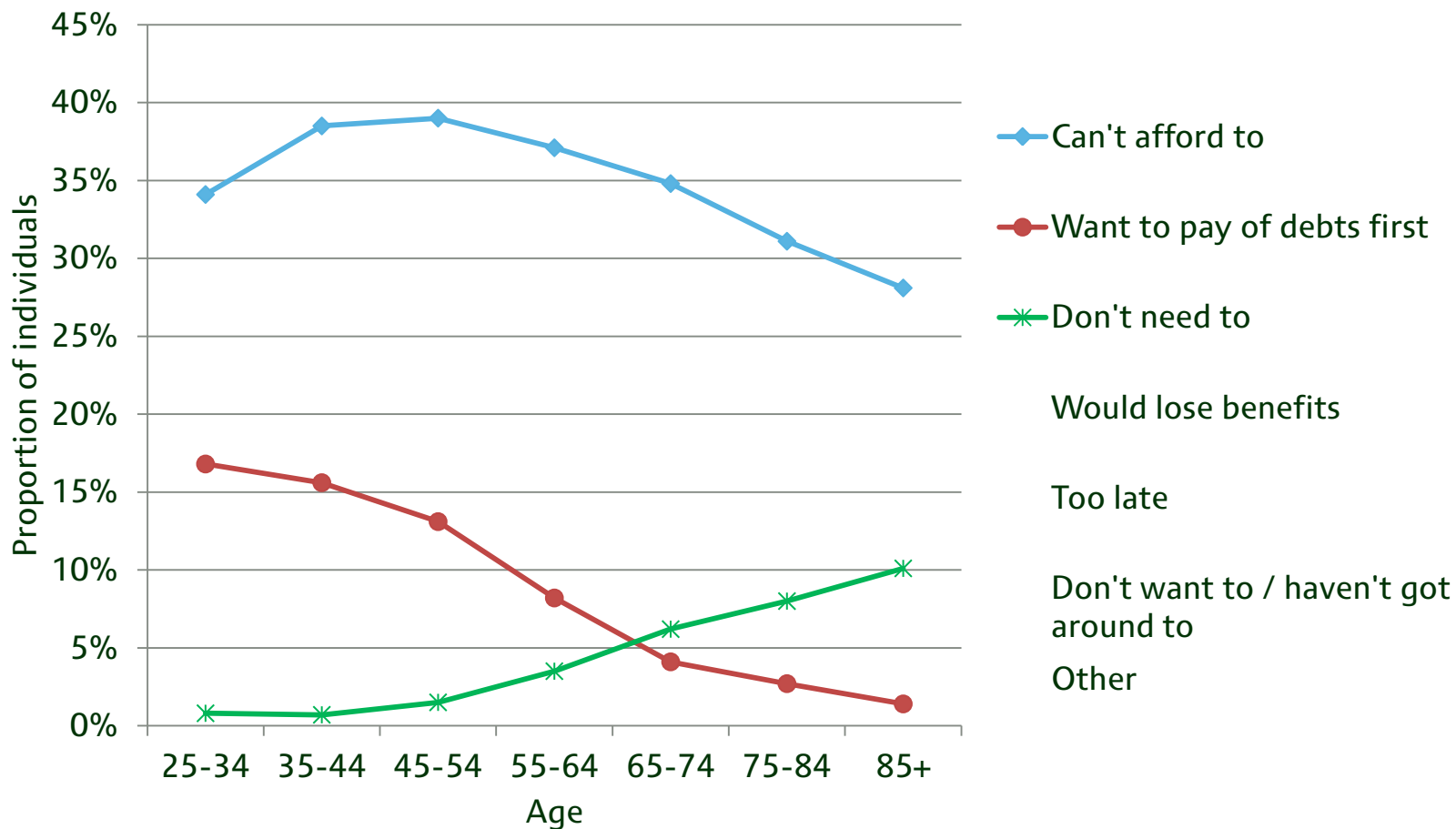
Overlap between saving in financial assets for retirement and pension membership

- Is saving in financial assets for retirement a substitute for saving in pensions?



