Institute for Fiscal Studies

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IFS Briefing Note BN127

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NAPF Securing the future of pensions

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March 2012

Executive summary

This research, funded by the NAPF with co-funding from the Economic and Social Research Council, looks at the existing levels of saving in defined contribution (DC) pensions on the eve of auto-enrolment. It provides new analysis on the distribution of DC saving across the population of Great Britain and the scale of the current problem of small pots. It is hoped that this evidence provides a useful and timely contribution to the government's consultation on 'Meeting future workplace pension challenges: improving transfers and dealing with small pots'.

Defined contribution (DC) pension holdings

- Saving in defined contribution (DC) pension schemes remains relatively uncommon in Great Britain: just 24% of those aged 18–64 hold at least one DC pension fund either to which they are currently contributing or in which they have previously accumulated wealth.

* The authors are grateful to the National Association of Pension Funds (NAPF) and the Economic and Social Research Council (ESRC) for funding this work as part of a wider collaborative project on pension saving and outcomes within defined contribution pensions. They would like to thank Catherine Cunningham, Melanie Duffield and Verena Menne (NAPF) and Paul Johnson (IFS) for comments on an earlier draft. Any errors are the authors' alone. The Wealth and Assets Survey was made available by the Office for National Statistics and distributed by the Economic and Social Data Service. Data collection was carried out by the Office for National Statistics and funded by the Department for Work and Pensions, the Department for Business, Innovation and Skills, HM Revenue and Customs, the Department for Communities and Local Government, the Scottish Government and the Financial Services Authority. Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland. The data creators, depositors, copyright holders and funders and the UK Data Archive bear no responsibility for the analysis or interpretation of the data presented here.

Among 18- to 29-year-olds, this figure is 9%, rising to 33% among 40- to 49-year-olds.

- DC pension saving has and will continue to become more important, as defined benefit (DB) pensions become increasingly scarce in the private sector and potentially also as a result of auto-enrolment increasing the proportion of the population engaging in pension saving.
- Individually-arranged DC pensions are slightly more common than employer-provided DC pensions: 12% of individuals hold only individually-arranged DC pensions, while 10% of individuals hold only employer-provided DC pensions and 2% of individuals hold both.
- Men are more likely to hold DC pension funds than women, as are those with higher levels of education, better self-assessed mathematical ability and higher non-pension wealth.
- In addition, among those who have at least one DC pension pot, older individuals, men, the most highly educated, those with higher self-assessed mathematical ability and those with higher non-pension wealth are more likely to hold more than one separate DC pot.
- Half of individuals who hold DC pension pots have less than £10,000 of wealth in this form.
- The amounts held in individually-arranged pensions tend to be somewhat higher than the value of employer-provided funds: half of those with individually-arranged DC pensions hold less than £11,500 in such schemes, while half of those who have an employer-provided scheme have less than £7,500 in such schemes.
- On average, the value of DC pension funds held increases with age. The median value of DC funds held by those aged 60–64 is £20,000, compared with £7,900 among those aged 30–39.
- Individuals are also more likely to hold greater amounts of wealth in their DC pension funds if they are older, more highly educated, have high levels of self-assessed mathematical ability and do not have rights to a DB pension scheme.
- DC pensions are, for many households, substitutes for – rather than complements to – DB pensions. Among all households containing an

individual of working age, 37% hold only DC pensions and 39% hold only DB pensions, while 15% have access to both types of pension.

- Among those households with DC pensions, levels of DC wealth are positively related to levels of other wealth, on average. Households in the bottom 20% of the distribution of total wealth that hold a DC pension have median DC pension wealth of £3,807; this figure rises to £35,000 among those in the top 20% of the household wealth distribution.
- However, the importance of DC pensions within households' wealth portfolios declines as total household wealth increases. Among households with a DC pension in the bottom quintile of the wealth distribution, half of them hold less than 19% of their total wealth in their DC pension funds; this figure falls to 4% for households in the top quintile of the wealth distribution.
- Among those who hold DC pensions, DC funds are relatively more important compared with other types of wealth for individuals who are older and self-report having 'excellent' mathematical ability. DC funds are significantly less important for men and women in couples and single women than for single men.

Small pension pots

- Small pension pots are relatively expensive for providers to administer, and individuals who hold small pots often find it hard to achieve as good a net return as they would be able to achieve on a larger pot. At present, there are a number of barriers that deter individuals from transferring small pension pots between schemes. The government recently consulted on how transfers of small pots between schemes could better be facilitated.
- Our analysis suggests that 35% of DC pension funds (or a total of 3.9 million DC pension pots in Great Britain held by 3.5 million individuals) contain less than £5,000. Collectively, these funds contain £7.9 billion of assets.
- We estimate that there are 1.8 million DC funds – held by 1.7 million individuals – that contain less than £2,000. Collectively, these funds contain £1.3 billion of assets.

- However, many of these funds are currently being contributed to and so would be expected to grow over time. Funds that are less likely to increase substantially in value are those to which individuals have stopped contributing.
- We estimate that there are 0.7 million employer-provided DC pension funds and 0.5 million individually-arranged pension funds (making a total of 1.1 million funds) containing less than £5,000 that are no longer being contributed to. Collectively, these small retained employer-provided pots are worth £1.4 billion, while the retained individually-arranged pots are worth approximately £0.9 billion.
- Similarly, we estimate that there are 0.3 million employer-provided DC pension funds and 0.2 million individually-arranged pension funds (making a total of 0.5 million funds) containing less than £2,000 that are no longer being contributed to. Collectively, these small retained employer-provided pots are worth £0.2 billion, while the retained individually-arranged pots are worth approximately £0.1 billion.
- Small retained pots are more likely to be held by younger individuals, women and those with low levels of other wealth than are DC funds in general.
- We find that there is scope for these small pots to be consolidated: many of them are held by individuals who also hold at least one other DC pension pot.
- If all DC pension pots held by each individual could be consolidated, we estimate that the number of retained pots containing less than £5,000 could be reduced from 1.1 million to 0.7 million, and that this would reduce the number of individuals holding any retained pots worth less than £5,000 by 0.3 million. Similarly, the number of retained pots worth less than £2,000 could be reduced from 0.5 million to 0.3 million; this would reduce by 0.2 million the number of people holding retained pots worth less than £2,000.
- Some of the reforms to improve pension transfers that the government recently consulted on focused on measures that would improve transfers between employer-provided schemes. We find that there are gains to be had simply from consolidating employer-provided pension

pots, but these would, obviously, be less widespread than if all types of pots could be combined.

- If individuals were able to consolidate all their employer-provided pension pots, we estimate that the number of such retained pots containing less than £5,000 could be reduced from 0.7 million to 0.5 million. However, the 0.5 million individually-arranged pots containing less than £5,000 would also remain.
- If individuals were able to consolidate all their employer-provided pension pots, we estimate that the number of such retained pots containing less than £2,000 could be reduced from 0.3 million to 0.2 million. However, the 0.2 million individually-arranged pots containing less than £2,000 would also remain.
- The introduction of auto-enrolment from Autumn 2012 is expected to increase the number of people who will, at some point, contribute to a DC pension and thus may increase the number of people who end up with small pots if transfers are not made easier.

1. Introduction

Defined contribution (DC) pensions[1] have, and will increasingly, become a more important part of individuals' retirement income provision. Employer-provided defined benefit (DB) schemes[2] are increasingly scarce in the private sector,[3] while the introduction of auto-enrolment from October 2012 is likely to increase the number of people who will contribute to a DC pension scheme at some point in their lifetime. This

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[1] Defined contribution pensions are those where contributions are paid into a fund, which is invested and then used to purchase an annuity at retirement. The pension income received will depend on the contributions made, the investment return earned and the annuity rate available when the fund is annuitised.

[2] Defined benefit pensions are ones where the pension received depends on some function of salary and years of tenure in the scheme.

[3] The National Association of Pension Funds Annual Survey 2011 found that only 19% of private sector DB schemes are now open to new joiners, compared with 88% ten years ago. In addition, 23% of final salary pension schemes are also now shut to future contributions from existing pension members, up from just 3% in 2008. (http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0206_NAPF_Annual_Survey_2011.aspx)

Briefing Note takes stock of existing DC pension holdings in Great Britain and presents analysis to shed light on one specific area of current concern to policymakers – the issue of small pension pots.

Small pension pots are relatively expensive for providers to administer, and individuals who hold small pots often find it hard to achieve as good a net return as they would be able to achieve on a larger pot. Thus there may be gains to both providers and individuals if small pots could be consolidated. However, there have been historically, and continue to be, a number of barriers that deter individuals from transferring small pension pots between different schemes, including the time and resource costs of doing so which may outweigh the perceived benefits. In recognition of this, the government recently consulted on how to improve such transfers.[4] This consultation came on the eve of the introduction of auto-enrolment into employer-provided pension schemes. This policy, which is expected to increase the number of people contributing to a workplace pension, is likely to increase the number of individuals in future who end up with several different pension pots from different employers and so it may increase the number of people who will hold one or more small retained pots. The issue of transferring small pots is therefore likely to increase in importance in future.

Section 2 provides a brief description of the Wealth and Assets Survey (WAS), which we use as the basis for the evidence presented in this note.

Section 3 describes current holdings of DC pension funds among the working-age population in Great Britain. In particular, we describe the levels of pension wealth held, how these vary across different groups within the population and how DC pension wealth correlates with other forms of private wealth to which families have access. We find that both the likelihood of having a DC pension fund and the wealth held in this form are increasing in age, education and mathematical ability, and are greater for men than for women. DC pension wealth appears to complement (rather than substitute for) other sources of household wealth, being

[4] The government consultation ran from 15 December 2011 to 23 March 2012 (see Department for Work and Pensions, *Meeting Future Workplace Pension Challenges: Improving Transfers and Dealing with Small Pension Pots*, Cm. 8184, 2011, http://www.dwp.gov.uk/docs/small-pension-pots-consultation.pdf).

higher for higher-wealth households, but the relative importance of DC pensions in the overall portfolio tends to decline with wealth.

Section 4 examines how many very small pension pots exist in Britain, who holds them and whether there is scope for these to be consolidated. The evidence presented here suggests how much scope there would be to reduce the number of existing small pension pots by making it easier to transfer small sums between schemes. We find that, while there is some scope to reduce the number of small pots through this means, a significant fraction of small pots would be likely to remain because they are held by individuals who currently have no other pensions with which these funds could be combined. The gains would be more limited if only transfers of small DC funds between employer-provided pensions are improved, as a significant number of small retained DC funds are individually-arranged pensions. The introduction of auto-enrolment is expected to increase the number of people who will contribute to multiple different DC schemes during their working lives and thus may increase the number of people who end up with several small pots. The gains from improving the mechanisms available to transfer small pots might then be much greater.

