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

Rowena Crawford, Dave Innes and Cormac O’Dea

Launch event, 19 November 2015
The composition of wealth and its evolution over time
The composition of wealth in 2010-12
## Financial wealth in 2010-12

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<td>Credit card balance</td>
<td>11.5</td>
<td>8,501</td>
<td>100.0</td>
</tr>
<tr>
<td>Overdrawn current accounts</td>
<td>24.8</td>
<td>3,722</td>
<td>21.6</td>
</tr>
<tr>
<td>Formal loans</td>
<td>18.1</td>
<td>1,063</td>
<td>4.5</td>
</tr>
<tr>
<td>Hire purchases</td>
<td>17.4</td>
<td>9,177</td>
<td>37.3</td>
</tr>
<tr>
<td>Student loans</td>
<td>13.7</td>
<td>4,401</td>
<td>14.1</td>
</tr>
<tr>
<td>****</td>
<td>6.0</td>
<td>11,921</td>
<td>16.6</td>
</tr>
</tbody>
</table>
Net financial wealth in 2010-12

Mean household wealth (£, 000)

Age of oldest adult in household

Net financial wealth
Net financial wealth in 2010-12

Mean household wealth (£, 000)

Age of oldest adult in household

- Financial debt
- Gross financial wealth
- Net financial wealth

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# Property wealth in 2010-12

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<th>Mean value among holders</th>
<th>% of gross property wealth</th>
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<tr>
<td><strong>Net property wealth</strong></td>
<td>69.5</td>
<td>208,654</td>
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<td><strong>Gross property wealth</strong></td>
<td>69.8</td>
<td>267,578</td>
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<td>267,578</td>
<td>100.0</td>
</tr>
<tr>
<td>Main residence</td>
<td>68.0</td>
<td>235,389</td>
<td>85.8</td>
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<tr>
<td>Other property wealth</td>
<td>7.7</td>
<td>195,562</td>
<td>8.1</td>
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<tr>
<td>Other houses</td>
<td>3.4</td>
<td>207,100</td>
<td>3.8</td>
</tr>
<tr>
<td>Overseas land</td>
<td>2.9</td>
<td>149,669</td>
<td>2.3</td>
</tr>
<tr>
<td>Other buildings</td>
<td>0.7</td>
<td>254,195</td>
<td>1.0</td>
</tr>
<tr>
<td>UK land</td>
<td>0.9</td>
<td>155,906</td>
<td>0.8</td>
</tr>
<tr>
<td>Other property</td>
<td>0.3</td>
<td>139,453</td>
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The composition of wealth in 2010-12

Mean household wealth (£, 000)

Age of oldest adult in household

Net property wealth

Net financial wealth
Net property wealth in 2010-12

Mean household wealth (£, 000)

Age of oldest adult in household

- Mortgage debt
- Gross property wealth
- Net property wealth
## Private pension wealth in 2010-12

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<td>45.7</td>
<td>130,008</td>
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<td>30.7</td>
<td>156,400</td>
<td>32.5</td>
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<td>Current DC pensions</td>
<td>25.5</td>
<td>44,327</td>
<td>7.6</td>
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<tr>
<td>Retained pensions</td>
<td>27.3</td>
<td>66,229</td>
<td>12.2</td>
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<td>Retained DB pensions</td>
<td>17.5</td>
<td>67,466</td>
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<td>38,359</td>
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<td>Pensions in payment</td>
<td>29.9</td>
<td>232,463</td>
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*Valuing defined benefit pensions:*

\[
\text{DB pension wealth} = \text{Annuity value} \times \text{Discounted by number of years from retirement}
\]

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<th>Age:</th>
<th>65</th>
<th>66</th>
<th>67</th>
<th>68</th>
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The composition of wealth in 2010-12

Mean household wealth (£, 000)

Age of oldest adult in household

- Pension wealth
- Financial wealth
- Property wealth

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Total household wealth in 2010-12

Mean household wealth (£, 000)

Age of oldest adult in household

25 to 34 35 to 44 45 to 54 55 to 64 65 to 74 75 to 84 85 and over All

62,000 572,000 341,000
The distribution of wealth by age 2010-12

Mean = 341,000
Median = 176,000

Household total wealth (£, 000)