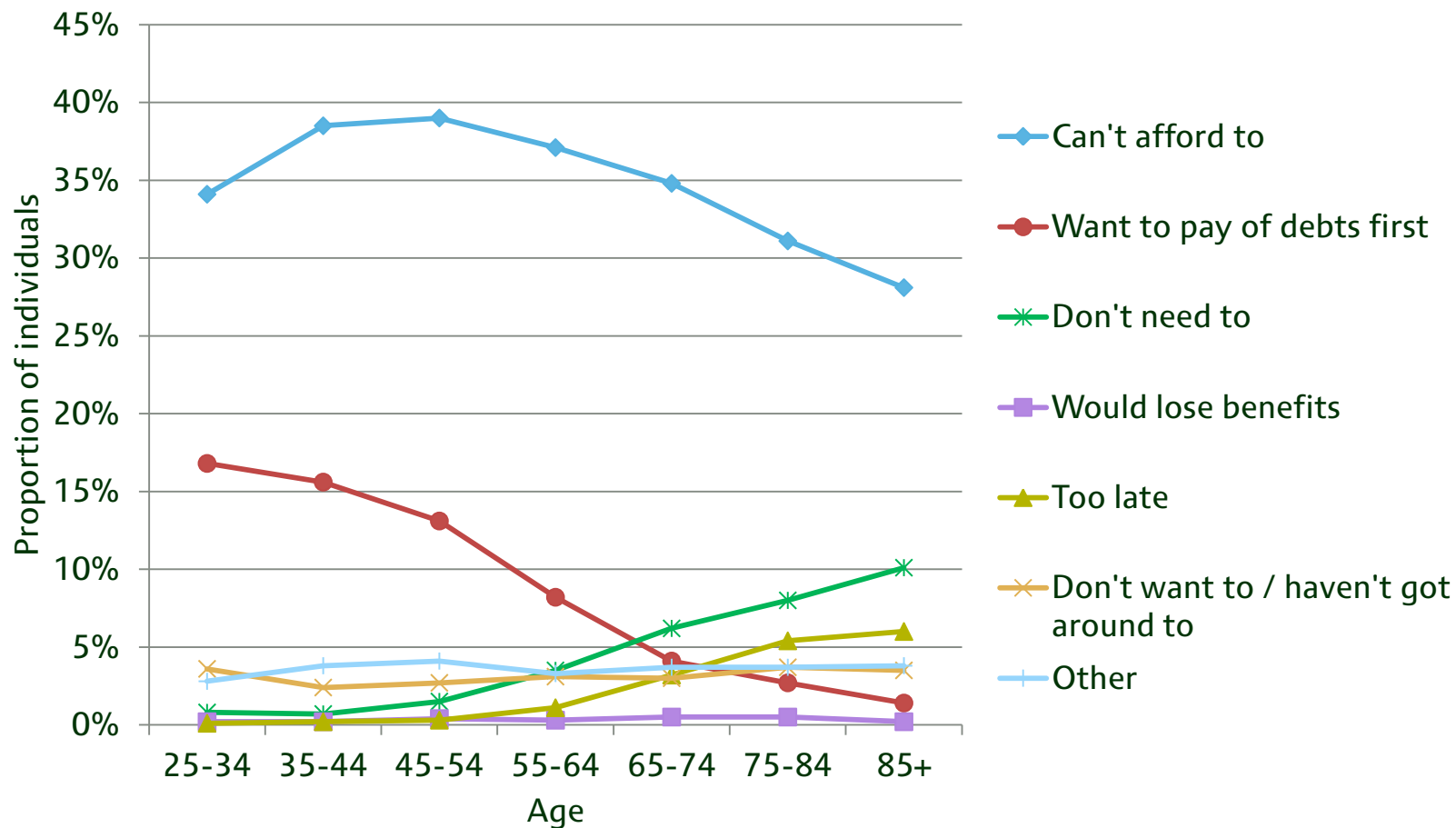
Source: Figure 7.2.

Reported main reasons for not saving (2010/12)