2. Data

This Briefing Note investigates DC pension saving using data from the Wealth and Assets Survey (WAS), a biennial panel survey that is broadly representative of the household population of Great Britain. The first wave of WAS data, which was collected between July 2006 and June 2008, is used for this work.[5]

Since the data were collected, the individuals who hold DC pensions and the value of the funds they hold in them will have changed. However, the analysis presented here is still very relevant. Trends suggest that aggregate DC pension membership may have levelled off in recent years, and that the number of individuals with DC pensions may be similar today

[5] Office for National Statistics, Social Survey Division, *Wealth and Assets Survey, Wave 1, 2006-2008: Special Licence Access* [computer file], Colchester, Essex: UK Data Archive [distributor], 2010. SN: 6415, http://dx.doi.org/10.5255/UKDA-SN-6415-1.

to what it was in 2006–08.[6] Although there has been an increase in unemployment, which may be expected to affect pension saving, this increase has been disproportionately concentrated on the young, who are less likely to engage in pension saving. Finally, while there have been significant movements in asset prices over the last five years – for example, the FTSE 100 index fell by a third over the course of 2009 – many asset price indices are now regaining their levels of 2006–08 and so pension fund values in 2006–08 are likely to be strongly informative about pension fund values today.

The WAS data contain very detailed information about individuals' assets and liabilities, as well as basic demographic and socioeconomic information. In particular, the WAS data include detailed information on pensions: individuals are asked questions about up to three pension schemes to which they are still contributing and questions about up to three pensions to which they are no longer contributing. The questions asked cover (amongst other things) the type of pension, pension tenure, pension contributions (for schemes currently being contributed to) and the current value of the pension scheme. Respondents are encouraged to consult pension statements where possible and, in the case of employer-provided pension schemes, are asked for permission to contact their employer about their pension scheme.

Our sample is individuals aged between 18 and 74 inclusive, which is a sample of 49,648 individuals in 27,364 households. The analysis in Section 3 is further restricted to individuals aged under 65 – a sample of 42,388 individuals from 23,478 households – in order to focus on the working-age population. Between them, the individuals in our full sample report information on 14,784 DC pensions. The WAS data can be weighted in order to adjust for sampling biases, and all the results in this note are reported after this weighting has been applied. These weights also allow us to gross up the sample results to the level of the population.

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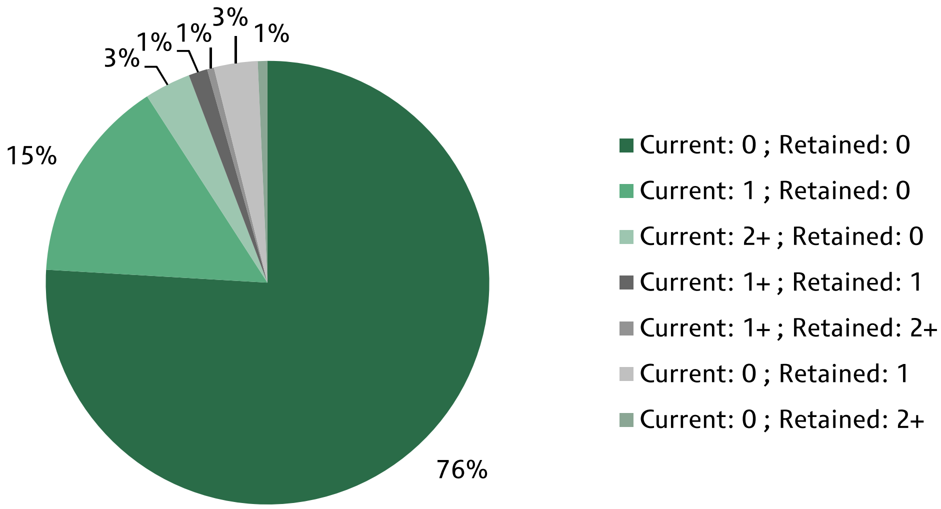
[6] See, for example, figure 7.5 of the Office for National Statistics publication, *Pension Trends*, which shows that employee membership of employer-provided DC pensions has been relatively unchanged since the mid-2000s (http://www.ons.gov.uk/ons/about-ons/our-statistics/publications/pension-trends/index.html).

3. DC pension holdings

Who holds DC pensions?

Holding a DC pension pot is still not common practice among the population as a whole: only 24% of individuals aged 18–64 have a DC pension pot. As described in Figure 1, 20% of individuals are currently contributing to a DC pension, while 4% only have a *retained* DC pension pot to which they can no longer make further contributions. A twentieth (5%) of individuals hold two DC pension pots (both current, both retained or one of each), while 1% of individuals hold more than two DC pension pots.

Figure 1. Holdings of DC pension pots

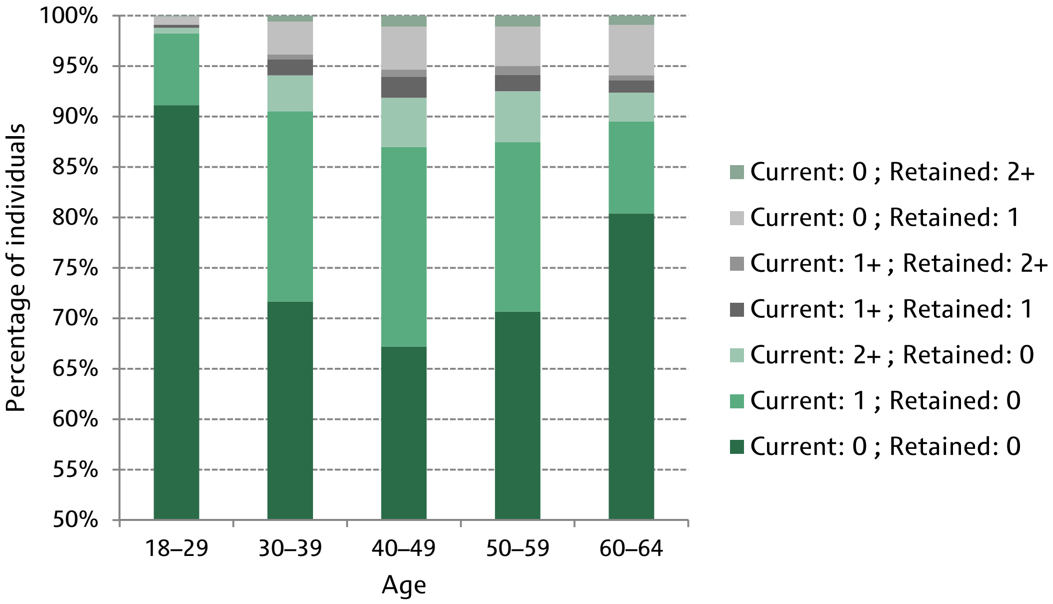


Notes: Sample is individuals aged 18–64. N = 42,388.

While only 24% of individuals aged 18–64 have a DC pension fund, this understates the importance of DC pensions among those who are actively saving for retirement. Around half (51%) of individuals who are currently contributing to a pension are members of a DC pension. This proportion is even higher amongst individuals in the private sector (since most public sector workers are members of DB pensions), and this proportion will only increase over time given the trend decline in the number of private sector DB pensions open to new members.

In terms of the types of DC pension held, 10.0% of individuals hold only employer-provided DC pensions and 11.7% hold only individually-arranged DC pensions, while 2.3% of individuals hold both types.[7] Employer provision is relatively more important for individuals at younger ages: among DC pension holders aged 18–29, 70.3% only have pots that have been provided by an employer, compared with 49.2% of DC holders aged 30–39, 36.2% of DC holders aged 40–49 and 32.7% of DC holders aged 50–59.

Figure 2. Holdings of DC pension pots, by age



Notes: Sample is individuals aged 18–64. N = 42,388.

Figure 2 shows how holdings of DC pension pots vary by age. The prevalence of DC pension holding is highest among those aged 40–49 and declines for older age groups. This is likely to be the result of two factors. First, there is an age effect: individuals aged 50 and over are more likely to be retired and therefore already have annuitised any DC fund holdings they might once have had. Second, there is a cohort effect: DC pensions were less prevalent during the working lives of older cohorts than they are today, and so older individuals are less likely to have contributed to a fund.

[7] The WAS questionnaire distinguishes between 'Employer/Occupational pension scheme', 'Group Personal or Group Stakeholder Pension' and 'Private Personal or Private Stakeholder Pension'. We refer to the first two of these as 'employer-provided' and the last as 'individually-arranged' since a concern is that a significant number of individuals who are members of a group personal pension or group stakeholder pension report this as an employer/occupational pension scheme.

In addition, women in older cohorts are less likely to have worked than women in younger cohorts and therefore are less likely to have any private retirement saving.

There are a number of characteristics that are related to being more likely to hold DC pensions. The first two columns of Table 1 show the results of multivariate regression analysis that identifies which individual characteristics are associated with being more likely to hold a DC pension pot. That individuals aged 40−49 are more likely to hold DC pensions continues to hold even after controlling for other differences in characteristics: those aged 40−49 are significantly more likely to hold a DC pot than either those aged 30−39 or those aged 50−59 (while those aged 30−39 are significantly more likely to hold a DC pension pot than those aged 18−29, and those aged 50−59 are significantly more likely to hold a DC pot than individuals aged 60−64).[8] Individuals are also more likely to hold a DC pension if they have higher levels of education, if they have high self-reported mathematical ability and if they are in work. Women are less likely than men to hold a DC pension pot, whether single or in a couple. Men are significantly more likely to hold a DC pension if they are in a couple than if they are single. DC pension saving also appears to complement, rather than act as a substitute for, other wealth – individuals in higher quintiles of non-pension wealth are more likely to have DC pension pots than those with lower wealth.

Notes to Table 1: Sample is individuals aged 18–64 for the first regression and individuals aged 18–64 who hold at least one DC pot for the second regression. Marginal effects are from a probit regression. Baseline individual is a single man, aged 18–29, with middle education and 'okay' self-reported mathematical ability, who is not in work and who is in the middle non-pension wealth quintile. ***, ** and * indicate statistical significance at the 1%, 5% and 10% level respectively. For the 'Has a DC pension pot' regression, adjacent age dummies are all significantly different from one another at the 1% level. For the 'Has multiple DC pension pots' regression, the 'aged 30–39' and 'aged 40–49' dummies are significantly different at the 1% level, but all other adjacent age dummies are not significantly different at the 5% level.

[8] For the 'Has a DC pension pot' regression, adjacent age dummies are all significantly different from one another at the 1% level.