Age of oldest adult in household

- 25 to 34
- 35 to 44
- 45 to 54
- 55 to 64
- 65 to 74
- 75 to 84
- 85 and over
- Total
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

Mean household wealth (£,000 2014 prices)

Median age of oldest adult in household in wave 1 (2006-08)
The evolution of wealth 2006-08 to 2010-12
The evolution of wealth 2006-08 to 2010-12

Mean household wealth (£,000 2014 prices)

Median age of oldest adult in household in wave 1 (2006-08)
Despite the financial crisis, wealth among working-age households increased on average.

Unless the rate of wealth accumulation picks up, younger cohorts will have less wealth than those that preceded them.
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?
Digging deeper...

1. How did each of the components of wealth evolve?

2. Is the evolution of wealth driven by *active* or *passive* changes?

3. How did changes in wealth differ across households and what explains this?
All but the youngest age group saw net property wealth fall in real terms on average.
The evolution of private pension wealth 2006-08 to 2010-12

Working-age households saw large increases in pension wealth on average.
Changes in wealth 2006-08 to 2010-12

By construction, because four fewer years of future pension income.
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:

\[
\text{DB pension wealth} = \text{Annuity value discounted by number of years from retirement}
\]

Age: 65 66 67 68 ...
Pension valuation changes

Overall change in wealth

Valuation change

Due to the way a given future income stream is valued

Non-valuation change

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

<table>
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<th>Age of oldest adult in household in wave 1 (2006-08)</th>
<th>Mean change in real wealth (£,000 2014 prices)</th>
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The evolution of private pension wealth 2006-08 to 2010-12: excluding valuation changes

Changes in pension wealth are very important, but are less dramatic excluding valuation changes.
Digging deeper...

1. How did each of the components of wealth evolve?

2. Is the evolution of wealth driven by active or passive changes?

3. How did changes in wealth differ across households and what explains this?
Changes in non-pension wealth
2006-08 to 2010-12

Mean change in real wealth (£,000 2014 prices)

-60 -50 -40 -30 -20 -10 0 10

Age of oldest adult in household in wave 1 (2006-08)

-60 -50 -40 -30 -20 -10 0 10

Property
Financial
Non-pension wealth

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

Mean change in nominal wealth (£,000)

Age of oldest adult in household in wave 1 (2006-08)
Active and passive saving

Overall change in wealth

Active change
Saving out of current income or spending out of current wealth

Passive change
Resulting from returns on existing capital
Active and passive saving

Overall change in wealth

Active change

\[
\text{Active change} = \text{Overall change} - \text{Passive change}
\]

Passive change

\[
\text{Passive change} = \text{Initial wealth} \times \text{Asset return}
\]
Active and passive saving – financial wealth

Mean change in nominal wealth (£,000)

Financial - overall change

Age of oldest adult in household in wave 1 (2006-08)

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Active and passive saving – financial wealth

![Chart showing mean change in nominal wealth by age group.]

- **Mean change in nominal wealth (£,000)**

- **Age of oldest adult in household in wave 1 (2006-08)**

- **Financial - active**

- **Financial - passive**

- **Financial - overall change**
Active and passive saving – property wealth

Percentage of households

Positive active saving
Moved and ‘upsized’
Extension or home improvement
Reduced mortgage debt

Age of oldest adult in household in wave 1 (2006-08)
Active and passive saving – property wealth

Mean change in nominal wealth (£,000)

Age of oldest adult in household in wave 1 (2006-08)

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Active and passive saving – property wealth

Mean change in nominal wealth (£,000)

Age of oldest adult in household in wave 1 (2006-08)

Property - active
Property - passive
Property - overall change
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
Digging deeper...

1. How did each of the components of wealth evolve?

2. Is the evolution of wealth driven by *active* or *passive* changes?

3. How did changes in wealth differ across households and what explains this?
Distribution of changes in wealth 2006-08 to 2010-12

Mean change in total wealth (£, 000)

Age of oldest adult in household in wave 1 (2006-08)

- Mean
- Median
- 25th percentile
- 75th percentile

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Distribution of active and passive saving – financial wealth

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