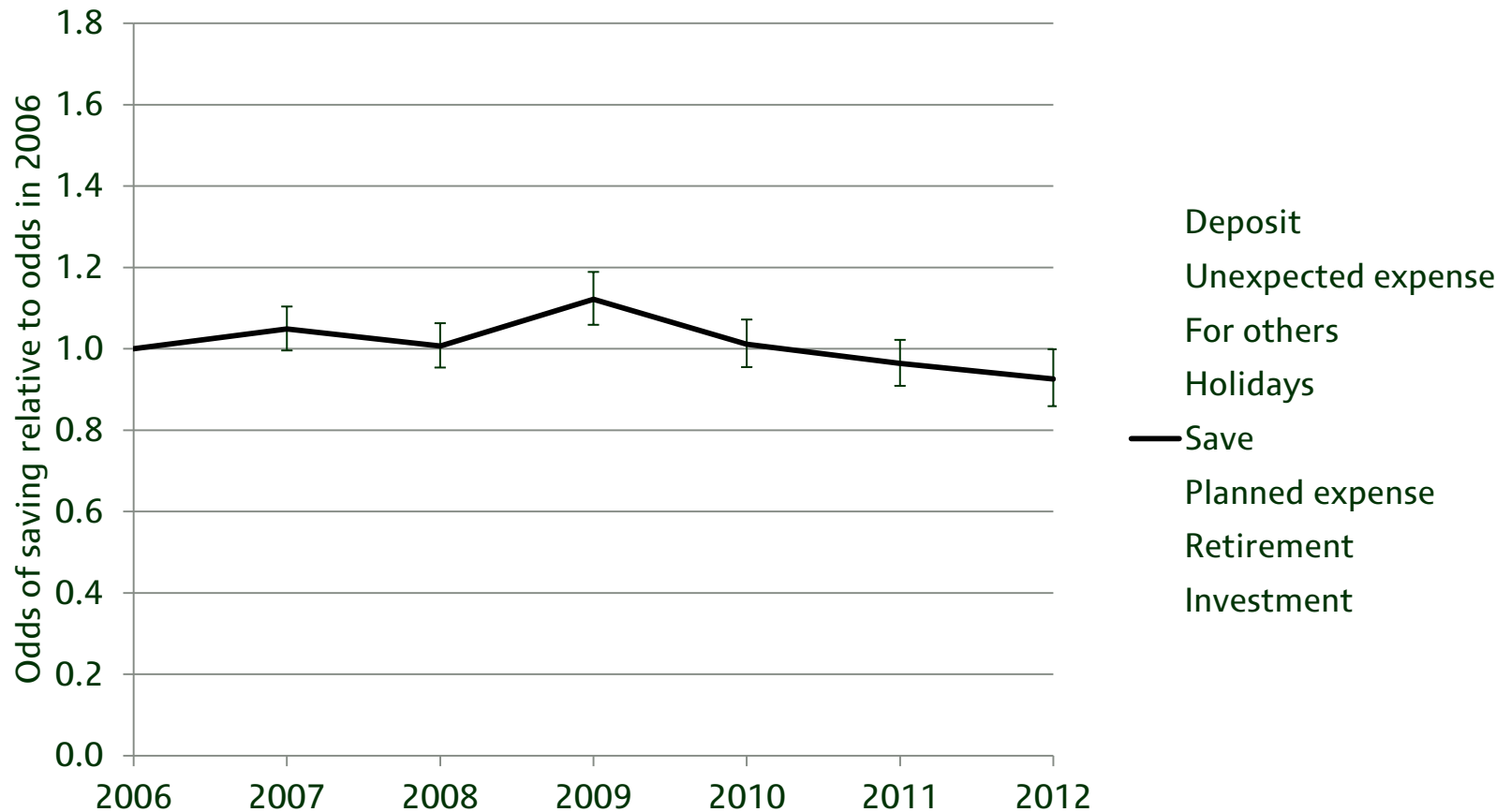
Note: Weighted cross section of all individuals aged 25 and over in 2010-12. Multiple main reasons for not saving are permitted. Source: Table 7.2.

Reported main reasons for not saving (2010/12)



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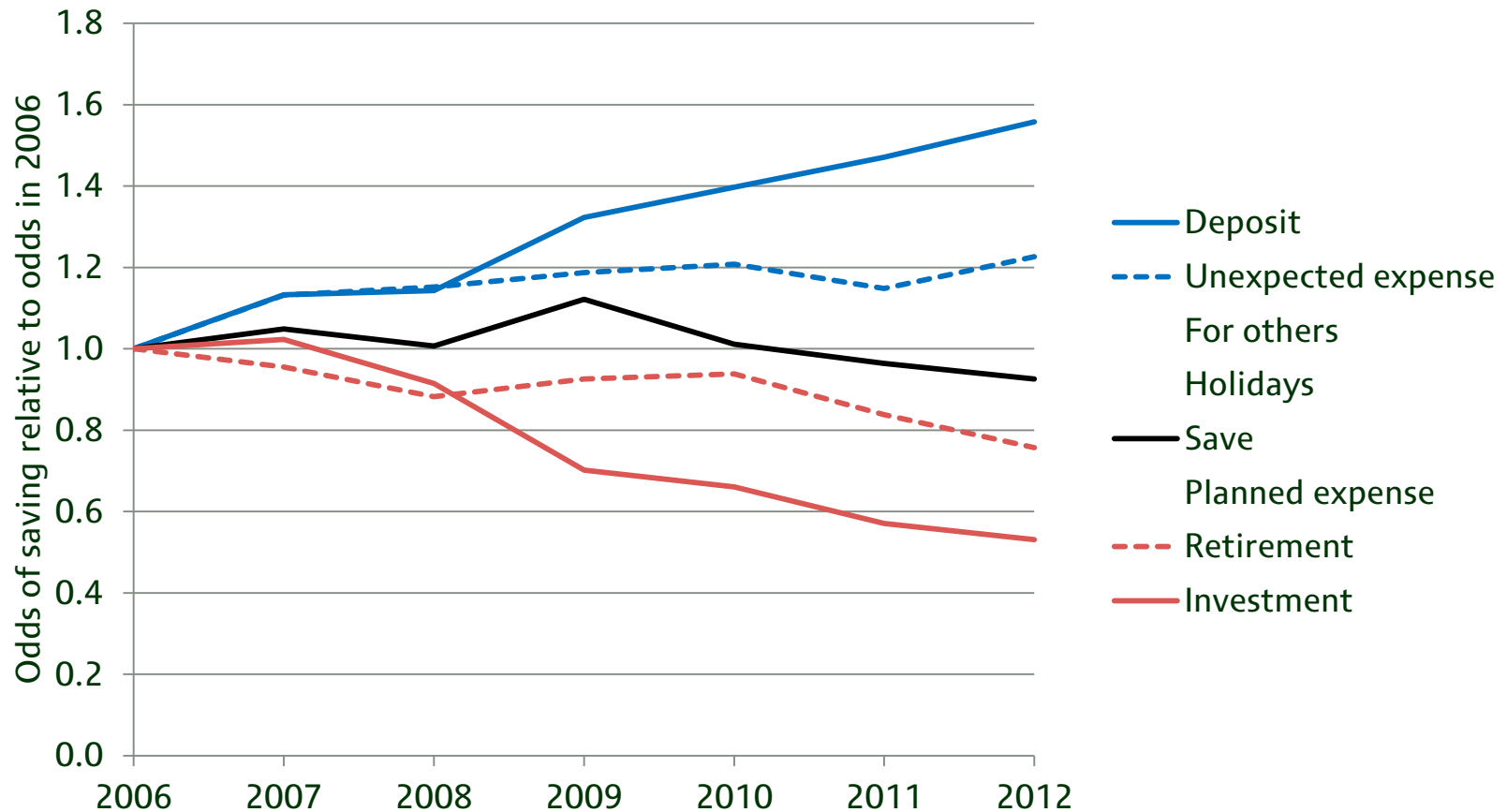
Changes in reported saving over time