Table 1. Multivariate analysis of characteristics associated with holding a DC pension

	Has a DC pension pot		*Has multiple DC pension pots*	
	Marginal effect	Standard error	Marginal effect	Standard error
Aged 30–39	0.191***	0.009	0.131***	0.025
Aged 40–49	0.211***	0.009	0.168***	0.024
Aged 50–59	0.180***	0.010	0.198***	0.027
Aged 60–64	0.136***	0.012	0.197***	0.033
Men in couples	0.061***	0.008	0.003	0.015
Single women	–0.057***	0.007	–0.049***	0.018
Women in couples	–0.021***	0.007	–0.065***	0.015
Has children	–0.002	0.005	0.022*	0.011
Low education	–0.088***	0.005	–0.024	0.016
High education	–0.005	0.005	0.037***	0.011
Self-reported mathematical ability				
Bad	0.028**	0.013	–0.021	0.030
Good	0.049***	0.005	0.060***	0.011
Excellent	0.067***	0.007	0.082***	0.013
Non-pension wealth quintile				
Lowest	–0.091***	0.006	–0.055***	0.017
2	–0.028***	0.006	–0.049***	0.014
4	0.013*	0.006	0.025	0.014
Highest	0.052***	0.007	0.070***	0.014
Employee (part-time)	0.125***	0.009	0.009	0.019
Employee (full-time)	0.176***	0.006	0.072***	0.015
Self-employed (part-time)	0.238***	0.018	0.038	0.029
Self-employed (full-time)	0.340***	0.013	0.060***	0.020
Sample size	*42,388*		*10,784*	

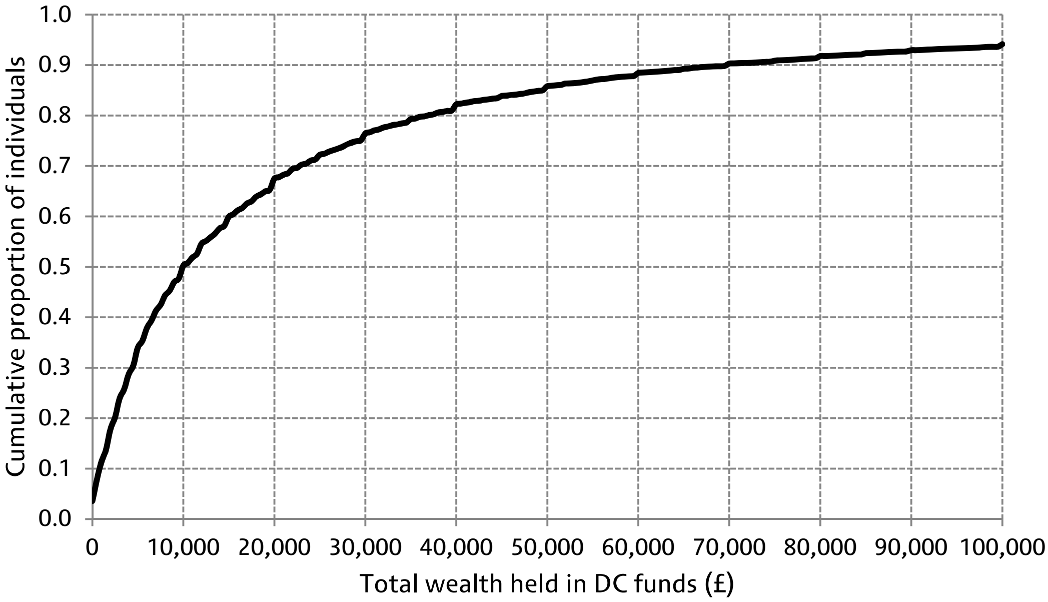
Notes: See previous page.

The last two columns of Table 1 focus, for the subsample of people who have a DC pension pot, on the characteristics associated with having more than one DC pension. Even after conditioning on DC pension membership, holding more than one DC pension is positively associated with age, being male, having high educational and mathematical ability, working full-time and having high levels of non-pension wealth.

How much DC pension wealth do people have?

For those individuals who do hold at least one DC pension pot, Figure 3 shows the distribution of individuals' total DC funds (i.e. the sum of all their DC pension pots). The median wealth held in DC funds is around £10,000, but 31% of individuals have total DC funds of less than £5,000. Therefore, in general, DC holdings are relatively small, though a small number of individuals hold significant amounts of DC wealth – 10% of DC fund holders hold more than £70,000 in this form.

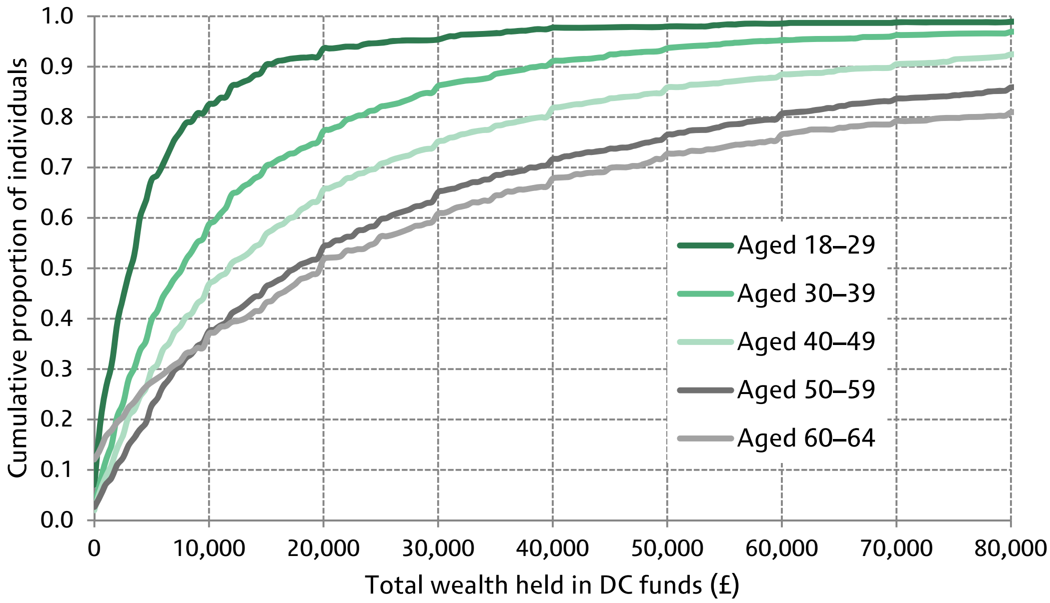
Figure 3. Distribution of total wealth held in DC funds across individuals with at least one DC pot



Notes: Sample is individuals aged 18–64 with at least one DC pension pot. N = 10,784. Total wealth held in DC funds is calculated for reported DC pensions; individuals can report up to six DC pension schemes in the Wealth and Assets Survey.

Figure A1 in the appendix shows the distribution of individuals' total DC funds split according to whether the funds are held in employer-provided DC pensions or individually-arranged DC pensions. The distributions of funds are very similar, although the total value of funds held in individually-arranged pensions tends to be slightly higher than that in employer-provided pensions, despite the fact that employer-provided pensions are more likely to enjoy an employer contribution. The median total wealth that people who have at least one DC pension hold in individually-arranged schemes is around £11,500, compared with around £7,500 in employer-provided pensions. This difference could arise because of the age composition of pension holders (holders of employer-provided DC pensions are younger, on average, than holders of individually-arranged DC pensions) or because individuals who choose to make the effort actively to seek out a pension on their own initiative may be more likely to make larger-than-average contributions.

Figure 4. Distribution of total wealth held in DC funds across individuals with at least one DC pot, by age group



Notes: Sample is individuals aged 18–64 with at least one DC pension pot. N = 10,784. Total wealth held in DC funds is calculated for reported DC pensions; individuals can report up to six DC pension schemes in the Wealth and Assets Survey.

Not only is DC pension membership generally increasing with age, but so too is the total value of wealth held in DC pension funds. Figure 4 shows the distribution of total wealth held in DC funds across individuals with DC pensions, in five age bands; Table 2 presents some related summary statistics. Among the 8.9% of 18- to 29-year-olds who hold at least one DC pension, 65% had total DC pension wealth of less than £5,000. This compares with 37% of fund holders in the 30–39 age group, 27% in the 40–49 age group, 20% in the 50–59 age group and 27% in the 60–64 age group. For pension wealth of less than £10,000, the figures are 81%, 56%, 45%, 36% and 35% respectively. Among those who do hold DC pensions, mean and median wealth holdings increase with age, as shown in Table 2.

The relatively low pension wealth of younger individuals is often thought to be a cause for concern for policymakers, although it is not clear simply from data such as those presented in Figure 4 and Table 2 that this necessarily has to be the case. Some of those aged 18−29 are still in full-time education and therefore would not be expected to have started saving for retirement yet. However, even excluding those individuals in full-time education, just 10.0% of the remaining people aged 18−29 have a DC pension, and mean DC pension wealth is only slightly higher at £8,525 across those with a DC pension and £854 across everyone. Low levels of pension wealth among younger individuals could simply reflect that these people have not yet had the time to accumulate as much wealth as older individuals have, or that individuals in early working life have preferences for other types of saving such as saving to buy a home. However, there is concern that younger individuals are saving at lower rates than previous generations and are more likely to reach retirement with inadequate savings than the older generations that are currently reaching retirement. This is discussed in more detail in previous work,[9] but it is a difficult issue to address given the absence of good data on the historical pension wealth levels and/or pension saving rates of the generations currently in or approaching retirement.

Table 2. Total DC pension wealth, by age

Age	*Percentage with a DC pension*	*DC wealth across those with a DC pension*		*DC wealth across all*	
		Mean	Median	Mean	Median
All	24.1%	£32,379	£10,000	£7,792	£0
18–29	8.9%	£8,488	£3,360	£753	£0
30–39	28.4%	£19,132	£7,900	£5,425	£0
40–49	32.8%	£29,620	£12,000	£9,716	£0
50–59	29.3%	£50,911	£17,758	£14,937	£0
60–64	19.6%	£61,184	£20,000	£11,990	£0

Notes: Sample is individuals aged 18–64. N = 10,784 for individuals with a DC pension; N = 42,388 for all individuals.

[9] See J. Banks, R. Crawford and G. Tetlow, *What Does the Distribution of Wealth Tell Us about Future Retirement Resources?*, DWP Research Report 665, 2010, http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep665.pdf.

Table 3. Multivariate analysis of characteristics associated with the size of DC wealth holdings

	Total DC wealth (£'000s)	
	Marginal effect	Standard error
Aged 30–39	6.092*	2.799
Aged 40–49	15.968***	2.796
Aged 50–59	34.004***	5.068
Aged 60–64	43.840***	6.713
Men in couples	7.103	6.37
Single women	–17.249**	5.77
Women in couples	8.650	5.882
Has children	–1.868	3.077
Low education	–12.155***	2.609
High education	16.380***	3.541
Self-reported mathematical ability		
Bad	–5.736	4.273
Good	–0.537	1.826
Excellent	13.105***	3.522
Non-pension wealth quintile		
Lowest	0.380	4.507
2	–3.558	2.41
4	7.744***	1.995
Highest	55.089***	4.127
Employee (part-time)	–4.387	4.196
Employee (full-time)	3.511	4.038
Self-employed (part-time)	–11.585	5.95
Self-employed (full-time)	–3.497	4.345
Has DB pension	–14.118***	2.837
Receiving pension income	–19.253**	7.338
Sample size	*10,784*	

Notes: Sample is restricted to those aged 18–64 with at least one DC fund. The regression is estimated using ordinary least squares (OLS). Standard errors are clustered at the household level. Baseline individual is a single man, aged 18–29, with middle education and 'okay' self-reported mathematical ability, who is not in work and who is in the middle non-pension wealth quintile. ***, ** and * indicate statistical significance at the 1%, 5% and 10% level respectively.

Age is not the only characteristic associated with DC pension wealth, and Table 3 presents the results of multivariate regression analysis that identifies, for people with at least one DC pension fund, which individual characteristics are associated with holding larger amounts of wealth in DC funds. DC pension wealth is, unsurprisingly, increasing in education and self-reported mathematical ability, while single women have significantly lower wealth, on average, than either single men or individuals in couples. The value of DC fund holdings is higher for individuals in higher non-pension wealth quintiles, again indicating that DC pensions are complementary to other forms of wealth, while having a DB pension has a negative association with DC wealth, implying the two types of pension saving are substitutes.

DC pension wealth and other forms of wealth within households

The results in Tables 1 and 3 indicated that DC pension fund holdings are positively correlated with other wealth holdings – those in the highest non-pension wealth quintiles are more likely to be a member of a DC scheme than individuals in lower wealth quintiles and, among members of DC schemes, those in higher wealth quintiles are more likely to hold larger amounts in DC funds. This relationship is investigated more closely in Tables 4 and 5, which split households into quintiles based on their total wealth holdings (including both non-pension wealth and pension wealth). Here we examine household wealth levels, as many components of wealth (unlike private pension wealth) are hard to assign to specific members of the household as they may be held jointly. We therefore also examine here ownership of private pensions by any member of the household, rather than ownership by individuals.

Table 4 reinforces the message of Table 1 that DC pension membership increases with wealth. This is also true of membership of DB pension schemes. On average, 15.1% of households hold both DB and DC pension wealth and, as might be expected, this proportion is generally higher for households with higher levels of total wealth. There is much less overlap in ownership of DB and DC pensions at the individual level – only 4.9% of individuals hold both DB and DC pensions (19.1% of individuals hold only DC pensions, while 21.6% of individuals hold only DB pensions). In general, therefore, DB and DC pensions appear to be viewed as alternative forms of pension saving rather than complements (as was also suggested by the regression results in Table 3). However, it should be borne in mind that 20.6% of individuals (and 29.2% of households) with a DC pension also have a DB pension, and therefore DC pension funds represent only a part of the explicit saving for retirement being done by these individuals (households).

Table 4. Household pension membership, by total wealth quintile

Quintile of total wealth	*Median total wealth*	*Percentage of households with:*		
		DC pension only	*DB pension only*	*Both DB and DC pensions*
1	–£200	13.0%	6.4%	1.0%
2	£54,904	35.8%	28.6%	9.8%
3	£176,205	46.0%	44.8%	17.8%
4	£354,600	48.2%	55.7%	24.4%
5	£796,383	40.5%	60.3%	22.4%
All	£157,236	36.7%	39.2%	15.1%

Notes: Sample is households including someone aged 18–64. Sample size = 23,478. Total wealth is constructed as the sum of gross property wealth, gross financial assets, DC pension wealth and DB pension wealth, less mortgage and other financial debt. Individuals are classified as having a DC/DB pension either if they are actively contributing to such a scheme or if they have retained rights to such a scheme.

Table 5. Relative importance of DC wealth for DC pension-holding households, by total wealth quintile

Quintile of total wealth	*Median total wealth*	*Median DC pension wealth*	*Median percentage of total wealth from:*			
			Net property wealth	*Net financial wealth*	*DC pension wealth*	*DB pension wealth*
1	£1,905	£3,807	0.0%	31.0%	19.2%	0.0%
2	£72,111	£7,000	60.6%	1.5%	12.9%	0.0%
3	£184,997	£12,500	64.5%	4.5%	8.5%	0.0%
4	£362,218	£18,400	55.0%	8.6%	5.7%	0.2%
5	£807,100	£35,000	40.5%	10.4%	4.2%	2.9%
All	£230,692	£13,245	52.0%	7.1%	7.1%	0.0%

Notes: Sample is households including someone aged 18–64 containing at least one member who holds a DC pension fund. Sample size = 23,478. Total wealth is constructed as the sum of gross property wealth, gross financial assets, DC pension wealth and DB pension wealth, less mortgage and other financial debt. Individuals are classified as having a DC pension either if they are actively contributing to such a scheme or if they have retained rights to such a scheme.

Table 5 focuses on households that hold DC pension wealth, and shows how the relative importance of different components of wealth varies across the quintiles of total wealth. Median DC pension wealth holdings increase as total wealth increases: households with a DC pension in the bottom quintile of total wealth hold at the median £3,807 in DC funds; this compares with £35,000 for households with a DC pension in the highest wealth quintile. In other words, households that hold more financial wealth, property wealth and/or DB pension wealth also tend to hold more DC pension wealth.

What is perhaps more interesting is the proportion of total wealth accounted for by DC pensions, which is declining across the wealth quintiles. Among households with a DC pension in the lowest wealth quintile, half of them have DC pension wealth that accounts for less than 19.2% of their total wealth; this falls to just 4.2% for households with a DC pension in the highest wealth quintile. This implies that DC pension wealth is relatively less important – in terms of the contribution to overall wealth – for wealthier households than it is for less wealthy households.

The relative importance of DC funds within the wealth portfolio is likely to differ according to the characteristics of the individuals who hold these pensions (in addition to depending on the wealth of the household, as discussed above). Since DC wealth can, more easily than other forms of wealth, be identified as being held by a specific individual in the household, it is possible to look at what characteristics are associated with each *individual* holding a larger or smaller proportion of the household's total wealth in their DC fund(s). Table 6 therefore presents the results of multivariate regression analysis that identifies, for individuals with at least one DC pension fund, which characteristics are associated with a greater importance of DC wealth in the household's wealth portfolio.

DC funds are relatively more important as a share of total wealth for older individuals and those who self-report having 'excellent' mathematical ability. This would be expected, since older individuals are more likely to be focused on saving specifically for retirement and since more numerate individuals are more likely to be aware of the need to save for retirement and of the tax advantages to saving in specific retirement saving vehicles, such as DC pensions. DC pension wealth is significantly less important in the wealth portfolio of single women, and of men and women in couples, than in the portfolio of single men. The relative importance of DC pensions is also lower for households in higher wealth quintiles, as was also described in Table 5 above. The regression results reinforce the idea that DB and DC pensions are substitutes rather than complements: having a DB pension is associated with having a significantly lower proportion of total wealth accounted for by DC wealth.

Table 6. Multivariate analysis of characteristics associated with the size of DC wealth holdings relative to total net wealth

	Proportion of total wealth from DC pension wealth	
	Marginal effect	Standard error
Aged 30–39	0.043***	0.012
Aged 40–49	0.068***	0.012
Aged 50–59	0.093***	0.012
Aged 60–64	0.095***	0.013
Men in couples	–0.082***	0.009
Single women	–0.043***	0.011
Women in couples	–0.090***	0.009
Has children	–0.002	0.006
Low education	–0.007	0.009
High education	0.012*	0.005
Self-reported mathematical ability		
Bad	–0.004	0.014
Good	0.005	0.005
Excellent	0.022***	0.006
Non-pension wealth quintile		
Lowest	0.515***	0.024
2	0.099***	0.008
4	–0.049***	0.005
Highest	–0.069***	0.005
Employee (part-time)	–0.040***	0.009
Employee (full-time)	–0.032***	0.009
Self-employed (part-time)	–0.055***	0.011
Self-employed (full-time)	–0.039***	0.01
Has DB pension	–0.093***	0.005
Receiving pension income	–0.118***	0.008
Sample size	*10,437*	

Notes: See next page.

Notes to Table 6: Sample is restricted to those aged 18–64 with at least one DC fund who also have positive total net wealth and whose total DC wealth does not exceed 150% of their total net wealth (this last restriction excludes approximately 1% of the sample). The regression is estimated using ordinary least squares (OLS). Standard errors are clustered at the household level. Baseline individual is a single man, aged 18–29, with middle education and 'okay' self-reported mathematical ability, who is not in work and who is in the middle non-pension wealth quintile. ***, ** and * indicate statistical significance at the 1%, 5% and 10% level respectively.

4. How common are small DC pots and is there scope to consolidate them?

Small pension pots are relatively expensive for providers to administer, and individuals who hold small pots often find it hard to achieve as good a net return as they would be able to achieve on a larger pot. In addition, having lots of small pots may make it harder for individuals to keep track of their retirement resources and more difficult to achieve the best annuity rates (or, indeed, purchase any annuity) when they come to retire. At present, there are a number of barriers that deter individuals from transferring small pension pots between schemes but, if these transfers were improved so that small pots could be more easily consolidated, there could be gains to both providers and individuals.

There are two reforms to the private pension system that are expected to increase the prevalence of small pension pots in future and could therefore exacerbate this problem. The first is the introduction of auto-enrolment, whereby all eligible jobholders will be automatically defaulted into a private pension scheme unless they actively choose to opt out.[10] Since the new pension members are likely to be disproportionately lower earners with higher job turnover, this is expected to result in a proliferation of small pension pots. The second reform, planned by the Department for Work and Pensions (DWP) but not yet legislated for, is the ending of short-service refunds. Currently, occupational pension schemes are allowed to give a lump-sum refund of the employee contributions to a pension scheme if the employee leaves their job with fewer than two years' pensionable service. The use of these rules helped to reduce the number of very small pots that pension funds had to deal with, but the government is

[10] An eligible jobholder is an individual aged between 22 and the state pension age who earns over the income tax personal allowance (£7,475 per annum in 2011–12 terms).

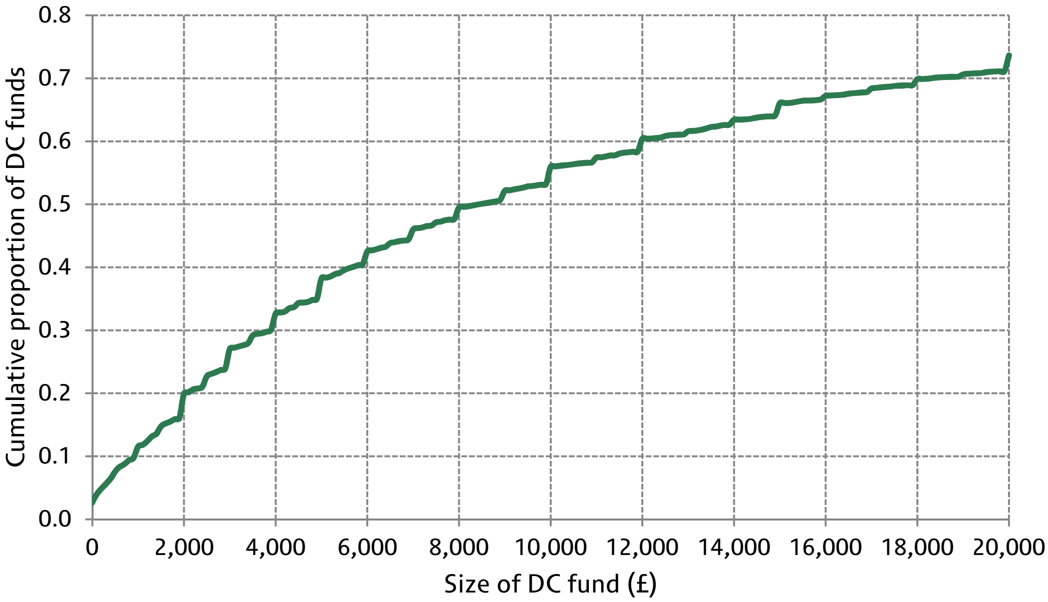
concerned that these rules will be used to defeat the aims of auto-enrolment and it therefore intends to abolish them.[11]

In light of the current problem of small pots, and its increasing importance in future, the government recently consulted on how transfers of small pots between schemes could be better facilitated. This section aims to shed some light on the current scale of the problem of small pots: how prevalent such small funds are, who holds them, and what the likely gains to be had are from improving transfers and enabling consolidation.