Note: Controlling for changes in individual characteristics over time.

Source: Figure 7.3.

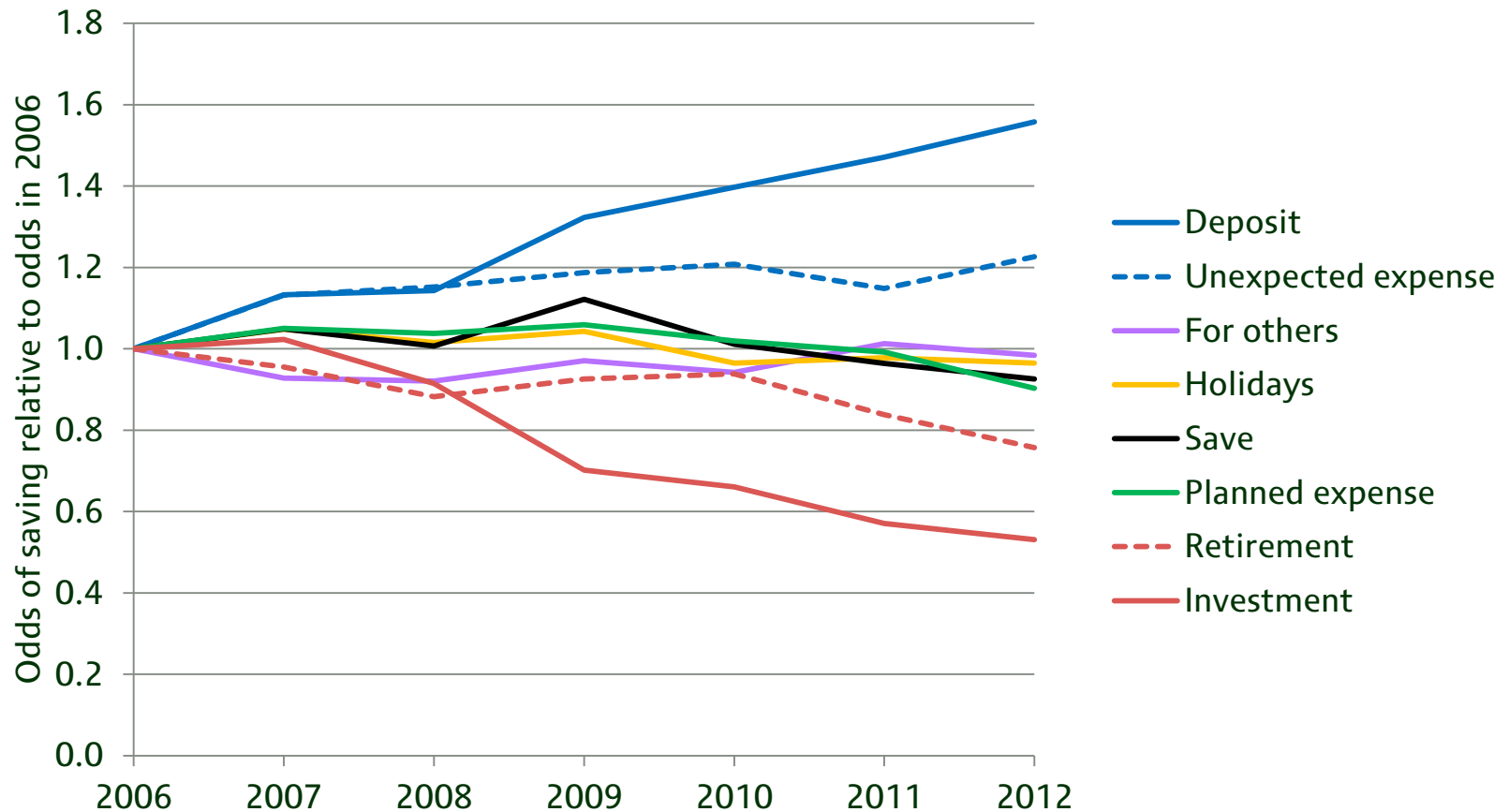
Changes in reported saving over time



Note: Controlling for changes in individual characteristics over time.