How common are small DC pots?

The distribution of the size of DC funds held by individuals in Great Britain, implied by the WAS data, is shown in Figure 5. (This is similar to the distribution shown in Figure 3 but shows the distribution of amounts held in individual DC funds, rather than the distribution of total DC wealth holdings per person, which added together the amounts held in separate pots.)

Figure 5. Distribution of DC fund values

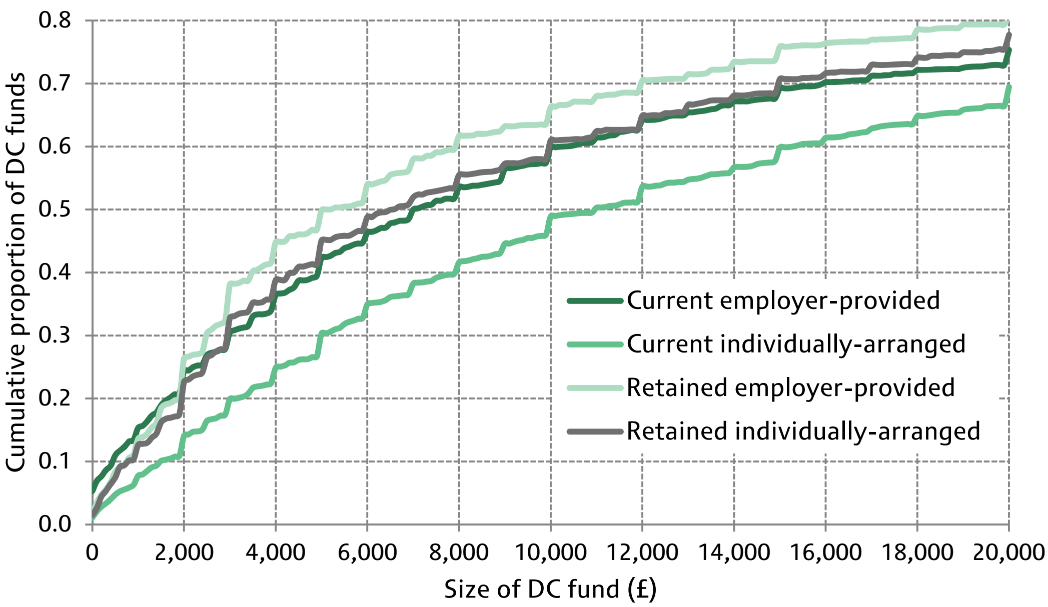


Notes: Sample is DC funds held by individuals aged 18–74. N = 14,163.

[11] Specifically, there is concern that employers with high staff turnover may choose occupational pensions over personal pensions so that they will be able to pay short-service refunds, and therefore employees who change job frequently may not build up a pension fund despite the introduction of automatic enrolment. (See, for example, http://www.dwp.gov.uk/newsroom/press-releases/2011/dec-2011/dwp146-11.shtml.)

The median value of a DC fund is £8,500, while 35% of DC funds are estimated to contain less than £5,000; 16% of DC funds are estimated to have a value of less than £2,000. Grossing up the size of the representative WAS sample to the whole population of Great Britain implies there were around 3.9 million DC pension pots that contained less than £5,000 in 2006–08 (held by 3.5 million individuals), of which 1.8 million funds (held by 1.7 million individuals) contained less than £2,000. Or, put a different way, £7.9 billion of assets are currently being held in 3.9 million separate pension accounts that are individually worth less than £5,000; and of these assets, £1.3 billion are held in 1.8 million separate pension accounts that are individually worth less than £2,000.

Figure 6. Distribution of DC fund values, by pension type



Notes: Sample is DC funds held by individuals aged 18–74. N = 14,163.

In terms of the current size of DC pots, there is a clear distinction in interest between *current* pots, to which individuals are still contributing, and *retained* DC pension funds, to which individuals are no longer contributing. The former would be expected to grow in size over time to a much greater extent than the latter. Figure 6 therefore shows the distribution of DC fund values separately by whether the fund is current or retained, and also by whether the scheme is (or was) an employer-provided scheme or an individually-arranged scheme. Retained DC pension pots tend to be smaller than current DC pension pots – particularly among individually-arranged DC pension pots. At the lower end of the spectrum, 26% of retained employer-provided funds and 23% of retained individually-arranged DC funds contain less than £2,000, compared with 24% and 14% respectively for current DC funds.

However, while retained pots are on average smaller than current pots, there are also far fewer retained pots than current ones. Therefore, of the 3.9 million DC pots worth less than £5,000, the vast majority (71% or 2.8 million) are current DC pensions and so should be expected to grow over time. Retained employer-provided pensions and retained individually-arranged pensions account for 17% (0.7 million) and 11% (0.5 million) respectively, implying there are some 1.1 million retained DC funds containing less than £5,000.[12] Collectively, these small retained employer-provided funds are worth £1.4 billion, while the retained individually-arranged funds are worth approximately £0.9 billion.

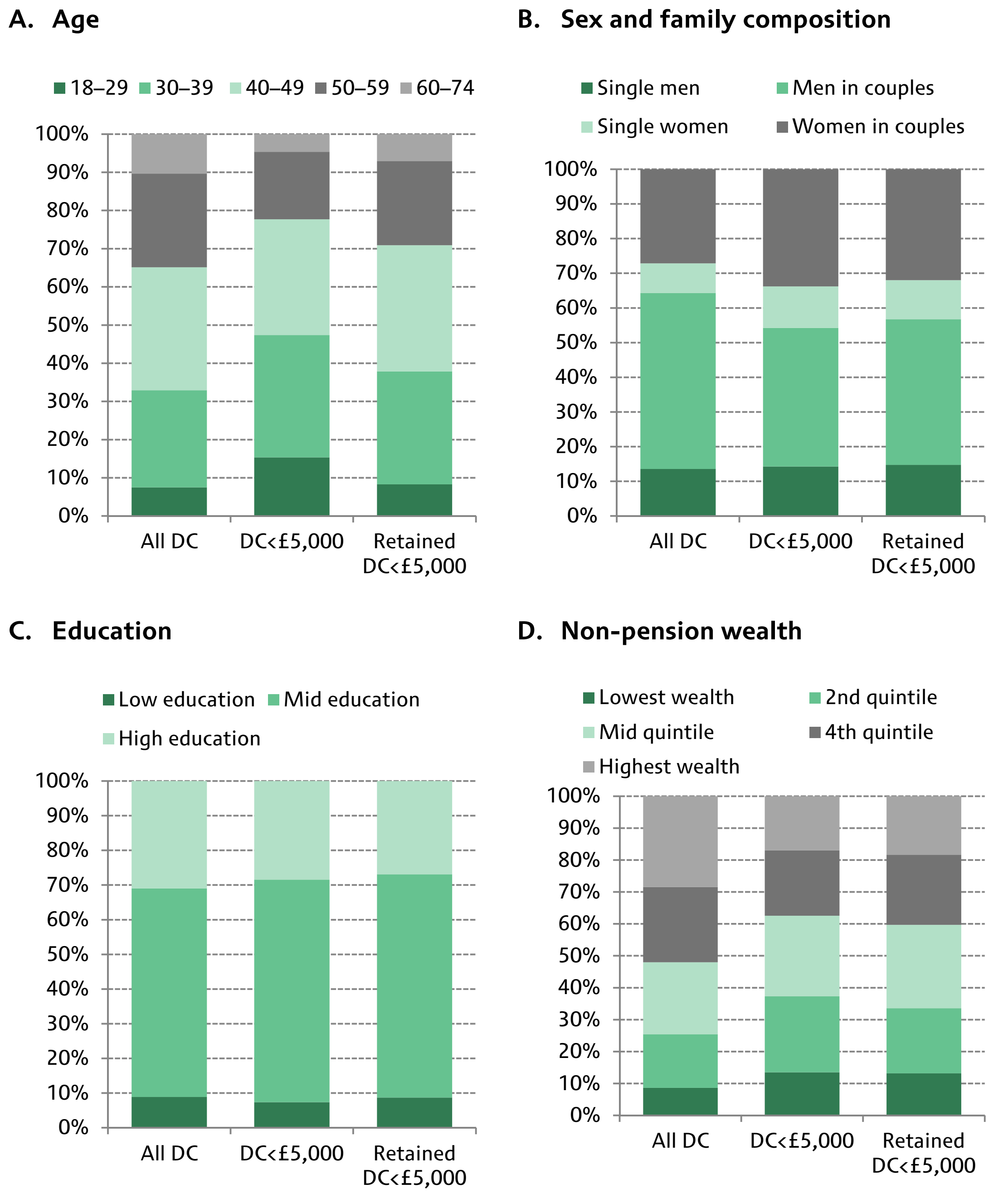
Similarly, of the DC funds containing less than £2,000 (of which we estimate there are around 1.8 million), 73% are current pensions – implying there are some 0.5 million retained DC funds containing less than £2,000, which collectively contain assets valued at about £0.4 billion. Around 0.3 million of these pension accounts (16% of DC funds containing less than £2,000) are retained employer-provided pensions, while 0.2 million (10%) are retained individually-arranged pensions.[13]

Figure 7 describes the characteristics of the individuals who hold DC pension funds of less than £5,000 and compares them with the characteristics of individuals who hold DC funds of any value. An equivalent graph for holders of pension funds of less than £2,000 is provided in Figure A2 in the appendix. Panel A of Figure 7 shows that DC funds of less than £5,000 are more likely to be held by younger individuals than DC funds in general: 47.4% of DC funds smaller than £5,000 are held by an individual aged under 40, compared with 32.9% of all DC funds. The difference is less marked when comparison is restricted to retained DC funds of less than £5,000 (since retained funds in general will tend to be held by older individuals), but these funds are still more likely than the average DC fund to be held by a younger adult.

[12] Numbers do not sum due to rounding.

[13] The figures suggest that around £0.2 billion is collectively held in these retained employer-provided pensions, while around £0.1 billion is collectively held in these retained individually-arranged pensions (numbers do not sum due to rounding).

Figure 7. Characteristics of holders of DC funds and DC funds of less than £5,000



Notes: Sample is DC funds held by individuals aged 18–74. N = 14,163 for 'All DC', N = 4,629 for 'DC<£5,000' and N = 1,342 for 'Retained DC<£5,000'.

Panel B of Figure 7 indicates that DC funds of less than £5,000 are more likely to be held by women – particularly women in couples – than DC funds in general: 45.7% of funds under £5,000 (43.2% of retained funds under £5,000) were held by women, compared with 35.7% of all DC funds. There is little indication that small DC funds are held by individuals with different levels of education from DC funds in general (see panel C). Small

DC funds are, however, more likely to be held by individuals with lower non-pension wealth. Holders of DC pension funds worth less than £5,000 (whether retained or otherwise) are less likely to come from the highest two non-pension wealth quintiles.

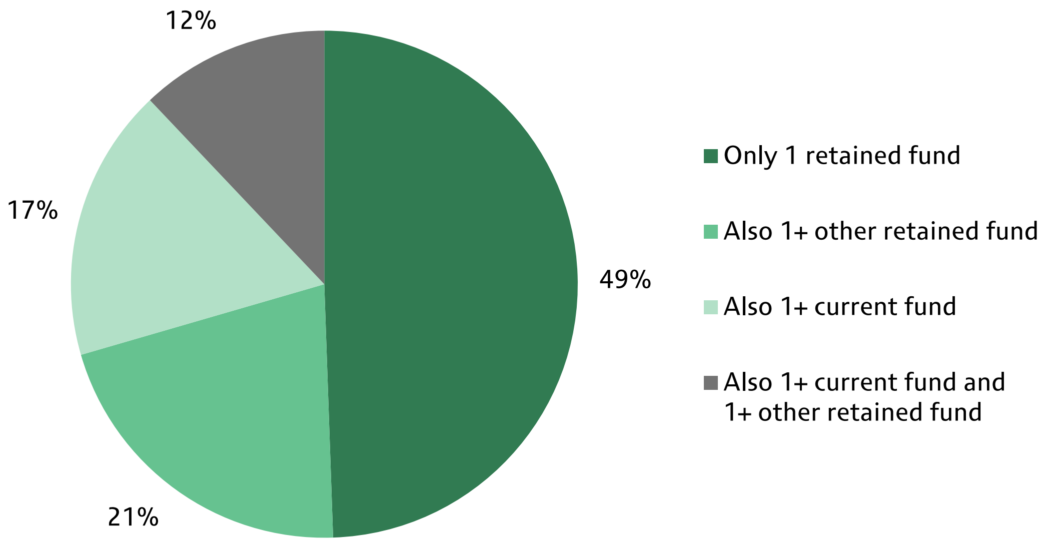
Is there scope to consolidate small retained DC funds?

The extent to which the current barriers that deter individuals from transferring small pension pots between different schemes are detrimental (both to individuals and to the pensions industry) depends on the extent to which the individuals holding these small pension pots also hold other DC pension fund(s) with which the small pot could be amalgamated. The data from WAS suggest that, of the 1.1 million retained DC funds that contain less than £5,000, half (51%) are held by an individual who holds at least one other DC pension fund. This is described in Figure 8: 21% of the retained pots containing less than £5,000 are held by individuals who hold at least one other retained DC fund, 17% are held by individuals who also hold at least one current DC fund and 12% are held by an individual who holds at least one current DC fund *and* at least one other retained DC fund. A very similar picture is true of the individuals holding retained DC funds containing less than £2,000; these results are provided in Figure A3 in the appendix.

While this evidence could be taken to suggest that the ability to transfer small pension funds between schemes would only benefit fewer than half of individuals holding small pots, the true figure would probably be higher since at least some of the remaining individuals might contribute to a new DC fund before they reach retirement and so they may still benefit in future from the ability to transfer their existing retained small fund.

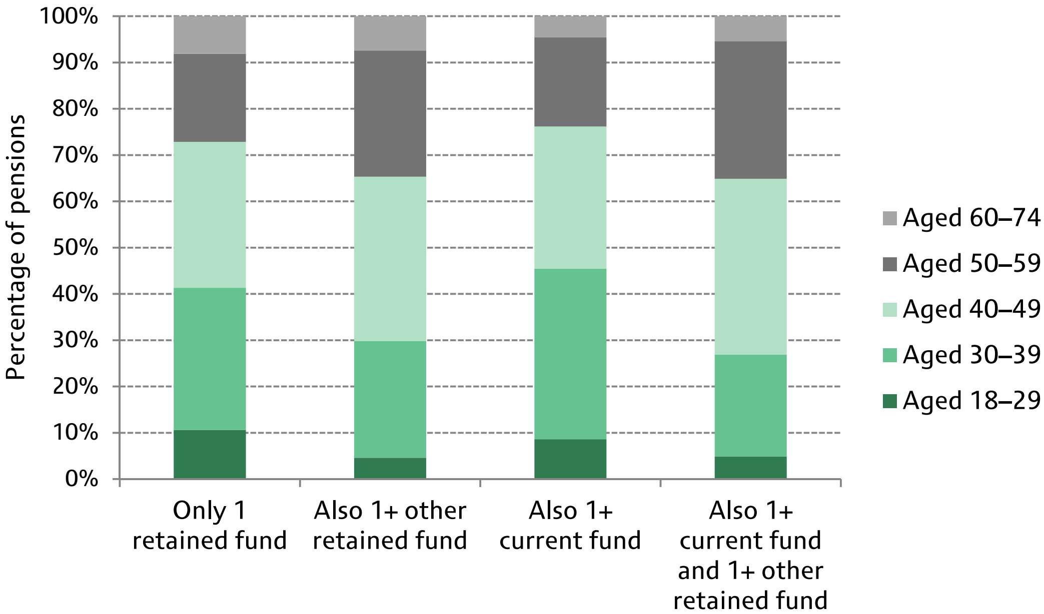
Figure 9 shows the age composition of holders of retained pension pots worth less than £5,000, split according to whether they have other DC holdings (using the same categories as in Figure 8). Looking at pensions held by individuals who do not hold any other DC pension pots, 41% of these were held by an individual aged under 40, while 73% were held by an individual aged under 50. These people have plenty of time before retirement in which to save additional funds in DC pensions. As described in Section 3, older individuals (particularly those aged 40 and over) are significantly more likely than younger individuals to hold multiple pension pots. Figure 9 reinforces this message by showing that those who hold a

Figure 8. Other DC holdings of individuals who hold a retained DC fund of less than £5,000



Notes: Unit of observation is each retained DC fund worth less than £5,000 and held by an individual aged 18–74. For example, '21%' indicates that 21% of retained DC funds worth less than £5,000 are held by an individual who also holds at least one other retained DC fund (rather than that 21% of individuals holding retained DC pensions worth less than £5,000 also hold at least one other retained DC fund). N = 1,342.

Figure 9. Age of holders of retained funds containing less than £5,000



Notes: Sample is retained DC funds containing less than £5,000 held by individuals aged 18–74. N = 1,342.

small pot alongside some other current or retained pension pot(s) are more likely to be aged 30 and over than those who hold just one small pot and no other DC funds.

The patterns revealed in the WAS data suggest there is an age effect – that people accumulate more DC funds as they get older. However, on top of this, it is possible that current younger cohorts will accumulate a greater number of separate DC schemes as they age than previous cohorts did, as a result of the introduction of auto-enrolment. First, if individuals are subject to inertia, auto-enrolment will result in more individuals contributing to pension schemes at some point. Second, while the National Employment Savings Trust (NEST)[14] will allow individuals to continue to contribute to a single pot whilst working for several different employers, it will not allow transfers in from other schemes and individuals may experience periods working for employers who choose to offer a scheme run by a different provider.

Figure 8 suggests that a greater ability to amalgamate small pension pots could reduce the number of very small funds that pension providers have to manage. This will particularly be the case if the other DC fund holdings of individuals who hold small retained pension funds are much larger. Figure 10 shows – for retained DC funds containing less than £5,000 whose owner also holds at least one other DC fund – the distribution of the total value of DC funds held by the owner. Three-quarters (76%) of these small retained funds (or 39% of all small retained funds[15]) are held by individuals whose total DC pension wealth currently amounts to more than £5,000 – implying that the number of retained DC funds containing less than £5,000 could be reduced by 39% if all an individual's DC holdings could be amalgamated into one fund. In other words, this would reduce the number of retained DC funds containing less than £5,000 from

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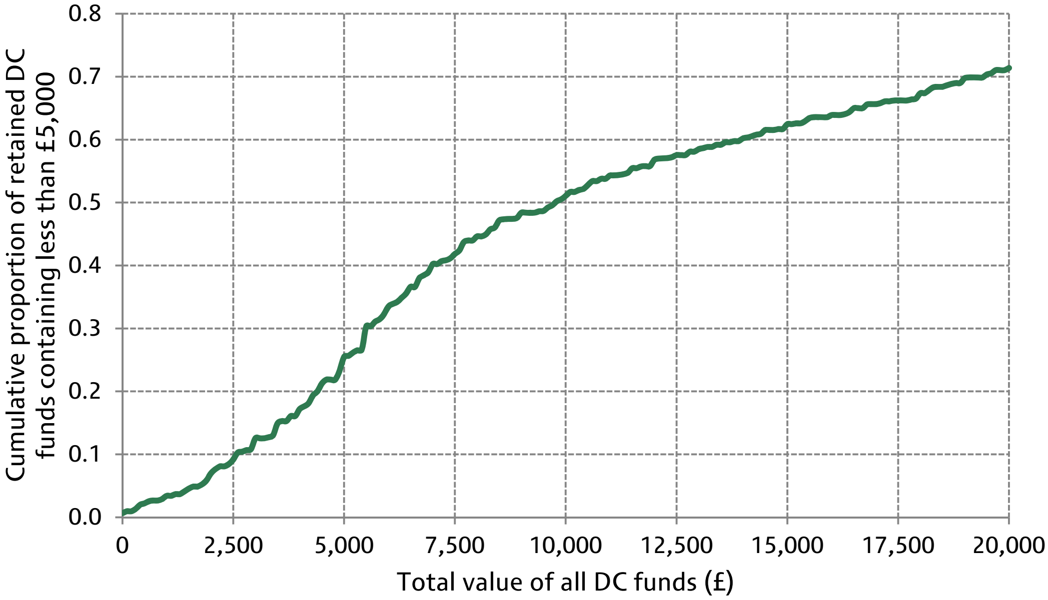
[14] NEST is a trust-based defined contribution pension scheme that is available for UK employers of any size to auto-enrol their employees into from October 2012. For more information, see http://www.nestpensions.org.uk/schemeweb/NestWeb/public/whatIsNEST/contents/what-is-nest.html.