Source: Figure 7.3.

Changes in reported saving over time



Note: Controlling for changes in individual characteristics over time.

Source: Figure 7.3.

Individual characteristics associated with saving

- Many expected associations
 - Odds of saving (and for most reasons) greater for: those with higher education than lower education; higher earners than lower earners
- Odds of financial saving higher for those with other assets:
 - Those with current pensions (vs. those without current pensions)
 - Those with housing wealth (vs. those with mortgages and vs. renters)
- The odds of saving for others are less sensitive to individual circumstances than the odds of saving for other reasons

Estimated active financial saving – by reported reason for saving

- Active saving in financial assets estimated for individuals observed in all 3 waves of WAS
- Compare this estimated active saving between 2008/10 and 2010/12 by whether/why individuals reports saving

Self-reported in 2010/12:	<i>% of individuals</i>	Estimated active saving	
		Mean	Median
Saving	49%	2,831	750
Not saving	51%	-1,716	-15

Note: Sample is individuals in 2010-12 who are observed in both previous waves.
Source: Table 7.4

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Self-reported in 2010/12:	<i>% of individuals</i>	Estimated active saving	
		Mean	Median
Saving	49%	2,831	750
<i>Saving for:</i>			
Unexpected expense	31%	6,947	793
Holiday or leisure	24%	9,538	983
Planned expense	15%	11,691	1,225
For others	12%	8,663	1,506
For retirement	11%	11,340	5,336
Not saving	51%	-1,716	-15

Note: Sample is individuals in 2010-12 who are observed in both previous waves.
Source: Table 7.4

Retirement income expectations

Expected sources of retirement income (2010/12)

- “Which [of a list of options] do you expect to use to provide money for your retirement?”

	Percentage of (not yet retired) individuals aged...					
	25-34	35-44	45-54	55-64	65-74	All
State pension	76	83	90	94	93	86
Private pension	56	61	63	66	64	61
Savings/investments	50	40	35	39	51	41
Primary housing	24	30	31	25	18	28
Other property	14	10	7	7	7	9
Inheritance	28	27	19	12	3	21
Other	34	34	29	28	37	32

Note: Columns do not sum to 100 as individuals can expect to use multiple sources to provide retirement income.

Source: Table 7.5.

Expected main source of retirement income

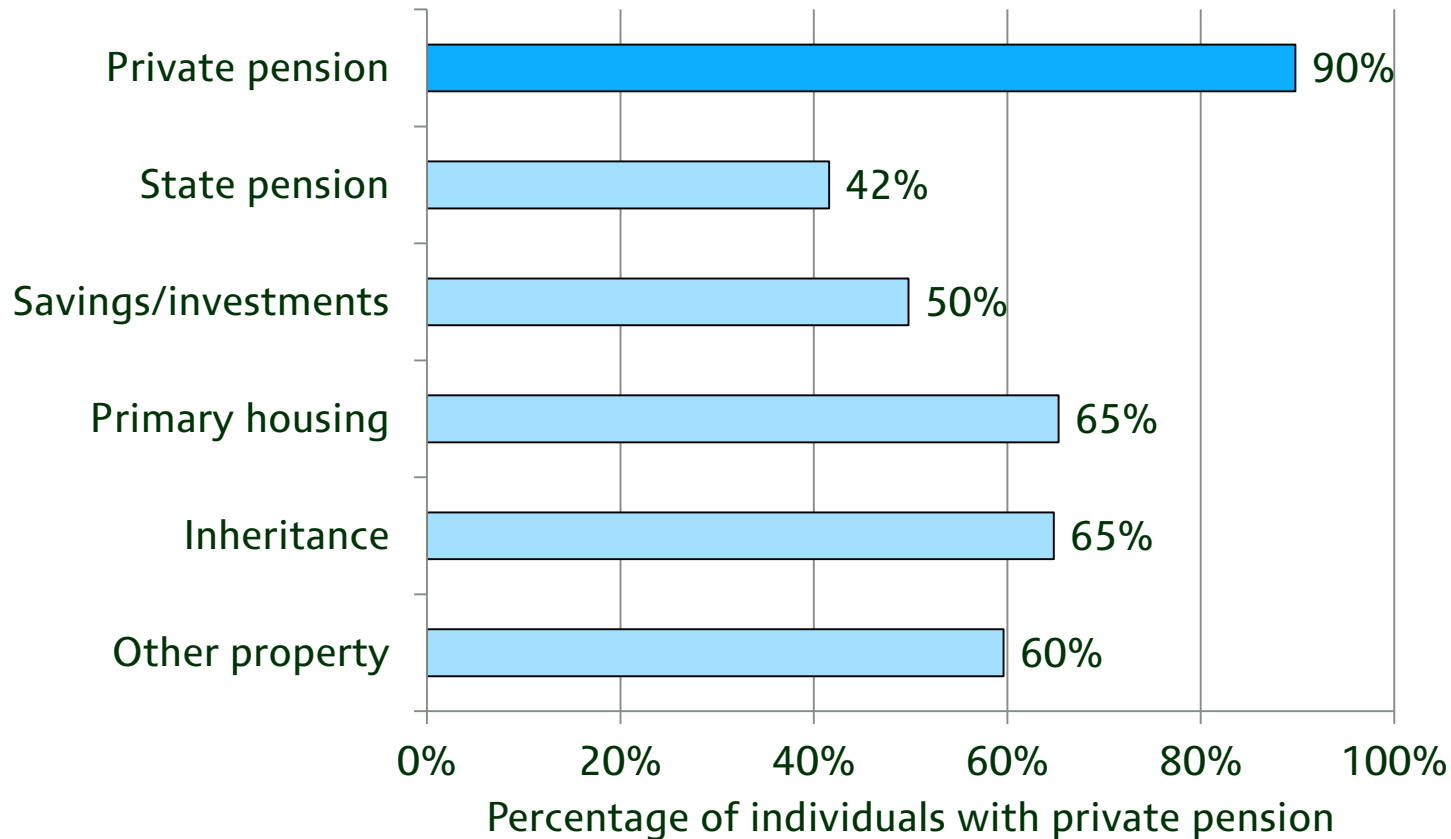
- “Which do you think will make up the largest part of your income during your retirement?”