[15] Calculated as 0.51×0.76 = 0.39 (where 0.51 is the proportion of retained DC funds worth less than £5,000 that are held by an individual with at least one other DC fund, and 0.76 is the proportion of those funds held by an individual with more than £5,000 in total DC wealth).

1.1 million to 0.7 million. This would also reduce the number of individuals holding retained pots containing less than £5,000 by 35% (see Figure A4 in the appendix), from 1.0 million to 0.6 million. (The equivalent numbers for consolidating pots worth less than £2,000 are provided in Table 7.)

Figure 10. Distribution of total value of DC fund holdings of holders of retained DC funds containing less than £5,000 who also hold at least one other DC fund



Notes: Sample is retained DC funds containing less than £5,000 that are held by an individual aged 18–74 who also holds at least one other DC fund. N = 692.

Some of the options for improving the ability to transfer small pension pots that were outlined in the DWP consultation apply specifically to transfers between employer-provided pensions. The gains from increasing the ability to make transfers between employer-provided DC pensions would be lower than if transfers between all types of schemes were improved: of the approximately 1.1 million retained DC funds containing less than £5,000 implied by the WAS data, around 40% (or 0.5 million) are individually-arranged DC pension funds.

Of the estimated 0.7 million retained employer-provided DC funds containing less than £5,000, 57% are held by an individual who does not hold any other employer-provided DC funds, which limits the scope for consolidation. Figure A5 in the appendix shows – for retained employer-provided DC funds containing less than £5,000 whose owner also holds at least one other employer-provided DC fund – the distribution of the total value of employer-provided DC funds held by the owner (analogous to

Table 7. Potential gains from consolidation of all 'small' pots and employer-provided 'small' pots

	All 'small' pots consolidated		Only employer-provided 'small' pots consolidated	
'small' defined as:	<£5,000	<£2,000	<£5,000	<£2,000
All 'small' retained pots				
Number before (millions)	1.1	0.5	1.1	0.5
Number after (millions)	0.7	0.3	0.9	0.4
Reduction (millions)	0.4	0.2	0.2	0.1
Reduction (percentage)	39%	44%	18%	22%
Employer-provided 'small' retained pots				
Number before (millions)	0.7	0.3	0.7	0.3
Number after (millions)	0.4	0.2	0.5	0.2
Reduction (millions)	0.3	0.1	0.2	0.1
Reduction (percentage)	40%	45%	30%	37%
Individuals with 'small' retained pots				
Number before (millions)	1.0	0.4	1.0	0.4
Number after (millions)	0.6	0.3	0.8	0.3
Reduction (millions)	0.3	0.2	0.2	0.1
Reduction (percentage)	35%	43%	21%	28%
Total funds in 'small' retained pots				
Before (£ billion)	2.3	0.4	2.3	0.4
After (£ billion)	1.3	0.2	1.8	0.3
Reduction (£ billion)	1.0	0.2	0.5	0.1
Reduction (percentage)	42%	47%	20%	26%

Figure 10 for all retained DC funds worth less than £5,000). Of these funds, 70% (or 30% of all small retained employer-provided funds[16]) are held by individuals who currently have at least £5,000 in total employer-provided DC pension wealth – implying that the number of retained employer-provided DC funds containing less than £5,000 could be reduced by 30% (from around 0.7 million to around 0.5 million) if all an individual's employer-provided DC holdings could be amalgamated into one fund.

[16] Calculated as 0.43×0.70 = 0.30 (where 0.43 is the proportion of retained employer-provided DC funds worth less than £5,000 that are held by an individual with at least one other employer-provided DC fund, and 0.70 is the proportion of those funds held by an individual with more than £5,000 in total employer-provided DC wealth).

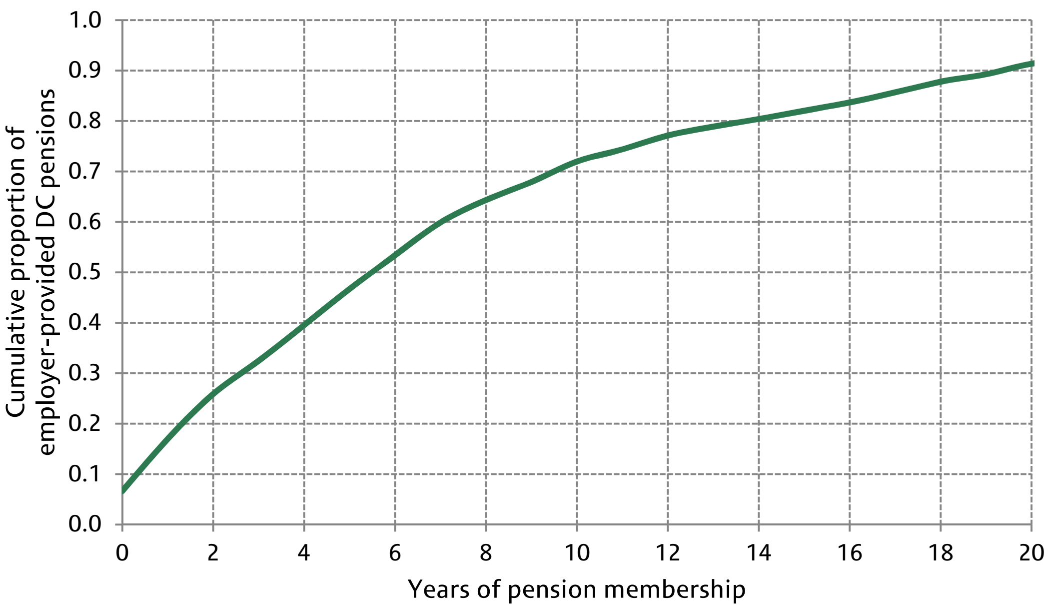
However, it should be remembered that, since 40% of retained DC funds containing less than £5,000 are individually-arranged pensions, the ability to amalgamate all employer-provided DC funds would only reduce the total number of small retained DC pots by around 18%.

Table 7 summarises the reduction in the number of small pots, the number of individuals holding small pots, and the total value held in small pots that could be achieved if (a) individuals could consolidate all their DC pension pots or (b) individuals could consolidate only their employer-provided DC pension pots. This is shown for pots individually worth less than £5,000 and less than £2,000.

Tenure in current employer-provided DC pensions

One feature of the current DC pensions landscape that has helped to reduce the number of retained small DC funds is the short-service refund. The government has put forward proposals to end short-service refunds, since it believes that such rules defeat its objective of increasing individual pension saving.[17]

Figure 11. Distribution of pension tenure in current employer-provided DC schemes



Notes: Sample is current employer-provided DC schemes. N = 4,416.

[17] Department for Work and Pensions, 'Regulatory differences between occupational and workplace personal pensions: call for evidence to prepare for automatic enrolment', 2011, http://www.dwp.gov.uk/consultations/2011/personal-pensions.shtml.

Figure 11 shows the distribution of pension tenures for the holders of current employer-provided pensions: 17% of current employer-provided DC pensions (or 0.6 million) are held by an individual with one year of membership or less.[18] Clearly, not all of these individuals will leave their job before accruing two years of pension membership, and so the number of pensions affected by short-service refunds is currently small. However, the government's concern is that after auto-enrolment, when individuals with high rates of job mobility (who tend not to join pensions at the moment) are more likely to become pension members, the number of DC pension pots that could be affected by the use of the short-service refund rules would escalate.

5. Conclusions

Although saving in DC pensions is still relatively uncommon in Great Britain – less than a quarter of working-age individuals hold a DC pension fund – it has and will continue to become more important as defined benefit pensions become increasingly scarce in the private sector. This Briefing Note has taken stock of existing DC pension holdings in Great Britain and presented evidence on the potential gains to be had from making it easier for individuals to move their money between different pension pots. The introduction of auto-enrolment of eligible individuals into workplace pension schemes from October 2012 is likely to increase the number of people who will, at some time, contribute to a DC pension and is also likely to increase the number of people who will contribute to several different pension schemes during their working lives. The issues considered here are, therefore, not just of current but also of considerable future interest.

Men are currently more likely than women to contribute to a DC pension fund, as are those with higher levels of education, better self-assessed mathematical ability and higher non-pension wealth. A significant minority, 24.7%, of DC fund holders hold more than one separate DC fund.

Of those who hold DC pensions, about half have one (or more) that was provided through an employer and half have one (or more) that was individually arranged; a small minority of individuals have schemes of

[18] A quarter (25%) of current employer-provided DC pensions (or 1.0 million) are held by an individual with fewer than two years of membership in their scheme.

both types. The median value of wealth held in DC pensions among those who have them is £10,000, but this figure is currently higher for individually-arranged funds (£11,500) than it is for employer-provided DC pensions (£7,500). On average, DC pension wealth increases with age: 37% of DC fund holders aged 30–39 have less than £5,000 in their accounts, compared with 27% of 40- to 49-year-olds and 20% of 50- to 59-year-olds.

For most households, DC pension funds currently comprise a small minority of their total wealth holdings. Across all households that hold some DC pension wealth, these assets constitute on average 7.1% of their total wealth, the rest being comprised of property wealth, financial wealth and wealth held in defined benefit pensions. However, this figure is much higher (19.2%) among households in the lowest fifth of the wealth distribution and is lower (4.2%) among households in the top fifth of the wealth distribution. DC pension wealth is, however, on average more important within the wealth portfolio of older and more highly numerate individuals.

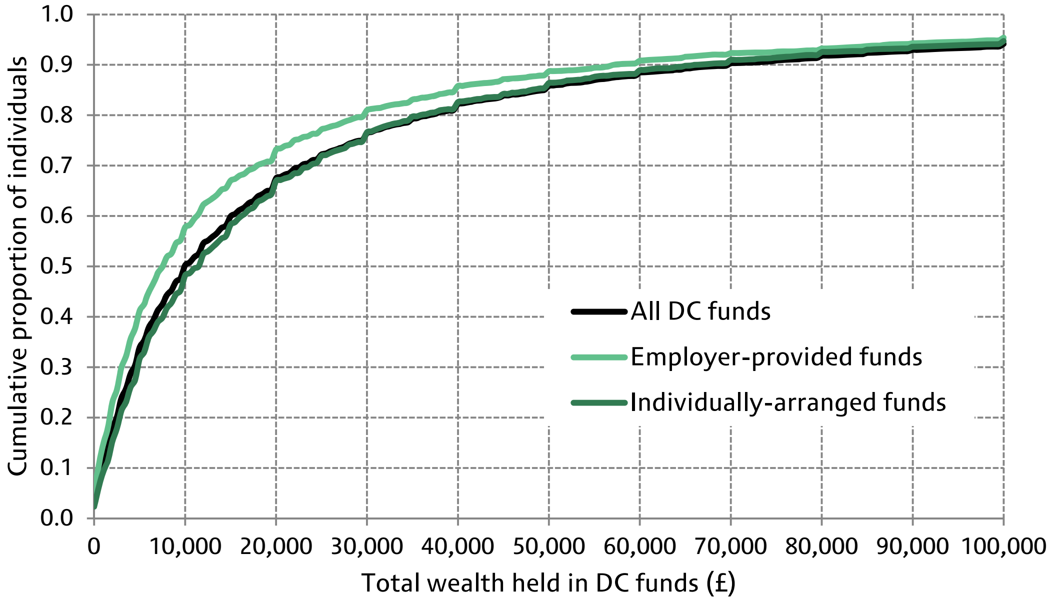
Small pension pots are relatively expensive for providers to administer, and individuals who hold small pots often find it hard to achieve as good a net return as they would be able to achieve on a larger pot, suggesting that there may be gains to be had if individuals were better able to accumulate all their pension saving in one fund rather than several different ones. At the moment, there are a number of barriers that deter some individuals from consolidating their DC pension savings. Many individuals do hold several separate DC pots: of those who hold any DC wealth, one-in-four hold more than one pot. The introduction of auto-enrolment into employer-provided pension schemes from October 2012 is likely to increase further the number of individuals in future who end up with several different pension pots from different employers.

We find that there are £2.3 billion of assets held in 1.1 million DC pension funds that are not receiving any further contributions and that are individually worth less than £5,000. However, 0.4 million of these 'small' DC pots are held by individuals who actually have more than £5,000 in DC wealth held across several different funds. Consolidating these would reduce by 0.3 million the number of people holding retained DC pension pots worth less than £5,000. This suggests that there could be significant gains from improving the ease with which individuals can transfer their

DC pension funds. If auto-enrolment into workplace pension schemes, increased labour market mobility and the continued decline of defined benefit pensions in the private sector lead to more individuals contributing to multiple different DC pension schemes during the course of their working lives, enabling transfers of small funds between pension schemes will become an increasingly important objective.

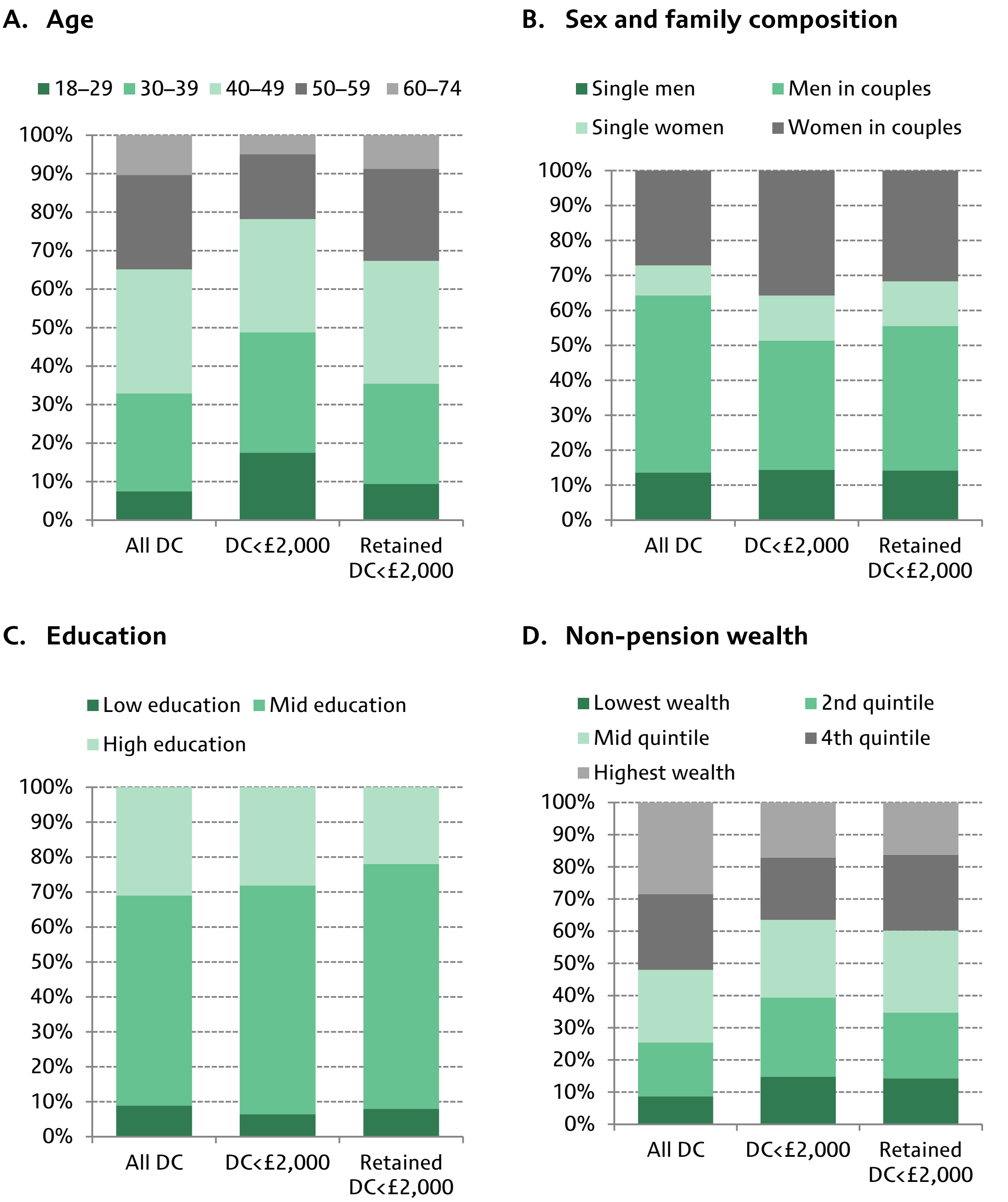
Appendix

Figure A1. Distribution of total wealth held in DC funds across individuals with at least one DC pot, split by fund type



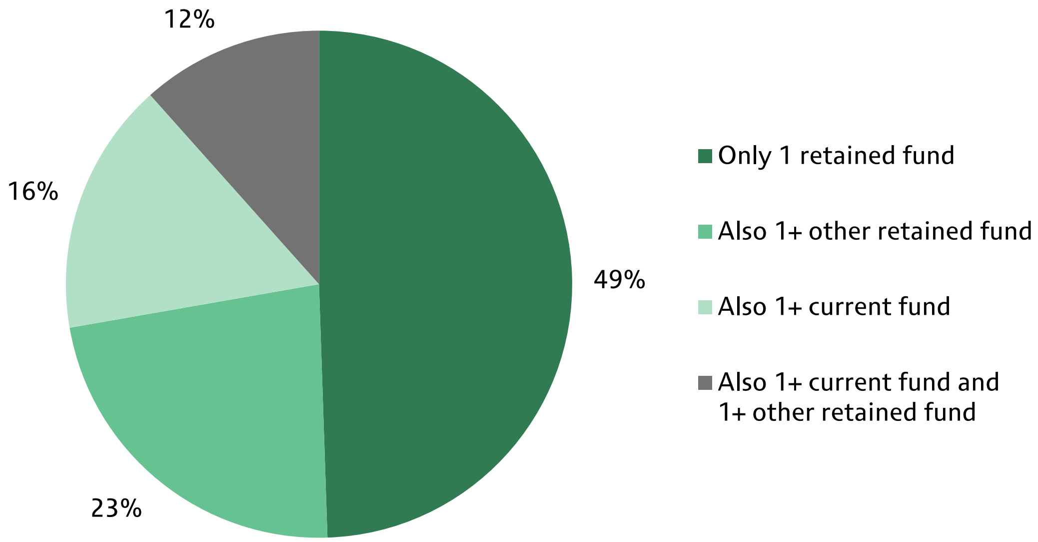
Notes: Sample is individuals aged 18–64 with at least one DC pension pot. N = 10,784. Total wealth held in DC funds is calculated for reported DC pensions; individuals can report up to six DC pension schemes in the Wealth and Assets Survey.

Figure A2. Characteristics of holders of DC funds and DC funds of less than £2,000



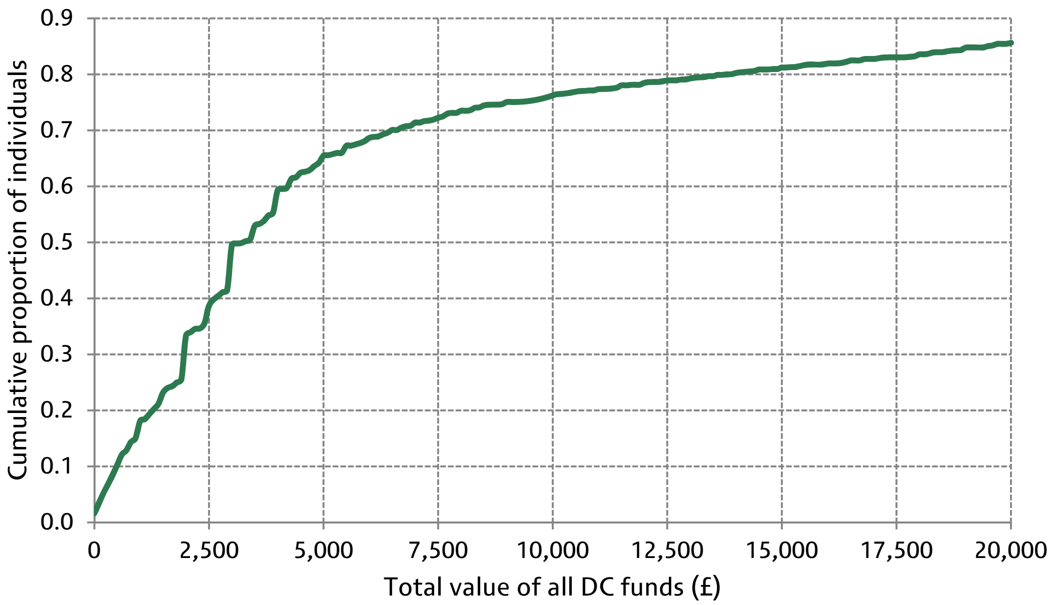
Notes: Sample is DC funds held by individuals aged 18–74. N = 14,163 for 'All DC', N = 2,133 for 'DC<£2,000' and N = 568 for 'Retained DC<£2,000'.

Figure A3. Other DC holdings of individuals who hold a retained DC fund of less than £2,000



Notes: Unit of observation is each retained DC fund worth less than £2,000 and held by an individual aged 18–74. For example, '23%' indicates that 23% of retained DC funds worth less than £2,000 are held by an individual who also holds at least one other retained DC fund (rather than that 23% of individuals holding retained DC pensions worth less than £2,000 also hold at least one other retained DC fund). N = 568.

Figure A4. Distribution of total DC wealth of individuals who hold a retained DC fund containing less than £5,000



Notes: Sample is individuals aged 18–74 who hold a retained DC fund containing less than £5,000. N = 1,178.

Figure A5. Distribution of total value of employer-provided DC fund holdings of holders of retained employer-provided DC funds containing less than £5,000 who also hold at least one other employer-provided DC fund

Notes: Sample is retained employer-provided DC funds containing less than £5,000 that are held by an individual aged 18–74 who also holds at least one other employer-provided DC fund. N = 336.