	Percentage of (not yet retired) individuals aged...					
	25-34	35-44	45-54	55-64	65-74	All
State pension	23	28	35	46	42	33
Private pension	36	35	35	32	28	35
Savings/investments	13	8	5	5	10	8
Primary housing	4	7	8	5	6	6
Other property	5	4	3	2	2	4
Inheritance	5	6	4	2	1	5
Other	12	12	10	7	11	11

Source: Table 7.5.

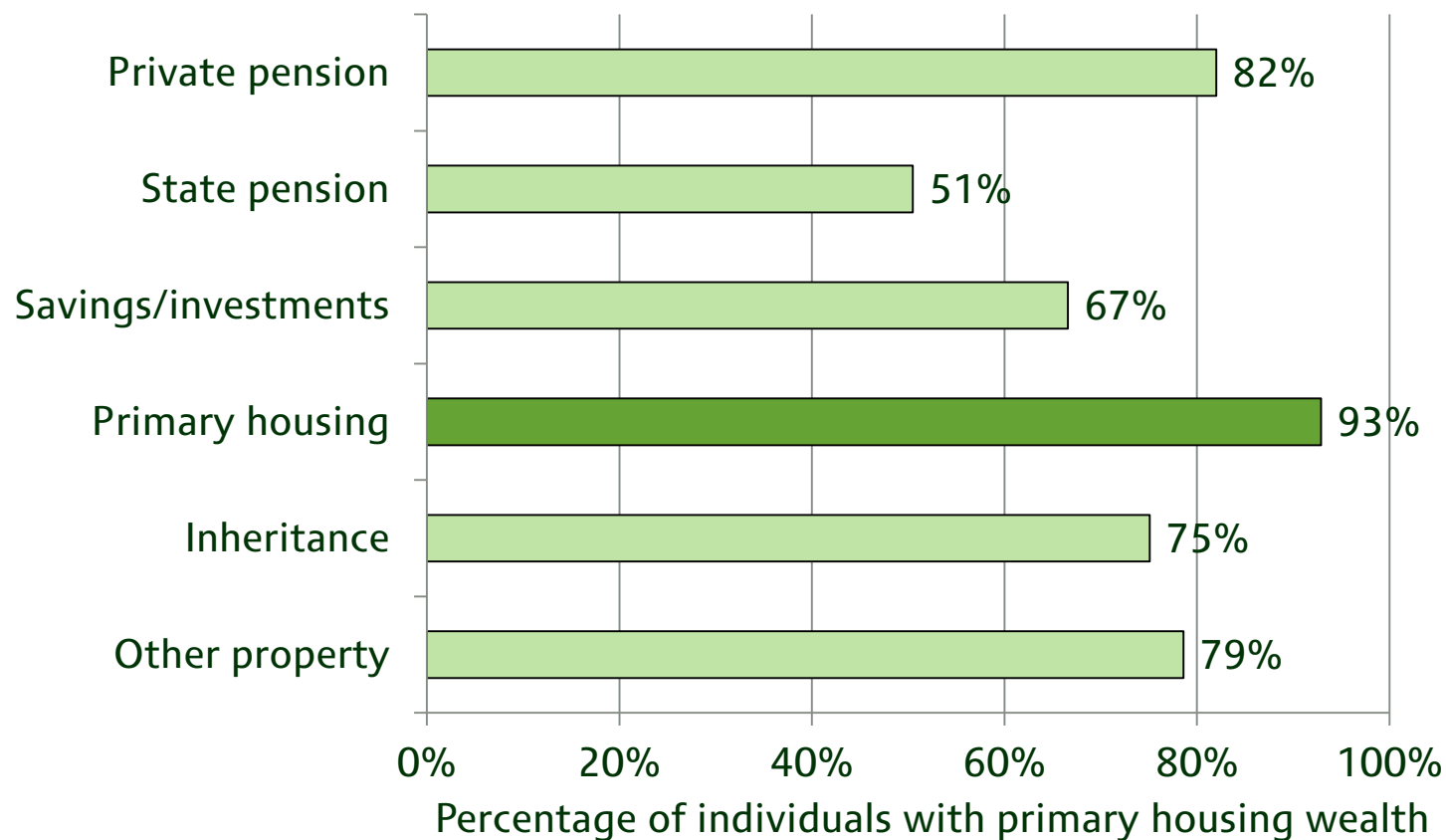
Expected retirement income sources and assets

Main source of retirement income:



Expected retirement income sources and assets

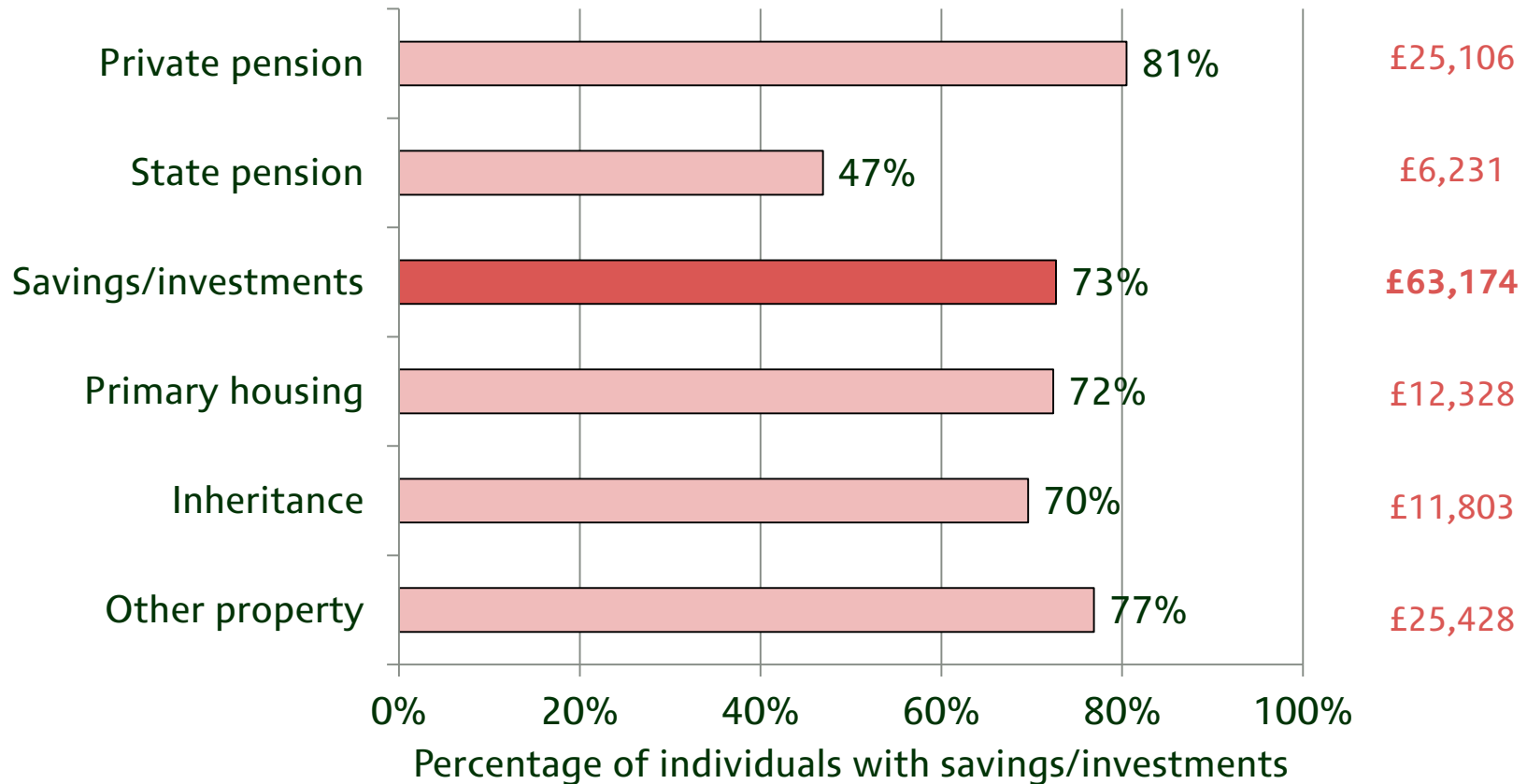
Main source of retirement income:



Expected retirement income sources and assets

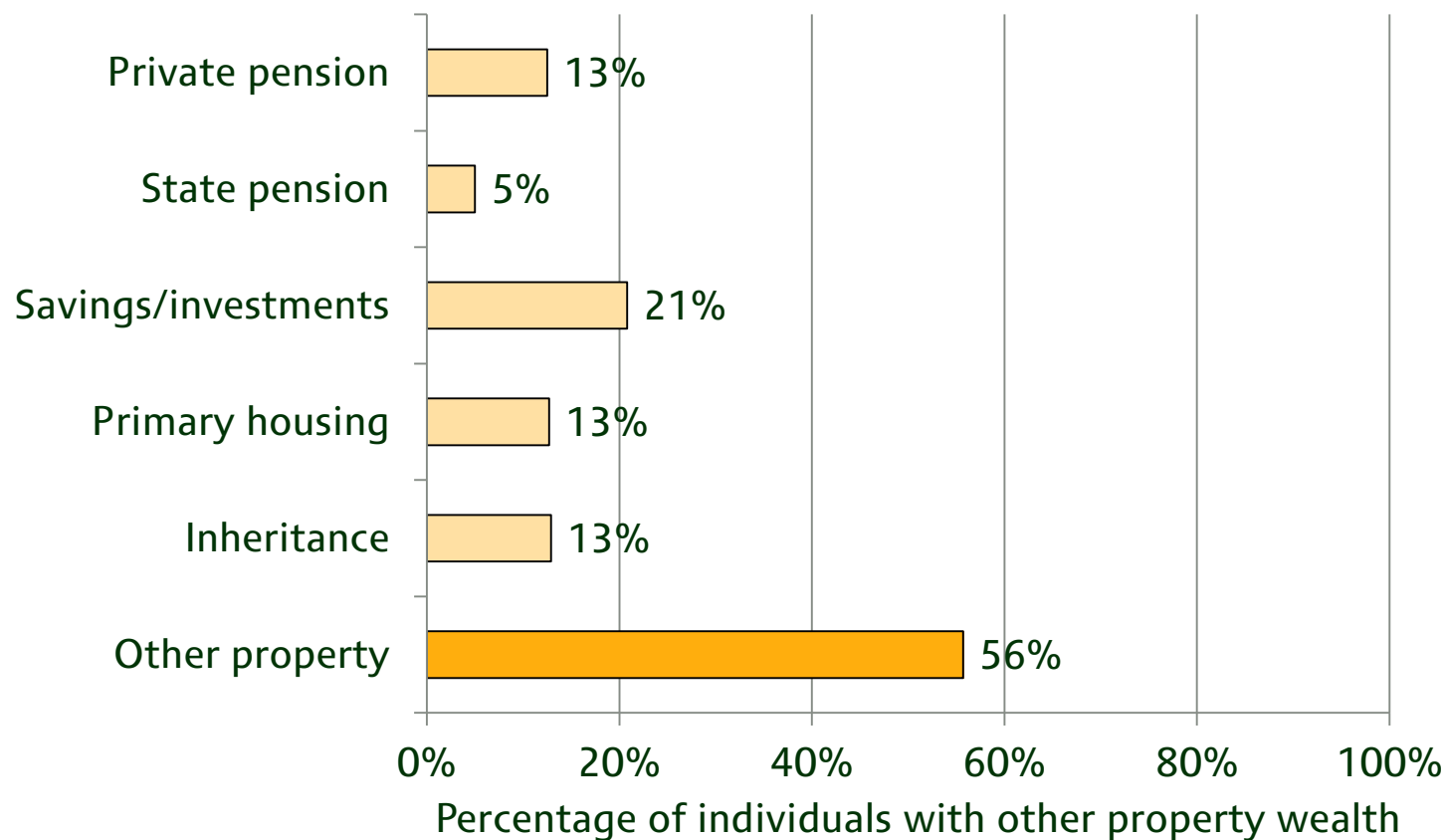
Main source of retirement income:

Mean value of savings/investments:



Expected retirement income sources and assets

Main source of retirement income:



Attitudes towards saving - summary

- Around half of individuals report saving in financial assets over the previous two years
 - Most common reason for saving is for an unexpected expense, followed by for holiday/leisure, for a planned expense, for others
- Odds of saving basically unchanged between 2006 and 2012
 - Odds of saving for investment and for retirement have declined; odds of saving for a deposit or for an unexpected expense have increased
- On sources of money for retirement:
 - 61% expect something from a private pension, but only 35% expect it to be the main source of money
 - Some correlation between attitudes towards retirement resources and wealth holdings, but future accumulation will be key for some
- Will be interesting to see how these attitudes towards saving and retirement change over time

Thank you!

The full report is available online:

<http://www.ifs.org.uk/publications/8050>

Many thanks to the funders of this report:



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